ANNUAL REPORT & FINANCIAL STATEMENTS 2014

APS bank

MISSION STATEMENT

TO OFFER PERSONALISED FINANCIAL SOLUTIONS BASED ON TRUST AND INSPIRED BY OUR SOCIAL COMMITMENT. CUSTOMER SATISFACTION, EMPLOYEE DEVELOPMENT, QUALITY AND INNOVATION ARE THE KEYS TO OUR SUCCESS.

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BANK INFORMATION

DIRECTORS

Emanuel P. Delia M.A., M.Litt. (Oxon.), Chairman

Franco Azzopardi M.Sc. Finance (Leicester UK), F.I.A., C.P.A.

Joseph C. Caruana A.C.I.B.

Arthur Galea Salomone LL.M. (Toronto), LL.D.

Victor Gusman

Frederick F. Micallef M.I.M.I.S., M.B.A.

Martin Scicluna F.C.I.B., DipFS

COMPANY SECRETARY

Mario Felice LL.D.

CHIEF EXECUTIVE OFFICER

Edward Cachia A.C.I.B.

REGISTERED OFFICE

APS Centre, Tower Street,
Birkirkara, BKR 4012 Malta

WEBSITE

www.apsbank.com.mt

BOARD OF DIRECTORS

EMANUEL P. DELIA – Chairman and Non-Executive Director

Mr Delia was appointed Chairman of APS Bank Limited in November 1999. He has held posts in academia, public sector institutions and private organisations. He was also a Director of the Central Bank of Malta, Middle Sea Insurance p.l.c. and Aon Malta Limited, as well as Chairman of Mid-Med Bank Limited. Mr Delia currently sits on the Board of Directors of four companies.

FRANCO AZZOPARDI – Non-Executive Director

Mr Azzopardi was appointed to the Board in September 2008. He spent 27 years working in public practice as an accountant and auditor, and is currently a professional director and a registered fellow member of the UK Institute of Directors. His portfolio includes directorships on the Boards of seven companies within a logistics group, four consultancy companies and eight various companies, listed and private, both local and international.

JOSEPH C. CARUANA – Non-Executive Director

Appointed to the Board in April 2004. Mr Caruana is an Associate of the Chartered Institute of Bankers (UK) with a long career in banking, having joined Barclays Bank in 1956. He held the position of General Manager at Mid-Med Bank Limited, Investment Finance Bank Limited and finally at HSBC Bank Malta p.l.c. Mr Caruana currently sits on the Board of Directors of four companies.

ARTHUR GALEA SALOMONE – Non-Executive Director

Appointed to the Board in February 1997, Dr Galea Salomone is the Managing Partner of Galea Salomone & Associates and practices widely in Corporate and Commercial Law and Financial Services Law. He was Chairman of the Malta Stock Exchange from 2010 to 2013. He is currently Deputy Chairman of the Malta Arbitration Centre and sits on the Board of Directors of 14 companies.

VICTOR GUSMAN – Non-Executive Director

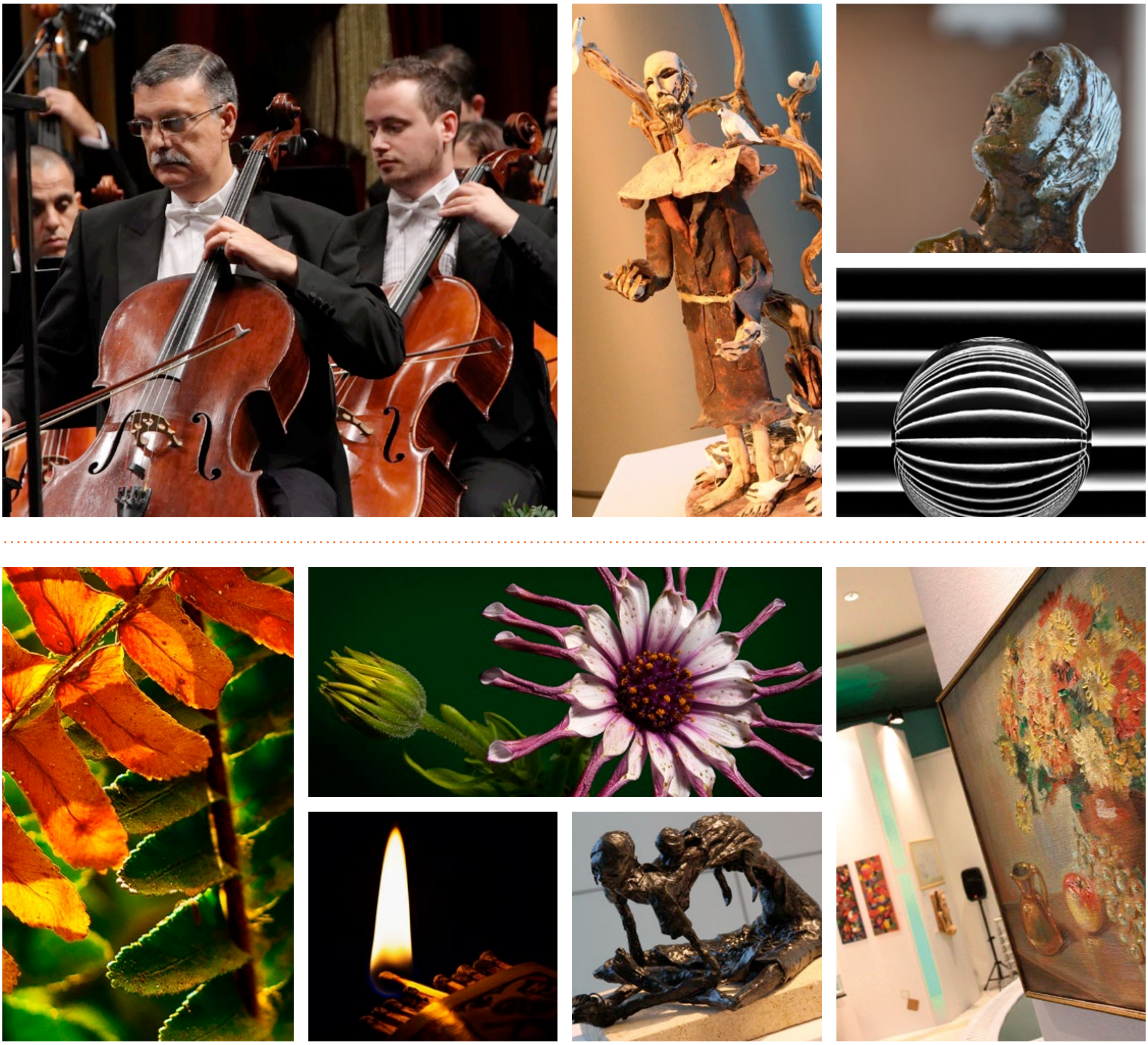
Mr Gusman was appointed to the Board in April 2012. He spent most of his working career in England and Italy as Chairman of the Lemco Group of Companies. He is currently the director of two companies and has been serving as Administrator for the Diocese of Gozo, with responsibility for the Administration, Finance and Property Departments within the Gozo Curia for a number of years.

FREDERICK MICALLEF – Non-Executive Director

Mr Micallef was appointed to the Board in April 2004. He is currently the Chairman and Managing Director of DataByte Limited, an ICT services company that he co-founded 29 years ago. Mr Micallef is also Director of STC Training Limited – an ICT training institution. Currently, he holds eight directorships in various companies within the financial and ICT sectors.

MARTIN SCICLUNA – Non-Executive Director

Mr Scicluna was appointed to the Board in November 2013. His previous career in banking spanned 36 years, during which time, he occupied senior executive positions in Mid-Med Bank p.l.c., Midland Bank p.l.c., Malta branch and HSBC Bank Malta p.l.c. Mr Scicluna currently holds board appointments in a further five locally licensed companies covering ten board positions in asset management, insurance and financial services businesses.



A SELECTION OF IMAGES FROM ARTISTIC AND CULTURAL ACTIVITIES ORGANISED BY THE BANK

CHAIRMAN'S STATEMENT

CHAIRMAN'S STATEMENT

Overall Performance

The year 2014 has been challenging for many enterprises, worldwide, financial operators included. Political instability, at times exacerbated by armed conflict, disoriented many policy makers and weakened the resolve to forge ahead with measures meant to encourage enterprise and personal consumption while rejuvenating the productive capacity of economies. Monetary Authorities in various countries resorted to unorthodox measures with the specific intent of reducing to new low limits the cost of borrowing and strengthening the existing weak drive to increase capital investment and encourage families to re-start spending. Such measures led financial institutions into unchartered interest rate territories at a time of ever-more stringent regulatory requirements, in particular with relation to the capital base of these organisations.

This international environment was bound to influence the outcome of the Maltese economy, in general, and of the financial sector in particular. But, overall, the economy continued to grow, and the APS Group succeeded to sustain its recent positive performance. In 2014 the Net Operating Income of the Group increased; the Operating Profit before impairment, reversals and provisions for the Bank was maintained at €11.8 million (€12.0 million in 2013) while that for the Group rose to €14.0 million (€12.2 million in 2013). And the Group's pre-tax Profits stood at €12.8 million. The Bank's business continued to expand, with customer deposits rising to a total of €895.2 million while lending reached €637.0 million, up from €563.3 million in 2013.

These data do not reveal the real, highly competitive markets and more demanding regulations in which all financial operators have to carry out their trade. Indeed, these statistics may convey the impression that the challenges in which financial institutions are operating are comparatively lenient. This is not the case. And the fact that the APS Group succeeded to attain these positive results in 2014 is both satisfactory to all involved in its operations and encouraging to look ahead.

The Bank is currently evaluating these results in the context of its 2013-2015 business plan while charting the main tasks of its upcoming three-year programme for 2016-2018. A main feature of the present plan has been the embarking of an overhaul on the Bank's information technology systems. This process is essential to harness technology in a more effective way such that the regulatory obligations and customers' needs would be at all times met. In this way, the Bank's 'stakeholder vision' of the enterprise would be fulfilled: an institution that anticipates change is useful to society and of benefit to all those involved in its trading activities. It will also be fruitful to its shareholders: they participate directly in the development of Maltese society and beyond while, at the same time, raise new financial resources through the distributed dividends with which they can support activities in other specific social sectors.

APS Funds SICAV plc recorded another positive year. Assets under management increased from €49.9 million to €68.7 million. And it started implementing its policy of actively exercising its right to participate in the selection and election of directors in those companies in which it has sufficient equity holdings. It is thereby proceeding to effectively promote social and economic change reflecting its basic underlying beliefs regarding business culture and behaviour. APS Consult Ltd is at present relatively inactive while it reconsiders its role in society in the years ahead, building on the experience it gained in the past six years. It can only achieve its declared objective of supporting change through the dissemination of skills and know-how after the charted policies for the respective sectors in which it has been operating are spelled out clearly by the authorities responsible for them. In the absence of such a condition, it is impossible to devise and implement an effective programme drawn in conjunction with other entities active in these markets. But the past accumulated know-how in the company is being put to positive use and collaboration with other units in the public and the private sector still ongoing.

Supporting National Heritage and Culture

On the cultural front, APS Bank continued participating in several fields. One main contribution to the social and political history of Malta has been the publication of Joseph F. Grima's *'The Unione Cattolica San Giuseppe: Founder of APS Bank'* launched in June 2014. This work records the contribution that this lay organisation, set up in 1910, had in the multifaceted development of Maltese society through several initiatives in the sector of welfare, the economy and constitutional development. Its activities span education and technical training, pension and health schemes, a savings institution and emigration programmes. Many of these schemes today fall under the State's organisations although their financing is being reconsidered. APS Bank will review its participation in these welfare sectors taking into account future developments.

The Bank extended its support to the Arts by exploring the role of Maltese artistic families in the twentieth century. In addition to exhibits, in its annual art exhibition, the Bank published the first volume, in a set of three *('Two Generations of Maltese Artistic Families')* examining the contribution of two families (Camilleri and Micallef Grimaud) through the works of the parents and sons/daughters. Besides, the Bank collaborated with the Cathedral Chapter and Heritage Malta in hosting an international symposium on the role of the Roman Inquisition and its influence on the socio-cultural development of the Maltese. And, in conjunction with the British Council, the Bank participated in the SchoolLab Project, a video competition for young science students.

The main event in the Bank's cultural calendar remained its Annual Concert. This year featured two suites for chamber orchestra which won that category in the APS Bank 2012 National Music Competition for Maltese Composers: Paul Portelli's *Five Dun Karm Psaila Poems* and Steven Joseph Psaila's *Katrin tal-Imdina*. In addition, the Bank co-sponsored other concerts by the St Monica Choir, the Schola Cantorum Jubilate and *The Priests* Christmas Concert.

These initiatives are continuous. The Bank always strives to complement the good work other institutions are carrying out by being itself innovative in the projects selected for implementation and/or for financial support.

Concluding Remarks

Both the present and the future may yet prove to be the most challenging time APS Bank will have to face. However, I am confident that the Bank possesses the necessary capabilities to hold its ground, account for change and continue to transform itself to meet the more-demanding economic and financial environment effectively and timely.

It is with this commitment in mind that I would like to thank both our customers for their continuous trust in the Bank and our shareholders who remain committed to the Bank and whose principles inspire our operations. I recognise the sterling work carried out by the Bank's staff who responds to the ever-increasing demands of everyday operations and who thereby made the recorded results achievable. Balancing one's personal commitments with the stringent time-frame of today's financial world may not always be easy, especially in a growing institution. But the staff's dedication, including of those who move on to other economic sectors, deserves acknowledgement. A last word goes to my fellow directors both those sitting on the Bank's own Board as well as those of its subsidiaries, whose collaboration has proven to be indispensable for the gradual realisation of the Group's overall vision and specific objectives.

E. P. DELIA
Chairman

A SELECTION OF IMAGES FROM ARTISTIC AND CULTURAL ACTIVITIES ORGANISED BY THE BANK

FINANCIAL STATEMENTS 2014

The Directors present their report together with the audited financial statements of APS Bank Group and APS Bank Limited for the year ended 31 December 2014.

PRINCIPAL ACTIVITIES

APS Bank Group (the 'Group') comprises the APS Bank Limited (the 'Bank'), APS Consult Limited (the 'Subsidiary') and APS Funds SICAV p.l.c. The latter consists of two sub-funds: the APS Regular Income Ethical Fund (the 'Subsidiary') and the APS Income Fund (the 'Associate').

The Bank is incorporated as a private limited liability company under the Companies Act [Cap. 386 of the Laws of Malta]. It is licensed by the Malta Financial Services Authority (the 'MFSA') to carry out the business of banking and investment services in terms of the Banking Act [Cap. 371 of the Laws of Malta] and of the Investment Services Act [Cap. 370 of the Laws of Malta] respectively. The Bank is also enrolled in the Tied Insurance Intermediaries List under the Insurance Intermediaries Act [Cap. 487 of the Laws of Malta].

Subsidiaries and Associate

APS Consult Limited is a wholly owned subsidiary of the Bank. The company was incorporated in June 2006 with the declared objective of providing various advisory services to customers in niche markets.

APS Funds SICAV p.l.c. was incorporated in January 2008 and is licensed by the MFSA as a collective investment scheme under the Investment Services Act [Cap. 370 of the Laws of Malta]. The company consists of two sub-funds, the APS Income Fund and the APS Regular Income Ethical Fund. The APS Income Fund is listed on the Malta Stock Exchange. As at the end of December 2014, the net asset value of APS Funds SICAV p.l.c. stood at €68.7 million, denoting an increase of €18.8 million over the previous year. The net assets attributable to the shareholders of the APS Income Fund increased to €52.9 million (2013: €40.1 million) while the net assets of the APS Regular Income Ethical Fund amounted to €15.8 million (2013: €9.8 million).

FINANCIAL PERFORMANCE

The Group registered a profit before tax of €12.8 million. The said result is to be attributed to a significant increase in operating income which was achieved despite the fragile economic environment that came to characterise 2014. While there was still a drop of €1.1 million in pre-tax profits, it has to be noted that 2013 had been marked by a major write-back.

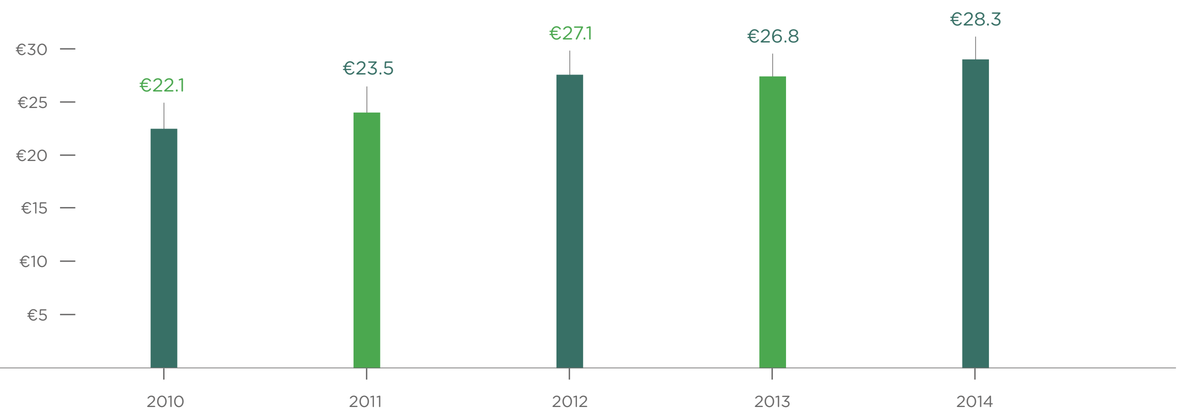
Operations

Net interest income stood at €22.1 million compared to €21.8 million in 2013. Notwithstanding the depressed net interest margins that characterised financial markets during the year, the interest receivable on loans and advances to customers improved by 5.5%. This result was partially offset by an additional €0.9 million in interest payable attributable to a 14.3% increase in customers' deposits.

Non-interest income increased by 25.2% while operating income continued its upward trend, expanding by 5.9% to reach the €28.3 million mark. On the other hand, operating expenses experienced only a minimum increase, equivalent to 2.3% over the operating expenses for 2013. These results are a reflection of the Group's awareness that the sustainability of its operations and their profitability depend on achieving a balance between investing in its resources and the effective management of the costs inherent in running its various business units.

While the previous year was characterised by a significant write-back, 2014 saw total provisioning stand at €1.2 million. The Group's emphasis on risk management and its conservative and cautious approach to lending ensures that the total provisioning for impairment remains contained. If taken as a percentage of gross loans and advances to customers, provisioning for the year under consideration stood at 0.2%.

GROUP TOTAL OPERATING INCOME (€ MILLION)



Statement of Financial Position

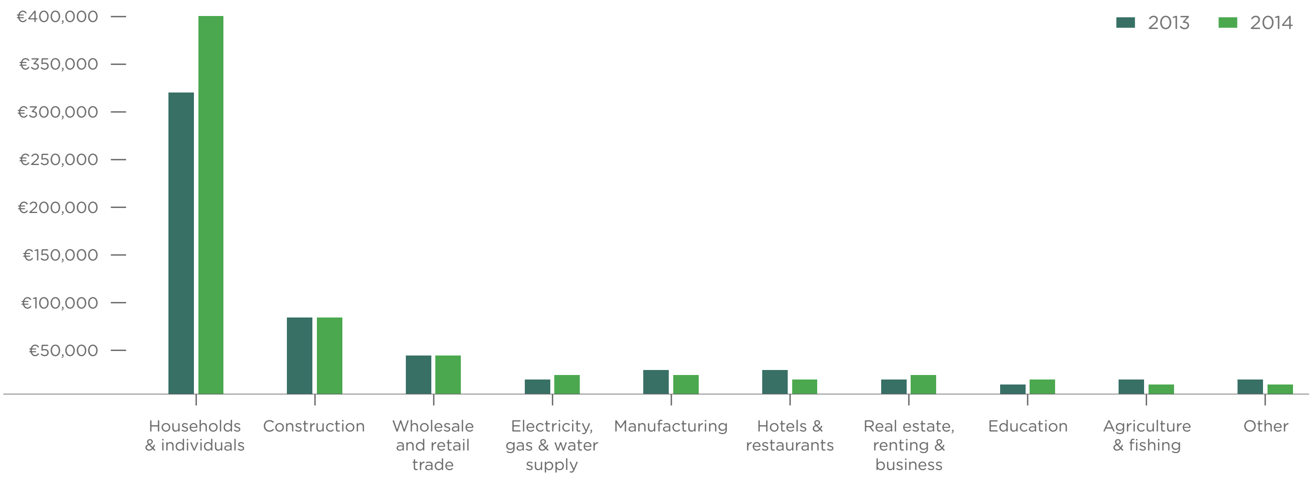
As of 31 December 2014 the Group's total asset base increased to €1,107.8 million compared to €965.1 million in 2013. This expansion was driven mainly by advances and loans to customers as well as by debt and other fixed-income securities.

Net advances and loans increased to €623.6 million from €548.9 million in 2013. The additional €74.7 million are to be attributed to new facilities granted to households and individuals, evidence of the Group's commitment in sustaining its customers in their aspirations, while limiting exposure to volatile sectors, and ensuring that any return is commensurate to the inherent risk present in any loan proposal. As to the debt and other fixed-income securities, decreasing interest rates dictated an expansion of the Group's portfolio which went from €328.9 million to €356.4 million.

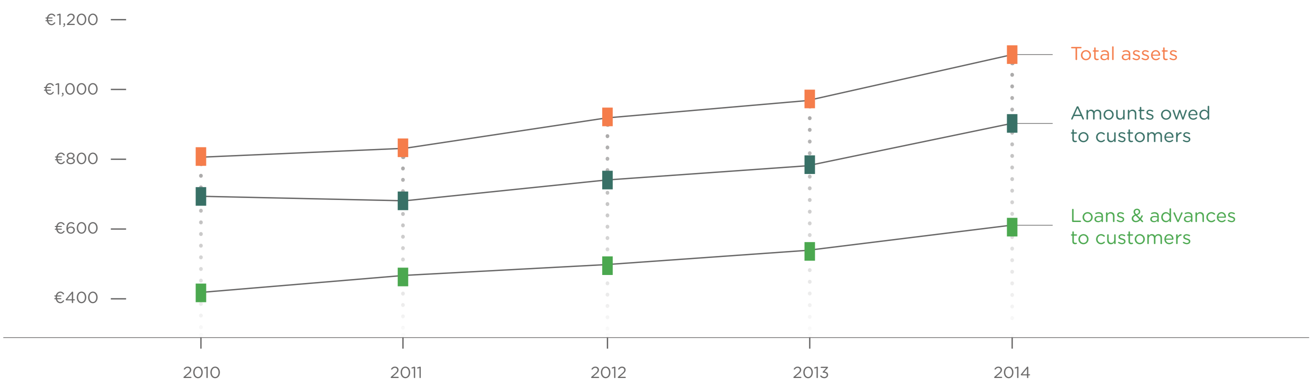
Despite the economic difficulties that presented themselves in the course of 2014, the Group continued to experience an increase in its customers' deposits portfolio which reached €892.8 million. The associated cost of funds was contained as customer funds were directed into demand deposits. This shows that the general public considers the Group to be a stable and resilient institution.

As of 31 December 2013 Banking Rule 09/2013 was revised with the aim of strengthening the provisioning for non-performing loans and improving local banks' coverage ratios. The Rule requires banks to allocate a sum equivalent to a percentage of their non-performing loans to a Reserve for General Banking Risks. It further stipulates that the appropriation to this Reserve has to be funded from planned dividend distributions for the year. The Bank has accordingly set aside €914,614 in 2014 (2013: €740,346) for the said purpose. Notwithstanding that the Rule grants a transitory period of three years for the initial appropriation of funds to the said Reserve, the Bank has made a full appropriation both in the year under review and in the previous year.

