

**FCM Bank Limited**

**C 50343**

Annual Report

2012

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# FCM Bank Limited

## Directors, officer and other information

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*Directors:* Timothy Babich (Chairman)  
Michael Warrington (Chief Executive Officer)  
John Soler  
Ronald Huggett

*Secretary:* Rachael Cassar Torreggiani

*Registered office:* Aragon House Business Centre,  
Dragonara Road,  
St Julians STJ 3140,  
Malta

*Country of incorporation:* Malta

*Company registration number:* C 50343

*Auditor:* Deloitte Audit Limited,  
Deloitte Place,  
Mrieħel Bypass,  
Mrieħel BKR 3000,  
Malta

# FCM Bank Limited

## Directors' report

For the year ended 31 December 2012

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The directors have pleasure in submitting their second annual report, together with the audited financial statements of FCM Bank Limited ("the Bank") for the year ended 31 December 2012.

### Principal activities

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

### Performance review

During the year ended 31 December 2012, the Bank recorded a loss before tax of EUR 276,569 (2011: loss before tax of EUR 184,142). After accounting for a deferred tax charge, the loss after tax amounted to EUR 179,629 (2011: loss after tax of EUR 126,132). The Bank made its official launch to the public in June 2012 when it inaugurated its premises and introduced its first savings product and accompanying marketing campaign.

The year involved continued efforts to set up the necessary processes and procedures, in order to ensure a strong system of internal controls, which best meets all stakeholder needs. The focus was on building the FCM brand in order to have a base on which to build up the depositor base.

The Bank has also continued its effort to identify a cutting edge core banking platform that will best suit the needs of all stakeholders involved, with particular emphasis on delivering high quality service to clients.

### Future business developments

The Bank expects to continue to build on the growth of 2012 by attracting local deposits and acquiring high quality investment securities and granting of loans. The business model of the Bank going forward is to acquire loans and take deposits both locally as well as in other EU countries. There are no other planned business developments which require disclosure in these financial statements.

### Events after the reporting period

The Bank's parent company effected an increase in the Bank's issued share capital of €1 million on 18 February 2013 in order to finance the acquisition of a core banking solution.

### Results and dividends

The results for the year ended 31 December 2012 are shown in the statement of comprehensive income on page 9. The loss for the year after taxation is EUR 179,629 (2011: loss of EUR 126,132). This is as a result of minimal trading activity in the year due to the Bank still being in its early 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 year ended 31 December 2012

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### Directors

The directors who served during the period were:

Timothy Babich (Chairman)  
Michael Warrington (Chief Executive Officer)  
John Soler (appointed 18 April 2012)  
Ronald Huggett (appointed 23 July 2012)  
Gareth Stephens (resigned 2 April 2012)  
James Dunbar-Cousin (resigned 25 April 2012)

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 5 April 2013 and signed on its behalf by:



Timothy Babich  
Chairman



Michael Warrington  
Chief Executive Officer



John Soler  
Director



Ronald Huggett  
Director

# FCM Bank Limited

## Preparation of financial statements and directors' responsibilities

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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 year and of the profit or loss of the Bank for the year 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.

## **Independent auditor's report to the members of**

### **FCM Bank Limited**

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#### **Report on the financial statements**

We have audited the accompanying financial statements of FCM Bank Limited set out on pages 9 to 43, which comprise the statement of financial position as at 31 December 2012, and the statement of comprehensive income, statement of changes in equity and statement of cash flows of the Bank for the year then ended, and a summary of significant accounting policies and other explanatory information.

#### **Directors' responsibility for the financial statements**

As explained more fully in the statement of directors' responsibilities in the Directors' Report on page 6, the directors of the Bank are responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the EU and the requirements of the Companies Act (Cap. 386), and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

#### **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 judgment, 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 of the financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control of the Bank. 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.

## **Independent auditor's report (continued)** to the members of

### **FCM Bank Limited**

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#### **Opinion**

In our opinion the financial statements give a true and fair view of the financial position of the Bank as of 31 December 2012 and of the Bank's financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

#### **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.

We are also required to state whether the financial statements have been properly prepared in accordance with the provisions of the Companies Act (Cap. 386).

#### **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) and the Companies Act (Cap. 386).



Sarah Curmi as Director  
in the name and on behalf of  
**Deloitte Audit Limited**  
Registered auditor

5 April 2013



# FCM Bank Limited

## Statement of comprehensive income

Year ended 31 December 2012

		Year ended 31 December	Period from 30 July 2010 to 31 December
	Notes	2012 EUR	2011 EUR
Interest income	4	264,322	119,723
Interest expense	5	(25,993)	(1,079)
<b>Net interest income</b>		<b>238,329</b>	<b>118,644</b>
Fee and commission income		18	-
Fee and commission expense	6	(3,071)	(2,048)
Net trading gains/(losses)	7	178,949	(91,844)
Net gain arising from derecognition of financial assets measured at amortised cost	8	76,878	-
<b>Operating income</b>		<b>491,103</b>	<b>24,752</b>
Administrative expense		(429,331)	(161,028)
Employee compensation and benefits	9	(338,341)	(47,866)
<b>Loss before income tax</b>	10	<b>(276,569)</b>	<b>(184,142)</b>
Income tax credit	11	96,940	58,010
<b>Loss for the year/period</b>		<b>(179,629)</b>	<b>(126,132)</b>
<b>Other comprehensive income</b>			
Available-for-sale investments:			
- change in fair value		55,223	-
- deferred tax thereon		(19,328)	-
Other comprehensive income for the year/period, net of tax		35,895	-
<b>Total comprehensive income for the year/period</b>		<b>(143,734)</b>	<b>(126,132)</b>

