ANNUAL REPORT & FINANCIAL STATEMENTS 2016

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.

CONTENTS


APS
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BANK INFORMATION

DIRECTORS
Emanuel P. Delia, Chairman
Franco Azzopardi
Joseph C. Caruana
Laragh Cassar (Appointed 28 April 2016)
Alfred DeMarco (Appointed 28 April 2016)
Arthur Galea Salomone
Victor Gusman
Frederick F. Micallef
Michael Pace Ross
Martin Scicluna

COMPANY SECRETARY
Mario Felice

CHIEF EXECUTIVE OFFICER
Marcel Cassar

REGISTERED OFFICE
APS Centre
Tower Street
Birkirkara, BKR 4012
Malta

WEBSITE
www.apsbank.com.mt

BOARD OF DIRECTORS

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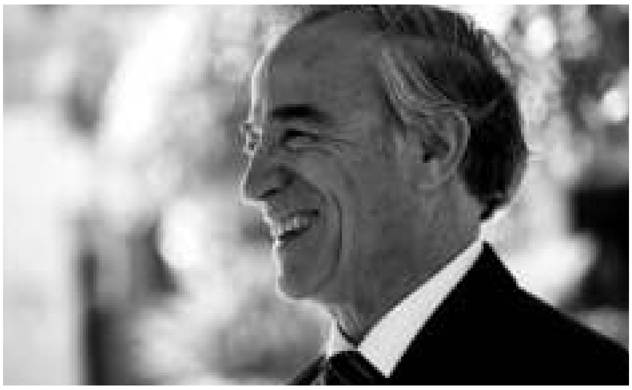

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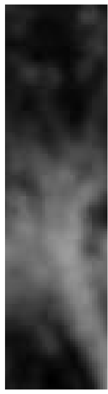

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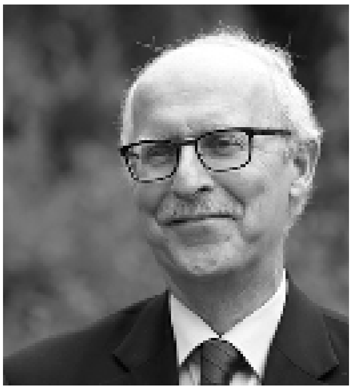

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1. EMANUEL P. DELIA

Chairman and Non-Executive Director, (BCC, GC)[1]

Mr Delia was appointed Chairman of APS Bank Limited in 1999. He has held posts in academia, public sector institutions and private organisations. He was also a Director of the Central Bank of Malta, Middlesea Insurance p.l.c. and Aon Malta Limited, as well as Chairman of Mid-Med Bank Limited.

2. FRANCO AZZOPARDI

Non-Executive Director, (AC, RC)[1]

Mr Azzopardi was appointed to the Board in 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.

3. JOSEPH C. CARUANA

Non-Executive Director, (RC) [1]

Mr Caruana was appointed to the Board in 2004. He 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.

4. ALFRED DEMARCO

Non-Executive Director, (BCC) [1]

Mr DeMarco was appointed to the Board in 2016. He is a central banker by profession with more than 45 years' experience at the Central Bank of Malta (CBM). He progressed from junior ranks to the position of Director, Economics and External Relations Division and subsequently Deputy Governor in April 2010, a position he held until 2015.

5. LARAGH CASSAR

Non-Executive Director, (GC) [1]

Dr Cassar was appointed to the Board in 2016. She commenced her career in 2002 as an associate with Camilleri Preziosi and was admitted to partnership in 2009, a position which she maintained until 2015 when she resigned and formed the firm Camilleri Cassar Advocates. Dr Cassar specialises in corporate and commercial law with particular emphasis on banking and investment services. She has also been appointed by the Faculty of Laws of the University of Malta as supervisor and examiner of LLD and MA Financial Services theses.

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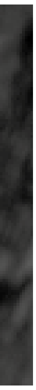

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6. ARTHUR GALEA SALOMONE

Non-Executive Director, (GC, RC) [1]

Dr Galea Salomone was appointed to the Board in 1997. He 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.

7. VICTOR GUSMAN

Non-Executive Director, (GC) [1]

Mr Gusman was appointed to the Board in 2012. He is currently the Administrative Secretary of the Diocese of Gozo. He spent most of his working career in England and Italy as Chairman of the Lemco Group of Companies.

8. FREDERICK F. MICALLEF

Non-Executive Director, (ITSC, RC) [1]

Mr Micallef was appointed to the Board in 2004. He is currently the Managing Director of DataByte Limited, an ICT software solutions company that he co-founded 30 years ago.

9. MICHAEL PACE ROSS

Non-Executive Director, (AC, GC) [1]

Mr Pace Ross was appointed to the Board in 2015. He is currently the Administrative Secretary of the Archdiocese of Malta. He previously served as Director General of the National Statistics Office for six years, sitting on a number of national and European committees.

10. MARTIN SCICLUNA

Non-Executive Director, (RC, AC) [1]

Mr Scicluna was appointed to the Board in 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.

[1] Denotes Board Committee memberships: Audit Committee (AC), BCC (Board Credit Committee), Governance Committee (GC), IT Steering Committee (ITSC) and Risk Committee (RC).


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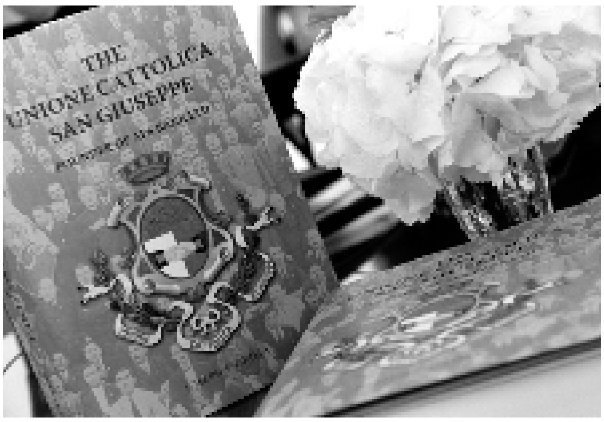
"Introducing Ethical Investment
in a Dynamic Society"


THE
UNIONE CATTOLICA
SAN GIUSEPPE

CHAIRMAN'S STATEMENT

CHAIRMAN'S STATEMENT

Overall Performance

Financial year 2016 recorded events and decisions taken in various countries which are bound to impact on international relations and global wealth creation for many years ahead. Certain views which have been expressed for some time regarding the freedom of movement of goods, services, capital and people have become more pronounced. The world may be moving towards a time when policy makers may focus more than hitherto on the domestic generation of wealth and employment and rely to a greater extent on bilateral relations with other states. The role of multilateral agreements as a tool of attaining long-term economic growth and social cohesion through international trade in goods and services is being reconsidered.

The European Union has to respond to these challenges. But it may be finding it difficult to think and act as one. This has become especially true following the referendum result on the future of the United Kingdom in the EU and the decisions regarding fiscal and monetary policies in several member states in the Economic and Monetary Union. Important decisions lie ahead which could impact on the future of the Eurozone itself, and thereby on the chartering of economic and social policy in every single member state.

A challenging time surely lies ahead. Institutions, primarily financial units as intermediaries between savers and investors, cannot ignore the emerging signals being transmitted by global and regional events. They must constantly evaluate their role in such dynamic contexts and come out with action plans to support the respective sectors in which they operate. This applies not only to regulated organisations but also to the regulators themselves. Of course, the decisions taken by individual market players will be conditioned by the immediate economic environment in which they are operating.

APS Bank is no exception. The Bank has been strengthening its resources – capital base, IT systems, branch network, and personnel – in an economic context which facilitated the implementation of the ambitious targets set by the Board of Directors and the Executive. The Maltese economy continued to register rates of growth which reflected a buoyant situation. These results emerged from a positive performance of the services sector as well as by resource injections in infrastructure, plant and equipment and household consumption expenditure.

Indeed, the supply of skilled personnel at the right price seems to be the main resource constraint on Malta's domestic output growth at present. And this applies not only to the export-oriented sector in both manufacturing and services, but also to several sectors related to personal welfare support. It therefore applies also to the financial services sector including APS Bank. Such conditions have to be located within the evolving international and European contexts and the appropriate decisions made and implemented.

The financial results of APS Bank Ltd and APS Funds SICAV p.l.c. for 2016 are encouraging. And equally positive has been the re-organisation of these institutions. This process reflects the successful recruitment of personnel in various operational units. This extended team enables the smoother implementation of the moving three-year programme for 2017-2019 whose objectives continue to be ambitious but realisable.

APS Bank's total assets increased by €173 million in 2016; they amounted to €1.281 billion in December. And Loans and Advances to customers rose by a net of €110 million to reach €806 million. While customers' deposits recorded a rise of €156 million, being €1.099 billion in December. APS Bank continued to operate its own base rates which reflected the combined realities of the local economy and the Eurozone.

