ANNUAL REPORT & FINANCIAL STATEMENTS

2015

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., FIoD (UK)

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.

Michael Pace Ross M.B.A., B.A. (Hons.), ALCM
(appointed 23 November 2015)

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

COMPANY SECRETARY

Mario Felice LL.D.

CHIEF EXECUTIVE OFFICER

Marcel Cassar F.I.A., C.P.A., M.B.A. (Wales)

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, two professional service companies, two listed and four other companies.

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. He lectures at the Faculty of Laws, University of Malta, in various topics relating to Corporate Law and Financial Services. He was Chairman of the Malta Stock Exchange from 2010 to 2013 and Deputy Chairman of the Malta Arbitration Centre from 2005 to March 2016. He currently sits on a Board of Directors of another seven companies, including a listed company and four licensed 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

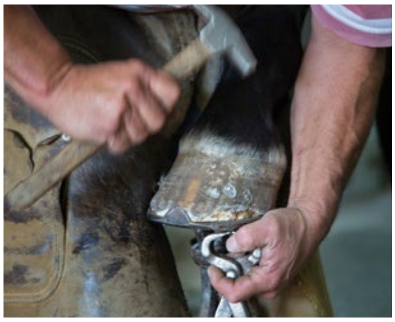
Mr Micallef was appointed to the Board in April 2004. He is currently the Chairman and Managing Director of DataByte Limited, an ICT services company that he co-founded 30 years ago. Up until recently, Mr Micallef was for several years a Director and also Chairman of STC Training – an ICT training institution. Currently, Mr Micallef sits on the Board of Directors of another four companies.

MICHAEL PACE ROSS – Non-Executive Director

Mr Pace Ross was appointed to the Board in November 2015. He is currently the Administrative Secretary of the Archdiocese of Malta, following his appointment by Archbishop Charles J. Scicluna. He previously served as Director General of the National Statistics Office for six years, sitting on a number of national and European committees. Mr Pace Ross also sits on the Board of a listed company.

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 relating to 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

As expected, financial year 2015 turned out to be challenging but rewarding. It created opportunities for many economic entities, private and public, local and foreign, including financial institutions operating in the Maltese Islands. But, at the same time, it brought to the fore several issues in the wake of political instability in various parts of the world. Foremost among these is the search for clarity in long-term political and economic visions on a global and regional scale. Of particular interest for us is the envisaged evolution of the European Union and the Eurozone and the relationship which Mediterranean countries have with Europe. This is especially important in terms of defining the macro-framework within which decisions are taken, whether this refers to the entire EU bloc, considered as one reality, or whether such decisions are to be addressed from the perspective of the single, individual states. Such a consideration is critical when discussing demographic and migration issues, educational preparation and labour mobility, information technology and competitiveness of industrial and services sectors, and the respective roles of fiscal consolidation and credit creation.

It was a year that witnessed several Central Monetary Authorities moving into negative interest rate territory for the first time. They facilitated the expansion of the supply of money and credit in the economies with the specific aim of encouraging private sector expenditure and public sector capital outlays to stimulate aggregate demand and rebuild basic infrastructure. As a financial institution, APS Bank carried out its operations quite effectively in the process contributing to the attainment of the local policy makers' overall economic and financial objectives while assisting efficiently the micro-decisions of its individual customers, whether savers or investors, both personal and institutional.

In macroeconomic terms, the Maltese economy performed quite satisfactorily in terms of aggregate output and employment. The overall price level maintained an upward slant, in a sense performing in an opposite trend from that registered in various euro member economies. And the services sector, primarily the leisure sector, contributed to sustain exports earnings. But macro-data could be misleading for making realistic assessments unless they are complemented by a long-term oriented set of strategies that account for the evolving major geo-political developments and, internally, to the sectoral realities. Malta's main economic issues tended to focus on the availability of adequate labour supply resources at competitive prices. These resources will not only ensure sustainable economic development and growth in the long term but also render such composition of economic output socially acceptable.

APS Bank has been following a parallel strategy based on enhancing its human resources in a way as to develop further its past relationships and, at the same time, chart the path for the coming years. The financial performance was very encouraging. Equally promising was the internal re-organisation referring to its governance and management set-ups. At the same time, there has been a reconsideration of the objectives of the three companies that make up the APS Group, namely, APS Bank Limited, APS Funds SICAV p.l.c., and APS Consult Limited.

A few statistics suffice to record the performance for 2015. The Bank succeeded to raise its Profit before tax from €10.6 million in 2014 to €14.4 million in 2015. Such a gain arose from an improved outlay of loans and advances to customers, up by €72.2 million over those recorded in 2014, and an increase in customers' deposits by €47.8 million. The Bank operated a twin policy on interest rates paid on deposits and charged on loans based on stability and fairness. It continued to implement its own base rate, retained a pragmatic approach to local realities in the markets for funds, and passed on to borrowers lower rates that corresponded to the risk undertaken and to the relative cost of funds. The combined effects of these policy decisions are the recorded increases in deposits and loans together with a rise in net interest income.

The Group also improved its performance. Profit before tax increased from €12.8 million in 2014 to €15.6 million in 2015. The Group's assets now amount to €1.111 billion. These results meant that the targets set for the Business Plan 2013-2015 have been met and they form the basis for the three-year programme for 2016-2018.

The new programme not only builds on the past but moves ahead and prepares the ground for the next step in the development of the companies that make up the Group. Plans have been prepared to strengthen further the governance structures of the three institutions, the management composition and preparedness of personnel, together with the IT infrastructure and office network. All this entails also considerations relating to the future capital needs and, so, to appraisals regarding the optimal way of injecting new capital without losing sight of the underlying philosophy that had guided the Bank up to now. We are pleased with the outcome of this preparatory work, which will continue to be addressed, extended and implemented in the coming three years. This approach applies to the three companies: the Bank, the Fund, and the Consultancy. It is in the nature of these institutions to support the diversification of economic activity in more ways than one.

Financial resources are necessary for economic development. But so are supporting units that keep track of existing and emerging markets and assist industrial restructuring; this has been the role that APS Consult Limited has fulfilled all along. We are re-considering its role in the context of the economic and commercial relationships that APS Bank and APS Fund SICAV p.l.c. have with like-minded institutions in the Eurozone. The aim is to widen the scope of activities that APS Consult Limited can undertake with the objective of being commercially viable, industrially effective and, overall, resource efficient.

Equally useful, from an efficiency perspective and for social reasons, is the availability of financial products which address the asset capabilities of different socio-economic groups. Taken together, such an array of products can harness funds, diversify risks, encourage investment and boost households' incomes, thereby sustaining consumers' demand for goods and services. The combined activities of the Bank and the Fund SICAV succeeded to achieve these objectives. Indeed, APS Funds SICAV p.l.c. has had another successful year, with funds under management approaching the €100 million level. As a result, the company is preparing itself to strengthen its operations by the creation of a Fund Management Company.

Supporting National Heritage and Culture

Throughout 2015, APS Bank continued with its series of initiatives meant to channel resources directly into various sectors that fall under general public education and culture. There is a constant demand by many individuals and organisations for sponsorship. APS Bank has adopted a policy meant to encourage collaboration among groups of talented people in various areas of study, research and preservation of national heritage. The Bank is prepared to work in unison with other organisations to achieve these aims. The Bank also supports organisations which are active in the social sectors and cater for the particular needs, primarily related to physical and mental health care. Such activities are today carried out within the context of State supported programmes (that is, they are in part tax financed). But they also reflect similar initiatives that were undertaken by the Bank's founding organisation a century ago. Such contributions are seen as a continuation of the Bank's support to individual development and social cohesion. They emerge from the 'stakeholder model of the firm' which sees the company as fulfilling the needs of a society apart from those of its shareholders.

Suffice to point here the publication of the second volume in the series *Two Generations of Maltese Artistic Families,* which is also related to an Art Exhibition of the works of four Maltese artists. And to the publication *The Calm Before the Storm* which reviewed the social history of the Maltese Islands in the 1930s and was tied to a photographic exhibition of prints found at the National Archives commemorating King George V's Silver Jubilee celebrations held in the Maltese Islands in May 1935.

APS Bank was also the main partner of the *Mdina Cathedral Contemporary Art Biennale,* which extended the range of themes proposed and their treatment in ways that did not feature in earlier editions. We are pleased that the Bank's support made possible this international event that gave the opportunity to artists from many countries to participate with their works exploring the theme *'Christianity, Spirituality and the Other'.*

The Bank's annual concert in 2015 presented the premier performance of Euchar Gravina's composition Stabat Mater. This work was awarded the Jury's Prize in the APS Bank 2012 National Music Competition for Maltese Composers. It concluded the three-year project aimed to give an opportunity for Maltese composers to score, perform and record their works.

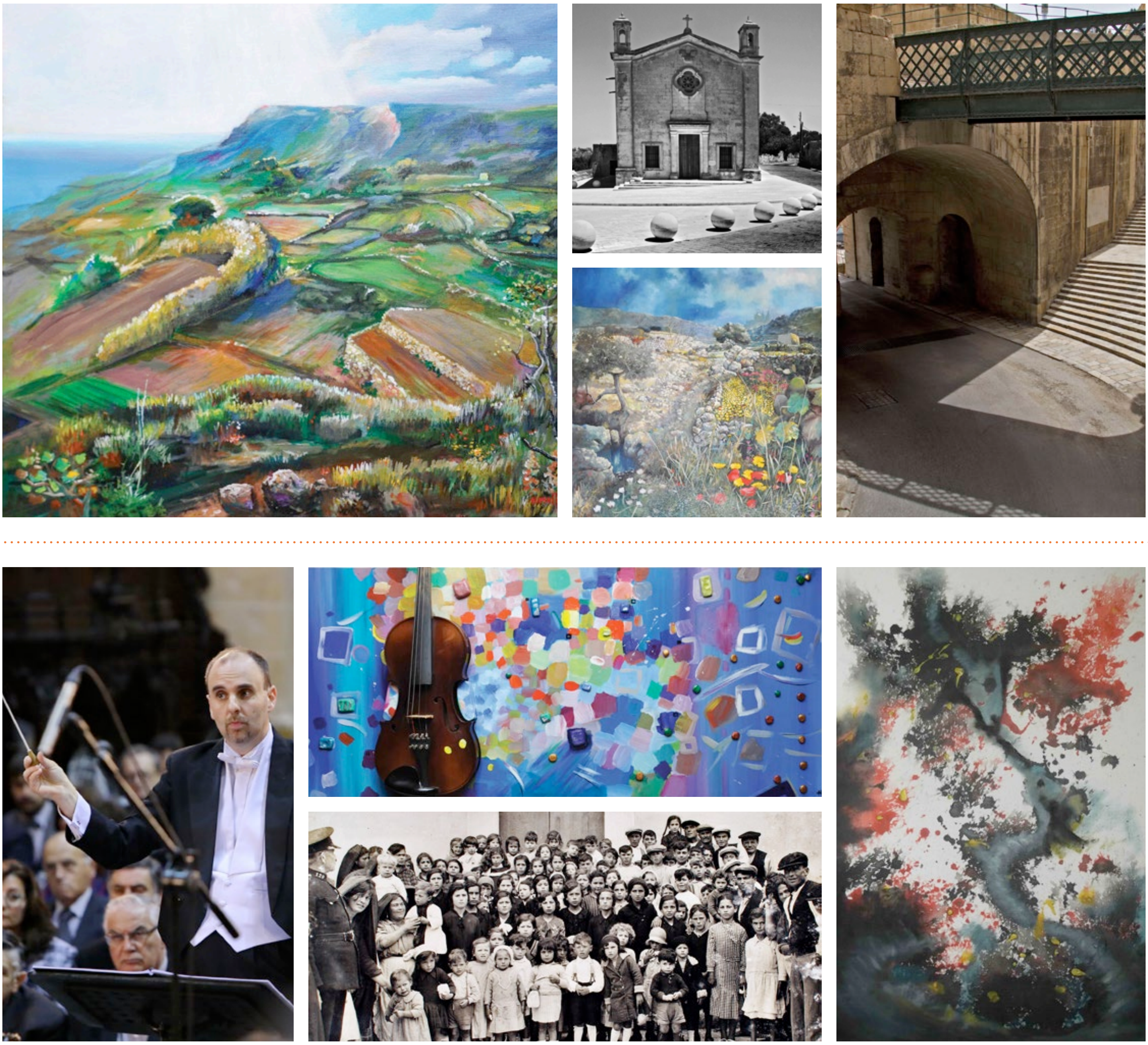
In addition, APS Bank is collaborating with the Faculty of Economics, Management and Accountancy of the University of Malta by financing for a number of years the APS Chair in Corporate Strategy and Strategic Planning. Such an initiative complements the support given to other institutes to carry out research or to publish the outcome. In this way, APS Bank will assist the undertaking, dissemination and application of critical analyses in various areas of study.

Concluding Remarks

Institutions evolve; they depend primarily on the ability of their Board of Directors to have a guiding vision spelt out in clear terms so that their executives dedicate their know-how to achieve it. In the uneasy world that we lived through in 2015 planning for what the future had in store for a financial institution was definitely not an easy task. And achieving one's objectives in such an environment is surely rewarding. In the case of APS Bank, the results obtained in 2015 were recorded while the Bank was implementing its succession plan to replace its incumbent Chief Executive Officer, Mr Edward Cachia, who had filled that role successfully for 18 years. On behalf of the Board of Directors, shareholders, employees and our customers I would like to thank Mr Cachia for his dedication and loyalty to the Bank and its guiding principles. The results speak for themselves. And I welcome his successor, Mr Marcel Cassar, who took over the CEO's responsibilities from the 1 January 2016. There is a great challenge ahead. Together, Board of Directors and Management, we will continue to strive for an efficient operation in the service of all stakeholders.

The registered financial results and the strengthening of the organisational structures that support operations in the APS Group of companies are the outcome of the input and collaboration of many individuals. Be they customers, who trust us with their savings or rely on such funds to carry out their projects, employees who intermediate between the two groups, or shareholders who provide capital to support the Bank's operations. It is their united contribution that enables the three companies to plan ahead and implement their programmes. To all of them, thank you. A final word of thanks goes to fellow directors on the Board of APS Bank and those on the Boards of the other two companies. One looks ahead to further collaboration in 2016.