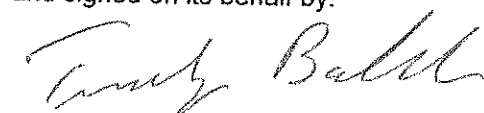
# FCM Bank Limited

## Statement of financial position

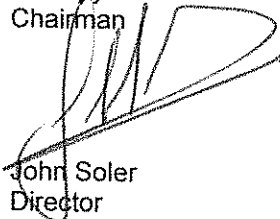
31 December 2012

	Notes	2012 EUR	2011 EUR
<b>Assets</b>			
Cash and cash equivalents	17	829,387	4,528,219
Financial assets at fair value through profit or loss	13	937,081	2,362,723
Investments	14	7,033,367	-
Intangible assets	16	14,300	-
Property, plant and equipment	15	80,858	2,006
Deferred tax	18	135,621	58,010
Other assets		18,875	2,417
Prepayments and accrued income	19	215,270	39,582
<b>Total assets</b>		<b>9,264,759</b>	<b>6,992,957</b>
<b>Liabilities</b>			
Amounts owed to customers	20	2,487,906	100,000
Other liabilities		4,173	2,171
Accruals and deferred income	21	42,546	16,918
<b>Total liabilities</b>		<b>2,534,625</b>	<b>119,089</b>
<b>Equity</b>			
Share capital	22	7,000,000	7,000,000
Revaluation reserves		35,895	-
Accumulated losses		(305,761)	(126,132)
<b>Total equity</b>		<b>6,730,134</b>	<b>6,873,868</b>
<b>Total liabilities and equity</b>		<b>9,264,759</b>	<b>6,992,957</b>


The financial statements on pages 9 to 43 were approved by the Board of Directors on 5 April 2013 and signed on its behalf by:



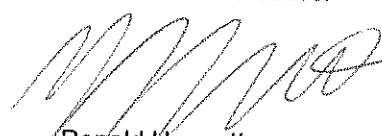
Timothy Babich  
Chairman



John Soler  
Director



Michael Warrington  
Chief Executive Officer



Ronald Huggett  
Director

# FCM Bank Limited

## Statement of changes in equity

Year ended 31 December 2012

	Total EUR	Share capital EUR	Revaluation reserves EUR	Accumulated losses EUR
Issue of share capital	7,000,000	7,000,000	-	-
<b>Total comprehensive loss for the period</b>	<b>(126,132)</b>	-	-	<b>(126,132)</b>
<b>Balance at 1 January 2012</b>	<b>6,873,868</b>	<b>7,000,000</b>	-	<b>(126,132)</b>
Loss for the year	(179,629)	-	-	(179,629)
<b>Other comprehensive income, net of tax</b>				
Available-for-sale investments:				
- change in fair value, net of tax	35,895	-	35,895	-
<b>Total comprehensive loss for the year</b>	<b>(143,734)</b>	-	35,895	<b>(179,629)</b>
<b>At 31 December 2012</b>	<b>6,730,134</b>	<b>7,000,000</b>	<b>35,895</b>	<b>(305,761)</b>

# FCM Bank Limited

## Statement of cash flows

Year ended 31 December 2012

	Notes	2012 EUR	2011 EUR
<b>Cash flows from operating activities</b>			
Interest and commission received		230,403	119,723
Interest and commission paid		(3,885)	-
Cash payments to employees and suppliers		(751,031)	(212,020)
Operating loss before changes in operating assets and liabilities		(524,513)	(92,297)
<b>Cash flows from operating activities before changes in operating assets and liabilities</b>			
Net increase in deposits from customers		2,374,582	100,000
Net (increase) in other assets		(5,899)	(41,999)
Net increase in other liabilities		4,173	19,089
Net cash from/(used) in operating activities		1,848,343	(15,207)
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment		(94,540)	(2,006)
Purchase of intangible assets		(22,243)	-
Acquisition of financial instruments		(7,967,517)	(2,454,568)
Proceeds from sale of financial instruments		2,537,125	-
Net cash used in investing activities		(5,547,175)	(2,456,574)
<b>Cash flows from financing activities</b>			
Proceeds from the issue of share capital		-	7,000,000
(Decrease)/increase in cash and cash equivalents		(3,698,832)	4,528,219
Cash and cash equivalents at the beginning of the year/period		4,528,219	-
Cash and cash equivalents at the end of the year/period	17	829,387	4,528,219

# FCM Bank Limited

## Notes to the financial statements

31 December 2012

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### 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 and available-for-sale investments 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:

By virtue of the December 2011 Amendment, 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.

# FCM Bank Limited

## Notes to the financial statements

31 December 2012

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### **2. Summary of significant accounting policies (continued)**

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

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 1 January 2014 and 1 January 2013 respectively.

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.

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.

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 on initial recognition.

# FCM Bank Limited

## Notes to the financial statements

31 December 2012

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### **2. Summary of significant accounting policies (continued)**

#### **2.5 Financial assets (continued)**

##### **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 Held-to-maturity financial assets**

Non-derivative financial assets with fixed or determinable payments and fixed maturity that the Bank has the positive intention and ability to hold to maturity other than those that upon initial recognition are designated as at fair value through profit or loss, those that are designated as available-for-sale financial assets and those that meet the definition of loans and receivables are classified as held-to-maturity investments.

After initial recognition, held-to-maturity investments are measured at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the financial asset is derecognised or impaired and through the amortisation process.

When applying the effective interest method, the annual amortisation of any discount or premium is aggregated with other investment income receivable over the term of the instrument, if any, so that the revenue recognised in each period represents a constant yield on the investment.

