FIMBANK

2017

Annual Report & Financial Statements

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Schedules to the Annual Report

Chairman's statement to the shareholders

I am pleased to report another positive year for the FIMBank Group. The financial results for 2017, highlight a profit for the second successive year, a clear indicator of the sound strategic path adopted over the past years and reflect our commitment and resolve in ensuring a strong and sustainable growth trajectory for FIMBank.

This dynamic response over the past two years, the steadfast determination in setting the foundations and implementing our strategy with our expert management team, together with the demonstrated support by the institutional investor Burgan Bank, have led us to the successful position we are in today.

The FIMBank Group's Consolidated Audited Financial Statements for 2017 show that for the year ended 31 December, the Group registered a profit of USD7.7 million, compared to a profit of USD5.3 million in 2016. These results not only confirm the achievements made over the past two years, but underline what could well be considered, a definite shift in the fortunes of the Group.

The results of the year under review, on the back of the Group's performance in 2016, ascertain that we are on the right track, and that we are capable of sustaining and building on this momentum. This belief is also endorsed by prestigious international entities such as Fitch Ratings, which in 2017 confirmed our 'BB' rating with a 'Stable' outlook, as well as the more recent review by Sigma Ratings, which places FIMBank in the upper quartile of its 'satisfactory' rating band, and the outlook for the Group as 'positive'. The Sigma rating specifically reflects a strong shift, within FIMBank, to a culture which places particular emphasis on financial crime risk management and compliance. This has led to the adoption of a Group-wide 'zero tolerance' policy on compliance failure, in line with guidance from my Board.

The FIMBank Group has clearly been evolving into a stronger banking institution based on sound business discipline, centrally-aligned operations, and effective management of enterprise risks. I am certain that if the dynamics in evidence during these past two years persist, we will ensure value creation to all FIMBank stakeholders, and reap further the benefits of the excellent work undertaken by our senior management team.

Indeed, if the Group has emerged stronger than ever from complicated times, there is no doubt that this is primarily due to the dedication and expertise, as well as the loyalty and perseverance, of our employees and members of management at head office and across the globe. Their concerted effort has not only led to the successful implementation of our strategy, focused on greater efficiency and profit, but has also enabled the Group to shift its strategic focus, and to adapt more effectively to changing market conditions. Our members of staff around the world continue to be the most formidable asset, and a keystone of the Group's success. They deserve our gratitude and praise for their consistent accomplishments.

I have often emphasised the importance we give to investor relations, and our sincere appreciation for the support we receive from all of our shareholders. At a time when we had to make tough and courageous decisions, my colleagues on the Board and I always found comfort in the backing we had from our investors, in particular from our majority shareholders, namely Burgan Bank and United Gulf Bank of the KIPCO Group. This demonstration of trust and loyalty served as a great source of encouragement, boosting in no small measure our resolve achieve more as we set out to reach our full potential, and ultimately continuing to deliver positive results, consistent with those shared in this report.

John C Grech
Chairman

FIMBank Group Performance 2017
CEO Review

The positive financial results announced for 2017 reflect a significant progression due to the efficiency enhancements and portfolio quality improvements we have been implementing since 2015. Throughout the year under review, we sharpened revenue generation, benefitting from the risk management and operational efficiencies we have been undertaking for the past two years, whilst optimising on our capital and funding resources.

The financial results also confirm the strength of the FIMBank Group's fundamentals and the ability to deliver success in key business areas. An upgraded asset origination process, as well as product differentiation, remain at the core of the Group's strategy. In addition to these, we have made significant strides in the implementation of client-centric coverage models, cross-sell initiatives across the different Group segments, and the strategic use of offices in key markets, particularly in the MENA region.

We also saw the generation of business as a result of inter-Group referrals through our membership of the KIPCO Group. Meanwhile, we have made important inroads in the development of niche products, including lending instruments for the Malta real estate portfolio, as well as those for funding purposes, especially with the launch of the fully-fledged digital banking platform FIMBank Direct. In doing so, we have overhauled our asset-liability management processes, becoming more efficient on liquidity and funding needs, and improving net margins both on revenue generation and cost of funding. Our Malta book however remains very small and insignificant in absolute terms as well as in comparison to our overall business.

I cannot fail to emphasise the importance of robust governance and an effective risk framework in the context of the Group's achievements, particularly the strong compliance culture which has enabled the Group to maintain a healthy relationship with its correspondent banks. In this regard, the positive rating we received from Sigma Ratings following a comprehensive review by the US-based specialist, was of essential significance. Apart from the fact that Sigma's rating was consistent with the affirmation of our 'BB Rating' and 'Stable' outlook announced by Fitch Ratings earlier that year, it was also the outcome of the enhanced risk management framework we had been working on since 2016. This was a process which incorporated various management and operational reforms, supported by heavy investment, all aimed at improving the financial crime compliance posture across the entire Group.

2017 also saw FIMBank signing up to the Target2 payment system, operated by the European Central Bank System. As a result, FIMBank became a direct counterparty for thousands of banks worldwide that were otherwise paying into the correspondent bank on our behalf. Among others, this had immediate positive effects on the Bank's customers since these have started benefitting from being able to make payments later without affecting the value dating. Moreover, they are now able to deliver payments electronically to the Bank via FIMBank Direct, our new client portal. Having this efficient digital banking platform in place covering all general banking services, including deposit products offered at attractive interest rates for both Euro and USD and supported by an excellent customer service, has enabled us to better adapt to the needs of today's online consumers. It has also boosted our efforts to build a loyal customer base by offering a wide range of trade finance products.

Across the Group, London Forfaiting Company (LFC) in the UK returned another positive year, while India Factoring's business continued to strengthen. In Egypt, following the acquisition of the factoring business in the second half of 2016, the company was re-capitalised and given the financial ability to reboot and seek growth and return to profitability. In Chile, Latam Factors had a marginal increase in its factoring and leasing portfolio, impacted by a highly competitive domestic market environment. In Brazil, the 50%-owned factoring business returned a net loss for the year on the back of an erosion of its funded asset portfolio. Meanwhile, we pursued our strategy of consolidating and relaunching FIMBank Dubai's client base in the MENA region, in order to assure its position as an important profit centre for the Group.

Overview of Financial Results

The FIMBank Group's Consolidated Audited Financial Statements show that for the year ended 31 December 2017, the Group registered a profit of USD7.7 million, compared to a profit of USD5.3 million in 2016. As the loan and asset portfolios were contained within the prior year levels, profitability continued on its upward trajectory, asset origination and revenue generation were upgraded, whilst focus continued on priority areas in the strategic framework of the business. In addressing regulatory capital developments, FIMBank has restrained its asset growth in anticipation of a planned capital injection, and simultaneously managed higher regulatory liquidity requirements and increased regulatory costs. Significantly, operating income before net impairment for 2017 stood at USD51.7 million, an increase of 12% over the USD46.1 million registered in 2016. Meanwhile, net impairments for the year also improved, from a loss of USD2.2 million in 2016, to a net recovery position of USD2.2 million in 2017. This is a result of significant recoveries made by the Bank and its subsidiaries in India and Egypt on legacy loans, which were partly offset by increases in coverage on other impaired legacy credits. This is considered another major milestone for FIMBank, reflecting firmness and determination.

CSR and Societal Contributions

FIMBank's CSR policy is built around our core values, and reflects the corporate commitments we make to our clients, shareholders, employees, and the Maltese community. Following our successful CSR campaigns aimed at promoting the linguistic wealth of the Maltese language, for the year 2017, we have decided to contribute more directly to the wellbeing of society and its members. We have supported entities such as the Foundation for Breast Cancer Awareness and Dar il-Hena, foundation for homeless shelters. Our contributions this year were more directed at making a positively stronger impact on the lives of people in need.

People

We have no doubt that the successful results we have experienced would not have been possible without the strong dedication, commitment and professional competence of our 417 people at our Malta head office and throughout our global network. Our people are the mainstay in cementing our status as a customer-centric institution. The partnerships and long-standing relationships they grow and sustain with our customers are the essence of our operation.

The Bank further reinforced its commitment towards a positive and sustainable working environment which functions in tandem with employees' personal and professional development. This is achieved by maintaining a high level working 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 Bank's objectives, we also invested significantly 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

Looking forward, indications are that for the first time since 2010, the world economy in 2018 will continue outperforming most predictions, and this strength is expected to continue. With easier financial conditions and some support from fiscal policy, the markets expect continued strong expansion in the world economy both across advanced and emerging economies, though with greater differences across countries. At FIMBank, we will continue building on the business platform that we have been able to transform and strengthen over the past years. The pursuit for excellence across the different businesses, products and markets will remain at the heart of the Group's strategy. We will achieve our objectives through superior client delivery channels and product evolution, risk and governance stability, as well as efficiency in funding and cost structures. The scaling of the business, supported by an expert team of management and staff in key trade hubs across different regions, will enable the Group to maintain a flexible business model which can adapt to arising circumstances, achieve sustainable profitability, and improve overall returns to all key stakeholders.

Murali Subramanian
Chief Executive Officer

directors' report

For the year ended 31 December 2017

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 2017. 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 USD7,726,695 and USD115,818 respectively for the year under review.

Further information about the results is provided in the "Income Statements" and the "Statements of Comprehensive Income" on pages 29 to 31 and in the "Review of Performance" section within this report.

group structure and principal activities

The Group comprises the Bank and its wholly owned subsidiaries, London Forfaiting Company Limited ("LFC"), FIM Business Solutions Limited ("FBS"), FIM Property Investment Limited ("FPI"), FIM Holdings (Chile) S.p.A. ("FHC"), The Egyptian Company for Factoring S.A.E. ("Egypt Factors") and FIMFactors B.V. ("FIMFactors"). LFC and FIMFactors are themselves parents of a number of subsidiaries as set out in Note 28 to the financial statements. The Group is supervised on a consolidated basis by the Malta Financial Services Authority ("MFSA"), whilst some of its subsidiaries and branches are subject to authorisation and regulation according to the respective jurisdictions in which they operate.

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

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

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

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

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

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

- FHC (100%), registered in Chile, serves as the corporate vehicle for Latam Factors S.A. (51%), classified as an equity-accounted investee as from 2017 (see note 27), also registered in Chile, and provides all types of factoring, financial leasing and other management services. The other shareholders are Inversiones El Mayorazgo Limitada, Marín y Compañía S.A., Asesoría e Inversiones CABS S.A., Compañía de Rentas Epulafquén Ltd., Compañía de Rentas Trigal Ltd. and Compañía General de Rentas Ltd.

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

  a. India Factoring and Finance Solutions (Private) Limited (86.05%), incorporated in Mumbai, India, to carry out the business of factoring, forfaiting and trade finance activities in India, the other shareholders being Banca IFIS (5.10%), India Factoring Employee Welfare Trust (8.34%) and Blend Financial Services Limited (1%). India Factoring is regulated by the Reserve Bank of India.

  b. CIS Factors Holdings B.V. (100%), incorporated in the Netherlands which served as the holding vehicle for another factoring company, the latter currently under liquidation.

  c. Menafactors Limited (100%), incorporated in the United Arab Emirates, and holding 50% in Levant Factors S.A.L., a company registered in Lebanon. Menafactors is currently in liquidation.

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

review of performance

The financial performance of FIMBank during 2017 confirms the strength of its fundamentals and the ability to deliver success in key business areas. As the loan and asset portfolios were contained within the prior year levels, profitability continued on its upward trajectory, asset origination and revenue generation were upgraded whilst focus continued on priority areas in the strategic framework of the business. In addressing regulatory capital developments, FIMBank has restrained its asset growth in anticipation of a planned capital injection and simultaneously managed higher regulatory liquidity requirements and increased regulatory costs. In 2017, the Group can pride itself of a consistent profitable quarterly performance, improving margins and yields over prior years, strengthening the business proposition of the better yielding products and tapping new online delivery channels. This whilst rigorously continuing to follow the asset risk and governance frameworks, being successful in recoveries from legacy names, and managing an expense structure to largely achieve minimal cost growth to prior years.

FIMBank, as parent of the Group, led the effort and coordination on the whole span of initiatives. During the year, the Bank continued tapping niche markets across its trade finance product offering, and also launching the fully-fledged digital banking suite FIMBank Direct. In doing so, FIMBank overhauled its asset-liability management processes, becoming more efficient on liquidity and funding needs, and improving net margins both on revenue generation and cost of funding. The Bank's performance was impacted by the absorption of higher regulatory and hedging costs. The Bank was successful in its recovery efforts on legacy delinquent portfolios, whilst ensuring adequate provisioning cover on the remaining non-performing book.

Across the Group, LFC in the UK returned another positive year - despite a reduction in its asset portfolio in line with the Group approach towards asset management, LFC exploited its ability and expertise to trade its portfolio, increasing portfolio turnover, trading margins and grow its total revenues and profitability. This whilst also raising third party funding outside the Group and minimizing marked-to-market losses on its revenue assets.

India Factoring's business continued to strengthen - marginally growing its asset book and revenues, improving on its net margins and cost ratios, and still benefitting from the recovery of non-performing loans. Since the last quarter of 2016, the company consistently returned a profitable quarter as it diversified its market-reach to export trade whilst limiting new non-performing loans.

In Egypt, following the acquisition of the factoring business in the second half of 2016, the company was re-capitalised and given the financial ability to reboot and seek growth and return to profitability. During the year the business was brought in line with the Group's product, risk and governance frameworks and although returning a loss for the year as a result of sub-optimal scale, the company has the necessary market potential as well as business and product expertise to generate positive returns in the coming year.

In Chile, Latam Factors had marginal growth in its factoring and leasing portfolio, impacted by a highly competitive domestic market environment. The company returned a profit for the year on the back of superior revenue margins but with room for further cost efficiency and loan portfolio management. During 2017 FIMBank did not exercise the Call Option which would have enabled it to increase its shareholding in the company. It was determined that the Group has lost its sole control over the company and is now controlling it jointly with the other shareholders. The Group has therefore started classifying and measuring this investment using the equity method. As a result the accumulated foreign currency losses on the translation of the investment were transferred from reserves to the income statement.

In Brasil, the 50%-owned factoring business returned a net loss for the year on the back of an erosion of its funded asset portfolio. During the year the company was faced with aggressive competition from the key market players, and notwithstanding its tapping of the export business and a lean cost structure, it was not able to grow its book and generate sufficient revenues to return to profitability. During the year the Group resolved to dispose of its investment in the company and as a result the investment has been classified as a discontinued operation held-for-sale, taking accumulated foreign currency losses on the translation of the investment to the income statement.

During the year the Group changed its accounting policy related to the measurement of its property, mainly the Group Head Office in Malta, from the cost to the fair value approach. The increase in fair value positively impacted the results of the year, both the Income Statement and Reserves, and also required a restatement of the prior year results in line with the applicable International Financial Reporting Standards.

income statements

For the year ended 31 December 2017, the Group registered a profit of USD7.7 million compared to a restated profit of USD5.4 million in 2016. Group profits per share stood at US cents 2.40 (2016: US cents 1.62) while on the basis of continuing operations the profits per share amount to US cents 3.49 (2016: US cents 1. 77). In the last quarter of 2017 the Group determined that it lost control of Latam Factors and subsequently started classifying and measuring the entity using the Equity Method.

Operating income before net impairment for 2017 stood at USD51.7 million, an increase of 12% over the USD46.1 million registered in 2016. During 2017, net interest income increased by USD3.0 million (to USD24.9 million) as a result of overall improved interest yields and more efficiency in funding volumes and cost of funds. This increase was also mirrored in an increase of USD3.7 million in net fee income, to USD18.5 million on improved fees on documentary credits and forfaiting.

Net trading results and net gains from other financial instruments, combined together, decreased from a net loss of USD0.3 million in 2016 to a net loss of USD1.7 million in 2017. This result was impacted by various factors - the realised profits of USD3.4 million generated in 2016 from the trading of investment securities were not repeated in 2017; with reduction in revenue being offset by improvements in the market value adjustments in LFC's trading portfolio which registered a loss of USD0.1 million in 2017 compared to a loss of USD1.8 million in 2016; whilst the results on foreign currency operations were broadly in line with the results of prior year.

During 2017 the Group changed its accountancy policy for owned properties and started measuring them at their fair value. The change in accounting policy has impacted the property classified as "property and equipment" and "investment property". In accordance with the applicable International Financial Reporting Standards, the change in accounting policy for investment property is to be accounted for retrospectively whilst that for "property and equipment" is to be applied prospectively. The revaluation resulted in a fair value gain of USD3.4 million in 2017, compared to a fair value loss of USD0.02 million in 2016 as a result of the retrospective application. During the year, the Group also registered a loss of USD0.7 million on the change in classification of Latam Factors from subsidiary to associate. In 2016, a gain of USD0.8 million was registered on the fair valuation of the previously held 50% share of investment in Egypt Factors following the full acquisition of the company in 2016.

Other operating income for the year includes USD0.5 million of additional income from the disposal of non-core assets compared to a corresponding income of USD1.9 million in 2016.

Net impairments for the year have improved from a loss of USD2.3 million in 2016 to a net recovery position of USD2.3 million in 2017. This is a result of significant recoveries made by the Bank and its subsidiaries in India and Egypt on legacy loans, which was partly offset by increases in coverage on other impaired legacy credits.

Operating expenses increased by USD3.7 million from USD38.6 million to USD42.3 million. This increase is largely attributed to increase in mandatory regulatory costs and other variable staff-related expenses.

During the year the Group has resolved to dispose of its investment in Brasilfactors and has classified the investment as held-for-sale. The results for the year and accumulated foreign currency losses in Other Comprehensive Income have been transferred to Loss on Discontinued Operations.

financial position

At 31 December 2017, total Consolidated Assets stood at USD1.64 billion, a decrease of 6% over the USD1.74 billion reported at end 2016. The drop in assets is attributed to a reduction in business assets aimed to address more stringent capital requirements partly offset by increases in Treasury balances as a result of higher regulatory liquidity ratios. In fact Trading Assets decreased by USD127 million, whilst Loans and Advances to Customers increased by USD140 million. In Loans and Advances to Banks, the decrease of USD228 million is a composite of drops in both business and treasury assets, whilst treasury balances held with the Central Bank and in available-for-sale instruments increased by USD110 million. Increases in Property and Equipment and Investment Property largely reflect the fair valuation of owned property as a result of the change in measurement from the "cost" to the "fair value" method.

2017 Total Consolidated Liabilities as at 31 December stood at USD1.47 billion, down 6% from USD1.57 billion at end 2016. Deposits from corporate and retail clients decreased by USD101 million whilst wholesale funding and bank deposits decreased by a further USD36 million. This reduction reflects the drop in assets and also the planned diversification of the funding sources between wholesale and retail. Similar to 2016, at 31 December 2017, 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 USD175 million, up from USD154 million in 2016 reflecting the profit for the year and movements in currency translation and fair value reserves. At 31 December 2017 the Group's CET1 ratio stood at 11.3% (2016: 9.7%) and Total Capital Ratio at 15.5% (2016: 13.3%).

Group Commitments, consisting mainly of confirmed letters of credit, documentary credits, commitments to purchase forfaiting assets and factoring commitments stood at USD354 million while Contingent Liabilities, principally consisting of outstanding guarantee obligations, stood at USD2 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 subsidiaries are exposed to such risks in different degrees based on their size and complexity. FIMBank, as the parent company, ensures that all business units adhere to the Group's risk, governance and compliance frameworks as updated from time to time.

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

outlook for 2018

For 2018, the Group is expected to continue building on the business platform it was able to transform and strengthen over the past years. The year is expected to be characterised by a capital injection directed towards a more stringent regulatory landscape and at the same time allowing the business to grow and achieve improved economies. The pursuit for excellence across the different businesses, products and markets will remain at the heart of the Group's strategy – through superior client delivery channels and product evolution, risk and governance stability as well as efficiency in funding and cost structures. The scaling of the business, supported by an expert team of management and staff in key trade hubs across different regions, will enable the Group to maintain a flexible business model which can adapt to arising circumstances, achieve sustainable profitability and improve overall returns to all key stakeholders.

dividends and reserves

The Directors will not be recommending the payment of a dividend to the Annual General Meeting of shareholders (2016: Nil).

standard licence conditions and regulatory sanctions

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

approvals at the annual general meeting of shareholders

The Bank convened its Annual General Meeting on 11 May 2017. 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 (11 April 2017) 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 2017 are as follows:

	Number of Shares	Percentage Holding
United Gulf Bank B.S.C	192,395,274	61.17%
Burgan Bank K.P.S.C.	61,997,304	19.71%

In addition to shareholders listed in the above table, at 31 December 2017, Tunis International Bank S.A. (a subsidiary of Burgan Bank K.P.S.C.) holds 8,910,000 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 2017 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 securities 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 make one or more rights issues over a period of three (3) years to raise in aggregate a minimum of USD 100 million (the "Rights Issues") by the issuance of ordinary shares to its Members on such terms and conditions as may be determined by the Board of Directors.

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 2017, information required under Listing Rule 5.64.4 is not applicable to the Bank.

events after the financial reporting date

On 13 March 2018 the Board approved a capital injection of USD115 million by way of a Rights Issue of shares to existing shareholders. This Rights Issue process is expected to be concluded by 30 June 2018.

going concern

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

directors

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

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

Denotes membership of:

1) Audit Committee (AC)
2) Governance Committee (GC)
3) Board Risk Committee (BRC)
4) Nomination and Remuneration Committee (NRC)
5) Board Credit Committee (BCC)
6) 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 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 13 March 2018 and signed on its behalf by:

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

Masaud M.J. Hayat
Vice Chairman

statement of compliance with the principles of good corporate governance

introduction

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

part 1: compliance with the principles

The Board firmly believes that strong corporate governance permits the Bank and the Group to benefit from greater transparency in its activities as well as in its relations with the market, thereby enhancing integrity and confidence. Although the Principles are not mandatory, the MFSA has recommended that Listed Companies endeavour to adopt such Principles. The Board 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 summarized 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 organizational structure;
c. regularly reviewing management performance and ensuring that the Bank/Group has the appropriate mix of financial and human resources to run its business;
d. being conversant with relevant statutory and regulatory requirements;
e. ensuring that all Directors regularly attend meetings of the Board, agree on business objectives, financial plans and general parameters within which the Board, the Board Committees and Management are to function;
f. ensuring that systems and controls are in place to mitigate significant business risks and that exposures are identified and properly managed;
g. setting appropriate business standards, codes of corporate governance and ethical behaviour for all Directors and Employees, as well as monitoring their performance;
h. appointing the Chief Executive Officer "CEO" who is entrusted with day-to-day management of the Group and its operations, together with members of Management.

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 while also assessing their authorities and leaderships skills. As a result, this committee screens individuals for the position of Director against the Bank's requirements at the time. Subsequently, the proposal for an individual to become a Director is assessed by the MFSA, which reviews, inter alia, the individual's competence to serve as Director against established 'fit and proper' criteria. In this connection, the individual is required to provide all information, including detailed personal and career information, as the competent authorities may deem necessary. Upon appointment, new Directors receive general information about the Bank, its business and affairs, and queries in this regard are in the first instance handled by the Company Secretary and/or the CEO.

principle 2: roles and responsibilities of the chairman and of the chief executive officer

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

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

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

principle 3: board composition and appointment of directors

The Bank's Articles of Association (the "Articles") contain detailed provisions (in Clauses 93 to 114) as to the manner of appointment and retirement of 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 (Vice-Chairman)	2013
Mohamed Fekih Ahmed	2013
Adrian Alejandro Gostuski	2013
Eduardo Eguren Linsen	2013
Majed Essa Ahmed Al-Ajeel	2013
Rabih Soukarieh	2013
Osama Talat Al-Ghoussein	2014
Hussain Abdul Aziz Lalani	2017 (appointed 23 June 2017)
Edmond Brincat	2017 (appointed 12 July 2017)

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

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

- to maintain in all circumstances his/her independence of analysis, decision and action;
- not to seek or accept any unreasonable advantages that could be considered as compromising his/her independence; and
- 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 2018. 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. During the year, all Directors were duly notified of every meeting and given the statutory notice period, which, in the case of meetings by conference facilities, was waived by approval of the Directors. With notices of meetings, the Directors are also served with Alternate Director Appointment Forms which, in case of non-attendance, they are invited to complete and send to the Company Secretary prior to the meeting.

The Board held 4 meetings in 2017. All members of the board were present for all 4 meetings except for Masaud M.J. Hayat who was excused for the May meeting. Meetings include presentations by Management, whilst other information and documentation is made available for perusal by the Directors, at their request. Members of Senior Management attend Board meetings by invitation depending on the agenda content and relevance. The Board also might request that the meetings be attended by other employees or by professional advisors, as and when necessary. In all other circumstances, the Directors are expected to play a full and constructive role in the Group's affairs. As soon as possible after a meeting, draft minutes are circulated amongst the members for their information. Minutes are then read and approved at the following meeting. Directors can access Board documents, including all past minutes of Board and committee meetings via an intranet facility.

Board meetings also serve as an opportunity to report on the progress and decisions of the committees, covered under Principle 8. All Board committees are either a mix of Directors and Management (Executive Committee, 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 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 2017 in order to procure Directors with necessary knowledge on their duties and responsibilities.

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

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 2017, with the formal evaluation taking place, and expected to be concluded in March 2018.

principle 8: board committees

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

Accordingly, the Board has established the following committees:

- Executive Committee
- Audit Committee
- Board Risk Committee
- Assets - Liabilities Committee
- Nomination and Remuneration Committee (refer to Remuneration Report on page 25)
- Board 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 2017 are the following:

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

The Executive Committee met on 12 occasions during 2017.

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

audit committee

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

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

The Audit Committee also considers the arm's length nature of related party transactions, vets and approves them. Both the Audit Committee's and the Head of Internal Audit's terms of reference clearly stipulate their independence from other Board Committees and management, and such independence is also acknowledged by external regulatory verification. The Head of Internal Audit has direct access to the Audit Committee Chairman at all times and attends all meetings. The Head of Compliance also has direct access to the Audit Committee Chairman and attends all meetings. In addition, the composition of the members of the Audit Committee includes an individual who is also a member of the Board Risk Committee.

The members of the Audit Committee as at 31 December 2017 are the following:

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

With reference to Listing Rule 5.117.3, the members of the Audit Committee who, are designated as independent and competent in auditing and/or accounting are Rogers David LeBaron and Edmond Brincat. Rogers David LeBaron was appointed as Audit Committee Chairman from 2 May 2013 by the Board of Directors of the Bank and to date is the designated independent and competent member in auditing. Rogers David LeBaron was a Director of Financial Institutions in the European Bank for Reconstruction and Development in London from 1996 until 2004 and subsequently held the position of Principal Financial Advisor, Global Financial Markets Department within the IFC. Edmond Brincat was employed at GO p.l.c. which he joined in 1999 as part of the team entrusted to set up and launch Go Mobile, Malta's second mobile operator. Since 2006 he held the position of Group Chief Finance Officer of GO p.l.c till January 2018.

The remaining member of the Committee, Hussain Abdul Aziz Lalani, serves as executive in the banking industry and consequently is deemed to be competent in the sectors in which the Bank operates.

The majority of the members of the Audit Committee satisfy the independence criteria set out in the Listing Rules. All members of the Audit Committee have signed a written declaration of independence. In effect, the Board of Directors of the Bank consider these members to be independent.

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

The Audit Committee held 5 meetings during 2017. The External Auditors were invited to two of the Audit Committee meetings (March 2017 and August 2017). The External Auditors were only present for the Agenda Item which considered and discussed the 2016 Annual Report (March 2017) and 2017 Interim Report (August 2017).

board risk committee

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

The Board Risk Committee members as at 31 December 2017 are the following:

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

During 2017, the Board Risk Committee met on 4 occasions. All members were present for all 4 meetings.

assets - liabilities committee

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

The ALCO is composed of representatives of senior management, vested with the power to make decisions. As at 31 December 2017, the voting members of the ALCO were the following:

Michael Davakis (Chairman)
Murali Subramanian (Member)
Simon Lay (Member)
Howard Gaunt (Member)
Ronald Haverkorn (Member)
Ronald Mizzi (Member)
Robert Frost (Member)

Giovanni Bartolotta - Head of Risk and Chris Trapani - Head of Cash Management & Central Customer Services are non-voting, permanent invitees of the ALCO.