LENDING BY ACTIVITY



THE GROUP'S GROWTH OVER A 5-YEAR PERIOD (€ MILLION)



Capital Management

During the year, the Group continued to adopt an active and prudent approach towards the management of capital in order to maintain strong liquidity and capital adequacy ratios while meeting its obligations towards its shareholders. A strong capital base ensures that the Group remains able to meet ever-increasing regulatory requirements whilst retaining the ability to respond positively to new business opportunities that may translate in further growth.

Outlook

The year ahead will continue to present the Group with a number of demanding challenges. The international geopolitical situation may degenerate further while recent exchange rate developments may herald a currency crisis. Interest rates could move into negative territory rather than increasing on their present levels. Together with a weak demand for credit, the downward pressures on profits will be significant and it may prove difficult to balance.

Notwithstanding the above, the outlook for the Group remains positive, as it is supported by adequate capital buffers, prudent liquidity and high solvency ratios, and sustainable profitability. These elements should allow it to face successfully the challenges ahead. The Group is aware that its ability to face the future cannot depend only on continuing in its conservative and prudent approach but that it needs to revise its own internal structures and ensure more efficient solutions for its customers' requirements. To this end, it is reviewing its current corporate governance framework to improve its compliance with the latest practices in the area as well as investing into a major overhaul of its main information technology systems.

CORPORATE GOVERNANCE

The Bank is committed to high standards of corporate governance. The Board of Directors maintains direct communication with the Bank's shareholders and recognises its responsibility and accountability.

Board of Directors

The business of the Bank is managed by the Board of Directors. The Board has overall responsibility for leading and controlling the Bank and is accountable to shareholders for financial and operational performance. The Board meets regularly to dispatch a formal schedule of matters reserved to it for decision, including the approval of annual and interim results, acquisitions and disposals, agreements of a material nature, major capital expenditures, the business plan and senior executive appointments.

The Board is composed of seven Non-Executive Directors, including the Chairman. The Directors of the Bank are listed on Page ii. No individual or group of individuals dominates the Board's decision-making. The Directors have wide-ranging experience and all have occupied or currently occupy senior positions in various organisations. Non-Executive Directors have a responsibility to bring independent and objective judgement to bear on Board decisions. The Board has reviewed the independence of these Directors and has reaffirmed that they are all considered to be independent. It is the practice of the Directors that, when a potential conflict of interest may arise in connection with any matter, this is declared and the Director concerned refrains from taking part in proceedings relating to the matter or decision. The Board minutes invariably include a suitable record of such declaration and of the action taken by the Director concerned.

The Board has procedures in place for Directors to take independent professional advice at the Bank's expense if they feel it is required. All Directors have access to the advice and services of the Company Secretary who is responsible for ensuring that Board procedures and all applicable rules and regulations are observed.

The Board of Directors, being composed solely of Non-Executive Directors, determines the remuneration of the Chief Executive Officer and Senior Executives. Directors' emoluments are disclosed in note 9 to the Financial Statements.

A Statement of Directors' responsibilities for the financial statements is set out on Page 6.

In accordance with the Memorandum and Articles of Association of the Bank, all Directors retire at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election. The appointment of the Bank's directors is the remit of its shareholders, which takes into account their knowledge, skills and expertise. Prior to this, the nominees undergo the statutory due diligence process, carried out by the MFSA.

Committees established by the Board

The Board has established a number of Committees with specific responsibilities, as follows:

The Audit Committee

The main role of the Audit Committee is to monitor the integrity of the financial statements of the Bank and review significant financial reporting judgements contained in them. It has also the responsibility for reviewing the Bank's internal financial controls, and monitoring and reviewing the effectiveness of the Bank's internal audit functions. It makes recommendations to the Board regarding the appointment of the Bank's external auditors, their remuneration and terms of engagement. The Committee is required to report to the Board any matters on which action or improvement is needed and to make recommendations as to the steps to be taken.

The Risk Management and Compliance Committee

The role of the Risk Management and Compliance Committee is to assist management in identifying and assessing the main risks faced by the Bank in a coordinated manner, to identify, evaluate and document the Bank's risk profile and to ensure that the business agenda is geared towards critical business issues.

The Advances Executive Committee

The Advances Executive Committee is responsible for assessing credit facilities beyond certain thresholds in order to maximise profitability while safeguarding the reputation and standing of the Bank.

The Investments and Treasury Executive Committee

The Investments and Treasury Executive Committee is responsible for the development of new investment and treasury services, interest rate policy and the management of the Bank's liquidity and balance sheet in terms of investments.

The Administration Executive Committee

The role of the Administration Executive Committee is to make recommendations to the Board on acquisitions and personnel matters. It also monitors those decisions entrusted to it. It has also the responsibility to review the administrative policies to ensure that effective support is provided throughout the Bank.

The Information Technology Executive Committee

The role of the Information Technology Executive Committee is to assess the adequacy of the information technology support function and to monitor the validity of the Bank's projects and strategic requirements where these call upon information technology developments.

Senior Executive Committee

The Chief Executive Officer leads the Senior Executive Committee. While the Chief Executive Officer retains full responsibility for the authority delegated to him by the Board, the Senior Executive Committee is one of the vehicles through which he exercises that authority in respect of the Bank's business. The Senior Executive Committee meets on a regular basis to review all major business issues and decisions which are not reserved to the Board.

Principles of business conduct

The Bank places particular attention on security, integrity and trust. All employees are required to comply with the Bank's Code of Conduct. The Code defines the core values and principles governing the conduct of the Bank's business. It covers areas such as compliance with local laws and regulations, ethical dealings with customers and third parties and the avoidance of conflicts of interest.

INTERNAL CONTROL

The Board of Directors is responsible for the Bank's system of internal control that is designed to facilitate effective and efficient operations and to ensure the quality of internal and external reporting and compliance with applicable laws and regulations. In devising internal controls, the Bank has regard to the nature and extent of the risk, the likelihood of it crystallising and the cost of controls. A system of internal control is designed to manage the risk of failure to achieve business objectives and can only provide reasonable, and not absolute, assurance against the risk of material misstatement, fraud or losses.

The key elements of the internal control system are as follows:

- A Code of Conduct distributed throughout the Bank.
- Clearly defined organisation structures and limits of authority.
- Bank-wide policies for financial reporting, accounting, financial risk management, information security, project appraisal and corporate governance.
- Bank-wide procedures for the reporting and resolution of fraudulent activities.
- Annual budgets for all operating units, identifying key risks and opportunities.
- Monitoring of performance against plans and budgets and reporting thereon to the Directors on a monthly basis.
- A Risk Management Unit which is responsible for reviewing the Bank-wide risk management framework.
- An Internal Audit Unit which reviews key business processes and controls.
- An Audit Committee which approves audit plans and deals with significant control issues raised by internal or external audit.

The effectiveness of the Bank's internal control system is reviewed regularly by the Board of Directors and the Audit Committee. The Audit Committee also receives regular reports from the Internal Audit Unit. In addition, the Bank's external auditors present to the Audit Committee reports that include details of any significant internal control matters that they have identified. The Bank's system of internal controls is also subject to regulatory oversight by the MFSA.

RELATIONS WITH SHAREHOLDERS AND THE ANNUAL GENERAL MEETING

The Bank maintains good communication with its shareholders. The Chairman meets frequently with representatives of the shareholders to exchange views and to ensure that the strategies and objectives of the Bank are in line with their expectations. Issues discussed include the Bank's performance, the impact of major investments and any corporate governance matters.

The Bank also communicates with its shareholders through the Annual General Meeting. This is to be held on 24 April 2015.

DIRECTORS' RESPONSILBILITIES FOR THE FINANCIAL STATEMENTS

The Companies Act [Cap. 386 of the Laws of Malta] requires the Directors to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the Bank at the end of each financial year and of its profit or loss for that financial year in accordance with the requirements of International Financial Reporting Standards as adopted by the European Union ('EU').

The Directors are responsible for ensuring that:

- Appropriate accounting policies have been consistently applied and supported by reasonable and prudent judgments and estimates.
- Financial statements have been drawn up in accordance with International Financial Reporting Standards as adopted by the EU.
- The financial statements are prepared on the basis that the Bank must be presumed to be carrying on its business as a going concern.
- Account has been taken of income and charges relating to the accounting period, irrespective of the date of receipt or payment.

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 them to ensure that the financial statements comply with the Companies Act [Cap. 386 of the Laws of Malta] and the Banking Act [Cap. 371 of the Laws of Malta].

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.

DISCLOSURE IN TERMS OF THE SIXTH SCHEDULE TO THE COMPANIES ACT, CAP. 386 OF THE LAWS OF MALTA

During the year ended 31 December 2014, no shares in the Bank were:

- Purchased by it or acquired by it through forfeiture or surrender or otherwise.
- Acquired by another person in circumstances where the acquisition was made by the Bank's nominee, or by another with the Bank's financial assistance, the Bank itself having a beneficial interest.
- Pledged or made subject to other privileges, to a hypothec or to any other charge in favour of the Bank

STANDARD LICENCE CONDITIONS

In accordance with Standard Licence Condition 7.28 of the Investment Services Rules issued by the MFSA, licence holders are required to disclose any regulatory breaches of the Standard Licence Conditions in their annual report. During the year under review, there were no such regulatory breaches nor were any regulatory sanctions imposed on the Bank by the MFSA.

AUDITORS

Messrs. Ernst & Young Malta Limited have signified their willingness to continue in office as auditors of the Bank and a resolution proposing their reappointment will be put to the Annual General Meeting.

The Directors' report was authorised for issue by the Board of Directors and was signed on its behalf by:

E. P. DELIA
Chairman

J. C. CARUANA
Director

2 April 2015

Remuneration Committee

The approval of the Bank's Remuneration Policy is the responsibility of the Board of Directors (hereafter referred to as 'the Board'), which resolves itself into the Bank's Remuneration Committee (hereafter referred to as 'the Committee').

The Committee is responsible to oversee the design and operation of the Bank's system of compensation. The Committee approves new remuneration structures and bonus schemes of the Bank, based on recommendations provided by Senior Executive Management.

The Committee also ensures that no single staff member of the Bank is in a position to influence the profitability of the Bank in such a way that will have a material impact on his or her share of the profit sharing bonus.

During the period under review, the Committee was convened whenever there arose remuneration-related issues falling within its remit.

Remuneration Policy

The Bank's Remuneration Policy is in line with the provisions of Banking Rule BR/12/2014 – The Supervisory Review Process of Credit Institutions Authorised under the Banking Act 1994 and fulfils established recommendations on Corporate Governance.

The Remuneration Policy applies to all staff members of the Bank. Its objective is to attract, retain and motivate high quality staff members and to ensure that staff compensation is aligned with the Bank's values, performance business strategy and prudent risk taking.

The Bank's Remuneration Policy distinguishes between basic pay, performance bonus and other benefits. Remuneration to staff members (excluding senior executive management) is established in the Collective Agreement. Furthermore, the senior executive management's remuneration is determined on the basis of the agreement.

The performance bonus for staff members (excluding senior executive management), depending on the Bank's performance, will be distributed to employees according to a framework which is explained in the Collective Agreement. Members of the senior executive management are also eligible to an annual bonus determined by the Bank's and their individual performance.

In accordance with the Bank's remuneration policy, the performance bonus for staff members cannot exceed 20% of the basic pay.

The Bank does not offer buy out contracts, supplementary pension or other pension benefits and share options. Whereas, schemes relating to early termination are established within the Collective Agreement.

The Policy is reviewed internally on a regular basis. During the financial year under review there have been no significant changes to the Policy and no significant changes are intended for 2015.

Senior Executive Management

The Chief Executive Officer makes a proposal regarding the remuneration of Senior Executive Management which is then approved by the Committee. In recommending the level of remuneration, the Chief Executive Officer considers a number of factors including the performance of the Bank and of the individual Senior Executive, the market environment and the level of remuneration as agreed in the Collective Agreement. The Chief Executive Officer should also ensure that the remuneration proposed will attract and retain the best qualified members of Senior Executive Management.

Directors

The remuneration of Directors is proposed by the Committee and then approved by the shareholders of the Bank at the Annual General Meeting. The Directors' fees are set at a level which is competitive with the rest of the market. They reflect the competencies and contribution required in view of the Bank's complexity, the extent of the Directors' responsibilities and of their participation on Board Committees.

Total fees received by Directors during the financial year 2014 are reported below:

	€
Chairman	42,700
Other Directors	88,800
	131,500

None of the Directors are entitled to profit sharing or any other remuneration. In terms of non-cash benefits, Directors are entitled to health insurance.

Remuneration of Identified Staff

As per the Commission Delegated Regulation (EU) No 604/2014, regarding qualitative and appropriate quantitative criteria to identify categories of staff whose professional activities have a material impact on an institution's risk profile, Identified Staff includes:

- staff within the management body (the Board);
- senior management and other staff with key functions or managerial responsibilities over other Identified Staff within institutions;
- staff authorised to commit to credit risk exposures and market risk transactions above 0.5% of the Common Equity Tier 1 (CET1); and
- employees who, individually or as part of a committee, approve or veto the introduction of new products.

The Bank's Identified Staff includes the Directors and Senior Executive Management.

Number of Identified Staff	**13**
	€
Total fixed remuneration	520,154
Total variable remuneration	30,574

1. INTRODUCTION

The objective of this report is to provide information on the Group's implementation of the Additional Regulatory Disclosures, *as governed by Banking Rule BR/07/2014 - Publication of Annual Report and Audited Financial Statements of Credit Institutions Authorised Under the Banking Act 1994.*

In line with the Banking Rules, this report is not subject to external audit, with the exception of any disclosures which are equivalent to those made in the Annual Report 2014 which adhere to International Financial Reporting Standards (IFRSs). However, this report has been subject to comprehensive internal review and approval by the Group's Risk Management and Compliance Committee (RMCC) and the Board of Directors (hereafter referred to as 'the Board'). This information is published annually. The Group is satisfied that internal verification procedures ensure that these Additional Regulatory Disclosures are presented fairly.

2. THE RISK MANAGEMENT FUNCTION

The Executive Management is responsible for assessing the risks to which the Group is exposed in the respective operational units. The management of the various forms of risk is then coordinated and monitored by the Risk Management Unit (RMU).

The RMU performs regular sensitivity analyses and stress testing exercises. It is also responsible for bringing to the attention of the RMCC any material risks and changes in the Group's risk profile, even as part of the business planning process. Subsequently, it is the role of the RMCC to inform the Board of such updates.

The RMCC assists Management in identifying and assessing the main risks faced by the Group in a coordinated manner. It identifies, evaluates and documents the Group's risk profile and ensures that the business agenda is geared towards critical business issues. The RMCC is composed of two members of the Board of Directors (one of whom chairs the Committee), the Chief Executive Officer (CEO) and the Executives. The RMCC meets regularly to monitor the assessment of risk and devise appropriate policies within the Group's risk appetite. Changes in policies are recommended to the Board for approval. During 2014, the RMCC met 10 times.

The following sections provide an overview of each material risk to which the Group is exposed, including the risk mitigation and capital allocation techniques adopted. The Bank considers the risk of its subsidiaries to the extent that these constitute a material effect on the Group's risk profile. This is included in the Bank's assessment of risk processes and reflected in the Bank's risk related policies.

3. CREDIT RISK

This is the potential that a borrower or counterparty fails to meet its obligations in accordance with (or performing according to) agreed terms. Alternatively, losses may result from reduction in portfolio value arising from actual or perceived deterioration in credit quality. In view of the nature of its business, the Group's financial assets are inherently and predominantly subject to credit risk. Thus, Management has put in place internal control systems to evaluate, approve and monitor credit risks relating to both the investments and the advances portfolios. The Group is mainly exposed to credit risk in the local market.

The Group has a detailed Credit Risk Policy which lays down the principles for the management of credit risk. The following sections provide a brief outline of the main elements of the Group's credit risk management framework.

3.1 Executive Committees

The Group has an Advances Executive Committee and an Investments and Treasury Committee that are responsible for implementing the Group's Credit Risk Policy as approved by the Board of Directors. These Committees monitor their respective elements of credit risk to ensure compliance with internally established limits. They also recommend credit proposals, financial covenants, rating standards and limits to the Board of Directors for approval. These Committees decide on delegation of credit approving powers, prudential limits on risk concentrations, standards for advances collateral, portfolio management, the loan review mechanism, risk concentrations, risk monitoring and evaluation, pricing of loans, provisioning and regulatory/legal compliance.

3.2 Advances Credit Criteria

The Group has detailed credit granting processes and criteria to evaluate the credit risk inherent in a borrowing application. The Group also has procedures in place to identify situations where, in considering an advance, it is appropriate to classify a group of borrowers as connected counterparties and, thus, as a single borrower. As connected accounts are to be perceived and treated as being one exposure, the Group takes into consideration the total facilities at the disposal of connected customers before considering extending further facilities to one of the members forming part of a group of connected customers.

3.3 Credit Administration and Monitoring Processes

Monitoring and control processes are considered to be of critical importance during the life cycle of the credit facility, and contribute towards the maintenance of a sound lending portfolio. To ascertain the current financial conditions of the borrower or counterparty, as well as to keep track of decisions made and the history of the credit, the Group maintains credit profiles with all the relevant information and documentation. The Group applies a system to differentiate the degree of credit risk inherent in advances extended to its customers. Ratings are used to grade advances with a view to assess the value of the assets and to assist in the monitoring and control of credit risk. The rating process also provides a basis for the recognition of impaired loans.

3.4 Credit Limits

The Group has detailed exposure limits at the level of individual borrowers and counterparties, and groups of counterparties. These limits are approved by the above-mentioned Committees, as well as the Board.

3.5 Credit Approval, Extension and Retention

The Group has a process in place for the approval of new credits, as well as the amendment, renewal and re-financing of existing credits. The Group's credit-granting approval process establishes accountability for decisions taken and designates absolute authority to approve credits or changes in credit terms. The Group also has an established approval process and criteria for the purchase/sale of securities, money market transactions, spot and forward foreign exchange and repos, including dealing limits.

The Board of Directors approves the authorisation limits set by the Advances Executive Committee and the Investments and Treasury Committee and sets limits for these Committees. Transactions that exceed the limits established for these Committees are approved by the Board.

Credit facilities negotiated with related parties are reported to the Board on a quarterly basis and adequately disclosed in the Financial Statements. Requests by related parties for credit facilities which are not at arm's length are to be approved by the Advances Executive Committee and reported to the Board on a quarterly basis.

3.6 Provisioning

The Group provides specific and collective provisions in respect of the advances portfolio. The latter is grouped by economic sector to reflect similar risk characteristics. In the case of investments, the need for provisions is assessed on the basis of ratings by external agencies and market information.

3.7 Collateral

The Group takes collateral, most of which consists of tangible assets. These are taken by the Group as a fall-back, hence acting as a secondary source of repayment should the primary source of repayment fail. The security does not form the basis of the lending decision, but the Group has to be satisfied, amongst other things, that the primary source of repayment will be achievable and sustainable. Therefore, the taking of collateral is not considered a substitute for a comprehensive assessment of the borrower or counterparty, nor can it compensate for insufficient information or deficient primary source of repayment.

Other collaterals, which are not tangible, are taken to ensure that the borrowing customer will abide by the terms and conditions of sanction, thereby reducing the default risk associated with the borrowing customer.

The value and type of collateral required depends on an assessment of the credit risk of the counterparty. The main types of collateral held are as follows:

December 2014	% of gross loans & advances
Residential property	63.47
Commercial property	15.06
Cash and shares	6.59
Insurance	1.10

3.8 Sensitivity Testing

The RMU reports on sensitivity tests to the RMCC on a quarterly basis. These include the calculation of the probability of default of investments (including a comparison with the internally established limit and a trend analysis), an analysis of the upgrades and downgrades during the period and monitoring of the portfolio mix and exposures against limits.

3.9 Capital Requirement

The Group adopts the Standardised Approach (as per Regulation No. 575/2013 – Capital Requirements Regulation (CRR) which covers the provisions under Banking Rule BR/04/2013 – *Capital Requirements of Credit Institutions Authorised Under the Banking Act 1994)* for the purposes of calculating the risk-weighted exposures to credit risk. It adopts credit ratings by Standard and Poor's (if not available, Moody's or Fitch, applicable in that order) to establish the credit quality of all exposure classes, that is, institutions, government and corporate debt securities. The Standardised Approach is based on the assumption that the Group's portfolio is infinitely granular, as this methodology has been calibrated for internationally active banks. For this reason, the Group also allocates additional capital to cover concentration risk separately.

3.10 Concentration Risk

Concentration risk is an exposure or group of exposures with the potential to produce losses large enough to threaten the Group's health or its ability to maintain its core business. This risk may arise from:

- Large (possibly connected) individual exposures; or
- Significant exposures to groups of counterparties whose likelihood of default is driven by common underlying factors.

The Group's activities are highly concentrated in the local environment so that it has a significant exposure to the local economy. The Group adopts an exposure limits system for mitigating concentration risk. The RMCC and the Board are regularly informed about the performance of the Group against such limits. The Group also monitors the individual and sectoral concentration index and translates this into an economic capital figure for the purposes of capital allocation.

Exposures by Industry of the Group's advances portfolio broken down by exposure classes;

	Financial institutions €000	Manu-facturing €000	Real Estate €000	Wholesale and Retail €000	Public Sector €000	Other industries €000	Individuals €000	Total €000
Government	-	-	-	-	3,181	172	-	3,353
Home Loans	-	-	-	-	-	-	365,065	365,065
Corporate	2,043	10,521	27,933	28,449	-	43,232	8,519	120,697
of which SME	2,043	10,521	27,254	28,449	-	41,126	8,519	117,912
Retail	-	1,332	3,955	4,599	-	9,138	32,200	51,224
of which SME	-	1,332	3,955	4,599	-	9,138	32,200	51,224
High Risks Items	-	-	31,426	-	-	-	-	31,426
Exposures in Default	-	8,996	32,905	5,679	-	8,341	9,283	65,204
Total	**2,043**	**20,849**	**96,219**	**38,727**	**3,181**	**60,883**	**415,067**	**636,969**

Residual maturity of the Group's advances portfolio broken down by exposure classes;

	Less than 3 months €000	Between three months and one year €000	Between one and five years €000	More than five years €000	Total €000
Government	-	1,675	37	1,641	3,353
Home Loans	353	705	1,983	362,024	365,065
Corporate	2,525	27,598	19,121	71,453	120,697
Retail	583	7,825	8,541	34,275	51,224
High Risks Items	684	4,620	25,545	577	31,426
Exposures in Default	10,999	23,125	16,669	14,411	65,204
Total	**15,144**	**65,548**	**71,896**	**484,381**	**636,969**

4. MARKET RISK

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchange rates and equity prices. The Group's exposure to market risk is limited since its trading book business is minimal. The Group's market risk is mainly triggered by foreign exchange risk. This is the risk of the exposure of the Group's financial position and cash flow to adverse movements in foreign exchange rates. The Group's financial assets and liabilities are substantially held in Euro. The Board has set limits on the level of exposure by currency and in total, which are monitored regularly. The Group also ensures division of responsibilities and performs regular sensitivity testing.

5. OPERATIONAL RISK

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail, operational risk can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Group cannot expect to eliminate all operational risks, but through its control framework and by monitoring and responding to potential risks, it is able to manage operational risks effectively. Controls include effective segregation of duties, staff education and assessment processes, including internal audit verification. The Group also maintains a database to regularly quantify and record losses and near miss events in order to promote a culture of cooperation, communication and continuous improvement where lessons are learnt from incidents and near misses.