The Bank's positive performance has been sustained and improved. Profit before tax increased by around 7%, reaching €15.4 million (2015: €14.4 million). Profit for the Group also edged upwards to €15.8 million. Given the prudent dividend distribution policy which the Bank has been exercising over the years, these results enable the Bank to strengthen its equity base and continue to expand its operations. Total equity reached €126.1 million in December 2016. This is €11.3 million higher than in 2015.

However, 2016 will also represent a time when major organisational decisions were taken for the respective units that make up the APS Group. The Bank's governance and organisational structures have been strengthened and preparatory work undertaken to upgrade the underlying operating structures even at shareholder level.

The success of APS Funds SICAV in attracting investors' interest meant that it had to change its operational status once the €100million fund threshold has been surpassed. So the initiative was taken to implement a change in the managing operations of the company by early 2017, with the formation of the new fund management company, ReAPS Asset Management Limited, which was incorporated in October 2016. The two funds under management, APS Income Fund and APS Regular Income Ethical Fund, yet again performed quite successfully yielding attractive rates of return to their shareholders.

And a major decision has been made regarding the future of APS Consult Ltd. This company was set up a decade ago with the objective of supporting operators in various economic sectors to restructure themselves effectively following Malta's membership of the EU and, eventually, of the EMU. The company did sterling work bringing together operators in the private and public sector, local and foreign. Its educational work through annual seminars was also ground-breaking. But the future involvement of the Group in the real-sector

economy as a facilitator for operators has been under review for the past few years. It has now been decided to close down APS Consult's operations with effect from January 2017. APS Bank will continue supporting selected economic activities through specific financial products tailor-made to meet the requirements of the different sectors or sub-sectors. Having considered the efficient use of the resources at the Group's disposal, it was deemed more appropriate to proceed on the lines being implemented.

Promoting and Enhancing the National Heritage

Commercial organisations in Malta participate actively in supporting projects that sustain the maintenance of the rich cultural heritage in architecture, art, literature and music which enrich the Maltese Islands. APS Bank has adopted a policy to complement the various initiatives at hand. In this way the Bank will be involved more directly in the development and execution of projects, thereby channelling resources into relatively unknown cultural niches.

The Bank also supports the social sector in selected activities by participating for a number of years in particular welfare projects. Through this approach it enables the provision of particular welfare schemes which may be in part financed also from other sources. In the process the Bank promotes a model of social collaboration which is reinforced over time through the rotation of the institutions supported.

The year 2016 may be considered a landmark in APS Bank's history of cultural involvement. The Bank financed the publication of three important studies: Joseph Vella Bondin's The Great Maltese Composers, Kevin Casha's Photography In Malta: The History and the Protagonists, and Volume III in the series Two Generations of Maltese Artistic Families. These works record the striking contributions to Art and Music made by Maltese over the past three centuries. These publications filled a void in the social and artistic history of these Islands.

In addition, the Bank sponsored the revival of Anton Nani's Messa da Requiem for Male Voices and Grand Orchestra (1879) and a new Oratorio Maria Adeodata: *Is-Soru li Ħabbet* scored by Raymond Zammit. Musicologists consider Nani's composition as one of the best works ever written by Maltese composers. It enriches the series of APS Bank's recordings on CDs which bring to life the vibrant musical heritage that lies unheard in public and private archives in Malta and abroad. APS Bank also co-sponsored Giuseppe Verdi's Messa Da Requiem and Antonio Vivaldi's Le Quattro Stagioni. Through these collaborations the Bank makes possible the performance of selected works in classical music. And at the same time it facilitates the funding of research. Revenues raised from such concerts may go to finance particular investigative health or social projects.

In 2016, APS Bank financed the APS Chair in Corporate Strategy and Strategic Planning within the Faculty of Economics, Management and Accountancy of the University of Malta. And it also collaborated with other educational institutes in the running of courses and the presentation of seminars. In this way the Bank contributes to the continuous education of participants in different areas of study in the firm belief that the application of critical analysis is essential for competitive and efficient production and exchange. This is especially so in a small island economy and a member of the Economic and Monetary Union.

Concluding Remarks

The present is challenging; the future is expected to be even more so. In a world where the main tenets that underpinned global trade and finance are being reconsidered one can only expect persistent risks and uncertainties. There may be nothing novel in that. But the extent and the timing of these unknowns could be such that they may intensify the uncertainties and extend them unduly. It is therefore up to companies to prepare themselves for such an event, in particular if they are active in the financial services industry. This will be the guiding spirit that will move APS Bank forward in the coming years. It will strengthen its capital base, enhance its organisational and technological structures, and, above all, develop further its personnel. They are tasked to manage the future of this institution.

The results registered in 2016 are very satisfactory. They encourage us to look ahead with confidence without, in any way, underestimating the challenges ahead. It is the collective contribution of all stakeholders – be they shareholders, customers, suppliers and employees – that render viable the operation of APS Bank Ltd and APS Bank SICAV p.l.c. I thank them all for their trust and loyalty. A final word of thanks goes to fellow directors of the Bank for their insight and commitment. A lot has been achieved; there is even more to be done.

E. P. Delia
Chairman

CEO'S REVIEW

It was with great privilege and enthusiasm that I took over as CEO of one of Malta's oldest and most respected banks at the start of 2016. This brief overview looks at the five concepts which have guided my activity in this first year in office: Principles, Performance, Products, Projects and People.

As our industry faces the greatest banking transformation in history, driven by changing customer behaviour, new technology and increased regulatory requirements, our challenge is to navigate safely in these uncharted waters. Maltese banks, and APS Bank nonetheless, are not immune to these challenges and a lot of effort is being invested in strengthening the governance, risk and compliance framework while becoming more customer-centric in our business approach.

2016 saw a revamp in the organisation structure, with new committees, functions, positions and reporting lines being created and greater emphasis being placed on business development. The Bank's risk management architecture is also being fortified with additional resources, tools and procedures deployed to support the consistent growth in business. Collectively, these measures are aimed at strengthening controls, improving efficiency and sharpening our customer orientation.

We remain very much focused on continuing to develop the Bank around the three main strands of product segments for our customers i.e. personal, business and investments. This also requires a line of sight that is firmly set on managing the forces that are changing and shaping our industry, namely regulation, competition and talent. Against this background, we continue to pursue a model underlined by a philosophy that seeks to balance our strategic and commercial priorities with the values of social and ethical banking.

Performance

The past year was challenging with exceptionally low or even negative interest rates, increasingly onerous regulatory obligations and difficult international geopolitical and market conditions which, at the domestic level, were in large part countered by strong economic growth and low unemployment.

We are pleased to report strong all-round progress at both Group and Bank levels, with Operating Income expanding by 10% to €34.9 million (Bank: by 10% to €35.4 million) and Pre-tax Profit increasing by 2% to €15.8 million (Bank: by 7% to €15.4 million). Despite the growth in business momentum, heavy investment in technology and reorganisation in the governance and risk infrastructure and assessment of overall credit quality, indicators like NPLs to Gross Loans, Cost-Efficiency and ROE all performed strongly. Balance Sheet growth was also very robust, with total assets increasing by 16% to €1.28 billion and with both deposits and credit activity growing by the same speed over 2015. At 16.9% (Bank: 16.5%), the Group Total Capital ratio, comprised primarily of Tier 1 capital, is comfortably above the regulatory minimum and provides space for future development.

More numbers and statistics from the 2016 financial results can be found in the 'Financial Statements' section of the Annual Report. It is not the aim of this Review to delve into the performance indicators in greater detail, however the message that these numbers transmit is that amidst a competitive and challenging international economic climate, the Bank has been able to draw on its market strengths and maximise on the business and revenue opportunities that they offer.

Products

Under the catchphrase 'Personal – Business – Investments' we capture the three main market segments that lie at the core of our business model. A closer look at 2016 shows that the Bank continued to be a leading provider of flexible home financing solutions in a market which was particularly buoyant during the year under review. Correspondingly, the Bank has selectively been an active player in the financing of both commercial and residential real estate developments on the Maltese Islands. Other areas that are promoted with interest include environmental and sustainable energy projects, education, healthcare and retirement facilities. Through agreements signed with the European Investment Fund in the second half of the year, the Bank receives support to extend credit facilities to micro and small and medium-sized entities (MSMEs) and small mid-caps on funded as well as unfunded [the InnovFin SME Guarantee scheme (#investEU)] terms and at concessionary conditions.

We also maintained the promotion of personal lending as a growth segment, complimenting it with retirement and pensions solutions as work progresses in earnest to develop new products in this important market. The low interest rate environment continued to postpone hope of decent investment returns in the immediate future as a supplement to one's pension or retirement income. Our range of APS Funds, investments and portfolio management services permitted us to offer alternative and complementary products to our customers in this segment seeking to preserve their investments and earn a safe return.