E. P. DELIA
Chairman



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

FINANCIAL STATEMENTS 2015

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 2015.

PRINCIPAL ACTIVITIES

APS Bank Group (the 'Group') comprises 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 and the APS Income Fund (the 'Associates').

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 Associates

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. At present, the subsidiary is relatively inactive as it is reconsidering its role for the years ahead.

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 Malta Stock Exchange listed APS Income Fund and the APS Regular Income Ethical Fund. As at end of December 2015, the net asset value of the fund management company stood at €93.1 million, denoting a considerable growth of €24.4 million, or 35.5%, over the previous year. The net assets attributable to the shareholders of APS Income Fund increased to €70.4 million (2014: €52.9 million) while the net assets of the APS Regular Income Ethical Fund amounted to €22.7 million (2014: €15.8 million).

FINANCIAL PERFORMANCE

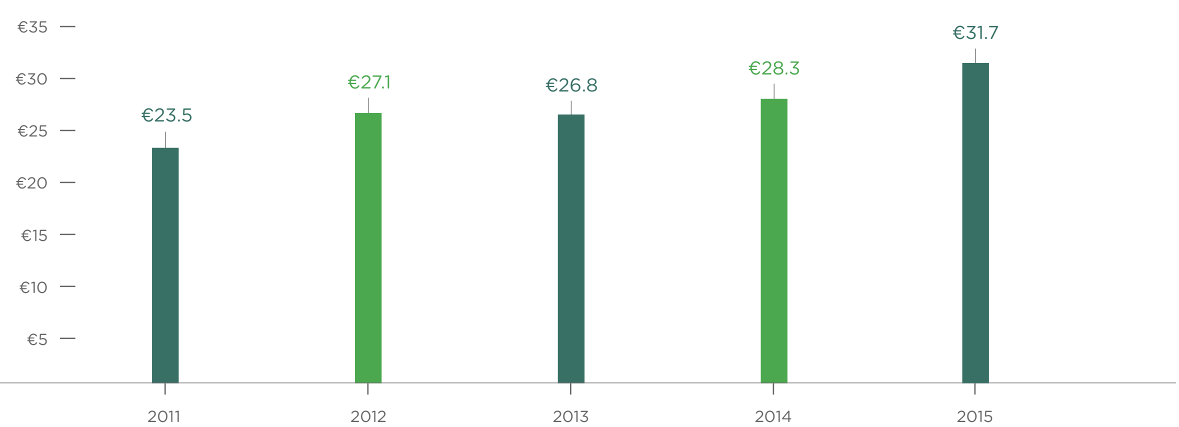
In 2015, the Group delivered a Profit before tax of €15.6 million, resulting in a significant increase of €2.8 million, or 21.9%, over 2014. The marked improvement in performance was largely derived from a rise in Operating Income. Notwithstanding the low interest rate environment, these encouraging returns evidence the Group's efforts to continue growing the Bank's business and retain the same momentum accomplished over the past years.

Operations

Net Interest Income experienced a substantial growth during the year under review, reaching €25.6 million. The €3.5 million increase was the net result of several effects. Interest Receivable on Loans and Advances went up by €2.6 million while Interest Payable decreased by €2.7 million. The latter drop was to a large extent caused by maturing Term Deposits, which have been renewed at a lower rate or have not been renewed as customers chose to hold their funds in other Repayable on Demand deposits. In contrast, Interest Receivable from Debt Securities fell by €1.9 million to €13.2 million when compared to 2014, which was mainly due to an intentional reduction in the Debt and Other Fixed Income Instruments held by the Group. It was, in fact, in line with the Bank's Asset-Liability Management strategy to increasingly grow its credit activity as debt securities were yielding very low returns.

Non-Interest Income decreased slightly by 1.4% to €6.1 million. This was in part impacted by a €1.3 million reduction in Net Gains on Financial Instruments, owing to one-off gains from restructuring of the Group's debt securities portfolio during 2014. This was offset by a meaningful increase of 49.0% in Fees and Commissions Receivable, which totalled €3.8 million. Operating Expenses went up by 10.9%, the main reason being the Group's continued investment in human resources and infrastructure that is required to support its growth strategy. That said, the cost-to-income ratio of 54.2%, which was 0.5 percentage points lower than the previous year, indicates that the movement in expenditure was relatively contained in comparison

GROUP TOTAL OPERATING INCOME (€ MILLION)



with the percentage increase in income. This reflects the Group's commitment to achieve long-term growth through responsible cost management and realising better economies of scale.

An effective risk management framework has led to reduced Provisions amounting to €0.7 million down from €1.2 million in 2014. As at 31 December 2015, provisions were equivalent to 0.1% of the Loans and Advances to Customers (2014: 0.2%). Despite maintaining a low ratio of provisions to loans, the Group ensures that utmost caution and strict policies and procedures are applied to lending.

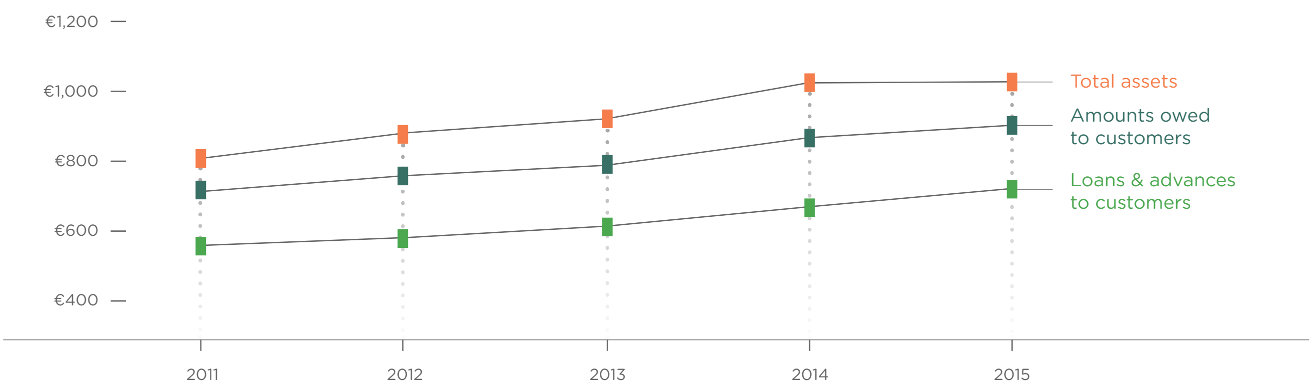
Statement of Financial Position

Total Assets of the Group surpassed the €1 billion mark during the year. Net Loans and Advances to Customers were the major driver of this upward trend, with a net increase of €72.2 million reaching €695.8 million that were extended to business and personal customers. The Group's support to Households and Individuals continued during 2015, with lending to this economic segment going up by €65.9 million to €467.6 million.

Debt and Other Fixed Income Instruments decreased by €58.4 million, or 16.4%, to €298.0 million. As already indicated, the drop was an intended move to continue financing loans and advances primarily from customer deposits as opposed to investing them in debt securities.

In another year marked by strong growth in customer deposits, the Amounts Owed to Customers portfolio expanded by €50.0 million from 2014, totalling €942.9 million, showing the trust customers have in the Bank's brand and, at the same time, the high levels of liquidity that Maltese banks continued to experience in 2015. The Group, in fact, went through the same trend as the rest of the local financial markets, where residents were seen reiterating their preference towards overnight deposits rather than keeping their funds in accounts with longer term maturities. This shift was mainly pushed by the prevailing economic environment, where the decrease in Term Deposits of €38.6 million was overcompensated by a rise in Repayable on Demand deposits of €88.7 million.

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



Capital Management

During the year, the Bank maintained an active and prudent approach towards business against a backdrop of a constantly evolving environment. The solvency and capital adequacy ratios remained comfortably in excess of the minimum regulatory requirements throughout the period under consideration. Looking ahead, capital planning and budgeting were key elements in the business planning process and, accordingly, the Group has evaluated the risk and return of the main business lines to establish how best to employ the funds available. A strong capital base will further allow the Group to keep on meeting the ever-increasing regulatory requirements for capital and liquidity, whilst placing the Group on a sure footing as it responds positively to new business opportunities and supports its long-term strategy.

Outlook

While the Maltese economy continues to register one of the highest rates of growth in the Eurozone, instability in the financial markets is expected to last into 2016. Uncertainty on the United Kingdom's future membership of the European Union, geopolitical tensions and low commodity prices are only a few matters that frustrate an otherwise favourable macro environment. In spite of these challenges, the Group's prospects for the years ahead are optimistic and it has set ambitious targets in this respect. A three-year business plan for 2016-2018 has been drawn up, placing emphasis on more customer-centricity, business growth, stronger governance, investment in technology and human capital. These areas are considered key for the Group's future development and will feature prominently on its agenda for 2016.

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 eight 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 expense. 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 28 April 2016.

DIRECTORS' RESPONSIBILITIES 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 2015, no shares in the Bank were:

- Purchased by it or acquired by it by forfeiture or surrender or otherwise.
- Acquired by another person in circumstances where the acquisition was by the Bank's nominee, or by another with the Bank's financial assistance, the Bank itself having a beneficial interest.
- Pledge 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 Guidelines 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

30 March 2016

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.

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 2015 are reported below:

	€
Chairman	42,700
Other Directors	92,600
	135,300

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	**15**
	€
Total fixed remuneration	520,887
Total variable remuneration	23,986

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 2015 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 2015, the RMCC met 11 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. 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 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 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 2015	% of gross loans & advances
Residential property	64.47
Commercial property	15.29
Cash and shares	5.06
Insurance	0.99

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)) 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	-	-	-	-	5,320	97	-	5,417
Home Loans	-	-	-	-	-	-	461,560	461,560
Corporate	1,640	8,106	37,291	28,520	-	49,158	7,818	132,533
of which SME	1,640	8,106	36,695	28,520	-	47,315	7,818	130,094
Retail	-	1,322	2,227	3,685	-	-	8,929	16,163
of which SME	-	-	-	-	-	-	-	-
High Risks Items	-	-	24,846	-	-	-	-	24,846
Exposures in Default	-	11,714	29,883	7,333	-	10,240	10,294	69,464
Total	**1,640**	**21,142**	**94,247**	**39,538**	**5,320**	**59,495**	**488,601**	**709,983**

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	3,830	1	22	1,565	5,418
Home Loans	2,255	736	8,241	450,327	461,559
Corporate	24,837	2,409	16,092	89,194	132,532
Retail	2,097	1,081	1,384	11,601	16,163
High Risks Items	2,505	6,206	15,642	493	24,846
Exposures in Default	29,827	7,972	16,458	15,208	69,465
Total	**65,351**	**18,405**	**57,839**	**568,388**	**709,983**

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 prices of equities, bonds and commodities. 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. Operational risk registers for the Commercial Business unit and the Treasury unit were compiled in order to facilitate the identification of the main events of operational risk to which the Bank is exposed in different processes. The Bank plans to gradually implement the risk register bank-wide.

6. NON-TRADING BOOK EXPOSURES IN EQUITIES

The Group has an investment of €3.3 million 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 2015, is a decline of €644K in net interest income. On the other hand, a parallel increase in interest rates of 25 basis points is expected to result in an increase of €110K 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 2015, 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 €561K 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 2015 the Group's advances to deposits ratio was equal to 73% which is above the industry average and within the maximum internal limit. The Group also has a liquidity ratio which is 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 the fourth quarter of 2015, EU legislators implemented the Liquidity Coverage Ratio (LCR) as a binding requirement with the minimum being fixed at 60%. The minimum requirement will rise in equal annual increments to 100% on 1 January 2019. As at 31 December 2015 the LCR was equal to 376%. The Net Stable Funding Ratio (NSFR) is subject to an observation period and shall be introduced as a binding minimum standard by 1 January 2018. The Bank officially reports these ratios to the regulatory authorities on a quarterly basis and the Bank also participates 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 any new regulations.

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 took into consideration the requirements of Banking Rule BR/15/2015 – *Capital Buffers of Credit Institutions Authorised Under Banking Act 1994,* which introduced capital buffers that enter into force as from January 2016.

During 2015, the Bank developed its Business Plan for the period 2016 to 2018. As an integral part of this strategic planning process, the RMU performed a detailed analysis of the capital adequacy requirements for the period 2016 to 2018 for the purposes of capital planning. This also involved compiling a scenario stress testing exercise to evaluate the impact of the Bank's strategic growth on Key Risk Indicators and regulatory requirements.

11.2 Capital Adequacy

The Group adopts the Standardised Approach (as per the CRR) 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 2015.

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 2015.

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.

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

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 2015	Book Value €000	Risk Weighted Exposure €000	Capital Allocation €000
Standardised Approach - Credit Risk			
Sovereign	181,480	1,091	87
Institutions	71,670	22,298	1,784
Corporates	268,028	169,983	13,599
Retail	36,902	16,913	1,353
Home loans	468,405	180,065	14,405
Exposures in default	35,963	43,172	3,454
Items associated with particular high risk	42,338	63,508	5,081
Collective investment undertakings	18,214	12,516	1,001
Equity exposures	3,650	3,650	292
Other assets	26,683	28,221	2,258
	1,153,333	**541,417**	**43,314**
Basic Indicator Approach			
Operational Risk		49,884	3,991
Basic Method			
Foreign Exchange Risk		366	29
Total Risk Weighted Assets		**591,667**	**47,334**
Total Own Funds		**98,728**	
Capital Adequacy Ratio		**16.69%**	

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 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 for approval. The Board approved the ICAAP document on 28 May 2015 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 2015 the Board approved the Bank's Leverage Risk Policy, the purpose of which is to set forth a framework for comprehensively identifying, managing, monitoring and reporting on leverage and the risk of excessive leverage. The Bank's leverage ratio (based on a transitional definition of capital) is regularly reported to and monitored by the RMCC and the Board. As at 31 December 2015 the Bank's leverage ratio stood at 7.66%. This is well above the regulatory minimum requirement and the internal benchmark established by the policy.

