FCM Bank Limited

C 50343

Annual Report

2011

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FCM Bank Limited

Directors, officer and other information

Directors:	Timothy Babich (Chairman) Michael Warrington (Chief Executive Officer) James Dunbar-Cousin John Soler
Secretary:	Stephanie Sciberras
Registered office:	171, Old Bakery Street, Valletta VLT 1455, Malta.
Country of incorporation:	Malta
Company registration number:	C 50343
Auditor:	Deloitte Audit Limited Deloitte Place, Mriehel Bypass, Mriehel BKR 3000, Malta.

FCM Bank Limited

Directors' report

For the period ended 31 December 2011

The directors have pleasure in submitting their first annual report, together with the audited financial statements of FCM Bank Limited ("the Bank") for the period ended 31 December 2011. The Bank was incorporated on 30 July 2010. The financial statements therefore cover the seventeen month period to 31 December 2011.

Principal activities

The Bank is licensed as a credit institution under the Banking Act, Cap.371.

Performance review

During the period ended 31 December 2011, the Bank recorded a loss before tax of EUR 184,142. After accounting for a deferred tax credit, the loss after tax amounted to EUR 126,132. The Bank became operational in August 2011 when it hired the first employee.

The initial phase revolved around recruiting the management team and identifying suitable premises out of which to carry out its activities.

On top of this, development of appropriate policies and procedures was initiated as well as selecting a core banking platform to support the Bank's business plan.

The Bank issued share capital amounting to EUR 7,000,000 which after deducting the loss for the period of EUR 126,132, left shareholders' funds at the end of the reporting period of EUR 6,873,868.

Future business developments

During 2012, the Bank is expected to grow its operations through acquiring loans and covered bonds and attracting local deposits. The business model of the Bank going forward is to acquire loans and covered bonds and take deposits both locally as well as in other EU countries. There are no other future business developments which require disclosure in these financial statements.

Events after the reporting period

There are no events after the reporting period which require disclosure in these financial statements.

Results and dividends

The results for the period ended 31 December 2011 are shown in the statement of comprehensive income on page 9. The loss for the period after taxation is EUR 126,132. This is as a result of minimal trading activity in the period due to the Bank still being in the formation stages.

No dividend is being recommended as the company did not have any distributable reserves at the end of the reporting period.

FCM Bank Limited

Directors' report (continued)
For the period ended 31 December 2011

Directors

The directors who served during the period were:

Timothy Babich (Chairman)
Michael Warrington (Chief Executive Officer; appointed 15 September 2011)
James Dunbar-Cousin (appointed 5 July 2011, resigned 25 April 2012)
John Soler (appointed 18 April 2012)
Gareth Stephens (resigned 2 April 2012)
Nikhil Chandra (resigned 24 March 2011)
Raymond Busuttil (resigned 28 October 2011)

In accordance with the company's articles of association all the directors are to remain in office.

Auditors

A resolution to reappoint Deloitte Audit Limited as auditor of the company will be proposed at the forthcoming annual general meeting.

Approved by the Board of Directors on 25 April 2012 and signed on its behalf by:

Timothy Babich
Chairman

Michael Warrington
Chief Executive Officer

FCM Bank Limited

Preparation of financial statements and directors' responsibilities

The directors are required by the Companies Act (Cap.386) to prepare financial statements in accordance with International Financial Reporting Standards as adopted by the EU which give a true and fair view of the state of affairs of the Bank as at the end of the financial period and of the profit or loss of the Bank for the period then ended. In preparing the financial statements, the directors should:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable; and
- prepare the financial statements on a going concern basis unless it is inappropriate to presume that the Bank will continue in business as a going concern.

The Directors are responsible for ensuring that proper accounting records are kept which disclose with reasonable accuracy at any time the financial position of the Bank, and which enable the Directors to ensure that the financial statements comply with the Banking Act (Cap.371) and the Companies Act (Cap.386 of the Laws of Malta). This responsibility includes designing, implementing and maintaining such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error. The Directors are also responsible for safeguarding the assets of the Bank, and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

After reviewing the Bank's plans for the coming financial periods, the Directors are satisfied that at the time of approving the financial statements, it is appropriate to continue adopting the going concern basis in preparing the financial statements.

Deloitte.

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Report of the independent auditor
to the members of
FCM Bank Limited

Report on the financial statements

We have audited the accompanying financial statements of FCM Bank Limited (the Bank) set out on pages 9 to 38, which comprise the statement of financial position of the Bank as at 31 December 2011, and the statement of comprehensive income, statement of changes in equity and statement of cash flows of the Bank for the period then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

As also described in the statement of directors' responsibilities on page 4, the directors of the Bank are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted by the EU. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit.

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the preparation and fair presentation of the financial statements 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 internal control of the company. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

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

The company is authorised to provide audit and accountancy services in terms of the Accountancy Profession Act.

Member of Deloitte Touche Tohmatsu Limited

Deloitte.

Report of the independent auditor
to the members of

FCM Bank Limited

Opinion

In our opinion, the Bank's financial statements give a true and fair view of the financial position of the Bank as of 31 December 2011 and of the Bank's financial performance and cash flows for the period then ended in accordance with International Financial Reporting Standards as adopted by the EU and have been properly prepared in accordance with the requirements of the Companies Act (Cap. 386)

Report on other legal and regulatory requirements

Auditor's responsibility

The Banking Act (Cap. 371) requires us to report whether we have obtained all the information and explanations which to the best of our knowledge and belief are necessary for the purposes of our audit, whether in our opinion proper books of account have been kept by the bank so far as appears from our examination thereof, whether the financial statements are in agreement with the books, and whether in our opinion, and to the best of our knowledge and according to the explanations given to us, the financial statements give the information required by law in the manner so required and give a true and fair view.

Opinion

We have obtained all the information and explanations which to the best of our knowledge and belief are necessary for the purposes of our audit. In our opinion, proper books of account have been kept so far as appears from our examination thereof and the financial statements are in agreement with the books.

In our opinion, the financial statements have been properly prepared in accordance with the Banking Act (Cap. 371).

Sarah Curmi as Director
in the name and on behalf of
DELOITTE AUDIT LIMITED
Registered auditor

25 April 2012

Deloitte Audit Limited is not responsible for the maintenance and integrity of the corporate, financial and non-financial information included on this website

FCM Bank Limited

Statement of comprehensive income

Period ended 31 December 2011

	Notes	**2011** **EUR**
Interest income	*4*	**119,723**
Interest expense	*5*	**(1,079)**
Net interest income		**118,644**
Fee and commission expense	*6*	**(2,048)**
Net trading loss	*7*	**(91,844)**
Operating income		**24,752**
Administrative expense		**(161,028)**
Employee compensation and benefits	*8*	**(47,866)**
Loss before income tax	*9*	**(184,142)**
Income tax credit	*10*	**58,010**
Loss for the period/total comprehensive loss for the period		**(126,132)**

FCM Bank Limited

Statement of financial position

31 December 2011

	Notes	2011 EUR
Assets		
Cash and cash equivalents	*14*	**4,528,219**
Financial assets at fair value through profit or loss	*12*	**2,362,723**
Property, plant and equipment	*13*	**2,006**
Deferred tax	*15*	**58,010**
Other assets	*16*	**2,417**
Prepayments and accrued income	*17*	**39,582**
Total assets		**6,992,957**
Liabilities		
Amounts owed to customers	*18*	**100,000**
Other liabilities		**2,171**
Accruals and deferred income	*19*	**16,918**
Total liabilities		**119,089**
Equity		
Share capital	*20*	**7,000,000**
Accumulated losses		**(126,132)**
Total equity		**6,873,868**
Total liabilities and equity		**6,992,957**