We are pleased to note that during the year under review the monies under management in the APS Funds SICAV p.l.c. well surpassed the €100 million mark, prompting the Board and Shareholders of the SICAV to start the process to convert it into a Retail UCITS scheme, concurrently as the Bank embarked on the formation of a dedicated investment management subsidiary by the name of ReAPS Asset Management Limited in connection with the conversion. The long and laborious exercise associated with the conversion of the SICAV culminated in extraordinary general meetings early in 2017 which approved the project, followed soon after by the licensing of ReAPS by MFSA. We believe that the UCITS regime, aligned as it is with retail funds, matches the philosophy of the APS Group, which seeks to encourage savings through fair investment products offered to members of the community at large. We are particularly encouraged that these developments push further the boundaries of opportunity that the SICAV and ReAPS have for our customers.

We are also proud to be maintaining our leading position as providers of social banking services, by means of home loan, contents and rent products which we shall be launching in the first months of 2017 in collaboration with Government and socialwelfare agencies. Last but not least, mindful

of the importance of diversifying the geography and industry of our credit risk portfolio, we have also developed an appetite for participations in short-term trade-related facilities with reputable banks and arrangers, and also in syndicated loans of a medium term duration originated by prime international borrowers.

Projects

The major milestone for APS Bank in 2016, namely the successful implementation and 'go live' on 4 July of ICBS, our new core banking system, came and went practically seamlessly and the benefits and versatility of the new system are now being reaped. However, this was to be only the platform from which a whole range of projects and ventures across the entire Bank infrastructure would be launched in the months following. This has been enabled also by the reorganisation of a number of central and support functions at Head Office.

During the second quarter of 2016, UK-based international design firm I-AM was entrusted with the transformation of the branch network and the overall facilities and services in the branches. Starting with Republic Street, Valletta and the new outlet in Tower Road, Sliema, the new branches are intended to give a fresh, innovative experience for our customers. Complementing the new branch journey, we are actively working on the strategy for our ATM network management and, to the extent possible, use of self-service banking channels. This entails the concurrent educating of customers to make more use of automation as well as seeking opportunities for centralisation of services from branches in order to free up time for more interfacing and 'quality time' with our customers. Here is the appropriate place to make this statement:

APS Bank will remain a customer-friendly bank and we will not use technology to replace personal interaction with the customer.

We are also working on a new Disaster Recovery Site, Commercial Business Centre, a document storage and archiving facility and extensions to our Head Office premises in Swatar, all major infrastructure projects which we will see advancing considerably in 2017. Another project started late in 2016 which is making nice progress relates to our cards strategy, encompassing card management and processing services, with the aim being that of widening and enhancing our offering of card products. A list of exciting technology projects spread over a three-year horizon is also in the pipeline. Original ideas to look at upgrading our internet banking service and to introduce a mobile banking solution encouraged us to be more ambitious and consider an omni-channel banking strategy which would allow customers to access our range of financial products and services across a variety of channels and through a more consistent interaction with our banking brand across the various touch points. Once again, I cannot reiterate enough that our focus will remain firmly on optimising the customer's personal experience.

People

During 2016, we introduced the slogan 'Being the employer of choice' as the statement underscoring our belief that all our plans, hopes and dreams depend on our ability to attract and retain the best talent and skills, while offering a well-defined vision, common culture and the best employment conditions. We have taken a number of bold, ground-breaking decisions in working towards that goal.

We devised a modern, future-looking organisation structure that opened up new paths and opportunities for appointments and career development. Concurrently, we introduced a mentoring and coaching programme, new training and education opportunities, a management development curriculum and re-launched the Undergraduate Work Placement programme. Various initiatives were also announced to improve staff engagement and 'raise the bar': an interactive Staff Suggestion Scheme, rewards & incentives structures for staff, new staff uniforms, social activities, while existing family-friendly work arrangements and schemes were maintained and, where possible, improved. Negotiations with the Malta Union of Bank Employees for a new 2017-2019 Collective Agreement are also very advanced and expected to be concluded early in the second quarter of 2017. The new terms and conditions for staff covered by the Agreement will include progressive measures which, helped by a professional job evaluation exercise that will be starting this summer, will recognise and reward better an individual's competence and experience set.

We firmly believe that our employees are our best resource and want to create for them a relationship that goes beyond employment, an environment based on the wholesome development of the self – offering them the opportunity to become co-workers, and more.

To the next level

Our vision for the future is that APS becomes even more a bank that is personalised and relevant for each and every customer. We need to be able to meet our customers digitally but, even more importantly, personally, at the retail and commercial level, in a seamless interaction that meets their preference. In this first review as CEO, I hope to have outlined the set of principles, quality of performance, range of products, vision of projects and people ethos that, we believe, will make it possible for APS Bank to scale up to that next level.

Sincerely,
Marcel Cassar

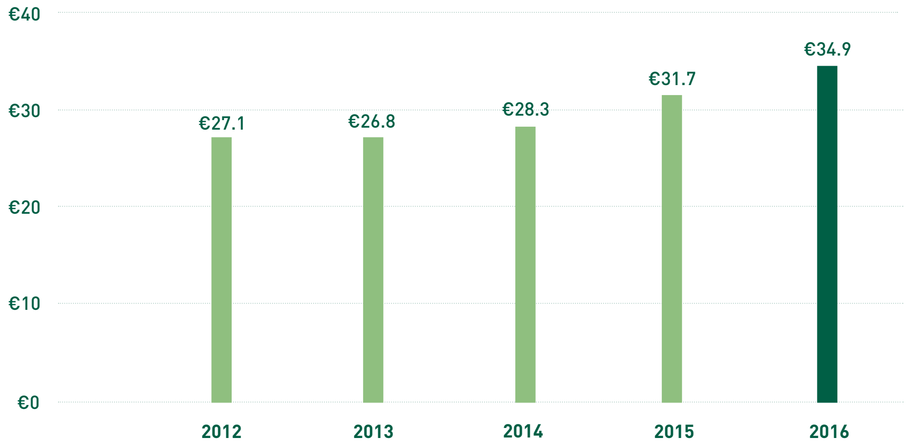

APS

FINANCIAL STATEMENTS

DIRECTORS' REPORT

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 2016.

Group's Operating income (€ million)



Principal Activities

APS Bank Group (the 'Group') comprises APS Bank Limited (the 'Bank'), its subsidiaries ReAPS Asset Management Limited and APS Consult Limited (the 'Subsidiaries'), and APS Funds SICAV p.l.c. which 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 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].

Along the years, the Bank has expanded so that it now employs 300 staff members, operating through a growing network of branches and outlets across Malta and Gozo.

Subsidiaries and Associates

APS Consult Limited is a wholly owned subsidiary of the Bank. In light of the Group's strategy, the company has reconsidered its role within the Group and is undergoing a voluntary winding up process.

ReAPS Asset Management Limited is a wholly owned subsidiary of the Bank which was incorporated in October 2016 as a private limited liability company in terms of the Companies Act. Its objective is to provide investment management services in terms of the Investment Services Act. At the end of the financial year under review it was in the process of obtaining its licence from the MFSA. The company did not effect any material transactions during 2016.

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. The company consists of two sub-funds, namely the APS Income Fund and the APS Regular Income Ethical Fund. As at year end, total assets under management for APS Funds SICAV p.l.c. stood at €110.1 million, denoting an increase of €16.9 million, or 18.2%, over the previous year. The net assets attributable to the shareholders of APS Income Fund increased to €83.8 million (2015: €70.4 million) while the net asset value of the APS Regular Income Ethical Fund amounted to €26.3 million (2015: €22.7 million).

Financial Performance

In 2016, the Group delivered a profit before tax of €15.8 million, which represents a return on average equity after tax of 10.9%. These positive financial results are a reflection of an equally strong underlying performance, with considerable increases on 2015 in the main income lines, being Net interest income, Operating income and Net operating profit. At the same time that the Bank undertook an expansion of its business and asset base, it continued to invest heavily in its infrastructure, organisation, digital offering and technology and strengthen its governance and risk management framework. These are the strategic decisions which suitably position the Bank for continued growth in a rapidly changing competitive landscape.