We have audited the accompanying financial statements of APS Bank Limited ('the Bank') and its subsidiaries ('the Group'), set on pages 16 to 81 which comprise the statements of financial position as at 31 December 2015 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, 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 2015, 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
Anthony Doublet for and on behalf of

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

30 March 2016

STATEMENTS OF PROFIT OR LOSS FOR THE YEAR ENDED 31 DECEMBER 2015

		The Group		The Bank	
	Note	**2015**	2014	**2015**	2014
		€000	€000	**€000**	€000
Interest receivable and similar income:					
On loans and advances, balances with the Central Bank of Malta and treasury bills	(3)	**25,597**	22,966	**25,597**	22,933
On debt securities	(3)	**13,187**	15,060	**13,187**	14,476
		38,784	38,026	**38,784**	37,409
Interest payable	(4)	**(13,173)**	(15,880)	**(13,173)**	(15,898)
Net interest income		**25,611**	22,146	**25,611**	21,511
Dividend income	(5)	**229**	212	**826**	841
Fees and commission income		**3,814**	2,560	**3,814**	2,662
Trading income	(6)	**703**	487	**703**	469
Net gains on financial instruments	(7)	**1,393**	2,644	**1,393**	1,434
Fair value loss on investment properties	(16)	**(182)**	-	**(182)**	-
Other operating income		**137**	275	**137**	297
Operating income		**31,705**	28,324	**32,302**	27,214
Personnel expenses	(8)	**(7,720)**	(6,914)	**(7,715)**	(6,905)
Other administrative expenses	(9)	**(7,730)**	(6,902)	**(7,729)**	(6,818)
Amortisation of intangible assets	(23)	**(499)**	(509)	**(499)**	(509)
Depreciation of property and equipment	(24)	**(1,233)**	(1,169)	**(1,233)**	(1,169)
Net operating profit		**14,523**	12,830	**15,126**	11,813
Share of results of associates, net of tax	(22)	**1,754**	1,142	**-**	-
Operating profit before impairment, reversals and provisions		**16,277**	13,972	**15,126**	11,813
Net impairment losses	(10)	**(706)**	(1,201)	**(706)**	(1,194)
Profit before tax		**15,571**	12,771	**14,420**	10,619
Income tax expense	(11)	**(5,568)**	(3,835)	**(5,568)**	(3,835)
Profit for the year		**10,003**	8,936	**8,852**	6,784
Profit attributable to:					
Equity holders of the parent		**10,003**	8,042	**8,852**	6,784
Non-controlling interest		**-**	894	**-**	-
		10,003	8,936	**8,852**	6,784

STATEMENTS OF OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2015

	The Group		The Bank	
	2015	2014	**2015**	2014
	€000	€000	**€000**	€000
Profit for the year	**10,003**	8,936	**8,852**	6,784
Other comprehensive income:				
Net (loss)/gain on available-for-sale financial assets	**(2,810)**	11,387	**(2,810)**	11,387
Net gain released on disposal of available-for-sale financial assets	**821**	1,099	**821**	1,099
Deferred income tax relating to the components of other comprehensive income (note 25)	**1,666**	(2,571)	**1,666**	(2,571)
Other comprehensive (loss)/income for the year, net of tax	**(323)**	9,915	**(323)**	9,915
Total comprehensive income for the year, net of tax	**9,680**	18,851	**8,529**	16,699
Total comprehensive income attributable to:				
Equity holders of the parent	**9,680**	17,957	**8,529**	16,699
Non-controlling interest	**-**	894	**-**	-
	9,680	18,851	**8,529**	16,699

STATEMENTS OF FINANCIAL POSITION AS AT 31 DECEMBER 2015

	Note	The Group 2015 €000	The Group 2014 €000	The Bank 2015 €000	The Bank 2014 €000
ASSETS					
Cash and Balances with Central Bank of Malta	(13)	**15,997**	14,297	**15,997**	14,297
Cheques in course of collection		**1,970**	2,185	**1,970**	2,185
Loans and advances to banks	(14)	**43,027**	49,951	**43,027**	49,314
Loans and advances to customers	(15)	**695,800**	623,631	**695,800**	623,631
Derivative financial instruments	(17)	**3,560**	3,872	**3,560**	3,872
Financial assets at fair value through profit or loss	(18)	**3,815**	16,106	**3,815**	3,483
Debt and other fixed income instruments	(19)	**297,959**	356,404	**297,959**	356,404
Equity and other non-fixed income instruments	(20)	**3,348**	2,448	**3,348**	2,448
Investment in subsidiaries	(21)	**-**	-	**55**	5,055
Investment in associates	(22)	**17,926**	11,171	**14,887**	9,887
Intangible assets	(23)	**3,137**	2,091	**3,137**	2,091
Investment properties	(16)	**3,965**	4,147	**3,965**	4,147
Property and equipment	(24)	**13,394**	13,813	**13,394**	13,811
Current tax		**209**	1,150	**209**	1,150
Deferred tax assets	(25)	**2,076**	682	**2,076**	682
Other receivables	(26)	**5,278**	5,890	**5,294**	5,605
TOTAL ASSETS		**1,111,461**	1,107,838	**1,108,493**	1,098,062
LIABILITIES					
Amounts owed to banks	(27)	**35,327**	78,568	**35,327**	78,568
Derivative financial instruments	(17)	**3,560**	3,872	**3,560**	3,872
Amounts owed to customers	(28)	**942,921**	892,829	**942,973**	895,156
Other liabilities	(29)	**3,630**	3,914	**3,627**	3,892
Accruals	(30)	**8,224**	8,807	**8,224**	8,796
TOTAL LIABILITIES		**993,662**	987,990	**993,711**	990,284
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)	**18,739**	19,062	**18,739**	19,062
Retained earnings	(34)	**38,654**	30,444	**35,637**	28,578
Dividend reserve		**1,031**	763	**1,031**	763
		117,799	109,644	**114,782**	107,778
Non-controlling interest		**-**	10,204	**-**	-
TOTAL EQUITY		**117,799**	119,848	**114,782**	107,778
TOTAL LIABILITIES AND EQUITY		**1,111,461**	1,107,838	**1,108,493**	1,098,062
MEMORANDUM ITEMS					
Contingent liabilities	(35)	**5,606**	5,328	**5,606**	5,328
Commitments	(36)	**209,567**	211,470	**209,567**	211,470

The financial statements on pages 16 to 81 were authorised for issue by the Board of Directors on 30 March 2016 and were signed by:

E. P. DELIA
Chairman

J. C. CARUANA
Director

	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 2015								
Balance at 1 January 2015	**57,605**	**1,770**	**19,062**	**763**	**30,444**	**109,644**	**10,204**	**119,848**
Profit for the year	-	-	-	-	10,003	10,003	-	10,003
Other comprehensive loss	-	-	(323)	-	-	(323)	-	(323)
Total comprehensive income	**-**	**-**	**(323)**	**-**	**10,003**	**9,680**	**-**	**9,680**
Release of non-controlling interest on loss of control of subsidiary	-	-	-	-	-	-	(10,204)	(10,204)
Dividends paid (note 12)	-	-	-	(763)	(762)	(1,525)	-	(1,525)
Dividends proposed (note 12)	-	-	-	1,031	(1,031)	-	-	-
Balance at 31 December 2015	**57,605**	**1,770**	**18,739**	**1,031**	**38,654**	**117,799**	**-**	**117,799**
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**

THE BANK	Issued capital €000	Share premium €000	Revaluation reserve €000	Dividend reserve €000	Retained earnings €000	Total €000
FINANCIAL YEAR ENDED 31 DECEMBER 2015						
Balance at 1 January 2015	**57,605**	**1,770**	**19,062**	**763**	**28,578**	**107,778**
Profit for the year	-	-	-	-	8,852	8,852
Other comprehensive loss	-	-	(323)	-	-	(323)
Total comprehensive income	**-**	**-**	**(323)**	**-**	**8,852**	**8,529**
Dividends paid (note 12)	-	-	-	(763)	(762)	(1,525)
Dividends proposed (note 12)	-	-	-	1,031	(1,031)	-
Balance at 31 December 2015	**57,605**	**1,770**	**18,739**	**1,031**	**35,637**	**114,782**
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**

STATEMENTS OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2015

	Note	The Group 2015 €000	The Group 2014 €000	The Bank 2015 €000	The Bank 2014 €000
OPERATING ACTIVITIES					
Interest and commission receipts		**30,946**	28,154	**30,946**	27,710
Interest and commission payments		**(13,173)**	(14,873)	**(13,173)**	(14,891)
Cash paid to employees and suppliers/depositors		**(16,404)**	(13,621)	**(16,400)**	(13,545)
Operating profit/(loss) before changes in operating assets and liabilities		**1,369**	(340)	**1,373**	(726)
(Increase)/decrease in operating assets					
Loans and advances to customers		**(72,693)**	(80,972)	**(72,693)**	(80,972)
Loans and advances to banks		**(7,713)**	-	**(7,713)**	-
Reserve deposit with Central Bank of Malta		**(756)**	(719)	**(756)**	(719)
Cheques in course of collection		**215**	(407)	**215**	(407)
Other assets		**1**	32	**-**	-
Increase/(decrease) in operating liabilities					
Amounts owed to customers		**47,820**	111,350	**47,817**	113,277
Other liabilities		**(352)**	776	**(352)**	791
Cash (used in)/from operating activities before tax		**(32,109)**	29,720	**(32,109)**	31,244
Income tax paid		**(4,354)**	(5,523)	**(4,354)**	(5,523)
Net cash flows (used in)/from operating activities		(36,463)	24,197	(36,463)	25,721
INVESTING ACTIVITIES					
Dividends received		**190**	373	**787**	808
Interest income from debt securities		**14,833**	16,105	**14,833**	16,105
Purchase of held-to-maturity debt security instruments		**(3,555)**	(200)	**(3,555)**	(200)
Proceeds on maturity of held-to-maturity debt security instruments		**12,185**	1,754	**12,185**	1,754
Purchase of available-for-sale debt security instruments		**(36,608)**	(79,530)	**(36,608)**	(79,530)
Proceeds on disposal of available-for-sale debt security instruments		**83,203**	62,816	**83,203**	62,816
Purchase of financial assets at fair value through profit or loss		**(1,090)**	(16,643)	**(1,090)**	(6,029)
Proceeds on disposal of financial assets at fair value through profit or loss		**1,307**	14,499	**1,307**	6,656
Purchase of equity and other non-fixed income instruments		**(617)**	(359)	**(617)**	(359)
Proceeds on disposal of equity and other non-fixed income instruments		**-**	369	**-**	366
Purchase of property, equipment and intangible assets		**(2,272)**	(2,557)	**(2,272)**	(2,557)
Proceeds on disposal of property and equipment		**-**	3	**-**	3
Net cash flows from/(used in) investing activities		**67,576**	(3,370)	**68,173**	(167)
FINANCING ACTIVITIES					
Dividends paid		**(928)**	(2,288)	**(1,525)**	(2,288)
Net proceeds from increase in non-controlling interest in subsidiary		**-**	4,727	**-**	-
Net cash flows (used in)/from financing activities		**(928)**	2,439	**(1,525)**	(2,288)
Net increase in cash and cash equivalents		**30,185**	23,266	**30,185**	23,266
Cash and cash equivalents at 1 January		**(21,966)**	(45,232)	**(21,966)**	(45,232)
Cash and cash equivalents at 31 December	(37)	**8,219**	(21,966)	**8,219**	(21,966)

1. CORPORATE INFORMATION

APS Group comprises APS Bank Limited, APS Consult Limited and 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 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 subsidiary for the year ended 31 December 2015, which together are referred to as the 'Group'. Subsidiary is fully consolidated from the date on which the Group achieves control and continues 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 2015

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 adoption of Annual Improvements to IFRSs 2011 – 2013 Cycle effective as of 1 January 2015.

The Annual Improvements to IFRSs 2011 – 2013 Cycle issued by IASB is a collection of amendments to IFRSs. This included improvements to IFRS 13 Fair Value Measurement which clarify that the scope of the portfolio exception defined in paragraph 52 of IFRS 13 includes all contracts accounted for within the scope of IAS 39 Financial Instruments: Recognition and Measurement or IFRS 9 Financial Instruments, regardless of whether they meet the definition of financial assets or financial liabilities as defined in IAS 32 Financial Instruments: Presentation.

The adoption of these standards, interpretations and amendments did not have a significant impact on the financial statements of the Group.

Standards, interpretations and amendments to published standards 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 have not been adopted early. None of these standards, interpretations and amendments is expected to have an impact on the financial position or performance of the Group.

- 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)
- 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)
- Annual Improvements to IFRSs 2012-2014 Cycle
- IAS 1 Amendments - Disclosure initiative (effective for financial years beginning 1 January 2016)

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 standard will have on the financial statements in due course.

Standards, interpretations and amendments 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)
- IFRS 15 - Revenue from contracts with customers (effective for financial years beginning on or after 1 January 2018)
- IFRS 16 - Leases (issued on 3 January 2016 and effective 1 January 2019)
- IFRS 10, IFRS 12 and IAS 28 (Amendments) Investment Entities: Applying the consolidation exception (effective for financial years beginning 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)
- IAS 12 Amendments - Recognition of deferred tax assets for unreleased losses (effective 1 January 2017)
- IAS 7 Amendments - Disclosure initiative (effective 1 January 2017)

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' 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.

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 instruments' 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 Measurements.

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 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 Bank 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 of 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 subsidiary
The investment in subsidiary is accounted for at cost less any accumulated impairment losses.

Investment in associates

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

Under the equity method, an 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 associates 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 associates. When there has been a change recognised directly in the equity of the associates, 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 associates are eliminated to the extent of the interest in the associates.

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

The financial statements of the associates 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 associates. The Group determines at each reporting date whether there is any objective evidence that the investment in the associates 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 associates in the statement of profit or loss.

Upon loss of significant influence over the associates, 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 associates is stated at cost. Provision is made where in the opinion of the Directors, there is a permanent diminution in value.

Income from the investments are 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 judgments, 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.

Accounting for investments in which the Group holds less than 20% voting power

As of 31 December 2015, the Group directly held 17.58% (2014: 21.13%) interest in APS Income Fund. The Group assessed whether it has significant influence over the investee and concluded that significant influence can be clearly established upon considering the following factors: a) representation in the board of directors; b) participation in policy-making processes; c) material transaction between the investee and the Bank and d) provision of technical information and management services. Therefore, the Group continues to account for its investment in APS Income Fund as an associate under equity method.