##### **2.5.3 Available-for-sale financial assets**

Available-for-sale financial assets are those non-derivative financial assets that are either designated in this category by the Bank or not classified as loans and receivables, held-to-maturity investments or financial assets at fair value through profit or loss. After initial recognition, available-for-sale financial assets are measured at their fair value. Gains and losses arising from a change in fair value are recognised in other comprehensive income, except for impairment losses and foreign exchange gains and losses on monetary assets, until the financial asset is derecognised, at which time the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment. Interest calculated using the effective interest method is recognised in profit or loss.

# FCM Bank Limited

## Notes to the financial statements

31 December 2012

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### 2.5 Financial assets (continued)

#### 2.5.4 Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market other than those that are held for trading or are designated upon initial recognition as at fair value through profit or loss or as available-for-sale financial assets or those for which the company may not recover substantially all of its initial investment other than because of credit deterioration.

#### 2.5.5 Impairment

All assets are tested for impairment except for financial assets measured at fair value through profit or loss.

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.

In the case of financial assets that are either carried at amortised cost or classified as available-for-sale investments, objective evidence of impairment includes observable data about the following loss event – significant financial difficulty of the issuer or counterparty.

An impairment loss is the amount by which the carrying amount of an asset exceeds its recoverable amount.

For loans and receivables or held-to maturity investments, 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.

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.

When a decline in the fair value of an available-for-sale financial asset has been recognised in other comprehensive income and there is objective evidence that the asset is impaired, the cumulative impairment loss that had been recognised in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment and is measured as the difference between the acquisition cost and current fair value, less any impairment loss on that financial asset previously recognised in profit or loss.



# FCM Bank Limited

## Notes to the financial statements

31 December 2012

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### 2. Summary of significant accounting policies (continued)

#### 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.

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, de-recognition 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.

# FCM Bank Limited

## Notes to the financial statements

31 December 2012

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### 2. Summary of significant accounting policies (continued)

#### 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.

#### 2.9 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 de-recognition 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 de-recognition.

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

Computers, hardware and peripherals 33% per annum

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

# FCM Bank Limited

## Notes to the financial statements

31 December 2012

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### 2. Summary of significant accounting policies (continued)

#### 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.

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 Intangible assets

An intangible asset is recognised if it is probable that the expected future economic benefits that are attributable to the asset will flow to the Bank and the cost of the asset can be measured reliably.

Expenditure on an intangible asset is recognised as an expense in the period when it is incurred unless it forms part of the cost of the asset that meets the recognition criteria.

The useful life of intangible assets is assessed to determine whether it is finite or indefinite. Intangible assets with a finite useful life are amortised. Amortisation is charged to profit or loss so as to write off the cost of the intangible asset less any estimated residual value, over their estimated useful lives. The amortisation method applied, the residual value and the useful life are reviewed, and adjusted if appropriate, at the end of each reporting period.

Intangible assets are derecognised on disposal or when no future economic benefits are expected from their use or disposal. Gains or losses arising from de-recognition 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 de-recognition.

# FCM Bank Limited

## Notes to the financial statements

31 December 2012

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### 2. Summary of significant accounting policies (continued)

#### 2.13 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.

#### 2.14 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.

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.

# FCM Bank Limited

## Notes to the financial statements

31 December 2012

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### **2. Summary of significant accounting policies (continued)**

#### **2.14 Taxation (continued)**

Current tax assets and liabilities are offset 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.

Deferred tax assets and liabilities are offset when the Bank 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.

#### **2.15 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.

#### **2.16 Employee benefits**

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

#### **2.17 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.

# FCM Bank Limited

## Notes to the financial statements

31 December 2012

### 2. Summary of significant accounting policies (continued)

#### 2.18 Dividends payable

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

#### 2.19 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 Bank'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

	Year ended 31 December	Period from 30 July 2010 to 31 December
	2012 EUR	2011 EUR
On bank deposits	6,311	94,008
On debt and other fixed income instruments		
-available for sale	16,748	-
-held-to-maturity	202,691	-
-fair value through profit or loss	38,572	25,715
	258,011	25,715
<b>Interest income</b>	<b>264,322</b>	<b>119,723</b>

# FCM Bank Limited

## Notes to the financial statements

31 December 2012

### 5. Interest expense

	Year ended 31 December	Period from 30 July 2010 to 31 December
	2012 EUR	2011 EUR
On amounts owed to banks	27	-
On amounts owed to customers	25,966	1,079
	<u>25,993</u>	<u>1,079</u>

### 6. Fee and commission expense

	Year ended 31 December	Period from 30 July 2010 to 31 December
	2012 EUR	2011 EUR
On loans and advances, sale of financial products and similar activities	3,071	2,048

### 7. Trading income

	Year ended 31 December	Period from 30 July 2010 to 31 December
	2012 EUR	2011 EUR
Fair value movements and net gains / (losses) on sale of financial instruments at fair value through profit or loss	178,949	(91,844)

### 8. Net gain arising from derecognition of financial assets measured at amortised cost

During the year a bond which had been classified as held-to-maturity was restructured as a result of which the original bond was derecognised and a gain of €76,878 was recognised with reference to the fair value of the new bond issued by way of the restructuring and designated as a FVTPL investment. The exchange between the old bond and the new bond was not deemed to have tainted the held-to-maturity investment class.