During 2017, the ALCO met on 10 occasions.

board credit committee

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

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

The Board Credit Committee members as at 31 December 2017 are the following:

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

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

During 2017, the BCC met on 21 occasions.

corporate governance committee

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

The Corporate Governance Committee members as at 31 December 2017 are the following:

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

During 2017, the CGC met on 3 occasions.

nomination and remuneration committee

The Nomination and Remuneration Committee (NRC) carries 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 directors' structure and present recommendations on the changes which can be performed in accordance with the Bank's interest.

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 is continuously updated on the latest issues related to the banking profession. In this regard, the Board has in place a system to encourage its members to attend seminars as well as other occasions that give them the opportunity to meet with local and global companies and institutions in order to develop their skills in the financial banking and business fields.

The Nomination and Remuneration Committee members as at 31 December 2017 are the following:

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

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

During 2017, the Nomination and Remuneration Committee met on 3 occasions.

changes to committee membership during 2017

During 2017 Hussain Abdul Aziz Lalani, Mohammed Fekih Ahmed, Andrea Batelli, Ronald Haverkorn and Nilanjan Ray were appointed as new members of the Executive committee.

Hussain Abdul Aziz Lalani was appointed member of the Audit Committee (Vice Chairman), as was Edmond Brincat (member). Eduardo Eguren Linsen, Osama Talat Al-Ghoussein and Majed Essa Al-Ajeel are no longer members of the Audit Committee.

Osama Talat Al-Ghoussein is now the Vice Chairman of the Board Risk Committee, and Hussain Abdul Aziz Lalani was appointed member of the Board Risk Committee. Rabih Soukarieh and Mohammed Fekih Ahmed are no longer members of the Board Risk Committee.

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

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

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 2017 the Bank issued ten 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. Such announcement was in fact made regarding the Interim Directors' Statement, on 5 July 2017.

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 2017 is as follows:

John C. Grech* (Chairman)	1,080,000
Masaud M. J. Hayat* (Vice Chairman)	Nil
Majed Essa Ahmed Al-Ajeel *	Nil
Edmond Brincat	Nil
Osama Talat Al-Ghoussein*	Nil
Eduardo Eguren Linsen*	Nil
Mohamed Fekih Ahmed *	Nil
Adrian Alejandro Gostuski *	Nil
Hussain Lalani*	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 2017 are explained in other parts of the Annual Report.

part 2: non-compliance with the principles

principle 2.3: chairman and chief executive

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

principle 3: composition of the board

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

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 Compensation Committee.

principle 8: nomination and remuneration committee

The manner in which the Directors are nominated for appointment follows the procedure set out in the Articles of Association, i.e. any nomination must be seconded by a member or members who in the aggregate hold at least 20,000 shares. This process is also rendered public with an announcement in the 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.

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

internal control

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

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

Listing Rule 5.97.5

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

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

Approved by the Board of Directors on 13 March 2018 and signed on its behalf by:

John C. Grech
Chairman

Masaud M. J. Hayat
Vice Chairman

remuneration report

For the year ended 31 December 2017

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 2017 the Committee was composed of Masaud M.J. Hayat (Chairman), Majed Essa Al-Ajeel (Vice-Chairpman) and Rogers David LeBaron (Member). John C. Grech was a member till March 2017. Thereafter, he was a permanent invitee in his capacity as Chairman of the Group. Murali Subramanian and Howard Gaunt were invited to attend the meetings in their capacity as Group Chief Executive Officer ("CEO") and Group Chief Operating Officer. The Head of Human Resources acts as Secretary to the Committee. The Committee is directly accountable to the Board of Directors, who has the right to change the Committee's Charter in compliance with the relevant laws and regulations.

meetings

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

Members	Attended
Masaud M.J. Hayat (Chairman)	3
Majed Essa Ahmed Al-Ajeel (Vice Chairman)	3
Rogers LeBaron	3
John C. Grech (Resigned in March 2017)	1

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. Appointments and succession
f. Liquidation of MENA
g. Travel Policy
h. Additional EXCO members
i. Board of Directors emoluments
j. Board of Directors evaluation and Directors self-assessment
k. Employee share options scheme
l. Compensation of Audit Committee Chairperson
m. Voluntary Early Retirement Incentive Scheme

remuneration statement

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

The Annual General Meeting of shareholders approves the maximum annual aggregate remuneration which the Directors may receive for the holding of their office. At the Annual General Meeting of the 11 May 2017 the shareholders approved the maximum aggregate emoluments of the Directors for the financial year ending 31 December 2017 at USD450,000. No Director, in his capacity as a Director of the Bank, is entitled to profit sharing, share options or pension benefits. The total fees paid for Board of Directors meetings for the financial year ending 31 December 2017 amounted to USD186,000.

code provision 8.A.5

For 2017, the total payments received by Directors from the Bank and the Group were:

Fixed remuneration	USD375,593
Variable remuneration	Nil
Executive share options	Nil
Expenses relating to meetings	USD35,428

The fixed annual remuneration is inclusive of remuneration with respect to committee/s the Directors 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 laid down by the Board of Directors. The Remuneration Policy mirrors the Capital Requirements Directive IV and the Capital Requirements Regulation so as to ensure that any remuneration practices are in compliance with existing directives and regulations. Unless the current scenario changes no new significant changes are envisaged for the financial year ending 2018.

The various remuneration components for Executives are:

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

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

For 2017, the total emoluments received by Senior Executives were:

Fixed remuneration	USD2,889,298
Variable remuneration	USD472,004
Executive share options	Nil
Expenses/fringe benefits	USD1,060,497

The 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 2017

	Note	Group 2017 USD	Group 2016 (restated) USD	Bank 2017 USD	Bank 2016 USD
Assets					
Balances with the Central Bank of Malta, Treasury Bills and cash	20	208,171,299	33,193,245	208,147,513	33,165,601
Trading assets	21	252,509,144	379,397,964	-	-
Derivative assets held for risk management	22	722,256	1,502,704	722,256	1,502,704
Financial assets designated at fair value through profit or loss	23	-	17,799,900	-	17,799,900
Loans and advances to banks	24	226,092,934	454,362,226	203,552,663	438,799,241
Loans and advances to customers	25	566,361,530	426,612,356	581,529,952	589,579,473
Investments available-for-sale	26	261,244,798	327,076,529	261,244,798	327,075,827
Interests in equity-accounted investees	27	5,561,181	-	-	-
Investments in subsidiaries	28	-	-	94,050,884	86,305,594
Non-current assets held for sale	52	-	1,161,332	-	-
Property and equipment	30	29,660,743	27,831,524	1,035,490	1,305,432
Investment property	31	16,238,869	6,932,960	-	-
Intangible assets and goodwill	32	11,984,948	11,701,935	2,736,599	2,467,630
Current tax assets		3,306,366	3,695,826	1,052,348	1,052,348
Deferred tax assets	33	41,023,245	41,882,687	23,303,267	23,335,459
Other assets	34	12,747,974	4,263,474	9,005,794	2,613,913
Prepayments and accrued income	35	7,776,171	7,031,898	7,054,755	6,148,570
Total assets		1,643,401,458	1,744,446,560	1,393,436,319	1,531,151,692
Liabilities and Equity					
Liabilities					
Derivative liabilities held for risk management	22	722,922	8,816,410	723,454	8,834,092
Amounts owed to banks	36	493,192,846	528,939,251	393,247,791	426,137,477
Amounts owed to customers	37	847,198,005	948,710,544	815,812,570	915,367,604
Debt securities in issue	38	54,653,654	8,225,869	-	-
Subordinated liabilities	39	50,000,000	50,000,000	50,000,000	50,000,000
Current tax liabilities		357,509	1,437	-	-
Deferred tax liabilities	33	3,518,684	554,636	-	-
Other liabilities		829,197	569,758	793,060	535,339
Accruals and deferred income	40	20,034,283	20,917,768	7,818,090	7,422,362
Total liabilities		1,470,507,100	1,566,735,673	1,268,394,965	1,408,296,874
Equity					
Share capital	41	157,265,562	155,239,263	157,265,562	155,239,263
Share premium	41	173,113	2,101,335	173,113	2,101,335
Reserve for general banking risks	41	608,284	764,792	608,284	764,792
Currency translation reserve	41	(2,747,913)	(6,715,522)	-	-
Fair value reserve	41	9,533,453	951,740	81,501	(1,891,140)
Other reserve	41	2,870,270	2,481,760	2,681,041	2,681,041
Retained earnings / (accumulated losses)	41	6,901,064	(386,566)	(35,768,147)	(36,040,473)
Total equity attributable to equity holders of the bank		174,603,833	154,436,802	125,041,354	122,854,818
Non-controlling interests	42	(1,709,475)	23,274,085	-	-
Total equity		172,894,358	177,710,887	125,041,354	122,854,818
Total liabilities and equity		1,643,401,458	1,744,446,560	1,393,436,319	1,531,151,692

statements of financial position

As at 31 December 2017

	Note	Group 2017 USD	Group 2016 USD	Bank 2017 USD	Bank 2016 USD
Memorandum Items					
Contingent liabilities	43	1,186,426	6,507,529	57,601,096	19,782,148
Commitments	44	353,893,273	186,030,894	254,253,843	120,282,416

The official middle rate of exchange issued by the European Central Bank between US Dollar and Euro as at 31 December 2017 was 1.1993.

The financial position as at 31 December 2016 has been restated as disclosed in Note 52.

The notes on pages 38 to 126 are an integral part of these financial statements.

The financial statements on pages 27 to 126 were approved and authorised for issue by the Board of Directors on 13 March 2018 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 2017

		Group		Bank	
	Note	2017 USD	2016 (restated) USD	2017 USD	2016 USD
Interest income	8	51,154,831	45,015,303	28,323,748	24,663,531
Interest expense	8	(26,225,818)	(23,051,984)	(17,738,857)	(16,542,171)
Net interest income	8	24,929,013	21,963,319	10,584,891	8,121,360
Fee and commission income	9	23,992,907	20,090,223	11,048,533	10,021,804
Fee and commission expense	9	(5,477,428)	(5,252,886)	(2,482,765)	(2,009,569)
Net fee and commission income	9	18,515,479	14,837,337	8,565,768	8,012,235
Net trading results	10	(1,807,839)	(3,645,603)	(3,140,286)	(1,063,498)
Net gain from other financial instruments carried at fair value	11	108,622	3,373,807	108,622	3,373,807
Net fair value gains on previously-held interests in equity-accounted investees	12	-	771,654	-	-
Dividend income	13	5,997,942	5,455,550	10,446,343	5,455,550
(Loss)/gain upon loss of control of subsidiary undertaking	14	(656,661)	777,677	-	-
Fair value gain/(loss) on investment property	31	3,444,802	(15,355)	-	-
Other operating income	15	1,135,085	2,613,557	87,088	407,519
Operating income before net impairment		51,666,443	46,131,943	26,652,426	24,306,973
Net impairment reversal/(charge) on financial assets	16	2,297,034	(2,299,116)	(767,889)	(2,311,574)
Operating income		53,963,477	43,832,827	25,884,537	21,995,399
Administrative expenses	17	(40,027,409)	(35,692,670)	(24,785,664)	(20,727,352)
Depreciation and amortisation	30 - 32	(2,260,523)	(2,901,249)	(922,457)	(869,126)
Total operating expenses		(42,287,932)	(38,593,919)	(25,708,121)	(21,596,478)
Operating profit		11,675,545	5,238,908	176,416	398,921
Share of results of associates (net of tax)	27	8,893	(15,447)	-	-
Profit before tax		11,684,438	5,223,461	176,416	398,921
Taxation	18	(561,767)	618,149	(60,598)	(58,539)
Profit from continuing operations		11,122,671	5,841,610	115,818	340,382
Loss on discontinued operations	29	(3,395,976)	(474,974)	-	-
Profit for the year		7,726,695	5,366,636	115,818	340,382

income statements

For the year ended 31 December 2017

		Group		Bank	
			2016		
		2017	(restated)	2017	2016
	Note	USD	USD	USD	USD
Attributable to:					
Equity holders of the bank		7,519,632	5,023,008	115,818	340,382
Non-controlling interests		207,063	343,628	-	-
Profit for the year		7,726,695	5,366,636	115,818	340,382
Profit per share					
Basic profit per share (US cents)	19	2.40	1.62	0.04	0.11
Diluted profit per share (US cents)	19	2.40	1.62	0.04	0.11
Profit per share – continuing operations					
Basic profit per share (US cents)	19	3.49	1.77	0.04	0.11
Diluted profit per share (US cents)	19	3.48	1.77	0.04	0.11

The results for the year ended 31 December 2016 have been restated as disclosed in Note 52.

The notes on pages 38 to 126 are an integral part of these financial statements.

statements of profit or loss and other comprehensive income

For the year ended 31 December 2017

	Group		Bank	
	2017 USD	2016 (restated) USD	2017 USD	2016 USD
Profit for the year	7,726,695	5,366,636	115,818	340,382
Other comprehensive income:				
Items that will not be reclassified to profit or loss:				
Fair value reserve (property and equipment), net of deferred tax	6,609,072	-	-	-
Items that are, or may be, reclassified to profit or loss:				
Foreign currency translation differences for foreign operations	3,967,610	(1,025,145)	-	-
Fair value reserve (available-for-sale financial assets), net of deferred tax	1,972,641	(1,481,612)	1,972,641	(1,481,612)
Total comprehensive income/(loss) for the year	20,276,018	2,859,879	2,088,459	(1,141,230)
Attributable to:				
Equity holders of the bank	20,068,955	2,516,251	2,088,459	(1,141,230)
Non-controlling interests	207,063	343,628	-	-
Total comprehensive income/(loss) for the year	20,276,018	2,859,879	2,088,459	(1,141,230)

The results for the year ended 31 December 2016 have been restated as disclosed in Note 52.

The notes on pages 38 to 126 are an integral part of these financial statements.

statements of changes in equity

For the year ended 31 December 2017

Group

	Attributable to equity shareholders of the Bank									
	Share capital USD	Share premium USD	Reserve for general banking risks USD	Currency translation reserve USD	Fair value reserve USD	Other reserve USD	(Accumulated losses)/ Retained earnings USD	Total USD	Non-controlling interests USD	Total equity USD
At 1 January 2017 (restated)	155,239,263	2,101,335	764,792	(6,715,522)	951,740	2,481,760	(386,566)	154,436,802	23,274,085	177,710,887
Total comprehensive income										
Comprehensive income for the year										
Profit for the year	-	-	-	-	-	-	7,519,632	7,519,632	207,063	7,726,695
Other comprehensive income										
Change in fair value of available-for-sale assets	-	-	-	-	1,972,641	-	-	1,972,641	-	1,972,641
Change in fair value of property and equipment	-	-	-	-	6,609,072	-	-	6,609,072	-	6,609,072
Currency translation reserve	-	-	-	3,967,609	-	-	-	3,967,609	(118,923)	3,848,686
Total comprehensive income	-	-	-	3,967,609	8,581,713	-	7,519,632	20,068,954	88,140	20,157,094
Transactions with owners of the Bank										
Contributions and distributions										
Issue of new shares, net of transaction costs	85,067	13,010	-	-	-	-	-	98,077	-	98,077
Bonus issue of shares	1,941,232	(1,941,232)	-	-	-	-	-	-	-	-
Changes in ownership interests										
Loss of control in subsidiaries	-	-	-	-	-	-	-	-	(25,071,700)	(25,071,700)
Total transactions with owners of the Bank	2,026,299	(1,928,222)	-	-	-	-	-	98,077	(25,071,700)	(24,973,623)
Transfer between reserves	-	-	(156,508)	-	-	388,510	(232,002)	-	-	-
As at 31 December 2017	157,265,562	173,113	608,284	(2,747,913)	9,533,453	2,870,270	6,901,064	174,603,833	(1,709,475)	172,894,358

The equity position as at 1 January 2017 has been restated as disclosed in Note 52.

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	Accumulated losses) USD	Total USD	Non-controlling interests USD	Total equity USD
At 1 January 2016 (restated)	149,268,322	8,072,276	1,000,027	(5,690,377)	2,433,352	2,486,644	(5,644,809)	151,925,435	25,837,059	177,762,494
Total comprehensive income										
Comprehensive income for the year										
Profit for the year	-	-	-	-	-	-	5,023,008	5,023,008	343,628	5,366,636
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)	-	5,023,008	2,516,251	684,321	3,200,572
Transactions with owners of the Bank										
Contributions and distributions										
Issue of new shares, net of transaction 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)
Acquisition of non-controlling interests										
Total transactions with owners of the Bank	5,970,941	(5,970,941)	-	-	-	(4,884)	-	(4,884)	(3,247,295)	(3,252,179)
Transfer between reserves	-	-	(235,235)	-	-	-	235,235	-	-	-
As at 31 December 2016 (restated)	155,239,263	2,101,335	764,792	(6,715,522)	951,740	2,481,760	(386,566)	154,436,802	23,274,085	177,710,887

The equity position as at 31 December 2016 has been restated as disclosed in Note 52.

statements of changes in equity

For the year ended 31 December 2017

Bank

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

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	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 between reserves	-	-	(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

The notes on pages 38 to 126 are an integral part of these financial statements.

statements of cash flows

For the year ended 31 December 2017

	Group		Bank	
	2017	2016	2017	2016
	USD	USD	USD	USD
Cash flows from operating activities				
Interest and commission receipts	69,434,270	58,296,267	41,196,846	32,048,919
Exchange (paid)/received	(14,908,684)	16,445,346	(14,976,712)	10,702,723
Interest and commission payments	(32,050,892)	(27,351,959)	(20,744,553)	(20,292,680)
Payments to employees and suppliers	(38,531,400)	(36,929,887)	(24,537,766)	(18,963,879)
Operating profit before changes in operating assets / liabilities	(16,056,706)	10,459,767	(19,062,185)	3,495,083
(Increase) / decrease in operating assets:				
- Trading assets and financial assets at fair value through profit or loss	133,999,936	(21,198,615)	-	-
- Loans and advances to customers and banks	(7,413,328)	(73,893,234)	35,758,424	(105,787,528)
- Other assets	(8,900,431)	(1,973,550)	(6,391,881)	(761,314)
Increase / (decrease) in operating liabilities:				
- Amounts owed to customers and banks	(117,953,924)	261,462,741	(148,395,307)	297,386,325
- Other liabilities	262,508	(2,892,277)	371,024	399,506
- Net advances from subsidiary companies	-	-	158,474,611	17,481,718
Net cash (absorbed by) / generated from operating activities before income tax	(16,061,945)	171,964,832	20,754,686	212,213,790
Income tax (paid)/refunded	69,852	589,969	(60,598)	(1,113,256)
Net cash flows (used in) / from operating activities	(15,992,093)	172,554,801	20,694,088	211,100,534
Cash flows from investing activities				
- Payments to acquire property and equipment	(363,629)	(626,032)	(195,368)	(307,742)
- Payments to acquire intangible assets	(763,786)	(1,719,375)	(727,136)	(1,672,306)
- Payments to acquire shares in subsidiary company	-	-	(10,304,042)	(6,359,342)
- Payments to acquire shares in equity-accounted investees	-	(1,359,346)	-	-
- Payments to acquire shares in other investments	-	(25,317,000)	-	(25,317,000)
- Payments to acquire available-for-sale financial assets	-	(30,187,210)	-	(30,187,210)
- Proceeds on disposal of property and equipment	723,200	5,755,200	2,674	550,255
- Proceeds on disposal of intangible assets	24,037	-	-	-
- Proceeds on disposal of other investments	9,674,022	-	9,673,320	-
- Proceeds on disposal of investments held-to-maturity	-	7,800,000	-	7,800,000
- Proceeds on disposal of available-for-sale financial assets	62,397,260	-	62,397,260	-
- Proceeds on disposal of financial assets at fair value through profit or loss	17,870,000	-	17,870,000	-
- Receipt of dividend	5,759,405	5,455,550	10,207,806	5,455,550
Net cash flows from/(used in) investing activities	95,320,509	(40,198,213)	88,924,514	(50,037,795)
Increase in cash and cash equivalents c/f	79,328,416	132,356,588	109,618,602	161,062,739

statements of cash flows

For the year ended 31 December 2017

	Group		Bank	
	2017	2016	2017	2016
	USD	USD	USD	USD
Increase in cash and cash equivalents b/f	79,328,416	132,356,588	109,618,602	161,062,739
Cash flows from financing activities				
- Issue of share capital	98,077	-	98,077	-
- Share issue costs	-	(4,884)	-	-
- Net movement in debt securities	46,427,785	(37,420,886)	-	(20,000,000)
Net cash flows from/(used in) financing activities	46,525,862	(37,425,770)	98,077	(20,000,000)
Increase in cash and cash equivalents	125,854,278	94,930,818	109,716,679	141,062,739
Analysed as follows:				
- Effect of exchange rate changes on cash and cash equivalents	20,583,682	(220,859)	12,457,343	263,035
- Net increase in cash and cash equivalents	105,270,596	95,151,677	97,259,336	140,799,704
Increase in cash and cash equivalents	125,854,278	94,930,818	109,716,679	141,062,739
Cash and cash equivalents at beginning of year	52,822,344	(42,108,474)	43,676,466	(97,386,273)
Cash and cash equivalents at end of year	178,676,622	52,822,344	153,393,145	43,676,466

The notes on pages 38 to 126 are an integral part of these financial statements.

notes to the financial statements

For the year ended 31 December 2017

notes to the financial statements

For the year ended 31 December 2017

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 2017 comprise the Bank and its subsidiaries (together referred to as the "Group" and individually as "Group entities").

2 basis of preparation

2.1 statement of compliance

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

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

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

The financial statements were authorised for issue by the Board of Directors on 13 March 2018.

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;
- available-for-sale financial assets;
- freehold land and premises and improvement to premises; and
- investment property.

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 7 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 Dollars (USD), which is the Bank's functional currency.

2.4 use of judgements and estimates

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

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

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 and the model assumptions and parameters used in determining collective allowances.

determining fair values

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

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

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

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

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

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

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

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

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

- Note 5 – fair values of financial instruments
- Note 30 – property and equipment
- Note 31 – investment property

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 ending 31 December 2017 is set out below in relation to the impairment of financial instruments and in the following notes in relation to other areas:

- Note 32 – impairment testing for CGUs containing goodwill: key assumptions underlying recoverable amounts;
- Note 33 – 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, except for the change in accounting policy of "property and equipment" (note 3.18.1) and "investment property" (note 3.19). During the current year the Group changed its accounting policy with respect to the subsequent measurement of "freehold land and buildings" and "investment property" previously measured at cost less accumulated depreciation and any accumulated impairment losses. The impact of the change in accounting policy is disclosed in Note 52.

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 interests in equity-accounted investees

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

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

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

3.1.4 non-controlling interests

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:

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

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

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

3.1.6 transactions eliminated on consolidation

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

3.1.7 loss of control

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

3.2 foreign currency

3.2.1 foreign currency transactions

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

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

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

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 comprehenive 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 results.

Fair value changes on other derivatives held for risk management purposes, and other financial assets and liabilities carried at fair value through profit or loss, are presented in net trading results in the 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 results

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

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

Net gain or loss from other financial instruments at fair value through profit or loss relates to financial assets and liabilities designated at fair value through profit or loss, and includes all realised and unrealised fair value changes and foreign exchange differences, other than gains or losses related to derivatives held for risk management purposes which are included under net trading results (see note 3.5).

3.7 dividends

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

3.8 leases

3.8.1 lease payments

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

3.8.2 leased assets - lessee

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

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

3.8.3 leased assets - lessor

If the Group is the lessor in a lease agreement that transfers substantially all of the risks and rewards incidental to ownership of the asset to the lessee, then the arrangement is classified as a finance lease and a receivable equal to the net investment in the lease is recognised and presented within loans and advances (see Accounting Policy 3.15).

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 and adjusted, 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:

1. loans and receivables;
2. held-to-maturity;
3. available-for-sale; and
4. 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, 3.12, 3.13, 3.14, 3.15 and 3.16.

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 IFRSs, or for gains and losses arising from a group of similar transactions such as in the Group's trading activity.

3.10.5 amortised cost measurement

The amortised cost of a financial asset or 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:

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

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

The Group considers evidence of impairment for loans and advances and held-to-maturity investment securities at both a specific 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:

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

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

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

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

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

The Group writes off a loan or an investment debt security, either partially or in full, and any related allowance for impairment losses, when the Group determines that there is no realistic prospect of recovery (see note 4.2).

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

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

3.14 hedge of a net investment in foreign operation

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

3.15 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.

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.

3.16 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.

3.16.1 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.

3.16.2 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 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.

3.16.3 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:

1. 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;
2. sales or reclassifications after the Group has collected substantially all of the asset's original principal; and
3. sales or reclassifications that are attributable to non-recurring isolated events beyond the Group's control that could not have been reasonably anticipated.

The Group did not have any assets classified as held-to-maturity as at the reporting date (2016: Nil).

3.17 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 3.21).

3.18 property and equipment

3.18.1 recognition and measurement

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

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

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

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

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

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

3.18.2 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.

3.18.3 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.

3.18.4 reclassification to investment property

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

3.19 investment property

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

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

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

Investment property is derecognised either when it has been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gain or loss on disposal of investment property (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised in profit or loss. When investment property that was previously classified as property, plant and equipment is sold, any related amount included in the revaluation reserve (see 3.18.4) is transferred to retained earnings.

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

3.20 intangible assets and goodwill

3.20.1 recognition and measurement

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

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

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

3.20.2 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.

3.20.3 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.

3.21 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.

3.22 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.

3.23 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.

3.24 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.

3.25 employee benefits

3.25.1 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.

3.25.2 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.

3.26 share capital

3.26.1 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.

3.26.2 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.

3.27 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.

3.28 segment reporting

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

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

3.29 new standards and interpretations not yet effective

3.29.1 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 2018, and earlier application is permitted, however the Group has not early adopted the following new or amended standards in preparing these financial statements. 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.

3.29.1.1 IFRS 9 Financial Instruments

The Group will adopt the new standard on 1 January 2018 and in line with the requirements of IFRS9, it will not restate the comparative financial information. The Group has assessed the estimated impact that the initial application of IFRS 9 will have on its consolidated financial statements based on currently available information which may be subject to changes arising from further reasonable and supportable information being made available to the Group in 2018. Overall, the Group expects no significant impact on its statement of financial position and equity except for the effect of applying the "impairment" requirements of IFRS 9 (see below).

a. Classification and measurement

IFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics. The standard contains three principal classification categories for financial assets: amortised cost, fair value through other comprehensive income ("FVOCI") and fair value through profit or loss ("FVTPL"). Under IFRS 9, derivatives embedded in contracts where the host is a financial asset are never bifurcated. Instead, the hybrid financial instrument as a whole is assessed for classification.

Based on its assessment, the Group does not believe that the new classification requirements will have a material impact on its accounting for its loans and receivables and investments available-for-sale.

b. Impairment

IFRS 9 replaces the 'incurred loss' model in IAS 39 with a forward-looking 'expected credit loss' ("ECL") model. The new impairment model will apply to financial assets measured at amortised cost or FVOCI, except for investments in equity instruments. A number of significant judgements are also required in applying the accounting requirements for measuring ECL, such as:

- Determining criteria for significant increase in credit risk;
- Choosing appropriate models and assumptions for the measurement of ECL; and
- Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and the associated ECL.

The group has estimated that application of IFRS 9's impairment requirements at 1 January 2018 results in additional impairment losses impacting equity. It is estimated that the new impairment methodology will result in higher impairment provisions ranging between USD7.5 million to USD10.0 million, predominantly for loans and advances to banks and customers, recognised on the Group's balance sheet.

The Group has also adopted Regulation (EU) 2017/2395 as regards transitional arrangements for mitigating the impact of IFRS9 on Own Funds. As a result of this, the impact on Common Equity Tier 1 ("CET1") for the financial year ended 31 December 2018 will be 5% of the IFRS9 impairment adjustment.

c. Hedge accounting

The Group currently applies hedge accounting on its investments in subsidiaries and associates denominated in a currency different than the functional currency of the Group. The Group does not changes any impact on the recognition and measurement of these hedges as a result of the introduction of IFRS9.

3.29.1.2 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.

3.29.1.3 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:

1. retrospective approach; or
2. 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.

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 also copied to the Chairman of the Board of Directors.