The financial statements on pages 9 to 38 were approved by the Board of Directors on 25 April 2012 and signed on its behalf by:

Timothy Babich
Chairman

Michael Warrington
Chief Executive Officer

FCM Bank Limited

Statement of changes in equity

Period ended 31 December 2011

	Total EUR	Share capital EUR	Accumulated losses EUR
Issue of share capital	7,000,000	7,000,000	-
Total comprehensive loss for the period	(126,132)	-	(126,132)
As at 31 December 2011	**6,873,868**	**7,000,000**	**(126,132)**

FCM Bank Limited

Statement of cash flows

Period ended 31 December 2011

	Notes	2011 EUR
Cash flows from operating activities		
Interest and commission received		119,723
Cash payments to employees and suppliers		(212,020)
Operating loss before changes in operating assets and liabilities		(92,297)
Cash flows from operating activities before changes in operating assets and liabilities		
Net increase in deposits from customers		100,000
Net (increase) in other assets		(41,999)
Net increase in other liabilities		19,089
Net cash used in operating activities		(15,207)
Cash flows from investing activities		
Purchase of property, plant and equipment		(2,006)
Net (increase) of financial instruments carried at fair value through profit or loss		(2,454,568)
Net cash used in investing activities		(2,456,574)
Cash flows from financing activities		
Proceeds from the issue of share capital		7,000,000
Increase/(decrease) in cash and cash equivalents		4,528,219
Cash and cash equivalents at the beginning of the period		-
Cash and cash equivalents at the end of the period	*14*	4,528,219

1. Reporting entity

FCM Bank Limited (hereafter 'the Bank') is a limited liability company domiciled in Malta.

2. Summary of significant accounting policies

2.1 Basis of preparation

The financial statements have been prepared and presented in accordance with the provisions of the Banking Act (Cap. 371) and the Companies Act (Cap. 386) enacted in Malta, which requires adherence to International Financial Reporting Standards as adopted by the EU (hereafter referred to "IFRSs as adopted by the EU").

The financial statements have been prepared on the historical cost basis, except for financial instruments classified as at fair value through profit or loss which are stated at their fair values. The significant accounting policies adopted are set out below.

2.2 International Financial Reporting Standards in issue but not yet effective

A number of new International Financial Reporting Standards, amendments and revisions thereto were in issue but not yet effective during the financial year under review. These include the following:

IFRS 9 Financial Instruments is applicable for annual periods beginning on or after 1 January 2015, with earlier application being permitted. This Standard represents the completion of the classification and measurement part of the IASB's project to replace IAS 39 Financial Instruments: Recognition and Measurement. This Standard addresses the classification and measurement of certain financial assets and financial liabilities. IFRS 9 requires financial assets that fall within its scope to be classified on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. The Standard requires financial assets to be subsequently measured at amortised cost or at fair value. The new requirements in relation to financial liabilities address the problem of volatility in profit or loss arising from an issuer to measure its own debt at fair value. With the new requirements, any entity choosing to measure a liability at fair value will present the portion of the change in its fair value due to changes in the entity's own credit risk in other comprehensive income rather than within profit or loss. This Standard had not yet been adopted by the EU at the date of authorisation of these financial statements.

On 12 May 2011, the IASB issued IFRS 13 Fair Value Measurement. This Standard defines fair value, sets out in a single IFRS a framework for measuring fair value and requires disclosures about fair value measurements. IFRS 13 does not require fair value measurements in addition to those already required or permitted by other IFRSs. The Standard is applicable for annual periods beginning on or after 1 January 2013, with earlier application being permitted. IFRS 13 has not yet been endorsed by the European Union at the date of authorisation of these financial statements.

2. Summary of significant accounting policies (continued)

2.2 International Financial Reporting Standards in issue but not yet effective (continued)

On 6 May 2010, the IASB completed its annual improvements project, entitled Improvements to IFRSs. This project incorporates amendments to a number of IFRSs, including IFRS 7 Financial Instruments: Disclosures and IAS 1 Presentation of Financial Statements. The IFRS 7 Amendment addresses a perceived lack of clarity in the intended interaction between the qualitative and quantitative disclosures of the nature and extent of risks arising from financial instruments and clarifies the required level of disclosure in connection with credit risk. The IAS 1 Amendment clarifies that entities may present the required reconciliations for each component of other comprehensive income either in the statement of changes in equity or in the notes to the financial statements. The Amendments are applicable for annual periods beginning on or after 1 January 2011.

On 16 December 2011, the IASB issued amendments to IAS 32 and IFRS 7. These Amendments are intended to help investors and other financial statement users to better assess the effect or potential effect of offsetting arrangements on a company's financial position. The disclosure requirements also improve transparency in the reporting of how companies mitigate credit risk, including disclosure of related collateral pledged or received. The Amendments are applicable for annual periods beginning 01 January 2014 and 01 January 2013 respectively. The Amendments have not yet been endorsed by the European Union at the date of authorisation of these financial statements.

On 7 October 2010, the IASB issued amendments to IFRS 7, which amendments are entitled Disclosures—Transfers of Financial Assets. The amendments will allow users of financial statements to improve their understanding of transfer transactions of financial assets. The amendments also require certain additional disclosures. The Amendments are applicable for annual periods beginning on or after 1 July 2011.

On 16 June 2011, the IASB issued amendments to IAS 1, which amendments are entitled Presentation of Items of Other Comprehensive Income. These Amendments will require companies to group together items within other comprehensive income that may be reclassified to the profit or loss section of the income statement. These amendments are effective for financial years beginning on or after 1 July 2012. The Amendments have not yet been endorsed by the European Union at the date of authorisation of these financial statements.

The directors are assessing the potential impact if any that the adoption of these International Financial Reporting Standards will have on the financial statements of the Bank in the period of initial application.

2.3 Functional and presentation currency

The financial statements are presented in Euro, which currency represents the functional currency of the Bank.

2.4 Foreign currency transactions

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

2. Summary of significant accounting policies (continued)

2.4 Foreign currency transactions (continued)

Monetary assets and liabilities denominated in foreign currencies at the end of the reporting period are translated to Euro at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the profit or loss. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to Euro at foreign exchange rates ruling at the date the fair value was determined.

2.5 Financial assets

The Bank classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, held-to-maturity financial assets and available-for-sale investments. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

2.5.1 Financial assets at fair value through profit or loss

This category comprises two sub-categories: financial assets classified as held for trading, and financial assets designated by the Bank as at fair value through profit or loss upon initial recognition.

A financial asset is classified as held for trading if it is acquired principally for the purpose of selling it in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking after initial recognition, financial assets at fair value through profit and loss are measured at their fair value. Gains and losses arising from a change in fair value are recognised in profit or loss in the period in which they arise.

2.5.2 Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments.

Loans and receivables which are purchased from third parties in an active quoted market are designated upon initial recognition as to be recorded fair value through profit or loss.

Other loans and receivables are initially measured at fair value plus transaction costs, if any, that are directly attributable to their acquisition, and are subsequently measured at amortised cost using the effective interest method, less any impairment losses. Gains and losses are recognised in profit or loss when the financial asset is derecognised or impaired and through the amortisation process using the effective interest rate.

2. Summary of significant accounting policies (continued)

2.5.2 Loans and receivables (continued)

Impairment

The Bank assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

For loans and receivables carried at amortised cost, if there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in profit or loss.