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

As of 31 December 2015, the Group directly held 24.95% (2014:36.17%) interest in APS Regular Income Ethical Fund.

In 2015, the Group assessed its position and determined that control over APS Regular Income Ethical Fund has been lost due to further dilution in its interest. During 2015, APS Regular Income Ethical Fund has been deconsolidated from the Group financial statements and accounted for as an investment in associate under the equity method.

In 2014, the Group 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 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 judgments 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 judgment 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 judgment. In making this judgment, 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.

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 2015. For investment properties, the valuation specialist determined the most appropriate methodology (market/income approach) depending on the nature of the 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).

3. INTEREST RECEIVABLE AND SIMILAR INCOME

	The Group		The Bank	
	2015	2014	**2015**	2014
	€000	€000	**€000**	€000
On loans and advances to banks	**11**	34	**11**	34
On loans and advances to customers	**25,584**	22,917	**25,584**	22,884
On balances with Central Bank of Malta	**2**	11	**2**	11
On treasury bills	**-**	4	**-**	4
	25,597	22,966	**25,597**	22,933
On debt securities	**14,842**	16,673	**14,842**	16,089
Amortisation of premiums and discounts	**(1,655)**	(1,613)	**(1,655)**	(1,613)
	13,187	15,060	**13,187**	14,476
	38,784	38,026	**38,784**	37,409

Interest receivable on loans and advances to customers is netted off with €161,745 (2014: €1,249,487) in respect of interest accrued on impaired loans and advances to customers (note 15).

4. INTEREST PAYABLE

	The Group		The Bank	
	2015	2014	**2015**	2014
	€000	€000	**€000**	€000
On amounts owed to banks	**44**	160	**44**	160
On amounts owed to customers	**13,129**	15,720	**13,129**	15,738
	13,173	15,880	**13,173**	15,898

5. DIVIDEND INCOME

	The Group		The Bank	
	2015	2014	**2015**	2014
	€000	€000	**€000**	€000
From equity shares held in local and foreign companies	**229**	212	**826**	841

6. TRADING INCOME

	The Group		The Bank	
	2015	2014	**2015**	2014
	€000	€000	**€000**	€000
Unrealised gain on exchange	**233**	175	**233**	175
Realised gain on exchange	**470**	312	**470**	294
	703	487	**703**	469

7. NET GAINS ON FINANCIAL INSTRUMENTS

a) Net realised gains on disposal of available-for sale investments	The Group		The Bank	
	2015	2014	**2015**	2014
	€000	€000	**€000**	€000
Realised gains on disposal of available-for-sale investments	**1,511**	1,251	**1,511**	1,251

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	**(74)**	857	**(74)**	(37)
Realised (losses)/gains on disposal of financial assets at fair value through profit or loss	**(44)**	536	**(44)**	220
	(118)	1,393	**(118)**	183
	1,393	2,644	**1,393**	1,434

8. PERSONNEL EXPENSES

	The Group		The Bank	
	2015	2014	**2015**	2014
	€000	€000	**€000**	€000
Wages and salaries:				
- key management personnel	**354**	350	**354**	348
- other staff	**6,857**	6,077	**6,857**	6,077
- wages recharged to subsidiary at cost	**-**	-	**(5)**	(7)
Social security costs	**509**	487	**509**	487
	7,720	6,914	**7,715**	6,905

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	
	2015	2014	**2015**	2014
Managerial	**37**	39	**37**	39
Senior officers and officers	**215**	209	**215**	209
Others	**10**	10	**10**	10
	262	258	**262**	258

9. OTHER ADMINISTRATIVE EXPENSES

	The Group		The Bank	
	2015	2014	**2015**	2014
	€000	€000	**€000**	€000
Remuneration payable to the auditors for:				
- the audit of financial statements	**32**	37	**31**	35
- tax compliance services	**2**	2	**2**	2
Directors' emoluments	**139**	136	**135**	131
Insurance	**990**	563	**990**	562
Professional fees	**1,098**	584	**1,097**	580
Repairs and maintenance	**1,454**	1,643	**1,454**	1,643
Telecommunications	**343**	312	**343**	312
Office operating expenses	**1,555**	1,730	**1,555**	1,709
Card and other financial charges	**365**	321	**365**	321
Others	**1,752**	1,574	**1,757**	1,523
	7,730	6,902	**7,729**	6,818

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

10. NET IMPAIRMENT LOSSES

	The Group		The Bank	
	2015	2014	**2015**	2014
	€000	€000	**€000**	€000
Charge for the year:				
Loans and advances to customers:				
- collective impairment (note 15)	**166**	180	**166**	180
- individual impairment (note 15)	**2,166**	2,271	**2,166**	2,271
- bad debts written off	**23**	3,468	**23**	3,461
	2,355	5,919	**2,355**	5,912
Reversal of write-downs:				
Loans and advances to customers:				
- individual impairment (note 15)	**(1,649)**	(4,718)	**(1,649)**	(4,718)
Net impairment losses	**706**	1,201	**706**	1,194

11. INCOME TAX EXPENSE

The major components of income tax expense for the years ended 31 December 2015 and 2014 are:

	The Group		The Bank	
	2015	2014	**2015**	2014
	€000	€000	**€000**	€000
Current income tax	**5,296**	3,086	**5,296**	3,086
Deferred income tax	**272**	749	**272**	749
Income tax expense	**5,568**	3,835	**5,568**	3,835

A reconciliation between tax expense and the product of accounting profit multiplied by the applicable tax rate in Malta of 35% (2014: 35%) for the years ended 31 December 2015 and 2014 is as follows:

	The Group		The Bank	
	2015	2014	**2015**	2014
	€000	€000	**€000**	€000
Profit before tax	**15,571**	12,771	**14,420**	10,619
Theoretical tax expense at 35%	**5,450**	4,470	**5,047**	3,716
Tax effect of:				
- Differences between depreciation and capital allowances	**95**	69	**95**	69
- Income subject to reduced rates of tax	**(185)**	(201)	**(185)**	(201)
- Current year tax losses surrendered by a group company	**-**	-	**-**	(2)
- Others	**208**	(503)	**611**	253
Income tax expense	**5,568**	3,835	**5,568**	3,835

12. DIVIDENDS PAID AND PROPOSED

	The Group		The Bank	
	2015	2014	**2015**	2014
	€000	€000	**€000**	€000
Dividends paid 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:				
1.66 cents per share (2013: 3.31 cents per share)	**763**	1,525	**762**	1,525
Interim gross of income tax for 2015:				
2.55 cents per share (2014: 2.55 cents per share)	**1,173**	1,173	**1,173**	1,173
Interim net of income tax for 2015:				
1.65 cents per share (2014: 1.66 cents per share)	**762**	763	**763**	763

Dividends proposed for approval at annual general meeting were not recognised as a liability as at 31 December 2015 and are presented below:

	The Group		The Bank	
	2015	2014	**2015**	2014
	€000	€000	**€000**	€000
Dividends proposed on ordinary shares:				
Final gross of income tax for 2015:				
3.44 cents per share (2014: 2.55 cents per share)	**1,586**	1,173	**1,586**	1,173
Final net of income tax for 2015:				
2.24 cents per share (2014: 1.66 cents per share)	**1,031**	763	**1,031**	763

13. CASH AND BALANCES WITH CENTRAL BANK OF MALTA

	The Group		The Bank	
	2015	2014	**2015**	2014
	€000	€000	**€000**	€000
Cash in hand (note 37)	**6,832**	5,927	**6,832**	5,927
Balances with Central Bank of Malta (excluding reserve deposit) (note 37)	**1,400**	1,361	**1,400**	1,361
Reserve deposit with Central Bank of Malta	**7,765**	7,009	**7,765**	7,009
	15,997	14,297	**15,997**	14,297

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 (2014: the same) pledged in favour of the MFSA's Depositors' Compensation Scheme (note 19).

During the year ended 31 December 2015 the Bank has been compliant with the reserve deposit requirement (2014: the same).

14. LOANS AND ADVANCES TO BANKS

	The Group		The Bank	
	2015	2014	**2015**	2014
	€000	€000	**€000**	€000
Repayable on call and at short notice (note 37)	**35,314**	49,314	**35,314**	49,314
Placements with other banks not repayable at short notice	**7,713**	637	**7,713**	-
	43,027	49,951	**43,027**	49,314
Analysed by currency:				
- Euro	**34,070**	20,319	**34,070**	19,682
- Foreign	**8,957**	29,632	**8,957**	29,632
	43,027	49,951	**43,027**	49,314

15. LOANS AND ADVANCES TO CUSTOMERS

	The Group		The Bank	
	2015	2014	**2015**	2014
	€000	€000	**€000**	€000
Repayable on call and at short notice	**55,668**	54,987	**55,668**	54,987
Term loans and advances	**654,315**	581,982	**654,315**	581,982
Gross loans and advances (i)	**709,983**	636,969	**709,983**	636,969
Less: allowance for impairment losses (ii)	**(14,183)**	(13,338)	**(14,183)**	(13,338)
Net loans and advances	**695,800**	623,631	**695,800**	623,631

(i) Gross loans and advances analysed by currency

	The Group		The Bank	
	2015	2014	**2015**	2014
	€000	€000	**€000**	€000
- Euro	**706,115**	634,741	**706,115**	634,741
- Foreign	**3,868**	2,228	**3,868**	2,228
	709,983	636,969	**709,983**	636,969

(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	
	2015	2014	**2015**	2014
	€000	€000	**€000**	€000
At 1 January	**13,338**	14,356	**13,338**	14,356
Charge/(Reversal) for the year:				
- Collective (note 10)	**166**	180	**166**	180
- Individual (note 10)	**517**	(2,447)	**517**	(2,447)
- Accrued interest (note 3)	**162**	1,249	**162**	1,249
At 31 December	**14,183**	13,338	**14,183**	13,338
- Individual impairment losses, including accrued interest	**11,497**	10,817	**11,497**	10,817
- Collective impairment losses	**2,686**	2,521	**2,686**	2,521
	14,183	13,338	**14,183**	13,338

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 €4,257,026 (2014: €4,095,282) which has been netted-off against interest receivable.

The aggregate amount of impaired loans and advances at the reporting date amounted to €19,037,000 (2014: €16,979,000). 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	**2015** €000	2014 €000
Agriculture	**7,532**	7,835
Fishing	**3,469**	4,435
Mining and quarrying	**-**	21
Manufacturing	**21,142**	20,849
Electricity, gas and water supply	**18,269**	18,462
Construction	**74,929**	83,816
Wholesale and retail trade	**39,537**	38,727
Hotels and restaurants, excluding related construction activities	**18,220**	16,658
Transport, storage and communication	**1,848**	1,823
Financial intermediation	**1,639**	2,043
Real estate, renting and business	**32,267**	20,626
Public administration	**5,320**	3,181
Education	**12,083**	12,468
Health and social work	**3,203**	442
Community, recreational and personal service activities	**2,935**	3,884
Households and individuals	**467,590**	401,699
	709,983	636,969

16. INVESTMENT PROPERTIES

The Group's investment property consists of commercial property and residential properties in Malta. As at 31 December 2015 and 2014 the fair values of investment properties held by the Group were as follows:

	The Group		The Bank	
	2015 €000	2014 €000	**2015** €000	2014 €000
As at 1 January	**4,147**	330	**4,147**	330
Additions	**-**	3,817	**-**	3,817
Fair value movement	**(182)**	-	**(182)**	-
As at 31 December	**3,965**	4,147	**3,965**	4,147

17. DERIVATIVE FINANCIAL INSTRUMENTS

	The Group		The Bank	
	2015	2014	**2015**	2014
	€000	€000	**€000**	€000
Derivative assets, designated as at fair value through profit or loss, not designated as hedges	**3,560**	3,872	**3,560**	3,872
Derivative liabilities, designated as at fair value through profit or loss, not designated as hedges	**3,560**	3,872	**3,560**	3,872

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.

THE GROUP / BANK	**Notional 2015 €000**	**Assets 2015 €000**	**Liabilities 2015 €000**	Notional 2014 €000	Assets 2014 €000	Liabilities 2014 €000
Over the counter derivatives:						
Equity/commodity-index warrants purchased	**65,775**	**3,560**	**-**	55,775	3,872	-
Equity/commodity-index warrants written	**65,775**	**-**	**3,560**	55,775	-	3,872
	-	**3,560**	**3,560**	-	3,872	3,872

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 (2014: the same). The last valuation was made on 31 December 2015 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	
	2015	2014	**2015**	2014
	€000	€000	**€000**	€000
Debt and other fixed income instruments	**3,225**	15,305	**3,225**	3,427
Equity and other non-fixed income instruments	**590**	801	**590**	56
	3,815	16,106	**3,815**	3,483
Analysed by currency:				
- Euro	**3,368**	8,272	**3,368**	2,548
- Foreign	**447**	7,834	**447**	935
	3,815	16,106	**3,815**	3,483

19. DEBT AND OTHER FIXED INCOME INSTRUMENTS

	The Group		The Bank	
	2015	2014	2015	2014
	€000	€000	€000	€000
Held-to-maturity	**76,999**	85,911	**76,999**	85,911
Available-for-sale	**220,960**	270,493	**220,960**	270,493
	297,959	356,404	**297,959**	356,404
Held-to-maturity				
Issued by public bodies:				
- Local government	**72,944**	85,045	**72,944**	85,045
Issued by other issuers:				
- Foreign government	**3,555**	366	**3,555**	366
- Foreign others	**500**	500	**500**	500
	4,055	866	**4,055**	866
Total	**76,999**	85,911	**76,999**	85,911
Available-for-sale				
Issued by public bodies:				
- Local government	**67,910**	76,109	**67,910**	76,109
- Foreign government	**14,392**	24,663	**14,392**	24,663
	82,302	100,772	**82,302**	100,772
Issued by other issuers:				
- Local banks	**2,214**	2,189	**2,214**	2,189
- Foreign banks	**24,926**	28,667	**24,926**	28,667
- Foreign others	**108,130**	134,544	**108,130**	134,544
- Local others	**3,388**	4,321	**3,388**	4,321
	138,658	169,721	**138,658**	169,721
Total	**220,960**	270,493	**220,960**	270,493
Total debt and other fixed income instruments	**297,959**	356,404	**297,959**	356,404
Analysed by currency:				
- Euro	**251,760**	293,858	**251,760**	293,858
- Foreign	**46,199**	62,546	**46,199**	62,546
	297,959	356,404	**297,959**	356,404
Unamortised premiums on debt and other fixed income instruments	**7,363**	8,557	**7,363**	8,557
Listing status:				
- Listed on Malta Stock Exchange	**146,456**	167,664	**146,456**	167,664
- Listed elsewhere	**151,003**	188,440	**151,003**	188,440
- Unlisted	**500**	300	**500**	300
	297,959	356,404	**297,959**	356,404

19. DEBT AND OTHER FIXED INCOME INSTRUMENTS – CONTINUED

As at 31 December 2015, the Group had Portuguese and Irish debt instruments classified as available-for-sale amounting to €1,617,934 (2014: €2,491,758) and €4,883,105 (2014: €4,673,612) respectively. Also, the Group had available-for-sale instruments in Italy amounting to €7,148,214 (2014: €11,901,839), and in Spain amounting to €5,944,046 (2014: €7,279,609). The Group had no debt instruments classified as held-to maturity in Greece (2014: €366,042).