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

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 eligible capital applies to any particular customer or group of connected customers (unless the client is an institution or group of connected clients includes an institution, the value shall not exceed 25% of the eligible capital or EUR 150 million, whichever is the higher, subject to certain conditions as listed in the CRR). Overall responsibility for credit risk is entrusted to the Board 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 Board Credit Committee. The Board 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 Board 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	
	2017 USD	2016 USD	2017 USD	2016 USD
Individually impaired	6,212,232	19,148,192	16,446,945	11,834,883
Past due but not impaired	5,754,271	14,871,140	21,928,918	27,627,085
Neither past due nor impaired	214,126,431	420,342,894	527,985,667	387,150,388
Total carrying amount	226,092,934	454,362,226	566,361,530	426,612,356

Bank

	Loans and advances to banks		Loans and advances to customers	
	2017 USD	2016 USD	2017 USD	2016 USD
Individually impaired	6,212,232	19,148,192	12,783,602	881,568
Past due but not impaired	1,754,271	14,871,140	18,972,405	27,697,635
Neither past due nor impaired	195,586,160	404,779,909	549,773,945	561,000,270
Total carrying amount	203,552,663	438,799,241	581,529,952	589,579,473

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	
	2017	2016	2017	2016	2017	2016
	USD	USD	USD	USD	USD	USD
Neither past due nor impaired						
AAA/AA	8,060	1,339	5,856,079	6,272,983	60,978,560	107,370,144
A/BBB	138,825,489	180,678,784	-	105,108	69,823,538	250,596,138
BB/Lower	30,084,902	31,089,574	7,989,224	23,962,955	110,591,534	85,456,160
Unrated	45,207,980	208,573,197	514,140,364	356,809,342	115,707,960	115,617,238
	214,126,431	420,342,894	527,985,667	387,150,388	357,101,592	559,039,680
Past due or impaired						
0 to 30 days	4,832,420	13,097,247	16,729,461	11,144,918	-	-
31 to 60 days	-	14,871,140	878,135	9,879,911	-	-
61 to 90 days	239,866	-	178,552	858,165	-	-
91 to 180 days	-	-	6,920,968	4,940,323	-	-
181 to 365 days	-	-	1,054,688	8,386,174	-	-
Over 1 year	6,894,217	6,050,945	12,614,059	4,252,477	-	-
	11,966,503	34,019,332	38,375,863	39,461,968	-	-
Total	226,092,934	454,362,226	566,361,530	426,612,356	357,101,592	559,039,680

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	
	2017	2016	2017	2016	2017	2016
	USD	USD	USD	USD	USD	USD
Neither past due nor impaired						
AAA/AA	8,060	1,192	5,856,079	6,272,985	60,978,560	106,787,772
A/BBB	117,925,233	171,106,684	-	105,108	43,613,888	72,853,944
BB/Lower	30,084,101	31,088,990	7,989,224	23,962,954	-	-
Unrated	47,568,766	202,583,043	535,928,642	530,659,223	-	-
	195,586,160	404,779,909	549,773,945	561,000,270	104,592,448	179,641,716
Past due or impaired						
0 to 30 days	832,420	13,097,247	15,186,980	15,829,194	-	-
31 to 60 days	-	14,871,140	815,291	3,921,128	-	-
61 to 90 days	239,866	-	178,552	203,479	-	-
91 to 180 days	-	-	6,911,984	2,218,188	-	-
181 to 365 days	-	-	728,479	6,275,062	-	-
Over 1 year	6,894,217	6,050,945	7,934,721	132,152	-	-
	7,966,503	34,019,332	31,756,007	28,579,203	-	-
Total	203,552,663	438,799,241	581,529,952	589,579,473	104,592,448	179,641,716

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:

a. 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.
b. 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 modification or renegotiations in response to actual or perceived financial difficulties of a customer.

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

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

For the purposes of disclosures in these financial statements, 'loans with renegotiated terms' are defined as loans that have been restructured due to a deterioration in the borrower's financial position, for which the Group has made concessions by agreeing to terms and conditions that are more favourable to the borrower than the Group had provided initially and that it would not otherwise consider. 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 2017 and 2016 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 USD36,463,348 (31 December 2016: USD26,201,755), of which USD24,121,214 (31 December 2016: USD8,666,839) are performing, whilst USD12,342,134 (31 December 2016: USD17,534,915) are non-performing (individually impaired) with an extendible collateral value of USD641,687 (31 December 2016: USD9,419). Interest income recognised during 2017 in respect to renegotiated and forborne assets amounts to USD1,507,438 (31 December 2016: USD2,404,861).

For the Bank, the aggregate amount of renegotiated and forborne loans at reporting date amounted to USD35,350,885 (31 December 2016: USD15,732,408), of which USD26,106,077 (31 December 2016: USD7,237,706) are performing, whilst USD9,244,808 (31 December 2016: USD 8,494,702) are non-performing (individually impaired) with an extendible collateral value of USD641,687 (31 December 2016: USD9,419). Interest income recognised during 2017 in respect to renegotiated and forborne assets amounts to USD1,402,934 (31 December 2016: USD1,594,475).

Movement in forbearance activity during the year is as follows:

Group

	Performing 2017 USD	Performing 2016 USD	Non-Performing 2017 USD	Non-Performing 2016 USD
At 1 January	8,666,839	101,171	17,534,916	23,496,821
Additions	24,066,201	8,666,839	3,984,987	6,511,662
Recovered	(8,611,826)	351,840	(7,158,605)	(7,936,117)
Written off	-	(453,011)	(2,019,164)	(4,537,450)
At 31 December	24,121,214	8,666,839	12,342,134	17,534,916

Bank

	Performing 2017 USD	Performing 2016 USD	Non-Performing 2017 USD	Non-Performing 2016 USD
At 1 January	7,237,706	101,171	8,494,702	13,683,155
Additions	24,066,201	7,237,706	3,432,198	841,899
Recovered	(7,182,693)	(101,171)	(697,229)	(4,251,020)
Written off	-	-	-	(1,779,332)
Change in classification	1,984,863	-	(1,984,863)	-
At 31 December	26,106,077	7,237,706	9,244,808	8,494,702

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 2017 and 2016.

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	
	2017 USD	2016 USD	2017 USD	2016 USD
Against neither past due nor impaired				
Cash or quasi cash	17,291,951	41,824,320	84,128,632	5,927,920
Property	-	-	-	-
Other	8,870,160	64,409,804	82,119,646	58,581,466
Against past but not impaired				
Cash or quasi cash	-	10,409,093	273,188	413,941
Property	-	-	-	-
Other	119,933	5,000,000	14,131,377	13,040,050
Against impaired				
Cash or quasi cash	-	-	6,483	9,504
Property	-	-	-	132,632
Other	-	-	3,516,664	-
	26,282,044	121,643,217	184,175,990	78,105,513

Bank

	Loans and advances to banks		Loans and advances to customers	
	2017 USD	2016 USD	2017 USD	2016 USD
Against neither past due nor impaired				
Cash or quasi cash	17,291,951	41,824,320	84,128,632	5,927,920
Property	-	-	-	-
Other	8,870,160	64,409,804	82,119,646	58,581,466
Against neither past due nor impaired				
Cash or quasi cash	-	10,409,093	273,188	413,941
Property	-	-	-	-
Other	119,933	5,000,000	14,131,377	13,040,050
Against impaired				
Cash or quasi cash	-	-	6,483	9,504
Property	-	-	-	132,632
Other	-	-	3,516,664	-
	26,282,044	121,643,217	184,175,990	78,105,513

4.2.9 offsetting financial assets and financial liabilities

With the exception of cash collaterals as disclosed in this note and in Notes 36 and 37, 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 2017 and 2016, 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	
	2017	2016	2017	2016
	USD	USD	USD	USD
Industrial raw materials	205,604,490	123,454,832	98,191,582	52,969,026
Shipping and transportation	8,082,281	13,488,529	6,064,446	5,586,945
Wholesale and retail trade	218,136,790	168,903,419	197,787,020	129,528,598
Financial intermediation	317,750,562	509,728,245	413,207,837	756,783,224
Other services	42,880,341	65,399,557	69,831,730	83,510,921
	792,454,464	880,974,582	785,082,615	1,028,378,714

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.

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

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		Equity securities available-for-sale	
	2017 USD	2016 USD	2017 USD	2016 USD	2017 USD	2016 USD	2017 USD	2016 USD
Europe	109,925,743	185,546,603	231,405,628	161,652,396	64,734,272	153,793,291	156,652,350	165,234,713
Sub-saharan Africa	36,537,790	168,053,548	6,600,641	4,379,173	73,721,162	63,540,823	-	-
Middle East and North Africa (MENA)	24,752,084	43,218,512	193,279,110	120,939,933	35,213,285	128,580,371	-	-
Commonwealth of Independent States (CIS)	4,783,977	32,904,690	-	-	2,900,000	15,919,181	-	-
Others	50,093,340	24,638,873	135,076,151	139,640,854	180,532,873	197,206,014	-	-
	226,092,934	454,362,226	566,361,530	426,612,356	357,101,592	559,039,680	156,652,350	165,234,713

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		Equity securities available-for-sale	
	2017 USD	2016 USD	2017 USD	2016 USD	2017 USD	2016 USD	2017 USD	2016 USD
Europe	114,376,761	187,351,734	332,767,664	417,675,584	51,928,797	114,300,558	156,652,350	165,234,011
Sub-saharan Africa	36,537,790	168,053,548	6,600,641	4,379,173	-	-	-	-
Middle East and North Africa (MENA)	17,781,365	35,243,213	165,922,939	114,702,808	-	7,764,900	-	-
Commonwealth of Independent States (CIS)	4,768,121	32,876,129	-	-	-	-	-	-
Others	30,088,626	15,274,617	76,238,708	52,821,908	52,663,651	57,576,258	-	-
	203,552,663	438,799,241	581,529,952	589,579,473	104,592,448	179,641,716	156,652,350	165,234,011

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

4.3.2.1 liquidity coverage ratio (LCR)

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

During December 2017, the regulatory LCR requirement was set at a minimum level of 80% (2016: 70%). The regulatory required minimum level will be set to 100 %, when fully implemented in 2018.

As at December 2017, the Group's calculated LCR stood at 106% (2016: 113%).

4.3.2.2 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. Such regulatory requirement was repealed by the MFSA as from 1 January 2018.

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

	2017	2016
At 31 December	50.6%	45.8%
Average for the year	50.0%	46.9%
Maximum for the year	72.6%	67.0%
Minimum for the year	35.6%	34.4%

4.3.2.3 residual contractual maturities of financial assets and liabilities

Group – 31 December 2017

	Carrying amount USD	Gross nominal inflow/ (outflow) USD	Less than 1 month USD	Between 1 & 3 months USD	Between 3 & 6 months USD	Between 6 months & 1 year USD	Between 1 & 2 years USD	More than 2 years USD
Balances with the Central Bank of Malta, Treasury Bills and cash	208,171,299	208,155,847	208,155,847	-	-	-	-	-
Trading assets	252,509,144	269,867,614	14,489,209	43,081,667	63,822,620	48,043,449	51,608,647	48,822,022
Derivative assets held for risk management	722,256	722,256	657,250	52,675	12,331	-	-	-
Loans and advances to banks	226,092,934	229,012,824	195,512,810	5,935,146	6,068,256	14,384,483	846,702	6,265,427
Loans and advances to customers	566,361,530	587,522,711	141,883,553	81,247,368	97,817,852	140,714,231	20,647,640	105,212,067
Investments available-for-sale	261,244,798	266,614,855	156,652,350	-	-	15,105,240	40,916,143	53,941,122
Derivative liabilities held for risk management	722,922	722,922	510,719	201,756	10,447	-	-	-
Amounts owed to banks	493,192,846	495,134,959	257,259,261	170,832,894	52,006,186	15,036,618	-	-
Amounts owed to customers	847,198,005	850,425,535	549,338,846	107,265,736	47,531,239	75,318,326	68,222,869	2,748,519
Debt securities in issue	54,653,654	54,926,467	24,413,981	6,641,471	16,075,381	7,795,634	-	-
Subordinated liabilities	50,000,000	60,539,548	191,741	556,666	1,119,518	2,257,591	4,515,182	51,898,850

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

Bank - 31 December 2017

	Carrying amount USD	Gross nominal inflow /(outflow) USD	Less than 1 month USD	Between 1& 3 months USD	Between 3 & 6 months USD	Between 6 months & 1 year USD	Between 1& 2 years USD	More than 2 years USD
Balances with the Central Bank of Malta, Treasury Bills and cash	208,147,513	208,132,061	208,132,061	-	-	-	-	-
Trading assets	-	-	-	-	-	-	-	-
Derivative assets held for risk management	722,256	722,256	657,250	52,675	12,331	-	-	-
Loans and advances to banks	203,552,663	206,434,780	173,333,715	5,573,946	6,030,507	14,384,483	846,702	6,265,427
Loans and advances to customers	581,529,952	630,991,814	132,155,954	169,554,445	69,953,603	93,788,048	19,108,619	146,431,145
Investments available-for-sale	261,244,798	266,614,855	156,652,350	-	-	15,105,240	40,916,143	53,941,122
Derivative liabilities held for risk management	723,454	723,454	511,251	201,756	10,447	-	-	-
Amounts owed to banks	393,247,791	393,876,843	247,773,879	93,586,005	40,955,433	11,561,526	-	-
Amounts owed to customers	815,812,570	818,927,492	554,638,075	104,336,945	44,786,413	44,373,192	68,222,869	2,569,998
Subordinated liabilities	50,000,000	60,539,548	191,741	556,666	1,119,518	2,257,591	4,515,182	51,898,850

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	327,075,827	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

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.

4.4.1 foreign exchange risk

Foreign exchange risk is attached to those monetary assets and monetary liabilities of the Group that are not denominated in the functional currency of the Group. Transactional exposures give rise to foreign currency gains and losses that are recognised in the 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 2017

All amounts are expressed in USD

	USD	EUR	GBP	Other currencies	Total
Balances with the Central Bank of Malta, Treasury Bills and cash	10,298	208,150,762	4,816	5,423	208,171,299
Trading assets	231,420,286	19,445,548	1,643,310	-	252,509,144
Financial assets designated at fair value through profit or loss	-	-	-	-	-
Loans and advances to banks	98,559,595	106,822,994	2,320,787	18,389,558	226,092,934
Loans and advances to customers	319,955,649	196,303,186	2,040,924	48,061,771	566,361,530
Investments available-for-sale	54,841,000	49,751,448	-	-	104,592,448
Interests in equity-accounted investees	-	-	-	5,561,181	5,561,181
Other assets	31,453,591	12,847,551	26,154	18,098,017	62,425,313
Amounts owed to banks	(388,037,913)	(72,944,528)	(238,756)	(31,971,649)	(493,192,846)
Amounts owed to customers	(299,473,692)	(531,785,498)	(5,694,851)	(10,243,964)	(847,198,005)
Debt securities in issue	(23,869,449)	(30,784,205)	-	-	(54,653,654)
Subordinated liabilities	(50,000,000)	-	-	-	(50,000,000)
Other liabilities	(16,668,985)	(5,711,593)	(744,416)	(1,602,631)	(24,727,625)
Net on balance sheet financial position	(41,809,620)	(47,904,335)	(642,032)	46,297,706	(44,058,281)
Notional amount of derivative instruments held for risk management	2,920,676	42,232,407	-	(45,262,629)	-

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)	-

Bank - 31 December 2017

All amounts are expressed in USD

	USD	EUR	GBP	Other currencies	Total
Balances with the Central Bank of Malta, Treasury Bills and cash	-	208,142,341	-	5,172	208,147,513
Loans and advances to banks	87,422,567	100,734,552	2,078,065	13,317,479	203,552,663
Loans and advances to customers	383,855,287	194,101,362	3,511,493	61,810	581,529,952
Investments available-for-sale	54,841,000	49,751,448	-	-	104,592,448
Other assets	27,589,100	11,133,818	14,874	12,934	38,750,726
Amounts owed to banks	(325,763,839)	(66,947,486)	(238,756)	(297,710)	(393,247,791)
Amounts owed to customers	(267,753,303)	(534,647,223)	(5,348,717)	(8,063,327)	(815,812,570)
Subordinated liabilities	(50,000,000)	-	-	-	(50,000,000)
Other liabilities	(3,551,611)	(4,527,730)	(19,394)	(500,372)	(8,599,107)
Net on balance sheet financial position	(93,360,799)	(42,258,918)	(2,435)	4,535,986	(131,086,166)
Notional amount of derivative instruments held for risk management	2,920,676	42,232,407	-	(45,262,629)	

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)
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)	-

The following exchange rates applied during the year:

	Average rate		Reporting date mid-spot rate	
	2017	2016	2017	2016
	USD	USD	USD	USD
1 EUR	1.1275	1.1063	1.1993	1.0526
1 GBP	1.2871	1.3507	1.3466	1.2277

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

	Group		Bank	
	Equity	Profit or loss	Equity	Profit or loss
	USD	USD	USD	USD
2017				
EUR	(397,035)	(397,035)	(1,856)	(1,856)
GBP	(44,942)	(44,942)	(170)	(170)
Other currencies	72,455	79,128	(2,850,865)	(2,850,865)
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

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

4.4.2 interest rate risk

Interest rate risk refers to the exposure of the Bank's and Group's financial instruments to movements in interest rates. The 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 2017

	Less than 1 month USD	Between 1 & 3 months USD	Between 3 & 6 months USD	Between 6 months &1 year USD	More than 1 year USD	Non- interest bearing USD	Total USD
Assets							
Balances with the Central Bank of Malta, Treasury Bills and cash	208,128,778	-	-	-	-	42,521	208,171,299
Trading assets	34,585,559	100,272,609	83,296,135	13,880,082	13,802,246	6,672,513	252,509,144
Derivative assets held for risk management	-	-	-	-	-	722,256	722,256
Loans and advances to banks	81,234,165	2,717,738	8,119,300	11,993,284	-	122,028,447	226,092,934
Loans and advances to customers	427,886,328	23,697,671	-	-	5,997,122	108,780,409	566,361,530
Investments available-for-sale	-	-	-	14,937,000	89,655,448	156,652,350	261,244,798
Other assets	-	-	-	-	-	128,299,497	128,299,497
Total assets	751,834,830	126,688,018	91,415,435	40,810,366	109,454,816	523,197,993	1,643,401,458
Liabilities & equity							
Derivative liabilities held for risk management	-	-	-	-	-	722,922	722,922
Amounts owed to banks	167,160,111	171,382,311	40,597,985	9,594,627	-	104,457,812	493,192,846
Amounts owed to customers	482,152,188	91,935,014	38,012,523	43,905,175	68,532,301	122,660,804	847,198,005
Debt securities in issue	34,389,518	14,387,427	5,876,709	-	-	-	54,653,654
Subordinated liabilities	50,000,000	-	-	-	-	-	50,000,000
Other liabilities	-	-	-	-	-	24,739,673	24,739,673
Equity	-	-	-	-	-	172,894,358	172,894,358
Total liabilities and equity	733,701,817	277,704,752	84,487,217	53,499,802	68,532,301	425,475,569	1,643,401,458

	Less than 3 months USD	Between 3 & 6 months USD	Between 6 months & 1 year USD	More than 1 year USD	Non-interest bearing USD	Total USD
Assets	878,522,848	91,415,435	40,810,366	109,454,816	523,197,993	1,643,401,458
Liabilities	(1,011,406,569)	(84,487,217)	(53,499,802)	(68,532,301)	(425,475,569)	(1,643,401,458)
Interest sensitivity gap	(132,883,721)	6,928,218	(12,689,436)	40,922,515	97,722,424	-
Cumulative gap	(132,883,721)	(125,955,503)	(138,644,939)	(97,722,424)	-	-
change in interest rate for the period:						
200bps increase	(1,993,256)	69,282	(21,149)			
200bps decrease	1,993,256	(69,282)	21,149			

Group - 31 December 2016

	Less than 1 month	Between 1 & 3 months	Between 3 & 6 months	Between 6 months &1 year	More than 1 year	Non- interest bearing	Total
	USD	USD	USD	USD	USD	USD	USD
Assets							
Balances with the Central Bank of Malta, 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	10,903,239	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	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	72,819,192	426,612,356
Investments available-for-sale	-	7,725,618	-	38,442,852	115,673,348	165,234,711	327,076,529
Other assets	-	-	-	-	-	104,501,636	104,501,636
Total assets	629,458,377	221,634,676	163,201,786	74,430,093	177,750,857	477,970,771	1,744,446,560
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	45,554,164	948,710,544
Debt securities in issue	-	8,225,869	-	-	-	-	8,225,869
Subordinated liabilities	50,000,000	-	-	-	-	-	50,000,000
Other liabilities	-	-	-	-	-	22,043,599	22,043,599
Equity	-	-	-	-	-	177,710,887	177,710,887
Total liabilities and equity	670,046,525	298,872,685	139,727,043	195,088,219	101,873,955	338,838,133	1,744,446,560

	Less than 3 months	Between 3 & 6 months	Between 6 months & 1 year	More than 1 year	Non-interest bearing	Total
	USD	USD	USD	USD	USD	USD
Assets	851,093,053	163,201,786	74,430,093	177,750,857	477,970,771	1,744,446,560
Liabilities	(968,919,210)	(139,727,043)	(195,088,219)	(101,873,955)	(338,838,133)	(1,744,446,560)
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			

Bank - 31 December 2017

	Less than 1 month USD	Between 1 & 3 months USD	Between 3 & 6 months USD	Between 6 months & 1 year USD	More than 1 year USD	Non- interest bearing USD	Total USD
Assets							
Balances with the Central Bank of Malta, Treasury Bills and cash	208,128,778	-	-	-	-	18,735	208,147,513
Derivative assets held for risk management	-	-	-	-	-	722,256	722,256
Loans and advances to banks	78,102,682	2,356,538	8,119,300	11,993,284	-	102,980,859	203,552,663
Loans and advances to customers	488,548,310	23,697,671	-	-	10,997,122	58,286,849	581,529,952
Investments-available-for-sale	-	-	-	14,937,000	89,655,448	156,652,350	261,244,798
Other assets	-	-	-	-	-	138,239,137	138,239,137
Total assets	774,779,770	26,054,209	8,119,300	26,930,284	100,652,570	456,900,186	1,393,436,319
Liabilities & equity							
Derivative liabilities held for risk management	-	-	-	-	-	723,454	723,454
Amounts owed to banks	147,571,472	92,385,669	40,597,985	9,594,627	-	103,098,038	393,247,791
Amounts owed to customers	488,616,158	91,983,913	37,942,331	43,905,175	68,532,301	84,832,692	815,812,570
Subordinated liabilities	50,000,000	-	-	-	-	-	50,000,000
Other liabilities	-	-	-	-	-	8,611,150	8,611,150
Equity	-	-	-	-	-	125,041,354	125,041,354
Total liabilities and equity	686,187,630	184,369,582	78,540,316	53,499,802	68,532,301	322,306,688	1,393,436,319

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

Bank - 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	-	-	-	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							
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			

4.4.3 cash flow sensitivity analysis for repricing instruments

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

	Group		Bank	
	Equity	Profit or loss	Equity	Profit or loss
	USD	USD	USD	USD
Repricing instruments				
2017	(1,945,123)	(1,945,123)	(1,794,342)	(1,794,342)
2016	(1,733,742)	(1,733,742)	(1,263,731)	(1,263,731)

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.

4.4.4 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	
	2017	2016	2017	2016
	USD	USD	USD	USD
Credit linked notes	-	17,799,900	-	17,799,900
Available-for-sale securities	261,244,798	327,076,529	261,244,798	327,075,827
	261,244,798	344,876,429	261,244,798	344,875,727

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.

4.4.5 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	Profit or loss	Equity	Profit or loss
	USD	USD	USD	USD
2017	26,124,480	-	26,124,480	-
2016	34,487,643	1,779,990	34,487,573	1,779,990

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

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

4.6 capital management

4.6.1 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.

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

Pillar 1 covers credit, market, and operational risks which provides the minimum capital requirements as a percentage of risk-weighted assets.

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.

4.6.2 capital adequacy

The 2017 capital ratios are as follows:

	Group USD	Bank USD
Own Funds		
Paid up capital instruments	157,265,562	157,265,562
Share premium	173,113	173,113
Accumulated losses	6,901,064	(35,768,147)
Other reserves	10,264,094	3,370,826
Deductions:		
- Goodwill accounted for as intangible asset	(9,246,479)	-
- Other intangible assets	(2,738,469)	(2,736,599)
- Deferred tax liabilities associated to other intangible assets	(284,408)	(133,624)
- Deferred tax asset that rely on future profitability and arise from temporary differences	(26,089,975)	(12,235,549)
- Market value of assets pledged in favour of Depositor Compensation Scheme	(7,026,546)	(7,026,546)
- Other transitional adjustments	9,116,164	4,154,453
Common Equity Tier 1	138,334,120	107,063,489
Total Tier 1	138,334,120	107,063,489
Tier 2		
General credit risk adjustments	3,569,958	3,380,239
Subordinated liabilities	50,000,000	50,000,000
Deductions		
Amortisation: Subordinated Loan	(3,369,863)	(3,369,863)
Total Tier 2	50,200,095	50,010,376
Total own funds	188,534,215	157,073,865

Further information on the Group’s capital adequacy ratios may be found in section 9 of Schedule V, Additional Regulatory Disclosures “Pillar 3”, which are subject to internal review as set out in section 1.3 of the same schedule.

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 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 2.4.1.

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

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

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

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

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

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 2017

	Note	Level 1 USD	Level 2 USD	Level 3 USD	Total USD
Trading assets	21	-	-	252,509,144	252,509,144
Derivative assets held for risk management	22	-	722,256	-	722,256
Investments available-for-sale	26	104,592,448	141,659,778	14,992,572	261,244,798
Investment property	31	-	-	16,238,869	16,238,869
		104,592,448	142,382,034	283,740,585	530,715,067
Derivative liabilities held for risk management	22	-	722,922	-	722,922
		-	722,922	-	722,922

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	5,576,497	327,076,529
		161,841,816	161,1610,920	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

Bank - 31 December 2017

	Note	Level 1 USD	Level 2 USD	Level 3 USD	Total USD
Derivative assets held for risk management	22	-	722,256	-	722,256
Investments available-for-sale	26	104,592,448	141,659,778	14,992,572	261,244,798
		104,592,448	142,382,034	14,992,572	261,967,054
Derivative liabilities held for risk management	22	-	723,454	-	723,454
		-	723,454	-	723,454

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

5.3 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 – 31 December 2017

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

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

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

Group – 31 December 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 other comprehensive income as follows:

	Trading assets USD	Financial assets designated at fair value through profit or loss USD	Investments available-for-sale USD	Total USD
Total gains and losses in profit or loss				
- Net trading results	(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)

Bank – 31 December 2017

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

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

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

Bank – 31 December 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 other comprehensive income as follows:

	Financial assets designated at fair value through profit or loss USD	Investments available-for-sale USD	Total USD
Total gains and losses in profit or loss			
- Net gain from other financial instruments carried at fair value	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)

5.3.2 unobservable inputs used in measuring fair value

The below sets out information about significant unobservable inputs used at 31 December 2017 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 2017, the interest rates used range between 0.54% and 12.02% (2016: between 0.54% and 9.81%).

The effect of an estimated general increase of one percentage point in interest rate on trading assets at 31 December 2017 would reduce the Group's profit before tax by approximately USD282,068 (2016: USD388,913).

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 2017 would increase/(decrease) the Bank and Group equity by approximately USD1,499,257 (2016: USD557,580).