# FCM Bank Limited

## Notes to the financial statements

31 December 2012

### 9. Employee compensation and benefits

#### 9.1 Key management personnel compensation

	Year ended 31 December	Period from 30 July 2010 to 31 December
	2012 EUR	2011 EUR
<i>Short-term benefits</i>		
Directors' emoluments:		
- Directors' fees	23,602	34,522
- Directors' remuneration	92,051	-
	<u>115,653</u>	<u>34,522</u>

#### 9.2 Personnel expenses incurred during the year/period are analysed as follows:

	Year ended 31 December	Period from 30 July 2010 to 31 December
	2012 EUR	2011 EUR
Wages and salaries	303,941	12,070
Social security costs	10,798	1,274
	<u>314,739</u>	<u>13,344</u>

#### 9.3 The average number of persons employed during the year/period including the executive director was as follows:

	2012 No.	2011 No.
Managerial	4	1
Other	2	1
	<u>6</u>	<u>2</u>



# FCM Bank Limited

## Notes to the financial statements

31 December 2012

### 10. Loss before tax

Loss before tax is stated after charging:

	Year ended 31 December	Period from 30 July 2010 to 31 December
	2012 EUR	2011 EUR
Total remuneration payable to the Bank's auditors for:		
- the audit of the financial statements	9,500	8,000
- total fees payable to the company's auditors for non-audit services other than other assurance services and tax advisory services	11,752	22,845
	<u>21,252</u>	<u>30,845</u>

### 11. Income tax credit

	Year ended 31 December	Period from 30 July 2010 to 31 December
	2012 EUR	2011 EUR
Deferred tax credit	<u>96,940</u>	<u>58,010</u>

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

	Year ended 31 December	Period from 30 July 2010 to 31 December
	2012 EUR	2011 EUR
Loss before tax	<u>276,569</u>	<u>184,142</u>
Tax at the applicable rate of 35%	<u>96,800</u>	<u>64,450</u>
<i>Tax effect of:</i>		
Amount in respect of prior year	140	-
Non-allowable expenses	-	(6,440)
<b>Total income tax credit</b>	<u><u>96,940</u></u>	<u><u>58,010</u></u>

# FCM Bank Limited

## Notes to the financial statements

31 December 2012

### 12. Operating leases

The Bank recognised minimum lease payments under operating leases amounting to EUR 24,524 as an expense for the year.

Operating lease payments represent rentals payable by the Bank for the use of office premises. The Bank's lease agreement provides for the rental of office premises for three years extendable for a further two years at the lessee's option. The lease agreement is cancellable upon the payment of a penalty equal to one year's rent.

### 13. Financial assets at fair value through profit or loss

	2012 EUR	2011 EUR
<b>Debt and other fixed income instruments</b>		
Issued by public bodies:		
- local government	-	49,902
- foreign government	-	101,565
Issued by other issuers:		
- foreign banks	-	1,172,010
- foreign other	937,081	1,039,246
	<u>937,081</u>	<u>2,362,723</u>
Listing status		
- listed on Malta Stock Exchange	-	49,902
- foreign listed	937,081	2,312,821
	<u>937,081</u>	<u>2,362,723</u>
Summary of movements during the year/period:		
At the beginning of the year/period	2,362,723	-
Acquisitions	936,948	2,454,567
Disposals	(2,391,539)	-
Matured	(150,000)	-
Movement in fair value	178,949	(91,844)
At the end of the year/period	<u>937,081</u>	<u>2,362,723</u>

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 position is provided internally on that basis to key management personnel, including the Board of Directors and Chief Executive Officer.

# FCM Bank Limited

## Notes to the financial statements

31 December 2012

### 14. Investments

	2012 EUR	2011 EUR
Debt and other fixed income instruments:		
- available-for-sale	743,340	-
- held-to-maturity	6,290,027	-
	<u>7,033,367</u>	<u>-</u>

#### 14.1 Debt and other fixed income instruments available-for-sale

	2012 EUR	2011 EUR
Issued by other issuers:		
- foreign banks	-	-
- foreign other	743,340	-
	<u>743,340</u>	<u>-</u>
Listing status		
- listed on Malta Stock Exchange	-	-
- foreign listed	743,340	-
- foreign unlisted	-	-
	<u>743,340</u>	<u>-</u>
Summary of movements during the year:		
At the beginning of the period	-	-
Acquisitions	680,000	-
Amortisation	8,117	-
Movement in fair value	55,223	-
At the end of the year	<u>743,340</u>	<u>-</u>

# FCM Bank Limited

## Notes to the financial statements

31 December 2012

### 14. Investments (continued)

#### 14.2 Debt and other fixed income instruments held-to-maturity

	2012 EUR	2011 EUR
Issued by other issuers:		
- foreign banks	-	-
- foreign other	6,290,027	-
	<u>6,290,027</u>	<u>-</u>
Listing status		
- foreign listed	5,277,604	-
- foreign unlisted	1,012,423	-
	<u>6,290,027</u>	<u>-</u>
Summary of movements during the year/period:		
At the beginning of the year/period	-	-
Acquisitions	7,175,344	-
Redemptions	(892,376)	-
Amortisation	7,059	-
At the end of the year/period	<u>6,290,027</u>	<u>-</u>

At 31 December 2012 the fair value of held-to-maturity securities amounted to €6,477,600 (2011: €Nil.)

# FCM Bank Limited

## Notes to the financial statements

31 December 2012

### 15. Property, plant and equipment

	Furniture and fittings EUR	Computers, hardware and peripherals EUR	Total EUR
<b>Cost</b>			
Additions	2,006	-	2,006
At 31 December 2011	2,006	-	2,006
At 1 January 2012	2,006	-	2,006
Additions	69,706	24,379	94,085
At 31 December 2012	71,712	24,379	96,091
<b>Depreciation</b>			
Charge for the period	-	-	-
At 31 December 2011	-	-	-
At 1 January 2012	-	-	-
Charge for the year	9,311	5,922	15,233
At 31 December 2012	9,311	5,922	15,233
<b>Carrying amount</b>			
At 31 December 2011	2,006	-	2,006
At 31 December 2012	62,401	18,457	80,858

### 16. Intangible assets

	Software EUR
At 1 January 2012	-
Additions	16,620
At 31 December 2012	16,620
<b>Amortisation</b>	
Charge for the year	2,320
At 31 December 2012	2,320
<b>Carrying amount</b>	
At 31 December 2012	14,300