6. NON-TRADING BOOK EXPOSURES IN EQUITIES

The Group has an investment of €2.4million in equities. The risk associated with this exposure is not considered to be material.

7. INTEREST RATE RISK IN THE BANKING BOOK

Interest rate risk is the risk of the exposure of the Group's financial condition to adverse movements in interest rates. The Group is mainly exposed to interest rate risk in the banking book (IRRBB), which arises from the Group's non-trading activities. The Group's trading book business is minimal and it is therefore exempted from the trading book capital requirements set by the CRR and BR/08/2012– *Capital Adequacy of Credit Institutions Authorised Under the Banking Act 1994*. Interest duration of foreign currency deposits is hedged by assets with the same duration and in the same currencies. The net IRRBB exposure in foreign currencies is therefore immaterial.

Interest rate movements are monitored constantly by Management and corrective action is taken by realigning the maturities of and re-pricing the assets and liabilities. The Group has a detailed IRRBB Policy which establishes clear lines of responsibility, exposure limits and guidelines on the management and measurement of interest rate risk. The Group performs quarterly sensitivity testing (or more frequently if required by market conditions) to calculate the impact of interest rate movements on the Group's earnings and economic value.

The Group uses simulation modelling on a quarterly basis to monitor the sensitivity of projected net interest income for the next twelve months. The model simulates a 25 basis points parallel shift in interest rates and the impact on cash flows and the resulting income streams. The estimated impact of a decrease in interest rates by 25 basis points on all yield curves on the first day of the following month, based on the Balance Sheet position as at 31 December 2014, is a nil movement in net interest income. On the other hand, a parallel increase in interest rates of 25 basis points is expected to result in a decrease of €42K in net interest income. The parallel shift is assumed to take place on the first day of the following month, or following maturity in the case of debt securities, fixed rate loans and term deposits.

The Group also monitors the impact of interest rate movements on its economic value on a quarterly basis using duration gap analysis. As at 31 December 2014, the Group assumed an extreme scenario of a 100 basis points parallel shift downwards in interest rates for the next twelve months. This led to an increase of €120K in its economic value, and vice versa.

8. LIQUIDITY RISK

Liquidity risk is the risk of the exposure of the Group's mismatches in the maturity dates of its portfolio of assets, liabilities and commitments.

The Group manages this risk by matching the maturities of assets and liabilities. The management of liquidity is at the heart of the Group's operations and is governed by a detailed Liquidity and Funding Risk Policy. This Policy establishes clear lines of responsibility, limits and guidance on the measurement and monitoring of the Group's net funding requirements. This Policy is accompanied by a detailed Liquidity Contingency Plan which addresses the strategy for handling liquidity crises and includes procedures for making up cash flow shortfalls in emergency situations.

The Group funds advances primarily from deposits. As at 31 December 2014 the Group's advances to deposits ratio was equal to 69%. The Group also has a liquidity ratio which is comfortably in excess of the 30% minimum regulatory requirement. Moreover, the Group has a level of stable deposits which acts as a permanent source of liquidity. The Group also has a portfolio of highly marketable assets that can be easily liquidated in the event of an unforeseen requirement of cash flow.

During 2014, the Bank continued its preparation towards the introduction of the new liquidity regulations by way of the CRD IV package. The introduction of the Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR) is subject to an observation period. The Bank has been participating on a voluntary basis in the Basel III Quantitative Impact Study (QIS) exercise, which is repeated semi-annually using end-December and end-June reporting dates, and which seeks to monitor the impact of the new regulations on the banking industry. The LCR will be enforced on 1 October 2015, following a minimum requirement fixed at 60%. The minimum requirement will rise in equal annual increments to 100% on 1 January 2019. Whereas, the NSFR shall be introduced as a binding minimum standard by 1 January 2018.

8.1 Asset encumbrance

In accordance with Appendix 3 of BR07/2014 – *Publication of Annual Report and Audited Financial Statements of Credit Institutions Authorised Under the Banking Act 1994* and the CRR, credit institutions shall ensure compliance with the provisions of the EBA Guidelines on Disclosure of Encumbered and Unencumbered Assets.

The Group's encumbered assets relate to debt securities which are pledged in favour of the European Central Bank for the purposes of existing and potential long term re-financing operations and also cash in favour of the Depositor Compensation Scheme.

Assets as at 31 December 2014	Carrying amount of encumbered assets €000	Fair value of encumbered assets €000	Carrying amount of unencumbered assets €000	Fair value of unencumbered assets €000
Equity instruments	-	-	2,504	2,504
Debt securities	134,707	159,488	203,009	216,528
Other Assets	1,400	1,400	734,327	734,327
Assets of the reporting institutions	**136,107**	**160,888**	**939,840**	**953,359**

In the above table, the unencumbered assets disclosed under *Other Assets* include loans and advances, cash and short-term funds, property, plant and equipment, tax assets and other assets.

Encumbered assets/collateral received and associated liabilities as at 31 December 2014	Matching liabilities, contingent liabilities or securities sent	Assets, collateral received and own debt securities issued other than covered bonds and ABS encumbered
	€000	€000
Carrying amount of selected financial liabilities	**823,509**	**136,107**

9. REPUTATION RISK

Reputation is considered by the Group to be a valuable corporate asset and is governed by a detailed Reputation Risk Policy.

There is no pressure to be aggressive and enter into high risk operations which can have serious reputational implications to enhance profits, as profits are not the only objective that the Group follows.

Moreover, the Group has a number of factors in place to mitigate reputation risk; including the process for selecting directors, a detailed risk management system, a business continuity plan, the Code of Conduct, established credit granting criteria and anti-money laundering procedures. The Group also has various insurance covers to mitigate certain risks.

10. OTHER RISKS

The Group has a detailed risk management system which covers other risks not mentioned above; such as legal, strategic, residual and systemic risks. The Group has established risk management policies governing the management and mitigation of these risks, which policies are approved by the Board.

11. CAPITAL

11.1 Capital Planning

Capital planning is a crucial element of the Group's business planning process. The Group examines both the current and future capital requirements in relation to its strategic business objectives, in order to establish its near and long-term capital needs, capital expenditures required for the foreseeable future, target capital levels and potential sources of capital.

The Group is on track to fully implementing the CRD IV capital requirements by January 2019. Furthermore, as part of its capital planning, the Bank is following the requirements of Banking Rule BR/15/2015 – *Capital Buffers of Credit Institutions Authorised Under Banking Act 1994,* which will enter into force in January 2016.

11.2 Capital Adequacy

The Group adopts the Standardised Approach (as per the CRR and Banking Rule BR/04/2013 – *Capital Requirements of Credit Institutions Authorised Under Banking Act 1994)* for the purposes of calculating its risk-weighted exposure to credit risk. The minimum regulatory capital allocation to credit risk is therefore equal to 8% of the risk-weighted exposures as at 31 December 2014.

For the purposes of allocating capital to cover foreign exchange risk, the Group adopts the Basic Method (as per the CRR and Banking Rule BR/08/2012 – *Capital Adequacy of Credit Institutions Authorised Under the Banking Act 1994).* The capital allocation for foreign exchange risk is therefore equal to 8% of the higher of the sum of the Group's net short or the net long positions as at 31 December 2014.

The Group adopts the Basic Indicator Approach (as per the CRR and Banking Rule BR/04/2013 – *Capital Requirements of Credit Institutions Authorised Under Banking Act 1994)* for the purposes of allocating a capital charge to cover operational risk. Under this approach a 15% charge is applied on average revenue for the previous three financial years.

In July 2013 the EBA issued the *'Final Draft Implementing Technical Standard (ITS) on Disclosure for Own Funds by Institutions under Articles 437 (2) and 492(5) of Regulation (EU) 575/2013 (CRR)'.* This draft ITS provides a set of templates, thereby increasing transparency regarding the regulatory capital of European institutions and facilitating cross-jurisdictional comparisons. During the period from 1 January 2014 to 31 December 2017, which covers the phasing-in of the regulatory adjustments, institutions are required to complete the transitional disclosure template.

ASSETS AS AT 31 DECEMBER 2014	€000
Common Equity Tier 1 (CET1) capital	
CET1 capital: instruments and reserves	
Capital instruments and the related share premium accounts	59,376
Retained earnings	19,544
Accumulated other comprehensive income	19,062
Funds for general banking risk	1,655
Non-controlling interest	10,204
CET1 capital: regulatory adjustments	
Intangible assets	(2,091)
Regulatory adjustments relating to unrealised gains and losses pursuant to Articles 467 and 468 of regulation (EU) No 575/2013 – CRR	(19,062)
Tier 2 capital: regulatory adjustments	
Regulatory adjustments applied to Tier 2 in respect of amount subject to pre-CRR treatment and transitional treatments subject to phase-out as prescribed in Regulation (EU) No 575/2013 (i.e. CRR residual amounts)	15,250
Total Capital	103,938
Total Risk Weighted Assets	593,775
Capital Ratios	
CET1 Capital Ratio	14.94%
Total Capital Ratio	17.50%
Amounts below the thresholds for deduction	
Direct and indirect holdings of the capital of financial sector - entities where the institution does not have significant investments in those entities (amount below 10% threshold and net of eligible short positions)	1,927

The Group's capital adequacy ratio is regularly reported to and monitored by the RMCC and the Board of Directors.

In line with the CRR, the following table discloses the main features and the terms and conditions of the Bank's Tier 1 instruments.

CAPITAL INSTRUMENTS MAIN FEATURES

Issuer	APS Bank Ltd
Unique identifier	N/A
Governing law(s) of the instrument	Maltese law
Regulatory treatment	
Transitional CRR rules	CET 1
Post-transitional CRR rules	CET 1
Eligible at solo/(sub-)consolidated/ solo&(sub-)consolidated	Solo & consolidated
Instrument type	Ordinary shares
Amount recognised in regulatory capital	57,605
Nominal amount of instrument	57,605
Issue price	N/A
Redemption price	N/A
Accounting classification	Shareholder's equity
Original date of issuance	9 September 2013*
Perpetual or dated	Perpetual
Original maturity date	No
Issuer call subject to prior supervisory approval	No
Optional call date, contingent call dates and redemption amount	No
Subsequent call dates, if applicable	No
Coupons / dividends	
Fixed or floating dividend/coupon	Floating
Coupon rate and any related index	N/A
Existence of a dividend stopper	No
Fully discretionary, partially discretionary or mandatory (in terms of timing)	Fully discretionary
Fully discretionary, partially discretionary or mandatory (in terms of amount)	Fully discretionary
Existence of step up or other incentive to redeem	No
Noncumulative or cumulative	Non-cumulative
Convertible or non-convertible	Non-convertible
Write-down features	No
Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Subordinated to creditors and depositors
Non-compliant transitioned features	No

* Various, latest date of capital injection was 9 September 2013.

The book values, risk weighted exposures and capital requirements by exposure class have been provided for the Group only, as the difference between the capital requirement of the Bank and the Group is insignificant.

31 DECEMBER 2014	Book Value €000	Risk Weighted Exposure €000	Capital Allocation €000
Standardised Approach - Credit Risk			
Government	199,405	1,216	97
Home loans	394,791	153,932	12,315
Institutions	39,603	14,155	1,132
Short term claims on institutions	49,314	10,631	850
Corporate	349,388	278,239	22,259
Collective investment undertakings	24,665	13,825	1,106
Retail	65,764	39,803	3,184
Other	27,868	27,144	2,171
	1,150,798	**538,945**	**43,114**
Basic Indicator Approach			
Operational Risk		47,834	3,827
Basic Method			
Foreign Exchange Risk		6,996	560
Total Risk Weighted Assets		**593,775**	**47,501**

11.3 Internal Capital Adequacy Assessment Process

The Bank performs the Internal Capital Adequacy Assessment Process (ICAAP) on an annual basis in compliance with the Pillar II requirements of Banking Rule BR/12/2014 – *The Supervisory Review Process of Credit Institutions Authorised Under the Banking Act 1994* and the CRR. This process continues to be of utmost importance for keeping the Board of Directors informed of the Bank's ongoing risk assessment, the mitigation measures adopted and their impact on the capital requirements.

The Bank's ICAAP is based on the principle of proportionality set out in the above-mentioned Banking Rule and adopts a combination of quantitative capital and adequate systems and controls in fulfilment of these requirements. A cross-functional team, coordinated by the RMU, was set up to discuss the Bank's risk profile, operating environment, stress testing and capital allocation.

In this exercise, the Bank's capital requirement is set at a starting point of zero and a structured and comprehensive assessment and quantification of all the material risks is performed. An assessment is initially made to determine whether the minimum regulatory requirements for Pillar I risks are sufficient to cover the Bank's credit, operational and market risk. Since the minimum regulatory requirement for credit risk was calibrated for internationally diversified banks and the Bank's operations are concentrated locally, the Bank allocated additional capital to account for individual and sectoral concentration. This capital allocation was based on the results of an index-based model. For prudence purposes the Bank allocated an extra portion of capital to operational risk to account for the growth of its operations. The Bank also assessed and measured other risks to determine its capital requirements, namely:

- Interest rate risk in the banking book using duration gap analysis;
- Liquidity risk using stress testing models;
- A detailed analysis of controls and mitigation techniques for other risks, particularly reputation, legal, strategic, systemic and residual risks.

The ICAAP has once again concluded that the Bank is well capitalised. The document was reviewed in detail by the Bank's Internal Audit Unit and by the RMCC and subsequently presented to the Board of Directors for approval. The Board approved the ICAAP document on 29 May 2014 which was submitted to the MFSA.

12. LEVERAGE

The Bank has been reporting its leverage ratio in line with the CRR and the CRD IV since 1 January 2014. The introduction of the leverage ratio is subject to an observation period with a view to migrating to a binding requirement on 1 January 2018. In addition, to supervisory reporting the CRR requires institutions to disclose information on the leverage ratio. These disclosure requirements and the use of uniform templates will facilitate cross-jurisdictional comparison and ensure the transparency of the leverage ratio calculation.

During 2014 the Bank managed the risk of excessive leverage through the monitoring of its leverage ratio. The Bank's leverage ratio (based on a transitional definition of capital) is regularly reported to and monitored by the RMCC and the Board of Directors. As at 31 December 2014 the Bank's leverage ratio stood at 8.05%.

We have audited the accompanying financial statements of APS Bank Limited ('the Bank') and its subsidiaries ('the Group'), set on pages 18 to 76 which comprise the statements of financial position as at 31 December 2014 and the statements of profit or loss, the statements of comprehensive income, statements of changes in equity and the statements of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Financial Statements

As described in the statement of Directors' responsibilities on page 6, the Directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of the Companies Act, Cap. 386 and the Banking Act, Cap. 371 of the Laws of Malta, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' 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. These standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate for the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by 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.

Opinion

In our opinion, the financial statements:

- give a true and fair view of the Bank's and the Group's financial position as at 31 December 2014, and of their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union; and
- have been properly prepared in accordance with the requirements of the Companies Act, Cap. 386 and the Banking Act, Cap. 371 of the Laws of Malta.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Auditors' Responsibility

We are required by the Banking Act, Cap. 371 of the Laws of Malta, to report whether we have obtained all the information and explanations which to the best of our knowledge and belief were 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 these 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, these financial statements give the information required by law or regulations in the manner so required and give a true and fair view.

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

We also have responsibilities under the Companies Act, Cap. 386 of the Laws of Malta to report to you if in our opinion:

- The information given in the Directors' Report is not consistent with the financial statements.
- Adequate accounting records have not been kept, or that returns adequate for our audit have not been received from branches not visited by us.
- The financial statements are not in agreement with the accounting records.
- We have not received all the information and explanations we require for our audit.
- If certain disclosures of Directors' remuneration specified by law are not made in the financial statements, giving the required particulars in our report.

We have nothing to report to you in respect of these responsibilities.

This copy of the audit report has been signed by
Christopher Balzan for and on behalf of

Ernst & Young Malta Limited
Certified Public Accountants
Regional Business Centre
Achille Ferris Street
Msida, MSD 1751

2 April 2015

	Note	The Group 2014 €000	The Group 2013 €000	The Bank 2014 €000	The Bank 2013 €000
Interest receivable and similar income:					
On loans and advances, balances with the Central Bank of Malta and treasury bills	(3)	**22,966**	21,761	**22,933**	21,752
On debt securities	(3)	**15,060**	15,068	**14,476**	14,657
		38,026	36,829	**37,409**	36,409
Interest payable	(4)	**(15,880)**	(15,004)	**(15,898)**	(15,050)
Net interest income		**22,146**	21,825	**21,511**	21,359
Dividend income	(5)	**212**	215	**841**	827
Fees and commission income		**2,560**	2,676	**2,662**	2,743
Trading income	(6)	**487**	255	**469**	255
Net gains on financial instruments	(7)	**2,644**	1,579	**1,434**	1,609
Other operating income		**275**	208	**297**	130
Operating income		**28,324**	26,758	**27,214**	26,923
Personnel expenses	(8)	**(6,914)**	(7,129)	**(6,905)**	(7,020)
Other administrative expenses	(9)	**(6,902)**	(6,200)	**(6,818)**	(6,095)
Amortisation of intangible assets	(23)	**(509)**	(551)	**(509)**	(551)
Depreciation of property and equipment	(24)	**(1,169)**	(1,262)	**(1,169)**	(1,262)
Net operating profit		**12,830**	11,616	**11,813**	11,995
Share of results of associate, net of tax	(22)	**1,142**	624	**-**	-
Operating profit before impairment, reversals and provisions		**13,972**	12,240	**11,813**	11,995
Net impairment (losses)/reversals	(10)	**(1,201)**	1,584	**(1,194)**	1,254
Profit before tax		**12,771**	13,824	**10,619**	13,249
Income tax expense	(11)	**(3,835)**	(4,648)	**(3,835)**	(4,526)
Profit for the year		**8,936**	9,176	**6,784**	8,723
Profit attributable to:					
Equity holders of the parent		**8,042**	9,138	**6,784**	8,723
Non-controlling interest		**894**	38	**-**	-
		8,936	9,176	**6,784**	8,723

STATEMENTS OF OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2014

	The Group		The Bank	
	2014	2013	**2014**	2013
	€000	€000	**€000**	€000
Profit for the year	**8,936**	9,176	**6,784**	8,723
Other comprehensive income:				
Net gain/(loss) on available-for-sale financial assets	**11,387**	(1,906)	**11,387**	(1,906)
Net gain released on disposal of available-for-sale financial assets	**1,099**	1,554	**1,099**	1,554
Deferred income tax relating to the components of other comprehensive income (note 25)	**(2,571)**	806	**(2,571)**	806
Other comprehensive income for the year, net of tax	**9,915**	454	**9,915**	454
Total comprehensive income for the year, net of tax	**18,851**	9,630	**16,699**	9,177
Total comprehensive income attributable to:				
Equity holders of the parent	**17,957**	9,592	**16,699**	9,177
Non-controlling interest	**894**	38	**-**	-
	18,851	9,630	**16,699**	9,177

STATEMENTS OF FINANCIAL POSITION AS AT 31 DECEMBER 2014

		The Group		The Bank	
	Note	**2014**	2013	**2014**	2013
		€000	€000	**€000**	€000
ASSETS					
Cash and Balances with Central Bank of Malta	(13)	**14,297**	16,657	**14,297**	16,657
Cheques in course of collection		**2,185**	1,778	**2,185**	1,778
Loans and advances to banks	(14)	**49,951**	15,471	**49,314**	15,171
Loans and advances to customers	(15)	**623,631**	548,919	**623,631**	548,919
Derivative financial instruments	(17)	**3,872**	2,480	**3,872**	2,480
Financial assets at fair value through profit or loss	(18)	**16,106**	12,902	**3,483**	4,172
Debt and other fixed income instruments	(19)	**356,404**	328,873	**356,404**	328,873
Equity and other non-fixed income instruments	(20)	**2,448**	2,439	**2,448**	2,439
Investment in subsidiaries	(21)	**-**	-	**5,055**	5,055
Investment in associate	(22)	**11,171**	10,437	**9,887**	9,887
Intangible assets	(23)	**2,091**	929	**2,091**	929
Investment properties	(16)	**4,147**	330	**4,147**	330
Property and equipment	(24)	**13,813**	14,058	**13,811**	14,056
Current tax		**1,150**	-	**1,150**	-
Deferred tax assets	(25)	**682**	3,881	**682**	4,002
Other receivables	(26)	**5,890**	5,987	**5,605**	5,790
TOTAL ASSETS		**1,107,838**	965,141	**1,098,062**	960,538
LIABILITIES					
Amounts owed to banks	(27)	**78,568**	70,771	**78,568**	70,771
Derivative financial instruments	(17)	**3,872**	2,480	**3,872**	2,480
Amounts owed to customers	(28)	**892,829**	781,242	**895,156**	781,879
Other liabilities	(29)	**3,914**	3,080	**3,892**	3,060
Current tax		**-**	1,288	**-**	1,288
Accruals	(30)	**8,807**	7,722	**8,796**	7,693
TOTAL LIABILITIES		**987,990**	866,583	**990,284**	867,171
EQUITY					
Issued capital	(31)	**57,605**	57,605	**57,605**	57,605
Share premium	(32)	**1,770**	1,770	**1,770**	1,770
Revaluation reserve	(33)	**19,062**	9,147	**19,062**	9,147
Retained earnings	(34)	**30,444**	23,928	**28,578**	23,320
Dividend reserve		**763**	1,525	**763**	1,525
		109,644	93,975	**107,778**	93,367
Non-controlling interest		**10,204**	4,583	**-**	-
TOTAL EQUITY		**119,848**	98,558	**107,778**	93,367
TOTAL LIABILITIES AND EQUITY		**1,107,838**	965,141	**1,098,062**	960,538
MEMORANDUM ITEMS					
Contingent liabilities	(35)	**5,328**	5,869	**5,328**	5,869
Commitments	(36)	**211,470**	169,654	**211,470**	169,654

The financial statements on pages 18 to 76 were authorised for issue by the Board of Directors on 2 April 2015 and were signed by:

E.P. DELIA
Chairman

J.C. CARUANA
Director

E. CACHIA
Chief Executive Officer

	Attributable to the equity holders of the parent							
	Issued capital	Share premium	Revaluation reserve	Dividend reserve	Retained earnings	Total	Non-Controlling interest	Total equity
THE GROUP	€000	€000	€000	€000	€000	€000	€000	€000
FINANCIAL YEAR ENDED 31 DECEMBER 2014								
Balance at 1 January 2014	**57,605**	**1,770**	**9,147**	**1,525**	**23,928**	**93,975**	**4,583**	**98,558**
Profit for the year	-	-	-	-	8,042	8,042	894	8,936
Other comprehensive income	-	-	9,915	-	-	9,915	-	9,915
Total comprehensive income	**-**	**-**	**9,915**	**-**	**8,042**	**17,957**	**894**	**18,851**
Dividends paid (note 12)	-	-	-	(1,525)	(763)	(2,288)	-	(2,288)
Dividends proposed (note 12)	-	-	-	763	(763)	-	-	-
Increase in non-controlling interest through additional issue of shares in subsidiaries	-	-	-	-	-	-	4,727	4,727
Balance at 31 December 2014	**57,605**	**1,770**	**19,062**	**763**	**30,444**	**109,644**	**10,204**	**119,848**
FINANCIAL YEAR ENDED 31 DECEMBER 2013								
Balance at 1 January 2013	42,803	1,770	8,693	1,263	26,315	80,844	2,944	83,788
Profit for the year	-	-	-	-	9,138	9,138	38	9,176
Other comprehensive income	-	-	454	-	-	454	-	454
Total comprehensive income	**-**	**-**	**454**	**-**	**9,138**	**9,592**	**38**	**9,630**
Increase in share capital (note 31)	4,802	-	-	-	-	4,802	-	4,802
Capitalisation of retained earnings (note 31)	10,000	-	-	-	(10,000)	-	-	-
Dividends paid (note 12)	-	-	-	(1,263)	-	(1,263)	-	(1,263)
Dividends proposed (note 12)	-	-	-	1,525	(1,525)	-	-	-
Increase in non-controlling interest through additional issue of shares in subsidiaries	-	-	-	-	-	-	1,601	1,601
Balance at 31 December 2013	**57,605**	**1,770**	**9,147**	**1,525**	**23,928**	**93,975**	**4,583**	**98,558**