In the case of loans and receivables, objective evidence of impairment includes observable data about the following loss events – significant financial difficulty of the issuer or counterparty.

If, in a subsequent period, the amount of the impairment loss decreases, and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through an allowance account, but so that the reversal does not result in a carrying amount that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in profit or loss.

2.6 Financial liabilities and equity instruments

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into, and the definitions of a financial liability and an equity instrument.

Financial liabilities are initially measured at fair value plus, in the case of financial liabilities not at fair value through profit or loss, transaction costs that are directly attributable to their issue. Financial liabilities are subsequently measured at amortised cost using the effective interest method, except for financial liabilities at fair value through profit or loss, which are measured at fair value.

Financial liabilities at fair value through profit or loss include financial liabilities classified as held for trading and those designated at fair value through profit or loss upon initial recognition. During the current period the Bank did not designate any financial liabilities as at fair value through profit or loss upon initial recognition.

Financial liabilities that are measured at amortised cost using the effective interest method include amounts owed to customers. The gain or loss on financial liabilities classified as at fair value through profit or loss is recognised in profit or loss.

2. Summary of significant accounting policies (continued)

2.6 Financial liabilities and equity instruments (continued)

For financial liabilities carried at amortised cost, the gain or loss is recognised in profit or loss when the financial liability is derecognised and through the amortisation process whereby any difference between the proceeds net of transaction costs, and the settlement or redemption is recognised over the term of the financial liability.

Equity instruments are recorded at the proceeds received, net of direct issue costs.

2.7 Recognition, derecognition and offsetting of financial assets and financial liabilities

Financial assets and financial liabilities are recognised when the Bank becomes a party to the contractual provisions of the instrument.

All purchases and sales of securities are recognised and derecognised on trade date, which is the date the Bank becomes party to the contract.

A financial asset is derecognised when the contractual rights to the cash flows from the financial asset expire, or when the Bank transfers the financial asset and the transfer qualifies for derecognition. A financial liability is derecognised when it is extinguished. This occurs when the obligation specified in the contract is discharged, cancelled or expires.

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

2.8 Classification of financial assets and financial liabilities at fair value through profit or loss upon initial recognition

The Bank considers the statement of comprehensive income to be the primary report of performance within the annual financial statements and ensures that, as far as practicable, all aspects of its performance are wholly and fairly reflected in profit or loss.

Financial assets and liabilities are designated at fair value through profit or loss on initial recognition where such designation results in more relevant information because either:
- it eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as an "accounting mismatch") that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases; or
- a group of financial assets, financial liabilities or both, is managed and its performance is evaluated on a fair value basis, in accordance with the Bank's documented risk management and investment strategy, and information about the group is provided internally on that basis to key management personnel, including the Board of Directors.

2. Summary of significant accounting policies (continued)

2.9 Property, plant and equipment

Property, plant and equipment are classified into the following class – office furniture and fittings.

Property, plant and equipment are initially measured at cost. Subsequent costs are included in the asset's carrying amount when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. Expenditure on repairs and maintenance of property, plant and equipment is recognised as an expense when incurred.

Property, plant and equipment are derecognised on disposal or when no future economic benefits are expected from their use or disposal. Gains or losses arising from derecognition represent the difference between the net disposal proceeds, if any, and the carrying amount, and are included in profit or loss in the period of derecognition.

Tangible assets are stated at cost less any accumulated depreciation and any accumulated impairment losses.

2.10 Depreciation

Depreciation on property, plant and equipment commences when these assets are available for use and are charged to profit or loss so as to write off the cost of assets, less any estimated residual value, over their estimated useful life, using the straight line method, on the following bases:

Office furniture and fittings 10% per annum

The depreciation method applied, the residual value and the useful life are reviewed at the end of each reporting period.

2.11 Impairment of property, plant and equipment

At the end of each reporting period the Bank reviews the carrying amount of its property, plant and equipment to determine whether there is any indication that those assets have suffered an impairment loss. If such indication exists, the recoverable amount is estimated in order to determine the extent of the impairment loss and the carrying amount of the asset is reduced to its recoverable amount, as calculated. The recoverable amount is the higher of fair value less costs to sell and value in use.

An impairment loss is recognised immediately in profit or loss, unless the asset is carried at a revalued amount, in which case the loss is recognised in other comprehensive income to the extent that it does not exceed the amount in the revaluation surplus for that asset.

2. Summary of significant accounting policies (continued)

2.11 Impairment of property, plant and equipment (continued)

An impairment loss recognised in a prior year is reversed if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. When an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, to the extent that it does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. Impairment reversals are recognised immediately in profit or loss, unless the asset is carried at a revalued amount, in which case the impairment reversal is recognised in other comprehensive income, unless an impairment loss on the same asset was previously recognised in profit or loss.

2.12 Provisions, contingent liabilities and contingent assets

Provisions are recognised when the Bank has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Provisions are measured at the directors' best estimate of the expenditure required to settle the present obligation at the end of the reporting period. If the effect of the time value of money is material, 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. Provisions are not recognised for future operating losses.

A contingent liability is (a) a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity; or (b) a present obligation that arises from past events but is not recognised because: (i) it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or (ii) the amount of the obligation cannot be measured with sufficient reliability. Contingent liabilities are not recognised. Contingent liabilities are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity. Contingent assets are not recognised. Contingent assets are disclosed where an inflow of economic benefits is probable.

2.13 Taxation

Income tax expense comprises current and deferred tax. Income tax expense is recognised in the profit or loss except to the extent that it relates to items recognised directly in other comprehensive income or directly in equity, in which case it is also dealt with in the statement of comprehensive income or in equity as appropriate.

2. Summary of significant accounting policies (continued)

2.13 Taxation (continued)

Current tax is the expected tax payable on the taxable income for the period, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous periods.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Current tax assets and liabilities are offset when the company has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Deferred tax assets and liabilities are offset when the company has a legally enforceable right to set off its current tax assets and liabilities and the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

2.14 Revenue recognition

Revenue is recognised to the extent that it is probable that future economic benefits will flow to the Bank and these can be measured reliably. The following specific recognition criteria must also be met before revenue is recognised.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the instrument or, when appropriate, a shorter period to that instrument's net carrying amount. When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the instrument but not future credit losses. The calculation includes payments and receipts that are an integral part of the effective interest rate, transaction costs and all other discounts or premiums.

Fees and commissions that are earned on the execution of a significant act are recognised as revenue when the significant act has been completed. Fees and commissions that are earned as services are provided to the customer are recognised as revenue as the services are provided. Where fees are charged to cover the cost of a continuing service, these are recognised on an appropriate basis over the relevant period.

2. Summary of significant accounting policies (continued)

2.15 Employee benefits

The company contributes towards the state pension in accordance with local legislation. The only obligation of the company is to make the required contributions. Costs are expensed in the period in which they are incurred.

2.16 Cash and cash equivalents

Cash and cash equivalents comprise cash in hand and deposits repayable on demand or with a contractual period to maturity of less than 90 days; advances to banks repayable within 90 days from the date of the advance; balances with the Central Bank of Malta, excluding reserve deposit requirements and treasury bills with an original maturity of less than 90 days. Amounts owed to banks that are repayable on demand or with a contractual period to maturity of less than 90 days and which form an integral part of the Bank's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

2.17 Dividends payable

Dividends payable on ordinary shares are recognised as liabilities on the date they are declared.

2.18 Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards incidental to ownership to the lessee. All other leases are classified as operating leases. Lease classification is made at the inception of the lease, which is the earlier of the date of the lease agreement and the date of commitment by the parties to the principal provisions of the lease.