# FCM Bank Limited

## Notes to the financial statements

31 December 2012

### 17. 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.

	2012 EUR	2011 EUR
Repayable on call and at short notice	828,693	4,528,219
Cash in hand	694	-
	<u>829,387</u>	<u>4,528,219</u>

### 18. Deferred tax (liabilities)/assets

#### Recognised deferred tax (liabilities)/assets

Deferred tax (liabilities)/assets are attributable to the following:

	2012 EUR	2011 EUR
Tax value of losses and capital allowances carry-forwards	154,949	25,864
Fair value re-measurement of financial instruments	(19,328)	32,146
	<u>135,621</u>	<u>58,010</u>

The following is an analysis of the deferred tax balances:

Deferred tax liabilities	(19,328)	-
Deferred tax assets	154,949	58,010
	<u>135,621</u>	<u>58,010</u>

### 19. Prepayments and accrued income

	2012 EUR	2011 EUR
Accrued income	191,339	25,624
Prepayments	23,931	13,958
	<u>215,270</u>	<u>39,582</u>

### 20. Amounts owed to customers

	2012 EUR	2011 EUR
Term deposits	<u>2,487,906</u>	<u>100,000</u>

The amounts owed to customers are unsecured and no guarantees have been given or received in respect of these amounts.

# FCM Bank Limited

## Notes to the financial statements

31 December 2012

### 21. Accruals and deferred income

	2012 EUR	2011 EUR
Deferred income	12,466	1,079
Accrued expenses	30,080	15,839
	<u>42,546</u>	<u>16,918</u>

### 22. Share capital

	2012 and 2011	
	No. of shares	EUR
<b>Authorised:</b>		
Ordinary shares at €1 each	<u>20,000,000</u>	<u>20,000,000</u>
<b>Issued and paid up:</b>		
Ordinary shares at €1 each fully paid	<u>7,000,000</u>	<u>7,000,000</u>

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.

### 23. Related parties

Related party transactions during the year/period were as follows:

	2011 EUR	2011 Total EUR	2011 % of total
Interest expense on deposits	<u>1,079</u>	<u>1,079</u>	<u>100</u>
<b>Balances with related parties</b>			
Other assets	2,417	2,417	100
Deposits from customers	100,000	100,000	100
Accrued interest on deposits from customers	<u>1,079</u>	<u>1,079</u>	<u>100</u>
<b>Compensation to key management personnel</b>			
Directors' fee	<u>34,522</u>	<u>34,522</u>	<u>100</u>

No expense has been recognised in the year/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 (2011: Eur Nil).

# FCM Bank Limited

## Notes to the financial statements

31 December 2012

### 23. Related parties (continued)

	2012 EUR	2012 Total EUR	2012 % of total
Interest expense on deposits	2,269	25,993	9
<b>Balances with related parties</b>			
Other assets	8,316	18,874	44
Deposits from customers	61,261	2,487,906	2
Accrued interest on deposits from customers	692	12,466	6
<b>Compensation to key management personnel</b>			
Directors' fees	23,602	23,602	100
Personnel expenses	92,051	314,739	29

### 24. Subsequent event

The Bank's parent company effected an increase in the Bank's issued share capital of €1 million on 18 February 2013 in order to finance the acquisition of a core banking solution.

### 25. Financial risk management

#### 25.1 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.



# FCM Bank Limited

## Notes to the financial statements

31 December 2012

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### 25. Financial risk management (continued)

#### 25.1 Introduction and overview (continued)

- *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.

#### 25.2 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 and cash at bank. The maximum exposure to credit risk of these financial assets equals their carrying amount.

# FCM Bank Limited

## Notes to the financial statements

31 December 2012

### 25. Financial risk management (continued)

#### 25.2 Credit risk management (continued)

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:

	2012 EUR	2011 EUR
Financial assets at fair value through profit or loss	937,081	2,362,723
Available-for sale investments	743,340	-
Held-to-maturity investments	6,290,027	-
Cash at bank	828,693	4,528,219
	<u>8,799,141</u>	<u>6,890,942</u>

#### 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:

	2012 EUR	2011 EUR
<b>Concentration by sector</b>		
Monetary financial institutions	828,693	5,700,229
Other financial institutions	743,340	1,039,246
General Government	-	151,467
Corporate	7,227,108	-
	<u>8,799,141</u>	<u>6,890,942</u>

# FCM Bank Limited

## Notes to the financial statements

31 December 2012

### 25. Financial risk management (continued)

#### 25.2 Credit risk management (continued)

##### Concentrations of credit risk (continued)

*Exposures analysed by location*

##### As at 31 December 2011

	North America EUR	Europe EUR	Total EUR
General Government	-	151,467	151,467
Monetary financial institutions	-	5,700,229	5,700,229
Other financial institutions	-	1,039,246	1,039,246
<b>Total</b>	<b>-</b>	<b>6,890,942</b>	<b>6,890,942</b>

##### As at 31 December 2012

	North America EUR	Europe EUR	Total EUR
General Government	-	-	-
Monetary financial institutions	-	828,693	828,693
Other financial institutions	-	743,340	743,340
Corporate	1,007,388	6,219,720	7,227,108
<b>Total</b>	<b>1,007,388</b>	<b>7,791,753</b>	<b>8,799,141</b>

The Bank had no exposures to Greece, Italy, Ireland, Portugal, Spain and Cyprus economies as at 31 December 2012 (as at 31 December 2011 the Bank had exposure to credit institutions in Spain amounting to EUR 1,172,010 and to credit institutions in Portugal amounting to EUR 1,039,246).

##### 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:

	2012 EUR	2011 EUR
BBB- and higher	1,680,421	2,362,723
BB+ or lower	5,277,604	-
Unrated	1,012,423	-
<b>Total</b>	<b>7,970,448</b>	<b>2,362,723</b>

Cash at bank is placed with reliable financial institutions.