THE BANK	Issued capital €000	Share premium €000	Revaluation reserve €000	Dividend reserve €000	Retained earnings €000	Total €000
FINANCIAL YEAR ENDED 31 DECEMBER 2014						
Balance at 1 January 2014	**57,605**	**1,770**	**9,147**	**1,525**	**23,320**	**93,367**
Profit for the year	-	-	-	-	6,784	6,784
Other comprehensive income	-	-	9,915	-	-	9,915
Total comprehensive income	**-**	**-**	**9,915**	**-**	**6,784**	**16,699**
Dividends paid (note 12)	-	-	-	(1,525)	(763)	(2,288)
Dividends proposed (note 12)	-	-	-	763	(763)	-
Balance at 31 December 2014	**57,605**	**1,770**	**19,062**	**763**	**28,578**	**107,778**
FINANCIAL YEAR ENDED 31 DECEMBER 2013						
Balance at 1 January 2013	42,803	1,770	8,693	1,263	26,122	80,651
Profit for the year	-	-	-	-	8,723	8,723
Other comprehensive income	-	-	454	-	-	454
Total comprehensive income	**-**	**-**	**454**	**-**	**8,723**	**9,177**
Increase in share capital (note 31)	4,802	-	-	-	-	4,802
Capitalisation of retained earnings (note 31)	10,000	-	-	-	(10,000)	-
Dividends paid (note 12)	-	-	-	(1,263)	-	(1,263)
Dividends proposed (note 12)	-	-	-	1,525	(1,525)	-
Balance at 31 December 2013	**57,605**	**1,770**	**9,147**	**1,525**	**23,320**	**93,367**

STATEMENTS OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2014

	Note	The Group 2014 €000	The Group 2013 €000	The Bank 2014 €000	The Bank 2013 €000
OPERATING ACTIVITIES					
Interest and commission receipts		**28,154**	25,597	**27,710**	25,189
Interest and commission payments		**(14,873)**	(13,524)	**(14,891)**	(13,570)
Cash paid to employees and suppliers/depositors		**(13,621)**	(12,639)	**(13,545)**	(12,428)
Operating loss before changes in operating assets and liabilities		**(340)**	(566)	**(726)**	(809)
(Increase)/decrease in operating assets					
Loans and advances to customers		**(80,972)**	(42,320)	**(80,972)**	(42,320)
Reserve deposit with Central Bank of Malta		**(719)**	916	**(719)**	916
Cheques in course of collection		**(407)**	872	**(407)**	872
Other assets		**32**	-	**-**	-
Increase/(decrease) in operating liabilities					
Amounts owed to customers		**111,350**	39,553	**113,277**	40,085
Other liabilities		**776**	(5,121)	**791**	(5,119)
Cash from/(used in) operating activities before tax		**29,720**	(6,666)	**31,244**	(6,375)
Income tax paid		**(5,523)**	(4,985)	**(5,523)**	(4,984)
Net cash flows from/(used in) operating activities		**24,197**	(11,651)	**25,721**	(11,359)
INVESTING ACTIVITIES					
Dividends received		**373**	570	**808**	793
Interest income from debt securities		**16,105**	16,287	**16,105**	16,287
Purchase of held-to-maturity debt security instruments		**(200)**	(5,518)	**(200)**	(5,518)
Proceeds on maturity of held-to-maturity debt security instruments		**1,754**	13,532	**1,754**	13,532
Purchase of available-for-sale debt security instruments		**(79,530)**	(101,907)	**(79,530)**	(101,907)
Proceeds on disposal of available-for-sale debt security instruments		**62,816**	68,751	**62,816**	68,751
Purchase of financial assets at fair value through profit or loss		**(16,643)**	(15,499)	**(6,029)**	(6,351)
Proceeds on disposal of financial assets at fair value through profit or loss		**14,499**	10,294	**6,656**	2,320
Purchase of equity and other non-fixed income instruments		**(359)**	(789)	**(359)**	(939)
Proceeds on disposal of equity and other non-fixed income instruments		**369**	-	**366**	-
Purchase of property and equipment		**(2,557)**	(2,737)	**(2,557)**	(2,737)
Proceeds on disposal of property and equipment		**3**	-	**3**	-
Net cash flows used in investing activities		**(3,370)**	(17,016)	**(167)**	(15,769)
FINANCING ACTIVITIES					
Dividends paid		**(2,288)**	(1,325)	**(2,288)**	(1,263)
Proceeds from issue of shares		**-**	4,802	**-**	4,802
Net proceeds from increase in non-controlling interest in subsidiary		**4,727**	1,601	**-**	-
Net cash flows from/(used in) financing activities		**2,439**	5,078	**(2,288)**	3,539
Net increase/(decrease) in cash and cash equivalents		**23,266**	(23,589)	**23,266**	(23,589)
Cash and cash equivalents at 1 January		**(45,232)**	(21,643)	**(45,232)**	(21,643)
Cash and cash equivalents at 31 December	(37)	**(21,966)**	(45,232)	**(21,966)**	(45,232)

1. CORPORATE INFORMATION

APS Group comprises APS Bank Limited, APS Consult Limited and APS Regular Income Ethical Fund, a sub-fund of APS Funds Sicav p.l.c.

APS Bank Limited is incorporated and domiciled in Malta as a limited liability company under the Companies Act, Cap. 386 of the Laws of Malta. APS Consult Limited was incorporated and domiciled in Malta in June 2006. APS Regular Income Ethical Fund, a sub-fund of APS Funds Sicav p.l.c., was launched on 24 May 2012. APS Funds Sicav p.l.c. is licensed by the Malta Financial Services Authority as a Collective Investment Scheme under the Investment Services Act, Cap. 370 of the Laws of Malta.

The principal activities of the Group are described in the Directors' report on page 2.

2. SIGNIFICANT ACCOUNTING POLICIES

2.1 BASIS OF PREPARATION

The consolidated financial statements have been prepared on a historical cost basis, except for financial assets designated at fair value through profit or loss, available-for-sale financial assets, derivative financial instruments and investment property, all of which have been measured at fair value. The consolidated financial statements are presented in Euro (€), and all values are rounded to the nearest thousand (€000) except when otherwise indicated.

The Group presents its statement of financial position in order of liquidity.

Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU and comply with the provisions of the Banking Act, Cap. 371 and the Companies Act, Cap. 386 of the Laws of Malta.

Basis of consolidation

The consolidated financial statements comprise the financial statements of APS Bank Limited and its subsidiaries for the year ended 31 December 2014, which together are referred to as the 'Group'. Subsidiaries are fully consolidated from the date on which the Group achieves control and continue to be consolidated until the date that such control ceases. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if, and only if, the Group has:

- Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from its involvement with the investee;
- The ability to use its power over the investee to affect its returns.

Generally, there is a presumption that a majority of voting rights result in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee;
- Rights arising from other contractual arrangements;
- The Group's voting rights and potential voting rights.

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance.

The financial statements of the subsidiaries are prepared for the same reporting period as the parent company. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, non-controlling interest and other components of equity while any resultant gain or loss is recognised in profit or loss. Any investment retained is recognised at fair value.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

Amendments to IFRS effective as of 1 January 2014

Standards, interpretations and amendments to published standards as endorsed by the European Union effective in the current year

The accounting policies are consistent with those of the previous financial year, except for the following standards, interpretations and amendments effective as of 1 January 2014:

- IAS 27 Revised – Separate financial statements
- IAS 28 Revised – Investments in associates and joint ventures
- IAS 32 Amendments – Financial Instruments – Presentation – Offsetting of financial assets and financial liabilities presentation
- IAS 36 Amendments – Recoverable Amount Disclosures for Non-Financial Assets
- IAS 39 Amendments – Novation of Derivatives and Continuation of Hedge Accounting
- IFRS 10 – Consolidated financial statements
- IFRS 11 – Joint Arrangements
- IFRS 12 – Disclosures of interests in other entities
- IFRS 10, IFRS 12 and IAS 27 Amendments – Investment entities
- Transition Guidance Amendments to IFRS 10, IFRS 11 and IFRS 12
- IFRIC 21 – Levies

The nature and impact of new standards and amendments are described below:

IFRS 10 – Consolidated Financial Statements

The standard becomes effective for annual periods beginning on or after 1 January 2014. It replaces the requirements of IAS 27 Consolidated and Separate Financial Statements that address the accounting for consolidated financial statements and SIC 12 Consolidation – Special Purpose Entities. What remains in IAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements. IFRS 10 builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the Group. The standard provides additional guidance to assist in the determination of control where this is difficult to assess. The Group has assessed IFRS 10's impact on the investment in APS Income Fund and APS Regular Income Ethical Fund. The adoption of this standard did not have an impact on determination of control over these companies.

IFRS 12 – Disclosures of interests in other entities

The standard includes the disclosure requirements for all forms of interest in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. Application of IFRS 12 required additional disclosures provided in notes 21 and 22.

The adoption of other standards, interpretations and amendments did not have a significant impact on the financial position or performance of the Group.

Standards, interpretations and amendments to published standards as endorsed by the European Union that are not yet effective

Up to the date of approval of these financial statements, certain new standards, amendments and interpretations to existing standards have been published but are not yet effective for the current reporting period and which the Group has not adopted early, but plans to adopt upon their effective date. None of these standards, interpretations and amendments are expected to have an impact on the financial position or performance of the Group. The new and amended standards are as follows:

- IAS 19 Amendments - Employee benefits (effective for financial years beginning on or after 1 July 2014)
- Annual Improvements to IFRSs 2010-2012 Cycle
- Annual Improvements to IFRSs 2011-2013 Cycle

Standards, interpretations and amendments to published standards that are not yet endorsed by the European Union

- IFRS 9 - Financial instruments (effective for financial years beginning on or after 1 January 2018);
- IFRS 14 - Regulatory deferral accounts (effective for financial years beginning on or after 1 January 2016);
- IAS 16 and IAS 38 - Clarification of acceptable methods of depreciation (effective for financial years on or after 1 January 2016);
- IFRS 11 (Amendments) Accounting for acquisitions of interests in joint operations (effective for financial years on or after 1 January 2016);
- IFRS 15 - Revenue from contracts with customers (effective for financial years beginning on or after 1 January 2017);
- IAS 27 (Amendments) - Equity method in separate financial statements (effective for financial years on or after 1 January 2016);
- IAS 16 and IAS 41 - Bearer Plants (effective for financial years on or after 1 January 2016);
- IFRS 10 and IAS 28 (Amendments) Sale or contributions of assets between an investor and its associate or joint venture (effective for financial years beginning 1 January 2016);
- IFRS 10, IFRS 12 and IAS 28 (Amendments) Investment Entities: Applying the consolidation exception (effective for financial years beginning 1 January 2016);
- IAS 1 (Amendments) Disclosure initiative (effective for financial years beginning 1 January 2016);
- Annual Improvements to IFRSs 2012-2014 Cycle.

Except as explained below, the changes resulting from these standards are not expected to have a material effect on the financial statements of the Group:

IFRS 9 - Financial instruments

IFRS 9 introduces a logical approach for the classification of financial assets driven by cash flow characteristics and the business model in which an asset is held. The new model also results in a single impairment model being applied to all financial instruments. As part of IFRS 9 the IASB has introduced a new, expected loss impairment model that will require more timely recognition of expected credit losses. Specifically, the new standard requires entities to account for expected credit losses from when financial instruments are first recognised and it lowers the threshold for recognition of full lifetime expected losses. IFRS 9 also introduces a substantially-reformed model for hedge accounting with enhanced disclosures about risk management activity. The new model represents a substantial overhaul of hedge accounting that aligns the accounting treatment with risk management activities. The standard is effective for periods beginning on or after 1 January 2018. The Group will assess the effect that the standard will have on the financial statements in due course.

IAS 1 (Amendments) Disclosure initiative

The amendments to IAS 1 are designed to encourage companies to apply professional judgment in determining what information to disclose in their financial statements. The amendments clarify that companies should use professional judgment in determining where and in what order information is presented in the financial disclosures. The amendments to IAS 1 can be applied immediately, and become mandatory for annual periods beginning on or after 1 January 2016. The Group will assess the effect that the amendments will have on the financial statements in due course.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Recognition of income and expenses

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

Interest and similar income and expense

For all financial instruments measured at amortised cost, interest bearing financial instruments classified as available-for-sale, and financial assets designated at fair value through profit or loss, interest income or expense is recorded using the effective interest rate (EIR), which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or liability.

Fees and commission income

The Group earns fee and commission income from a diverse range of services it provides to its customers. Fees and commissions that are earned from services provided to customers are accrued for over that period. These fees include commission income, custody and other management and advisory fees. Other fee and commission income is recognised on completion of underlying transactions in the relevant period.

Dividend income
Dividend income from investments is recognised when the Group's right to receive the payment is established, which is generally when shareholders approve the dividend.

Net gains on financial instruments
Net gains on financial instruments include realised gains and losses on disposal of financial instruments and unrealised gains and losses on financial assets designated at fair value through profit or loss. Realised gains and losses on disposal of financial instruments represent the difference between an instrument's carrying amount and disposal amount and is recognised on the value date of transaction. Unrealised gains and losses on financial assets designated at fair value through profit or loss represent changes in fair value of financial instruments.

Foreign currency translation
The consolidated financial statements are presented in Euro, which is the Group's functional and presentation currency. Transactions in foreign currencies are initially recorded by the Group entities at their respective functional currency spot rates at the date the transaction first qualifies for recognition. Transactions in foreign currencies are translated at the rate of exchange prevailing on the date of transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rates of exchange at the reporting date. Differences arising on settlement or translation of monetary items are recognised in profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of recognition.

Financial assets

Classification
The Group classifies its financial assets at initial recognition in accordance with IAS 39 Financial Instruments – Recognition and Measurement.

Initial recognition
All financial assets are initially recognised on the trade date, i.e. the date that the Group becomes a party to the contractual provisions of the instrument. This includes 'regular way trades' that entails purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

The classification of financial assets at initial recognition depends on their purpose and the management's intention in acquiring them. All financial instruments are measured initially at their fair value plus transactions costs, except for financial assets recorded at fair value through profit or loss, where transaction costs are expensed.

Subsequent measurement
For purposes of subsequent measurement financial assets are classified in four categories:

- Financial assets at fair value through profit or loss;
- Loans and receivables;
- Held-to-maturity investments;
- Available-for-sale financial assets.

Financial assets at fair value through profit or loss
Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. The Group has not designated any financial assets at fair value through profit or loss. Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value presented as Net gains on financial instruments (note 7b). Interest earned or incurred is accrued in Interest income using the EIR, while dividend income is recorded in Dividend income when the right to the payment has been established.

Loans and receivables
This category is relevant to the Group and applies to loans and advances to banks and loans and advances to customers.

Loans and advances to banks and Loans and advances to customers include non-derivative financial assets at fixed or determinable payments that are not quoted in an active market, other than:

- Those that the Group intends to sell immediately or in the near term and those that the Group upon initial recognition designates as at fair value through profit or loss;
- Those that the Group, upon initial recognition, designates as available-for-sale;
- Those for which the Group may not recover substantially all of its initial investment, other than because of credit deterioration.

After initial measurement, loans and receivables are subsequently measured at amortised cost using the EIR method, less allowance for impairment. The losses arising from impairment are recognised in the statement of profit or loss in Net impairment losses. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the EIR.

Held-to-maturity financial investments
Held-to-maturity financial investments are non-derivative financial assets with fixed or determinable payments and fixed maturities, which the Group has the intention and ability to hold to maturity. After initial measurement, held-to-maturity financial investments are subsequently measured at amortised cost using the EIR less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the EIR. The amortisation is included in Interest receivable and similar income in the statement of profit or loss. The losses arising from impairment of such investments are recognised in the statement of profit or loss in Net impairment losses.

If the Group were to sell or reclassify more than an insignificant amount of held-to-maturity investments before maturity (other than in certain specific circumstances), the entire category would be tainted and would have to be reclassified as available-for-sale. Furthermore, the Group would be prohibited from classifying any financial asset as held-to-maturity during the following two years.

Available-for-sale financial investments
Available-for-sale investments include equity and debt securities. Equity investments classified as available-for-sale are those which are neither classified as held-for-trading nor designated at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and may be sold in response to needs for liquidity or in response to changes in the market conditions.

After initial measurement, available-for-sale financial investments are subsequently measured at fair value. Unrealised gains and losses are recognised directly in equity (Other comprehensive income) and credited to the Revaluation reserve. When the investment is disposed of, the cumulative gain or loss previously recognised in equity is recognised in the statement of profit or loss in Net gains on financial instruments. Where the Group holds more than one investment in the same security they are deemed to be disposed of on a first-in first-out basis.

Interest earned whilst holding available-for-sale financial assets is reported as interest income using the EIR. Dividends earned whilst holding available-for-sale financial investments are recognised in the statement of profit or loss when the right of the payment has been established. The losses arising from impairment of such investments are recognised in the statement of profit or loss in Net impairment losses and removed from the Revaluation reserve.

The Group evaluates whether the ability and intention to sell its available-for-sale financial assets in the near term is still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets, the Group may choose to reclassify these financial assets, if the management has the ability and intention to hold the assets for foreseeable future or until maturity.

For a financial asset reclassified from the available-for-sale category, the fair value carrying amount at the date of reclassification becomes its new amortised cost and any previous gain or loss on the asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the EIR. Any difference between the new amortised cost and the maturity amount is also amortised over the remaining life of the asset using the EIR. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the statement of profit or loss.

Derecognition of financial assets
A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset, or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and
- either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all of the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset.

Impairment of financial assets
The Group assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (an incurred loss event) and the loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost
The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised, are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on loans and receivables and held-to-maturity investments carried at amortised cost 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 EIR (i.e. the EIR computed at initial recognition). 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. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Loans, together with the associated allowances, are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group. If, in a subsequent period, the amount of the estimated 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 reduced by adjusting the allowance account, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date. If a future write-off is later recovered, the recovery is credited to the statement of profit or loss.

Available-for-sale financial investments
For available-for-sale financial investments, the Group assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired.

In the case of equity investments classified as available-for-sale, objective evidence would include a 'significant' or 'prolonged' decline in the fair value of the investments below its cost. 'Significant' is evaluated against the original cost of the investment and 'prolonged' against the period in which the fair value has been below its original cost. The Group treats 'significant' generally as 20% and 'prolonged' generally as greater than 12 months. Where there is evidence of impairment, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the statement of profit or loss, is removed from other comprehensive income and recognised in the statement of profit or loss. Impairment losses on equity investments are not reversed through the statement of profit or loss; increases in their fair value after impairment are recognised directly in other comprehensive income.

In the case of debt instruments classified as available-for-sale, impairment is assessed based on the same criteria as financial assets carried at amortised cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in the statement of profit or loss. Future interest income is based on the reduced carrying amount of the asset and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Interest income is recorded as part of Interest receivable and similar income. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to a credit event occurring after the impairment loss was recognised in the statement of profit or loss, the impairment loss is reversed through the statement of profit or loss.

Renegotiated loans

Where possible, the Group seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, the loan is no longer considered past due. Management continuously reviews renegotiated loans to ensure that all criteria are met and the future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loans' original EIR.

Collateral valuation

The Group uses collateral to mitigate its risks on financial assets. The collateral comes in various forms such as cash, securities, guarantees and real estate. The fair value is generally assessed at a minimum at inception date. However, some collateral, for example cash or securities, is valued monthly. To the extent possible, the Group uses active market data for valuing collateral. Non-financial collateral, such as real estate, is valued based on data provided by external valuers.

Financial liabilities

Initial recognition

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, or payables, as appropriate. All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, loans and borrowings including bank overdrafts and derivative financial instruments.

Subsequent measurement

The measurement of financial liabilities depends on their classification, as described below:

Amounts owed to banks and to customers

Financial liabilities are classified according to the substance of the contractual arrangements entered into. Amounts owed to banks and Amounts owed to customers are initially measured at fair value and subsequently measured at amortised cost using the EIR method.

Derivative financial instruments

Derivatives are initially recognised at fair value on the date on which a derivative contract is measured and are subsequently re-measured at fair value.

All derivatives are classified as assets when their fair value is positive or as liabilities when their fair value is negative. Derivatives embedded in other financial instruments are treated as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contract, and the host contract is not itself held for trading or designated at fair value through profit or loss. The embedded derivatives separated from the host are carried at fair value with changes in fair value recognised in the statement of profit or loss.

Derecognition

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expired. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the statement of profit or loss.

Offsetting financial instruments

Financial assets and financial liabilities could be offset and the net amount reported in the statement of financial position only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Repurchase and reverse repurchase agreements

Securities sold under agreements to repurchase at a specified future date are not derecognised from the statement of financial position as the Group retains substantially all of the risks and rewards of ownership. The corresponding cash received is recognised in the consolidated statement of financial position as an asset with a corresponding obligation to return it, including accrued interest as a liability within cash collateral on securities lent and repurchase agreements, reflecting the transaction's economic substance as a loan to the Group. The difference between the sale and repurchase prices is treated as interest expense and is accrued over the life of agreement using the EIR.

Conversely, securities purchased under agreements to resell at a specified future date are not recognised in the statement of financial position. The consideration paid, including accrued interest, is recorded in the statement of financial position, within cash collateral on securities borrowed and reverse repurchase agreements, reflecting the transaction's economic substance as a loan by the Group. The difference between the purchase and resale prices is recorded in net interest income and is accrued over the life of the agreement using the EIR.

If securities purchased under agreement to resell are subsequently sold to third parties, the obligation to return the securities is recorded as a short sale within Financial liabilities held-for-trading and measured at fair value with any gains or losses included in net gains on financial instruments.

Property and equipment

All property and equipment is stated at cost less accumulated depreciation and accumulated impairment in value, if any. Depreciation is calculated using the straight line method to write off the cost of each asset to its residual value over its estimated useful economic life. Changes in the expected useful life are accounted for by changing the amortisation period or method, as appropriate, and treated as changes in accounting estimates. The annual rates used for this purpose are:

	%
Building	1.0
Computer equipment	12.5-25.0
Other	5.0-20.0

Works of art and land are not depreciated by the Group.

Property and equipment is derecognised upon disposal or when no future economic benefits are expected from its use. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of profit or loss in the year the asset is derecognised. The asset's residual value, useful life and method is reviewed, and adjusted if appropriate, at each financial year end.

Intangible assets

Intangible assets comprise computer software. An intangible asset is recognised only when its cost can be measured reliably and it is probable that the expected future economic benefits that are attributable to it will flow to the Group. Intangible assets are initially measured at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

Intangible assets are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset is reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and treated as changes in accounting estimates. The amortisation expense on intangible assets is recognised in the statement of profit or loss in the expense category consistent with the function of the intangible asset.

Amortisation is calculated using the straight-line method to write down the cost of computer software to its residual value over its estimated useful life ranging between 4 - 8 years.