Rentals payable under operating leases, less the aggregate benefit of incentives received from the lessor, are recognised as an expense in profit or loss on a straight-line basis over the lease term unless another systematic basis is more representative of the time pattern of the user's benefit.

3. Use of estimates and judgements

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

In the process of applying the company's accounting policies, management has made no judgements which can significantly affect the amounts recognised in the financial statements and, at the end of the reporting period, there were no key assumptions concerning the future, or any other key sources of estimation uncertainty, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

4. Interest income

	2011 EUR
On bank deposits	94,008
On debt and other fixed income instruments:	
- fair value through profit or loss	25,715
	119,723

5. Interest expense

	2011 EUR
On amounts owed to customers	1,079

6. Net fee and commission expense

	2011 EUR
On loans and advances, sale of financial products and other similar activities	2,048

7. Net trading loss

	2011 EUR
Fair value movement on financial instruments at fair value through profit or loss	91,844

8. Employee compensation and benefits

8.1 Key management personnel compensation

	2011 EUR
Short-term benefits	
Directors' emoluments:	
- Directors' fees	34,522

8.2 Personnel expenses incurred during the period are analysed as follows:

	2011 EUR
Wages and salaries	12,070
Social security costs	1,274
	13,344

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

	2011 No.
Managerial, started in August 2011	1
Other, started in October 2011	1

9. Loss before tax

Loss before tax is stated after charging:

	2011 EUR
Total remuneration payable to the Bank's auditors for:	
- the audit of the financial statements	8,000
- total fees payable to the company's auditors for non-audit services other than other assurance services and tax advisory services	22,845
	30,845

10. Income tax credit

	2011 EUR
Deferred tax credit	58,010

Tax applying the statutory domestic income tax rate and the income tax expense for the period are reconciled as follows:

	2011 EUR
Loss before tax	184,142
Tax at the applicable rate of 35%	64,450
Tax effect of:	
Non-allowable expenses	(6,440)
Total income tax expense	58,010

11. Operating leases

At the end of the reporting period the Bank had outstanding commitments under operating leases, which fall due as follows:

	2011 EUR
Less than one period	2,840
Between one and five periods	-
Over five periods	-
	2,840

The Bank recognised lease expenses amounting to EUR 12,387 during the period.

12. Financial assets at fair value through profit or loss

	2011 EUR
Debt and other fixed income instruments	2,362,723

	2011 EUR
Issued by public bodies:	
- local government	49,902
- foreign government	101,565
Issued by other issuers:	
- foreign banks	1,172,010
- others - foreign	1,039,246
	2,362,723
Listing status:	
- listed on Malta Stock Exchange	49,902
- foreign listed	2,312,821
	2,362,723

	2011 EUR
Summary of movements during the period:	
At the beginning of the period	-
Acquisitions	2,454,567
Movement in fair value	(91,844)
At the end of the period	2,362,723

Financial assets are designated at fair value through profit or loss on initial recognition where such designation results in more relevant information because either:
- it eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as an "accounting mismatch") that would otherwise arise from measuring assets or recognising the gains and losses on them on different bases; or
- a group of financial assets is managed and its performance is evaluated on a fair value basis, in accordance with the Bank's documented risk management and investment strategy, and information about the Bank is provided internally on that basis to key management personnel, including the Board of Directors and Chief Executive Officer.

13. Property, plant and equipment

	Furniture and fittings EUR
Cost	
Additions	2,006
At 31 December 2011	2,006
Depreciation	
Charge for the period	-
At 31 December 2011	-
Carrying amount	
At 31 December 2011	2,006

14. Cash and cash equivalents

Cash and cash equivalents comprise balances with less than three months maturity from the date of acquisition, including cash in hand and deposits held at call with banks.

	2011 EUR
Repayable on call and at short notice	4,528,219

15. Deferred tax assets

Recognised deferred tax assets

Deferred tax assets are attributable to the following:

	2011 EUR
Tax value of losses and capital allowances carry-forwards	25,864
Fair value remeasurement of financial instruments	32,146
	58,010

The deferred tax asset has been recognised on the basis that forecast taxable profits will be sufficient to crystallise the asset in the foreseeable future.

16. Other assets

	2011 EUR
Amounts due from related party	2,417

The amounts due from related party are interest free, unsecured and expected to be realised within 12 months after the end of the reporting period. No guarantees have been given or received in respect of these amounts.

17. Prepayments and accrued income

	2011 EUR
Accrued income	25,624
Prepayments	13,958
	39,582

18. Amounts owed to customers

	2011 EUR
Term deposits from related parties	100,000

The amounts owed to customers are unsecured and bear interest at the rate of 2.5%. No guarantees have been given or received in respect of these amounts.

19. Accruals and deferred income

	2011 EUR
Deferred income	1,079
Accrued expenses	15,839
	16,918

20. Share capital

	2011 No of shares	2011 EUR
Authorised:		
Ordinary shares at €1 each	20,000,000	20,000,000
Issued and paid up:		
Ordinary shares at €1 each fully paid	7,000,000	7,000,000

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Bank.

21. Related parties

Related party transactions during the period were as follows:

	2011 EUR	2011 Total EUR	2011 % of total
Interest expense on deposits	1,079	1,079	100%

	2011 EUR	2011 Total EUR	2011 % of total
Balances with related parties			
Other assets	2,417	2,417	100%
Deposits from customers	100,000	100,000	100%
Accrued interest on deposits from customers	1,079	1,079	100%

	2011 EUR	2011 Total EUR	2011 % of total
Compensation to key management personnel			
Directors' fee	34,522	34,522	100%

No expense has been recognised in the period for bad and doubtful debts in respect of amounts due from related parties and there are no provisions for doubtful debts in respect of outstanding amounts due by related parties.

22. Financial risk management

22.1 Introduction and overview

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

- *Credit risk:* Credit risk stems from the possible non-prompt repayment or non-payment of existing and contingent obligations by the Bank's counterparties, resulting in the loss of equity and profit, as well as risk that deterioration in the financial condition of a borrower will cause the asset value to decrease or be extinguished. Country risk and settlement risk are included in this category. Country risk refers to the risk of losses arising from economic or political changes that affect the country from which the asset originates. Settlement risk refers to the risk of losses through failure of the counterparty to settle outstanding dues on the settlement date owing to bankruptcy or other causes.

- *Market risk*: Risk of losses arising from unfavourable changes in the level and volatility of interest rates, foreign exchange rates or investment prices.

- *Liquidity risk*: Liquidity risk may be divided into two sub-categories:
(1) Market (product) liquidity risk: Risk of losses arising from difficulty in accessing a product or market at the required time, price and amount.
(2) Funding liquidity risk: Risk of losses arising from a timing mismatch between investing, placements and fund raising activities resulting in obligations missing the settlement date or satisfied at higher than normal rates.

- *Operational risk*: Risk of damage resulting from the lack of skilful management or good governance within the Bank and the inadequacy of proper control, which might involve internal operations, personnel, the system or external occurrences that in turn affect the income and capital funds of financial institutions. The Bank has adopted an operational risk management framework and procedures, which provide for the identification, assessment, management, monitoring and reporting of the Bank's operational risks.

The Bank's approach to management of credit, market and liquidity risks is addressed in this note.

Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the Bank's risk management framework. The Bank's risk management policies are established to identify and analyse the risks faced by the Bank, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered.