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 2017

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

Group - 31 December 2016

	Trading USD	Designated at fair value USD	Loans and receivables USD	Available- for-sale USD	Liabilities at amortised cost USD	Total carrying amount USD
Balances with the Central Bank of Malta, Treasury Bills and cash	-	-	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

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 2017

	Designated at fair value USD	Loans and receivables USD	Available- for-sale USD	Liabilities at amortised cost USD	Total carrying amount USD
Balances with the Central Bank of Malta, Treasury Bills and cash	-	208,147,513	-	-	208,147,513
Derivative assets held for risk management	722,256	-	-	-	722,256
Loans and advances to banks	-	203,552,663	-	-	203,552,663
Loans and advances to customers	-	581,529,952	-	-	581,529,952
Investments available-for-sale	-	-	261,244,798	-	261,244,798
Derivative liabilities held for risk management	723,454	-	-	-	723,454
Amounts owed to banks	-	-	-	393,247,791	393,247,791
Amounts owed to customers	-	-	-	815,812,570	815,812,570
Subordinated liabilities	-	-	-	50,000,000	50,000,000

Bank - 31 December 2016

	Designated at fair value USD	Loans and receivables USD	Available- for-sale USD	Liabilities at amortised cost USD	Total carrying amount USD
Balances with the Central Bank of Malta, Treasury Bills and cash	-	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
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
Subordinated liabilities	-	-	-	50,000,000	50,000,000

At 31 December 2017 and 31 December 2016, 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:

1. 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.

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

3. Amounts owed to banks and customers and subordinated liabilities
   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.

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. 80% (2016: 76%) of the Group's and 88% (2016: 81%) of the Bank's loans and advances to customers are repriceable within six months. 41% (2016: 67%) of the Group's and 44% (2016: 70%) 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. 74% (2016: 71%) of the Group's and 74% (2016: 70%) of the Bank's amounts owed to banks and customers are repriceable within 6 months. The Group's debt securities in issue are subject to fixed and variable interest rates whilst subordinated liabilities are subject to floating rates. Interest rates on debt securities and subordinated liabilities are further disclosed in Note 38 and Note 39 to these financial statements.

7 operating segments

The Group has five significant reportable segments, Trade Finance, Forfaiting, Factoring, Real Estate and Treasury which are represented by different Group entities.

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

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

In the table below, interest income is disclosed gross of interest expense since it represents the revenue measure used by Executive Management in assessing the performance of each segment. Net interest income is disclosed in Note 8, including further analysis of its components.

information about operating segments

Group – 2017

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

Group – 2016

	Trade Finance USD	Forfaiting USD	Factoring USD	Real Estate (Restated) USD	Treasury USD	Other (Restated) USD	Total USD
External revenue:							
Interest income	12,192,725	14,029,427	15,052,359	68,717	3,664,059	8,016	45,015,303
Fee and commission income	8,284,600	7,906,334	3,841,866	57,423	-	-	20,090,223
Net trading results (restated)	-	(1,915,646)	(587,518)	-	(1,063,499)	(78,942)	(3,645,603)
	20,477,325	20,020,115	18,306,707	126,140	2,600,560	(70,924)	61,459,923
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)	126,140	(1,251,090)	(880,687)	(5,840,502)
Reportable segment assets	606,726,271	426,111,143	660,730,427	11,801,092	445,973,460	42,739,886	2,194,082,279
Reportable segment liabilities	1,151,611,801	314,566,640	111,763,995	-	243,572,384	34,846,341	1,856,361,161

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

Group

	2017 USD	2016 (restated) USD
Revenues		
Total revenue for reportable segments	78,780,386	66,876,329
Other revenue and trading results	228,161	924,920
	79,008,547	67,801,249
Elimination of intersegment revenue	(5,668,648)	(6,341,326)
Consolidated revenue	73,339,899	61,459,923
Profit and Loss		
Total loss for reportable segments	2,924,190	(4,959,815)
Other profit or loss	(318,935)	(880,687)
	2,605,225	(5,840,502)
Share of loss of associates	8,893	(15,447)
Fair value gains on investment property	3,444,802	79,491
fair value loss on previously-held investments in subsidiaries	(656,661)	-
Net fair value gain on previously-held interests in equity-accounted investees	-	771,654
Effect of other consolidation adjustments on segment results	6,282,179	10,228,265
Consolidated profit/(loss) before tax	11,684,438	5,223,461

	2017 USD	2016 (restated) USD
Assets		
Total assets for reportable segments	1,572,635,902	2,151,342,393
Other assets	60,991,095	42,739,886
	1,633,626,997	2,194,082,279
Elimination of intersegment assets	(15,808,324)	(457,669,045)
Effect of other consolidation adjustments on segment results	25,582,785	8,033,326
Consolidated assets	1,643,401,458	1,744,446,560
Liabilities		
Total liabilities for reportable segments	1,476,669,130	1,821,514,820
Other liabilities	5,476,313	34,846,341
	1,482,145,443	1,856,361,161
Elimination of intersegment liabilities	(11,602,182)	(289,625,488)
Effect of other consolidation adjustments on segment results	(36,161)	-
Consolidated liabilities	1,470,507,100	1,566,735,673

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

	External revenues and net trading results	
	2017 USD	2016 USD
Malta	6,176,355	(77,359)
Chile	7,531,198	7,469,181
India	7,852,715	(4,733)
United Arab Emirates	8,382,757	7,870,727
Other Countries	43,396,874	46,202,107
Total	73,339,899	61,459,923

Group

	Malta		Other Countries		Total	
	2017 USD	2016 (restated) USD	2017 USD	2016 (restated) USD	2017 USD	2016 (restated) USD
Non-current assets	48,017,098	37,715,381	9,867,462	9,912,370	57,884,560	47,627,751

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

8 net interest income

	Group		Bank	
	2017	2016	2017	2016
	USD	USD	USD	USD
Interest income				
On loans and advances to banks	3,550,713	4,534,411	3,408,633	4,344,193
On loans and advances to customers	31,613,739	22,251,977	18,066,816	10,401,584
On loans and advances to subsidiary companies	138,762	-	5,755,368	6,012,717
On balances with Central Bank of Malta and Treasury Bills	-	38,989	-	38,989
	35,303,214	26,825,377	27,230,817	20,797,483
On forfaiting assets	14,159,442	14,029,427	-	-
On financial instruments carried at fair value	654,352	2,550,642	654,352	2,550,642
On held-to-maturity financial instruments	-	529,226	-	529,226
On other trade finance activities	1,037,823	1,080,631	438,579	786,180
	51,154,831	45,015,303	28,323,748	24,663,531
Interest expense				
On amounts owed to banks	11,682,596	9,678,957	5,317,727	5,680,132
On amounts owed to customers	9,904,042	9,045,000	9,801,971	8,743,899
On debt securities in issue	2,342,492	2,324,613	307,391	113,525
On amounts owed to subsidiary companies	-	-	15,079	1,201
On Central Bank of Malta funding	48,029	-	48,029	-
On negative interest treasury balances	33,361	-	33,362	-
On subordinated debt	2,215,298	2,003,414	2,215,298	2,003,414
	26,225,818	23,051,984	17,738,857	16,542,171
Net interest income	24,929,013	21,963,319	10,584,891	8,121,360

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 2017 USD	Group 2016 USD	Bank 2017 USD	Bank 2016 USD
Fee and commission income				
Credit related fees and commission	2,144,821	1,100,313	1,960,320	1,088,354
On letters of credit	4,130,329	3,595,800	4,130,396	3,589,089
On factoring	5,801,095	4,023,766	2,201,931	1,932,421
On forfaiting activities	9,051,665	7,906,335	-	-
On IT Solutions	20,000	13,959	-	-
Other fees	2,844,997	3,450,050	2,755,886	3,411,940
	23,992,907	20,090,223	11,048,533	10,021,804
Fee and commission expense				
Credit related fees	293,532	103,360	293,532	103,360
Correspondent banking fees	521,060	449,101	412,173	328,636
On forfaiting activities	1,296,950	1,598,364	-	-
Other fees	3,365,886	3,102,061	1,777,060	1,577,573
	5,477,428	5,252,886	2,482,765	2,009,569
Net fee and commission income	18,515,479	14,837,337	8,565,768	8,012,235

10 net trading results

	Group 2017 USD	Group 2016 USD	Bank 2017 USD	Bank 2016 USD
Net trading loss from assets held for trading	(62,835)	(1,780,320)	-	-
Foreign exchange rate fluctuations	(20,363,370)	15,947,818	(20,541,504)	16,686,346
Net income on derivatives held for risk management purposes	18,618,366	(17,813,101)	17,401,218	(17,749,844)
	(1,807,839)	(3,645,603)	(3,140,286)	(1,063,498)

11 net gain from other financial instruments carried at fair value

	Group 2017 USD	Group 2016 USD	Bank 2017 USD	Bank 2016 USD
Investment securities:				
- designated at fair value through profit or loss	70,100	58,900	70,100	58,900
- available-for-sale	38,522	3,314,907	38,522	3,314,907
	108,622	3,373,807	108,622	3,373,807

12 net fair value gains on previously-held interests in equity-accounted investees

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 27)

13 dividend income

	Group		Bank	
	2017	2016	2017	2016
	USD	USD	USD	USD
Dividend income from an available-for-sale investments	5,997,942	5,455,550	5,997,942	5,455,550
Dividend income from subsidiary undertaking	-	-	4,448,401	-
	5,997,942	5,455,550	10,446,343	5,455,550

14 (loss)/gain upon loss of control of subsidiary undertaking

	Group		Bank	
	2017	2016	2017	2016
	USD	USD	USD	USD
Loss upon loss of control of Latam Factors	(656,661)	-	-	-
Gain upon loss of control of FactorRus	-	777,677	-	-
	(656,661)	777,677	-	-

In October 2017, the Put and Call Option entered into between FIMBank and the other shareholders in Latam Factors expired. The Group has assessed its control in the company taking into consideration this event and a number of relevant activities which have become more significant following the expiry of the Put and Call Option. The Group has determined that it has lost control with the investment becoming a "jointly controlled entity", accounted for under IAS28 "interests in equity-accounted investees" (see note 27). As a result, the Group discontinued the consolidation of the subsidiary by derecognising its assets, liabilities and non-controlling interest with a residual loss of USD656,661 being recognized in the Group's income statement.

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, with a residual gain of USD777,677 being recognized in the income statements. (see notes 28.3 and 29).

15 other operating income

	Group		Bank	
	2017	2016	2017	2016
	USD	USD	USD	USD
Rental income from leased property	537,499	701,622	-	-
Profit on disposal of property and equipment	512,152	1,889,665	1,655	385,266
Support fees receivable	10,318	16,915	10,318	16,915
Other non-trading income	75,116	5,355	75,115	5,338
	1,135,085	2,613,557	87,088	407,519

16 net impairment reversal/(charge) on financial assets

	Group 2017 USD	Group 2016 USD	Bank 2017 USD	Bank 2016 USD
Loans and advances to banks				
- specific impairment allowances	4,468,996	2,701	4,468,996	2,701
- collective impairment allowances	464,730	809,255	464,730	809,255
- write-offs	(993,546)	-	(993,546)	-
	3,940,180	811,956	3,940,180	811,956
Loans and advances to customers				
- specific impairment allowances	(524,459)	20,692,702	(2,446,962)	14,568,881
- collective impairment allowances	164,759	(139,645)	335,270	(418,099)
- write-offs	(2,901,898)	(25,764,929)	(181,535)	(13,192,206)
- recoveries	1,554,832	1,931,060	143,910	955,769
	(1,706,766)	(3,280,812)	(2,149,317)	1,914,345
Investments in subsidiaries				
- specific impairment allowances	-	-	(2,558,752)	(5,037,875)
	-	-	(2,558,752)	(5,037,875)
Acquired assets in satisfaction of debt				
- specific impairment allowances	63,620	169,740	-	-
	63,620	169,740	-	-
Net impairment reversal/(charge)	2,297,034	(2,299,116)	(767,889)	(2,311,574)

17 administrative expenses

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

	Group 2017 USD	Group 2016 USD	Bank 2017 USD	Bank 2016 USD
Personnel expenses	25,526,753	23,989,577	13,559,106	12,857,202
Operating lease rentals	1,576,689	1,446,589	1,366,245	1,240,969
Other administrative expenses	12,923,967	10,256,504	9,440,845	6,223,333
Recharge of services rendered by subsidiaries	-	-	419,468	405,848
	40,027,409	35,692,670	24,785,664	20,727,352

Included in Operating Lease Rentals for the Bank is an amount of USD1,261,483 (2016: USD1,007,318) payable to subsidiary companies.

Included in Other Administrative Expenses of the Group for the financial year ended 31 December 2017 are the following fees charged by the Group statutory auditors:

	Audit services USD	Other assurance services USD	Tax advisory services USD	Other non-audit services USD
By the auditors of the parent	165,514	70,175	22,531	36,760
By the auditors of subsidiaries	254,523	80,497	9,182	2,787

All fees are inclusive of indirect taxes.

In 2017 and 2016 the Group did not incur any expenses which were expected to be non-recurring in future financial periods.

17.2 personnel expenses incurred during the year

	Group		Bank	
	2017 USD	2016 USD	2017 USD	2016 USD
Directors' emoluments	375,594	395,185	375,594	305,874
Staff costs				
- wages, salaries and allowances	23,965,345	22,375,186	12,656,667	12,038,256
- defined contribution costs	1,185,814	1,219,206	526,845	513,072
	25,526,753	23,989,577	13,559,106	12,857,202

17.3 average number of employees

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

	Group		Bank	
	2017 No. of employees	2016 No. of employees	2017 No. of employees	2016 No. of employees
Executive and senior managerial	34	32	20	18
Other managerial, supervisory and clerical	368	361	161	163
Other staff	15	16	3	3
	417	409	184	184

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 preceding year at the exercise price established at grant date. When the options are exercised, equity is increased by the amount of the proceeds received based on the market price determined on grant date. As at 31 December 2017, there was one scheme under which awarded options are still unexercised.

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

	No. of share options 2017	No. of share options 2016
As at 1 January	1,762,867	1,666,808
Additional share options as a result of capital restructuring	-	240,021
Exercised	(170,135)	-
Forfeited due to termination of employment	(230,336)	(143,962)
As at 31 December	1,362,396	1,762,867

Details of share options granted:

	exercise period 2011 scheme 01/01/14 to 31/12/18
Exercise price per USD 0.50 share	USD 0.5903
Number of share options unexercised at 1 January 2017	1,762,867
Exercised	(170,135)
Forfeited due to termination of employment	(230,336)
Number of share options unexercised at 31 December 2017	1,362,396

	exercise period 2011 scheme 01/01/14 to 31/12/18
Exercise price per USD 0.50 share	USD 0.6753
Number of share options unexercised at 1 January 2016	1,666,808
Forfeited due to termination of employment	240,021
Forfeited due to expiry of exercise period	(143,962)
Number of share options unexercised at 31 December 2016	1,762,867

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

India Factoring

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

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

At 31 December 2017, the company had 2,152,800 (31 December 2016: 1,913,040) outstanding share options, at an exercise price of INR10/option (31 December 2016: INR10/option).

18 taxation

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

	Group		Bank	
	2017 USD	2016 (restated) USD	2017 USD	2016 USD
Current tax	(286,221)	(97,514)	(60,598)	(60,909)
Deferred tax				
- deferred tax assets	-	715,663	-	2,370
- deferred tax liabilities	(275,546)	-	-	-
Taxation in income statements	(561,767)	618,149	(60,598)	(58,539)

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	
	2017 USD	2016 (restated) USD	2017 USD	2016 USD
Profit/(Loss) before tax	11,684,438	5,223,461	176,416	398,921
Tax income using the domestic income tax rate of 35%	(4,089,553)	(1,828,211)	(61,746)	(139,622)
Tax effect of:				
Non-deductible expenses	1,034,104	2,034,909	(35,740)	(143,031)
Non-taxable income	2,127,289	1,909,442	3,656,220	1,909,442
Unrecognised temporary differences	(3,042,040)	(1,004,154)	(3,579,943)	(1,763,256)
Temporary differences previously not recognised	1,496,789	1,418,018	-	412
Capital gain profits at different tax rates	930,097	133,142	-	84,167
Effect of tax rates in foreign jurisdictions	981,547	(2,044,997)	(39,389)	(6,651)
Taxation	(561,767)	618,149	(60,598)	(58,539)

Group taxation as at 31 December 2016 has been restated to take into reflect the change in accounting policy on investment property and discontinued operations (see notes 29, 31 and 52).

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	
	2017 USD	2016 (restated) USD	2017 USD	2016 (restated) USD	2017 USD	2016 (restated) USD
Profit/(loss) attributable to equity holders of the Bank	10,915,608	5,497,982	(3,395,976)	(474,974)	7,519,632	5,023,008

Bank

	Continuing operations		Discontinued operations		Total	
	2017 USD	2016 USD	2017 USD	2016 USD	2017 USD	2016 USD
Profit/(loss) attributable to equity holders of the Bank	115,818	340,382	-	-	115,818	340,382

weighted average number of ordinary shares (basic):

	No. of shares 2017	No. of shares 2016
Weighted average number of ordinary shares at 31 December (basic)	313,071,215	310,076,101

The weighted average number of ordinary shares at 31 December 2016 has been restated to take into effect the impact of the Bonus Issue of shares in May 2017.

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	
	2017 USD	2016 (restated) USD	2017 USD	2016 (restated) USD	2017 USD	2016 (restated) USD
Profit/(loss) attributable to equity holders of the Bank	10,915,608	5,497,982	(3,395,976)	(474,974)	7,519,632	5,023,008

Bank

	Continuing operations		Discontinued operations		Total	
	2017	2016	2017	2016	2017	2016
	USD	USD	USD	USD	USD	USD
Profit/(loss) attributable to equity holders of the Bank	115,818	340,382	-	-	115,818	340,382

weighted average number of ordinary shares (diluted):

	2017 No. of shares	2016 No. of shares
Weighted average number of ordinary shares at 31 December (basic)	313,071,215	310,076,101
Effect of share options in issue	301,089	-
Diluted weighted average number of ordinary shares at 31 December	313,372,304	310,076,101

The weighted average number of ordinary shares at 31 December 2016 has been restated to take into effect the impact of the Bonus Issue of shares in May 2017.

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

	Group		Bank	
	2017	2016	2017	2016
	USD	USD	USD	USD
Balances with the Central Bank of Malta	208,128,778	6,844,289	208,128,778	6,844,289
Treasury bills	-	26,315,789	-	26,315,789
Cash	42,521	33,167	18,735	5,523
	208,171,299	33,193,245	208,147,513	33,165,601

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 2017, trading assets included assets with a carrying amount of USD 72,542,262 (2016: USD87,289,474) pledged in favour of third parties under reverse-repos or borrowing arrangements.

22 derivatives held for risk management

	Group		Bank	
	2017	2016	2017	2016
	USD	USD	USD	USD
Derivative assets held for risk management				
- foreign exchange	722,256	1,502,704	722,256	1,502,704
	722,256	1,502,704	722,256	1,502,704
Derivative liabilities held for risk management				
- foreign exchange	(722,922)	(8,816,410)	(722,922)	(8,816,410)
- interest rate	-	-	(532)	(17,682)
	(722,922)	(8,816,410)	(723,454)	(8,834,092)

23 financial assets designated at fair value through profit or loss

	Group		Bank	
	2017	2016	2017	2016
	USD	USD	USD	USD
Designated at fair value through profit or loss				
- unlisted debt securities	-	17,799,900	-	17,799,900
	-	17,799,900	-	17,799,900

23.1 In 2016, unlisted debt securities consisted of credit linked notes, whereby the Group was funding the risk of default with respect to specified borrowers. The notes had 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 notes were measured at fair value with changes in fair value recognised in the income statements. As a result, the embedded credit derivative were not required to be separated from the host contract represented by the debt instrument. The financial assets were therefore not bifurcated but accounted for as one contract.

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

23.2 At 31 December 2017, there were no financial assets designated at fair value through profit or loss.

24 loans and advances to banks

	Group		Bank	
	2017 USD	2016 USD	2017 USD	2016 USD
Repayable on call and at short notice	130,931,342	172,952,368	105,284,518	157,197,039
Term loans and advances	98,545,874	289,516,337	101,652,427	289,708,681
Total loans and advances	229,477,216	462,468,705	206,936,945	446,905,720
Specific impairment	(2,598,450)	(6,855,917)	(2,598,450)	(6,855,917)
Collective impairment	(785,832)	(1,250,562)	(785,832)	(1,250,562)
Net loans and advances	226,092,934	454,362,226	203,552,663	438,799,241

Loans and advances to banks include blocked funds amounting to USD113,126 (2016: USD113,126) pursuant to US Sanctions. The balances also include pledged funds amounting to USD19,632,078 (2016: USD18,895,010).

Loans and advances to banks include an amount of USD13,741 (2016: USD4,390) receivable from a Bank holding a significant investment in the Group.

The aggregate amount of impaired loans to banks amounted to USD10,443,358 (2016: USD26,607,699), gross of collaterals. Specific impairment is exclusive of USD950,691 (2016: USD202,408) in respect of suspended interest not recognised in interest receivable.

25 loans and advances to customers

	Group		Bank	
	2017 USD	2016 USD	2017 USD	2016 USD
Repayable on call and at short notice	25,945,817	13,424,605	127,130,277	46,175,882
Term loans and advances	565,680,588	439,378,029	322,806,694	260,222,474
Total loans and advances	591,626,405	452,802,634	449,936,971	306,398,356
Amounts owed by subsidiary companies	-	-	148,694,577	296,780,434
Total loans and advances	591,626,405	452,802,634	598,631,548	603,178,790
Specific impairment	(22,480,748)	(22,808,416)	(14,507,189)	(10,669,639)
Collective impairment	(2,784,127)	(3,381,862)	(2,594,407)	(2,929,678)
Net loans and advances	566,361,530	426,612,356	581,529,952	589,579,473

Loans and advances to customers include pledged funds amounting to USD106,312 (2016: USD211,282). In addition, loans and advances amounting to USD 8,914,319 (2016: USD15,000,000) are owed by associate companies.

Loans and advances to customers include an amount of USD35,979,851 (2016: Nil) receivable from a subsidiary of the Parent company.

For the Group, the aggregate amount of impaired loans and advances to customers amounted to USD50,521,836 (2016: USD55,953,459), gross of collaterals. Specific impairment is exclusive of USD13,897,875 (2016: USD11,216,208) 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 USD28,215,930 (2016: USD23,354,488), gross of collaterals. Specific impairment is exclusive of USD3,587,645 (2016: USD2,477,766) 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	
	2017	2016	2017	2016
	USD	USD	USD	USD
Debt instruments				
– local listed	8,650,706	13,522,312	8,650,706	13,522,312
– foreign listed	95,941,742	148,319,504	95,941,742	148,319,504
	104,592,448	161,841,816	104,592,448	161,841,816
Equity instruments				
– shares in sub-funds of a local unlisted collective investment scheme	156,612,036	165,193,697	156,612,036	165,193,697
– foreign unlisted equities	40,314	41,016	40,314	40,314
	156,652,350	165,234,713	156,652,350	165,234,011
	261,244,798	327,076,529	261,244,798	327,075,827

At 31 December 2017, investments available-for-sale included assets with a carrying amount of USD 182,720,208 (2016: USD187,774,160) pledged in favour of third parties under reverse-repos or borrowing arrangements.

Fair value for the collective investment schemes, in the absence of an active market, 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 USD 141,619,464 (2016: USD159,617,902) 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. The sub-fund continues to seek additional investment capital from third-parties which would dilute the Group's unit holding percentage in the sub-fund. In addition to this, the Group is represented on the sub-fund's Advisory Board by 1 out of 3 members. The Advisory Board acts solely in an advising capacity and the Investment Manager may, in its own discretion, ignore, accept or reject any recommendations of the Advisory Board.

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

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

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

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

27 interests in equity-accounted investees

27.1 the Group's interests in equity-accounted investees are analysed as follows:

Name of Company	Country of incorporation	Nature of business	Class of shares	Equity interest		Group	
				2017 %	2016 %	2017 USD	2016 (restated) USD
BRASILFACTORS S.A. ("BRASILFACTORS")*	Brazil	Factoring	Ordinary Shares	50	50	-	-
Levant Factors S.A. ("Levant Factors")	Lebanon	Factoring	Ordinary Shares	50	50	-	-
Latam Factors S.A. ("Latam Factors")	Chile	Factoring	Ordinary Shares	51	51	5,561,181	-
						5,561,181	-

	2017 USD
At 1 January (restated)	-
Transfer of Latam Factors from investment in subsidiaries	5,298,643
Net share of losses	8,893
Currency translation difference	253,645
At 31 December	5,561,181

*The comparative consolidated financial statement have been restated to show the discontinued operation separately from continuing operations (see note 52.3).

27.2 impairment assessment

At each reporting date the Bank carries out an impairment assessment to calculate the recoverable amounts of its interests in equity-accounted investees (at cost) and determine the possibility of an impairment loss.

27.3 BrasilFactors S.A. ("BRASILFACTORS")

During the year, the Group resolved to dispose of its investment in Brasilfactors and as a result the investment has been reclassified from "Interests in equity-accounted investees" to a "Discontinued Operation Held-For-Sale" (see note 29). The Share of Results for the year are disclosed within the "Loss on Discontinued Operations" in the Income Statement.

27.4 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.

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

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).

In October 2017, the Put and Call Option entered into between FIMBank and the other shareholders in Latam Factors expired. The Group has assessed its control in the company taking into consideration this event and a number of relevant activities which have become more significant following the expiry of the Put and Call Option. The Group has determined that it has lost sole control of the investment becoming a "jointly controlled entity", accounted for under IAS28 "interests in equity-accounted investees".

Latam Factors S.A. controls the following subsidiaries:

Name of Company	Country of incorporation	Nature of business	Equity interest 2017 %	2016 %
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.

27.6 Summary of financial information for 'interests in equity-accounted investees' 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 2017					
Latam Factors	54,339,152	20,921,868	8,080,568	(8,069,488)	11,080
Levant Factors	10,018	1,037,029	-	(7,093)	(7,093)

	Total assets USD	Total liabilities USD	Total revenue USD	Total expenses USD	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

28 investments in subsidiaries

28.1 capital subscribed

	Bank 2017 USD	2016 USD
At 1 January	86,305,594	84,678,486
Additional investment in FIMFactors B.V.	-	5,000,000
Additional investment in The Egyptian Company for Factoring S.A.E.	10,000,000	1,359,342
Reclassification resulting from the acquisition of controlling interest in Egypt Factors	-	305,641
Movement in impairment of investments	(2,254,710)	(5,037,875)
At 31 December	94,050,884	86,305,594

28.2 investments in subsidiaries

Name of Company	Country of incorporation	Nature of business	Equity interest		Bank	
			2017 %	2016 %	2017 USD	2016 USD
FIMFactors B.V.	Netherlands	Holding company	100	100	42,553,445	44,808,155
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	100	11,664,984	1,664,984
					94,050,884	86,305,594

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

Name of Company	Country of incorporation	Nature of business	Equity interest	
			2017 %	2016 %
CIS Factors Holdings B.V. ("CIS Factors")	Netherlands	Holding company	100*	100*
India Factoring and Finance Solutions Private Limited ("India Factoring")	India	Factoring	86	86
Menafactors Limited	United Arab Emirates	Factoring	100*	100

* In liquidation

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

Name of Company	Country of incorporation	Nature of business	Equity interest	
			2017 %	2016 %
London Forfaiting International Limited	United Kingdom	Holding company	100	100

In turn, London Forfaiting International Limited controls the following subsidiaries:

Name of Company	Country of incorporation	Nature of business	Equity interest	
			2017 %	2016 %
London Forfaiting Americas Inc.	United States of America	Marketing	100	100
London Forfaiting do Brasil Ltda.	Brazil	Marketing	100	100

28.3 FactorRus LLC

During 2015, FIMFactors BV acquired the shareholding in FactorRus 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.

28.4 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 USD2,254,710 (2016: USD5,037,875). The movements in impairment losses for 2016 and 2017 relate to the investments held by the Bank's subsidiary, FIMFactors B.V. which are broken down as follows:

	2017 USD	2016 USD
India Factoring	-	6,991,139
Menafactors	-	(9,282,969)
Brasilfactors	(2,254,710)	(2,746,045)
Net impairment loss	(2,254,710)	(5,037,875)

BrasilFactors

At reporting date, the recoverable amount was determined to be lower than the investment (at cost) of the CGU and an impairment loss of USD2,254,710 (2016: USD2,746,045) has been recognised in "Net impairment loss on financial assets" in the Bank's Income Statement.