Operations

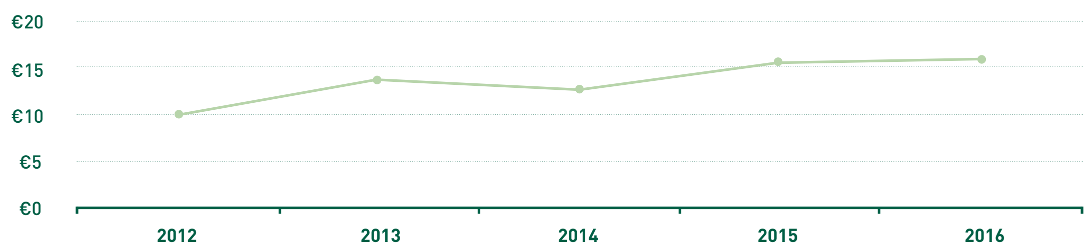
Net interest income increased to €28.0 million, rising by 9.3% when compared to the €25.6 million in 2015. As the Bank benefitted from a volume-driven improvement of €1.7 million in interest receivable on loans and advances, interest income from debt securities was negatively affected by the fragile economic landscape, which in turn was characterised by historical low interest rates that continued to prevail in the Eurozone. Interest payable decreased to €10.9 million as a result of lower funding costs, which, coupled with more dynamic asset liability management, permitted the Group to enjoy widened spreads despite the tight interest rate environment.

Non-interest income grew significantly by 13.1% to €6.9 million. This was largely driven by an increase in fees and commissions receivable that emanated from portfolio management fees as well as an expansion in the Bank's lending activity and investment services.

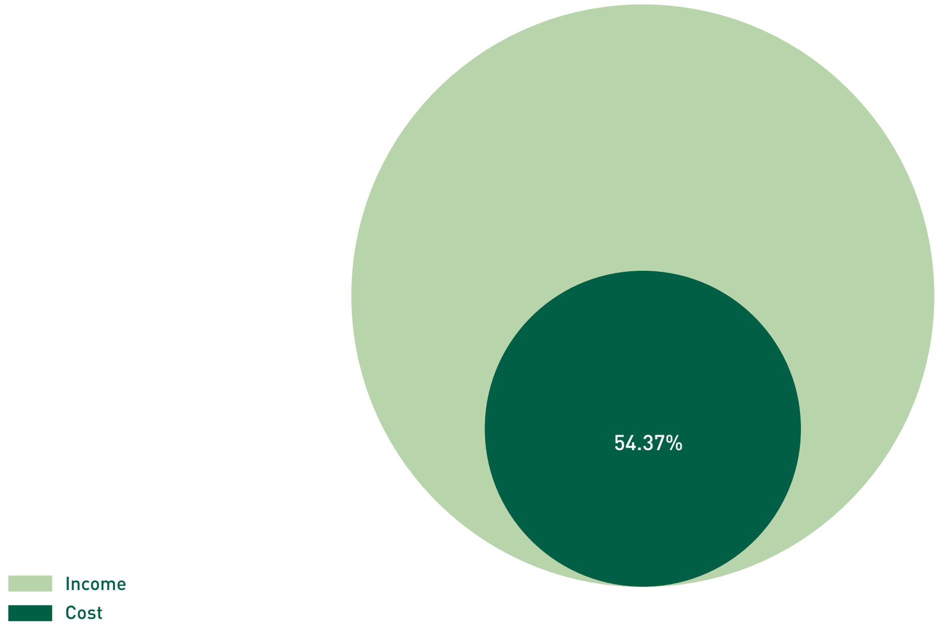
Operating expenses increased by 10.4% over 2015 as the Group embarked on a number of important forward-looking initiatives to support its business growth. A case in point is the new core banking system implemented in July, which should lead to improved productivity and efficiency. This was the first step of a major technology programme to be unfolded over the current and future financial periods. In parallel, the Group continued to strengthen its governance framework and human capital, with a focus on the senior management tier. A Bank-wide reorganisation exercise commenced later in the year and this opened up various opportunities for career advancement and promotions. Another important initiative in progress is the upgrading and refurbishment of the Bank's network of branches which will see an enhanced customer journey. As various projects in the area of channel management started to take shape, the opportunity was also taken to re-negotiate and improve on the conditions in various important contracts with respect to services and utilities, in particular the communications infrastructure. Taken collectively, these actions will enable the Group to move into its next phase of growth, modernise its strategies and support the challenges of a more competitive and regulation-driven environment. Despite these developments, the Group maintained its efficiency level with a cost-to-income ratio of 54.4%, which is about the same as that recorded in the previous year.

Net impairment increased marginally when compared to last year, remaining consistent with the lending volumes. Nonetheless, credit quality remained strong in 2016 as the Group continued to more actively assess the creditworthiness of borrowers. Non-performing loans to total lending portfolio ratio declined from 8.7% to 6.4% when compared to last year, or by 2.3%. The Group enhanced its credit decision-making process, maintaining a conservative approach on classifications, and applying strict policies and procedures in approving credit applications.

Group's Profit before Tax (€ million)



Group's Cost to Income



Statement of Financial Position

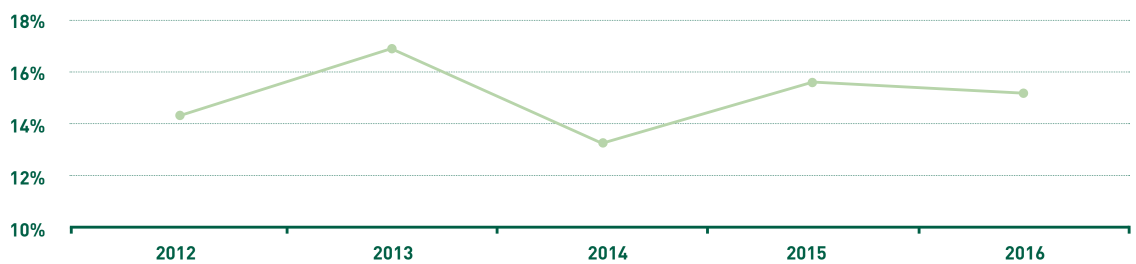
The Group expanded its asset base by €173 million, or 15.6%, reaching a total of €1.3 billion. The main contributor was the loans and advances portfolio which grew by €110 million during the year under review, with the highest increase being in home loans to households and individuals, closely followed by the commercial segment. The Group reorganised its commercial lending operations by offering, through dedicated teams, lending facilities that were better aligned with the customers' needs. The new configuration puts greater emphasis on staff responsibility and accountability, while speeding up the decision-making process.

Deposits maintained their growth momentum, increasing in 2016 by a substantial 16.6% to €1.1 billion, from €943 million in the previous year. To a large extent, this reflects the trust which customers, particularly retail depositors, continue to place in the Group. This continued trust attests to about a third of the increase which comes from demand deposits, further improved the Group's cost of funding. Term deposits also rose significantly by €21 million. As a proportion of the deposit base, loans and advances to the community provided by the Bank stood at just over 73%. This metric confirms the position of the Bank as an increasingly core institution in the channelling of credit into the economy.

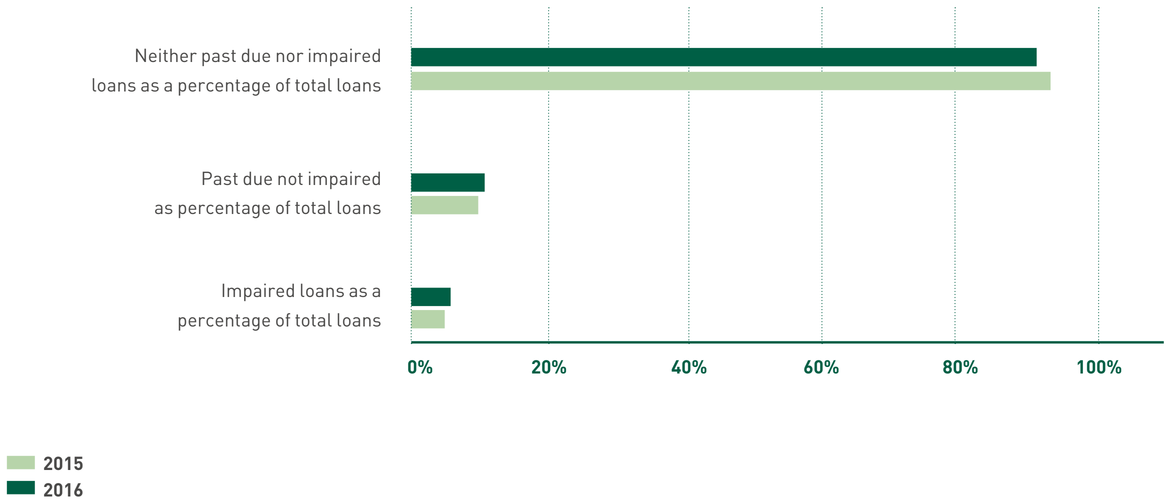
Capital Management

Throughout this period of rapid change, against a background of organisational restructuring and substantial investment in IT systems and the physical branch network, the Group remained well-capitalised with a Tier II solvency ratio of 16.95%, well above the statutory minimum. Additionally, the Group's funding and liquidity position was similarly strong. The Group maintained a prudent dividend policy (as evidenced by the proposal of the Directors) to distribute a dividend of 3.97 cents per share. The objective of capital management is to ensure that the Group is adequately positioned to support its growth aspirations in line with its risk appetite. Long-term sustainability remains a top priority on the Group's agenda. Moving forward, the Group is planning to further strengthen its capital base, permitting it to satisfy the ever-increasing regulatory requirements for capital and liquidity. An enhanced capital base will also support the Group's investment strategy enabling it to grow in line with its existing clients as well as responding to new business opportunities.