The Bank, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

22. Financial risk management (continued)

22.2 Credit risk management

In order to minimise the credit risk undertaken, counterparty credit limits are defined with respect to investment activities, which limits consider a counterparty's creditworthiness, the value of collateral and guarantees pledged, which can reduce the overall credit risk exposure, as well as the type and the duration of the credit asset. In order to examine a counterparty's creditworthiness, country risk, quantitative and qualitative characteristics, as well as the industry sector in which the counterparty operates are considered. The Board of Directors has the final say in the approval process of new and existing assets or credit facilities.

The Bank manages, limits and controls concentrations of credit risk wherever they are identified – in particular, to individual counterparties and groups, and to industries and countries. The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one counterparty and to geographical and industry segments. Such risks are monitored on a revolving basis and subject to an annual or more frequent review, when considered necessary. Limits on the level of credit risk by product, industry sector and country are approved regularly by the Board of Directors.

The Bank's main exposures to credit risk on financial instruments can be classified in the following categories:

- Financial assets recognised on-balance sheet comprising principally financial assets at fair value through profit or loss and cash at bank. The maximum exposure to credit risk of these financial assets equals their carrying amount.

The Bank's credit risk exposures relating to on-balance sheet assets by IAS 39 categorisation, reflecting the maximum exposure to credit risk before collateral held or other credit enhancements, are analysed as follows:

	2011 EUR
Financial assets at fair value through profit or loss	2,362,723
Cash in bank	4,528,219
	6,890,942

22. Financial risk management (continued)

22.2 Credit risk management (continued)

Concentrations of credit risk

The Bank monitors concentrations of credit risk by sector, industry and by geographical location. An analysis of concentrations of credit risk at the reporting date is shown below:

	2011 **EUR**
Concentration by sector	
Monetary financial institutions	**5,717,447**
Other financial institutions	**1,044,492**
General Government	**154,886**
	6,916,825

Exposures analysed by location

	France EUR	**Malta** EUR	**Portugal** EUR	**Spain** EUR	**Total** EUR
Central governments	101,565	49,902	-	-	**151,467**
Credit Institutions	-	4,528,219	-	-	**4,528,219**
Covered bonds	-	-	-	1,172,010	**1,172,010**
Securitisations	-	-	1,039,246	-	**1,039,246**
Accrued Interest	3,419	-	5,246	17,218	**25,883**
Total	**104,984**	**4,578,121**	**1,044,492**	**1,189,228**	**6,916,825**

Asset quality

The Bank assigns risk weights to the credit risk of the investments portfolio in accordance with the rating assigned by Fitch, Moody's and S&P, all of which are MFSA eligible External Credit Assessment Institutions (ECAIs), in accordance with article 3.9 of Appendix 2 – Section 1.4 Credit Risk Standardised Approach – BR 04.

The credit quality of the securities as determined by the nominated ECAIs is as follows:

Credit Quality Step	**Fitch**	**Moody**	**S&P**	**Exposure**
				EUR
1	AAA to AA-	Aaa to Aa3	AAA to AA-	**2,362,723**

Cash at bank is placed with reliable financial institutions.

22. Financial risk management (continued)

22.3 Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from an inability to sell a financial asset quickly at close to its fair value.

Liquidity risk management

The Bank monitors and manages this risk by maintaining sufficient cash and, where possible, financial assets for which there is a liquid market and that are readily saleable to meet liquidity needs. The Bank is exposed to calls on its available cash resources from maturing term deposits. In order to ensure that maturing funds are always available to meet expected demand for cash, the Board sets parameters within which maturities of assets and liabilities may be mismatched. Unmatched positions potentially enhance profitability, but also increase the risk of losses. In addition, the Bank manages its risk to a shortage of funds by monitoring forecast and actual cash flows, by monitoring the availability of raising funds to meet commitments associated with financial instruments and by holding financial assets which are expected to generate cash inflows that will be available to meet cash outflows on liabilities.

The key measure used by the Bank for managing liquidity risk is the same calculation used to measure the Bank's compliance with the liquidity limit established by the Malta Financial Services Authority, that is, the ratio of net liquid assets to deposits from customers and banks. For this purpose net liquid assets are considered as including cash and cash equivalents and investment grade debt securities for which there is an active and liquid market whereas eligible deposits include deposits from banks and other borrowings excluding intra-group borrowings with less than seven days term to maturity and deposits from customers with three months or less remaining term to maturity. As at 31 December 2011, the Bank's liquidity ratio was significantly above the regulatory liquidity ratio of 30% prescribed by Banking Rule 5.

The table below analyses Bank financial liabilities into relevant maturity groupings, based on the remaining period at the reporting date to the contractual maturity date.

31 December 2011	Carrying amount EUR	Gross outflow EUR	Less than 1 month EUR
Deposits from customers	(100,000)	(100,000)	(100,000)

Assets available to meet these liabilities, and to cover outstanding commitments, include cash at bank and marketable securities.

The table below analyses the principal assets and liabilities that are recognised in the statement of financial position into relevant maturity groupings, based on the remaining period at balance sheet date to their contractual maturity date.

22. Financial risk management (continued)

22.3 Liquidity risk (continued)

	Less than 3 months	Between 3 months and a year	Over 1 year	Total
	EUR	EUR	EUR	EUR
2011				
Assets				
Financial assets at fair value through profit or loss	49,902	101,565	2,211,256	2,362,723
Cash and cash equivalents	4,528,219	-	-	4,528,219
	4,578,121	101,565	2,211,256	6,890,942
Liabilities				
Amounts owed to customers	100,000	-	-	100,000

22.4 Market risk

Market risk is the risk that changes in market prices, such as interest rate, equity prices, foreign exchange rates and credit spreads (not relating to changes in the obligor's/issuer's credit standing) will affect the Bank's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

Exposure to interest rate risk

The Bank's operations are subject to the risk of interest rate fluctuations to the extent that interest-earning assets and interest-bearing liabilities mature or reprice at different times or in different amounts. Risk management activities are aimed at optimising net interest income, given market interest rate levels consistent with the Bank's business strategies.

Interest rate risk is managed principally through monitoring interest rate gaps and by having pre-approved limits for repricing bands.

22. Financial risk management (continued)

22.4 Market risk (continued)

The following table sets out the carrying amount, by reference to the earlier of the next contractual interest rate repricing date and maturity of interest bearing financial instruments:

	Effective interest rate %	0-1 months EUR	1-3 months EUR	1-2 years EUR	3-5 years EUR
2011					
Financial trading assets					
Financial assets at fair value through profit or loss	5.36	-	1,190,713	649,908	522,102
Cash and cash equivalents	1.0	4,528,219	-	-	-
		4,528,219	1,190,713	649,908	522,102
Financial trading liabilities					
Amounts owed to customers	2.5	100,000	-	-	-
		100,000	-	-	-
Gap		**4,428,219**	**1,190,713**	**649,908**	**522,102**
Cumulative gap		**4,428,219**	**5,618,932**	**6,268,840**	**6,790,942**

At the end of the reporting period the interest rate profile of the Bank's interest bearing financial instruments is as follows:

	Rate Instruments Fixed EUR	Rate Instruments Variable EUR
Interest earning assets		
Financial assets at fair value through profit and loss	1,323,477	1,039,246
Advances to banks	4,000,488	-
	5,323,965	1,039,246
Interest bearing liabilities		
Amounts owed to customers	100,000	-
	100,000	-

22. Financial risk management (continued)

22.4 Market risk (continued)

For financial instruments held or issued, the Bank has used a sensitivity analysis technique that measures the change in the fair value and cash flows of the Bank's financial instruments at the end of the reporting period for hypothetical changes in the relevant market risk variables. The sensitivity due to changes in the relevant risk variables is set out below. The amounts generated from the sensitivity analysis are forward-looking estimates of market risk assuming certain market conditions. Actual results in the future may differ materially from those projected results due to the inherent uncertainty of global financial markets. The sensitivity analysis is for illustrative purposes only, as in practice market rates rarely change in isolation and are likely to be interdependent.