29 discontinued operations

During the year ended 31 December 2017, the Group resolved to dispose of its investment in Brasilfactors and as a result the investment has been reclassified from "Investment in Associate" (Note 27) to a "Discontinued Operation Held-For-Sale". The Share of Results for the year are disclosed within the "Loss on Discontinued Operations" caption in the Income Statement. Accumulated foreign currency losses on the translation of the investment in the functional currency of the Group, originally debited to Other Comprehensive Income, have been transferred to the Income Statement as part of "Loss on Discontinued Operations". The comparative consolidated income statement has been restated to show the discontinued operation separately from continuing operations (see note 52.3).

During the year ended 31 December 2016, the Group had placed FactorRus LLC into liquidation. The results of the entity up to the date of placement in liquidation, were 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.

results of discontinued operation

The following information summarises the results of discontinued operations:

	2017 USD	2016 USD
Net results from Brasilfactors	(1,486,378)	(395,238)
Net results from FactorRus	-	(79,736)
Transfer of accumulated foreign currency losses on the translation of the investment in foreign operation	(1,909,598)	-
Loss on discontinued operations	(3,395,976)	(474,974)

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

30 # property and equipment

30.1 reconciliation of carrying amount

Group

	Freehold land USD	Freehold premises USD	Computer system USD	Improvement to premises USD	Computer equipment USD	Others USD	Total USD
Cost							
At 1 January 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
Additions	-	89,344	-	69,642	313,378	153,668	626,032
Disposals	-	(4,932,087)	-	-	(134,455)	(846,955)	(5,913,497)
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	23,213,427	1,955,011	1,254,081	3,700,248	3,665,429	39,912,454
At 1 January 2017	6,124,258	23,213,427	1,955,011	1,254,081	3,700,248	3,665,429	39,912,454
De-recognition of intangible assets on deconsolidation of Latam Factors	-	(180,284)	-	(520,743)	(194,524)	(408,707)	(1,304,258)
Fair value movement	2,217,091	119,281	-	-	-	-	2,336,372
Additions	-	16,529	-	-	248,330	98,783	363,642
Disposals	(8,651)	(200,236)	-	-	(139,246)	(122,872)	(471,005)
Effect of movement in exchange rates	-	-	-	-	12,550	36,488	49,038
Reclassification from investment property *	(1,055,848)	(2,026,674)	-	-	-	22,295	(3,060,227)
At 31 December 2017	7,276,850	20,942,043	1,955,011	733,338	3,627,358	3,291,416	37,826,016

* Fair value of the property and equipment in accordance with IAS16 prior to transfer to investment property.

Group

	Freehold land USD	Freehold premises USD	Computer system USD	Improvement to premises USD	Computer equipment USD	Others USD	Total USD
Depreciation							
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	-	(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
At 1 January 2017	-	3,549,051	1,952,926	795,569	2,899,177	2,884,207	12,080,930
De-recognition of depreciation on deconsolidation of Latam Factors	-	(36,057)	-	(506,551)	(200,489)	(402,974)	(1,146,071)
Charge for the year	-	676,153	2,085	133,759	387,165	412,315	1,611,477
Disposals	-	(20,357)	-	-	(138,577)	(101,023)	(259,957)
Effect of movement in exchange rates	-	-	-	-	12,607	21,149	33,756
Reversal of depreciation upon revaluation	-	(4,540,176)	-	-	-	-	(4,540,176)
Reclassification to investment property	-	371,386	-	-	3,167	10,761	385,314
At 31 December 2017	-	-	1,955,011	422,777	2,963,050	2,824,435	8,165,273
Carrying amounts							
At 1 January 2016	6,082,075	24,303,188	89,653	474,536	863,822	1,321,710	33,134,984
At 31 December 2016 (restated)	6,124,258	19,664,376	2,085	458,512	801,071	781,222	27,831,524
At 31 December 2017	7,276,850	20,942,043	-	310,561	664,308	466,981	29,660,743

Property and equipment include assets hypothecated in favour of third party banks up to USD15,000,000 (2016: USD15,000,000).

Bank

	Freehold premises USD	Computer system USD	Improvement to leasehold premises USD	Computer equipment USD	Others USD	Total USD
Cost						
At 1 January 2016	221,708	1,955,011	571,772	2,359,478	1,936,262	7,044,231
Additions	-	-	-	266,305	41,437	307,742
Disposals	(221,708)	-	-	-	(102,670)	(324,378)
At 31 December 2016	-	1,955,011	571,772	2,625,783	1,875,029	7,027,595
At 1 January 2017	-	1,955,011	571,772	2,625,783	1,875,029	7,027,595
Additions	-	-	-	154,286	41,082	195,368
Disposals	-	-	-	-	(2,146)	(2,146)
At 31 December 2017	-	1,955,011	571,772	2, 780,069	1,913,965	7,220,817
Accumulated depreciation						
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	(60,600)	-	-	-	(98,791)	(159,391)
At 31 December 2016	-	1,952,926	221,601	1,980,933	1,566,703	5,722,163
At 1 January 2017	-	1,952,926	221,601	1,980,933	1,566,703	5,722,163
Charge for the year	-	2,085	39,612	291,821	130,773	464,291
Disposals	-	-	-	-	(1,127)	(1,127)
At 31 December 2017	-	1,955,011	261,213	2,272,754	1,696,349	6,185,327
Carrying amounts						
At 1 January 2016	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
At 31 December 2017	-	-	310,559	507,315	217,616	1,035,490

30.2 measurement of fair values

During the financial year ended 31 December 2017 the Group changed its accounting policy on the measurement of freehold land and buildings. In prior financial years these two asset classes were measured at cost less accumulated depreciation and any accumulated impairment losses. Following the change in accounting policy (see note 3.18), the property is being measured at fair value and the effect of restatements on the financial statements is summarised in Note 52.

Land and buildings are revalued by an independent professionally qualified architect in accordance with accounting policy 3.18.1. Valuations of land and buildings are done using the "investment income approach" whereby market value is derived by capitalising at an appropriate yield rate, the annual income produced, should the property be leased out to third parties. The income is arrived at by analysing a number of rental rates taking cognisance of the location of the property, its size, layout, and planning and energy performance considerations.

The land and bremises were revalued on 20 December 2017.

Property fair value measurement is classified as Level 3 (see note 2.4.1). Significant unobservable inputs used in the valuation of these properties is the rental income and the percentage capitalisation rate which indicates the multiplier relationship between net Rental Income and Property Value. Further details about these significant inputs are summarised in the table below:

	Valuation technique	Significant unobservable inputs	Range of unobservable inputs	Inter-relationship between key unobservable inputs and fair value measurements
Office space	Investment income approach	Rental value per square metre	€280 to €595	The higher the rate per square metre the higher the fair value
	Investment income approach	Capitalisation rate	6.25%	The higher the capitalisation rate the lower the fair value
Parking space	Investment income approach	Rental value per square metre	€55 to €225	The higher the rate per square metre the higher the fair value
	Investment income approach	Capitalisation rate	8.50%	The higher the capitalisation rate the lower the fair value
Stores and ancillary	Investment income approach	Rental value per square metre	€85 to €160	The higher the rate per square metre the higher the fair value
	Investment income approach	Capitalisation rate	8.50%	The higher the capitalisation rate the lower the fair value

The carrying amount of the freehold land and buildings that would have been included in the financial statements had these assets been carried at cost less accumulated depreciation and accumulated impairment losses is USD29,660,743 (2016: USD27,751,932).

31 investment property

31.1 reconciliation of carrying amount

Group

	2017 USD	2016 restated USD
Cost		
At 1 January	6,932,960	7,222,673
Reclassification from/(to) property and equipment	5,861,107	(274,358)
Fair value gain/(loss)	3,444,802	(15,355)
At 31 December	16,238,869	6,932,960
Carrying amounts		
Cost	7,049,357	3,529,646
Net fair value gains	9,189,512	3,403,314
Carrying amount	16,238,869	6,932,960

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.

31.2 measurement of fair values

During the financial year ended 31 December 2017 the Group changed its accounting policy on the measurement of Investment Property. In prior financial years investment property was measured at cost less accumulated depreciation and any accumulated impairment losses. Following the change in accounting policy, the property is being measured at fair value and the effect of restatements on the financial statements is summarised in Note 51.

Investment property is revalued by an independent professionally qualified architect in accordance with accounting policy 3.19. Valuations of investment property is done using a combination of the "investment income approach" and the "comparative value approach". Under the "investment income approach" the market value is derived by capitalising at an appropriate yield rate, the annual income produced, should the property be leased out to third parties. The income is arrived at by analysing a number of rental rates taking cognisance of the location of the property, its size, layout, and planning and energy performance considerations. Under the "comparative value approach" the market value of the property is estimated by selecting an appropriately adjusted price per unit (€/square metre) based on transactions in comparable properties located in proximity to the property.

The Investment Property was revalued on 20 December 2017.

Property fair value measurement is classified as Level 3 (see note 2.4.1). Significant unobservable inputs used in the valuation of these properties is the rental income, the sales price and the percentage capitalisation rate which indicates the multiplier relationship between net rental income and property value. Further details about these significant inputs are summarised in the table below:

	Valuation technique	Significant unobservable inputs	Range of unobservable inputs	Inter-relationship between key unobservable inputs and fair value measurements
Office space	Investment income approach	Rental value per square metre	€302 to €595	The higher the rate per square metre the higher the fair value
	Investment income approach	Capitalisation rate	6.25%	The higher the capitalisation rate the lower the fair value
Retail space	Comparative value approach	Sales price per square metre	€1,800 to €2,350	The higher the sales price the higher the fair value
Stores and ancillary	Investment income approach	Rental value per square metre	€120	The higher the rate per square metre the higher the fair value
	Investment income approach	Capitalisation rate	8.50%	The higher the capitalisation rate the lower the fair value

32 intangible assets and goodwill

reconciliation of carrying amount

Group

	Goodwill USD	Software licences USD	Other USD	Total USD
Cost				
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
Additions	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
At 1 January 2017	15,570,668	6,676,066	345,028	22,591,762
De-recognition of intangible assets on deconsolidation of Latam Factors	-	(83,620)	(345,028)	(428,648)
Additions	-	763,788	-	763,788
Disposals	-	(25,694)	-	(25,694)
Write-offs	-	(25,889)	-	(25,889)
Effects of movement in exchange rates	861,292	8,950	-	870,242
At 31 December 2017	16,431,960	7,313,601	-	23,745,561
Accumulated amortisation and impairment losses				
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
At 1 January 2017	6,752,727	4,066,944	70,156	10,889,827
De-recognition of intangible assets on deconsolidation of Latam Factors	-	(83,620)	(134,178)	(217,798)
Charge for the year	-	585,025	64,022	649,047
Disposals	-	(1,657)	-	(1,657)
Write-offs	-	-	-	-
Effects of movement in exchange rates	432,754	8,440	-	441,194
At 31 December 2017	7,185,481	4,575,132	-	11,760,613
Carrying amounts				
At 1 January 2016	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
At 31 December 2017	9,246,479	2,738,469	-	11,984,948

During the financial year ended 31 December 2017 no software research and development was either capitalised or expensed (2016: Nil).

	Software licences USD
Cost	
At 1 January 2016	2,689,104
Additions	1,672,306
At 31 December 2016	4,361,410
At 1 January 2017	4,361,410
Additions	753,025
Write-offs	(25,889)
At 31 December 2017	5,088,546
Accumulated amortisation	
At 1 January 2016	1,611,077
Charge for the year	282,703
At 31 December 2016	1,893,780
At 1 January 2017	1,893,780
Charge for the year	458,167
At 31 December 2017	2,351,947
Carrying amounts	
At 1 January 2016	1,078,027
At 31 December 2016	2,467,630
At 31 December 2017	2,736,599

impairment testing for CGUs containing goodwill

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

	Group	
	2017 USD	2016 USD
India Factoring		
– cost, net of exchange differences	14,300,960	13,439,668
– accumulated impairment, net of exchange differences	(7,185,481)	(6,752,727)
Egypt Factors		
– cost	2,131,000	2,131,000
	9,246,479	8,817,941

India Factoring

The recoverable amount of this CGU was based on its value in use, determined by discounting the future cash flows based on free cash flows to equity. At reporting date, the recoverable amount was determined to be higher than the carrying amount of the CGU and the carrying amount of goodwill was deemed to be appropriate.

The key assumptions used in the calculation of value in use were as follows:

	31 Dec 17	31 Dec 16
Pre-tax discount rate	16.19%	17.51%
Terminal value exit multiple	2.12x	1.75x
Budgeted portfolio growth rates (average during projection period)	56.0%	52.3%

The discount rate used is based on the rate (2017: 6.6%, 2016: 6.4%) 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 (2017: 8.6%, 2016: 9.1%) and the systemic risk (2017: 1%, 2016: 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 economic indicators, further adjusted for size and margins, illiquidity and control premium.

Budgeted profits were based on expectations of future outcomes taking into account past experience, adjusted for the anticipated revenue growth. Revenue growth was projected taking into account the updated business model of the entity and the estimated growth over the projection period.

Management has approved the forecasts, relating to the business carried out by India Factoring which are based on a strategy to grow the business in a changing market landscape, whilst ensuring an effective operational and control environment. These forecasts form the basis on which the recoverable amount of goodwill is arrived at (the recoverable amount exceeds the carrying amount of goodwill). Whilst it is inherent that actual results may differ from those budgeted, and such variations may be significant, the Directors believe that the business plan can be supported, such that the Group will recover such goodwill at least at the amount stated.

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

Egypt Factors

The recoverable amount of this CGU was based on its value in use, determined by discounting the future cash flows based on free cash flows to equity. At reporting date, the recoverable amount was determined to be higher than the carrying amount of the CGU and the carrying amount of goodwill was deemed to be appropriate.

The key assumptions used in the calculation of value in use were as follows:

	31 Dec 17	31 Dec 16
Pre-tax discount rate	17.00%	17.00%
Terminal value exit multiple	0.67x	0.64x
Budgeted portfolio growth rates (average during projection period)	48.4%	51.10%

The discount rate used is based on the rate (2017: 2.4%, 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 (2017: 11.6%, 2016: 11.8%) and the systemic risk (2017: 3%, 2016: 3%) of the specific entity. The cost of equity was adjusted for the pre-tax cost of debt to reflect the equity-debt composition of the company.

Cash flows of five years were included in the discounted cash flow model, based on a Long Range Plan for the company. 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.

33 deferred taxation

33.1 deferred taxation is analysed as follows:

	Group		Bank	
	2017 USD	2016 USD	2017 USD	2016 USD
Deferred tax assets				
Tax effect of temporary differences relating to:				
- excess of capital allowances over depreciation	(374,657)	(293,967)	(343,212)	(231,752)
- allowances for uncollectibility	18,151,232	18,068,596	7,897,233	7,825,887
- changes in fair value of financial instruments	986,347	3,577,628	986,347	3,578,137
- investment tax credits	238,527	238,527	-	-
- unabsorbed capital allowances	975,625	541,982	976,134	541,982
- unabsorbed tax losses	21,046,171	19,749,921	13,786,765	11,621,205
Total deferred tax assets	41,023,245	41,882,687	23,303,267	23,335,459
Deferred tax liabilities				
Tax effect of temporary differences relating to:				
- fair valuation of property and equipment	2,219,575	-	-	-
- fair valuation of investment property	1,299,109	554,636	-	-
Total deferred tax liabilities	3,518,684	554,636	-	-

Deferred tax liabilities as at 31 December 2016 have been restated to take into reflect the change in accounting policy on investment property (see notes 31 and 52.1)

33.2 unrecognised deferred taxation

At the financial reporting date the Bank had unrecognised temporary differences amounting to USD63.1 million (2016: USD 55.3 million). In addition, Group subsidiaries had unrecognised and unutilised tax losses and tax credits amounting to USD21.9million (2016: USD31.8 million) and USD0.6million (2016: USD0.6 million) respectively.

33.3 ## movements in temporary differences during the year:

deferred tax assets

Group

	Opening balance USD	Recognised in other comprehensive income USD	Recognised in profit or loss USD	Effect of movement in exchange rates USD	Deconsolidation of subsidiary USD	Closing balance USD
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
2017						
Excess of capital allowances over depreciation	(293,967)	-	(104,724)	-	24,034	(374,657)
Allowances for uncollectibility	18,068,596	-	64,611	619,306	(601,281)	18,151,232
Changes in fair values of financial instruments	3,577,628	(32,192)	(2,559,089)	-	-	986,347
Investment tax credits	238,527	-	-	-	-	238,527
Unabsorbed capital allowances	541,982	-	433,643	-	-	975,625
Unabsorbed tax losses	19,749,921	-	2,165,559	-	(869,309)	21,046,171
	41,882,687	(32,192)	-	619,306	(1,446,556)	41,023,245

Bank

	Opening balance USD	Recognised in other comprehensive income USD	Recognised in profit or loss USD	Closing balance USD
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
2017				
Excess of capital allowances over depreciation	(231,752)	-	(111,460)	(343,212)
Allowances for uncollectibility	7,825,887	-	71,346	7,897,233
Changes in fair values of financial instruments	3,578,137	(32,192)	(2,559,598)	986,347
Unabsorbed capital allowances	541,982	-	434,152	976,134
Unabsorbed tax losses	11,621,205	-	2,165,560	13,786,765
	23,335,459	(32,192)	-	23,303,267

deferred tax liabilities

Group

	Opening balance USD	Recognised in other comprehensive income USD	Recognised in profit or loss USD	Closing balance USD
2016				
Changes in fair value of property and equipment	(575,790)	-	21,154	(554,636)
	(575,790)	-	21,154	(554,636)
2017				
Changes in fair value of property and equipment	(554,636)	(2,688,502)	(275,546)	(3,518,684)
	(554,636)	(2,688,502)	(275,546)	(3,518,684)

34 other assets

	Group 2017 USD	Group 2016 USD	Bank 2017 USD	Bank 2016 USD
Operational debtors and other recoverable amounts	11,734,526	3,601,769	8,020,694	2,147,387
Indirect taxation	1,013,448	661,705	985,100	466,526
	12,747,974	4,263,474	9,005,794	2,613,913

Other assets include an amount of USD7,026,546 (2016: USD1,189,929) pledged in favour of the Depositor Compensation Scheme and USD111,029 (2016: Nil) pledged in favour of the Single Resolution Board.

35 prepayments and accrued income

	Group 2017 USD	Group 2016 USD	Bank 2017 USD	Bank 2016 USD
Accrued income	5,020,916	4,737,254	5,067,709	4,784,857
Prepayments	2,755,255	2,294,644	1,987,046	1,363,713
	7,776,171	7,031,898	7,054,755	6,148,570

Accrued Interest includes an amount of USD255,217 (2016: Nil) receivable to a subsidiary of the Parent Company.

36 amounts owed to banks

	Group 2017 USD	Group 2016 USD	Bank 2017 USD	Bank 2016 USD
Term loans and deposits	373,257,171	357,019,637	273,312,116	254,217,863
Repayable on demand	119,935,675	171,919,614	119,935,675	171,919,614
	493,192,846	528,939,251	393,247,791	426,137,477

Included in term loans and deposits are facilities of USD 30,000,000 (2016: USD50,000,000) due to a Bank holding a significant shareholding in the Group. Also included in the term loans and deposits are facilities of USD 29,999,960 (2016: Nil) due to a subsidiary of the parent company. Included in the repayable on demand are current accounts of USD 2,772 (2016: Nil) due to a subsidiary of the parent company. All such loans and deposits are priced on an arm's length basis.

The Group and Bank includes balances amounting to USD 40,682,505 (2016: USD105,199,552) held as collateral for irrevocable commitments. Pledges are generally conducted under terms that are usual and customary for standard borrowing contracts.

37 amounts owed to customers

	Group		Bank	
	2017 USD	2016 USD	2017 USD	2016 USD
Term deposits	507,698,720	693,930,217	499,792,528	672,055,672
Repayable on demand	339,499,285	254,780,327	305,885,642	240,269,523
	847,198,005	948,710,544	805,678,170	912,325,195
Amounts owed to subsidiaries	-	-	10,134,400	3,042,409
	847,198,005	948,710,544	815,812,570	915,367,604

The Group has deposits amounting to USD 73,107,534 (2016: USD24,012,392) 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.

38 debt securities in issue

	Group		Bank	
	2017 USD	2016 USD	2017 USD	2016 USD
Unsecured promissory notes	54,653,654	8,225,869	-	-
	54,653,654	8,225,869	-	-

At 31 December 2017, promissory notes in issue have a tenor of up to one year. The Group's effective interest rate ranges between 1.00% and 3.70% (2016: 1.25% and 2.90%).

39 subordinated liabilities

	Group		Bank	
	2017 USD	2016 USD	2017 USD	2016 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).

40 accruals and deferred income

	Group		Bank	
	2017 USD	2016 USD	2017 USD	2016 USD
Accrued interest	5,458,398	5,861,970	4,878,048	5,400,979
Other accruals	14,575,885	15,055,798	2,940,042	2,021,383
	20,034,283	20,917,768	7,818,090	7,422,362

Accrued interest includes an amount of USD911,948 (2016: USD884,919) payable to a Bank holding a significant investment in the Group and USD10,833 (2016: Nil) payable to a subsidiary of the Parent company (see note 48).

41 equity

41.1 share capital

	2017 Shares of 50 US cents		2016 Shares of 50 US cents	
	Shares	USD	Shares	USD
Authorised:				
Ordinary shares at 31 December	1,000,000,000	500,000,000	1,000,000,000	500,000,000
Issued and fully paid up Ordinary shares at 31 December	314,531,123	157,265,562	310,478,525	155,239,263

	Ordinary Shares	
	2017 No of shares	2016 No of shares
On issue at 1 January	310,478,525	298,536,643
Bonus issue of shares	3,882,463	11,941,882
Exercise of share options	170,135	-
On issue at 31 December	314,531,123	310,478,525

bonus issue

In May 2017, the Annual General Meeting approved a 1 for 80 bonus issue of shares through the capitalisation of the share premium reserve.

41.2 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.

41.3 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.

41.4 currency translation reserve

The currency translation reserve consists of exchange differences arising on the translation of the net investment in foreign operations and the fair value changes on the hedging of net investment in foreign operations.

41.5 fair value reserve

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

41.6 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.

41.7 dividends

No dividends were declared or paid during the year (2016: Nil). The Board of Directors is not recommending the payment of a dividend for the financial year ended 31 December 2017 (2016: Nil).

41.8 availability of reserves for distribution

At 31 December 2017, the Bank had accumulated losses of USD USD35,768,147 (2016: USD36,040,473).

42 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 2017

	India Factoring	Latam Factors*	Total
Acquisition date	31 March 2014	1 October 2014	
NCI percentage	14%	49%	
	USD	USD	
Total assets	114,201,833	-	
Total liabilities	77,200,701	-	
Net assets	37,001,132	-	
Carrying amount of NCI	(1,709,475)	-	(1,709,475)
Profit for the year	1,506,351	(6,272)	
Profit allocated to NCI	210,136	(3,073)	207,063
Net decrease in cash and cash equivalents	21,604,215	(3,079,770)	

* During 2017 the Group lost control over Latam Factors and changed the classification and measurement to "equity method". As a result the carrying amount of non-controlling interest as at December 2017 is Nil.

31 December 2016

	India Factoring	Latam Factors	Total
Acquisition date	31 March 2014	1 October 2014	
NCI percentage	14%	49%	
	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 increase/(decrease) in cash and cash equivalents	(17,864,454)	(329,341)	

43 contingent liabilities

	Group		Bank	
	2017 USD	2016 USD	2017 USD	2016 USD
Guarantee obligations incurred on behalf of third parties	1,186,426	6,507,529	57,601,096	19,782,148

Guarantees issued to Subsidiaries amount to USD56,508,748 (2016: USD17,211,375).

44 commitments

	Group		Bank	
	2017 USD	2016 USD	2017 USD	2016 USD
Commitments to purchase assets:				
Undrawn credit facilities	190,875,472	74,532,067	167,450,639	53,964,313
Confirmed letters of credit	39,270,259	29,125,426	45,944,596	45,893,638
Documentary credits	23,755,009	15,268,323	33,918,871	15,268,323
Risk participations	5,166,842	5,000,000	5,166,842	5,000,000
Factoring commitments	12,383	156,142	1,772,895	156,142
Commitment to purchase assets	47,236,123	61,458,936	-	-
Credit Default Swaps	47,577,185	2,500,000	-	-
Commitments to sell assets:				
Commitment to sell assets	-	(2,010,000)	-	-
	353,893,273	186,030,894	254,253,843	120,282,416

The Bank has total sanctioned limits to customers amounting to USD1,735,586,855 (2016: USD1,709,932,236). In addition, as at the financial reporting date the Bank had open back-to-back documentary credits amounting to USD1,336,862 (2016: USD2,431,000).

Subsidiary companies have confirmed USD18,616,342 (2016: USD20,306,754) of Documentary Credits in favour of the Bank.

Undrawn Credit Facilities includes an amount of USD30,000,000 (2016: Nil) committed to a subsidiary of the Parent Company.

45 cash and cash equivalents

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

	Group		Bank	
	2017	2016	2017	2016
	USD	USD	USD	USD
Balances with the Central Bank of Malta, Treasury Bills and cash	208,171,299	33,193,245	208,147,513	33,165,601
Loans and advances to banks	156,913,007	221,531,111	123,634,700	211,508,458
Amounts owed to banks	(186,407,684)	(201,902,012)	(178,389,068)	(200,997,593)
Cash and cash equivalents at end of year	178,676,622	52,822,344	153,393,145	43,676,466
Adjustment to reflect balances with contractual maturity of more than three months	(237,605,235)	(94,206,126)	(134,940,760)	2,150,899
Per statements of financial position	(58,928,613)	(41,383,782)	18,452,385	45,827,365

Analysed as follows:

	Group 2017 USD	Group 2016 USD	Bank 2017 USD	Bank 2016 USD
Balances with the Central Bank of Malta, Treasury Bills and cash	208,171,299	33,193,245	208,147,513	33,165,601
Loans and advances to banks	226,092,934	454,362,226	203,552,663	438,799,241
Amounts owed to banks	(493,192,846)	(528,939,251)	(393,247,791)	(426,137,477)
	(58,928,613)	(41,383,780)	18,452,385	45,827,365

46 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	
	2017	2016	2017	2016
	USD	USD	USD	USD
Less than one year	986,761	985,220	1,103,823	834,899
Between one and five years	1,073,846	878,322	764,593	32,685
More than 5 years	237,426	-	237,426	-
	2,298,033	1,863,542	2,105,842	867,584

47 finance leases

leases as lessee

The Group leases office furniture under finance lease arrangements.

Non-cancellable finance lease rentals are payable as follows:

	Group		Bank	
	2017 USD	2016 USD	2017 USD	2016 USD
Less than one year	72,949	-	-	-
	72,949	-	-	-

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, and subsidiaries of the parent company were as follows:

		Parent		Subsidiaries of Parent	
	Note	2017 USD	2016 USD	2017 USD	2016 USD
Assets					
Loans and advances to banks	24	-	26,315,789	-	-
Loans and advances to customers	25	-		35,979,851	-
Prepayments and accrued income	35	-	1,462	255,217	-
Liabilities					
Amounts owed to banks	36	-	-	30,002,732	-
Accruals and deferred income	40	-	-	10,833	-
Commitments		-	-	30,000,000	-
Income Statement					
Interest income	8	235,646	621,539	425,127	-
Interest expense	8	-	(155,978)	(11,312)	-
Fee and commission income	9	-	-	61,561	-

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

	Note	Shareholder having significant influence 2017 USD	Shareholder having significant influence 2016 USD	Subsidiary of Shareholder having significant influence 2017 USD	Subsidiary of Shareholder having significant influence 2016 USD	Other related companies 2017 USD	Other related companies 2016 USD
Assets:							
Derivative assets held for risk management	22	476,526	328,206	-	-	-	-
Loans and advances to banks	24	13,741	4,390	-	-	-	-
Other assets	34	-	326	-	-	-	-
Liabilities:							
Derivative liabilities held for risk management	22	-	7,786,413	-	-	-	-
Amounts owed to banks	36	30,000,000	50,000,000	-	-	914,415	-
Subordinated Liabilities	39	50,000,000	50,000,000	-	-	-	-
Accrued and deferred income	40	911,948	884,919	-	-	-	-
Income Statement							
Interest income	8	-	74,467	-	-	46,795	-
Interest expense	8	(4,561,306)	(4,480,234)	-	(57,090)	(74)	-
Fee and commission income	9	-	-	-	-	25,222	-
Fee and commission expense	9	(434)	(297)	-	-	-	-
Net gain/(loss) from other financial instruments carried at fair value	11	6,767,091	(12,528,963)	-	-	-	-
Administrative expenses - consultancy fees	17	-	-	-	-	(8,700)	-
Administrative expenses – premises leasing costs	17	(85,393)	-	-	-	-	-

48.3 transactions with key management personnel

	Note	Directors 2017 USD	Directors 2016 USD	Executive Officers 2017 USD	Executive Officers 2016 USD
Assets:					
Loans and advances to customers	25	-	-	62,050	26,377
Prepayments and accrued income	35	-	-	126	110
Liabilities:					
Amounts owed to customers	37	545,424	397,279	624,296	112,391
Accruals and deferred income	40	2,791	2,229	-	377
Income Statement:					
Interest income	8	-	-	337	540
Interest expense	8	(8,999)	(7,159)	(4,045)	(5,327)
Fee and commission income	9	-	20	(44)	30
Fee and commission expense	9	-	-	-	(22)
Administrative expenses - Remuneration	17	(375,593)	(305,874)	(2,898,544)	(4,096,172)
Administrative expenses - board travelling expenses	17	(35,736)	(15,818)	-	-
Unexercised share options		-	-	65,438	78,525

Directors of the Group control less than 1 per cent of the voting shares of the Bank and the Group respectively (2016: less than1 per cent).