# FCM Bank Limited

## Notes to the financial statements

31 December 2012

### 25. Financial risk management (continued)

#### 25.3 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 both 31 December 2012 and 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 the Bank's financial liabilities into relevant maturity groupings, based on the remaining period at the reporting date to the contractual maturity date.

As at 31 December 2011	Carrying amount EUR	Gross outflow EUR	Less than 1 month EUR	1 to 3 months EUR	3 months to 1 year EUR	1 to 5 years EUR
Deposits from customers	(100,000)	(100,000)	(100,000)	-	-	-
As at 31 December 2012						
Deposits from customers	(2,487,906)	(2,796,524)	(54,812)	(11,346)	(1,298,310)	(1,432,056)

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.

# FCM Bank Limited

## Notes to the financial statements

31 December 2012

### 25. Financial risk management (continued)

#### 25.3 Liquidity risk (continued)

	Less than 3 months	Between 3 months and a year	Between 1 and 5 years	Over 5 years	Total
	EUR	EUR	EUR	EUR	EUR
<b>As at 31 December 2011</b>					
<b>Assets</b>					
Financial assets at fair value through profit or loss	49,902	101,565	2,211,256	-	2,362,723
Available-for- sale investments	-	-	-	-	-
Held-to-maturity investments	-	-	-	-	-
Cash and cash equivalents	4,528,219	-	-	-	4,528,219
	<u>4,578,121</u>	<u>101,565</u>	<u>2,211,256</u>	<u>-</u>	<u>6,890,942</u>
<b>Liabilities</b>					
Amounts owed to customers	100,000	-	-	-	100,000
	<u>100,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>100,000</u>
<b>As at 31 December 2012</b>					
<b>Assets</b>					
Financial assets at fair value through profit or loss	-	-	-	937,081	937,081
Available-for- sale investments	-	-	-	743,340	743,340
Held-to-maturity investments	-	-	2,114,124	4,175,903	6,290,027
Cash and cash equivalents	829,387	-	-	-	829,387
	<u>829,387</u>	<u>-</u>	<u>2,114,124</u>	<u>5,856,324</u>	<u>8,799,835</u>
<b>Liabilities</b>					
Amounts owed to customers	53,517	1,265,435	1,168,954	-	2,487,906
	<u>53,517</u>	<u>1,265,435</u>	<u>1,168,954</u>	<u>-</u>	<u>2,487,906</u>

#### 25.4 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.

# FCM Bank Limited

## Notes to the financial statements

31 December 2012

### 25. Financial risk management (continued)

#### 25.4 Market risk (continued)

##### 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 re-pricing bands.

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

	Less than 3 months	Between 3 months and a year	Between 1 and 5 years	Over 5 years	Total
	EUR	EUR	EUR	EUR	EUR
As at 31 December 2011					
<b>Assets</b>					
Financial assets at fair value through profit or loss	1,190,713	649,908	522,102	-	2,362,723
Available-for-sale investments	-	-	-	-	-
Held-to-maturity investments	-	-	-	-	-
Cash and cash equivalents	4,528,219	-	-	-	4,528,219
	<u>5,718,932</u>	<u>649,908</u>	<u>522,102</u>	<u>-</u>	<u>6,890,942</u>
<b>Liabilities</b>					
Amounts owed to customers	100,000	-	-	-	100,000
	<u>100,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>100,000</u>
Gap	5,618,932	649,908	522,102	-	
Cumulative gap	<u>5,618,932</u>	<u>6,268,840</u>	<u>6,790,942</u>	<u>6,790,942</u>	

# FCM Bank Limited

## Notes to the financial statements

31 December 2012

### 25. Financial risk management (continued)

#### 25.4 Market risk (continued)

##### Exposure to interest rate risk (continued)

	Less than 3 months	Between 3 months and a year	Between 1 and 5 years	Over 5 years	Total
	EUR	EUR	EUR	EUR	EUR
<b>As at 31 December 2012</b>					
<b>Assets</b>					
Financial assets at fair value through profit or loss	937,081	-	-	-	937,081
Available-for-sale investments	-	-	743,340	-	743,340
Held-to-maturity investments	-	-	2,114,124	4,175,903	6,290,027
Cash and cash equivalents	829,387	-	-	-	829,387
	<u>1,766,468</u>	<u>-</u>	<u>2,857,464</u>	<u>4,175,903</u>	<u>8,799,835</u>
<b>Liabilities</b>					
Amounts owed to customers	53,517	1,265,435	1,168,954	-	2,487,906
	<u>53,517</u>	<u>1,265,435</u>	<u>1,168,954</u>	<u>-</u>	<u>2,487,906</u>
Gap	1,712,951	(1,265,435)	1,688,510	4,175,903	
Cumulative gap	<u>1,712,951</u>	<u>447,516</u>	<u>2,136,026</u>	<u>6,311,929</u>	

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
<b>As at 31 December 2011</b>		
<b>Interest earning assets</b>		
Financial assets at fair value through profit and loss	1,323,477	1,039,246
Available-for-sale investments	-	-
Held-to-maturity investments	-	-
Advances to banks	4,000,488	-
	<u>5,323,965</u>	<u>1,039,246</u>
<b>Interest bearing liabilities</b>		
Amounts owed to customers	100,000	-
	<u>100,000</u>	<u>-</u>

# FCM Bank Limited

## Notes to the financial statements

31 December 2012

### 25. Financial risk management (continued)

#### 25.4 Market risk (continued)

	Rate Instruments	
	Fixed EUR	Variable EUR
<b>As at 31 December 2012</b>		
<b>Interest earning assets</b>		
Financial assets at fair value through profit and loss	-	937,081
Available-for-sale investments	-	743,340
Advances to banks	-	-
	-	1,680,421
<b>Interest bearing liabilities</b>		
Amounts owed to customers	2,487,906	-
	2,487,906	-

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 2012 was estimated at €24,030 (€106,710 at the end of 2011).