The net effect of an immediate 200 basis point increase/decrease in yields at the end of the reporting period was estimated at €106,710.

Exposure to foreign currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Board of Directors sets limits on the level of exposure by currency and in total.

The Bank was not exposed to currency risk through transactions in foreign currencies at the end of the reporting period.

Price risks

Price Risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

The net effect of an immediate 200 basis point increase/decrease in the market price of financial assets at the end of the reporting period was estimated at €47,254.

22.5 Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Bank's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risk such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of the Bank's operations.

The Bank's objective is to manage Bank's operational risk so as to balance the avoidance of financial losses and damage to the Bank's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

22. Financial risk management (continued)

22.5 Operational risk (continued)

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management. This responsibility is supported by the development of overall standards for the management of operational risk in the following areas:

- requirements for appropriate segregation of duties, including the independent authorisation of transactions
- requirements for the reconciliation and monitoring of transactions
- compliance with regulatory and other legal requirements
- documentation of controls and procedures
- requirements for the periodic assessment of operational risks faced and the adequacy of controls and procedures to address the risks identified
- requirements for the reporting of operational losses and proposed remedial action
- development of contingency plans
- training and professional development
- ethical and business standards
- risk mitigation, including insurance where this is effective.

22.6 Capital risk management

The Bank's objectives when managing capital, which is a broader concept than the 'equity' on the statement of financial position, are:

- To comply with the capital requirements set by the Malta Financial Services Authority (MFSA) with respect to the Bank's operations;
- To safeguard the Bank's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- To maintain a strong capital base to support the development of its business.

Accordingly, the purpose of the Bank's capital management is essentially that of ensuring efficient use of capital taking cognisance of the Bank's risk appetite and profile as well as its objectives for business development.

The Bank is subject to externally imposed capital requirements only in respect of the Bank's activities as a credit institution.

The Bank is a licensed financial services provider and must therefore comply with the capital requirements under the relevant laws and regulations.

Capital adequacy and the use of regulatory capital are monitored by the Bank's management, employing techniques based on the guidelines developed by the Basel Committee and the European Union Directives, as implemented by the MFSA for supervisory purposes. The Bank's capital management is based on the regulatory requirements established by local laws and regulations which are modelled on the requisites of the European Union Directive on Capital Requirements ('CRD').

22.6 Capital risk management (continued)

The CRD consists of three pillars: Pillar I contains a set of rules for a mathematical calculation of the capital requirement; Pillar II describes the supervisory review process and contains requirements for the internal calculation of the capital requirement whilst Pillar III deals with market discipline and sets forth disclosure requirements for risk and capital management. The sum of the capital requirement calculated under Pillar I and the additional requirement identified under Pillar II represents the total capital actually required under the CRD.

The following is an analysis of the Bank's Capital Base in accordance with the CRD's requirements:

	2011
	EUR
Total original own funds	6,873,868
Additional own funds	-
Total own funds	**6,873,868**

Minimum capital requirements are computed for credit, market and operational risks. The MFSA requires a bank to maintain a ratio of total regulatory capital to risk-weighted assets and instruments (the Capital requirements ratio) at or above the prescribed minimum of 8%. The Capital requirements ratio expresses own funds as a proportion of risk-weighted assets and off-balance sheet items in relation to Credit Risk together with notional risk-weighted assets in respect of Operational Risk and Market Risk.

The risk-weighted assets are measured by means of a hierarchy of risk weights classified according to the nature of – and reflecting an estimate of credit, market and other risks associated with – each asset and counterparty, taking into account any eligible collateral or guarantees. A similar treatment is adopted for off-balance sheet exposures, with some adjustments to reflect the more contingent nature of the potential losses. Risk-weighted assets are measured using the 'standardised approach' for credit risk with risk weights being assigned to assets and off-balance sheet items according to their asset class and credit assessment. For the determination of credit assessments, independent rating agencies are nominated as required.

Total risk-weighted assets are determined by multiplying the capital requirements for market risk and operational risk by 12.5 (i.e. the reciprocal of the minimum capital ratio of 8 per cent) and adding the resulting figures to the sum of risk-weighted assets for credit risk.

The capital adequacy ratio at 31 December 2011 stood at 123.55%.

23. Fair values

The fair value of all financial instruments that are measured subsequent to initial recognition at fair value have been valued using level 1 fair value measurements, which are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.

At 31 December 2011 the carrying amounts of the other financial assets and financial liabilities approximated their fair values due to the short-term maturities of these assets and liabilities.

24. Parent company

The immediate parent company of FCM Bank Limited is FCM Malta Holdings Ltd, a company incorporated and registered in Malta, the registered address of which is 171, Old Bakery Street, Valletta, Malta. The ultimate parent company is Fortelus Special Situations Master Fund Limited which is incorporated and registered in Cayman Islands, the registered address of which is Ugland House, PO Box 309, Grand Cayman, KY1-1104, Cayman Islands.

Copies of the Annual Report of the immediate and ultimate parent companies may be obtained from their registered address.

1. Risk management

1.1 Overview of risk disclosures

These disclosures have been prepared for the Bank in accordance with the Pillar 3 quantitative and qualitative disclosure requirements as governed by Banking Rule 07: Publication of Annual report and Audited Financial Statements of Credit Institutions authorised under the Banking Act, 1994, issued by the Malta Financial Services Authority. These disclosures will be published by the Bank on an annual basis as part of the Annual Report. The Rule follows the disclosure requirements of the EU Directive 2006/48/EC; more specifically to the disclosure requirements of Chapter 5 of the Directive (Articles 145 to 149 – Disclosures by credit institutions) and Annex XII (Technical criteria on disclosure).

As per banking regulations, this report is not subject to an external audit, except to the extent that any disclosures are equivalent to those made in the Financial Statements which adhere to International Financial Reporting Standards (IFRS) as adopted by the EU. The Bank is satisfied that internal verification procedures ensure that these Additional Regulatory Disclosures are presented fairly.

In accordance with the Bank's Pillar 3 disclosure policy which sets out the disclosure process, verification and frequency, this report is currently published once a year.

1.2 Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the Bank's risk management framework. The Bank has the Asset and Liability Committee (ALCO) and the Credit Committee that are responsible for developing and monitoring the Bank's risk management policies in their specific areas. The aim of risk management is to create value for shareholders by supporting the Bank in achieving its goals and objectives, and ultimately ensuring that the risks are commensurate with the rewards.

The Bank considers risk management a core competency that helps produce consistently high returns for its various stakeholders. The Bank's business involves taking on risks in a targeted manner and managing them professionally. The Bank aims to manage all major types of risk by applying methods that meet best practice. The Bank considers it important to have a clear distribution of responsibilities within risk management. One of the main tasks of the Bank's executive management is to set the framework for this area. The core functions of the Bank's risk management are to identify all key risks for the Bank, measure these risks, manage the risk positions and determine capital allocations. The Bank regularly reviews its risk management policies and systems to reflect changes in markets, products and best market practice.

1.3 Key risk components

The Bank's Board of Directors is empowered to set out the overall risk policies and limits for all material risk types. The Board also decides on the general principles for managing and monitoring risks.