Debt instruments issued by local government with a nominal value of €112,563,045 (2014: €127,898,242) 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 €5,250,000 (2014: €4,900,000) have been pledged in favour of the MFSA's Depositors' Compensation Scheme, as follows:

THE GROUP / BANK	**2015 €000**	2014 €000
Deposit with Central Bank of Malta (note 13)	**1,400**	1,400
Debt instruments with local government	**3,850**	3,500
	5,250	4,900

20. EQUITY AND OTHER NON-FIXED INCOME INSTRUMENTS

Available-for-sale

	The Group		The Bank	
	2015 €000	2014 €000	**2015 €000**	2014 €000
Listed on Malta Stock Exchange	**3,113**	2,021	**3,113**	2,021
Listed elsewhere	**102**	192	**102**	192
Unlisted	**133**	235	**133**	235
	3,348	2,448	**3,348**	2,448

21. INVESTMENT IN SUBSIDIARIES

	2015 €000	2014 €000
Cost		
At 1 January	**5,650**	5,650
Loss of control of subsidiary	**(5,000)**	-
At 31 December	**650**	5,650
Provision for diminution in value		
At 1 January and 31 December	**595**	595
Carrying amount		
At 31 December	**55**	5,055

The shares in subsidiaries are made up as follows:

Name	Country of incorporation	% equity interest 2015	% equity interest 2014	Cost 2015 €000	Cost 2014 €000
APS Consult Limited	**Malta**				
259,999 ordinary shares at €2.50		**99.99**	99.99	**55**	650
(2014: 259,999 ordinary shares at €2.50)					
APS Regular Income Ethical Fund	**Malta**				
(2014: 5,000,000 units at €1.00)		-	36.17	-	5,000
				55	5,650

As described in note 2.3 to these financial statements, the Group assessed that control over APS Regular Income Ethical Fund has been lost during 2015 and hence the Group has accounted for the investment as an associate (note 22). In 2014, the Group assessed that it 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 APS Regular Income Ethical Fund as at 31 December 2014 amounted to €5,715,865.

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.

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

Name	2015 %	2014 %
APS Regular Income Ethical Fund	-	63.83

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

	2015 €000	2014 €000
Net assets value	-	15,803
Summarised statement of profit or loss		
Income	-	1,865
General and other expenses	-	(176)
Finance cost	-	(385)
Profit before tax	-	1,304
Tax		(1)
Profit after tax	-	1,303

22. INVESTMENT IN ASSOCIATES

THE BANK

Name	Country of incorporation	% equity interest 2015	2014	2015 €000	2014 €000
APS Funds SICAV p.l.c.	**Malta**				
1,199 founder shares at €1.00		**99.99***	99.99*	**1**	1
(2014: 1,199 founder shares at €1.00)					
APS Income Fund	**Malta**				
98,853.14 units at €100.01					
(2014: 98,853.14 units at €100.01)		**17.58**	21.13	**9,886**	9,886
APS Regular Income Ethical Fund	**Malta**				
5,000,000 units at €1.00		**24.95**	-	**5,000**	-
				14,887	9,887

* The 99.99% equity interest pertains solely to the Bank's share in the total founder shares of APS Funds SICAV p.l.c.

THE GROUP

The following tables illustrate summarised financial information of APS Income Fund and APS Regular Income Ethical Fund:

	APS Income Fund 2015 €000	APS Income Fund 2014 €000	APS Regular Income Ethical Fund 2015 €000	APS Regular Income Ethical Fund 2014 €000
Current assets	**3,464**	1,557	**1,823**	-
Non-current assets	**67,157**	51,447	**20,978**	-
Current liabilities	**(253)**	(128)	**(112)**	-
Net asset value	**70,368**	52,876	**22,689**	-
Carrying amount of the Group's investment	**12,366**	11,171	**5,560**	-

22. INVESTMENT IN ASSOCIATES – CONTINUED

	APS Income Fund		APS Regular Income Ethical Fund	
	2015	2014	**2015**	2014
THE GROUP	**€000**	€000	**€000**	€000
Income	**9,112**	5,837	**558**	-
General and other expenses	**(624)**	(503)	**(266)**	-
Finance cost	**(1,653)**	(1,468)	**(517)**	-
Profit/(loss) before tax	**6,835**	3,866	**(225)**	-
Tax	**(433)**	(325)	**(12)**	-
Profit/(loss) after tax	**6,402**	3,541	**(237)**	-
Group's share of profit for the year	**1,587**	1,142	**167**	-

The following table illustrates the movements in the carrying amount of investment in associates during the year:

	2015	2014
	€000	€000
Carrying amount of the investment at 1 January	**11,171**	10,437
Fair value of subsidiary upon loss of control	**5,599**	-
Share of associates' results, net of tax	**1,754**	1,142
Dividend distribution	**(598)**	(408)
Carrying amount of the investment at 31 December	**17,926**	11,171

The associates had no contingent liabilities or capital commitments as at 31 December 2015 (2014: the same).

The fair value of the investment in associates as at 31 December 2015 amounted to €18,033,767 (2014: €11,171,285).

23. INTANGIBLE ASSETS

THE GROUP / BANK	Computer software €000
Cost	
At 1 January 2014	8,241
Additions	1,671
At 31 December 2014	9,912
Additions	1,545
At 31 December 2015	**11,457**
Amortisation	
At 1 January 2014	7,312
Charge for the year	509
At 31 December 2014	7,821
Charge for the year	499
At 31 December 2015	**8,320**
Net book value	
At 31 December 2015	**3,137**
At 31 December 2014	2,091
At 1 January 2014	929

	2015 €000	2014 €000
Future capital expenditure:		
- Authorised by the Directors and contracted	**2,466**	1,298
- Authorised by the Directors but not yet contracted	**606**	2,232
	3,072	3,530

The gross carrying amount of any fully amortised intangible assets that is still in use as at 31 December 2015 was of €6,986,054 (2014: €6,672,172).

24. PROPERTY AND EQUIPMENT

THE GROUP	Land and Buildings €000	Computer Equipment €000	Other €000	Total €000
Cost				
At 1 January 2014	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
Additions	81	438	297	816
Disposals	-	-	(5)	(5)
At 31 December 2015	**12,210**	**4,986**	**11,940**	**29,136**
Depreciation				
At 1 January 2014	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
Charge for the year	136	382	715	1,233
Disposals	-	-	(3)	(3)
At 31 December 2015	**1,793**	**4,329**	**9,620**	**15,742**
Net book value				
At 31 December 2015	**10,417**	**657**	**2,320**	**13,394**
At 31 December 2014	10,472	601	2,740	13,813
At 1 January 2014	10,340	548	3,170	14,058

	2015 €000	2014 €000
Future capital expenditure:		
- Authorised by the Directors and contracted	**2,546**	292
- Authorised by the Directors but not yet contracted	**3,078**	5,338
	5,624	5,630

The gross carrying amount of any fully depreciated property and equipment that is still in use as at 31 December 2015 was of €8,739,055 (2014: €8,302,520).

24. PROPERTY AND EQUIPMENT – CONTINUED

THE BANK	Land and Buildings €000	Computer Equipment €000	Other €000	Total €000
Cost				
At 1 January 2014	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
Additions	81	438	297	816
At 31 December 2015	**12,210**	**4,979**	**11,942**	**29,131**
Depreciation				
At 1 January 2014	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
Charge for the year	136	382	715	1,233
At 31 December 2015	**1,793**	**4,321**	**9,623**	**15,737**
Net book value				
At 31 December 2015	**10,417**	**658**	**2,319**	**13,394**
At 31 December 2014	10,472	602	2,737	13,811
At 1 January 2014	10,340	549	3,167	14,056

	2015 €000	2014 €000
Future capital expenditure:		
- Authorised by the Directors and contracted	**2,546**	292
- Authorised by the Directors but not yet contracted	**3,078**	5,338
	5,624	5,630

The gross carrying amount of any fully depreciated property and equipment that is still in use as at 31 December 2015 was of €8,739,055 (2014: €8,302,520).

25. DEFERRED TAX ASSETS

Deferred income tax at 31 December relates to the following:

	The Group		The Bank	
	2015	2014	**2015**	2014
	€000	€000	**€000**	€000
Fair value movements in investment securities	**(2,165)**	(3,856)	**(2,165)**	(3,856)
Impairment allowance for loans and advances to customers	**4,964**	4,668	**4,964**	4,668
Excess of capital allowances over depreciation	**(723)**	(130)	**(723)**	(130)
	2,076	682	**2,076**	682

Deferred tax arising on the fair value movements on investment securities, amounting to €1,665,889 (2014: €2,570,872) was credited directly in equity. For other movements' details refer to note 11.

26. OTHER RECEIVABLES

	The Group		The Bank	
	2015	2014	**2015**	2014
	€000	€000	**€000**	€000
Accrued income	**4,660**	5,598	**4,660**	5,355
Prepayments and other receivables	**618**	292	**617**	202
Amounts due from subsidiaries	**-**	-	**17**	48
	5,278	5,890	**5,294**	5,605

27. AMOUNTS OWED TO BANKS

	The Group		The Bank	
	2015	2014	**2015**	2014
	€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)	**35,327**	78,568	**35,327**	78,568
Analysed by currency:				
- Euro	**35,282**	67,792	**35,282**	67,792
- Foreign	**45**	10,776	**45**	10,776
	35,327	78,568	**35,327**	78,568

28. AMOUNTS OWED TO CUSTOMERS

	The Group		The Bank	
	2015	2014	**2015**	2014
	€000	€000	**€000**	€000
Term deposits	**524,733**	563,379	**524,733**	565,652
Repayable on demand	**418,188**	329,450	**418,240**	329,504
	942,921	892,829	**942,973**	895,156
Analysed by currency:				
- Euro	**883,831**	816,709	**883,883**	818,489
- Foreign	**59,090**	76,120	**59,090**	76,667
	942,921	892,829	**942,973**	895,156

29. OTHER LIABILITIES

	The Group		The Bank	
	2015	2014	**2015**	2014
	€000	€000	**€000**	€000
Other liabilities	**3,630**	3,914	**3,625**	1,561
Amounts due to subsidiaries	**-**	-	**2**	2,331
	3,630	3,914	**3,627**	3,892

30. ACCRUALS

	The Group		The Bank	
	2015	2014	**2015**	2014
	€000	€000	**€000**	€000
Accrued interest payable	**5,724**	6,844	**5,724**	6,833
Other accruals	**2,500**	1,963	**2,500**	1,963
	8,224	8,807	**8,224**	8,796

31. SHARE CAPITAL

	The Group		The Bank	
	2015	2014	**2015**	2014
	€000	€000	**€000**	€000
Authorised				
60,000,000 ordinary shares of €1.25 each (2014: the same)	**75,000**	75,000	**75,000**	75,000
Issued and fully paid				
46,083,840 ordinary shares of €1.25 each (2014: the same)	**57,605**	57,605	**57,605**	57,605

THE GROUP / BANK	**2015 Number of shares '000**	2014 Number of shares '000
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.

32. SHARE PREMIUM

	The Group		The Bank	
	2015	2014	**2015**	2014
	€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 2015 the amount of €45,400 (2014: €914,614) 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	
	2015	2014	**2015**	2014
	€000	€000	**€000**	€000
Guarantees	**5,233**	5,121	**5,233**	5,121
Other contingent liabilities	**373**	207	**373**	207
	5,606	5,328	**5,606**	5,328

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 2015 and 31 December 2014.

36. COMMITMENTS

	The Group		The Bank	
	2015	2014	**2015**	2014
	€000	€000	**€000**	€000
Undrawn formal standby facilities, credit facilities and other commitments to lend	**209,567**	211,470	**209,567**	211,470

37. NOTES TO THE STATEMENTS OF CASH FLOWS

	The Group		The Bank	
	2015	2014	**2015**	2014
	€000	€000	**€000**	€000
Cash in hand (note 13)	**6,832**	5,927	**6,832**	5,927
Balances with Central Bank of Malta (excluding reserve deposit) (note 13)	**1,400**	1,361	**1,400**	1,361
Loans and advances to banks (repayable within 3 months) (note 14)	**35,314**	49,314	**35,314**	49,314
Amounts owed to banks (note 27)	**(35,327)**	(78,568)	**(35,327)**	(78,568)
Cash and cash equivalents included in the statements of cash flows	**8,219**	(21,966)	**8,219**	(21,966)

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 associates as follows:

		Country of incorporation	Note	% equity interest 2015	2014
APS Consult Limited	Subsidiary	Malta	21	**99.99**	99.99
APS Regular Income Ethical Fund (sub-fund of APS Funds SICAV p.l.c.)	Associate/ Subsidiary	Malta	21	**24.95**	36.17
APS Income Fund (sub-fund of APS Funds SICAV p.l.c.)	Associate	Malta	22	**17.58**	21.13

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, associates, 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 associates 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	**2015**	**2**	**-**	**17**	**51**
APS Consult Limited	2014	2	-	17	56
APS Regular Income Ethical Fund	2014	102	18	31	2,275
Associates:					
APS Income Fund	**2015**	**476**	**106**	**131**	**7,805**
APS Income Fund	2014	360	265	95	6,312
APS Regular Income Ethical Fund	**2015**	**189**	**22**	**53**	**4,348**

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. (2014: the same).