Group's Return on Average Equity



Group's Credit Quality



Outlook

In 2017, the Bank will be taking stock of progress in its 2016-2018 Business Plan as it continues to implement its reforms and growth programme in a fast-changing and increasingly challenging business environment. 2016 has been both eventful and decisive as the Bank and the Group expanded their business footprint whilst strengthening the governance, risk and compliance frameworks. An already complex and demanding regulatory environment was made even more so by the Bank's official classification as a High-Priority Institution (after the three Maltese SSM banks), an event that further confirms its important role in the country's economic and business landscape. 2017 will see the ambitious growth and transformation programme being stepped up into higher gear. The Group's strategic model, which mainly focuses on the Bank's three main business segments – Personal, Commercial and Investments – retains a strong social and community identity. At the same time, further strengthening of the governance, risk and compliance architecture will ensure further growth without compromising the safety and prudence in its operating strategy. The current year promises to be one that takes the Bank and the Group to a higher level.

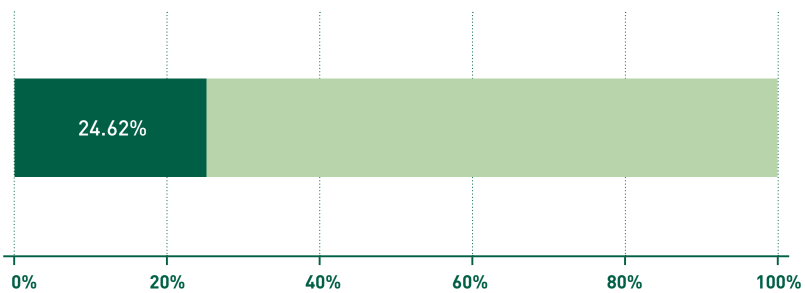
Directors' Responsibilities for the Financial Statements

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 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').

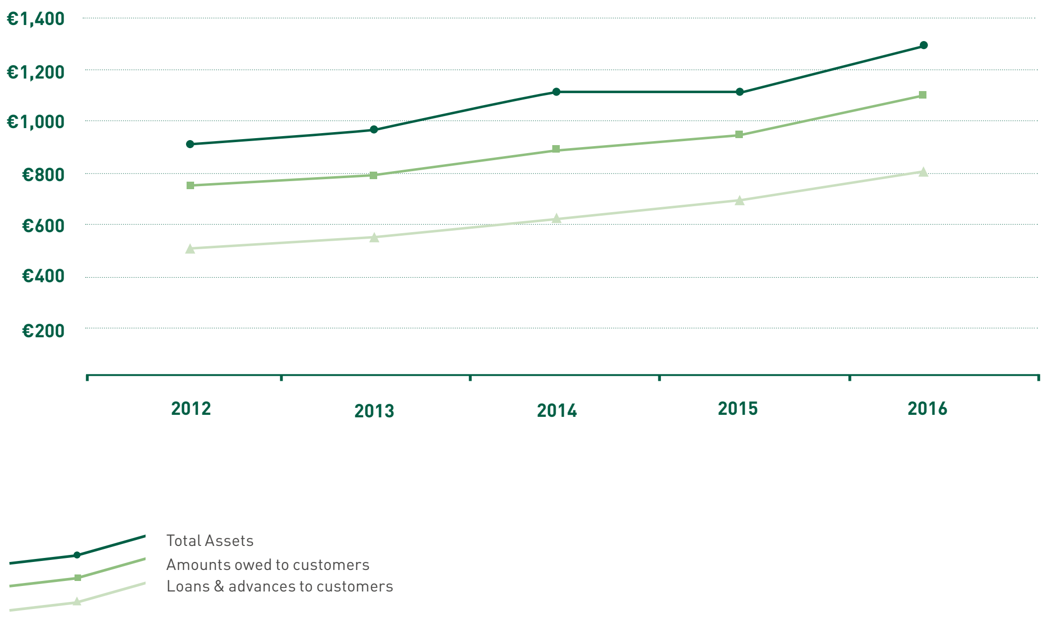
The Directors are responsible for ensuring that:

- 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; and that
- account has been taken of income and charges relating to the accounting period, irrespective of the date of receipt or payment.

Group's Non-interest income to interest income



Group's Growth over a 5-Year Period (€ million)



The Directors are also responsible for ensuring that proper accounting records are kept, that these disclose with reasonable accuracy at any time, the financial position of the Bank and 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].

Finally, the Directors are 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 2016, 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 the Bank's nominee, or by another with the Bank's financial assistance, the Bank itself having a beneficial interest;
- pledged or made subject to other privileges, to a hypothec or to any other charge in favour of the Bank.

Standard licence conditions

In accordance with Standard Licence Condition 7.28 of the Investment Services 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

At the 2017 Annual General Meeting a resolution will be presented proposing the appointment of Deloitte Audit Limited as Auditors as from the financial year ending 31 December 2017. The Directors take the opportunity to express their gratitude to Ernst & Young Malta Limited for their years of sterling services to the Bank, Group and the Shareholders.

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 2017

CORPORATE GOVERNANCE STATEMENT

The Board of Directors (the "Board" or "Directors") of APS Bank Ltd (the "Bank") is committed to upholding the highest standards of corporate governance. As from the financial year under review the Annual Report is including the extent to which the Bank has adopted the 'Corporate Governance Guidelines for Public Interest Companies' as well as the effective measures taken to ensure compliance with such Guidelines.

Guideline 1: The Board

Since the Annual General Meeting of April 2016, the Board of Directors is at its maximum complement of ten non-executive Directors, including the Chairman. During the year under review the Board introduced various measures aimed at strengthening its governance, starting with a Board Charter, which assists the Board and its Committees in the exercise of their responsibilities. The Charter elaborates on the duties of the Directors and sets out in detail the key governance principles adopted by the Bank and the manner in which the Directors are expected to execute their powers and responsibilities, covering such areas as independence, conflicts of interest and conduct and performance at meetings.

Further information on the Directors and the Committees is found hereunder.

Guideline 2: The Chairman of the Board

The Chairman holds a non-executive function and is independent from the Chief Executive Officer, who in turn has executive powers, to ensure clear division of responsibilities at executive level.

The Chairman is appointed by the shareholders from amongst the Directors. The Chairman is responsible for leading the Board and setting its agenda for meetings, ensuring that the Directors receive precise, timely and objective information so that they can properly execute their duties, while encouraging their active engagement at meetings and on issues of a complex or contentious nature.

Guideline 3: The Directors

The Bank's Articles of Association contain detailed provisions as to the manner of appointment and retirement of Directors. Directors hold office from the close of the Annual General Meeting at which they are appointed until the end of the General Meeting, at which they become eligible for re-election.

Each Director is expected to be an active participant in a Board that functions effectively as a whole. All Directors hold office in a non-executive capacity while they also actively participate in committees of the Board.

As at the date of this Statement, the Bank's Directors hold the following number of directorships, other than their role as Director of the Bank:

Emanuel P. Delia – 4;
Franco Azzopardi – 7;
Joseph C. Caruana – 4;
Arthur Galea Salomone – 11;
Victor Gusman – 2;
Frederick F. Micallef – 5;
Michael Pace Ross – 1;
Martin Scicluna – 11;
Alfred DeMarco – Nil;
Laragh Cassar – 4.

Whereas the Bank does not have a Recruitment Policy and Diversity Policy for its Directors, during the period under review the Board approved a Nomination and Succession Policy and Procedure for Directors. A nomination or recommendation to the General Meeting for a Board candidate follows the procedure laid out in the Articles and as articulated in the Policy, including the maintenance of a pool of eligible candidates for nomination to the Board. Directors tender their offer of resignation before the holding of the Annual General Meeting and are notified in good time by the shareholders of the acceptance or otherwise of such offer. During this same period, the Board approved an Evaluation Policy and Procedure that comes into effect in 2017. The Policy and Procedure provides that at least once a year, an evaluation of the Directors will take place to discuss the Board's performance and those of its individual Directors, the effectiveness of such performance, and the composition and competence of the Board. The evaluation of a Director's performance is an integral part of the process for recommending or otherwise a Director's continuation in office.

Guidelines 4 and 5: The Responsibilities of the Board and Board Meetings

The Board meets approximately once a month, unless further meetings are required for the Board to discharge its duties effectively. During the period under review, the Board met fifteen times. All meetings were attended by a large majority of Directors and the average rate of attendance during the financial year under review was of 97.8%.