48.4 other related party transactions

	Note	Other Related Parties 2017 USD	2016 USD
Assets:			
Prepayments and accrued income*	35	101	88
Liabilities:			
Amounts owed to customers**	37	425,745	268,421
Accrued and deferred income**	40	2,038	1,789
Income Statement			
Interest expense**	8	7,910	(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 24, 25, 27, 28, 36, 43 and 44 of these financial statements.

49 financial commitments

For 2018, the Board approved capital injections of up to USD5 million to provide additional support to existing factoring investments by way of additional capital.

50 capital commitments

At financial reporting date the Group had the following commitments:

	2017 USD	2016 USD
Authorised and contracted	1,639,126	-
Authorised but not contracted	277,527	-
	1,916,653	-

51 subsequent events

On 13 March 2018 the Board approved a capital injection of USD115 million by way of a Rights Issue of shares to existing shareholders. This Rights Issue process is expected to be concluded by 30 June 2018.

52 comparative information

Certain comparative amounts have been restated, reclassified or re-represented due to the following matters:

- a change in accounting policy in the measurement of owned freehold land and building (see note 52.1);
- 2017 bonus issue of shares which had an impact on the prior year earnings per share (see note 19); and
- classification of Brasilfactors as a discontinued operation (see note 29).

52.1 change in accounting policy

During the financial year ended 31 December 2017 the Group changed its accounting policy on the measurement of owned property classified as either "Property and Equipment" (Note 30) or "Investment Property" (Note 31). In prior financial years this property was measured at cost less accumulated depreciation and any accumulated impairment losses. Following the change in accounting policy, the property is being measured at fair value (see note 30 and 31). This change in accounting policy is being adopted as the recognition of the fair value of owned property provides a more relevant measurement approach to the Group.

For the property classified as "Property and Equipment" the effect of a change in accounting policy from the cost to the fair value model is measured as a revaluation under IAS16 "Property, Plant and Equipment" – with any surplus arising on the revaluation recognised in Other Comprehensive Income whilst a deficit is recognised in the Income Statement, to the extent in both cases that the surplus or deficit does not reverse the impact of a previous revaluation in either Other Comprehensive Income or Income Statement respectively. The comparative financial statements are not restated to adjust for this revaluation.

For the property classified as "Investment Property" the effect of a change in accounting policy from the cost to the fair value model is measured under IAS8 "Accounting Policies, Changes in Accounting Estimates and Errors". In accordance with this standard the Group has applied this change retrospectively by restating the opening balance of assets, liabilities and equity of the earliest prior period presented in these financial statements. The impact is largely related to the following:

1. in the periods prior to 2016, the recognition of initial fair value gains on the property, prior to transfer to investment property, recognised in Other Comprehensive Income, in accordance with IAS 16;
2. during 2016, the recognition of fair value losses during the year in Income Statement;
3. the recognition of fair value of "investment property" reclassified from "property and equipment", recognised in Other Comprehensive Income and the recognition of fair value gains during the year in Income Statement;
4. the classification of "Net income on derivatives held for risk management purposes" reclassified from "Net gain/(loss) from other financial instruments carried at fair value".

The effect of restatements on the financial statements is summarised below:

Group	As originally stated USD	Restatements USD	As restated USD
Effect on balance at 1 January 2016			
Investment property	3,804,004	3,418,669	7,222,673
Total assets	1,443,905,446	3,418,669	1,447,324,115
Deferred tax liabilities	-	575,789	575,789
Total liabilities	1,268,985,832	575,789	1,269,561,621
Fair value reserve	(409,528)	2,842,880	2,433,352
Total equity	174,919,614	2,842,880	177,762,494
Total liabilities and equity	1,443,905,446	3,418,669	1,447,324,115
Effect on amounts for the year ended 31 December 2016			
Fair value gain on investment property	-	(15,355)	(15,355)
Depreciation and amortisation	(2,996,095)	94,846	(2,901,249)
Taxation	596,996	21,153	618,149
Profit for the year	5,265,992	100,644	5,366,636
Property and equipment	27,751,932	79,592	27,831,524
Investment property	3,514,392	3,418,568	6,932,960
Total assets	1,740,948,400	3,498,160	1,744,446,560
Deferred tax liabilities	-	554,636	554,636
Total liabilities	1,566,181,037	554,636	1,566,735,673
Fair value reserve	(1,891,140)	2,842,880	951,740
Accumulated losses	(487,210)	100,644	(386,566)
Total equity	174,767,363	2,943,524	177,710,887
Total liabilities and equity	1,740,948,400	3,498,160	1,744,446,560

52.2 bonus issue 2017

Earnings per Share for the comparative financial year ended 31 December 2016 have been restated for the impact of the bonus issue of shares in May 2017 (see note 19).

52.3 discontinued operations

The comparative information in the Statement of Financial Position for the Group has been restated for the impact of the decision to classify the Investment in Brasilfactors as a "Discontinued Operation".

Group

	As originally stated USD	Restatements USD	As restated USD
Effect on amounts for the year ended 31 December 2016			
Share of results of associates (net of tax)	(410,685)	395,235	(15,447)
Loss on discontinued operations	(79,736)	(395,235)	(474,974)
Interests in equity-accounted investees	1,161,332	(1,161,332)	-
Non-current assets held for sale	-	1,161,332	1,161,332

52.4 Net income on derivatives held for risk management purposes

"Net income on derivatives held for risk management purposes" for the comparative financial year ended 31 December 2016 have been reclassified from "Net gain/(loss) from other financial instruments carried at fair value" to "Net trading results" (see notes 10 and 11).

53 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.

statement by the directors pursuant to listing rule 5.68

For the year ended 31 December 2017

We, the undersigned, declare that to the best of our knowledge, the financial statements set out on pages 27 to 126 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 13 March 2018 by:

John C. Grech
Chairman

Masaud M.J. Hayat
Vice Chairman

independent auditors' report

to the shareholders of FIMBank p.l.c.

1 report on the audit of the financial statements

opinion

We have audited the financial statements of FIMBank p.l.c. (the "Bank" or the "Company") and of the Group of which the Company is the parent, which comprise the statements of financial position as at 31 December 2017, the income statement 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:

a. give a true and fair view of the financial position of the Bank and the Group as at 31 December 2017, and of their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS") as adopted by the EU; and

b. have been properly prepared in accordance with the provisions of the Companies Act, 1995 (Chapter 386, Laws of Malta) (the "Act") and the Banking Act, 1994 (Chapter 371, Laws of Malta) (the "Banking Act") and, additionally, specifically in relation to those of the Group, with the requirements of article 4 of the Regulation on the application of IFRS as adopted by the EU.

basis for opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. During the course of our audit, we maintained our independence from the Company and the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants, together with the ethical requirements that are relevant to our audit of the financial statements in accordance with the Accountancy Profession (Code of Ethics for Warrant Holders) Directive issued in terms of the Accountancy Profession Act (Chapter 281, Laws of Malta) ("APA"), and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period (selected from those communicated to the audit committee), and include a description of the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We summarise below the key audit matters, together with our response by way of the audit procedures we performed to address that matter in our audit, and key observations arising with respect to such risks of material misstatement.

key audit matters – continued

carrying amounts of goodwill at group level and investment in subsidiaries at company level

Accounting policy notes 3.1.1 and 3.1.2 to the financial statements and notes 28 and 32 for further disclosures

Goodwill (USD9,246,479); Investment in subsidiaries (USD94,050,884) which includes, among others, the investment in The Egyptian Company for Factoring S.A.E. (referred to as "Egypt Factors") and, indirectly through FIM Factors B.V., the investment in India Factoring and Finance Solutions Private Limited (referred to as "India Factoring").

The Group

The Group holds goodwill relating to the acquisition of the interests in Egypt Factors and India Factoring (the "components"). Both units are separately identified by the Group as cash generating units (the "CGU"/ "CGUs"), in line with the applicable financial reporting framework, as they generate cash-inflows for the Group that are largely independent of the cash inflows generated by other assets or groups thereof.

At Group level, an assessment of each CGU is required annually by the relevant financial reporting framework to establish whether the recoverable amount is at least equal to the carrying amount, and therefore, whether any impairment should be recorded. Significant judgement is involved in determining the recoverable amount of each CGU, namely due to the inherent uncertainty in forecasting future cash flows in perpetuity, and the judgement involved in determining the appropriate discount rate applied to those cash flows in arriving at the value-in-use (being the basis on which the carrying amount is determined).

The Company

Investments in subsidiaries are carried at cost less any impairment losses in the Company's statement of financial position. Any impairment in goodwill relating to Egypt Factors or India Factoring may result in the Company's investment in subsidiaries being impaired.

Our response

We used our valuation specialist to evaluate the key assumptions underlying the value-in-use calculations, particularly the cash flows, the terminal value exit multiples and the discount rates. In particular:

- we compared the current year performances against the Group's plans and evaluated the reasons for any deviations. We evaluated whether the deviations were in line with our understanding of the components' operations and the Group's strategies;
- we performed a retrospective review of the Group's plans and forecasts in relation to the components by comparing actuals to budgets. In this regard, we challenged the directors' assumptions (primarily in relation to changes in projections) by assessing internal and external factors that impact the achievement of the Group's plans and forecasts; and
- we performed a sensitivity analysis, making adjustments to a number of modelled assumptions simultaneously, for an indication of any potential additional impairment.

We have no key observations to report, specific to this matter.

key audit matters – continued

recoverability of recognised deferred tax assets

Accounting policy note 3.9 to the financial statements and note 33 for further disclosures

Deferred taxation (Group: USD41,023,245 and Company: USD23,303,267).

The Group and the Company recognised deferred tax assets in respect of the future benefit of deductible temporary differences and accumulated tax losses. In accordance with the applicable financial reporting framework, the recognition of deferred tax assets is permitted only to the extent that it is probable that future taxable profits will be available against which these assets can be used. Such restrictions are more pronounced in jurisdictions where the carry forward of losses to future periods are time-barred. The recognition of deferred tax assets, therefore, requires significant judgement in estimating future profitability (and the extent of taxable profits) based on business plans drawn up by the directors. Due to estimation uncertainty, the projected relief of the tax losses for which the deferred tax assets are recognised, might be materially different from the actual amount relieved.

Our response

- we evaluated the revised assumptions underlying the Company's and the Group's projections having regard to (a) our understanding of the Company and the Group, and the industry and the jurisdictions in which the Company and the Group operate; and (b) the current pipeline of new business; and

- we assessed the applicability of enacted and substantively enacted tax laws that support the recognition of the deferred tax assets.

We have no key observations to report, specific to this matter.

key audit matters – continued

impairment of loans and advances

Accounting policy note 3.10.7 to the financial statements and notes 2, 4, 24 and 25 for further disclosures.

Loans and advances to banks (Bank: USD203,552,663); Loans and advances to customers (Bank: USD581,529,952).

A loan or an advance to a customer may be impaired and impairment losses are incurred by the Bank on the occurrence of a loss event that impacts the estimated future cash flows of that loan or advance. The Bank's process of determining (a) whether a loss event has occurred; and (b) the magnitude of the impairment loss incurred, involves significant judgment, particularly in view of the nature of the loan portfolio.

Our response

- we assessed the design and implementation of controls as well as the operating effectiveness of controls established by management in determining specific impairment calculations. Such controls include the approval of the facilities by the Credit Committee and monitoring of facilities, exposures and customer limits by the Board Risk Committee;

- we evaluated relevant indicators of impairment for loans (not already fully provided for) as discussed in the Board Risk Committee and the Credit Committee.

Specifically in relation to exposures being given special focus by the said committees and others that had over-due positions in the financial reporting period (the "focus exposures") we:

- performed detailed credit reviews focusing on the borrowers' ability to repay from normal operations, the performance/history of the account and receipts after the financial reporting date; and

- assessed impairment calculations by evaluating the appropriateness of provisioning methodologies and policies, and, where relevant, the Bank's extendible value of collateral by reference to external data sources.

Specifically in relation to a sample of non-focus exposures, we:

- assessed the Bank's credit status of borrowers;

- evaluated adherence with repayment programmes; and

- assessed, where relevant, information in the public domain that could potentially represent impairment triggers.

We have no key observations to report, specific to this matter.

valuation of unquoted assets measured at fair value

Accounting policy note 3.10.6 to the financial statements and notes 5, 21 and 26 for further disclosures

Shares in sub-fund of a local unlisted collective investment scheme (Bank and Group: USD156,612,036) included within Investments available-for-sale and Trading assets (Group: USD252,509,144)

The fair value of certain financial assets held by the Bank and the Group is determined through the application of valuation techniques that involve the exercise of judgment, and the use of assumptions based on limited observable market data. This relates primarily to:

- In the case of the Bank, the equity instruments in the form of shares (classified as available-for-sale assets) held in a sub-fund of a local unlisted collective investment scheme ('the Fund') which holds assets that cannot be valued through observable market data;

- In the case of London Forfaiting Company Limited, one of the Bank's subsidiaries, the trading assets that represent forfaiting assets (discounted receivables generated from an export contract) that are also constrained by limited observable data.

Our response

For equity instruments held in the Fund, we evaluated reports prepared by the external auditor engaged by the Investment Manager of the Fund, specifically on the valuation of the investments held by the Fund.

Specifically in relation to non-performing forfaiting financial assets, we evaluated the assumptions used, primarily in relation to the projected cash flows and the discount rates by reference to current expected credit margin spreads and interest rates at the reporting date. A similar evaluation was performed for a sample (selected on the basis of country risk and holding period) of performing forfaiting financial assets.

We have no key observations to report, specific to this matter.

other matter – scope of our audit: disclosure of IFRS 9 effect

The Group is adopting IFRS 9 Financial Instruments from 1 January 2018 and has included an estimate of the financial impact of the change in accounting standard in accordance with IAS 8 Changes in Accounting Estimates and Errors as set out in note 3.29.1.1. This disclosure notes that the estimate has been prepared under an interim control environment with models that continue to undergo validation. While further testing of the financial impact will be performed as part of our 2018 year-end audit, we have performed sufficient audit procedures for the purposes of assessing the disclosures made in accordance with IAS 8. Specifically we have:

- Considered the appropriateness of key technical decisions, judgements, assumptions and elections made in determining the estimate;
- Considered key classification and measurement decisions, including business model assessments and solely payment of principal and interest outcomes;
- Involved credit risk modelling and economics specialists in the consideration of credit risk modelling decisions and macroeconomic variables, including forward economic guidance and generation of multiple economic scenarios, for a sample of models used in determining the estimate; and
- Considered interim controls and governance processes related to the calculation and approval of the estimated transitional impact.

other information

The directors are responsible for the other information which comprises:

- the Chairman's Statement to the Shareholders;
- FIMBank Group Performance 2017;
- Directors' Report;
- Statement of Compliance with the Principles of Good Corporate Governance;
- Remuneration Report;
- Directors' Responsibility for the Financial Statements;
- Statement by the Directors Pursuant to Listing Rule 5.68; and
- Schedules to the annual report

but does not include the financial statements and our auditors' report thereon.

Our opinion on the financial statements does not cover the other information and, other than in the case of the Directors' Report on which we report separately below in our 'Opinion on the Directors' Report', we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information, and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

responsibilities of the directors for the financial statements

The directors are responsible for the preparation of financial statements that (a) give a true and fair view in accordance with IFRS as adopted by the EU, and (b) are properly prepared in accordance with the provisions of the Act and the Banking Act, and, additionally, specifically in relation to those of the Group, with the requirements of article 4 of the Regulation on the application of IFRS as adopted by the EU. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Company's and the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company and/or the Group or to cease operations, or have no realistic alternative but to do so.

The directors are responsible for overseeing the 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.

- Consider the extent of compliance with those laws and regulations that directly affect the financial statements, as part of our procedures on the related financial statement items. For the remaining laws and regulations, we make enquiries of directors and other management, and inspect correspondence with the regulatory authority, as well as legal correspondence. As with fraud, there remains a higher risk of non-detection of other irregularities (whether or not these relate to an area of law directly related to the financial statements), as these may likewise involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's and the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's and the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company and/or the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the 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 audit committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the audit committee with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the audit committee, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

2 opinion on the directors' report

The directors are responsible for preparing a directors' report in accordance with the provisions of article 177 of the Act and other applicable legal requirements, and is to include a statement that the Company is a going concern with supporting assumptions or qualifications as necessary, as required by Listing Rule 5.62 issued by the Listing Authority in Malta.

We are required to consider whether the information given in the directors' report for the accounting period for which the financial statements are prepared is consistent with those financial statements; and, if we are of the opinion that it is not, we shall state that fact in our report. We have nothing to report in this regard.

Pursuant to article 179(3) of the Act, we are also required to:

- express an opinion on whether the directors' report has been prepared in accordance with the applicable legal requirements; and
- state whether, in the light of the knowledge and understanding of the entity and its environment obtained in the course of our audit of the financial statements, we have identified material misstatements in the directors' report, giving an indication of the nature of any such misstatements.

Pursuant to Listing Rule 5.62 of the Listing Rules issued by the Listing Authority in Malta, we are required to review the directors' statement in relation to going concern.

In such regards:

- in our opinion, the directors' report has been prepared in accordance with the applicable legal requirements;
- we have not identified material misstatements in the directors' report; and
- we have nothing to report in relation to the statement on going concern.

independent auditors' report

to the shareholders of FIMBank p.l.c.

3 report on other legal and regulatory requirements

matters on which we are required to report by the Act, specific to public- interest entities

Pursuant to article 179B(1) of the Act, we report as under matters not already reported upon in our 'Report on the Audit of the Financial Statements':

- we were first appointed as auditors on 8 November 1994 by the board of directors and subsequently reappointed by the shareholders at the Company's general meetings for each financial year thereafter. The period of total uninterrupted engagement is twenty-three years
- our opinion on our audit of the financial statements is consistent with the additional report to the audit committee required to be issued by the Audit Regulation (as referred to in the Act); and
- we have not provided any of the prohibited services as set out in the APA.

matters on which we are required to report by the Banking Act and by exception by the Act

Pursuant to article 31(3)(a), (b) and (c) of the Banking Act, in our opinion:

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

Furthermore, we have nothing to report in respect of the above matters, where the Act requires us to report to you by exception pursuant to articles 179(10) and 179(11).

Pursuant to article 31(3)(d) of the Banking Act, in our opinion and to the best of our knowledge and belief and, on the basis of the explanations given to us, the financial statements give the information required by law in force in the manner so required.

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

KPMG
Registered Auditors

13 March 2018

independent auditors' report

to the shareholders of FIMBank p.l.c.

report required by Listing Rule 5.98 issued by the Listing Authority in Malta

We are required, pursuant to Listing Rule 5.98, to express an opinion to the shareholders of FIMBank p.l.c (the "Bank") on specific disclosures in the Annual Report which relate to the directors' corporate governance statement (the "Disclosures") for the year ended 31 December 2017.

Specifically, with respect to the following matters noted in Listing Rule 5.100, we report whether:

- we have identified material misstatements with respect to the disclosures referred to in Listing Rule 5.97.4 and Listing Rule 5.97.5. Where any material misstatements are identified, we are required to provide an indication of the nature of such misstatements; and

- the other disclosures required by Listing Rule 5.97 have been provided.

responsibilities of the directors

Pursuant to Listing Rule 5.97, the directors are responsible for preparing the Disclosures that are free from material misstatement in accordance with the requirements of the Listing Rules.

auditors' responsibilities

Our responsibility is to examine the Disclosures and to report thereon in the form of a reasonable assurance conclusion based on our work. We conducted our engagement in accordance with International Standard on Assurance Engagements 3000, Assurance Engagements Other Than Audits or Reviews of Historical Financial Information.

We apply International Standard on Quality Control 1 and, accordingly, we maintain a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants, together with the ethical requirements that are relevant to our audit of the financial statements in accordance with the Accountancy Profession (Code of Ethics for Warrant Holders) Directive issued in terms of the Accountancy Profession Act (Chapter 281, Laws of Malta), and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We are not required to, and we do not, consider whether the directors' statements on internal control and risk management systems cover all the risks and controls in relation to the financial reporting process or form an opinion on the effectiveness of the Bank's corporate governance procedures or its risks and control procedures, nor on the ability of the Bank to continue in operational existence. Our opinion in relation to the disclosures pursuant to Listing Rule 5.97.4 and Listing Rule 5.97.5 is based solely on our knowledge and understanding of the Bank and its environment obtained in forming our opinion on the audit of the financial statements. We have not performed any procedures by way of audit, verification or review on the underlying information from which the other disclosures required by Listing Rule 5.97 is derived.

We also read the other information included in the Annual Report in order to identify any material inconsistencies with the Disclosures.

independent auditors' report

to the shareholders of FIMBank p.l.c.

conclusion

Our conclusion has been formed on the basis of, and is subject to, the matters outlined in this report.

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

- in light of the knowledge and understanding of the Bank and its environment obtained during the course of our audit of the financial statements, we have not identified material misstatements with respect to the following disclosures:

    i. the information referred to in Listing Rule 5.97.4, included in the directors' Statement of Compliance with the Principles of Good Corporate Governance, as this relates to the Bank's internal control and risk management systems in relation to the financial reporting process; and

    ii. the information referred to in Listing Rule 5.97.5, included in the Directors' Report, insofar as it is applicable to the Bank;

- the other disclosures required by Listing Rule 5.97 have been included in the directors' Statement of Compliance on Corporate Governance, as these apply to the Bank.

The Principal authorised to sign on behalf of KPMG on the work resulting in this assurance report is Noel Mizzi.

KPMG
Registered Auditors

13 March 2018

income statements

Five Year Summary

Bank

	2017 USD	2016 USD	2015 USD	2014 USD	2013 USD
Interest income	28,323,748	24,663,531	25,024,359	28,392,379	25,308,593
Interest expense	(17,738,857)	(16,542,171)	(13,069,821)	(13,742,561)	(18,318,032)
Net interest income	10,584,891	8,121,360	11,954,538	14,649,818	6,990,561
Fee and commission income	11,048,533	10,021,804	11,657,912	15,617,702	16,004,841
Fee and commission expense	(2,482,765)	(2,009,569)	(2,515,148)	(2,022,658)	(1,339,461)
Net fee and commission income	8,565,768	8,012,235	9,142,764	13,595,044	14,665,380
Net trading results	(3,031,664)	2,310,309	2,559,817	3,424,789	1,992,071
Dividend income	10,446,343	5,455,550	3,324,960	1,523,364	691
Other operating income	87,088	407,520	5,201	27,441	25,591
Operating income before net impairment losses	26,652,426	24,306,974	26,987,280	33,220,456	23,674,294
Net impairment loss/reversal on financial assets	(767,889)	(2,311,574)	(11,093,560)	(63,921,856)	(6,709,515)
Operating income	25,884,537	21,995,400	15,893,720	(30,701,400)	16,964,779
Administrative expenses	(24,785,664)	(20,727,352)	(28,012,370)	(25,114,822)	(20,552,916)
Depreciation and amortisation	(922,457)	(869,126)	(915,049)	(880,693)	(741,316)
Provision	-	-	-	-	(676,921)
Total operating expenses	(25,708,121)	(21,596,478)	(28,927,419)	(25,995,515)	(21,971,153)
Profit /(loss) before tax	176,416	398,922	(13,033,699)	(56,696,915)	(5,006,374)
Taxation	(60,598)	(58,539)	7,112,303	6,458,782	2,175,605
Profit /(loss) for the year	115,818	340,383	(5,921,396)	(50,238,133)	(2,830,769)

statements of financial position

Five Year Summary

Bank	2017 USD	2016 USD	2015 USD	2014 USD	2013 USD
Assets					
Balances with the Central Bank of Malta, Treasury Bills and cash	208,147,513	33,165,601	77,413,470	7,804,628	69,680,966
Financial assets designated at fair value through profit or loss	722,256	19,302,604	18,883,952	20,570,036	18,583,480
Loans and advances to banks	203,552,663	438,799,241	212,123,584	423,146,523	328,578,318
Loans and advances to customers	581,529,952	589,579,473	567,176,993	635,248,176	593,801,221
Investments available-for-sale	261,244,798	327,075,827	274,048,615	30,103,691	26,475,502
Investments held-to-maturity	-	-	7,476,940	7,116,353	6,783,621
Interests in equity-accounted investees	-	-	305,641	6,013,425	6,013,425
Investments in subsidiaries	94,050,884	86,305,594	84,678,486	61,278,380	79,234,301
Property and equipment	1,035,490	1,305,432	1,749,101	2,065,906	2,070,762
Intangible assets	2,736,599	2,467,630	1,078,027	1,070,658	715,513
Current tax assets	1,052,348	1,052,348	-	-	2,064,316
Deferred tax assets	23,303,267	23,335,459	22,535,293	15,594,796	6,494,506
Other assets	9,005,794	2,613,913	1,852,600	2,297,271	3,984,761
Prepayments and accrued income	7,054,755	6,148,570	3,993,887	3,752,521	2,635,135
Total assets	1,393,436,319	1,531,151,692	1,273,316,589	1,216,062,364	1,147,115,827
Liabilities and Equity					
Liabilities					
Derivative liabilities held for risk management	723,454	8,834,092	921,237	1,606,718	506,477
Amounts owed to banks	393,247,791	426,137,477	665,277,976	580,466,522	593,551,588
Amounts owed to customers	815,812,570	915,367,604	405,611,504	496,006,520	414,846,277
Debt securities in issue	-	-	20,000,000	-	-
Subordinated liabilities	50,000,000	50,000,000	50,000,000	-	-
Current tax liabilities	-	-	-	1,456,521	-
Other liabilities	793,060	535,339	135,830	2,398,694	368,015
Accruals and deferred income	7,818,090	7,422,362	7,373,994	4,589,759	5,039,952
	1,268,394,965	1,408,296,874	1,149,320,541	1,086,524,734	1,014,312,309
Equity					
Share capital	157,265,562	155,239,263	149,268,322	135,698,296	89,599,085
Share premium	173,113	2,101,335	8,072,276	21,642,302	19,820,564
Reserve for general banking risks	608,284	764,792	1,000,027	415,293	80,893
Fair value reserve	81,501	(1,891,140)	(409,528)	(789,342)	159,362
Other reserve	2,681,041	2,681,041	2,681,041	2,681,041	2,681,041
Retained earnings/(accumulated losses)	(35,768,147)	(36,040,473)	(36,616,090)	(30,109,960)	20,462,573
	125,041,354	122,854,818	123,996,048	129,537,630	132,803,518
Total liabilities and equity	1,393,436,319	1,531,151,692	1,273,316,589	1,216,062,364	1,147,115,827
MEMORANDUM ITEMS					
Contingent liabilities	57,601,096	19,782,148	37,002,036	31,805,224	61,549,236
Commitments	254,253,843	120,282,416	117,122,920	157,125,360	237,393,657

cash flow statements

Five Year Summary

Bank	2017 USD	2016 USD	2015 USD	2014 USD	2013 USD
Net cash flows from/(used in) operating activities	20,694,088	211,100,534	(145,013,306)	105,650,593	(49,159,379)
Cash flows from investing activities					
Payments to acquire property and equipment	(195,368)	(307,742)	(400,228)	(656,961)	(434,749)
Payments to acquire intangible assets	(727,136)	(1,672,306)	(264,389)	(585,213)	(292,256)
Proceeds on disposal of property and equipment	2,674	550,255	47,281	19,404	7,244
Payments to acquire shares in subsidiary company	(10,304,042)	(6,359,342)	(24,906,146)	(21,065,318)	(1,000,000)
Payments to acquire shares in associate undertaking	-	-	(1,504,875)	-	-
Payments to acquire shares in other investments	-	(25,317,000)	-	-	-
Payments to acquire available-for-sale financial assets	62,397,260	(30,187,210)	(110,000,000)	(5,237,791)	(25,988,335)
Proceeds from maturity of investments held-to-maturity	27,543,320	7,800,000	-	-	-
Receipt of dividend	10,207,806	5,455,550	3,324,960	1,523,364	691
Cash flows (used in)/generated from investing activities	88,924,514	(50,037,795)	(133,703,397)	(26,002,515)	(27,707,405)
Cash flows from financing activities					
Issue of share capital	98,077				
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)
Dividends paid	-	-	-	-	(5,279,120)
Net cash flows from/(used in) financing activities	98,077	20,000,000	70,000,000	47,920,950	(61,848,891)
Increase/(decrease) in cash and cash equivalents	109,716,679	141,062,739	(208,716,703)	127,569,028	(138,715,675)
Cash and cash equivalents at beginning of year	43,676,466	(97,386,273)	111,330,430	(16,238,598)	122,477,077
Cash and cash equivalents at end of year	153,393,145	43,676,466	(97,386,273)	111,330,430	(16,238,598)

accounting ratios

Five Year Summary

Bank	2017 %	2016 %	2015 %	2014 %	2013 %
Net interest income and other operating income to total assets	2.09	1.72	2.32	2.90	2.47
Operating expenses to total assets	(1.84)	1.41	2.27	2.14	2.17
Profit/(loss) before tax to total assets	0.01	0.03	(1.02)	(4.66)	(0.49)
Pre-tax return on capital employed	0.14	0.32	(10.51)	(43.77)	(3.77)
Profit/(loss) after tax to equity	0.09	0.28	(4.78)	(38.78)	(2.13)

	2017	2016	2015	2014	2013
Weighted average number of shares in issue (000's)	313,071	310,076	304,874	269,532	219,176
Net assets per share (US cents)*	39.94	39.62	40.67	48.06	60.59
Basic earnings per share (US cents) *					
Basic	0.04	0.11	(1.94)	(18.64)	(1.29)
Diluted	0.04	0.11	(1.94)	(18.64)	(1.29)

* Ratios for 2013 to 2016 have been restated to reflect the number of shares in issue as a result of the 2014, 2015, 2016 and 2017 bonus issue of shares.