#### 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.



# FCM Bank Limited

## Notes to the financial statements

31 December 2012

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### 25. Financial risk management (continued)

#### 25.5 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 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.

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.

#### 25.6 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.

# FCM Bank Limited

## Notes to the financial statements

31 December 2012

### 25. Financial risk management (continued)

#### 25.6 Capital risk management (continued)

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.

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

	2012 EUR	2011 EUR
Original own funds		
<i>Ordinary shares</i>	7,000,000	7,000,000
<i>Accumulated losses</i>	(305,761)	(126,132)
<i>Intangible assets</i>	(14,300)	-
Total original own funds	6,679,939	6,873,868
Additional own funds		
Available-for-sale reserve	35,895	-
Total additional own funds	35,895	-
<b>Total own funds</b>	<b>6,715,834</b>	<b>6,873,868</b>

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.

# FCM Bank Limited

## Notes to the financial statements

31 December 2012

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### 25. Financial risk management (continued)

#### 25.6 Capital risk management (continued)

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 2012 stood at 59.75% (123.55% at 31 December 2011).

### 26. 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.

The fair value of investments carried at amortised cost is disclosed separately in the relevant note to the financial statements.

### 27. 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 Aragon House Business Centre, Dragonara Road, St Julians, 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.

# FCM Bank Limited

## Additional Regulatory Disclosures

In terms of Appendix 2 of Banking Rule 07 for the year ended 31 December 2012

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### 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 in place a Credit and Risk Committee that are responsible for developing and monitoring the Bank's risk management policies in its 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.

# FCM Bank Limited

## Additional Regulatory Disclosures

In terms of Appendix 2 of Banking Rule 07 for the year ended 31 December 2012

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### 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 Bank'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 from deposits with other banks and on its securities portfolio.

# FCM Bank Limited

## Additional Regulatory Disclosures

In terms of Appendix 2 of Banking Rule 07 for the year ended 31 December 2012

### 2. Credit risk (continued)

The Credit and Risk Committee is responsible 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 and reported to the Board.

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 2012, 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*

	Europe EUR	North America EUR	Total EUR
Central governments	4,173	-	4,173
Credit Institutions	824,513	-	824,513
Covered bonds	-	-	-
Corporates	6,025,979	1,007,388	7,033,367
Securitisations	937,081	-	937,081
Other	451,755	14,355	466,110
Total	<u>8,243,501</u>	<u>1,021,743</u>	<u>9,265,244</u>

The Bank had no exposures to Greece, Italy, Ireland, Portugal, Spain and Cyprus economies as at 31 December 2012 (as at 31 December 2011 the Bank had exposure to credit institutions in Spain amounting to EUR 1,172,010 and to credit institutions in Portugal amounting to EUR 1,039,246).

# FCM Bank Limited

## Additional Regulatory Disclosures

In terms of Appendix 2 of Banking Rule 07 for the year ended 31 December 2012

### 2. Credit risk (continued)

*Exposures analysed by residual maturity*

	Less than one year EUR	Over 1 but less than 5 years EUR	Over 5 years	Total EUR
Central governments	4,173	-	-	4,173
Credit institutions	824,513	-	-	824,513
Corporates	-	2,114,124	4,919,243	7,033,367
Securitisations	-	-	937,081	937,081
Other items	466,110	-	-	466,110
<b>Total</b>	<b>1,294,796</b>	<b>2,114,124</b>	<b>5,856,324</b>	<b>9,265,244</b>

*Exposures analysed by sector*

	General governments EUR	Monetary financial institutions EUR	Other financial institutions EUR	Corporates EUR	Other EUR	Total EUR
Central governments	4,173	-	-	-	-	4,173
Credit Institutions	-	824,513	-	-	-	824,513
Corporates	-	-	743,340	6,290,027	-	7,033,367
Securitisations	-	-	-	937,081	-	937,081
Other	-	-	46,929	323,329	95,852	466,110
<b>Total</b>	<b>4,173</b>	<b>824,513</b>	<b>790,269</b>	<b>7,550,437</b>	<b>95,852</b>	<b>9,265,244</b>

#### *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.

# FCM Bank Limited

## Additional Regulatory Disclosures

In terms of Appendix 2 of Banking Rule 07 for the year ended 31 December 2012

### 2. Credit risk (continued)

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

	Credit Quality Step 1 EUR	Credit Quality Step 2 EUR	Credit Quality Step 3 EUR	Credit Quality Step 4 EUR	Credit Quality Step 5 EUR	Credit Quality Step 6 EUR	Unrated EUR	Total EUR
Central governments	-	4,173	-	-	-	-	-	4,173
Credit Institutions	-	-	824,513	-	-	-	-	824,513
Corporates	-	-	743,340	3,151,936	2,125,668	-	-	6,020,944
Securitisations	-	937,081	-	-	-	-	-	937,081
Other	-	-	-	-	-	-	1,478,533	1,478,533
<b>Total</b>	<b>-</b>	<b>941,254</b>	<b>1,567,853</b>	<b>3,151,936</b>	<b>2,125,668</b>	<b>-</b>	<b>1,478,533</b>	<b>9,265,244</b>

#### Securitisation

The Bank directly invests in high grade securitisations as part of the non-trading book. As at 31 December 2011 the total €937,081 securitisation position held was rated BBB-. 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.



# FCM Bank Limited

## Additional Regulatory Disclosures

In terms of Appendix 2 of Banking Rule 07 for the year ended 31 December 2012

### 3. Market risk (continued)

#### 3.1 Interest rate risk (continued)

The net effect of an immediate 200 basis point increase/decrease in yields is estimated at €24,030.