The Board promotes the well-being of the Bank and is responsible for its general governance, its proper administration and management and the general supervision of its affairs. It approves and oversees the implementation of the Bank's strategic objectives and sets the Bank's risk tolerance through policy approval. Meeting agendas include not only the business of the meeting but invariably detailed update presentations by the CEO, reporting from the Committees, open discussion with Management on business and risk topics as well as regulatory briefings and updates. After each Board Meeting, Minutes are drawn up by the Company Secretary and circulated to all Directors. These Minutes faithfully record attendance of Directors at said Meetings, matters discussed and decisions taken.

Committees

To better meet its obligations and responsibilities the Board has established Committees to consider such matters as may be assigned to them or to perform specific tasks. Each Committee has its own Terms of Reference, setting out the Committee's mandate, scope and working procedure. Minutes are kept of all the business transacted in the course of Committee meetings and these are also tabled at Board meetings, for the information of Directors.

During the year under review, the Board of Directors carried out an extensive review of the Committees and their terms of reference, resulting in a revamp of the Committees, as below:

Board Committees:

1. Audit Committee (reconstituted):

The role of the Audit Committee is to monitor the financial reporting process, including the audit of the annual accounts and review of any interim reporting, to review proposed transactions by the Bank with related parties and to oversee the standards/performance of the Internal Audit Unit, whilst approving and monitoring its Audit Plan. The Committee also monitors the effectiveness of the internal control environment and accounting framework. It considers the adequacy of contingency plans for processing and production of financial information. The Audit Committee reviews the external auditor's independence, in particular the provision of additional services to the Bank and liaises between external auditors, internal audit, the Board and Management.

2. Risk Committee (reconstituted):

The Risk Committee recommends the risk profile for the Bank and proposes its risk appetite statement, whilst periodically reviewing the risk management framework. It reviews strategic decisions, including new products and markets, acquisitions, and disposals, from a risk perspective. The Risk Committee approves risk policies, limits and delegations, including those of the Credit Committees. It has a wide mandate for risk oversight, including credit, market, operational, technology/cyber, concentration, liquidity as well as compliance matters. The Committee considers impairment and provisioning recommendations as prepared by Management and recommends them for adoption. This includes the review and recommendation of the Bank's Internal Capital and Liquidity Adequacy Assessment Process Reports and Recovery Plan for approval by the Board.

3. Governance Committee (new):

The Governance Committee reviews the Bank's internal delegations and governance policies procedures to ensure compliance with legislative and regulatory requirements and alignment with best practices. It acts as first point of reference on Board governance policies and procedures, codes of conduct and conflicts of interest. The Governance Committee oversees the structure and performance of the Bank's committees, whilst itself performing the function of Nomination Committee and Remuneration Committee, besides contributing to the process of Board evaluation in the absence of an apposite forum for evaluating Board performance. The Committee considers and approves senior executive appointments and assesses the performance of the CEO.

4. Board Credit Committee (new):

The Board Credit Committee (or BCC) receives and reviews credit applications and approves credit limits for customers and transactions, within the parameters set by the Board in terms of the credit policy procedures. It also receives and reviews updates/amendments to approved facilities and approves, or delegates approval, for deviations as the case may be. The Board Credit Committee considers and advises the Risk Committee on credit limits and/or any matter for approval (e.g. country, geographic, segment limits) when this is required according to the Bank's credit policy. The BCC may delegate its limits to the Management Credit Committee, composed only of Management.

5. IT Steering Committee (reconstituted):

The IT Steering Committee reviews, monitors and prioritises major IT projects and ensures that IT strategy is aligned with the strategic goals of the Bank. It intervenes with the Board to secure sponsorships and support for the main IT strategic decisions & projects. The IT Steering Committee oversees management of IT-related risks, security and business continuity plans.

Management Committees:

1. Executive Committee (continued):

The Executive Committee acts as consultative body and advisor to the CEO on matters such as strategy, operations and business. It reviews and debates relevant items before consideration by the Board/Board Committees and escalates key issues. The focus of Executive Committee meetings and deliberations is on the four Ps, namely Performance, Products, Projects and People, and these four broad areas describe adequately the coverage of this Committee. It approves capital commitments and transactions within its delegated authority and recommends for Board approval the annual capital and revenue budgets, monitors KPIs, KRIs and financial performance on an ongoing basis. The Executive Committee has first line of oversight of the control frameworks, receiving and considering reports of operational reports, including serious service/product complaints and/or incidents.

2. Assets & Liabilities Committee (new):

The Assets and Liabilities Committee ('ALCO' or 'Committee') is generally responsible for the asset liability management ('ALM') strategy, policy, surveying of market developments, including the Bank's Base Rate and funding strategy. It monitors interest rate, liquidity and currency risks and determines treasury strategy accordingly. Liquidity management and contingency planning are another important area of focus of ALCO and in the determination of liquidity strategy. The scope and attention of the ALCO are also on optimising capital allocation in terms of ALM strategy and regulatory requirements. The Committee instigates the development of new treasury (funding and lending) products and approves and monitors the Bank's Funds Transfer Pricing (FTP) framework and its components, monitors implementation and reviews results. The Committee regularly appraises Bank performance in terms of ALM strategy.

3. Management Credit Committee (new):

The Management Credit Committee receives and reviews credit applications and approves credit limits for customers and transactions, within the parameters set by the Board Credit Committee in terms of the credit policy and procedures. It refers and recommends to the Board Credit Committee limit applications where these exceed its (MCC) limits. The Committee receives and reviews updates/amendments to approved facilities and approves, or delegates approval, for deviations as the case may be, and considers and advises the Board Credit Committee on credit limits and/or any matter for approval that is within its (BCC) competence.

Guideline 6: Information and Professional Development

Upon first appointment, all Directors are offered familiarisation of the Bank by the Chairman, CEO and the Company Secretary. This usually covers legal and statutory responsibilities as well as a good overview of the Group's business and activities. Access to the services and resources of the Bank, including, where necessary, independent professional advice at the Bank's expense, are also available.

During the year under review the Board underwent training spread over periodic sessions and which were conducted by an international consulting firm. The training covered the various duties and responsibilities of Directors and focused particularly on how these are impacted by the changing regulatory landscape.

Directors also attend seminars and conferences that are of interest to their function and are kept abreast by the Company Secretary on aspects that help them in the professional discharge of their functions as Board and Committee members. The high standards of continuing professional development in the Board filter down to all levels of the Management and Staff.

Guideline 7: Relations with Shareholders

The shareholders are served with the statutory notice to attend the Annual General Meeting which is normally held during the second quarter of the year. The notice contains all the resolutions proposed for approval by the Annual General Meeting, where the Annual Report and Audited Financial Statements are approved. The Board also considers the Annual Report to be an effective document which contains detailed information about the Bank's performance and can therefore serve as a medium for interested parties, not least the shareholders, to find out more about the Bank in a transparent fashion.

The Board also recognises the importance of maintaining a regular dialogue with its majority shareholders, being AROM Holdings Ltd (Archdiocese of Malta) and the Diocese of Gozo. This ensures a flow of communication about the Bank's strategy and updates on performance. These meetings are attended by the Bank's Chairman and CEO and are conducted in a structured fashion.

On a periodic basis, meetings with staff, intermediaries, analysts and institutions are also held where information about the Bank's progress, activities and financial performance is disseminated. These encounters are very useful as they enable the Bank to reach out to a wider band of stakeholders.

Guideline 8: Conflicts of Interest

Each Director is expected to act under the highest standards of ethical behaviour and fiduciary duty. The Directors are aware of their obligation to avoid conflicts of interest and their responsibility to act in the interest of the Bank and its shareholders as a whole irrespective of which shareholder nominated him/her to the Board.

The Board Charter contains specific sections dealing with conflicts of interest, starting with the general precept that Directors should take all reasonable steps to avoid such situations. However, from time to time, actual or potential conflicts of interest may arise in which case it needs to be ensured that these are managed properly by the Board and the interested Director. Directors are required to inform the Board of any matter that may result or has already resulted in a conflict of interest. A record of such declaration is entered into the Bank's minute books and the said Director is precluded from voting in any resolution concerning a matter in respect of which he/she has declared a direct or indirect interest.

During the year under review, the Board further strengthened its governance regime in this area through various actions, including the adoption of an updated Personal Dealing Policy and Benefits/Gifts Policy which apply throughout the Bank.

Guideline 9: Corporate Social Responsibility

The Board of Directors encourages that sound principles of corporate social responsibility are adhered to and integrated into the core business ethos of the Bank and embedded into the Bank's day-to-day culture and operations. As a result, the Bank is a prominent supporter of various CSR initiatives at both national and community level aimed at contributing to economic, societal, environmental and cultural development.

Through its endorsement of a variety of such priorities and programmes, the Bank promotes positive social change as well as a sense of common good. Details of the main CSR milestones achieved during 2016 are elaborated upon in the Chairman's Statement.