(b) Other transactions with directors:

	2015	2014
	€000	€000
Loans and advances	**104**	116
Commitments	**9**	11

(c) Transactions with executive employees:

	2015	2014
	€000	€000
Loans and advances	**2,596**	2,503
Commitments	**87**	95

Transactions with other related parties

	Balances as at 31.12.2015	**Balances as at 31.12.2015**	Balances as at 31.12.2014	Balances as at 31.12.2014
	€000	**€000**	€000	€000
Amounts due from other related parties:				
Shareholders and entities with common directorship	**389**	**13**	338	20

	Balances as at 31.12.2015	**Balances as at 31.12.2015**	Balances as at 31.12.2014	Balances as at 31.12.2014
	€000	**€000**	€000	€000
Amounts due to other related parties:				
Shareholders	**29,344**	**879**	27,947	368

Included in the amounts due to shareholders, are deposits of €250,000 (2014: the same) held as collateral for loan commitments and overdraft facilities granted to related parties. Also included are term deposits of €26,921,722 million (2014: €25,410,767), which bear interest at the prevailing Bank rates.

For the year ended 31 December 2015, the Bank has not made any provision for impairment of receivables relating to amounts due from related parties (2014: the same).

No guarantees were received by related parties as at end of December 2015 (2014: 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

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 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 level within which the fair value measurement is categorised is determined based on the lowest level of input that is significant to fair value measurement.

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

Fair value measurement hierarchy of the Bank's assets and liabilities is as follows:

	Fair value measurement hierarchy			
	Level 1	Level 2	Level 3	Total
THE GROUP / BANK	€000	€000	€000	€000
Assets as at 31 December 2015				
Investment properties (Note 16)				
- Residential properties	-	2,660	-	2,660
- Commercial property	-	-	1,305	1,305
Derivative assets not designated as hedges (Note 17)	-	3,560	-	3,560
Financial assets at fair value through profit or loss (Note 18)				
- debt and other fixed income instruments	3,225	-	-	3,225
- equity and other non-fixed income instruments	590	-	-	590
Available-for-sale financial assets				
- debt and other fixed income instruments (Note 19)	220,960	-	-	220,960
- equity and other non-fixed income instruments (Note 20)	3,215	-	-	3,215
Total	**227,990**	**6,220**	**1,305**	**235,515**
Liabilities as at 31 December 2015				
Derivative liabilities not designated as hedges (Note 17)	-	3,560	-	3,560
Total	**-**	**3,560**	**-**	**3,560**

39. RISK MANAGEMENT - CONTINUED

39.2 FAIR VALUES - CONTINUED

THE GROUP	Fair value measurement hierarchy Level 1 €000	 Level 2 €000	 Level 3 €000	 Total €000
Assets as at 31 December 2014				
Investment properties (Note 16)				
- Residential properties	-	3,147	-	3,147
- Commercial property	-	-	1,000	1,000
Derivative assets not designated as hedges (Note 17)	-	3,872	-	3,872
Financial assets at fair value through profit or loss (Note 18)				
- debt and other fixed income instruments	15,305	-	-	15,305
- equity and other non-fixed income instruments	801	-	-	801
Available-for-sale financial assets				
- debt and other fixed income instruments (Note 19)	270,193	300	-	270,493
- equity and other non-fixed income instruments (Note 20)	2,359	-	-	2,359
Total	**288,658**	**7,319**	**1,000**	**296,977**
Liabilities as at 31 December 2014				
Derivative liabilities not designated as hedges (Note 17)	-	3,872	-	3,872
Total	**-**	**3,872**	**-**	**3,872**

THE BANK	Fair value measurement hierarchy Level 1 €000	 Level 2 €000	 Level 3 €000	 Total €000
Assets as at 31 December 2014				
Investment properties (Note 16)				
- Residential properties	-	3,147	-	3,147
- Commercial property	-	-	1,000	1,000
Derivative assets not designated as hedges (Note 17)	-	3,872	-	3,872
Financial assets at fair value through profit or loss (Note 18)				
- debt and other fixed income instruments	3,427	-	-	3,427
- equity and other non-fixed income instruments	56	-	-	56
Available-for-sale financial assets				
- debt and other fixed income instruments (Note 19)	270,193	300	-	270,493
- equity and other non-fixed income instruments (Note 20)	2,359	-	-	2,359
Total	**276,035**	**7,319**	**1,000**	**284,354**
Liabilities as at 31 December 2014				
Derivative liabilities not designated as hedges (Note 17)	-	3,872	-	3,872
Total	**-**	**3,872**	**-**	**3,872**

39. RISK MANAGEMENT - CONTINUED

39.2 FAIR VALUES - CONTINUED

There were no reclassifications made within the fair value hierarchy and there were no changes in valuation techniques used by the Bank during the year (2014: the same).

Investment Properties - Residential Properties
Fair value is measured on the basis of observable inputs, being market value per square meter for similar property in the same location, as provided by an independent architect.

Investment Properties – Commercial Property
Fair value is measured on the basis of valuation techniques described below.

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 2015
Commercial property	DCF method	Estimated rental value per sqm per year	€125 - €150 (2014: €50-€150)
		Discount rate	6% (2014: 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. In 2015, the Bank recognised a fair value gain of €305,000 (2014: nil), on the revaluation of the investment property classified as Level 3. This amount is included under fair value loss on investment properties in the statement of profit and loss.

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 €2,400,000 as at 31 December 2015 (2014: €2,816,000), the Group has no restrictions on the realisation of investment properties.

Derivative assets not designated as hedges
The last valuation for derivative instruments was made on 31 December 2015 (2014: 31 December 2014) on the basis of observable inputs.

Financial assets at fair value through profit or loss - debt and other non-fixed income
All of the Group's financial assets at fair value through profit or loss are carried at market value using available quoted market prices.

39. RISK MANAGEMENT - CONTINUED

39.2 FAIR VALUES - CONTINUED

Available-for-sale financial assets
Except as stated below, fair values of debt and equity instruments classified as available-for-sale are generally based on quoted market prices, if available.

Debt and other fixed income instruments
In 2014, the Bank's investment of €300,000 in Merkur Bank is unquoted and categorised as Level 2. Fair values are generally based on quoted market prices, if available. The Bank estimated the fair value 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 credit risk.

Equity and other non-fixed income instruments
The Bank's investments of NOK 800,000 equivalent to €83,228 (2014: €88,648) in Cultura Sparebank and of €50,000 (2014: nil) in CoopMed SA are unquoted and thus recorded at cost since the fair value cannot be reliably estimated. There is no market for these investments and the Bank intends to hold these for the long term.

Derivative liabilities not designated as hedges
The last valuation for derivative instruments was made on 31 December 2015 (2014: 31 December 2014) on the basis of observable inputs.

Other financial instruments
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.

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 €77.0 million (2014: €85.9 million). Their market value amounted to €92.0 million (2014: €102.0 million), whilst their nominal value amounted to €75.4 million (2014: €85.8 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, 74% (2014: 79%) have contractual re-pricing within one year, whilst 26% (2014: 21%) re-price 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.

39.3 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.

39. RISK MANAGEMENT - CONTINUED

39.3 CREDIT RISK - CONTINUED

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	
	2015	2014	**2015**	2014
	€000	€000	**€000**	€000
Cash and balances with Central Bank of Malta (excluding cash in hand)	**9,165**	8,370	**9,165**	8,370
Cheques in course of collection	**1,970**	2,185	**1,970**	2,185
Loans and advances to banks	**43,027**	49,951	**43,027**	49,314
Loans and advances to customers	**492,107**	431,826	**492,107**	431,826
Loans and advances to corporate entities	**203,693**	191,805	**203,693**	191,805
Derivative financial instruments	**3,560**	3,872	**3,560**	3,872
Debt and other fixed income instruments	**297,959**	356,404	**297,959**	356,404
Financial assets at fair value through profit and loss	**3,225**	15,305	**3,225**	3,427
Other receivables	**5,278**	5,890	**5,294**	5,605
	1,059,984	1,065,608	**1,060,000**	1,052,808
Credit risk exposures relating to off-balance sheet items are as follows:				
Financial guarantees	**5,606**	5,328	**5,606**	5,328
Commitments	**209,567**	211,470	**209,567**	211,470
	215,173	216,798	**215,173**	216,798

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 institutions €000	Corporate €000	CIU* €000	Retail €000	Other €000	Total €000
Cash and balances with Central Bank of Malta (excluding cash in hand)	9,165	-	-	-	-	-	-	-	9,165
Cheques in course of collection	-	-	-	-	-	-	-	1,970	1,970
Loans and advances to banks	-	-	2,714	40,313	-	-	-	-	43,027
Loans and advances to customers	5,417	451,115	-	-	198,208	-	42,318	-	697,058
Derivative financial instruments	-	-	3,560	-	-	-	-	-	3,560
Debt and other fixed income instruments	157,298	-	28,643	-	112,018	-	-	-	297,959
Financial assets at fair value through profit or loss	287	-	-	-	2,938	-	-	-	3,225
Other receivables	-	-	-	-		-	-	5,278	5,278
At 31 December 2015	**172,167**	**451,115**	**34,917**	**40,313**	**313,164**	**-**	**42,318**	**7,248**	**1,061,242**
At 31 December 2014	198,209	371,570	38,358	47,040	330,078	11,878	61,702	8,075	1,066,910
Financial guarantees	-	65	-	-	3,974	-	1,567	-	5,606
Commitments	12,404	117,275	-	-	67,947	-	11,941	-	209,567
At 31 December 2015	**12,404**	**117,340**	**-**	**-**	**71,921**	**-**	**13,508**	**-**	**215,173**
At 31 December 2014	14,147	115,992	-	-	72,797	-	13,862	-	216,798

* 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 institutions €000	Corporate €000	Retail €000	Other €000	Total €000
Cash and balances with Central Bank of Malta (excluding cash in hand)	9,165	-	-	-	-	-	-	9,165
Cheques in course of collection	-	-	-	-	-	-	1,970	1,970
Loans and advances to banks	-	-	2,714	40,313	-	-	-	43,027
Loans and advances to customers	5,417	451,115	-	-	198,208	42,318	-	697,058
Derivative financial instruments	-	-	3,560	-	-	-	-	3,560
Debt and other fixed income instruments	157,298	-	28,643	-	112,018	-	-	297,959
Financial assets at fair value through profit or loss	287	-	-	-	2,938	-	-	3,225
Other receivables	-	-	-	-	-	-	5,294	5,294
At 31 December 2015	**172,167**	**451,115**	**34,917**	**40,313**	**313,164**	**42,318**	**7,264**	**1,061,258**
At 31 December 2014	198,209	371,570	38,008	46,753	330,078	61,702	7,790	1,054,110
Financial guarantees	-	65	-	-	3,974	1,567	-	5,606
Commitments	12,404	117,275	-	-	67,947	11,941	-	209,567
At 31 December 2015	**12,404**	**117,340**	**-**	**-**	**71,921**	**13,508**	**-**	**215,173**
At 31 December 2014	14,147	115,992	-	-	72,797	13,862	-	216,798

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, 86.63% (2014: 86.81%) were collateralised. The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. 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 counterparties. As at 31 December 2015 and 2014 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)	9,165	-	-	-	-	-	-	9,165
Cheques in course of collection	1,970	-	-	-	-	-	-	1,970
Loans and advances to banks	43,027	-	-	-	-	-	-	43,027
Loans and advances to customers	1,640	20,150	87,502	37,914	5,320	67,386	475,888	695,800
Derivative financial instruments	3,560	-	-	-	-	-	-	3,560
Debt and other fixed income instruments	62,105	16,595	6,253	17,969	158,801	36,236	-	297,959
Financial assets at fair value through profit or loss	529	405	-	1,564	287	440	-	3,225
Other receivables	-	-	-	-	-	5,278	-	5,278
At 31 December 2015	**121,996**	**37,150**	**93,755**	**57,447**	**164,408**	**109,340**	**475,888**	**1,059,984**
At 31 December 2014	147,419	37,999	98,219	63,493	196,600	111,068	410,810	1,065,608
Financial guarantees	106	150	1,037	1,775	-	1,636	902	5,606
Commitments	1,669	3,884	41,686	12,557	1,268	29,322	119,181	209,567
As at 31 December 2015	**1,775**	**4,034**	**42,723**	**14,332**	**1,268**	**30,958**	**120,083**	**215,173**
At 31 December 2014	-	4,098	27,325	17,703	996	48,304	118,372	216,798

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)	9,165	-	-	-	-	-	-	9,165
Cheques in course of collection	1,970	-	-	-	-	-	-	1,970
Loans and advances to banks	43,027	-	-	-	-	-	-	43,027
Loans and advances to customers	1,640	20,150	87,502	37,914	5,320	67,386	475,888	695,800
Derivative financial instruments	3,560	-	-	-	-	-	-	3,560
Debt and other fixed income instruments	62,105	16,595	6,253	17,969	158,801	36,236	-	297,959
Financial assets at fair value	-	-	-	-	-	-	-	-
through profit or loss	529	405	-	1,564	287	440	-	3,225
Other receivables	-	-	-	-	-	5,294	-	5,294
As at 31 December 2015	**121,996**	**37,150**	**93,755**	**57,447**	**164,408**	**109,356**	**475,888**	**1,060,000**
At 31 December 2014	141,504	37,150	98,219	62,942	192,828	109,355	410,810	1,052,808
Financial guarantees	106	150	1,037	1,775	-	1,636	902	5,606
Commitments	1,669	3,884	41,686	12,557	1,268	29,322	119,181	209,567
As at 31 December 2015	**1,775**	**4,034**	**42,723**	**14,332**	**1,268**	**30,958**	**120,083**	**215,173**
At 31 December 2014	-	4,098	27,325	17,703	996	48,304	118,372	216,798

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 Standard & Poor's rating agency (if not available, Moody's and Fitch, applicable in that order) are presented below:

THE GROUP

At 31 December 2015	**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	-	-	-	2,898	-	2,898
AA+ to AA-	-	-	-	20,212	5	20,217
A+ to A-	-	3,560	-	43,958	638	48,156
Lower than A-	9,165	-	3,225	222,767	42,384	277,541
Unrated	-	-	-	8,124	-	8,124
	9,165	**3,560**	**3,225**	**297,959**	**43,027**	**356,936**

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**

THE BANK

At 31 December 2015	**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	-	-	-	2,898	-	2,898
AA+ to AA-	-	-	-	20,212	5	20,217
A+ to A-	-	3,560	-	43,958	638	48,156
Lower than A-	9,165	-	3,225	222,767	42,384	277,541
Unrated	-	-	-	8,124	-	8,124
	9,165	**3,560**	**3,225**	**297,959**	**43,027**	**356,936**

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**

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 measures occur when a borrower is about to face difficulties in meeting its financial commitments, due to financial difficulties.