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 2017

1. introduction

1.1 background

This document comprises the Pillar 3 Regulatory Disclosures required by BR/07 as at 31 December 2017 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"), the European Banking Authority's ("EBA") "Final Report on the Guidelines on Disclosure Requirements under Part Eight of Regulation (EU) No 575/2013" (EBA/GL/2016/11 version 2) and of the European Commission's implementing and delegated regulations, as well as the EBA Guidelines, including:

- "Commission Implementing Regulation (EU) No 1423/2013 of 20 December 2013 laying down implementing technical standards with regards to disclosure of own funds requirements for institutions",
- "Commission Implementing Regulation (EU) 2016/200 of 15 February 2016 laying down implementing technical standards with regard to disclosure of the leverage ratio for institutions",
- "European Banking Authority Guidelines on Disclosure of Encumbered and Unencumbered Assets EBA/GL/2014/03", and
- "Commission Delegated Regulation (EU) No 604/2014 of 4 March 2014 with respect to qualitative and appropriate quantitative criteria to identify categories of staff whose professional activities have a material impact on an institution's risk profile,
- EBA guidelines on sound remuneration policies under Articles 74(3) and 75(2) of Directive 2013/36/EU and disclosures under Article 450 of Regulation (EU) No 575/2013 (EBA/GL/2015/22),
- EBA's Final Report on the Guidelines on LCR disclosure to complements the disclosure of liquidity risk management under Article 435 of Regulation (EU) No 575/2013 (EBA/GL/2017/01), and
- EBA guidelines on materiality, proprietary and confidentiality and on disclosure frequency under Article 432 (1), 432 (2) and 433 of Regulation (EU) No 575/2013 (EBA/GL/2014/14).

1.2 basis and frequency of disclosures

These disclosures are based on 31 December 2017 year-end data. These disclosures are updated on an annual basis taking into consideration the requirements under EBA/GL/2014/14 in relation to materiality and frequency of disclosures.

1.3 publication and verification

The Pillar 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. scope of application of applicable consolidated requirements

2.1 overall scoping

As disclosed in the Directors Report in page 7, the 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 28 to the Financial Statements, LFC is the parent company of a number of other subsidiaries, whilst FIMFactors is the parent company of India Factoring and Finance Solutions Private Limited ("India Factoring") and Menafactors Limited ("Menafactors"). Menafactors is in the process of liquidation. A significant interest is also held in the associated entities, Latam Factors S.A. ("Latam" - 51% holding), BrasilFactors S.A. ("Brqasilfactors" - 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, by the Malta Financial Services Authority, in terms of the general provisions under Part 1 of the CRR.

2.2 basis of consolidation

At 31 December 2017, 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.

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's financial statements 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 within the Group's financial statements on a line-by-line basis.

FIM Holdings (Chile) S.p.A.

FHC, a wholly owned subsidiary, is registered in Chile and acts as the corporate vehicle for Latam Factors S.A.

FHC is fully consolidated within the Group's financial statements 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's financial statements 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. FIMFactors holds the Group's investments in Menafactors, India Factoring and Brasilfactors.

FIMFactors is fully consolidated within the Group's financial statements on a line-by-line basis.

Menafactors Limited

Menafactors, a wholly owned subsidiary, is incorporated in the United Arab Emirates and was licensed by the Dubai Financial Services Authority to provide international factoring and forfaiting services in the Gulf and MENA region. Menafactors has been placed into liquidation and is expected to be wound down shortly. As part of this process, the Company has also surrendered its license to provide the aforementioned services.

Menafactors is in the process of liquidation and is fully consolidated within the Group's financial statements on a line-by-line basis.

India Factoring and Finance Solutions Private Limited

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 SpA (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's financial statements on a line-by-line basis.

Latam Factors S.A.

Latam is a company incorporated under the laws of Chile and provides all types of factoring, financial leasing and other management services. The Group holds 51% of this company's shareholding. 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%).

Latam is included within the Group's financial statements using the "equity method" of accounting.

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 within the Group's financial statements as an asset held-for-sale and discountinued operation, with its financial performance disclosed separately in the Income Statements.

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 investment carrying amount 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.

3. risk governance

3.1 risk management function

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

- Executive Committee
- Audit Committee
- Board Risk Committee
- Nomination and Remuneration Committee
- Board Credit Committee
- Corporate Governance Committee

Details of the composition and responsibilities of these Committees are laid out in the Statement of compliance with the principles of good corporate governance in pages 14 to 24 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. . The risk profile of the Group is defined in the Risk Appetite Statement endorsed by the Board and gathers key risk metrics on a Group level, encompassing credit, market, liquidity, operational and reputational risk metrics. Overall the risk profile is a mirror of the Group's business model; that is to provide short-term trade finance solutions to exporters, with risk diversification across several geographies, as well as through the provisions of multiple trade finance products (structured trade finance, forfaiting, factoring etc.) to customers operating in several sectors. The risk dimension of the various portfolios is managed by risk professionals both locally but also in the markets where the Group has presence. The overall Risk Appetite Statement for the Group is presented by the GCRO for approval to the Board Risk Committee and the Board on an annual basis.

3.2 adequacy of risk management systems

The risk management framework and processes in place reflect the business strategy being followed by the Group. The Bank's Board 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 tasked to maintain control over the respective operations' key business decisions. Business reviews of each entity are presented to the Board Risk Committee by the CRO via reports and dashboards that monitor the entities performance in line with the set Risk Appetite. The Risk Appetite Statement defines the acceptable field of play of the Group and is integrated in business decision making and management of the various risks the Group faces given the nature of diversified trade finance products provided globally. The Risk Appetite Statement sets out acceptable risk levels and has been endorsed by the Board – being revisited and refined on a quarterly basis. Reporting of the risk levels vis a vis the set thresholds are reported on a continuous basis to Executive Management and it presented to the Board Risk Committee and Board in each meeting. Exposure and portfolio management takes place on a continuous basis, with formal updates to senior management. On a business and subsidiary level the process of risk approval is centralised locally, with all credit approvals obtained through the Head Office and with local entity risk managers reporting directly to the Head of Risk at Head Office. Moreover, Head Office has access to the entities' local loan book system. Usage of all approved limits is monitored centrally through a number of different systems and platforms.

3.3 risk management profile

As a general rule, the risk profile of the Group is presented, analysed and discussed at each Board Risk Committee meeting. As mentioned earlier the Risk Management function has a Group sub-function and risk approvals at Group level are centralised at Head Office. Deviations from the Risk Appetite Statement (within the risk tolerance set by the management body) are approved and/or ratified as appropriate.
The below table and commentary summarises the risk profile of the Group at two different reporting dates:

	2017 USD million	2016 USD million
Gross Portfolio (on-balance sheet)	1,561.2	1,679.7
Gross Portfolio (off-balance sheet)	355.9	194.5
Total Gross Portfolio	1,917.2	1,874.3
Impaired Portfolio (net of suspended interest and collateral)	54.4	76.5
Impaired Portfolio/Gross Portfolio	2.84%	4.1%
Loan Loss Reserves	35.9	47.3
Loan Loss Reserves/Impaired Portfolio	65.99%	61.8%

- 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.

During the year under review, following an extensive effort to recover and write-off a number of impaired assets, and the deconsolidation of Latam Factors portfolio, the impaired portfolio decreased to USD54.4 million (2016: USD76.5 million) representing 2.84% of the Group's gross portfolio (2016: 4.1%). As a result, as at end of year loan loss reserves decreased from USD47.3 million at the end of 2016 to USD36 million at the end of 2017. The overall impact was an improved loan loss reserve coverage closing at 66% at year-end (2016: 61.8%). During 2017 the Bank's Risk Management Framework and Risk Appetite Statement was further enhanced through a better oversight on the on-boarding and selection of new customers and exposures and thus improving capital return which is considered as a key contributor to a better loan book quality.

3.4 board and senior management

The management body of the Group is deemed to be the Board of Directors, which is appointed in accordance with the Bank's Articles of Association. At 31 December 2017, the Board of Directors consisted of:

	Number of Directorships held		
	FIMBank Group	Other Corporates	Charitable Organisations
John C. Grech (Chairman)	1	5	-
Masaud M. J. Hayat (Vice Chairman)	1	11	-
Majed Essa Ahmed Al-Ajeel	1	4	-
Osama Talat Al-Ghoussein	1	5	-
Eduardo Eguren Linsen	1	3	1
Mohamed Fekih Ahmed	1	7	-
Adrian Alejandro Gostuski	1	1	-
Rogers David LeBaron	1	-	-
Rabih Soukarieh	1	4	-
Hussain Abdul Aziz Lalani	1	5	-
Edmond Brincat	1	3	-

The list of directorships held by the Chairman of the Board of Directors has been approved by the MFSA. The directorships held by the rest of Directors in Non EU entities and the directorships held by Mr. Edmond Brincat (less than four directorships held in Maltese entities) are not subject to MFSA approval.

As disclosed in Principle 8 of the Statement of Compliance with the Principles of Good Governance (see page 14), in 2015 the Board had set up a Nomination and Remuneration Committee which was granted the power to lead the process for Board and Board committee appointments. This committee can amongst others, present recommendations to the Board regarding nomination to the Board's membership in accordance with approved policies, standards, and instructions on nomination regulations for the board of director's membership. Prior to making its recommendations for appointment, this committee evaluates the balance of knowledge, skills, diversity and experience of candidates for the Board to ensure that they have the requisite experience, personal abilities, integrity and that they adhere to sound professional practices. Furthermore, it prepares a description of the roles and capabilities for a particular appointment, and assesses the time commitment expected for the execution of duties related to the role. The knowledge, skills and expertise of the Board are disclosed in the Statement of Compliance with the Principles of Good Governance (see page 14). 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 2017 are disclosed in Principle 8 of the Statement of Compliance with the Principles of Good Governance.

Board Risk Committee

The Board Risk Committee ("BRC") has an oversight responsibility for all material risks in all business functions and subsidiaries of the Group. As a result, the BRC ensures that the material risks and cases which might affect the Group are duly identified. In addition, the BRC oversees the updating and monitoring of the Group's Risk Appetite Framework. The Committee's responsibilities also include, but are not limited to, the following matters:

a. Overseeing risk management and governance structures;
b. Monitoring Risk Appetite and Risk Tolerance limits for credit, market and product risk;
c. Reviewing updates to the Risk Appetite Statement;
d. Providing updates on limits as approved by the Board Credit Committee;
e. Reviewing and proposing recommendations to the Board on Funding Risk (Capital and Liquidity);
f. Reviewing and monitoring the Group's overall process for risk assessment, ranking and management/mitigation, as well as ensuring that the Board is fully informed and updated on all major potential risks;
g. Reviewing and monitoring the Group's Operational Risk Framework; and
h. Reviewing, assessing and determining Key Operational Risk indicators.

The Chairman of the BRC reports the outcome of all its meetings to the Board of Directors by means of a presentation during Board meetings. The report highlights the key emerging risks related to credit, market, operational and reputation and key changes to the Group's risk profile (including developments on new and existing NPAs). The Secretary (Head of Risk Management) prepares and maintains Minutes of all meetings of the Committee.

The BRC appoints, terminates and sets remuneration of the GCRO, who in turn reports on a day-to-day basis to the CEO.

The BRC shall meet at least four (4) times a year, with authority to convene additional meetings, as circumstances require. During 2017, the BRC met on four occasions. All members were present for all four meetings.

Board Credit Committee

The Board Credit Committee ("BCC") is the main body (subject to specified delegated authorities to management) with the powers and duties to review credit applications and approve credit limits and specific transactions up to the legal lending limit of the Bank, and within the guidelines specified in the Group's credit policy procedures. The BCC records the outcome of all its meetings by keeping record of the approved minutes of meetings held, which are available to BCC members and the Bank's internal auditors, and by issuing a circular – shortly after each meeting - to Management and to the key business origination officers, highlighting the main credit decisions taken by the BCC. The BCC shall meet as frequently as exigencies dictate, and meetings are normally expected to be convened every 2 weeks. During 2017, the BCC met on 21 occasions. For the composition, please refer to Principle 8 of the Statement of Compliance with the Principles of Good Governance.

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. Credit and market risk from equities not included in the trading book:
g. Liquidity risk;
h. Reputational risk and Conduct risk;
i. Strategic and business risk; and
j. Information Technology risk.

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

4.1 credit risk and concentration risk

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

4.1.1 minimum capital requirements under pillar 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 2017.

Type of exposure	Risk Weight Amount 2017 USD	Minimum Capital Requirement (8%) 2017 USD
Central governments or central banks	2,000,000	160,000
Public sector entities	6,915,326	553,226
Institutions	119,104,446	9,528,356
Corporates	416,537,798	33,323,024
Retail	3,966,093	317,287
Exposures in default	25,629,800	2,050,384
Items associated with particular high risk	48,415,075	3,873,206
Collective investments undertakings (CIU)	156,612,036	12,528,963
Equity	40,314	3,225
Other items	108,557,105	8,684,568
	887,777,993	71,022,239

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. The decrease in the Risk Weighted Amount from 2016 (USD 923,086,810) was a result of the Group's strategy to reduce its risk exposures and strengthen its capital ratio.

4.1.2 credit risk management strategy and processes

Strict credit assessment and control procedures are in place in order to monitor credit exposures. The Board Credit Committee is responsible for implementing the Group's credit policy within the risk parameters identified by the Board, for approving individual limits for banks and corporates within its delegated parameters of authority as set out in the Statement of Compliance with the Principles of Good Corporate Governance in page 14 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 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 Board 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 Board 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 2017, broken down in significant areas by the same exposure classes shown in the previous table is set out in note 4.2 to the Financial Statements.

Credit Risk Exposure by Sector

Note 4.2 to the Financial Statements also sets out the distribution of the Group's exposures as at 31 December 2017 by sector.

Credit Risk Exposures by Maturity

The residual maturity breakdown of the Group's exposures as at 31 December 2017, broken down by exposure classes is set out in Note 4.2 to the Financial Statements.

4.1.4 credit concentration risk

In addition to policies aimed at managing credit risk and concentrations within credit portfolios as set out in note 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 2017 USD	Minimum Capital Requirement (8%) 2017 USD
Type of exposure		
Institutions	219,633	17,571
Corporates	29,056	2,324
	248,689	19,895

4.2.2 counterparty credit risk management strategy and processes

Use of derivatives within the Group is limited to hedging balance-sheet positions, hedging capital investments, interest rate hedging on behalf of LFC and to a lesser extent to satisfy customer requests (for example, for foreign exchange hedging). The Group's Treasury Unit is responsible for the internal management of such instruments. In addition, LFC (via ISDA (International Swaps and Derivatives Association) agreements between the Bank and selected Protection Buyers) engages in Loan Credit Default Swaps ('LCDS') to enhance returns and provide additional unfunded assets to its forfaiting portfolio.

4.2.3 credit derivatives

As at December 2017, the amount of Loan Credit Default Swaps stood at USD47.5 million. All LCDSs entered between LFC (Protection Seller) and typically top-tier investment grade rated banks (Protection Buyer) were on an unfunded basis. Transactions are entered into primarily on the strength of the referenced entity under a deliverable obligation (restricted to loans to investment grade institutions that are approved in accordance to the Group's Credit Risk Policies). The credit derivative is structured as a contractual agreement pursuant to which the Protection Seller agrees with the Protection Buyer to take on risk of a default or non-performance of a specified entity (Reference Entity), with a specific loan as the only deliverable obligation. Following the occurrence of a default or non-performance, the Protection Seller is required to make a payment to the Protection Buyer (at a pre-determined price). In return for the protection offered. The Protection Buyer pays the Protection Seller a fixed premium at pre-determined intervals up to the termination of the LCDS.

4.3 operational risk

The Group defines Operational Risk as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. When controls fail to perform, there is potential of business disruption which can lead to financial losses. Operational risks can cause damage to reputation and have legal or regulatory implications, potentially also leading to financial loss.

4.3.1 management and mitigation of operational risk

The Group cannot expect to eliminate all operational risk but its main objective is to maintain such risk within acceptable levels and parameters. Although the prime responsibility of establishing detailed processes to identify, assess, monitor and report operational risks in accordance with the Operational Risk Management (ORM) policy, lies with the Business/Support Unit head functions and the appointed Operational Risk Champion in each department, an independent Operational Risk Management Unit (ORMU) within Risk Management Group and a senior management Operational Risk Committee (ORMC) exist to oversee and embed the operational risk culture within the Group. Each of the respective roles and responsibilities are covered under the Group ORM policy which was approved by the Board.

The Group maintains an automated operational risk management system that covers loss data reporting, risk identification and assessment through Risk and Control Self-Assessments (RCSAs), risk control and monitoring through key risk indicators (KRIs) and control testing, and reporting through dashboards and reporting functionalities. The ORMU assesses the identified reported operational risk exposure and recommends measures to manage and mitigate such risks. Any significant operational lapses are escalated and discussed in ORMC for review of corrective measures to be eventually considered.

As part of the Enterprise Risk Management Framework (ERM), the Group maintains a Business Continuity Management (BCM) Program which provides a plan to ensure an available comprehensive strategy that minimizes the risk and cost in case business as usual (BAU) gets disrupted and adversely impacts business processes, information technology services, communications & stakeholders. Critical systems and procedures are being tested, to ensure continued improvement.

4.3.2 minimum capital requirement: operational risk

Presently the Group uses the Basic Indicator Approach (BIA) as detailed in the CRR in order to calculate its capital charge. Under this approach, the capital requirement for operational risk is equal to 15% of the relevant indicator, being the average over the last three years of the sum of Operating Income before net impairment. At 31 December 2017, the Group took an operational risk capital charge of USD7,067,867 as disclosed below and note 4.6 to the Financial Statements.

	2017 USD
Gross income	
Financial year ending 31/12/2016	46,131,943
Financial year ending 31/12/2015	46,073,444
Financial year ending 31/12/2014	49,151,947
Average gross income	47,119,111
Capital requirement (15%)	7,067,867
Notional Risk Weight	88,348,334

4.4 market risk

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

4.4.1 management and mitigation of market risk

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

4.4.2 foreign exchange risk

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

Minimum Capital Requirement: Foreign Exchange Risk

When calculating its capital requirements, the Group also considers its Net Open Foreign Currency Position in terms of the CRR. Through this approach, each net currency position is analysed and a capital charge is taken on the net short or long currency exposure.

At 31 December 2017, the Group took a Foreign Exchange capital charge as follows:

	Long position USD equivalent	Short position USD equivalent
Foreign Currency		
Euro	-	5,671,928
Pound Sterling	-	642,033
Indian Rupee	1,126,745	-
Chilean Peso	394,687	-
Russian Ruble	20,034	-
United Arab Emirates dirham	680,123	-
Saudi Arabian Riyal	20,582	-
Swiss Franc	4,143	-
Kuwaiti Dinar	13,741	-
Other Foreign Currencies	46,615	1,271,593
Total position	2,306,670	7,585,554
Notional Risk Weight		7,585,554
8% Capital requirement		606,844

4.4.3 position risk

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 2017, the Group took a position risk capital charge as follows:

	Risk Weight Amount 2017 USD	Minimum Capital Required 2017 USD
Specific Risk		
Debt securities which would receive the following risk weight under the Standardised Approach for credit risk:		
20% or 50% risk weight with a residual term <= 6 months	1,006,112	80,489
20% or 50% risk weight with a residual term > 6 months and <= 24 months	2,008,142	160,651
100% risk weight	204,248,410	16,339,873
General Risk		
Zone One - Debt securities with a residual term <= 12 months	12,635,916	1,010,873
Zone Two - Debt securities with a residual term > 1 year and <= 4 years	3,464,964	277,197
Zone Three - Debt securities with a residual term > 4 years	1,789,511	143,161
	225,153,055	18,012,244

4.4.4 settlement risk

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

4.4.5 other price risk

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

As set out in note 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 on positions not included in the trading book

Interest rate risk on positions not included in the trading book (i.e. interest rate risk in the banking book or 'IRRBB') refers to the risk to earnings or Group's financial instruments to movements in interest rates. The risk impacts the earnings and equity of the Group as a result of changes in the economic value of its assets, liabilities and off- balance sheet instruments. The Group's operations are subject to interest rate fluctuations to the extent that interest-earning assets and interest-bearing liabilities mature or re-price at different times or at different amounts.

Accordingly, interest rate risk in the non-trading book is managed on a monthly basis, through the use of maturity/re-pricing schedules that distribute interest-bearing assets and liabilities into different time bands. Such computations are done separately for USD, EUR and GBP given that transactions held in such currencies are material when compared to the rest of the Banking Book portfolio. The determination of each instrument into the appropriate time period is dependent on the contractual maturity (if fixed rate) or time remaining to their next re-pricing date (if floating rate). This method also referred to as "gap analysis", will eventually portray the Group's sensitivity of earnings. On the other hand the modified duration method is used to measure the sensitivity of equity valuation to changes in interest rates.

A positive, or asset-sensitive, gap arises when assets (both on and off- balance sheet) exceed liabilities in the corresponding time band, and this implies that the Group's net interest income (and therefore capital) could decline as a result of a decrease in the level of interest. To the contrary, a negative, or liability-sensitive, gap implies that net interest income could decrease as a result of an increase in interest rates. Note 4.4 to the Financial Statements details the effect to the Group's assets and liabilities as at 31 December 2017 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 credit and market risk from equities not included in the trading book

The only Group's exposure to equities is in its non-trading book and such equities are in unlisted entities. The accounting and valuation methodologies differ depending on the percentage holding and marketability of the instruments. During 2017, 180,000 unit investments in a collective investment scheme were redeemed, resulting in unrealised gains of USD45,720. There were no further sales nor liquidations in the year ending December 2017.

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.

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 2017 USD	Fair Value 2017 USD	Risk Weight Exposure Amount 2017 USD	Minimum Capital Required 2017 USD
Credit Risk	40,314	40,314	40,314	3,225

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 interests in equity-accounted investees and are accounted for using the equity method and are recognised at cost less impairment allowances.

The Consolidated Financial Statements include the Group's share of the income and expenses and equity movement of equity-accounted investees, after adjustments to align the accounting policies with those of the Group. When the Group's share of losses exceeds its interest in an equity-accounted investee, the carrying amount of that interest is reduced to nil and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investee. This accounting treatment is also applied on those investments where the Group has joint control (50%) over the strategic, financial and operational decisions of the investee.

All interests in equity-accounted investees 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 2017 USD	Fair Value 2017 USD	Risk Weight Exposure Amount 2017 USD	Minimum Capital Required 2017 USD
Market Risk				
Specific Risk	5,561,181	5,561,181	5,561,181	444,894
General Risk	5,561,181	5,561,181	5,561,181	444,894
			11,122,362	889,788

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 the funds' net asset values, with fair value movement being recognised, net of deferred tax, in the fair value reserve.

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 2017 USD	Fair Value 2017 USD	Risk Weight Exposure Amount 2017 USD	Minimum Capital Required 2017 USD
Credit Risk	156,612,036	156,612,036	156,612,036	12,528,963

4.7 liquidity risk

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

4.7.1 management and mitigation of liquidity risk

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

In additional to the number of policies, procedures and internal controls which the Group has in place to manage its liquidity and funding risks, in line with Article 86 of Directive 2013/36/EU, prepares an 'Internal Liquidity Adequacy Assessment Process' ("ILAAP") report on an annual basis. The ILAAP forms part of the Group's management processes. The ILAAP is designed to demonstrate the Group's robust funding and liquidity risk management strategies whilst also to ensure that the Group has adequate liquidity to meet its liabilities both in normal and stressed conditions.

Liquidity Risk Management is described in detail in note 4.3 to the financial statements.

The following Group figures represent the values and figures reported for the most recent four calendar quarters irrespective of currency denomination. The liquidity buffer is the total high-quality liquid assets after the application of haircuts and any applicable cap, whilst the total net cash outflows is calculated after the application of the cap on inflows as prescribed in the "Commission Delegated Regulation (EU) 2015/61 of 10 October 2014 to supplement Regulation (EU) No 575/2013 of the European Parliament and the Council with regard to liquidity coverage requirement for Credit Institutions".

Quarter ending on	Total Adjusted Value 31 March 2017 USD million	Total Adjusted Value 30 June 2017 USD million	Total Adjusted Value 30 September 2017 USD million	Total Adjusted Value 31 December 2017 USD million
Liquidity Buffer	328.3	372.4	167.8	272.3
Total Net Cash Outflows	266.5	234.0	135.0	257.8
Liquidity Coverage Ratio (%)	123%	159%	124%	106%

The liquidity buffer during Q2.2017 rose due to the significant liquidity position maintained by the Bank. This was reduced in subsequent quarters, in line with the balance sheet and with a view to optimizing returns. The movements in the ratio are in line with the bank's strategy and desired asset-liability management profile.

4.7.2 liquidity concentration risk

Note 4.3 to the Financial Statements and section 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, involve the Bank in costly litigation, or lead to revenue reductions. Reputational risk could be particularly damaging for the Group since the nature of its business requires maintaining the confidence of depositors, creditors, regulatory authorities and of the general marketplace.

Reputational risk arises from operational failures, failure to comply with relevant laws and regulations - including but not limited to Anti–Money Laundering ("AML") and Anti-Terrorism Financing ("ATF") and other banking regulations - or from other sources, including acts or omissions of misconduct on the part of its Directors and/or officers and/or representatives overseas, even in matters which are unrelated to their mandate or position within the Group. The impact to the Group for non-compliance with the applicable regulations can be substantial and can include formal enforcement actions, monetary penalties, informal enforcement actions, and enhanced supervisory monitoring.