REMUNERATION REPORT

Remuneration Committee

The approval of the Bank's Remuneration Policy is the responsibility of the Board of Directors (hereafter referred to as 'the Board'). During 2016 the Board constituted a Governance Committee which, amongst other things, 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 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 Executive Management) is established in the Collective Agreement. Furthermore, the Executive Management's remuneration is determined on the basis of individual and Bank performance as well as the market environment.

The performance bonus for staff members (excluding 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 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. 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 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 Executive, the market environment and trends in the levels of remuneration. The Chief Executive Officer should also ensure that the remuneration proposed will attract and retain the best qualified members of 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 2016 are reported below:

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.

	€
Chairman	45,654
Other Directors	177,335
Total	**222,989**

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).
- 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, Senior Executive Management and other staff members that have a material impact on the risk profile of the Institution.

Number of Identified Staff	24
	€
Total fixed remuneration	1,018,716
Total variable remuneration	132,307

CAPITAL ADEQUACY & RISK DISCLOSURES REPORT

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 Rule, this report is not subject to an external audit, with the exception of any disclosures which are equivalent to those made in the Annual Report 2016 which adhere to International Financial Reporting Standards (IFRSs). However, this report has been subject to a comprehensive internal review and approved by the Group's Risk Committee 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

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 Department. The Risk Management Department is also responsible for the development of the Bank's Recovery Plan in line with *Directive 2014/59/EU.*

Following the process of re-assessing and re-evaluating the Bank's organisational structure during 2016, the Risk Management Department is now headed by a senior member of management with distinct responsibility for risk management and control. The Department reports directly to the Risk Committee.

The Risk Management Department performs regular sensitivity analyses and stress testing exercises. It is also responsible for bringing to the attention of the Risk Committee any material risks and changes in the Group's risk profile, even as part of the business planning process, to ensure that Management operates within the risk appetite approved by the Board. Subsequently, it is the role of the Risk Committee to inform the Board of such updates. The Board of Directors approved the Bank's risk appetite for 2016 through the formulation of a Risk Appetite Statement.

The Risk Committee establishes and ensures implementation of the Group's risk management and compliance strategy, systems and policies. During 2016, the composition of the Committee changed, with the Committee now composed of five Non-Executive Directors (one of whom chairs the Committee). Senior Management members attend the Risk Committee meetings. During 2016, these were the Chief Executive Officer, Chief Financial Officer, Chief Technology Officer, Head Risk and Head Banking. The Risk Committee 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 2016, the Risk Committee met seven 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 subsidiary to the extent that this constitutes 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. During 2016, the Bank's subsidiary was not operative.

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 Malta.

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 Credit Committees

During 2016, the Board of Directors established the Board Credit Committee (BCC) as the highest delegated lending body and formulated its terms of reference. It is composed of two Non-Executive Directors, one of whom is required for a quorum and from amongst whom the Chair is appointed, the Chief Executive Officer, Chief Financial Officer and Head Banking. The BCC considers credit proposals recommended by the Management Credit Committee (MCC), to which the Board of Directors has delegated limits and authorities below those of the BCC. The MCC is composed of the following voting members: Chief Executive Officer, who chairs the meetings, the Chief Financial Officer, Head Banking, Senior Manager (Commercial) and Senior Manager (Retail). Four other members of Management attend the meeting in a non-voting capacity thereby ensuring a wider and more expert coverage of the credit applications presented to the MCC. Head Risk has right of attendance at all BCC and MCC meetings.

3.2 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 Credit Committees, as well as the Board. During 2016, the Bank established bank-wide country limits through its Country Risk Policy. The Policy was approved by the Risk Committee and the Board.

3.5 Credit Approval, Extension and Retention

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

The Board of Directors approves the authorisation limits set by the BCC and MCC and sets limits for these Committees. Transactions that exceed the limits established for these Committees are approved by the Board of Directors.

3.6 Related Parties

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 BCC and reported to the Board on a quarterly basis.

As part of its duties, the Audit Committee ensures that transactions with related parties are adequately reported, reviewed and assessed to ensure their arm's length nature and performs other oversight functions as requested by the Board.

3.7 Provisioning

The Group provides specific and collective provisions in respect of the advances portfolio. The latter is grouped by economic sectors 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.

3.8 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 reliable 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. The different types of eligible collateral and the corresponding valuations are documented in the Bank's Advances Policy.

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 2016	% of gross loans & advances
Residential property	60.6
Commercial property	20.8
Cash and shares	3.8
Insurance	0.9

3.9 Key Risk Indicators

The Bank's Key Risk Indicators are compiled by the Risk Management Department and reported to the Risk Committee and Board of Directors on a quarterly basis. These include Non-Performing Loans (NPLs), the Probability of Default of investments, and monitoring of the portfolio mix and exposures against limits.

3.10 Capital Requirements

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.

3.11 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 adopts an exposure limits system for mitigating concentration risk. The Risk Committee 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.

The tables below show the exposure by industry of the Group's advances portfolio and the reisdual maturity of the Group's advances portfolio broken down by exposure classes.

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	-	-	1,298	-	4,043	123	-	5,464
Home Loans	-	-	-	-	-	-	536,137	536,137
Corporate	53,893	11,158	34,629	24,809	-	48,334	7,766	180,589
of which SME	*53,893*	*11,158*	*34,629*	*24,809*	-	*48,334*	*7,766*	*180,589*
Retail	-	1,356	4,269	3,465	-	12,562	-	21,652
of which SME	-	*1,356*	*4,269*	*3,465*	-	*12,562*	-	*21,652*
High Risks Items	-	-	17,415	-	-	-	-	17,415
Exposures in Default	3,657	10,667	24,264	4,567	-	6,155	9,747	59,057
Total	**57,550**	**23,181**	**81,875**	**32,841**	**4,043**	**67,174**	**553,650**	**820,314**

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	-	4,004	111	1,350	5,465
Home Loans	127	3,679	9,573	522,757	536,136
Corporate	1,824	46,114	34,171	98,480	180,589
Retail	53	2,926	3,984	14,690	21,653
High Risks Items	354	5,791	7,706	3,564	17,415
Exposures in Default	19,912	19,266	9,997	9,881	59,056
Total	**22,270**	**81,780**	**65,542**	**650,722**	**820,314**

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 a 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 (through implementation of three lines of defence), 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. The Bank embarked on an operational risk register project for the identification and quality evaluation of operational risk through process mapping.

The Group's Business Continuity Plan (BCP) provides a standard procedure that must be followed in the eventuality that a disruption affects the operations of the Bank, such that resumption of services is carried out in an efficient and prioritised manner. A crucial element of Operational Risk is the management of IT-related risks. The Information Technology Steering Committee provides strategic leadership and ensures that decision making occurs with due observance of the IT strategy, policies and standards. The Group is giving due priority to its IT-related risk framework and has put cyber risks and threats in the forefront of regular control and monitoring processes, in addition to ensuring an ever improved secure supporting infrastructure, policies and procedures.

6. Non-Trading Book Exposures in Equities

The Group has an investment of €4.1 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 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.

Impact projected on net interest income

Movement in interest rates	Impact on projected net interest income €000
Increase by 25 basis points	9
Decrease by 25 basis points	(660)

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 2016, the Group assumed an extreme scenario of a 100 basis points parallel shift downwards in interest rates for the following twelve months.

Duration Gap Analysis

8. Liquidity and Funding Risk

Movement in interest rates	Impact on economic value €000
Increase by 100 basis points	829
Decrease by 100 basis points	(829)

Liquidity risk is the risk that the Group cannot meet its financial obligations as they fall due in the short term and medium term, either at all, or without incurring unacceptable losses.

Funding risk is the risk that the Group cannot meet its financial obligations as they fall due in the medium to long term, either at all, or without increasing funding costs unacceptably. Funding risk can also be seen as the risk that the business is not stably funded in the medium and long term.

The Group manages this risk by matching the maturities of assets and liabilities. The management of liquidity and funding 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. The Assets-Liabilities Committee monitors the implementation of this Policy and related procedures, whilst ensuring its effectiveness and adherence. 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 loans primarily from deposits. As at 31 December 2016, the Group's Loan-to-Deposit ratio was equal to 73% which compares well to the industry average and is in line with the Bank's risk appetite. 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.

The Liquidity Coverage Ratio (LCR) measures the Group's liquidity buffer to its net liquidity outflows over a 30 calendar day stress period. The regulatory minimum requirement is being gradually phased until it reaches 100% on 1 January 2018. During 2016 the Bank's LCR fluctuated healthily above the applicable minimum requirement of 70% and as at 31 December 2016 stood at 244%.

The Net Stable Funding Ratio (NSFR) measures the amount of stable funding available to a firm against the required amount of stable funding. The NSFR is subject to an observation period and shall be introduced as a binding minimum standard in 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, and which seeks to monitor the impact of any new regulations.