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

Impairment Allowances on Total/Forborne Exposures

THE GROUP / BANK	Total 2015 €000	of which forborne 2015 €000	Total 2014 €000	of which forborne 2014 €000
Performing				
Neither past due nor impaired	**2,686**	**28**	2,472	14
Past due < 90 days, but not impaired	-	-	48	-
Non-performing				
Past due > 90 days, but not impaired	**2,599**	**771**	2,633	900
Impaired	**8,898**	**3,184**	8,185	3,072
Total allowances	**14,183**	**3,983**	13,338	3,986

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	Total 2015 €000	of which forborne 2015 €000	Total 2014 €000	of which forborne 2014 €000
Performing				
Neither past due nor impaired	**638,680**	**2,046**	569,525	6,072
Past due < 90 days, but not impaired	**9,234**	**366**	8,771	292
Non-performing				
Past due > 90 days, but not impaired	**38,774**	**19,940**	37,599	22,737
Impaired	**23,295**	**7,424**	21,074	7,680
Total gross/forborne exposures	**709,983**	**29,776**	636,969	36,781

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	2015 €000	2014 €000
Neither past due nor impaired	**638,680**	569,525
Past due but not impaired	**48,008**	46,370
Impaired	**23,295**	21,074
	709,983	636,969

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

THE GROUP / BANK	2015 €000	2014 €000
Regular	**627,364**	555,353
Watch List	**1,758**	3,273
Sub-Standard	**2,162**	4,368
Doubtful	**7,396**	6,531
	638,680	569,525

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	2015 €000	2014 €000
Past due up to 29 days	**17,808**	20,370
Past due 30-59 days	**3,205**	3,704
Past due 60-89 days	**6,028**	5,068
Past due over 90 days	**20,967**	17,228
	48,008	46,370

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 €7,460,294 (2014: €11,731,113).

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 the 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 liquidity buffer with a liquidity ratio of 40%, which is 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 by relevant maturity groupings, based on the remaining period to the contractual maturity date. Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Bank 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 2015						
Assets						
Cash and balances with Central Bank of Malta	15,997	-	-	-	-	15,997
Cheques in course of collection	1,970	-	-	-	-	1,970
Loans and advances to banks	40,313	2,714	-	-	-	43,027
Loans and advances to customers	66,533	15,550	56,684	557,033	-	695,800
Derivative financial instruments	6	-	1,944	1,610	-	3,560
Debt and other fixed income financial instruments	6,191	18,893	148,854	124,021	-	297,959
Financial assets at fair value through profit and loss	200	-	1,335	1,690	590	3,815
Equity and other non-fixed income instruments	-	-	-	-	3,348	3,348
Investment in associates	-	-	-	-	17,926	17,926
Other assets	3,953	1,534	-	-	22,572	28,059
	135,163	**38,691**	**208,817**	**684,354**	**44,436**	**1,111,461**
Liabilities and equity						
Amounts owed to banks	5,057	-	30,270	-	-	35,327
Derivative financial instruments	6	-	1,944	1,610	-	3,560
Amounts owed to customers	551,673	165,974	187,702	37,572	-	942,921
Other liabilities	1,034	757	3,506	427	6,130	11,854
Equity	-	-	-	-	117,799	117,799
	557,770	**166,731**	**223,422**	**39,609**	**123,929**	**1,111,461**
Gap	**(422,607)**	**(128,040)**	**(14,605)**	**644,745**	**(79,493)**	**-**

39. RISK MANAGEMENT – CONTINUED

39.4 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 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

39.4 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 2015						
Assets						
Cash and balances with Central Bank of Malta	15,997	-	-	-	-	15,997
Cheques in course of collection	1,970	-	-	-	-	1,970
Loans and advances to banks	40,313	2,714	-	-	-	43,027
Loans and advances to customers	66,533	15,550	56,684	557,033	-	695,800
Derivative financial instruments	6	-	1,944	1,610	-	3,560
Debt and other fixed income financial instruments	6,191	18,893	148,854	124,021	-	297,959
Financial assets at fair value through profit and loss	200	-	1,335	1,690	590	3,815
Equity and other non-fixed income instruments	-	-	-	-	3,348	3,348
Investment in subsidiaries	-	-	-	-	55	55
Investment in associates	-	-	-	-	14,887	14,887
Other assets	3,969	1,534	-	-	22,572	28,075
	135,179	**38,691**	**208,817**	**684,354**	**41,452**	**1,108,493**
Liabilities and equity						
Amounts owed to banks	5,057	-	30,270	-	-	35,327
Derivative financial instruments	6	-	1,944	1,610	-	3,560
Amounts owed to customers	551,725	165,974	187,702	37,572	-	942,973
Other liabilities	1,034	757	3,506	427	6,127	11,851
Equity	-	-	-	-	114,782	114,782
	557,822	**166,731**	**223,422**	**39,609**	**120,909**	**1,108,493**
Gap	**(422,643)**	**(128,040)**	**(14,605)**	**644,745**	**(79,457)**	**-**

39. RISK MANAGEMENT – CONTINUED

39.4 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

39.4 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 2015 and 31 December 2014 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 2015					
Liabilities					
Amounts owed to banks	5,057	-	30,270	-	35,327
Amounts owed to customers	551,839	167,191	200,588	43,796	963,414
	556,896	**167,191**	**230,858**	**43,796**	**998,741**

	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**	**33120**	**993,699**

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 2015 and 31 December 2014 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 2015					
Liabilities					
Amounts owed to banks	5,057	-	30,270	-	35,327
Amounts owed to customers	551,890	167,191	200,588	43,796	963,465
	556,947	**167,191**	**230,858**	**43,796**	**998,792**

	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**

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 the off-balance sheet items), they are subject to credit risk and are, therefore, part of the overall risk of the Group and the Bank.

	Not later than one year	
	2015	2014
THE GROUP / BANK	**€000**	€000
Loan commitments	**209,567**	211,470
Guarantees, acceptance and other financial facilities	**5,606**	5,328
	215,173	216,798

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.

THE GROUP	**Carrying amount of encumbered assets €000**	**Fair value of encumbered assets €000**	Carrying amount of unencumbered assets €000	Fair value of unencumbered assets €000
Assets as at 31 December 2015				
Equity instruments	-	-	21,864	3,938
Debt securities	**132,533**	**147,587**	168,651	173,292
Other assets	**1,400**	-	787,013	-
Assets of the reporting institutions	**133,933**	**147,587**	977,528	177,230

THE GROUP	**Carrying amount of encumbered assets €000**	**Fair value of encumbered assets €000**	Carrying amount of unencumbered assets €000	Fair value of unencumbered assets €000
Assets as at 31 December 2014				
Equity instruments	-	-	14,420	3,249
Debt securities	**145,392**	**161,390**	226,317	388,639
Other assets	**1,400**	-	720,309	-
Assets of the reporting institutions	**146,792**	**161,390**	961,046	391,888

39. RISK MANAGEMENT – CONTINUED

39.4 LIQUIDITY RISK – CONTINUED

THE BANK	Carrying amount of encumbered assets €000	Fair value of encumbered assets €000	Carrying amount of unencumbered assets €000	Fair value of unencumbered assets €000
Assets as at 31 December 2015				
Equity instruments	-	-	18,880	3,938
Debt securities	132,533	147,587	168,651	173,292
Other assets	1,400	-	787,994	-
Assets of the reporting institutions	133,933	147,587	974,560	177,230

THE BANK	Carrying amount of encumbered assets €000	Fair value of encumbered assets €000	Carrying amount of unencumbered assets €000	Fair value of unencumbered assets €000
Assets as at 31 December 2014				
Equity instruments	-	-	17,445	2,504
Debt securities	145,392	161,390	219,700	376,016
Other assets	1,400	-	714,125	-
Assets of the reporting institutions	146,792	161,390	951,270	378,520

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.

The table below discloses the liabilities associated with the Bank's encumbered assets.

THE GROUP / BANK Encumbered assets/collateral received and associated liabilities as at 31 December 2015	Matching liabilities €000	Encumbered Assets €000
Carrying amount of selected financial liabilities	803,779	133,933

THE GROUP / BANK Encumbered assets/collateral received and associated liabilities as at 31 December 2014	Matching liabilities €000	Encumbered Assets €000
Carrying amount of selected financial liabilities	823,509	146,792

39. RISK MANAGEMENT – CONTINUED

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:

	2015			
	USD €000	**GBP €000**	**Other €000**	**Total €000**
Assets	**9,804**	**45,222**	**5,098**	**60,124**
Liabilities	**9,887**	**45,075**	**4,888**	**59,850**

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

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

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**
2015	**+25**	**110**
	-25	**(644)**
2014	+25	(42)
	-25	-

39. RISK MANAGEMENT – CONTINUED

39.5 MARKET RISK – CONTINUED

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:

	2015	2014
	€000	€000
Net effect for a twelve month period	**561**	(120)

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 2015.

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 2015 €000	The Group 2014 €000	The Bank 2015 €000	The Bank 2014 €000
Adjusted book value:	**1,153,333**	1,150,799	**1,150,366**	1,141,022
Risk weighted amounts:				
Credit risk calculation - standardised approach				
Total assets and off-balance sheet items	**541,417**	538,945	**539,508**	534,744
Operational risk - basic indicator approach				
15% of the three year adjusted average operating income	**49,884**	47,834	**51,420**	49,769
Foreign exchange risk				
8% of the capital requirement of the net short or long position, whichever is the higher	**366**	6,996	**366**	6,996
Total credit, operational and foreign exchange risk	**591,667**	593,775	**591,294**	591,509
Tier 1 Capital	**87,484**	88,688	**85,618**	76,619
Tier 2 Capital	**11,244**	15,250	**11,244**	15,250
Total Own Funds	**98,728**	103,938	**96,862**	91,869
Capital Adequacy Ratio				
Tier 1 Ratio	**14.79%**	14.94%	**14.48%**	12.95%
Total Capital Ratio	**16.69%**	17.50%	**16.38%**	15.53%

In July 2013 the EBA issued the 'Final Draft Implementing Technical Standard 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 1st January 2014 to 31st December 2017, which covers the phasing-in of the regulatory adjustments, institutions are required to complete the transitional disclosure template.

39. RISK MANAGEMENT – CONTINUED

39.7 CAPITAL MANAGEMENT – CONTINUED

THE GROUP	2015 €000	2014 €000
Common Equity Tier 1 (CET1) capital	**87,484**	88,688
CET1 capital: instruments and reserves	101,865	109,840
Capital instruments and the related share premium accounts	59,375	59,375
Retained earnings*	22,051	19,544
Accumulated other comprehensive income	18,739	19,062
Funds for general banking risk	1,700	1,655
Non-controlling interest	-	10,204
CET1 capital: regulatory adjustments	**(14,381)**	(21,153)
Intangible assets	(3,137)	(2,091)
Regulatory adjustments relating to unrealised gains and losses pursuant to Articles 467 and 468	(11,244)	(19,062)
Tier 2 capital	**11,244**	15,250
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)	11,244	15,250
Total Capital	**98,728**	103,938
Total Risk Weighted Assets	**591,667**	593,775
Capital Ratios		
CET1 Capital Ratio	14.79%	14.94%
Total Capital Ratio	**16.69%**	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 (not included in CET 1 capital)	2,579	1,927

* The Common Equity Tier 1 Capital 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

THE BANK	2015 €000	2014 €000
Common Equity Tier 1 (CET1) capital	**85,618**	76,618
CET1 capital: instruments and reserves	99,999	97,771
Capital instruments and the related share premium accounts	59,375	59,375
Retained earnings*	20,185	17,679
Accumulated other comprehensive income	18,739	19,062
Funds for general banking risk	1,700	1,655
Non-controlling interest	-	-
CET1 capital: regulatory adjustments	**(14,381)**	(21,153)
Intangible assets	(3,137)	(2,091)
Regulatory adjustments relating to unrealised gains and losses pursuant to Articles 467 and 468	(11,244)	(19,062)
Tier 2 capital	**11,244**	15,250
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)	11,244	15,250
Total Capital	**96,862**	91,868
Total Risk Weighted Assets	**591,294**	591,509
Capital Ratios		
CET1 Capital Ratio	14.48%	12.95%
Total Capital Ratio	**16.38%**	15.53%
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 (not included in CET 1 capital)	2,579	1,927

* The Common Equity Tier 1 Capital 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

In line with the CRR, the following table discloses the main features and the terms and conditions of 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

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 2015 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)	18,739	-	18,739
Retained earnings (note 34)	38,654	(14,903)	23,751
of which general banking reserves (note 34)	*1,700*	-	*1,700*
of which general reserve	*1*	-	*1*
Dividend reserve	1,031	(1,031)	-
Intangible assets (note 23)	3,137	-	3,137