Development costs
Development costs on an individual project are recognized as an intangible asset when the Group can demonstrate:

- The technical feasibility of completing the intangible asset so that the asset will be available for use or sale;
- Its intention to complete and its ability to use or sell the asset;
- How the asset will generate future economic benefits;
- The availability of resources to complete the asset;
- The ability to measure reliably the expenditure during development.

Following initial recognition of the development expenditure as an asset, the asset is carried at cost less any accumulated amortisation and accumulated impairment losses. Amortisation of the asset begins when development is complete and the asset is available for use. It is amortised over the period of expected future benefit. During the period of development, the asset is tested for impairment annually.

Investment properties
Investment properties are stated initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the reporting date. Gains or losses arising from changes in the fair values of investment properties are included in the statement of profit or loss in the period in which they arise, including the corresponding tax effect. Fair values are determined based on an annual evaluation performed by an accredited external independent valuer.

Investment properties are derecognised when either they have been disposed of or when they are permanently withdrawn from use and no future economic benefit is expected from their disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognised in the statement of profit or loss in the period of derecognition.

Impairment of non-financial assets
The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or Cash Generating Unit's fair value less costs to sell and its value in use. Where the carrying amount of an asset or Cash Generating Unit exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. Impairment losses are recognised in the statement of profit or loss in those expense categories consistent with the function of the impaired asset.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. The reversal is limited so that the carrying amount of the asset does not exceed the recoverable amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the statement of profit or loss.

After such a reversal the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

Investments in subsidiaries
The investments in subsidiaries are accounted for at cost less any accumulated impairment losses.

Investment in associate

The Group
The Group's investment in its associate is accounted for using the equity method. An associate is an entity over which the Group has significant influence.

Under the equity method, the investment in an associate is initially recognised at cost in the statement of financial position. The carrying amount of the investment is adjusted to recognise changes in the Group's share of net assets of the associate since acquisition date. Goodwill relating to the associate is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment.

The statement of profit or loss reflects the Group's share of the results of operations of the associate. When there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes and discloses this, when applicable, in the statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate.

The Group's share of profit or loss of an associate is shown on the face of the statement of profit or loss. This is the profit attributable to equity holders of the associate and, therefore, represents profit after tax and non-controlling interests in the subsidiaries of the associate.

The financial statements of the associate are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

After application of the equity method, the Group determines whether it is necessary to recognise an additional impairment loss on its investment in its associate. The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the loss in the Share of results of associate in the statement of profit or loss.

Upon loss of significant influence over the associate, the Group measures and recognises any retaining net of tax investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retained investment and proceeds from disposal is recognised in the statement of profit or loss.

The Bank

The investment in associate is stated at cost. Provision is made where in the opinion of the Directors, there is a permanent diminution in value.

Income from the investment is recognised only to the extent of the distributions received by the Bank.

Dividends payable on ordinary shares

Dividends payable on ordinary shares are recognised in the period in which they are approved by the Group's shareholders.

Taxation

Current income tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date. Current income tax relating to items recognised directly in equity is recognised in equity and not in the statement of profit or loss.

Deferred income tax

Deferred income tax is provided using the liability method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred income tax liabilities are recognised for all taxable temporary differences, except:

- where the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised except:

- where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred income tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred income tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised. Unrecognised deferred income tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred income tax relating to items recognised directly in equity is recognised in equity and not in the statement of profit or loss. Deferred income tax assets and deferred income tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

Retirement benefit costs

The Group contributes towards the government pension defined contribution plan in accordance with local legislation and to which it has no commitment beyond the payment of fixed contributions. These obligations are recognised as an expense in the statement of profit or loss as they accrue. The Group does not contribute towards any retirement benefit plans.

Other liabilities

Liabilities for other amounts payable are carried at cost which is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the Group.

Financial guarantees

In the ordinary course of business, the Group gives financial guarantees, consisting of letters of credit, guarantees and acceptances. Financial guarantees are initially recognised in the financial statements at fair value, being the premium received. Subsequent to initial recognition, the Group's liability under each guarantee is measured at the higher of the amortised premium and the best estimate of expenditure required to settle any financial obligation arising as a result of the financial guarantee.

Any increase in the liability relating to financial guarantees is taken to the statement of profit or loss. The premium received is recognised in the statement of profit or loss in fees and commission income on a straight line basis over the life of the guarantee.

Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents comprise:

- Cash in hand and deposits repayable on call or short notice or with a contractual period to maturity of less than three months, with any bank or financial institution;
- Short-term highly liquid investments which are readily convertible into known amounts of cash without notice, subject to an insignificant risk of changes in value and with a contractual period of maturity of less than three months; and
- Advances to/from banks repayable within three months from the date of the advance.

Fair value measurement

The Group measures financial instruments, such as derivatives, and non-financial assets, such as investment properties, at fair value at each reporting date.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability or, in the absence of a principal market, in the most advantageous market for the asset or liability. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

The fair value for financial instruments traded in active markets at the reporting date is based on their quoted price or binding dealer price quotations without any deduction for transaction costs. Securities defined in these financial statements as 'quoted' are traded in an active market.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 – Quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- Level 2 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable;
- Level 3 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

External valuers are involved for valuation of non-financial assets like investment property. Selection criteria of valuer include market knowledge, reputation, independence and whether professional standards are maintained. At each reporting date, the Advances Division verifies the major inputs applied in the latest valuation by agreeing the information in the valuation computation to relevant documents.

Significant accounting judgements, estimates and assumptions

In the process of applying the Group's accounting policies, management is required to make judgements, estimates and assumptions that affect the amounts recognised or disclosed in the financial statements. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

Management has made the following judgements and estimates which have the most significant effect on amounts recognised in the consolidated financial statements:

Going Concern

The management has made an assessment of the Group's ability to continue as a going concern and is satisfied that it has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Group's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis.

Consolidation of entities in which Group hold less than a majority of voting rights

As of 31 December 2014, the Group directly held 21.13% in APS Income Fund (26.43% as of 31 December 2013) and 36.17% in APS Regular Income Ethical Fund (53.26% as of 31 December 2013).

The Group assessed whether control (as defined in terms of IFRS 10) exists over the APS Income Fund and concluded that it has no control over the APS Income Fund.

The Group also assessed whether control (as defined in terms of IFRS 10) over the APS Regular Income Ethical Fund exists, and concluded that it has control over this Fund because the Bank, in its capacity as the manager of the Fund, is acting as its principal. The following factors were considered to support the assessment: a) the Bank in its capacity as the fund manager has wide decision making rights over the relevant activities of the Fund; b) the removal rights are not substantive since there are multiple parties (widely dispersed shareholders) who hold the removal rights; and c) two out of the three serving directors of the Fund are the same persons initially appointed as directors by the Bank when the company was constituted.

Impairment losses on loans and advances

The Bank reviews its individually significant loans and advances at each reporting date to assess whether an impairment loss should be recorded in the statement of profit or loss. In particular, management's judgment is required in the estimation of the amount and timing of future cash flows when determining the impairment loss. These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

Loans and advances that have been assessed individually and found not to be impaired and all individually insignificant loans and advances, are then assessed collectively, in groups of assets with similar risk characteristics, to determine whether provision should be made due to incurred loss events for which there is objective evidence but the effects of which are not yet evident. The collective assessment takes account of data from the loan portfolio and judgements to the effect of concentrations of risks and economic data. The impairment loss on loans and advances is disclosed in more detail in note 10.

Impairment of available-for-sale investments and held-to-maturity investments

The Group reviews its debt securities classified as available-for-sale and held-to-maturity investments at each reporting date to assess whether they are impaired. This requires similar judgement as applied to the individual assessment of loans and advances.

The Group also records impairment charges on available-for-sale equity investments when there has been a significant or prolonged decline in the fair value below their cost. The determination of what is significant or prolonged requires judgement. In making this judgement, the Group evaluates, among other factors, historical share price movements and duration and extent to which the fair value of an investment is less than its cost. The impairment loss on available-for-sale investments and held-to-maturity investments is disclosed in more detail in note 10.

Fair value of financial instruments
Where the fair value of financial assets recorded in the statement of financial position cannot be derived from an active market, they are determined using a variety of valuation techniques. The inputs to these models and techniques are derived from observable market data where possible, but if this is not available judgement is required to establish fair values. The valuation of financial instruments is described in more detail in notes 18, 19 and 20.

Fair value of investment properties
The Group carries its investment properties at fair value, with changes in fair value being recognised in the statement of profit or loss. The Group engaged an independent valuation specialist to assess fair value as at 31 December 2014. For investment properties, a valuation methodology was based on a comparable market data, due to nature of property.

Deferred tax assets
Deferred tax assets are recognised in respect of tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits, together with future tax planning strategies (note 25).

Development costs
The Group capitalises development costs in accordance with accounting policy. Initial capitalisation of costs is based on management's judgement that technological and economic feasibility is confirmed, usually when a product development project has reached a defined milestone. In determining amounts to be capitalised, management makes assumptions regarding the expected future cash generation of the project, discount rates to be applied and the expected period of benefit. As at 31 December 2014, capitalised development costs are disclosed under note 23.

3. INTEREST RECEIVABLE AND SIMILAR INCOME

	The Group		The Bank	
	2014	2013	**2014**	2013
	€000	€000	**€000**	€000
On loans and advances to banks	**34**	13	**34**	13
On loans and advances to customers	**22,917**	21,706	**22,884**	21,697
On balances with Central Bank of Malta	**11**	39	**11**	39
On treasury bills	**4**	3	**4**	3
	22,966	21,761	**22,933**	21,752
On debt securities	**16,673**	16,697	**16,089**	16,286
Amortisation of premiums and discounts	**(1,613)**	(1,629)	**(1,613)**	(1,629)
	15,060	15,068	**14,476**	14,657
	38,026	36,829	**37,409**	36,409

Interest receivable on loans and advances to customers is netted off with €1,249,487 (2013: €1,044,631) in respect of interest accrued on impaired loans and advances to customers (note 15).

4. INTEREST PAYABLE

	The Group		The Bank	
	2014	2013	**2014**	2013
	€000	€000	**€000**	€000
On amounts owed to banks	**160**	400	**160**	400
On amounts owed to customers	**15,720**	14,604	**15,738**	14,650
	15,880	15,004	**15,898**	15,050

5. DIVIDEND INCOME

	The Group		The Bank	
	2014	2013	**2014**	2013
	€000	€000	**€000**	€000
From equity shares held in local and foreign companies	**212**	215	**841**	827

6. TRADING INCOME

	The Group		The Bank	
	2014	2013	**2014**	2013
	€000	€000	**€000**	€000
Unrealised gain/(loss) on exchange	**175**	(37)	**175**	(37)
Realised gain on exchange	**312**	292	**294**	292
	487	255	**469**	255

7. NET GAINS ON FINANCIAL INSTRUMENTS

a) Net realised gains on disposal of available-for sale investments	The Group		The Bank	
	2014	2013	**2014**	2013
	€000	€000	**€000**	€000
Realised gains on disposal of available-for-sale investments	**1,251**	1,586	**1,251**	1,586
b) Net changes in fair value of financial assets at fair value through profit or loss				
Unrealised net fair value movements on financial assets at fair value through profit or loss	**857**	(176)	**(37)**	42
Realised gains/(losses) on disposal of financial assets at fair value through profit or loss	**536**	169	**220**	(19)
	1,393	(7)	**183**	23
	2,644	1,579	**1,434**	1,609

8. PERSONNEL EXPENSES

	The Group		The Bank	
	2014	2013	**2014**	2013
	€000	€000	**€000**	€000
Wages and salaries:				
- key management personnel	**350**	391	**348**	309
- other staff	**6,077**	6,285	**6,077**	6,325
- wages recharged to subsidiary at cost	**-**	-	**(7)**	(63)
Social security costs	**487**	453	**487**	449
	6,914	7,129	**6,905**	7,020

Compensation paid to key management personnel of the Group include only short-term employee benefits.

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

	The Group		The Bank	
	2014	2013	**2014**	2013
Managerial	**39**	39	**39**	38
Supervisory and clerical	**209**	190	**209**	190
Others	**10**	12	**10**	12
	258	241	**258**	240

9. OTHER ADMINISTRATIVE EXPENSES

	The Group		The Bank	
	2014	2013	**2014**	2013
	€000	€000	**€000**	€000
Remuneration payable to the auditors for:				
- the audit of financial statements	**37**	37	**35**	35
- tax compliance services	**2**	2	**2**	2
Directors' emoluments	**136**	117	**131**	113
Insurance	**563**	380	**562**	375
Professional fees	**584**	583	**580**	570
Repairs and maintenance	**1,643**	1,393	**1,643**	1,391
Telecommunications	**312**	307	**312**	304
Office operating expenses	**1,730**	1,434	**1,709**	1,410
Others	**1,895**	1,947	**1,844**	1,895
	6,902	6,200	**6,818**	6,095

The non-executive directors do not receive pension entitlements from the Group.

10. NET IMPAIRMENT LOSSES/(REVERSALS)

	The Group		The Bank	
	2014	2013	**2014**	2013
	€000	€000	**€000**	€000
Charge for the year:				
Loans and advances to customers:				
- collective impairment (note 15)	**180**	(1,235)	**180**	(1,235)
- individual impairment (note 15)	**2,271**	1,834	**2,271**	1,834
- bad debts written off	**3,468**	21	**3,461**	6
On investment in subsidiary (note 21)	**-**	-	**-**	345
	5,919	620	**5,912**	950
Reversal of write-downs:				
Loans and advances to customers:				
- individual impairment (note 15)	**(4,718)**	(2,204)	**(4,718)**	(2,204)
Net impairment losses/(reversals)	**1,201**	(1,584)	**1,194**	(1,254)

11. INCOME TAX EXPENSE

The major components of income tax expense for the years ended 31 December 2014 and 2013 are:

	The Group		The Bank	
	2014	2013	**2014**	2013
	€000	€000	**€000**	€000
Current income tax	**3,086**	4,352	**3,086**	4,352
Deferred income tax	**749**	296	**749**	174
Income tax expense	**3,835**	4,648	**3,835**	4,526

A reconciliation between tax expense and the product of accounting profit multiplied by the applicable tax rate in Malta of 35% (2013: 35%) for the years ended 31 December 2014 and 2013 is as follows:

	The Group		The Bank	
	2014	2013	**2014**	2013
	€000	€000	**€000**	€000
Profit before tax	**12,771**	13,824	**10,619**	13,249
Theoretical tax expense at 35%	**4,470**	4,838	**3,716**	4,637
Tax effect of:				
- Differences between depreciation and capital allowances	**69**	49	**69**	49
- Income subject to reduced rates of tax	**(201)**	(171)	**(201)**	(171)
- Current year tax losses surrendered by a group company	**-**	-	**(2)**	(27)
- Others	**(503)**	(68)	**253**	38
Income tax expense	**3,835**	4,648	**3,835**	4,526

12. DIVIDENDS PAID AND PROPOSED

	The Group		The Bank	
	2014	2013	**2014**	2013
	€000	€000	**€000**	€000
Dividends paid on ordinary shares:				
Final gross of income tax for 2013:				
5.09 cents per share (2012: 2.72 cents per share)	**2,346**	1,943	**2,346**	1,943
Final net of income tax for 2013:				
3.31 cents per share (2012: 1.77 cents per share)	**1,525**	1,263	**1,525**	1,263
Interim gross of income tax for 2014:				
2.55 cents per share	**1,173**	-	**1,173**	-
Interim net of income tax for 2014:				
1.65 cents per share	**763**	-	**763**	-

Dividends proposed for approval at annual general meeting were not recognised as a liability as at 31 December 2014 and are presented below:

	The Group		The Bank	
	2014	2013	**2014**	2013
	€000	€000	**€000**	€000
Dividends proposed on ordinary shares:				
Final gross of income tax for 2014:				
2.55 cents per share (2013: 5.09 cents per share)	**1,173**	2,346	**1,173**	2,346
Final net of income tax for 2014:				
1.65 cents per share (2013: 3.31 cents per share)	**763**	1,525	**763**	1,525

13. CASH AND BALANCES WITH CENTRAL BANK OF MALTA

	The Group		The Bank	
	2014	2013	**2014**	2013
	€000	€000	**€000**	€000
Cash in hand (note 37)	**5,927**	5,274	**5,927**	5,274
Balances with Central Bank of Malta (excluding reserve deposit) (note 37)	**1,361**	5,094	**1,361**	5,094
Reserve deposit with Central Bank of Malta	**7,009**	6,289	**7,009**	6,289
	14,297	16,657	**14,297**	16,657

Deposits with the Central Bank of Malta represent mandatory reserve deposits and are not available for use in the Group's day-to-day operations. It is held in terms of article 32 of the Central Bank of Malta Act, Cap. 204 of the Laws of Malta. Included in this balance is an amount of €1,400,000 (2013: the same) pledged in favour of the MFSA's Depositors' Compensation Scheme (note 19).

During the year ended 31 December 2014 the Bank has been compliant with the reserve deposit requirement (2013: the same).

14. LOANS AND ADVANCES TO BANKS

	The Group		The Bank	
	2014	2013	**2014**	2013
	€000	€000	**€000**	€000
Repayable on call and at short notice (note 37)	**49,314**	15,171	**49,314**	15,171
Placements with other banks not repayable at short notice	**637**	300	**-**	-
	49,951	15,471	**49,314**	15,171
Analysed by currency:				
- Euro	**20,319**	9,899	**19,682**	9,599
- Foreign	**29,632**	5,572	**29,632**	5,572
	49,951	15,471	**49,314**	15,171

15. LOANS AND ADVANCES TO CUSTOMERS

	The Group		The Bank	
	2014	2013	**2014**	2013
	€000	€000	**€000**	€000
Repayable on call and at short notice	**54,987**	60,094	**54,987**	60,094
Term loans and advances	**581,982**	503,181	**581,982**	503,181
Gross loans and advances (i)	**636,969**	563,275	**636,969**	563,275
Less: allowance for impairment losses (ii)	**(13,338)**	(14,356)	**(13,338)**	(14,356)
Net loans and advances	**623,631**	548,919	**623,631**	548,919

(i) Gross loans and advances analysed by currency

	The Group		The Bank	
	2014	2013	**2014**	2013
	€000	€000	**€000**	€000
- Euro	**634,741**	562,381	**634,741**	562,381
- Foreign	**2,228**	894	**2,228**	894
	636,969	563,275	**636,969**	563,275

(ii) Impairment allowance for loans and advances to customers

A reconciliation of the allowance for impairment losses for loans and advances to customers is as follows:

	The Group		The Bank	
	2014	2013	**2014**	2013
	€000	€000	**€000**	€000
At 1 January	**14,356**	14,917	**14,356**	14,917
Charge/(Reversal) for the year:				
- Collective (note 10)	**180**	(1,235)	**180**	(1,235)
- Individual (note 10)	**(2,447)**	(370)	**(2,447)**	(370)
- Accrued interest (note 3)	**1,249**	1,044	**1,249**	1,044
At 31 December	**13,338**	14,356	**13,338**	14,356
- Individual impairment losses, including accrued interest	**10,817**	12,015	**10,817**	12,015
- Collective impairment losses	**2,521**	2,341	**2,521**	2,341
	13,338	14,356	**13,338**	14,356

15. LOANS AND ADVANCES TO CUSTOMERS - CONTINUED

(ii) Impairment allowance for loans and advances to customers – continued

With the individually assessed allowance for impairment losses at the reporting date is included an amount of €4,095,282 (2013: €2,845,795), which has been netted-off against interest receivable.

The aggregate amount of impaired loans and advances at the reporting date amounted to €16,979,000 (2013: €16,593,000). The amount and type of collateral required depends on an assessment of the credit risk of the customer. For a more detailed description see 'Collateral' in note 39.3.

Concentration of Loans and Advances to Customers
The following table shows the risk concentration by industry for loans and advances to customers, gross of provisions:

THE GROUP / BANK	2014 €000	2013 €000
Agriculture	7,835	8,281
Fishing	4,435	4,137
Mining and quarrying	21	27
Manufacturing	20,849	26,201
Electricity, gas and water supply	18,462	17,130
Construction	83,816	78,782
Wholesale and retail trade	38,727	40,131
Hotels and restaurants, excluding related construction activities	16,658	24,199
Transport, storage and communication	1,823	1,521
Financial intermediation	2,043	2,051
Real estate, renting and business	20,626	15,044
Public administration	3,181	3,251
Education	12,468	12,212
Health and social work	442	819
Community, recreational and personal service activities	3,884	6,312
Households and individuals	401,699	323,177
	636,969	563,275

16. INVESTMENT PROPERTIES

The Group's investment property consists of commercial property and residential properties in Malta. As at 31 December 2014 and 2013 the fair values of investment properties held by the Group were as follows:

	The Group		The Bank	
	2014	2013	**2014**	2013
	€000	€000	**€000**	€000
As at 1 January	**330**	330	**330**	330
Additions	**3,817**	-	**3,817**	-
As at 31 December	**4,147**	330	**4,147**	330

The Group classifies its residential property as Level 2 in accordance with IFRS 13 fair value hierarchy. Fair value is measured on the basis of observable inputs, being market value per square metre for similar property in the same location, as provided by an independent architect.

Commercial property is classified as Level 3 in accordance with IFRS 13 fair value hierarchy. The description of valuation techniques used and key inputs to valuation on commercial property is presented in the table below:

	Valuation Technique	**Significant Unobservable Inputs**	**Range 2014**
Commercial property	DCF method	Estimated rental value per sqm per year	€50 - €150
		Discount rate	5%
		Rent growth	Fixed

A market-derived discount rate is applied to establish the Present Value of the income stream associated with the asset. The duration of the cash-flows is typically driven by market behaviour that is a characteristic of the class of real property.

Significant increases (decreases) in estimated rental value and rent growth per annum in isolation would result in a significantly higher (lower) fair value of the properties. Significant increases (decreases) in the discount rate (and exit yield) in isolation would result in a significantly lower (higher) fair value.

Generally, a change in the assumption made for the estimated rental value is accompanied by a directionally similar change in the rent growth per annum and discount rate (and exit yield).

Except for one property with a fair value of €2,816,000 as at 31 December 2014, the Group has no restrictions on the realisation of investment properties.

17. DERIVATIVE FINANCIAL INSTRUMENTS

	The Group		The Bank	
	2014	2013	**2014**	2013
	€000	€000	**€000**	€000
Derivative assets, designated as at fair value through profit or loss, not designated as hedges	**3,872**	2,480	**3,872**	2,480
Derivative liabilities, designated as at fair value through profit or loss, not designated as hedges	**3,872**	2,480	**3,872**	2,480

The table below shows the fair values of derivative financial instruments recorded as assets and liabilities together with their notional amount. The notional amount represents the basis upon which changes in the value of derivatives are measured. Notional amount indicates the volume of outstanding transactions as at the year end.

	Notional	**Assets**	**Liabilities**	Notional	Assets	Liabilities
	2014	**2014**	**2014**	2013	2013	2013
THE GROUP / BANK	**€000**	**€000**	**€000**	€000	€000	€000
Over the counter derivatives:						
Equity/commodity-index warrants purchased	**55,775**	**3,872**	**-**	47,000	2,480	-
Equity/commodity-index warrants written	**55,775**	**-**	**3,872**	47,000	-	2,480
	-	**3,872**	**3,872**	-	2,480	2,480

The Group's exposure under the derivative contracts is closely monitored as part of the overall management of market risk. The Group classifies its derivative instruments as Level 2 in accordance with IFRS 13 fair value hierarchy (2013: the same). The last valuation was made on 31 December 2014 on the basis of observable inputs.

18. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

Financial investments designated at fair value through profit and loss were made as follows:

	The Group		The Bank	
	2014	2013	**2014**	2013
	€000	€000	**€000**	€000
Debt and other fixed income instruments	**15,305**	12,814	**3,427**	4,084
Equity and other non-fixed income instruments	**801**	88	**56**	88
	16,106	12,902	**3,483**	4,172
Analysed by currency:				
- Euro	**8,272**	8,381	**2,548**	4,028
- Foreign	**7,834**	4,521	**935**	144
	16,106	12,902	**3,483**	4,172

All financial assets at fair value through profit or loss of the Group as at 31 December 2014 and 31 December 2013 were classified as Level 1 in accordance with IFRS 13 fair value hierarchy.

19. DEBT AND OTHER FIXED INCOME INSTRUMENTS

	The Group		The Bank	
	2014	2013	2014	2013
	€000	€000	€000	€000
Held-to-maturity	85,911	87,723	85,911	87,723
Available-for-sale	270,493	241,150	270,493	241,150
	356,404	328,873	356,404	328,873
Held-to-maturity				
Issued by public bodies:				
- Local government	85,045	86,629	85,045	86,629
Issued by other issuers:				
- Foreign government	366	594	366	594
- Foreign others	500	500	500	500
	866	1,094	866	1,094
Total	85,911	87,723	85,911	87,723
Available-for-sale				
Issued by public bodies:				
- Local government	76,109	75,915	76,109	75,915
- Foreign government	24,663	16,330	24,663	16,330
	100,772	92,245	100,772	92,245
Issued by other issuers:				
- Local banks	2,189	2,179	2,189	2,179
- Foreign banks	28,667	30,193	28,667	30,193
- Foreign others	134,544	110,728	134,544	110,728
- Local others	4,321	5,805	4,321	5,805
	169,721	148,905	169,721	148,905
Total	270,493	241,150	270,493	241,150
Total debt and other fixed income instruments	356,404	328,873	356,404	328,873
Analysed by currency:				
- Euro	293,858	284,862	293,858	284,862
- Foreign	62,546	44,011	62,546	44,011
	356,404	328,873	356,404	328,873
Unamortised premiums on debt and other fixed income instruments	8,557	13,152	8,557	13,152
Listing status:				
- Listed on Malta Stock Exchange	167,664	170,528	167,664	170,528
- Listed elsewhere	188,440	158,045	188,440	158,045
- Unlisted	300	300	300	300
	356,404	328,873	356,404	328,873

19. DEBT AND OTHER FIXED INCOME INSTRUMENTS – CONTINUED

IFRS 13 requires disclosures relating to fair value measurements using a three level fair value hierarchy (note 39.2). The level within which the fair value measurement is categorised is determined on the basis of the lowest level input that is significant to fair value measurement.

All available-for-sale debt securities are recorded at fair value (Level 1 in accordance with IFRS 13 fair value hierarchy) except for the Group's investment of €300,000 in Merkur Bank (2013: the same), which is unquoted and categorised as Level 2 investment in accordance with IFRS 13 fair value hierarchy. The Group values financial assets using discounted cash flow analysis which incorporates either observable or unobservable data. Observable inputs include assumptions regarding current rates of interest; unobservable inputs include assumptions regarding future default rates.

There were no reclassifications made within the fair value hierarchy and there were no changes in valuation techniques used by the Group during the year.

As at 31 December 2014, the Group had Portuguese and Irish debt instruments classified as available-for-sale amounting to €2,491,758 (2013: €2,058,370) and €4,673,612 (2013: €2,390,478) respectively. Also, the Group had available-for-sale instruments in Italy amounting to €11,901,839 (2013: €11,129,441), and in Spain amounting to €7,279,609 (2013: €9,041,010). There were no financial assets classified as available-for-sale held in Greece as at 31 December 2014 (2013: the same). However, the Group had debt instruments classified as held-to maturity in Greece, amounting to €366,042 (2013: €349,959).

Debt instruments issued by local government with a nominal value of €127,898,242 (2013: €85,478,416) have been pledged against the provision of credit lines by the Central Bank of Malta, under the usual terms and conditions applying to such agreements. Financial assets with a nominal value of €4,900,000 (2013: €4,400,000) have been pledged in favour of the MFSA's Depositors' Compensation Scheme, as follows:

	2014	2013
THE GROUP / BANK	**€000**	€000
Deposit with Central Bank of Malta (note 13)	**1,400**	1,400
Debt instruments with local government	**3,500**	3,000
	4,900	4,400

20. EQUITY AND OTHER NON-FIXED INCOME INSTRUMENTS

Available-for-sale

	The Group		The Bank	
	2014	2013	**2014**	2013
	€000	€000	**€000**	€000
Listed on Malta Stock Exchange	**2,021**	1,974	**2,021**	1,974
Listed elsewhere	**192**	226	**192**	226
Unlisted	**235**	239	**235**	239
	2,448	2,439	**2,448**	2,439

All available-for-sale equities are recorded at fair value (Level 1 in accordance with the IFRS 13 fair value hierarchy), except for the Group's investment of NOK 800,000 equivalent to €88,648 (2013: €95,402) in Cultura Sparebank, which is unquoted and thus recorded at cost since its fair value cannot be reliably estimated (2013: the same). There is no market for this investment and the Bank intends to hold it for the long term.

21. INVESTMENT IN SUBSIDIARIES

	2014 €000	2013 €000
Cost		
At 1 January	5,650	5,500
Increase in investment	-	150
At 31 December	5,650	5,650
Provision for diminution in value		
At 1 January	595	250
Impairment allowance (note 10)	-	345
At 31 December	595	595
Carrying amount		
At 31 December	5,055	5,055

The shares in the subsidiaries are made up as follows:

Name	Country of incorporation	% equity interest 2014	% equity interest 2013	Cost 2014 €000	Cost 2013 €000
APS Consult Limited	Malta				
259,999 ordinary shares at €2.50 (2013: 259,999 ordinary shares at €2.50)		99.99	99.99	650	650
APS Regular Income Ethical Fund	Malta				
5,000,000 units at €1.00 (2013: the same)		36.17	53.26	5,000	5,000
				5,650	5,650

As described in note 2.3 to these financial statements, the Group assessed that is has control over APS Regular Income Ethical Fund and has consolidated its results and financial position.

The market value of the Bank's shareholding in the APS Regular Income Ethical Fund as at 31 December 2014 amounted to €5,715,865 (2013: €5,201,500).

The investment of €650,000 in APS Consult Limited was partially impaired due to the losses incurred by the subsidiary during the financial year ended 2013. No impairment loss was recognised in the statement of profit or loss for the year ended 31 December 2014 (note 10) (2013: €345,000).

The proportion of equity interest held by non-controlling interests is provided below:

Name	2014 %	2013 %
APS Regular Income Ethical Fund	63.83	46.74

Financial information of the subsidiary in which Group has material non-controlling interest is provided below. This information is based on amounts before inter-company eliminations.

	2014 €000	2013 €000
Net assets value	15,803	9,773
Summarised statement of profit or loss		
Income	1,865	437
General and other expenses	(176)	(135)
Profit before tax	1,689	302
Finance cost	(385)	(296)
Profit after tax	1,304	6

22. INVESTMENT IN ASSOCIATE

THE BANK

Name	Country of incorporation	% equity interest 2014	% equity interest 2013	2014 €000	2013 €000
APS Income Fund	**Malta**				
1,199 founder shares at €1.00		**99.99**	99.99	**1**	1
(2013:1,199 founder shares at €1.00					
98,853.14 units at €100.01					
(2013: 98,853.14 units at €100.01)		**21.13**	26.43	**9,886**	9,886
				9,887	9,887

The following table illustrates summarised financial information of APS Income Fund:

	2014 €000	2013 €000
Current assets	**1,557**	712
Non-current assets	**51,447**	39,523
Current liabilities	**(128)**	(121)
Net asset value	**52,876**	40,114
Revenue	**5,837**	2,900

The following table illustrates the Group's share in associate's results. This information is based on amounts before inter-company eliminations:

THE GROUP	2014 €000	2013 €000
Current assets	**329**	185
Non-current assets	**10,869**	10,283
Current liabilities	**(27)**	(31)
Carrying amount of the investment	**11,171**	10,437
Share of associate's revenue	**1,233**	755
Share of associate's results, net of tax	**1,142**	624
Carrying amount of the investment at 1 January	**10,437**	10,206
Share of associate's results, net of tax	**1,142**	624
Dividend distribution	**(408)**	(393)
Carrying amount of the investment at 31 December	**11,171**	10,437

The associate had no contingent liabilities or capital commitments as at 31 December 2014 (2013: the same).

The fair value of the investment in the associate as at 31 December 2014 amounted to €11,171,285 (2013: €10,437,000).

23. INTANGIBLE ASSETS

THE GROUP / BANK	Computer software €000
Cost	
At 1 January 2013	7,397
Additions	845
Disposals	(1)
At 31 December 2013	8,241
Additions	1,671
At 31 December 2014	**9,912**
Amortisation	
At 1 January 2013	6,761
Charge for the year	551
At 31 December 2013	7,312
Charge for the year	509
At 31 December 2014	**7,821**
Net book value	
At 31 December 2014	**2,091**
At 31 December 2013	929
At 1 January 2013	636

	2014 €000	2013 €000
Future capital expenditure:		
- Authorised by the Directors and contracted	**1,298**	1,897
- Authorised by the Directors but not yet contracted	**2,232**	140
	3,530	2,037

The gross carrying amount of any fully amortised intangible assets that is still in use as at 31 December 2014 was of €6,672,172 (2013: €6,020,155).

The development costs capitalised during the year amounted to €995,897 (2013: none).

24. PROPERTY AND EQUIPMENT

THE GROUP	Land and Buildings €000	Computer Equipment €000	Other €000	Total €000
Cost				
At 1 January 2013	10,711	3,903	11,188	25,802
Additions	1,150	281	254	1,685
Disposals	-	(12)	(31)	(43)
At 31 December 2013	11,861	4,172	11,411	27,444
Additions	268	376	280	924
Disposals	-	-	(43)	(43)
At 31 December 2014	**12,129**	**4,548**	**11,648**	**28,325**
Depreciation				
At 1 January 2013	1,390	3,361	7,415	12,166
Charge for the year	131	275	856	1,262
Disposals	-	(12)	(30)	(42)
At 31 December 2013	1,521	3,624	8,241	13,386
Charge for the year	136	323	710	1,169
Disposals	-	-	(43)	(43)
At 31 December 2014	**1,657**	**3,947**	**8,908**	**14,512**
Net book value				
At 31 December 2014	**10,472**	**601**	**2,740**	**13,813**
At 31 December 2013	10,340	548	3,170	14,058
At 1 January 2013	9,321	542	3,773	13,636

	2014 €000	2013 €000
Future capital expenditure:		
- Authorised by the Directors and contracted	**292**	316
- Authorised by the Directors but not yet contracted	**5,338**	1,887
	5,630	2,203

The gross carrying amount of any fully depreciated property and equipment that is still in use as at 31 December 2014 was of €8,302,520 (2013: €7,002,748).

24. PROPERTY AND EQUIPMENT – CONTINUED

THE BANK	Land and Buildings €000	Computer Equipment €000	Other €000	Total €000
Cost				
At 1 January 2013	10,711	3,896	11,158	25,765
Additions	1,150	281	254	1,685
Disposals	-	(12)	(31)	(43)
At 31 December 2013	11,861	4,165	11,381	27,407
Additions	268	376	280	924
Disposals	-	-	(16)	(16)
At 31 December 2014	**12,129**	**4,541**	**11,645**	**28,315**
Depreciation				
At 1 January 2013	1,390	3,353	7,389	12,132
Charge for the year	131	275	856	1,262
Disposals	-	(12)	(31)	(43)
At 31 December 2013	1,521	3,616	8,214	13,351
Charge for the year	136	323	710	1,169
Disposals	-	-	(16)	(16)
At 31 December 2014	**1,657**	**3,939**	**8,908**	**14,504**
Net book value				
At 31 December 2014	**10,472**	**602**	**2,737**	**13,811**
At 31 December 2013	10,340	549	3,167	14,056
At 1 January 2013	9,321	543	3,769	13,633

	2014 €000	2013 €000
Future capital expenditure:		
- Authorised by the Directors and contracted	**292**	316
- Authorised by the Directors but not yet contracted	**5,338**	1,887
	5,630	2,203

The gross carrying amount of any fully depreciated property and equipment that is still in use as at 31 December 2014 was of €8,302,520 (2013: €7,002,748).

25. DEFERRED TAX ASSETS

Deferred income tax as at 31 December relates to the following:

	The Group		The Bank	
	2014	2013	**2014**	2013
	€000	€000	**€000**	€000
Fair value movements in investment securities	**(3,856)**	(1,150)	**(3,856)**	(1,150)
Impairment allowance for loans and advances to customers	**4,668**	5,024	**4,668**	5,024
Impairment allowance for investment in subsidiary	**-**	-	**-**	121
Excess of capital allowances over depreciation	**(130)**	7	**(130)**	7
	682	3,881	**682**	4,002

Deferred tax arising on the fair value movements on investment securities, amounting to €2,570,872 was debited directly in equity (2013: €806,147). For other movements' details refer to note 11.

26. OTHER RECEIVABLES

	The Group		The Bank	
	2014	2013	**2014**	2013
	€000	€000	**€000**	€000
Accrued income	**5,598**	5,542	**5,355**	5,360
Prepayments and other receivables	**292**	445	**202**	394
Amounts due from subsidiaries	**-**	-	**48**	36
	5,890	5,987	**5,605**	5,790

27. AMOUNTS OWED TO BANKS

	The Group		The Bank	
	2014	2013	**2014**	2013
	€000	€000	**€000**	€000
With agreed maturity dates or periods of notice, by remaining maturity:				
- 3 months or less but not repayable on demand (note 37)	**78,568**	70,771	**78,568**	70,771
Analysed by currency:				
- Euro	**67,792**	70,771	**67,792**	70,771
- Foreign	**10,776**	-	**10,776**	-
	78,568	70,771	**78,568**	70,771

28. AMOUNTS OWED TO CUSTOMERS

	The Group		The Bank	
	2014	2013	**2014**	2013
	€000	€000	**€000**	€000
Term deposits	**563,379**	531,371	**565,652**	531,671
Repayable on demand	**329,450**	249,871	**329,504**	250,208
	892,829	781,242	**895,156**	781,879
Analysed by currency:				
- Euro	**816,709**	731,395	**818,489**	732,032
- Foreign	**76,120**	49,847	**76,667**	49,847
	892,829	781,242	**895,156**	781,879

29. OTHER LIABILITIES

	The Group		The Bank	
	2014	2013	**2014**	2013
	€000	€000	**€000**	€000
Other liabilities	**3,914**	3,080	**1,561**	3,056
Amounts due to subsidiaries	**-**	-	**2,331**	4
	3,914	3,080	**3,892**	3,060

30. ACCRUALS

	The Group		The Bank	
	2014	2013	**2014**	2013
	€000	€000	**€000**	€000
Accrued interest payable	**6,844**	5,824	**6,833**	5,826
Other accruals	**1,963**	1,898	**1,963**	1,867
	8,807	7,722	**8,796**	7,693

31. SHARE CAPITAL

	The Group		The Bank	
	2014	2013	**2014**	2013
	€000	€000	**€000**	€000
Authorised				
60,000,000 ordinary shares of €1.25 each (2013: the same)	**75,000**	75,000	**75,000**	75,000
Issued and fully paid				
46,083,840 ordinary shares of €1.25 each (2013: the same)	**57,605**	57,605	**57,605**	57,605

At an Extraordinary General Meeting held on 6th September 2013, the Bank's shareholders approved a change in the nominal value of the ordinary shares, which has been re-dominated from €0.60 to €1.25 each. In accordance with the Bank's Memorandum and Articles of Association, each ordinary share gives the right to one voting right, participates equally in profits distributed by the Bank and carries equal rights upon the distribution of assets by the Bank in the event of a winding up.

THE GROUP / BANK	**2014 Number of shares**	2013 Number of Shares
At 1 January	**46,084**	79,341
Capitalisation of retained earnings	-	16,667
Decrease in number of shares through re-domination	-	(49,924)
At 31 December	**46,084**	46,084

The Bank's major shareholders are AROM Holdings Limited and the Diocese of Gozo which hold 83.33% and 16.67% of the share capital, respectively. The ultimate controlling party of APS Bank Limited is the Archidiocese of Malta.

At an Extraordinary General Meeting held on 17 June 2011, the Bank's shareholders approved a capital increase over the period 2011 to 2013 through a fresh issue and capitalisation of retained earnings. The fresh issue of 20,008,000 ordinary shares of €0.60 each was 30% paid up at the end of 2011 and 60% paid up as at end of 2012. In 2013, these shares were fully paid up through a fresh injection of funds amounting to €4,801,920. Furthermore, 16,667,000 fully paid-up ordinary shares were issued in 2013, through the capitalisation of €10,200,000 of the Bank's retained earnings. As noted above, on 6th September 2013 the total number of shares in issue was decreased by 49,924,920 in order to reflect the change in the nominal value of the shares.

32. SHARE PREMIUM

	The Group		The Bank	
	2014	2013	**2014**	2013
	€000	€000	**€000**	€000
Balance at beginning and end of year	**1,770**	1,770	**1,770**	1,770

The share premium reserve is not available for distribution.

33. REVALUATION RESERVE

The revaluation reserve is used to record movements in the fair value of available-for-sale equity shares and debt securities, net of deferred taxation thereon. The revaluation reserve is not available for distribution.

34. RETAINED EARNINGS

The retained earnings represent retained profits. The amount is available for distribution to shareholders subject to qualification as realised profits in accordance with the requirements of the Companies Act, Cap. 386 of the Laws of Malta.

In accordance with the revised Banking Rule BR/09/2013, which became applicable as from 31 December 2013, the Bank has set aside in 2014 the amount of €914,614 (2013: €740,346) from the planned dividend distributions. The full appropriation has been made, despite the fact that the Authority granted a transitory period of three years for the initial appropriation of funds to the Reserve for General Banking Risks.

35. CONTINGENT LIABILITIES

	The Group		The Bank	
	2014	2013	**2014**	2013
	€000	€000	**€000**	€000
Guarantees	**5,121**	5,549	**5,121**	5,549
Other contingent liabilities	**207**	320	**207**	320
	5,328	5,869	**5,328**	5,869

In the ordinary course of business, the Bank gives financial guarantees, consisting of letters of credit and guarantees. These are recognised in the financial statements at fair value, being a commitment of the Bank to make payments on behalf of its customers in the event of a claim raised by counterparty. The majority of contingent liabilities are backed by corresponding obligations from third parties. There were no significant law suits against the Group and the Bank as at 31 December 2014 and 31 December 2013.

36. COMMITMENTS

	The Group		The Bank	
	2014	2013	**2014**	2013
	€000	€000	**€000**	€000
Undrawn formal standby facilities, credit facilities and other commitments to lend	**211,470**	169,654	**211,470**	169,654

37. NOTES TO THE STATEMENTS OF CASH FLOWS

	The Group		The Bank	
	2014	2013	**2014**	2013
	€000	€000	**€000**	€000
Cash in hand (note 13)	**5,927**	5,274	**5,927**	5,274
Balances with Central Bank of Malta (excluding reserve deposit) (note 13)	**1,361**	5,094	**1,361**	5,094
Loans and advances to banks (repayable within 3 months) (note 14)	**49,314**	15,171	**49,314**	15,171
Amounts owed to banks (note 27)	**(78,568)**	(70,771)	**(78,568)**	(70,771)
Cash and cash equivalents included in the statements of cash flows	**(21,966)**	(45,232)	**(21,966)**	(45,232)

38. RELATED PARTY DISCLOSURES

The Group structure

These consolidated financial statements of the Group include the financial statements of APS Bank Limited, its subsidiaries and associate as follows:

		Country of incorporation	Note	% equity interest 2014	2013
APS Consult Limited	Subsidiary	Malta	21	**99.99**	99.99
APS Regular Income Ethical Fund (sub-fund of APS Funds Sicav p.l.c.)	Subsidiary	Malta	21	**36.17**	53.26
APS Income Fund (sub-fund of APS Funds Sicav p.l.c.)	Associate	Malta	22	**21.13**	26.43

The registered office of APS Consult Limited is APS House, 20, St. Anne Square, Floriana, FRN 9020 while the registered office of APS Funds SICAV plc is APS Centre, Tower Street, Birkirkara, BKR 4012.

During the course of its normal banking business, the Bank conducts business on commercial terms with its subsidiaries, associate, shareholders, key management personnel and other related parties.

Related party transactions

The following table provides the total amount of transactions, which have been entered into by the Bank with the subsidiaries and associate for the relevant financial year:

Related parties	Year	Income from related parties €000	Expenses charged to / (by) related parties €000	Amounts owed by related parties €000	Amounts owed to related parties €000
Subsidiaries:					
APS Consult Limited	**2014**	**2**	**-**	**17**	**56**
APS Consult Limited	2013	14	-	17	58
APS Regular Income Ethical Fund	**2014**	**102**	**18**	**31**	**2,275**
APS Regular Income Ethical Fund	2013	290	46	19	590
Associate:					
APS Income Fund	**2014**	**360**	**265**	**95**	**6,312**
APS Income Fund	2013	661	21	78	3,625

38. RELATED PARTY DISCLOSURES - CONTINUED

Transactions with key management personnel of the Bank

(a) Compensation of key management personnel of the Bank

The amounts disclosed in note 8 are recognised as an expense during the reporting year and are paid to key management personnel of the Group. These only include short-term employee benefits. (2013: the same).

(b) Other transactions with directors:

	2014	2013
	€000	€000
Loans and advances	**116**	137
Commitments	**11**	8

(c) Transactions with executive employees:

	2014	2013
	€000	€000
Loans and advances	**2,503**	2,588
Commitments	**95**	128

Transactions with other related parties

	Balances as at 31.12.2014	**Balances as at 31.12.2014**	Balances as at 31.12.2013	Balances as at 31.12.2013
	€000	**€000**	€000	€000
Amounts due from other related parties:				
Entities with common directorship	**338**	**20**	18,612	715

	Balances as at 31.12.2014	**Balances as at 31.12.2014**	Balances as at 31.12.2013	Balances as at 31.12.2013
	€000	**€000**	€000	€000
Amounts due to other related parties:				
Shareholders	**3**	**-**	38,007	693

Included in the amounts due to shareholders, are deposits of €250,000 (2013: €6,775,000) held as collateral for loan commitments and overdraft facilities granted to related parties.

For the year ended 31 December 2014, the Bank has not made any provision for impairment of receivables relating to amounts due from related parties (2013: the same).

No guarantees were received by related parties as at end of December 2014 (2013: the same).

39. RISK MANAGEMENT

39.1 Introduction

The Group's main activities are subject to a combination of financial risks which are inherent in the business of banking. Financial risks are managed by the Group within statutory limits and within internal parameters established by the Board of Directors. There have been no changes in the management of risks during the year. The Group is exposed to credit risk, liquidity risk and market risk; it is also subject to country and operating risks.

39.2 Fair values

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- Level 1 – Quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- Level 2 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable;
- Level 3 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

The reporting of fair values is intended to guide users as to the amount, timing and certainty of cash flows.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The amounts stated for cash balances, balances with the Central Bank of Malta and loans and advances to banks are highly liquid assets. The Directors regard the amounts shown in the statement of financial position for these items as reflecting their fair value in that these assets will be realised for cash in the immediate future.