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
As at 31 December 2012		
<b>Interest earning assets</b>		
Financial assets at fair value through profit and loss	-	937,081
Available-for-sale investments	-	743,340
Advances to banks	-	-
	-	1,680,421
<b>Interest bearing liabilities</b>		
Amounts owed to customers	2,487,906	-
	2,487,906	-

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

	Less than 3 months EUR	Between 3 months and a year EUR	Between 1 and 5 years EUR	Over 5 years EUR	Total EUR
As at 31 December 2012					
<b>Assets</b>					
Financial assets at fair value through profit or loss	937,081	-	-	-	937,081
Available-for-sale investments	-	-	743,340	-	743,340
Held-to-maturity investments	-	-	2,114,124	4,175,903	6,290,027
Cash and cash equivalents	829,387	-	-	-	829,387
	1,766,468	-	2,857,464	4,175,903	8,799,835
<b>Liabilities</b>					
Amounts owed to customers	53,517	1,265,435	1,168,954	-	2,487,906
	53,517	1,265,435	1,168,954	-	2,487,906
Gap	1,712,951	(1,265,435)	1,688,510	4,175,903	
Cumulative gap	1,712,951	447,516	2,136,026	6,311,929	

# FCM Bank Limited

## Additional Regulatory Disclosures

In terms of Appendix 2 of Banking Rule 07 for the year ended 31 December 2012

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### 3. Market risk (continued)

#### 3.2 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.

### 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.

# FCM Bank Limited

## Additional Regulatory Disclosures

In terms of Appendix 2 of Banking Rule 07 for the year ended 31 December 2012

### 4. Liquidity risk (continued)

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.

	Less than 3 months	Between 3 months and a year	Between 1 and 5 years	Over 5 years	Total
	EUR	EUR	EUR	EUR	EUR
<b>As at 31 December 2012</b>					
<b>Assets</b>					
Financial assets at fair value through profit or loss	-	-	-	937,081	937,081
Available-for-sale investments	-	-	-	743,340	743,340
Held-to-maturity investments	-	-	2,114,124	4,175,903	6,290,027
Cash and cash equivalents	829,387	-	-	-	829,387
	<u>829,387</u>	<u>-</u>	<u>2,114,124</u>	<u>5,856,324</u>	<u>8,799,835</u>
<b>Liabilities</b>					
Amounts owed to customers	53,517	1,265,435	1,168,954	-	2,487,906
	<u>53,517</u>	<u>1,265,435</u>	<u>1,168,954</u>	<u>-</u>	<u>2,487,906</u>

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

### 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.

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### 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 €79,000.

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

#### 6.1 Capital adequacy

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

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.

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## Additional Regulatory Disclosures

In terms of Appendix 2 of Banking Rule 07 for the year ended 31 December 2012

### 6. Capital management (continued)

#### 6.1 Capital adequacy (continued)

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

	2012 EUR	2011 EUR
Original own funds		
<i>Ordinary shares</i>	7,000,000	7,000,000
<i>Accumulated losses</i>	(305,761)	(126,132)
<i>Intangible assets</i>	(14,300)	-
Total original own funds	6,679,939	6,873,868
Additional own funds		
Available-for-sale reserve	35,895	-
Total additional own funds	35,895	-
<b>Total own funds</b>	<b>6,715,834</b>	<b>6,873,868</b>

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.

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In terms of Appendix 2 of Banking Rule 07 for the year ended 31 December 2012

### 6. Capital management (continued)

#### 6.1 Capital adequacy (continued)

	Carrying amount EUR	Risk Weighted amount EUR	Capital requirement EUR
Central governments	4,173	-	-
Credit institutions	824,513	164,903	13,192
Corporates	7,033,367	9,153,263	732,261
Securitisation positions	937,081	468,541	37,483
Other items	465,625	465,225	37,218
Total credit risk	9,264,759	10,251,932	820,154
Operational risk		987,500	79,000
<b>Total</b>		<b>11,239,432</b>	<b>899,186</b>
<b>Own funds</b>		<b>6,715,834</b>	
<b>Capital adequacy ratio</b>		<b>59.75%</b>	

#### 6.2 Internal capital adequacy assessment process (ICAAP)

The Bank is in the process of developing its ICAAP which will be documented in a report to be submitted to the MFSA by June 30 2013. As a result, a more detailed description of the process will be included in future Annual Reports.

### 7 Remuneration Policy

The Bank has during the year approved the Remuneration Policy which is based on the following principles:

- Clarity and transparency for all stakeholders;
- Adherence to the Bank's long-term objectives with reference to the relevant level of risk involved in attaining these goals;
- Maintaining a reasonable proportion between the fixed and variable part of remuneration package;
- The review of the annual staff remuneration considers the Bank's results, performance, as well as local market trends in the financial sector and individual performance in view of the risk level involved in the long term;
- Market data is considered and target remuneration brackets per job position are set in view to level of expertise, years in the position, attraction of talent and high performers.

The remuneration paid during the year to the executive directors, whose actions have a material impact on the risk profile of the Bank are EUR92,051. Directors' fees paid to non-executive directors during the year were EUR22,802.

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### **8 Internal audit**

In 2013 the Bank outsourced its Internal Audit to an independent professional services firm. The Internal Audit will be supporting the Board of Directors by independently assessing the effectiveness of the Bank's system of internal controls and compliance of the Bank with statutory, legal and regulatory requirements. All key issues raised by Internal Audit will be communicated to the management responsible via formal audit reports. The Board of Directors will be informed of important findings.

Internal Audit will have unrestricted access to all accounts, books and records and will be provided with all information and data needed to fulfil its duties. Coordination and close cooperation with the external auditors will be important to enhance the efficiency of Internal Audit's work.