1. Risk management (continued)

1.3 Key risk components (continued)

To ensure coherence between the Bank's strategic considerations regarding risk-taking and day-to-day decisions, from time to time, the Bank establishes risk appetite as a strategic tool. Risk appetite is the maximum risk that the Bank is willing to assume to meet business targets. The Bank's risk appetite is set in a process based on a thorough analysis of its current risk profile. The Bank identifies a number of key risk components and for each, determines a target that represents the Bank's perception of the component in question.

In terms of MFSA Banking Rule 02: Large exposures of Credit Institutions authorised under the Banking Act, 1994, 'an exposure' is the amount at risk arising from the reporting credit institution's assets and off-balance sheet items.

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

- *Credit risk:* Credit risk stems from the possible non-prompt repayment or non-payment of existing and contingent obligations by the Bank's counterparties, resulting in the loss of equity and profit, as well as risk that deterioration in the financial condition of a borrower will cause the asset value to decrease or be extinguished. Country risk and settlement risk are included in this category. Country risk refers to the risk of losses arising from economic or political changes that affect the country from which the asset originates. Settlement risk refers to the risk of losses through failure of the counterparty to settle outstanding dues on the settlement date owing to bankruptcy or other causes.

- *Market risk:* Market risk is the risk of reductions in earnings and/or asset values arising from unexpected changes in financial prices, including interest rates, exchange rates and equity prices. It is managed by a variety of different techniques.

- *Liquidity risk*: Liquidity risk may be divided into two sub-categories:
(1) Market (product) liquidity risk: Risk of losses arising from difficulty in accessing a product or market at the required time, price and amount.
(2) Funding liquidity risk: Risk of losses arising from a timing mismatch between investing, placements and fund raising activities resulting in obligations missing the settlement date or satisfied at higher than normal rates.

- *Operational risk*: Risk of damage resulting from the lack of skilful management or good governance within the Bank and the inadequacy of proper control, which might involve internal operations, personnel, the system or external occurrences that in turn affect the income and capital funds of financial institutions. The Bank has adopted an operational risk management framework and procedures, which provide for the identification, assessment, management, monitoring and reporting of the Bank's operational risks.

2. Credit risk

Credit risk is the risk of suffering financial loss, should any of the Bank's customers, clients or market counterparties fail to fulfil their contractual obligations to the Bank. Credit risk arises mainly from deposits with other banks and counterparty credit risk on its securities portfolio.

2. Credit risk (continued)

The Board of Directors has retained the responsibility for approving all acquisitions of securities and placements of deposits with banks. These decisions are based on the Bank's insight into the counterparty's financial position, which is regularly monitored.

In order to minimise the credit risk undertaken, counterparty credit limits are defined, which consider a counterparty's creditworthiness. In order to examine a counterparty's creditworthiness, country risk, quantitative and qualitative characteristics, as well as the industry sector in which the counterparty operates are considered.

The Bank's cash is placed with high quality financial institutions. Credit risk in respect of concentration of investments is not considered by the directors to be significant in view of the credit standing of the issuers.

Concentration risk arises as a result of the concentration of exposures within the same category, whether it is geographical locations, industry sector or counterparty type. These risks are managed through adherence to Board approved lending criteria. As at 31 December 2011, no securities were deemed to be prohibited large exposures, prior to any eligible exemptions, in accordance with the requirements of the Banking Rule BR 02: Large Exposures of Credit Institutions authorised under the Banking Act, 1994.

Country risk

The Bank runs the risk of loss of funds due to the possible political, economic and other events in a particular country where funds have been placed or invested with several counterparties. Countries are assessed according to their size, economic data and prospects and their credit ratings from international rating agencies. Existing country credit risk exposures are monitored and reviewed periodically.

Exposures analysed by location

	France EUR	**Malta** EUR	**Portugal** EUR	**Spain** EUR	**Total** EUR
Central governments	101,565	49,902	-	-	**151,467**
Credit Institutions	-	4,528,219	-	-	**4,528,219**
Covered bonds	-	-	-	1,172,010	**1,172,010**
Securitisations	-	-	1,039,246	-	**1,039,246**
Accrued Interest	3,419	-	5,246	17,218	**25,883**
Total	**104,984**	**4,578,121**	**1,044,492**	**1,189,228**	**6,916,825**

FCM Bank Limited

Additional Regulatory Disclosures

In terms of Appendix 2 of Banking Rule 07 for the year ended 31 December 2011

2. Credit risk (continued)

Exposures analysed by residual maturity

	Less than one year	Over 1 but less than 5 years	Total
	EUR	EUR	EUR
Central governments	151,467	-	**151,467**
Credit institutions	4,528,219	-	**4,528,219**
Covered bonds	-	1,172,010	**1,172,010**
Securitisations	-	1,039,246	**1,039,246**
Other items	25,883	-	**25,883**
Total	**4,705,569**	**2,211,256**	**6,916,825**

Exposures analysed by sector:

	2011 EUR
Concentration by sector	
Monetary financial institutions	**5,717,447**
Other financial institutions	**1,044,492**
General Government	**154,886**
	6,916,825

Asset quality

The Bank assigns risk weights to the credit risk of the investments portfolio in accordance with the rating assigned by Fitch, Moody's and S&P, all of which are MFSA eligible External Credit Assessment Institutions (ECAIs), in accordance with article 3.9 of Appendix 2 – Section 1.4 Credit Risk Standardised Approach – BR 04.

The credit quality of the securities as determined by the nominated ECAIs is as follows:

Credit Quality Step	Fitch	Moody	S&P	Exposure
				EUR
1	AAA to AA-	Aaa to Aa3	AAA to AA-	**2,362,723**

2. Credit risk (continued)

Securitisation

The Bank directly invests in high grade securitisations as part of the non-trading book. As at 31st December 2011 the total €1,039,246 securitisation position held was rated AAA. The standardised approach is used for calculating risk weighted exposure amounts for securitisation exposures. Securitisation positions are classified as at fair value through profit or loss upon initial recognition.

3. Market risk

Market risk for the Bank consists of three elements:
- Interest rate risk, which is the risk of losses through changes in interest rates;
- Currency risk, which is the risk of losses on the Bank's positions in foreign currency through changes in exchange rates; and
- Price risk which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

3.1 Interest rate risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The Bank's operations are subject to the risk of interest rate fluctuations to the extent that interest-earning assets and interest-bearing liabilities mature or reprice at different times or at different amounts. The Bank places deposits with Banks at both fixed and floating rates and for varying maturity periods. This risk is managed through the matching of the interest resetting dates on assets and liabilities as much as it is practicable. However, the Bank seeks to manage its net interest spread, over considering the cost of capital by investing funds in a portfolio of securities with a longer tenure than the liabilities (therefore carrying a negative maturity gap position) through the effective management of shorter term liabilities over the medium to longer term.

The net effect of an immediate 200 basis point increase/decrease in yields is estimated at €106,710.

3. Market risk (continued)

3.1 Interest rate risk (continued)

At the end of the reporting period the interest rate profile of the Bank's interest bearing financial instruments is as follows:

	Rate Instruments	
	Fixed EUR	Variable EUR
Interest earning assets		
Financial assets at fair value through profit and loss	1,323,477	1,039,246
Advances to banks	4,000,488	-
	5,323,965	1,039,246
Interest bearing liabilities		
Amounts owed to customers	100,000	-
	100,000	-

The following table sets out the carrying amount, by reference to the earlier of the next contractual interest rate repricing date and maturity:

2011	Effective interest rate %	0-1 months EUR	1-3 months EUR	1-2 years EUR	3-5 years EUR
Financial trading assets					
Financial assets at fair value through profit or loss	5.36	-	1,190,713	649,908	522,102
Cash and cash equivalents	1.0	4,528,219	-	-	-
		4,528,219	1,190,713	649,908	522,102
Financial trading liabilities					
Amounts owed to customers	2.5	100,000	-	-	-
		100,000	-	-	-
Gap		**4,428,219**	**1,190,713**	**649,908**	**522,102**
Cumulative gap		**4,428,219**	**5,618,932**	**6,268,840**	**6,790,942**

3. Market risk (continued)

3.2 Currency risk

The Bank takes on exposure to the effects of fluctuations in foreign currency exchange rates on its financial position and cash flows. The Board sets limits on the level of net exposure by currency, which limits are monitored daily.