All the Group's listed equities are carried in the statement of financial position at market value. Debt securities which are classified as available-for-sale investments and derivative financial instruments are also carried in the statement of financial position at market value. However, debt securities classified as held-to-maturity investments are carried in the statement of financial position at amortised cost. At the reporting date the amortised cost of these assets amounted to €85.9 million (2013: €87.7 million). Their market value amounted to €102.0 million (2013: €100.6 million), whilst their nominal value amounted to €85.8 million (2013: €87.3 million). For other details refer to Note 19.

Loans and advances to customers are stated at the amounts contractually due less provision to reflect the expected recoverable amounts. Their carrying amount is not deemed to differ materially from their fair value.

Amounts owed to banks and customers are mainly deposit liabilities. Of this category of liability, 79% (2013: 70%) have contractual re-pricing within one year, whilst 21% (2013: 30%) re-prices between one year and over. For demand deposits and term deposits within one year, fair value is taken to be the amount payable on demand at the reporting date.

39. RISK MANAGEMENT – CONTINUED

39.3 Credit risk

Credit risk is the risk that the Group will incur a loss because its customers or counterparties fail to discharge their contractual obligations. The Group manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and for geographical and industry concentrations, and by monitoring exposures in relation to such limits.

The Group has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions. Counterparty limits are established by the use of a credit risk classification system, which assigns each counterparty a risk rating. Risk ratings are subject to regular revision. The credit quality review process aims to allow the Group to assess the potential loss as a result of the risks to which it is exposed and take corrective action.

Management's assessments of potential default on loans and advances to customers and interest related thereto is reflected in provisions, which are netted off against the amounts of loans and advances to customers, as explained in note 2.3.

With respect to credit risk arising from the components of the statement of financial position, which comprise cash and balances with Central Bank of Malta (excluding cash in hand), cheques in course of collection, financial investments, loans and advances to banks and customers, prepayments and accrued income, guarantees and commitments, the Group's exposure arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

Maximum exposures to credit risks without taking account of any collateral and other credit enhancements

Credit risk exposures relating to the statement of financial position assets are as follows:

	The Group Gross Maximum exposure		The Bank Gross Maximum exposure	
	2014	2013	**2014**	2013
	€000	€000	**€000**	€000
Cash and balances with Central Bank of Malta (excluding cash in hand)	**8,370**	11,383	**8,370**	11,383
Cheques in course of collection	**2,185**	1,778	**2,185**	1,778
Loans and advances to banks	**49,951**	15,471	**49,314**	15,171
Loans and advances to customers	**431,826**	352,342	**431,826**	352,342
Loans and advances to corporate entities	**191,805**	196,577	**191,805**	196,577
Derivative financial instruments	**3,872**	2,480	**3,872**	2,480
Debt and other fixed income instruments	**356,404**	328,873	**356,404**	328,873
Financial assets at fair value through profit and loss	**15,305**	12,814	**3,427**	4,084
Other receivables	**5,890**	5,987	**5,605**	5,790
	1,065,608	927,705	**1,052,808**	918,478

Credit risk exposures relating to off-balance sheet items are as follows:				
Financial guarantees	**5,328**	5,869	**5,328**	5,869
Commitments	**211,470**	169,654	**211,470**	169,654
	216,798	175,523	**216,798**	175,523

39. RISK MANAGEMENT – CONTINUED

39.3 Credit risk – continued

Credit risk exposures relating to the statement of financial position assets analysed by exposure class:

THE GROUP	Government €000	Real Estate €000	Institutions €000	Short term claims on insitutions €000	Corporate €000	CIU* €000	Retail €000	Other €000	Total €000
Cash and balances with Central Bank of Malta (excluding cash in hand)	8,370	-	-	-	-	-	-	-	8,370
Cheques in course of collection	-	-	-	-	-	-	-	2,185	2,185
Loans and advances to banks	-	-	2,911	47,040	-	-	-	-	49,951
Loans and advances to customers	3,353	371,570	-	-	188,308	-	61,702	-	624,933
Derivative financial instruments	-	-	3,872	-	-	-	-	-	3,872
Debt and other fixed income instruments	186,184	-	30,855	-	139,365	-	-	-	356,404
Financial assets at fair value through profit or loss	302	-	720	-	2,405	11,878	-	-	15,305
Other receivables	-	-	-	-	-	-	-	5,890	5,890
At 31 December 2014	**198,209**	**371,570**	**38,358**	**47,040**	**330,078**	**11,878**	**61,702**	**8,075**	**1,066,910**
At 31 December 2013	198,415	303,921	36,458	15,171	308,516	9,030	49,510	7,765	928,786
Financial guarantees	-	28	-	-	3,687	-	1,613	-	5,328
Commitments	14,147	115,964	-	-	69,110	-	12,249	-	211,470
At 31 December 2014	**14,147**	**115,992**	**-**	**-**	**72,797**	**-**	**13,862**	**-**	**216,798**
At 31 December 2013	11,475	95,566	-	-	57,419	-	11,063	-	175,523

* Collective Investment Undertaking

39. RISK MANAGEMENT – CONTINUED

39.3 Credit risk – continued

Credit risk exposures relating to the statement of financial position assets analysed by exposure class:

THE BANK	Government €000	Real Estate €000	Institutions €000	Short term claims on insitutions €000	Corporate €000	Retail €000	Other €000	Total €000
Cash and balances with Central Bank of Malta (excluding cash in hand)	8,370	-	-	-	-	-	-	8,370
Cheques in course of collection	-	-	-	-	-	-	2,185	2,185
Loans and advances to banks	-	-	2,561	46,753	-	-	-	49,314
Loans and advances to customers	3,353	371,570	-	-	188,308	61,702	-	624,933
Derivative financial instruments	-	-	3,872	-	-	-	-	3,872
Debt and other fixed income instruments	186,184	-	30,855	-	139,365	-	-	356,404
Financial assets at fair value through profit or loss	302	-	720	-	2,405	-	-	3,427
Other receivables	-	-	-	-	-	-	5,605	5,605
At 31 December 2014	**198,209**	**371,570**	**38,008**	**46,753**	**330,078**	**61,702**	**7,790**	**1,054,110**
At 31 December 2013	198,415	303,921	36,458	15,171	308,516	49,510	7,568	919,559
Financial guarantees	-	28	-	-	3,687	1,613	-	5,328
Commitments	14,147	115,964	-	-	69,110	12,249	-	211,470
At 31 December 2014	**14,147**	**115,992**	**-**	**-**	**72,797**	**13,862**	**-**	**216,798**
At 31 December 2013	11,475	95,566	-	-	57,419	11,063	-	175,523

39. RISK MANAGEMENT – CONTINUED

39.3 Credit risk – continued

Collateral

The Bank holds collateral for its loans and advances portfolio. Of the total loans and advances to customers, 86.81% (2013: 86.31%) were collateralised. The amount and type of collateral required depends on an assessment of the credit risk of the counter party. Guidelines are in place covering the acceptability and valuation of each type of collateral accepted by the Group. The main types are as follows:

- Cash and securities;
- Government guarantees;
- Mortgages over residential properties;
- Charges over real estate properties.

Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral obtained during its review of the adequacy of the allowance for impairment losses.

It is the Group's policy to dispose of repossessed properties in an orderly fashion. The proceeds are used to reduce or repay the outstanding claim. In general, the Group does not occupy repossessed properties for business use.

The Group also makes use of master netting agreements with counter parties. As at 31 December 2014 and 2013 there were no financial assets or liabilities arising from these agreements.

THE GROUP

Concentrations of risk	Financial institutions €000	Manu-facturing €000	Real estate €000	Wholesale and Retail trade €000	Public sector €000	Other industries €000	Individuals €000	Total €000
Cash and balances with Central Bank of Malta (excluding cash in hand)	8,370	-	-	-	-	-	-	8,370
Cheques in course of collection	2,185	-	-	-	-	-	-	2,185
Loans and advances to banks	49,951	-	-	-	-	-	-	49,951
Loans and advances to customers	2,043	20,337	90,175	37,287	3,181	59,798	410,810	623,631
Derivative financial instruments	3,872	-	-	-	-	-	-	3,872
Debt and other fixed income instruments	75,000	16,603	8,044	23,812	189,345	43,600	-	356,404
Financial assets at fair value through profit or loss	5,998	1,059	-	2,394	4,074	1,780	-	15,305
Other receivables	-	-	-	-	-	5,890	-	5,890
At 31 December 2014	**147,419**	**37,999**	**98,219**	**63,493**	**196,600**	**111,068**	**410,810**	**1,065,608**
At 31 December 2013	113,454	39,458	85,874	60,527	185,774	121,590	321,028	927,705
Financial guarantees	-	75	750	1,720	-	1,950	833	5,328
Commitments	-	4,023	26,575	15,983	996	46,354	117,539	211,470
As at 31 December 2014	**-**	**4,098**	**27,325**	**17,703**	**996**	**48,304**	**118,372**	**216,798**
At 31 December 2013	2,654	4,709	21,137	9,483	1,045	39,699	96,796	175,523

39. RISK MANAGEMENT – CONTINUED

39.3 Credit risk – continued

THE BANK

Concentrations of risk	Financial institutions €000	Manu-facturing €000	Real estate €000	Wholesale and Retail trade €000	Public sector €000	Other industries €000	Individuals €000	Total €000
Cash and balances with Central Bank of Malta (excluding cash in hand)	8,370	-	-	-	-	-	-	8,370
Cheques in course of collection	2,185	-	-	-	-	-	-	2,185
Loans and advances to banks	49,314	-	-	-	-	-	-	49,314
Loans and advances to customers	2,043	20,337	90,175	37,287	3,181	59,798	410,810	623,631
Derivative financial instruments	3,872	-	-	-	-	-	-	3,872
Debt and other fixed income instruments	75,000	16,603	8,044	23,812	189,345	43,600	-	356,404
Financial assets at fair value through profit or loss	720	210	-	1,843	302	352	-	3,427
Other receivables	-	-	-	-	-	5,605	-	5,605
As at 31 December 2014	**141,504**	**37,150**	**98,219**	**62,942**	**192,828**	**109,355**	**410,810**	**1,052,808**
At 31 December 2013	110,133	38,042	85,770	60,306	183,742	119,457	321,028	918,478
Financial guarantees	-	75	750	1,720	-	1,950	833	5,328
Commitments	-	4,023	26,575	15,983	996	46,354	117,539	211,470
As at 31 December 2014	**-**	**4,098**	**27,325**	**17,703**	**996**	**48,304**	**118,372**	**216,798**
At 31 December 2013	2,654	4,709	21,137	9,483	1,045	39,699	96,796	175,523

39. RISK MANAGEMENT – CONTINUED

39.3 Credit risk – continued

Credit quality

The Group's and the Bank's debt securities and other financial assets, as rated by rating agencies Standard & Poor's, (if not available Moody's and Fitch, applicable in that order) are presented below:

THE GROUP

At 31 December 2014	Balances with CBM €000	Derivative financial instruments €000	Financial assets at fair value through profit and loss €000	Debt securities €000	Loans and advances to banks €000	Total €000
AAA	-	-	480	14,908	-	15,388
AA+ to AA-	-	-	910	16,276	993	18,179
A+ to A-	-	3,872	1,882	51,565	24,548	81,867
Lower than A-	8,370	-	12,033	267,630	23,717	311,750
Unrated	-	-	-	6,025	693	6,718
	8,370	**3,872**	**15,305**	**356,404**	**49,951**	**433,902**

At 31 December 2013	Balances with CBM €000	Derivative financial instruments €000	Financial assets at fair value through profit and loss €000	Debt securities €000	Loans and advances to banks €000	Total €000
AAA	-	-	-	4,785	-	4,785
AA+ to AA-	-	-	-	14,389	298	14,687
A+ to A-	-	2,480	1,809	45,174	6,017	55,480
Lower than A-	11,383	-	10,697	256,957	8,665	287,702
Unrated	-	-	308	7,568	491	8,367
	11,383	**2,480**	**12,814**	**328,873**	**15,471**	**371,021**

THE BANK

At 31 December 2014	Balances with CBM €000	Derivative financial instruments €000	Financial assets at fair value through profit and loss €000	Debt securities €000	Loans and advances to banks €000	Total €000
AAA	-	-	-	14,908	-	14,908
AA+ to AA-	-	-	-	16,276	993	17,269
A+ to A-	-	3,872	303	51,565	24,548	80,288
Lower than A-	8,370	-	3,124	267,630	23,717	302,841
Unrated	-	-	-	6,025	56	6,081
	8,370	**3,872**	**3,427**	**356,404**	**49,314**	**421,387**

At 31 December 2013	Balances with CBM €000	Derivative financial instruments €000	Financial assets at fair value through profit and loss €000	Debt securities €000	Loans and advances to banks €000	Total €000
AAA	-	-	-	4,785	-	4,785
AA+ to AA-	-	-	-	14,389	298	14,687
A+ to A-	-	2,480	656	45,174	6,017	54,327
Lower than A-	11,383	-	3,428	256,957	8,665	280,433
Unrated	-	-	-	7,568	191	7,759
	11,383	**2,480**	**4,084**	**328,873**	**15,171**	**361,991**

39. RISK MANAGEMENT – CONTINUED

39.3 Credit risk – continued

Analysis of loans and advances to customers that are performing or non-performing exposures

Non-performing exposures are those that satisfy either or both of the following criteria:

a) Material exposures which are more than 90 days past-due;

b) The borrower is assessed as unlikely to pay its credit obligations in full without realisation of collateral, regardless of the existence of any past-due amount or of the number of days past due.

Forbearance Exposures
Forbearance measures occur when a borrower is about to face difficulties in meeting its financial commitments, due to financial difficulties. During 2014 the Group's forborne facilities amounted to €36.8 million.

The following table provides a detailed analysis of the impairment allowances on the exposures of the Group's and Bank's lending portfolio:

THE GROUP / BANK	2014 €000	2013 €000
Performing		
Neither past due nor impaired	**2,472**	2,237
Past due but not impaired	**48**	103
Non-performing		
Past due >90 days, but not impaired	**2,633**	1,825
Impaired	**8,185**	10,191
	13,338	14,356

Analysis of loans and advances to customers that are performing or non-performing exposures

The following table provides a detailed analysis of the performing and non-performing exposures of the Group's and Bank's lending portfolio:

THE GROUP / BANK	2014 €000	2013 €000
Performing		
Neither past due nor impaired	**569,525**	504,954
Past due but not impaired	**8,771**	14,346
Non-performing		
Past due >90 days, but not impaired	**37,599**	24,536
Impaired	**21,074**	19,439
	636,969	563,275

39. RISK MANAGEMENT – CONTINUED

39.3 Credit risk – continued

Loans and advances to customers by internal rating based on the Banking Rules

The following table provides a detailed analysis of the credit quality of the Group's and Bank's lending portfolio:

THE GROUP / BANK	2014 €000	2013 €000
Neither past due nor impaired	**569,525**	504,954
Past due but not impaired	**46,370**	38,882
Impaired	**21,074**	19,439
	636,969	563,275

Analysis of financial assets that are neither past due nor impaired by internal credit rating

THE GROUP / BANK	2014 €000	2013 €000
Regular	**555,353**	489,080
Watch List	**3,273**	524
Sub-Standard	**4,368**	2,858
Doubtful	**6,531**	12,492
	569,525	504,954

Analysis of financial assets that are past due but not impaired

Past due loans and advances include those that are only past due by a few days. An analysis of past due loans by age but not specifically impaired is provided below:

THE GROUP / BANK	2014 €000	2013 €000
Past due up to 29 days	**20,370**	5,654
Past due 30-59 days	**3,704**	3,511
Past due 60-89 days	**5,068**	10,835
Past due over 90 days	**17,228**	18,882
	46,370	38,882

Impaired facilities are those credit facilities with payments of interest and/or capital overdue by 90 days and where the Group has reasons to doubt the eventual recoverability of funds.

Renegotiated loans and advances to customers that would otherwise be past due totalled €11,731,113 (2013: €39,964,200).

Information on impaired and past due facilities by significant industry and by significant geographical area, as required by BR/07/2013 – Publication of Annual Report and Audited Financial Statements of Credit Institutions Authorised under the Banking Act 1994, is not being disclosed because given the Bank's small loan portfolio, the identity of clients may be easily inferred from such information.

39. RISK MANAGEMENT – CONTINUED

39.4 Liquidity risk

Liquidity risk is the risk that Group will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or other financial assets. It arises because of the possibility that the Group might be unable to meet its payment obligations when they fall due. To limit this risk, the Group has arranged for diversified funding sources. The Group also manages this risk by matching the maturities of assets and liabilities.

The Group maintains a portfolio of highly marketable and diverse assets that can be easily liquidated in the event of an unforeseen interruption of cash flow. It also maintains a strong liquidity buffer with a liquidity ratio of 55%, which is comfortably in excess of the minimum regulatory requirement of 30%.

The disclosures made in the financial statements showing maturities are intended to show the timing of cash flows arising from assets and liabilities.

The table below analyses the assets and liabilities into relevant maturity groupings, based on the remaining period to the contractual maturity date as at reporting date. Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Group expects that many customers will not request repayment on the earliest date it could be required to pay and the table below does not reflect the expected cash flows indicated by its deposit retention history.

THE GROUP	Less than Three months €000	Between Three months and One year €000	Between One year and Five years €000	More than Five years €000	Others €000	Total €000
At 31 December 2014						
Assets						
Cash and balances with Central Bank of Malta	14,297	-	-	-	-	14,297
Cheques in course of collection	2,185	-	-	-	-	2,185
Loans and advances to banks	46,690	350	2,911	-	-	49,951
Loans and advances to customers	61,396	9,591	71,379	481,265	-	623,631
Derivative financial instruments	-	566	2,182	1,124	-	3,872
Debt and other fixed income financial instruments	2,511	32,150	165,517	156,226	-	356,404
Financial assets at fair value through profit and loss	-	303	5,088	9,914	801	16,106
Equity and other non-fixed income instruments	-	-	-	-	2,448	2,448
Investment in associate	-	-	-	-	11,171	11,171
Other assets	5,082	1,959	-	-	20,732	27,773
	132,161	**44,919**	**247,077**	**648,529**	**35,152**	**1,107,838**
Liabilities and equity						
Amounts owed to banks	60,507	291	17,770	-	-	78,568
Derivative financial instruments	-	566	2,182	1,124	-	3,872
Amounts owed to customers	502,471	200,814	161,834	27,710	-	892,829
Other liabilities	1,334	1,440	3,735	324	5,888	12,721
Equity	-	-	-	-	119,848	119,848
	564,312	**203,111**	**185,521**	**29,158**	**125,736**	**1,107,838**
Gap	**(432,151)**	**(158,192)**	**61,556**	**619,371**	**(90,584)**	**-**

39. RISK MANAGEMENT – CONTINUED

39.3 Liquidity risk – continued

THE GROUP	Less than Three months €000	Between Three months and One year €000	Between One year and Five years €000	More than Five years €000	Others €000	Total €000
At 31 December 2013						
Assets						
Cash and balances with Central Bank of Malta	16,657	-	-	-	-	16,657
Cheques in course of collection	1,778	-	-	-	-	1,778
Loans and advances to banks	15,171	300	-	-	-	15,471
Loans and advances to customers	83,950	17,074	64,621	383,274	-	548,919
Derivative financial instruments	-	28	1,134	1,318	-	2,480
Debt and other fixed income financial instruments	4,881	17,233	140,611	166,148	-	328,873
Financial assets at fair value through profit and loss	-	-	3,606	9,208	88	12,902
Equity and other non-fixed income instruments	-	-	-	-	2,439	2,439
Investment in associate	-	-	-	-	10,437	10,437
Other assets	803	207	2,666	2,310	19,199	25,185
	123,240	**34,842**	**212,638**	**562,258**	**32,163**	**965,141**
Liabilities and equity						
Amounts owed to banks	771	-	70,000	-	-	70,771
Derivative financial instruments	-	28	1,134	1,318	-	2,480
Amounts owed to customers	396,021	201,074	162,143	22,004	-	781,242
Other liabilities	2,491	1,200	3,131	290	4,978	12,090
Equity	-	-	-	-	98,558	98,558
	399,283	**202,302**	**236,408**	**23,612**	**103,536**	**965,141**
Gap	**(276,043)**	**(167,460)**	**(23,770)**	**538,646**	**(71,373)**	**-**

39. RISK MANAGEMENT – CONTINUED

39.3 Liquidity risk – continued

THE BANK	Less than Three months €000	Between Three months and One year €000	Between One year and Five years €000	More than Five years €000	Others €000	Total €000
At 31 December 2014						
Assets						
Cash and balances with Central Bank of Malta	14,297	-	-	-	-	14,297
Cheques in course of collection	2,185	-	-	-	-	2,185
Loans and advances to banks	46,753	-	2,561	-	-	49,314
Loans and advances to customers	61,396	9,591	71,379	481,265	-	623,631
Derivative financial instruments	-	566	2,182	1,124	-	3,872
Debt and other fixed income financial instruments	2,511	32,150	165,517	156,226	-	356,404
Financial assets at fair value through profit and loss	-	303	1,220	1,904	56	3,483
Equity and other non-fixed income instruments	-	-	-	-	2,448	2,448
Investment in subsidiaries	-	-	-	-	5,055	5,055
Investment in associate	-	-	-	-	9,887	9,887
Other assets	4,796	1,959	-	-	20,731	27,486
	131,938	**44,569**	**242,859**	**640,519**	**38,177**	**1,098,062**
Liabilities and equity						
Amounts owed to banks	60,507	291	17,770	-	-	78,568
Derivative financial instruments	-	566	2,182	1,124	-	3,872
Amounts owed to customers	503,995	201,115	162,336	27,710	-	895,156
Other liabilities	1,334	1,440	3,735	324	5,855	12,688
Equity	-	-	-	-	107,778	107,778
	565,836	**203,412**	**186,023**	**29,158**	**113,633**	**1,098,062**
Gap	**(433,898)**	**(158,843)**	**56,836**	**611,361**	**(75,456)**	**-**

39. RISK MANAGEMENT – CONTINUED

39.3 Liquidity risk – continued

THE BANK	Less than Three months €000	Between Three months and One year €000	Between One year and Five years €000	More than Five years €000	Others €000	Total €000
At 31 December 2013						
Assets						
Cash and balances with Central Bank of Malta	16,657	-	-	-	-	16,657
Cheques in course of collection	1,778	-	-	-	-	1,778
Loans and advances to banks	15,171	-	-	-	-	15,171
Loans and advances to customers	83,950	17,074	64,621	383,274	-	548,919
Derivative financial instruments	-	28	1,134	1,318	-	2,480
Debt and other fixed income financial instruments	4,881	17,233	140,611	166,148	-	328,873
Financial assets at fair value through profit and loss	-	-	1,849	2,235	88	4,172
Equity and other non-fixed income instruments	-	-	-	-	2,439	2,439
Investment in subsidiaries	-	-	-	-	5,055	5,055
Investment in associate	-	-	-	-	9,887	9,887
Other assets	604	210	2,666	2,310	19,317	25,107
	123,041	**34,545**	**210,881**	**555,285**	**36,786**	**960,538**
Liabilities and equity						
Amounts owed to banks	771	-	70,000	-	-	70,771
Derivative financial instruments	-	28	1,134	1,318	-	2,480
Amounts owed to customers	396,358	201,374	162,143	22,004	-	781,879
Other liabilities	2,491	1,202	3,131	290	4,927	12,041
Equity	-	-	-	-	93,367	93,367
	399,620	**202,604**	**236,408**	**23,612**	**98,294**	**960,538**
Gap	**(276,579)**	**(168,059)**	**(25,527)**	**531,673**	**(61,508)**	**-**

39. RISK MANAGEMENT – CONTINUED

39.4 Liquidity risk – continued

Analysis of financial liabilities by remaining contractual maturities

The table below summarises the maturity profile of the Group's financial liabilities at 31 December 2014 and 31 December 2013 based on contractual undiscounted repayment obligations:

THE GROUP	Less than Three months €000	Between Three months and One year €000	Between One year and Five years €000	More than Five years €000	Total €000
At 31 December 2014					
Liabilities					
Amounts owed to banks	60,507	291	17,770	-	78,568
Amounts owed to customers	503,479	202,711	175,821	33,120	915,131
	563,986	**203,002**	**193,591**	**33,120**	**993,699**

	Less than Three months €000	Between Three months and One year €000	Between One year and Five years €000	More than Five years €000	Total €000
At 31 December 2013					
Liabilities					
Amounts owed to banks	771	-	70,000	-	70,771
Amounts owed to customers	396,344	203,818	176,529	25,544	802,235
	397,115	**203,818**	**246,529**	**25,544**	**873,006**

Analysis of financial liabilities by remaining contractual maturities

The table below summarises the maturity profile of the Bank's financial liabilities as at 31 December 2014 and 31 December 2013 based on contractual undiscounted repayment obligations:

THE BANK	Less than Three months €000	Between Three months and One year €000	Between One year and Five years €000	More than Five years €000	Total €000
At 31 December 2014					
Liabilities					
Amounts owed to banks	60,507	291	17,770	-	78,568
Amounts owed to customers	505,003	203,011	176,323	33,121	917,458
	565,510	**203,302**	**194,093**	**33,121**	**996,026**
At 31 December 2013					
Liabilities					
Amounts owed to banks	771	-	70,000	-	70,771
Amounts owed to customers	396,601	204,117	176,529	25,544	802,791
	397,372	**204,117**	**246,529**	**25,544**	**873,562**

39. RISK MANAGEMENT – CONTINUED

39.4 Liquidity risk – continued

Off-Balance sheet

To meet the financial needs of customers, the Group and the Bank enter into various commitments and contingent liabilities. Even though these obligations are not recognised on the statement of financial position (being, off-balance-sheet items), they are subject to credit risk and are, therefore, part of the overall risk of the Group and the Bank.