To this purpose, detailed AML, 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. These are constantly maintained to reflect the latest changes in legislations and related guidance. Recently, these were updated to comply with the fourth AML directive, directive although the Bank will be undertaking further updates following the issuance of the local Implementing Procedures. The Group uses qualitative research tools to assess the adequacy of prospective clients and transactions and implemented Anti-Money Laundering software for the screening of incoming and outgoing messages and payments as well as rating of corporate and business relationships. Through such rigid procedures, the Group would be able to identify transactions and clients which pose a higher risk compared to others. These include Politically Exposed Persons ("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 II framework. Capital was allocated against reputational risk at 31 December 2017.

4.9 strategic and business risk

Strategic risk is the risk associated with the Group's future business plans and strategies. Improper strategic choices or the actual implementation of strategic decisions, as well as lack of responsiveness to changes in the economic environment, can have a serious and significant impact on prospective profit and capital results. As the Group is mainly engaged in trade finance business, this risk category is intimately connected with the overall performance of international trade in the global economy, and in particular to the level of cross-border trade between countries and in markets that are typically in the developing stages of their economic development and political stability.

Closely linked with the above, Business risk is the risk associated with the particular business and operating circumstances of the Group, and is more within the control of decisions taken by Management but which nevertheless can have a significant impact on operating and business results.

The Group adopts various ways to mitigate strategic and business risks. Primarily, the Group has in place a "corporate governance" structure composed of both executive and non-executive officials as detailed in the Statement of Compliance with the Principles of Good Corporate Governance. Based on their remit and charters, the various corporate committees provide advice to the Board in taking ultimate strategic and business decisions. The size of the Group enables its corporate structures to have a more "on the ground" approach and positions and decisions can be formulated and taken in a sufficient timely manner. The Board and Committees are assisted by a team of Executive and Senior Management, who have focused on-the ground expertise in their various areas of responsibilities. Executive and Senior Management hold periodical meetings in order to discuss major business decisions, business and economic trends, as well as implement decisions taken by the Board or any of its Committees. Through these meetings, the collective expertise of the management team is brought together and is a determinant factor in the success of identifying and exploiting business opportunities.

In addition to these mitigants, the Group assesses the need for capital allocation against strategic and business risk under Pillar II framework. Capital was allocated against strategic and business risk at 31 December 2017.

4.10 information technology risk

Information Technology ("IT") risk arises from system downtime, security breaches, inadequate IT processes, usage, policy, governance or strategy. Such risks may have an adverse impact on the integrity, confidentiality and availability of data and information.

Although IT risk can be considered part of the Group's Enterprise Risk Management Framework, its importance and the potential materiality of the risk, merits a separate focus and treatment.

The Group IT Steering Committee aims to ensure that IT and Information/Cyber Security strategic decisions are aligned with the overall Group's business strategy, and to oversee IT governance and controls including associated risk management.

The Group adopts various measures to manage IT risk and strives to keep up to date with the changes and developments in the IT environment. The Group is also constantly on the look-out for new risks and vulnerabilities with the aim to safe-guard the business and Group against these risks.

The Group has well established policies and procedures aimed at regulating the use of technology assets which, amongst others, safeguards against information security breaches. The Group also operates a contingency site for systems that are classified as mission critical. The Group is committed to ongoing development and testing of its Business Continuity Plan to ensure awareness, relevance and effectiveness.

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:

- Fitch Ratings(*); or
- Moody's;

(*) Fitch Ratings is used as the primary reference agency and if a particular exposure is not rated by Fitch Ratings, reference would subsequently be made to Moody's.

The Group has ceased applying the ratings of 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:

- Central governments or central banks
- Public sector entities
- Institutions
- Corporates

At 31 December 2017, the Group classified it's on- and off- balance sheet exposures subject to credit risk under the following "exposure classes" as defined in the CRR. The risk weights noted in the table below encompass those assigned to the relevant credit quality step in Article 113 to Article 134 in Part Three, Title II, Chapter 2 of the CRR.

	Risk Weightings %	Exposure Value USD	Credit Risk Mitigation USD	Exposure Value after Credit Risk Mitigation USD
Exposure class				
Central governments or central banks	0%	234,829,858	-	234,829,858
	20%	10,000,000	-	10,000,000
	50%	-	-	-
	100%	-	-	-
		244,829,858	-	244,829,858
Public sector entities	20%	-	-	-
	100%	6,915,326	-	6,915,326
		6,915,326	-	6,915,326
Multilateral Development Banks	0%	39,904,000	-	39,904,000
	100%	-	-	-
		39,904,000	-	39,904,000
Institutions	0%	-	-	-
	20%	226,203,830	(119,933)	226,083,897
	50%	112,620,592	(2,229,269)	110,391,323
	100%	53,721,429	-	53,721,429
	150%	9,944,000		9,944,000
		402,489,851	(2,349,202)	400,140,650
Corporates	0%	-	-	-
	20%	1,831,403	2,349,202	4,180,605
	50%	-	-	-
	100%	666,767,735	-	666,767,735
	150%	9,821,428	-	9,821,428
		678,420,566	2,349,202	680,769,768
Retail	0%	-		-
	75%	5,834,413	-	5,834,413
		5,834,413	-	5,834,413
Secured by mortgages on immovable property	35%	-	-	-
	50%	-	-	-
		-	-	-
Exposures in default	0%	-	-	-
	100%	10,597,297	-	10,597,297
	150%	10,025,990	-	10,025,990
		20,623,287	-	20,623,287
Items associated with particular high risk	150%	65,809,318	-	65,809,318
		65,809,318	-	65,809,318
Claims in the form of CIU	100%	156,612,036	-	156,612,036
		156,612,036	-	156,612,036
Equity Exposures	100%	40,314	-	40,314
		40,314	-	40,314
Other items	0%	9,500,578	-	9,500,578
	100%	69,730,122	-	69,730,122
	250%	15,530,793	-	15,530,793
		94,761,493	-	94,761,493

Significant changes in the portfolio were mainly as a result of the Group's increased focus on the monitoring and management of its risk weighted assets. The total exposure value subject to credit risk was USD 1,716,239,372 (2016: USD 1,537,771,477). The major factors that contributed to this increase related to growths in (i) the balance held with the central bank, (ii) fixed-term loans, (iii) credit default swaps and (iv) undrawn funded credit facilities. Additional movements that resulted in a change in the reported exposure value related to (i) a smaller portfolio of investments available for sale, (ii) a reduction of the trading book exposures and (iii) the maturity of the financial assets designated at fair value through profit or loss.

6. credit risk mitigation

The Group also makes use of different types of collateral, all aimed at mitigating credit risk within on- and off- balance sheet credit facilities.

Main Types of Collateral and Concentrations in Credit Risk Mitigations

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 2017. 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).

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.

The table below shows the total exposure value subject to credit risk that is covered by eligible collateral for each exposure class as defined in CRR:

	Exposure Value covered by Cash 2017 USD	Exposure Value covered by Guarantees 2017 USD	Exposure Value covered by Residential Immovable Property 2017 USD	Exposure Value covered by Commercial Immovable Property 2017 USD	Exposure Value for Uncovered Assets 2017 USD
Central governments or central banks	-	-	-	-	244,829,858
Public sector entities	-	-	-	-	6,915,326
Multilateral Development Banks	-	-	-	-	39,904,000
Institutions	23,071,191	2,349,202	-	-	377,069,459
Corporate	112,995,496	-	-	-	565,425,070
Retail	219,473	-	-	-	5,614,941
Items associated with particular high risk	-	-	-	-	65,809,318
Exposures in default	6,483	-	-	-	20,616,804
Claims in the form of CIU	-	-	-	-	156,612,036
Equity Exposures	-	-	-	-	40,314
Other items	-	-	-	-	94,761,493
	136,292,642	2,349,202	-	-	1,577,598,619

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. 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, the improvement during 2016 continued during the year 2017 as the Bank continued its efforts to recover impaired assets. By end of December 2017, the NPL ratio returned to more comfortable levels below 6% as expected, however in view that the average is still above the regulatory threshold a NPL reduction plan will be presented to the Regulator.

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.

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 2017:

a. credit risk exposures by geography

	Europe USD	Sub-Saharan Africa USD	Middle East and North Africa (MENA) USD	Commonwealth of Independent States (CIS) USD	Others USD
Exposure Class					
Central governments or central banks	238,832,736	-	5,997,122	-	-
Public sector entities	-	-	4,294,909	-	2,620,416
Multilateral Development Banks	39,904,000	-	-	-	-
Institutions	139,194,662	70,956,006	88,101,043	13,035,891	91,202,251
Corporate	255,241,844	12,647,517	251,101,752	-	159,429,454
Retail	5,726,462	-	31,366	-	76,586
Items associated with particular high risk	65,809,318	-	-	-	-
Exposures in default	6,833,413	7,832,421	4,035,631	-	1,921,822
Claims in the form of CIU	156,612,036	-	-	-	-
Equity Exposures	40,314	-	-	-	-
Other Items	-	-	-	-	94,761,493

b. credit risk exposures by industry

	Industrial Raw Materials USD	Ship and Transportation USD	Wholesale/ Retail USD	Financial Intermediation USD	Others USD
Exposure Class					
Central governments or central banks	-	-	-	218,128,778	26,701,080
Public sector entities	6,915,326	-	-	-	-
Multilateral Development Banks	-	-	-	39,904,000	-
Institutions	-	-	-	402,489,851	-
Corporate	176,816,754	19,608,359	328,284,120	126,129,199	27,582,134
Retail	785,151	-	2,475,542	-	2,573,720
Items associated with particular high risk	51,143,680	-	-	2,197,563	12,468,075
Exposures in default	5,441,804	1,512,564	3,209,941	6,894,217	3,564,762
Claims in the form of CIU	-	-	-	156,612,036	-
Equity Exposures	-	-	-	-	40,314
Other Items	-	-	-	-	94,761,493

c. credit risk exposures by residual maturity

	Less than 1 month USD	Between 1 & 3 months USD	Between 3 & 6 months USD	Between 6 months & 1 year USD	Between 1 & 2 years USD	More than 2 years USD	No residual maturity USD
Exposure Class							
Central governments or central banks	218,128,778	-	-	-	-	26,701,080	-
Public sector entities	2,620,416	-	-	4,294,909	-	-	-
Multilateral Development Banks	-	-	-	-	39,904,000	-	-
Institutions	210,257,163	40,172,311	69,386,830	46,194,162	2,431,893	34,047,493	-
Corporate	202,228,741	159,932,961	133,419,962	107,718,103	4,646,598	70,474,201	-
Retail	1,484,358	897,366	41,735	2,469,837	133,472	807,646	-
Items associated with particular high risk	868,554	3,050,505	3,565,723	7,580,632	27,541,074	23,202,830	-
Exposures in default	19,705,353	917,935	-	-	-	-	-
Claims in the form of CIU	-	-	-	-	-	-	156,612,036
Equity Exposures	-	-	-	-	-	-	40,314
Other Items	-	-	-	-	-	-	94,761,493

The following tables provide details of the Group's impaired exposures, past due exposures and credit risk adjustments:

d. breakdown by industry

	Industrial Raw Materials USD	Ship and Transportation USD	Wholesale/ Retail USD	Financial Intermediation USD	Other Services USD
Individually impaired (net of specific credit risk adjustment)	5,441,804	1,512,564	3,209,941	6,894,217	3,564,762
Past due but not impaired	5,802,236	509,687	11,959,800	11,404,736	1,087,160
Specific credit risk adjustment	2,964,817	1,036,439	12,117,105	8,174,906	785,932
General credit risk adjustment	1,051,729	20,379	823,301	1,084,108	590,440

e. breakdown by geography

	Europe USD	Sub-Saharan Africa USD	Middle East and North Africa (MENA) USD	Commonwealth of Independent States (CIS) USD	Others USD
Individually impaired (net of specific credit risk adjustment)	6,833,413	7,832,421	4,035,631	-	1,921,822
Past due but not impaired	11,818,491	879,751	9,738,696	-	8,326,683
Specific credit risk adjustment	9,536,700	1,377,770	11,785,746	-	2,378,982
General credit risk adjustment	1,573,221	148,662	1,214,056	251,913	382,106

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

	Specific credit risk adjustment USD	General credit risk adjustment USD
Opening Balance	29,664,334	4,632,424
Amounts taken against credit risk adjustments during the year	4,684,836	318,747
Reversals of credit risk adjustments during the year	(4,823,853)	(948,235)
Write-offs	(3,805,520)	-
Foreign Exchange differences	(640,598)	(432,978)
Closing Balance	25,079,198	3,569,957

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 USD	Fair value of encumbered assets USD	Carrying amount of unencumbered assets USD	Fair value of unencumbered assets USD
Equity instruments	141,619,464	141,619,464	15,032,886	15,032,886
Debt securities	127,314,976	127,314,976	230,744,633	230,744,633
Other assets	19,850,902		1,108,472,354	
Assets	288,785,343		1,354,249,872	

	Fair value of encumbered collateral received USD	Fair value of collateral received available for encumbrance USD
Equity instruments	-	-
Debt securities	-	-
Other assets	-	210,458,033
Collateral received	-	210,458,033
Own debt securities issued other than own covered bonds or ABSs	-	-

	Matching liabilities USD	Assets and collateral received USD
Carrying amount of selected financial liabilities	34,435,669	53,313,123

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.

The Equity Instruments, relating to the investments in the EOS SICAV plc Emerging Market Trade Finance Fund and around 67% 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.

Encumbered assets decreased by around USD 52 million from December 2016. The decrease is mainly attributable to the fact that a lower portion of trading assets (reported under Debt Securities) were pledged under borrowing arrangements (around USD 34 million less than 2016). The other significant movement was registered under Equity Instruments and is due to the redemption of the 180,000 units in the related instrument.

9. own funds and capital requirements

A 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 2017.

9.1 full reconciliation of own funds items to audited financial statements in accordance with article 437(1)(a) of the CRR

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

	N*	TA**	Balance Sheet in accordance with IFRS scope of consolidation 2017 USD	Effect of deconsolidation for regulatory consolidation 2017 USD	Balance Sheet in accordance with regulatory scope of consolidation 2017 USD
Equity					
Share capital	42		157,265,562	-	157,265,562
Share premium	42		173,113	-	173,113
Retained earnings/(accumulated losses)	42		6,901,061	-	6,901,061
Reserve for general banking risks	42		608,284	-	608,284
Currency translation reserve	42		(2,747,913)	-	(2,747,913)
Fair value reserve	42		9,533,453	-	9,533,453
Other reserve	42		2,870,270	-	2,870,270
Other Reserves			10,264,095	-	10,264,096
Other transitional adjustments to CET1: Non-controlling interests deductible from own funds		TA1	(341,894)	-	(341,894)
Non-controlling interests not deductible from own funds			(1,367,574)	(1,367,574)	-
Non-controlling interests	43		(1,709,468)	(1,367,574)	(341,894)
Assets					
Deposits placed directly in the Depositor Compensation Scheme's account with the Central Bank of Malta reported under other assets	35		7,026,546	-	7,026,546
Market value of assets held as payment commitments in favour of the Depositor Compensation Scheme			7,026,546	-	7,026,546
Collective impairment	24/25		(3,569,958)	-	(3,569,958)
Goodwill accounted for as intangible asset			9,246,479	-	9,246,479
Other intangible assets			11,888,729	9,150,260	2,738,469
Intangible assets and goodwill	33		21,135,207	9,150,260	11,984,948
Deferred tax liabilities associated to other intangible assets			284,408	-	284,408
Deferred tax asset that rely on future profitability and arise from temporary differences and deductible from own funds			26,089,975	-	26,089,975
Other transitional adjustments to CET1: deferred tax asset that rely on future profitability and arise from temporary differences and deductible from own funds		TA2	(9,458,057)	-	(9,458,057)
Deferred tax asset that rely on future profitability and arise from temporary differences and not deductible from own funds			24,106,920	24,106,920	-
Deferred taxation	34		41,023,245	24,106,920	16,916,326
Liabilities					
Subordinated liabilities	40		50,000,000	3,369,863	46,630,137

* Cross-reference to Notes in Financial Statements
** Cross-reference to Statement of Transitional Adjustments

9.1.2 statement of transitional adjustments

	Note	2017 USD
Non-controlling interests deductible from own funds	TA 1	(341,894)
Deferred tax asset that relies on future profitability and arises from temporary differences and is deductible from own funds	TA 2	9,458,057
Transitional adjustments to CET 1		9,116,164

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

	Balance Sheet in accordance with regulatory scope of consolidation 2017 USD		Statement of transitional adjustments 2017 USD		Statement of transitional adjustments 2017 USD
Tier 1					
Paid up capital instruments	157,265,562	Share capital	157,265,562		
Share premium	173,113	Share premium	173,113		
Retained earnings/(accumulated losses)	6,901,061	Retained earnings/(accumulated losses)	6,901,061		
Other reserves	10,264,096	Other Reserves	10,264,096		
Deductions					
Goodwill accounted for as intangible asset	(9,246,479)	Goodwill accounted for as intangible asset	(9,246,479)		
Other intangible assets	(2,738,469)	Other intangible assets	(2,738,469)		
Deferred tax liabilities associated to other intangible assets	(284,408)	Deferred tax liabilities associated to other intangible assets	(284,408)		
Deferred tax asset that rely on future profitability and arise from temporary differences and deductible from own funds	(26,089,975)	Deferred tax asset that rely on future profitability and arise from temporary differences and deductible from own funds	(26,089,975)		
Market value of assets held as payment commitments in favour of the Depositor Compensation Scheme	(7,026,546)	Market value of assets held as payment commitments in favour of the Depositor Compensation Scheme	(7,026,546)		
Other transitional adjustments	9,116,164			Transitional adjustment to CET 1	9,116,164
Common Equity Tier 1	138,334,118				
Total Tier 1	138,334,118				
Tier 2					
General credit risk adjustments	3,569,958	Collective impairment	3,569,958		
Subordinated liabilities	46,630,137	Subordinated liabilities	46,630,137		
Total Tier 2	50,200,095				
Total own funds	188,534,212				

9.2 description of the main features of common equity tier1 and tier 2 capital instruments in accordance with article 437(1)(b) of the CRR

	Paid up capital instruments	Subordinated liabilities
Issuer	FIMBank plc	Burgan Bank K.P.S.C.
ISIN number	MT0000180100	N/A
Governing law of the instrument	Maltese Law	Maltese Law
Regulatory treatment		
- transitional CRR rules	Common equity Tier 1	Tier 2
- post transitional CRR rules	Common equity Tier 1	Tier 2
- eligibility for inclusion in own funds	Bank solo and Group consolidated	Bank solo and Group consolidated
- Instrument type	CET1 as published in the EBA list (art. 26(3).	Tier 2 as per Art. 62(a), 63 and 64 of Regulation (EU) No 575/2013
- amount recognised in regulatory capital	314,531,123 shares	USD46,630,137
- nominal value of each share	USD0.50	USD50,000,000
- issue price	N/A	N/A
- redemption price	N/A	N/A
- accounting classification	Shareholders' equity	Liability – amortised cost
- original date of issuance	8 November 1994	28 August 2015
- perpetual or dated	N/A	Dated
- original maturity date	N/A	29 August 2021
- issuer call subject to prior supervisory approval	N/A	N/A
Dividends		
- fixed or floating dividend	Floating	Floating
- coupon rate and any related index	N/A	3% + LIBOR6M
- existence of a dividend stopper	No	No
- fully discretionary, partially discretionary or mandatory (in terms of timing)	Fully discretionary	Mandatory
- fully discretionary, partially discretionary or mandatory (in terms of amount)	Fully discretionary	Mandatory
- existence of step-up or incentive to redeem	N/A	N/A
- non-cumulative or cumulative	Non-cumulative	Non-cumulative
- convertible or non-convertible	Non-convertible	Non-convertible
- write-down features	N/A	N/A
- position in subordination hierarchy in liquidation	Subordinated to senior creditors and depositors	Subordinated to senior creditors and depositors
- non-compliant transitional features	No	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) of the CRR

	Amount at Disclosure Date 2017 USD	Amount subject to pre-CRR treatment or prescribed residual amount of CRR 2017 USD
Common Equity Tier 1 (CET1) capital: Instruments and reserves		
Capital Instruments and the related share premium accounts: Ordinary Share Capital	157,438,674	
Retained earnings	6,901,061	
Accumulated other comprehensive income (and other reserves)	9,655,811	
Funds for general banking risk	608,284	
Minority Interest (amount allowed in consolidated CET1)	(341,894)	(341,894)
Common Equity Tier 1 (CET1) capital before regulatory adjustments	174,261,937	(341,894)
Common Equity Tier 1 (CET1) capital: regulatory adjustments		
Intangible assets (net of related tax liability)	(12,269,356)	-
Deferred tax asset arising from temporary differences (amount above 10% threshold, net of related tax liability where the conditions in Article 38(3) of the CRR are met)	(16,631,918)	9,458,057
Market value of assets pledged in favour of the Depositor Compensation Scheme	(7,026,546)	-
Total regulatory adjustments to Common equity Tier 1 (CET1)	(35,927,819)	9,458,057
Common Equity Tier 1 (CET1) capital	138,334,118	9,116,164
Tier 1 capital	138,334,118	9,116,164
Tier 2 capital: Instruments and provisions		
Capital Instruments and the related share premium accounts: Subordinated Liabilities	46,630,137	-
Credit risk adjustments	3,569,958	-
Tier 2 capital	50,200,095	-
Total capital	188,534,212	9,116,164
Total Risk Weighted Assets	1,220,235,988	
Capital ratios and buffers (as a percentage of risk exposure amount)		
Common Equity Tier 1 (CET1)	11.34%	
Tier 1	11.34%	
Total capital	15.45%	
Institution specific buffer requirement		
of which: capital conservation buffer requirement	1.25%	
of which: countercyclical buffer requirement	0%	
Capital ratios and buffers		
Direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities below 10% threshold	5,561,181	
Deferred tax asset arising from temporary differences (below 10% threshold and net of related tax liability)	15,530,793	
Applicable caps on the inclusion of provisions in Tier 2		
Credit risk adjustments included in T2 in respect of exposures subject to standardized approach	3,569,958	
Cap on inclusion of credit risk adjustments in T2 under standardized approach	3,569,958	

The Group is required to maintain additional capital buffers, specifically the Capital Conservation Buffer and the Countercyclical Capital Buffer. As at 31 December 2017, the Capital Conservation Buffer stood at 1.25%, 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. The overall capital requirements have to be calculated and compared with the own funds described above. The overall capital requirements are expressed in terms of Risk Weighted Assets ("RWA") whereby capital requirements need to be 8% of RWA. The Group's minimum capital requirement under Pillar 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 capital requirement under Pillar 1:

	Risk Weighted Assets 2017 USD	Capital Required 2017 USD
Capital Requirements (Pillar 1)		
Credit Risk (section 4.1 above)	887,777,993	71,022,239
Counterparty Risk (section 4.2 above)	248,689	19,895
Operational Risk (section 4.3 above)	88,348,334	7,067,867
Market Risk - Position Risk in Traded debt instruments (section 4.4 above)	225,153,055	18,012,244
Market Risk - Equity Investments between 10% and 50% (section 4.6 above)	11,122,363	889,789
Market Risk – Foreign Exchange Risk (section 4.4 above)	7,585,554	606,844
Total Capital Requirements Pillar 1	1,220,235,988	97,618,878

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.

European banks are currently following a monitoring period to gather the data relevant to the calculation of the leverage ratio. Presently, 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.

	Applicable Amount 2017 USD
Summary reconciliation of accounting assets and leverage ratio exposures	
Total assets as per published financial statements	1,643,401,458
Adjustments for derivative financial instruments	334,862
Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	110,360,555
Other adjustments	(67,326,288)
Leverage ratio total exposure measure	1,686,770,587

	CRR leverage ratio exposures 2017 USD
Leverage ratio common disclosure	
On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	1,642,679,207
Asset amounts deducted in determining Tier 1 capital	(67,326,288)
Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets)	1,575,352,919
Replacement cost associated with all derivatives transactions	1,057,113
Total derivatives exposures	1,057,113
Off-balance sheet exposures at gross notional amount	355,079,700
Adjustments for conversion to credit equivalent amounts	(244,719,145)
Other off-balance sheet exposures	110,360,555
Tier 1 capital	129,217,954
Leverage ratio total exposure measure	1,686,770,587
Leverage ratio	7.7%
Choice on transitional arrangements for the definition of the capital measure	Fully phased in

	CRR leverage ratio exposures 2017 USD
Split-up of on balance sheet exposures (excluding derivatives, SFTs and exempted exposures)	
Total on-balance sheet exposures (excluding derivatives, SFTs and exempted exposures), of which:	1,575,352,922
Trading book exposures	252,509,143
Banking book exposures, of which:	1,322,843,779
Exposures treated as sovereigns	244,829,858
Exposures to regional governments, multilateral development banks, international organisations and public sector entities not treated as sovereigns	46,819,326
Institutions	253,997,562
Retail exposures	5,301,568
Corporate	505,943,884
Exposures in default	20,620,351
Other exposures (e.g. equity, securitisations, and other non-credit obligation assets)	245,331,230

10.1 description of the processes used to manage the risk of excessive leverage

Leverage risk is managed through regular monitoring and reporting of the leverage ratio, which forms part of the risk appetite framework. FIMBank has set a prudent threshold for the leverage ratio at 5% (at group level). The leverage ratio for FIMBank has never breached the required minimum level of 3%, as prescribed by European regulations. The Group's strategy is based on profit improvement and selective asset growth which will further improve the leverage ratio. Changes in regulation relating to leverage ratio are monitored and their potential impact is assessed.

10.2 description of the factors that had an impact on the leverage ratio during the period to which the disclosed ratio refers

The leverage ratio amounted to 7.7% as per December 2017 (6.4% as per December 2016). This is more than 100% in excess of the required prudential level. The change in leverage was mainly due to a reduction in the balance sheet over the previous year.

11. remuneration policy

The Nomination and Remuneration Committee (Committee) is charged with overseeing the development and implementation of the Group's Remuneration Policy. As at 31 December 2107, the composition of the Committee is defined in the Remuneration Report.

The Remuneration Policy is the responsibility of the Board of Directors, which is delegated to the Committee. It ensures that the remuneration is in line with the Group's long-term strategy, performance, risk appetite and values. The policy fosters a prudent methodology to risk taking. 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 Committee seeks advice when it considers it necessary. In 2017, the Committee did not engage any external advisor.

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	Other
Number of identified staff	11	6	18	5	5

	Supervisory Function USD	Management Function USD	Corporate Functions USD	Independent Control Functions USD	Other USD
Total fixed remuneration	375,593	2,595,712	2,363,953	579,854	1,826,088
Total variable remuneration	-	302,832	118,890	40,378	324,011
Total remuneration	375,593	2,898,544	2,482,843	620,231	2,150,099

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. The Remuneration Policy stipulates that before the deferred part of the variable remuneration is paid out, the Chief Risk Officer reassesses performance to ensure that this variable remuneration reflects the risks and errors that might have arisen or materialised since the component was awarded. This is carried out as part of Group's Performance Management Process. Furthermore, the Remuneration policy stipulates that in cases where the Group incurs financial losses, payment of any deferred bonuses will be decided by the Committee. This approach is carried out in the interest of strengthening the capital base. In cases of resignations and where deferred bonus payments are still due, such payments shall be effected as and when they become due. Moreover, in case of termination due to failure or misconduct, any deferred bonus(es) will be subject to malus and paid bonus(es) will be subject to clawback up to a maximum of five years as per the terms defined in the contract of employment.

The 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 Committee.

In 2017, there was a payment of USD101,181.95 under the Voluntary Early Retirement Scheme (VERIS). 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 EUR 100,000. In 2017, the ratio of variable remuneration to fixed remuneration for the identified staff for the whole group stood at 8.28%.

No individual was remunerated more than Euro 1 million. 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 E. Al-Ajeel
Eduardo Eguren Linsen
Osama Talat Al-Ghoussein
Adrian Alejandro Gostuski
Rogers LeBaron
Mohamed Fekih Ahmed
Rabih Soukarieh
Hussain Lalani
Edmond Brincat

company secretary

Andrea Batelli

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