4. Liquidity risk

Liquidity risk is defined as the risk of losses due to:
- the Bank's funding costs increasing disproportionately;
- lack of funding prevents the Bank from establishing new business; and
- lack of funding will ultimately prevent the Bank from meeting its obligations.

Liquidity risk may result from an inability to sell a financial asset quickly at close to its fair value. The objective of the Bank's liquidity and funding management is to ensure that all foreseeable funding commitments and deposit withdrawals can be met when due. It is the Bank's objective to maintain a diversified and stable funding base with the objective of enabling the Bank to respond quickly and smoothly to unforeseen liquidity requirements.

The Bank manages this risk by ensuring that its assets and liabilities are matched in terms of maturities as much as is practicable. The Bank holds significant liquid assets in the form of cash and covered bonds. In order to ensure that maturing funds are always available to meet unexpected demand for cash, the Board sets parameters within which maturities of assets and liabilities may be mismatched. Unmatched positions potentially enhance profitability, but also increase the risk of losses. The Board of Directors monitors the Bank's Liquidity Gap analysis on a monthly basis. In addition, it maintains an on-going oversight of forecast and actual cash flows, by monitoring the availability of funds to meet commitments associated with financial instruments.

The table below analyses Bank financial liabilities into relevant maturity groupings, based on the remaining period at the reporting date to the contractual maturity date.

31 December 2011	**Carrying amount EUR**	**Gross outflow EUR**	**Less than 1 month EUR**
Deposits from customers	**(100,000)**	**(100,000)**	**(100,000)**

Assets available to meet these liabilities, and to cover outstanding commitments, include cash at bank and marketable securities.

4. Liquidity risk (continued)

The table below analyses the assets and liabilities that are recognised in the statement of financial position into relevant maturity groupings, based on the remaining period at balance sheet date to their contractual maturity date.

	Less than 3 months	Between 3 months and a year	Over 1 year	Other	Total
2011	**EUR**	**EUR**	**EUR**	**EUR**	**EUR**
Assets					
Financial assets at fair value through profit and loss	49,902	101,565	2,211,256	-	2,362,723
Cash and cash equivalents	4,528,219	-	-	-	4,528,219
Other assets	25,883	-	-	76,132	102,015
	4,604,004	101,565	2,211,256	76,132	6,992,957
Liabilities					
Amounts owed to customers	100,000	-	-	-	100,000
Other liabilities	19,088	-	-	-	19,088
	119,088	-	-	-	119,088

5. Operational risk

Operational risk is the risk of direct or indirect losses arising from a variety of causes associated with the Bank's processes such as:
- deficient or erroneous internal procedures
- human or system errors
- external events, including legal events
- internal and external fraud
- employment practices and workplace safety
- clients, products and business practices
- damage to physical assets
- business disruption and system failures
- execution, delivery and process management

Operational risk is thus often associated with specific and one-off events, such as failure to observe business or working procedures, defects or breakdowns of the technical infrastructure, criminal acts, fire and storm damage or litigation.

Operational risks are, thus, non-financial risks. Operational risk management relies on a framework of policies overseen by the Board of Directors.

5. Operational risk (continued)

The Bank's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Bank's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity while maintaining risk taking within a tolerable limit.

A financial measurement of this risk is arrived at by the Bank for the purpose of allocating risk capital using the Basic Indicator Approach under the CRD rules. The capital requirement for operational risk under this method was calculated at €329,500.

The Bank's objectives when managing capital, which is a broader concept than the 'equity' on the consolidated statement of financial position, are:

- To comply with the capital requirements set by the Malta Financial Services Authority (MFSA) with respect to the Bank's operations;
- To safeguard the Bank's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- To maintain a strong capital base to support the development of its business.

Accordingly, the purpose of the Bank's capital management is essentially that of ensuring efficient use of capital taking cognisance of the Bank's risk appetite and profile as well as its objectives for business development.

6. Capital management

The Bank is subject to externally imposed capital requirements only in respect of the Bank's activities as a credit institution.

The Bank is a licensed financial services provider and must therefore comply with the capital requirements under the relevant laws and regulations.

Capital adequacy and the use of regulatory capital are monitored by the Bank's management, employing techniques based on the guidelines developed by the Basel Committee and the European Union Directives, as implemented by the MFSA for supervisory purposes. The Bank's capital management is based on the regulatory requirements established by local laws and regulations which are modelled on the requisites of the European Union Directive on Capital Requirements ('CRD'). The CRD consists of three pillars: Pillar I contains a set of rules for a mathematical calculation of the capital requirement; Pillar II describes the supervisory review process and contains requirements for the internal calculation of the capital requirement whilst Pillar III deals with market discipline and sets forth disclosure requirements for risk and capital management. The sum of the capital requirement calculated under Pillar I and the additional requirement identified under Pillar II represents the total capital actually required under the CRD.

6. Capital management (continued)

The following is an analysis of the Bank's Capital Base in accordance with the CRD's requirements:

	2011 EUR
Ordinary shares	7,000,000
Accumulated losses	(126,132)
Total original own funds	6,873,868
Additional own funds	-
Total own funds	**6,873,868**

Minimum capital requirements are computed for credit, market and operational risks. The MFSA requires a bank to maintain a ratio of total regulatory capital to risk-weighted assets and instruments (the Capital requirements ratio) at or above the prescribed minimum of 8%. The Capital requirements ratio expresses own funds as a proportion of risk-weighted assets and off-balance sheet items in relation to Credit Risk together with notional risk-weighted assets in respect of Operational Risk and Market Risk.

The risk-weighted assets are measured by means of a hierarchy of risk weights classified according to the nature of – and reflecting an estimate of credit, market and other risks associated with – each asset and counterparty, taking into account any eligible collateral or guarantees. A similar treatment is adopted for off-balance sheet exposures, with some adjustments to reflect the more contingent nature of the potential losses. Risk-weighted assets are measured using the 'standardised approach' for credit risk with risk weights being assigned to assets and off-balance sheet items according to their asset class and credit assessment. For the determination of credit assessments, independent rating agencies are nominated as required.

Total risk-weighted assets are determined by multiplying the capital requirements for market risk and operational risk by 12.5 (i.e. the reciprocal of the minimum capital ratio of 8 per cent) and adding the resulting figures to the sum of risk-weighted assets for credit risk.

6. Capital management (continued)

	Carrying amount EUR	Risk Weighted amount EUR	Capital requirement EUR
Central governments	151,467	-	-
Credit institutions	4,528,219	905,644	72,451
Covered bonds	1,172,010	234,402	18,752
Securitisation positions	1,039,246	207,849	16,627
Other items	102,015	102,015	8,161
Total credit risk	6,992,957	1,449,910	115,991
Operational risk		4,118,750	329,500
Total		**5,568,660**	**445,491**
Own funds		**6,873,868**	
Capital adequacy ratio		**123.55%**	