The table below shows the Group's and the Bank's credit risk exposure for commitments, guarantees and other financial liabilities.

	Not later than one year	
	2014	2013
THE GROUP / BANK	**€000**	€000
Loan commitments	**211,470**	169,654
Guarantees, acceptance and other financial facilities	**5,328**	5,869
	216,798	175,523

39.5 Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchange rates, and equity prices.

Except for the concentrations within interest rate risk and currency risk, the Group has no significant concentration of market risk.

Currency risk

Currency risk is the risk of the exposure of the Group's financial position and cash flow to adverse movements in foreign exchange rates.

The Group's financial assets and liabilities are substantially held in Euro. The Directors set limits on the level of exposure by currency and in total, which are monitored daily.

The aggregate amount of assets and liabilities denominated in foreign currencies translated into Euro are as follows:

	2014			
	USD	**GBP**	**Other**	**Total**
	€000	**€000**	**€000**	**€000**
Assets	**9,033**	**76,380**	**11,098**	**96,511**
Liabilities	**5,835**	**74,409**	**9,272**	**89,516**

	2013			
	USD	GBP	Other	Total
	€000	€000	€000	€000
Assets	5,029	40,160	6,104	51,293
Liabilities	5,023	40,073	5,410	50,506

The minimal currency exposure is not expected to leave any significant impact on the Group's income.

39. RISK MANAGEMENT – CONTINUED

39.5 Market risk – continued

Interest rate risk
Interest rate risk is the risk of the exposure of the Group's financial condition to adverse movements in interest rates.

Changes in local interest rates are monitored constantly by management and corrective action taken by realigning the maturities of and re-pricing the assets and liabilities.

Projected net interest income
A principal part of the Group's management of market risk is to monitor the sensitivity of projected net interest income under varying interest rate scenarios (simulation modelling). For simulation modelling, the business uses a combination of scenarios relevant to local businesses and local markets.

The table below sets out the impact on future net income of an incremental 25 basis points parallel fall or rise in all yield curves on the first day of the following year based on current financial statement position/risk profiles:

	Increase/ decrease in basis points	Effect on profit before tax €000
2014	**+25**	**(42)**
	-25	**-**
2013	+25	87
	-25	(87)

Capital approach
The Bank also measures the impact of a parallel interest rate shift on its net interest-sensitive long or short position, analysed by maturity, for a twelve-month period. The impact of a 100 basis points parallel shift in interest rates is shown below:

	2014 €000	2013 €000
Net effect for a twelve month period	**(120)**	1,015

39. RISK MANAGEMENT – CONTINUED

39.6 Operational risk

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Group cannot expect to eliminate all operational risks, but through its control framework and by monitoring and responding to potential risks, the Group is able to manage the risks. Controls include effective segregation of duties, access controls, authorisation and reconciliation procedures, staff education and assessment processes, including internal audit verifications.

39.7 Capital management

The primary objective of the Group's capital management is to ensure that the Group complies with regulatory capital requirements and has adequate capital to support its business and to maximise shareholder value. The Group manages its capital structure and makes adjustments to it in the light of regulatory developments, changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividend payment to shareholders, return capital to shareholders or issue capital securities. No changes were made in the objectives, policies and processes from the previous years.

During the current financial year, the Group continued to perform the Internal Capital Adequacy Assessment Process (ICAAP), in compliance with the Pillar III requirements of Banking Rule BR/12/2014 - The Supervisory Review Process of Credit Institutions Authorised Under the Banking Act, Cap. 371 of the Laws of Malta. The objective of the ICAAP is to inform the Board of Directors of the ongoing assessment of the Group's risks, how the Group mitigates those risks and how much capital is necessary having considered other mitigating factors. The ICAAP demonstrated that the Group is well capitalised. This document was approved by the Board of Directors in May 2014.

In the current financial year the Group also updated the Capital Adequacy and Risk Disclosures Report to provide detailed information on the Group's implementation of the Basel III framework and risk assessment process in accordance with the Pillar III requirements of Banking Rule BR/07/2014 – Publication of Annual Report and Audited Financial Statements of Credit Institutions Authorised Under the Banking Act, Cap. 371 of the Laws of Malta.

The capital adequacy ratio measures the Group 's own funds as a percentage of the total risk-weighted assets and off-balance sheet items. The ratio for the year under review has been prepared in compliance with the Capital Requirements Regulation and Capital Requirements Directive IV requirements. During the year under review, the Group has complied with the externally imposed capital requirements. The table overleaf summarises the composition of regulatory capital and the ratios of the Group as at the reporting date.

39. RISK MANAGEMENT – CONTINUED

39.7 Capital management – continued

	The Group 2014 €000	The Bank 2014 €000
Adjusted book value:	**1,150,799**	**1,141,022**
Weighted amounts:		
Credit risk calculation - standardised approach	538,945	534,744
Total assets and off-balance sheet items		
Operational risk - basic indicator approach		
15% of the three year adjusted average operating income	47,834	49,769
Foreign exchange risk		
8% of the capital requirement of the net short or long position, whichever is the higher	6,996	6,996
Total credit, operational and foreign exchange risk	**593,775**	**591,509**
Own funds analysis		
Tier 1		
Share capital (note 31)	57,605	57,605
Share premium (note 32)	1,770	1,770
Regulatory reserve	1	1
Retained earnings (note 34)*	19,544	17,679
Funds for general banking risk (note 34)	1,655	1,655
Accumulated other comprehensive income (note 33)	19,062	19,062
Non-controlling interest	10,204	-
Deductions:		
Intangible assets (other than goodwill) (note 23)	(2,091)	(2,091)
Other transitional adjustments	(19,062)	(19,062)
Common Equity Tier 1 Capital	**88,688**	**76,619**
Tier 2		
Other transitional adjustments	15,250	15,250
Total Tier 2 Capital	**15,250**	**15,250**
Total own funds	**103,938**	**91,869**
Capital Adequacy	**17.50%**	**15.53%**

* The original own funds calculation comprises retained earnings which are adjusted to exclude the amount specified in favour of the Depositor's Compensation Scheme Reserve in line with the legislation (note 19).

39. RISK MANAGEMENT – CONTINUED

39.7 Capital management – continued

Full Reconciliation of Own Funds Items to Audited Financial Statements of the Group as at 31 December 2014 is presented below:

	Balance Sheet in accordance with IFRS	Reconciling items	Balance Sheet in accordance with regulatory scope
	€000	€000	€000
Called up share capital (note 31)	57,605	-	57,605
Share premium (note 32)	1,770	-	1,770
Revaluation reserve (note 33)	19,062	-	19,062
Retained earnings (note 34)	30,444	(10,900)	19,544
of which general banking reserves (note 34)	1,655	-	1,655
of which general reserve	1	-	1
Dividend reserve	763	(763)	-
Non-controlling interest	10,204	-	10,204
Intangible assets (note 23)	2,091	-	2,091

THE GROUP	2014 €000	2013 €000	2012 €000	2011 €000	2010 €000
Interest receivable and similar income	**38,026**	36,829	36,211	34,799	33,729
Interest payable	**(15,880)**	(15,004)	(14,417)	(14,158)	(14,182)
Net interest income	**22,146**	21,825	21,794	20,641	19,547
Other operating income	**6,178**	4,933	5,265	2,869	2,573
Total operating income	**28,324**	26,758	27,059	23,510	22,120
Other operating charges	**(15,494)**	(15,142)	(13,111)	(12,875)	(13,075)
Share of results of associate, net of tax	**1,142**	624	689	114	-
Revaluation release on loss of control of subsidiary	**-**	-	-	242	-
Net impairment (losses)/reversals	**(1,201)**	1,584	(4,748)	(2,633)	(990)
Profit before tax	**12,771**	13,824	9,889	8,358	8,055
Income tax expense	**(3,835)**	(4,648)	(2,876)	(2,762)	(2,716)
Profit for the year	**8,936**	9,176	7,013	5,596	5,339

THE BANK	2014 €000	2013 €000	2012 €000	2011 €000	2010 €000
Interest receivable and similar income	**37,409**	36,409	36,124	34,799	33,033
Interest payable	**(15,898)**	(15,050)	(14,466)	(14,158)	(14,206)
Net interest income	**21,511**	21,359	21,658	20,641	18,827
Other operating income	**5,703**	5,564	5,327	3,052	3,035
Total operating income	**27,214**	26,923	26,985	23,693	21,862
Other operating charges	**(15,401)**	(14,928)	(12,917)	(12,643)	(12,761)
Net impairment (losses)/reversals	**(1,194)**	1,254	(4,998)	(2,625)	(953)
Profit before tax	**10,619**	13,249	9,070	8,425	8,148
Income tax expense	**(3,835)**	(4,526)	(2,789)	(2,762)	(2,611)
Profit for the year	**6,784**	8,723	6,281	5,663	5,537

THE GROUP'S FIVE YEAR SUMMARY – STATEMENTS OF FINANCIAL POSITION

	2014	2013	2012	2011	2010
	€000	€000	€000	€000	€000
ASSETS					
Cash, treasury bills and balances with Central Bank of Malta	**5,927**	5,274	7,796	4,032	4,420
Reserve deposit with Central Bank of Malta	**8,370**	11,383	32,862	2,335	13,049
Cheques in course of collection	**2,185**	1,778	2,650	923	2,537
Loans and advances to banks	**49,951**	15,471	14,926	22,603	11,432
Loans and advances to customers	**623,631**	548,919	506,023	473,649	422,984
Derivative financial instruments	**3,872**	2,480	-	-	-
Debt and other fixed income instruments	**356,404**	328,873	304,457	273,109	302,777
Financial assets at fair value through profit or loss	**16,106**	12,902	5,886	-	-
Equity and other non-fixed income instruments	**2,448**	2,439	1,402	1,940	2,690
Investment in associate	**11,171**	10,437	10,206	9,894	-
Intangible assets	**2,091**	929	636	963	1,262
Investment properties	**4,147**	330	330	330	330
Property and equipment	**13,813**	14,058	13,636	14,171	14,765
Current tax	**1,150**	-	-	-	515
Deferred tax assets	**682**	3,881	3,284	4,271	2,588
Other receivables	**5,890**	5,987	6,065	6,120	7,271
TOTAL ASSETS	**1,107,838**	965,141	910,159	814,340	786,620
LIABILITIES					
Amounts owed to banks	**78,568**	70,771	70,021	50,677	6,569
Derivative financial instruments	**3,872**	2,480	-	-	-
Amounts owed to customers	**892,829**	781,242	743,106	687,625	699,546
Other liabilities	**3,914**	3,080	4,951	1,970	2,675
Current tax	-	1,288	1,920	1,793	-
Accruals and deferred income	**8,807**	7,722	6,373	6,576	7,016
TOTAL LIABILITIES	**987,990**	866,583	826,371	748,641	715,806
EQUITY					
Issued capital	**57,605**	57,605	42,803	29,202	15,600
Share premium	**1,770**	1,770	1,770	1,770	1,770
Revaluation reserve	**19,062**	9,147	8,693	2,976	6,157
Retained earnings	**30,444**	23,928	26,315	30,690	36,155
Dividend reserve	**763**	1,525	1,263	1,061	862
Non-controlling interest	**10,204**	4,583	2,944	-	10,270
TOTAL EQUITY	**119,848**	98,558	83,788	65,699	70,814
TOTAL LIABILITIES AND EQUITY	**1,107,838**	965,141	910,159	814,340	786,620
MEMORANDUM ITEMS					
Contingent liabilities	**5,328**	5,869	5,944	6,850	5,842
Commitments	**211,470**	169,654	156,314	152,843	122,506

	2014 €000	2013 €000	2012 €000	2011 €000	2010 €000
ASSETS					
Cash, treasury bills and balances with Central Bank of Malta	**5,927**	5,274	7,796	4,032	4,420
Reserve deposit with Central Bank of Malta	**8,370**	11,383	32,862	2,335	13,049
Cheques in course of collection	**2,185**	1,778	2,650	923	2,537
Loans and advances to banks	**49,314**	15,171	14,926	22,603	9,732
Loans and advances to customers	**623,631**	548,919	506,045	473,649	422,984
Derivative financial instruments	**3,872**	2,480	-	-	-
Debt and other fixed income instruments	**356,404**	328,873	304,457	273,109	287,548
Financial assets at fair value through profit or loss	**3,483**	4,172	-	-	-
Equity and other non-fixed income instruments	**2,448**	2,439	1,402	1,940	1,820
Investment in subsidiaries	**5,055**	5,055	5,250	500	10,387
Investment in associate	**9,887**	9,887	9,887	9,887	-
Intangible assets	**2,091**	929	636	963	1,262
Investment properties	**4,147**	330	330	330	330
Property and equipment	**13,811**	14,056	13,633	14,162	14,749
Current tax	**1,150**	-	-	-	515
Deferred tax assets	**682**	4,002	3,371	4,271	2,588
Other receivables	**5,605**	5,790	5,892	6,052	6,913
TOTAL ASSETS	**1,098,062**	960,538	909,137	814,756	778,834
LIABILITIES					
Amounts owed to banks	**78,568**	70,771	70,021	50,677	6,569
Derivative financial instruments	**3,872**	2,480	-	-	-
Amounts owed to customers	**895,156**	781,879	745,234	687,646	701,929
Other liabilities	**3,892**	3,060	4,947	1,962	2,672
Current tax	-	1,288	1,920	1,793	-
Accruals and deferred income	**8,796**	7,693	6,364	6,565	7,015
TOTAL LIABILITIES	**990,284**	867,171	828,486	748,643	718,185
EQUITY					
Issued capital	**57,605**	57,605	42,803	29,202	15,600
Share premium	**1,770**	1,770	1,770	1,770	1,770
Revaluation reserve	**19,062**	9,147	8,693	2,976	5,915
Retained earnings	**28,578**	23,320	26,122	31,104	36,502
Dividend reserve	**763**	1,525	1,263	1,061	862
TOTAL EQUITY	**107,778**	93,367	80,651	66,113	60,649
TOTAL LIABILITIES AND EQUITY	**1,098,062**	960,538	909,137	814,756	778,834
MEMORANDUM ITEMS					
Contingent liabilities	**5,328**	5,869	5,944	6,850	5,842
Commitments	**211,470**	169,654	156,314	152,843	122,506

	2014	2013	2012	2011	2010
	€000	€000	€000	€000	€000
Net cash flows from/(used in) operating activities	**24,197**	(11,651)	7,849	(61,886)	1,082
Investing activities					
Dividends received	**373**	570	484	458	206
Interest income from debt securities	**16,105**	16,287	16,094	16,652	16,184
Purchase of debt and other fixed income instruments	**(79,730)**	(107,425)	(124,646)	(83,868)	(91,196)
Proceeds on maturity and disposal of debt and other fixed income instruments	**64,570**	82,283	103,180	94,692	59,244
Purchase of financial assets at fair value through profit or loss	**(16,643)**	(15,499)	(5,828)	-	-
Proceeds on disposal of financial assets at fair value through profit or loss	**14,499**	10,294	225	-	-
Purchase of equity and other non-fixed income instruments	**(359)**	(789)	(141)	(735)	-
Proceeds on disposal of equity and other non-fixed income instruments	**369**	-	826	233	337
Purchase of property and equipment	**(2,557)**	(2,737)	(1,002)	(996)	(1,600)
Proceeds on disposal of property and equipment	**3**	-	-	8	-
Net cash flows (used in)/from investing activities	**(3,370)**	(17,016)	(10,808)	26,444	(16,825)
Financing activities					
Dividends paid	**(2,288)**	(1,325)	(1,061)	(862)	(961)
Net proceeds from non-controlling interest for shares in subsidiaries	**4,727**	1,601	2,818	-	6,349
Proceeds from issue of share capital	**-**	4,802	3,601	3,602	-
Net cash flows from financing activities	**2,439**	5,078	5,358	2,740	5,388
Net increase/(decrease) in cash and cash equivalents	**23,266**	(23,589)	2,399	(32,702)	(10,355)
Cash and cash equivalents at 1 January	**(45,232)**	(21,643)	(24,042)	8,660	19,015
Cash and cash equivalents at 31 December	**(21,966)**	(45,232)	(21,643)	(24,042)	8,660

	2014 €000	2013 €000	2012 €000	2011 €000	2010 €000
Net cash flows from/(used in) operating activities	**25,721**	(11,359)	10,065	(61,886)	3,003
Investing activities					
Dividends received	**808**	793	484	458	542
Interest income from debt securities	**16,105**	16,287	16,094	16,652	16,184
Purchase of debt and other fixed income instruments	**(79,730)**	(107,425)	(124,646)	(83,868)	(82,177)
Proceeds on maturity and disposal of debt and other fixed income instruments	**64,570**	82,283	103,179	94,692	54,143
Purchase of equity and other non-fixed income instruments	**(359)**	(939)	(141)	(735)	-
Proceeds on disposal of equity and other non-fixed income instruments	**366**	-	826	233	337
Purchase of financial assets at fair value through profit or loss	**(6,029)**	(6,351)	-	-	-
Proceeds on disposal of financial assets at fair value through profit or loss	**6,656**	2,320	-	-	-
Purchase of property and equipment	**(2,557)**	(2,737)	(1,002)	(996)	(1,600)
Proceeds on disposal of property and equipment	**3**	-	-	8	-
Investment in subsidiaries	**-**	-	(5,000)	-	-
Net cash flows (used in)/from investing activities	**(167)**	(15,769)	(10,206)	26,444	(12,571)
Financing activities					
Dividends paid	**(2,288)**	(1,263)	(1,061)	(862)	(787)
Proceeds from issue of share capital	**-**	4,802	3,601	3,602	-
Net cash flows from / (used in) financing activities	**(2,288)**	3,539	2,540	2,740	(787)
Net increase/(decrease) in cash and cash equivalents	**23,266**	(23,589)	2,399	(32,702)	(10,355)
Cash and cash equivalents at 1 January	**(45,232)**	(21,643)	(24,042)	8,660	19,015
Cash and cash equivalents at 31 December	**(21,966)**	(45,232)	(21,643)	(24,042)	8,660

THE GROUP'S FIVE YEAR SUMMARY – ACCOUNTING RATIOS

	2014 %	2013 %	2012 %	2011 %	2010 %
Net interest income and other operating income to total assets	**2.6**	2.8	3.0	2.9	2.8
Operating expenses to total assets	**1.4**	1.6	1.4	1.6	1.7
Profit before tax to total assets	**1.2**	1.4	1.1	1.0	1.0
Return on capital employed before tax *	**12.7**	15.5	13.2	13.3	12.5
Profit after tax to equity *	**8.9**	10.3	9.3	8.9	8.3

	2014	2013	2012	2011	2010
Shares in issue (thousands)	**46,084**	46,084	71,338	48,669	26,000
Net assets per share *	**197c**	194c	105c	129c	249c
Net dividends per share	**3c**	3c	2c	2c	3c
Dividend cover	**5.9**	6.0	5.6	5.3	6.2

THE BANK'S FIVE YEAR SUMMARY – ACCOUNTING RATIOS

	2014 %	2013 %	2012 %	2011 %	2010 %
Net interest income and other operating income to total assets	**2.5**	2.8	3.0	2.9	2.8
Operating expenses to total assets	**1.4**	1.6	1.4	1.6	1.6
Profit before tax to total assets	**1.0**	1.4	1.0	1.0	1.05
Return on capital employed before tax *	**12.0**	15.7	12.6	13.3	14.9
Profit after tax to equity *	**7.6**	10.4	8.7	9.0	10.1

	2014	2013	2012	2011	2010
Shares in issue (thousands)	**46,084**	46,084	71,338	48,669	26,000
Net assets per share *	**193c**	183c	101c	130c	211c
Net dividends per share	**3c**	3c	2c	2c	3c
Dividend cover	**4.4**	5.7	5.0	5.3	6.4

* Return on capital employed, return on equity and net assets per share are calculated on equity excluding the revaluation reserve.

THE GROUP'S FINANCIAL HIGHLIGHTS IN US DOLLARS

Year ended 31 December 2014

The following figures were converted from Euro to US Dollars using the rate of exchange ruling on 31 December 2014. The rate used was €1:$1.2152. Comparative results have also been translated at this rate.

These highlights do not reflect the effect of the change in the rates of exchange since 31 December 2014.

	2014	2013
	$000	$000
Net interest income	**26,912**	26,522
Operating income	**34,419**	32,516
Operating profit before impairment reversals and provisions	**16,979**	14,874
Profit before tax	**15,519**	16,799
Profit for the year	**10,859**	11,151
Total assets	**1,346,245**	1,172,839
Liquid funds	**80,729**	41,203
Debt and other fixed income instruments	**433,102**	399,646
Financial assets at fair value through profit or loss	**19,572**	15,679
Loans and advances to customers	**757,836**	667,046
Equity	**145,639**	119,768

THE BANK'S FINANCIAL HIGHLIGHTS IN US DOLLARS

Year ended 31 December 2014

The following figures were converted from Euro to US Dollars using the rate of exchange ruling on 31 December 2014. The rate used was €1:$1.2152. Comparative results have also been translated at this rate.

These highlights do not reflect the effect of the change in the rates of exchange since 31 December 2014.

	2014	2013
	$000	$000
Net interest income	**26,140**	25,955
Operating income	**33,070**	32,717
Operating profit before impairment reversals and provisions	**14,355**	14,576
Profit before tax	**12,904**	16,100
Profit for the year	**8,244**	10,600
Total assets	**1,334,365**	1,167,246
Liquid funds	**79,955**	40,838
Debt and other fixed income instruments	**433,102**	399,646
Financial assets at fair value through profit or loss	**4,233**	5,070
Loans and advances to customers	**757,836**	667,046
Equity	**130,972**	113,460