THE GROUP	2015 €000	2014 €000	2013 €000	2012 €000	2011 €000
Interest receivable and similar income	**38,784**	38,026	36,829	36,211	34,799
Interest payable	**(13,173)**	(15,880)	(15,004)	(14,417)	(14,158)
Net interest income	**25,611**	22,146	21,825	21,794	20,641
Other operating income	**6,094**	6,178	4,933	5,265	2,869
Total operating income	**31,705**	28,324	26,758	27,059	23,510
Other operating charges	**(17,182)**	(15,494)	(15,142)	(13,111)	(12,875)
Share of results of associates, net of tax	**1,754**	1,142	624	689	114
Revaluation release on loss of control of subsidiary	**-**	-	-	-	242
Net impairment (losses)/reversals	**(706)**	(1,201)	1,584	(4,748)	(2,633)
Profit before tax	**15,571**	12,771	13,824	9,889	8,358
Income tax expense	**(5,568)**	(3,835)	(4,648)	(2,876)	(2,762)
Profit for the year	**10,003**	8,936	9,176	7,013	5,596

THE BANK	2015 €000	2014 €000	2013 €000	2012 €000	2011 €000
Interest receivable and similar income	**38,784**	37,409	36,409	36,124	34,799
Interest payable	**(13,173)**	(15,898)	(15,050)	(14,466)	(14,158)
Net interest income	**25,611**	21,511	21,359	21,658	20,641
Other operating income	**6,691**	5,703	5,564	5,327	3,052
Total operating income	**32,302**	27,214	26,923	26,985	23,693
Other operating charges	**(17,176)**	(15,401)	(14,928)	(12,917)	(12,643)
Net impairment (losses)/reversals	**(706)**	(1,194)	1,254	(4,998)	(2,625)
Profit before tax	**14,420**	10,619	13,249	9,070	8,425
Income tax expense	**(5,568)**	(3,835)	(4,526)	(2,789)	(2,762)
Profit for the year	**8,852**	6,784	8,723	6,281	5,663

	2015 €000	2014 €000	2013 €000	2012 €000	2011 €000
ASSETS					
Cash, treasury bills and balances with Central Bank of Malta	**6,832**	5,927	5,274	7,796	4,032
Reserve deposit with Central Bank of Malta	**9,165**	8,370	11,383	32,862	2,335
Cheques in course of collection	**1,970**	2,185	1,778	2,650	923
Loans and advances to banks	**43,027**	49,951	15,471	14,926	22,603
Loans and advances to customers	**695,800**	623,631	548,919	506,023	473,649
Derivative financial instruments	**3,560**	3,872	2,480	-	-
Financial assets at fair value through profit or loss	**3,815**	16,106	12,902	5,886	-
Debt and other fixed income instruments	**297,959**	356,404	328,873	304,457	273,109
Equity and other non-fixed income instruments	**3,348**	2,448	2,439	1,402	1,940
Investment in associates	**17,926**	11,171	10,437	10,206	9,894
Intangible assets	**3,137**	2,091	929	636	963
Investment properties	**3,965**	4,147	330	330	330
Property and equipment	**13,394**	13,813	14,058	13,636	14,171
Current tax	**209**	1,150	-	-	-
Deferred tax assets	**2,076**	682	3,881	3,284	4,271
Other receivables	**5,278**	5,890	5,987	6,065	6,120
TOTAL ASSETS	**1,111,461**	1,107,838	965,141	910,159	814,340
LIABILITIES					
Amounts owed to banks	**35,327**	78,568	70,771	70,021	50,677
Derivative financial instruments	**3,560**	3,872	2,480	-	-
Amounts owed to customers	**942,921**	892,829	781,242	743,106	687,625
Other liabilities	**3,630**	3,914	3,080	4,951	1,970
Current tax	-	-	1,288	1,920	1,793
Accruals and deferred income	**8,224**	8,807	7,722	6,373	6,576
TOTAL LIABILITIES	**993,662**	987,990	866,583	826,371	748,641
EQUITY					
Issued capital	**57,605**	57,605	57,605	42,803	29,202
Share premium	**1,770**	1,770	1,770	1,770	1,770
Revaluation reserve	**18,739**	19,062	9,147	8,693	2,976
Retained earnings	**38,654**	30,444	23,928	26,315	30,690
Dividend reserve	**1,031**	763	1,525	1,263	1,061
Non-controlling interest	-	10,204	4,583	2,944	-
TOTAL EQUITY	**117,799**	119,848	98,558	83,788	65,699
TOTAL LIABILITIES AND EQUITY	**1,111,461**	1,107,838	965,141	910,159	814,340
MEMORANDUM ITEMS					
Contingent liabilities	**5,606**	5,328	5,869	5,944	6,850
Commitments	**209,567**	211,470	169,654	156,314	152,843

	2015	2014	2013	2012	2011
	€000	€000	€000	€000	€000
ASSETS					
Cash, treasury bills and balances with Central Bank of Malta	**6,832**	5,927	5,274	7,796	4,032
Reserve deposit with Central Bank of Malta	**9,165**	8,370	11,383	32,862	2,335
Cheques in course of collection	**1,970**	2,185	1,778	2,650	923
Loans and advances to banks	**43,027**	49,314	15,171	14,926	22,603
Loans and advances to customers	**695,800**	623,631	548,919	506,045	473,649
Derivative financial instruments	**3,560**	3,872	2,480	-	-
Financial assets at fair value through profit or loss	**3,815**	3,483	4,172	-	-
Debt and other fixed income instruments	**297,959**	356,404	328,873	304,457	273,109
Equity and other non-fixed income instruments	**3,348**	2,448	2,439	1,402	1,940
Investment in subsidiaries	**55**	5,055	5,055	5,250	500
Investment in associates	**14,887**	9,887	9,887	9,887	9,887
Intangible assets	**3,137**	2,091	929	636	963
Investment properties	**3,965**	4,147	330	330	330
Property and equipment	**13,394**	13,811	14,056	13,633	14,162
Current tax	**209**	1,150	-	-	-
Deferred tax assets	**2,076**	682	4,002	3,371	4,271
Other receivables	**5,294**	5,605	5,790	5,892	6,052
TOTAL ASSETS	**1,108,493**	1,098,062	960,538	909,137	814,756
LIABILITIES					
Amounts owed to banks	**35,327**	78,568	70,771	70,021	50,677
Derivative financial instruments	**3,560**	3,872	2,480	-	-
Amounts owed to customers	**942,973**	895,156	781,879	745,234	687,646
Other liabilities	**3,627**	3,892	3,060	4,947	1,962
Current tax	**-**	-	1,288	1,920	1,793
Accruals and deferred income	**8,224**	8,796	7,693	6,364	6,565
TOTAL LIABILITIES	**993,711**	990,284	867,171	828,486	748,643
EQUITY					
Issued capital	**57,605**	57,605	57,605	42,803	29,202
Share premium	**1,770**	1,770	1,770	1,770	1,770
Revaluation reserve	**18,739**	19,062	9,147	8,693	2,976
Retained earnings	**35,637**	28,578	23,320	26,122	31,104
Dividend reserve	**1,031**	763	1,525	1,263	1,061
TOTAL EQUITY	**114,782**	107,778	93,367	80,651	66,113
TOTAL LIABILITIES AND EQUITY	**1,108,493**	1,098,062	960,538	909,137	814,756
MEMORANDUM ITEMS					
Contingent liabilities	**5,606**	5,328	5,869	5,944	6,850
Commitments	**209,567**	211,470	169,654	156,314	152,843

	2015 €000	2014 €000	2013 €000	2012 €000	2011 €000
Net cash flows (used in)/from operating activities	**(36,463)**	24,197	(11,651)	7,849	(61,886)
Investing activities					
Dividends received	**190**	373	570	484	458
Interest income from debt securities	**14,833**	16,105	16,287	16,094	16,652
Purchase of debt and other fixed income instruments	**(40,163)**	(79,730)	(107,425)	(124,646)	(83,868)
Proceeds on maturity and disposal of debt and other fixed income instruments	**95,388**	64,570	82,283	103,180	94,692
Purchase of financial assets at fair value through profit or loss	**(1,090)**	(16,643)	(15,499)	(5,828)	-
Proceeds on disposal of financial assets at fair value through profit or loss	**1,307**	14,499	10,294	225	-
Purchase of equity and other non-fixed income instruments	**(617)**	(359)	(789)	(141)	(735)
Proceeds on disposal of equity and other non-fixed income instruments	**-**	369	-	826	233
Purchase of property, equipment and intangible assets	**(2,272)**	(2,557)	(2,737)	(1,002)	(996)
Proceeds on disposal of property and equipment	**-**	3	-	-	8
Net cash flows from/(used in) investing activities	**67,576**	(3,370)	(17,016)	(10,808)	26,444
Financing activities					
Dividends paid	**(928)**	(2,288)	(1,325)	(1,061)	(862)
Net proceeds from non-controlling interest for shares in subsidiaries	**-**	4,727	1,601	2,818	-
Proceeds from issue of share capital	**-**	-	4,802	3,601	3,602
Net cash flows (used in)/from financing activities	**(928)**	2,439	5,078	5,358	2,740
Net increase/(decrease) in cash and cash equivalents	**30,185**	23,266	(23,589)	2,399	(32,702)
Cash and cash equivalents at 1 January	**(21,966)**	(45,232)	(21,643)	(24,042)	8,660
Cash and cash equivalents at 31 December	**8,219**	(21,966)	(45,232)	(21,643)	(24,042)

	2015 €000	2014 €000	2013 €000	2012 €000	2011 €000
Net cash flows (used in)/from operating activities	**(36,463)**	25,721	(11,359)	10,065	(61,886)
Investing activities					
Dividends received	**787**	808	793	484	458
Interest income from debt securities	**14,833**	16,105	16,287	16,094	16,652
Purchase of debt and other fixed income instruments	**(40,163)**	(79,730)	(107,425)	(124,646)	(83,868)
Proceeds on maturity and disposal of debt and other fixed income instruments	**95,388**	64,570	82,283	103,179	94,692
Proceeds on disposal of equity and other non-fixed income instruments	**-**	366	-	826	233
Purchase of financial assets at fair value through profit or loss	**(1,090)**	(6,029)	(6,351)	-	-
Proceeds on disposal of financial assets at fair value through profit or loss	**1,307**	6,656	2,320	-	-
Purchase of equity and other non-fixed income instruments	**(617)**	(359)	(939)	(141)	(735)
Purchase of property, equipment and intangible assets	**(2,272)**	(2,557)	(2,737)	(1,002)	(996)
Proceeds on disposal of property and equipment	**-**	3	-	-	8
Investment in subsidiaries	**-**	-	-	(5,000)	-
Net cash flows from/(used in) investing activities	**68,173**	(167)	(15,769)	(10,206)	26,444
Financing activities					
Dividends paid	**(1,525)**	(2,288)	(1,263)	(1,061)	(862)
Proceeds from issue of share capital	**-**	-	4,802	3,601	3,602
Net cash flows (used in)/from financing activities	**(1,525)**	(2,288)	3,539	2,540	2,740
Net increase/(decrease) in cash and cash equivalents	**30,185**	23,266	(23,589)	2,399	(32,702)
Cash and cash equivalents at 1 January	**(21,966)**	(45,232)	(21,643)	(24,042)	8,660
Cash and cash equivalents at 31 December	**8,219**	(21,966)	(45,232)	(21,643)	(24,042)

THE GROUP'S FIVE YEAR SUMMARY – ACCOUNTING RATIOS

	2015 %	2014 %	2013 %	2012 %	2011 %
Net interest income and other operating income to total assets	**2.9**	2.6	2.8	3.0	2.9
Operating expenses to total assets	**1.5**	1.4	1.6	1.4	1.6
Profit before tax to total assets	**1.4**	1.2	1.4	1.1	1.0
Return on capital employed before tax *	**15.7**	12.7	15.5	13.2	13.3
Profit after tax to equity *	**10.1**	8.9	10.3	9.3	8.9

	2015	2014	2013	2012	2011
Shares in issue (thousands)	**46,084**	46,084	46,084	71,338	48,669
Net assets per share *	**215c**	197c	194c	105c	129c
Net dividends per share	**3c**	3c	3c	2c	2c
Dividend cover	**5.6**	5.9	6.0	5.6	5.3

THE BANK'S FIVE YEAR SUMMARY – ACCOUNTING RATIOS

	2015 %	2014 %	2013 %	2012 %	2011 %
Net interest income and other operating income to total assets	**2.9**	2.5	2.8	3.0	2.9
Operating expenses to total assets	**1.5**	1.4	1.6	1.4	1.6
Profit before tax to total assets	**1.3**	1.0	1.4	1.0	1.0
Return on capital employed before tax *	**15.0**	12.0	15.7	12.6	13.3
Profit after tax to equity *	**9.2**	7.6	10.4	8.7	9.0

	2015	2014	2013	2012	2011
Shares in issue (thousands)	**46,084**	46,084	46,084	71,338	48,669
Net assets per share *	**208c**	193c	183c	101c	130c
Net dividends per share	**3c**	3c	3c	2c	2c
Dividend cover	**4.9**	4.4	5.7	5.0	5.3

* 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 2015

The following figures were converted from Euro to US Dollars using the rate of exchange ruling on 31 December 2015. The rate used was €1:$1.0932. 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 2015.

	2015	2014
	$000	$000
Net interest income	27,998	24,210
Operating income	34,660	30,964
Operating profit before impairment reversals and provisions	17,794	15,274
Profit before tax	17,022	13,961
Profit for the year	10,935	9,769
Total assets	1,215,049	1,211,089
Liquid funds	66,679	72,625
Debt and other fixed income instruments	325,729	389,621
Financial assets at fair value through profit or loss	4,171	17,607
Loans and advances to customers	760,649	681,753
Equity	128,778	131,018

THE BANK'S FINANCIAL HIGHLIGHTS IN US DOLLARS

Year ended 31 December 2015

The following figures were converted from Euro to US Dollars using the rate of exchange ruling on 31 December 2015. The rate used was €1:$1.0932. 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 2015.

	2015	2014
	$000	$000
Net interest income	27,998	23,516
Operating income	35,313	29,750
Operating profit before impairment reversals and provisions	16,536	12,914
Profit before tax	15,764	11,609
Profit for the year	9,677	7,416
Total assets	1,211,805	1,200,401
Liquid funds	66,679	71,928
Debt and other fixed income instruments	325,729	389,621
Financial assets at fair value through profit or loss	4,171	3,808
Loans and advances to customers	760,649	681,753
Equity	125,480	117,823