During 2016, the Bank performed its first Internal Liquidity Adequacy Assessment Process (ILAAP) in compliance with EBA Guidelines. The purpose of this process is to ensure that the Bank maintains, at all times, liquidity resources which are adequate, both as to amount and quality, to ensure that there is no significant risk that its liabilities cannot be met as they fall due. The ILAAP concluded that the Bank maintains adequate levels of liquidity buffers and adequate funding. The document was reviewed in detail by the Bank's Internal Audit Unit and by the Risk Committee and subsequently presented to the Board for approval. Following Board approval on 26 May 2016, the ILAAP report was submitted to the MFSA.

9. Reputation Risk

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

The Bank has zero-tolerance to maximising profitability at the detriment of its reputation and standing, as profits are not the Group's sole objective.

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, sound investment parameters and anti-money laundering procedures. During 2016, the Bank strengthened further its governance through various actions which include formalisation of the Board Charter and the introduction and revision of various policies including the Nominations and Succession Policy, Personal Dealing Policy and the New Product Approval Policy. 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 have entered 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 Risk Management Department 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. The impact of business objectives on Key Risk Indicators was also evaluated as part of the Bank's annual budgeting process.

11.2 Capital Adequacy

The Group adopts the Standardised Approach (as per the CRR and Banking Rule BR/08/2012 – *Capital Adequacy of Credit Institutions Authorised under the Banking Act 1994)* for the purposes of calculating its risk-weighted exposure to credit risk. The minimum regulatory capital allocation to credit risk is therefore equal to 8% of the risk-weighted exposures as at 31 December 2016.

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 2016.

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 Risk Committee and 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.

The Group's risk-weighted exposures and capital requirements

	Book Value €000	Risk Weighted Exposure €000	Capital Allocation €000
As at 31 December 2016			
Standardised Approach - Credit Risk			
Sovereign	202,343	2,004	160
Institutions	92,285	24,819	1,986
Corporates	354,160	206,152	16,492
Retail	45,646	21,293	1,703
Home loans	554,937	208,957	16,717
Exposures in default	38,057	46,513	3,721
Items associated with particular high risk	24,414	36,621	2,930
Collective investment undertakings	18,550	14,142	1,131
Equity exposures	4,413	4,413	353
Other assets	26,158	28,377	2,270
	1,360,963	593,291	47,463
Basic Indicator Approach			
Operational Risk		55,010	4,401
Basic Method			
Foreign Exchange Risk		200	16
		648,501	51,880
Total Own Funds		109,891	
Capital Adequacy Ratio		16.95%	
Capital Conservation Buffer		1.25%	

11.3 Internal Capital Adequacy Assessment Process

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

The Bank's ICAAP is based on the principle of proportionality set out in the above-mentioned Banking Rule and adopts a combination of quantitative capital and adequate systems and controls in fulfilment of these requirements. A cross-functional team, coordinated by the Risk Management Department, 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 and
- 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 Risk Committee and subsequently presented to the Board of Directors for approval. Following Board approval on 26 May 2016, the ICAAP report 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 the view of migrating to a binding minimum on 1 January 2018.

During 2015 the Board of Directors 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 is regularly reported to and monitored by the Risk Committee and the Board of Directors. During 2016, the Bank's leverage ratio remained well above the regulatory minimum requirement and within the Bank's risk appetite. As at 31 December 2016 the Bank's leverage ratio stood at 7.5%.

INDEPENDENT AUDITOR'S REPORT

Opinion

We have audited the consolidated and separate financial statements of APS Bank Limited (the "Bank"), set on pages 20 to 70, which comprise the consolidated and separate statements of financial position as at 31 December 2016, and the consolidated and separate statements of profit and loss, the consolidated and separate statements of comprehensive income, the consolidated and separate statements of changes in equity and the consolidated and separate statements of cash flows for the year then ended, and notes to the consolidated and separate financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated and separate financial statements give a true and fair view of the financial position of the Bank as at 31 December 2016, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU ("IFRS"), the Companies Act, Cap. 386 of the Laws of Malta (the "Companies Act") and the Banking Act, Cap. 371 of the Laws of Malta (the "Banking Act").

Basis for opinion

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

Other information

The directors are responsible for the other information. The other information comprises the information included in the Annual Report, other than the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon other than our reporting on other legal and regulatory requirements.

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

Responsibilities of the directors and those charged with governance for the financial statements

The directors are responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, the requirements of the Companies Act and the Banking Act, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Those charged with governance are responsible for overseeing the Bank's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report on other legal and regulatory requirements

Matters on which we are required to report by the Companies Act

We are required to express an opinion as to whether the directors' report has been prepared in accordance with the applicable legal requirements. In our opinion the directors' report has been prepared in accordance with the Companies Act.

In addition, in the light of the knowledge and understanding of the branch and its environment obtained in the course of the audit, we are required to report if we have identified material misstatements in the branch management's report and other information. We have nothing to report in this regard.

We also have responsibilities under the Companies Act to report to you if in our opinion:

- proper accounting records have not been kept;
- proper 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 and returns;
- we have not received all the information and explanations we require for our audit.

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

Matters on which we are required to report by the Banking Act

We are required by the Banking Act to report whether we have obtained all the information and explanations which to the best of our knowledge and belief are necessary for the purposes of our audit, whether in our opinion proper books of account have been kept by the Bank so far as appears from our examination thereof, whether 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 nothing to report to you in respect of these responsibilities.

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.

The partner in charge of the audit resulting in this independent auditor's report is Anthony Doublet for and on behalf of

Ernst & Young Malta Limited
Certified Public Accountants

30 March 2017

STATEMENTS OF PROFIT OR LOSS

for the year ended 31 December 2016

		The Group		The Bank	
	Note	2016	2015	2016	2015
		€000	€000	€000	€000
Interest receivable and similar income:					
On loans and advances, balances with the Central Bank of Malta and treasury bills	(3)	27,289	25,597	27,289	25,597
On debt securities	(3)	11,578	13,187	11,578	13,187
		38,867	38,784	38,867	38,784
Interest payable	(4)	(10,865)	(13,173)	(10,865)	(13,173)
Net interest income		28,002	25,611	28,002	25,611
Dividend income	(5)	246	229	745	826
Fees and commission income		4,393	3,814	4,393	3,814
Trading income	(6)	366	703	366	703
Net gains on financial instruments	(7)	1,411	1,393	1,411	1,393
Fair value loss on investment properties	(16)	-	(182)	-	(182)
Other operating income		478	137	478	137
Operating income		34,896	31,705	35,395	32,302
Personnel expenses	(8)	(8,961)	(7,720)	(8,959)	(7,715)
Other administrative expenses	(9)	(8,265)	(7,730)	(8,256)	(7,729)
Amortisation of intangible assets	(23)	(648)	(499)	(648)	(499)
Depreciation of property and equipment	(24)	(1,098)	(1,233)	(1,098)	(1,233)
Net operating profit		15,924	14,523	16,434	15,126
Share of results of associates, net of tax	(22)	828	1,754	-	-
Operating profit before impairment, reversals and provisions		16,752	16,277	16,434	15,126
Net impairment losses	(10)	(988)	(706)	(988)	(706)
Profit before tax		15,764	15,571	15,446	14,420
Income tax expense	(11)	(4,820)	(5,568)	(4,820)	(5,568)
Profit for the year		10,944	10,003	10,626	8,852

STATEMENTS OF COMPREHENSIVE INCOME

for the year ended 31 December 2016

	The Group		The Bank	
	2016	2015	2016	2015
	€000	€000	€000	€000
Profit for the year	10,944	10,003	10,626	8,852
Other comprehensive income:				
Net gain/(loss) on available-for-sale financial assets	3,901	(2,810)	3,901	(2,810)
Net (loss)/gain released on disposal of available-for-sale financial assets	(615)	821	(615)	821
Deferred income tax relating to the components of other comprehensive income (note 25)	(848)	1,666	(848)	1,666
Other comprehensive income/(loss) for the year, net of tax	2,438	(323)	2,438	(323)
Total comprehensive income for the year, net of tax	13,382	9,680	13,064	8,529

STATEMENTS OF FINANCIAL POSITION

as at 31 December 2016

	Note	The Group 2016 €000	The Group 2015 €000	The Bank 2016 €000	The Bank 2015 €000
ASSETS					
Cash and Balances with Central Bank of Malta	(13)	36,420	15,997	36,420	15,997
Cheques in course of collection		42	1,970	42	1,970
Loans and advances to banks	(14)	60,162	43,027	60,162	43,027
Loans and advances to customers	(15)	806,011	695,800	806,011	695,800
Derivative financial instruments	(17)	3,164	3,560	3,164	3,560
Financial assets at fair value through profit or loss	(18)	3,321	3,815	3,321	3,815
Debt and other fixed income instruments	(19)	322,844	297,959	322,844	297,959
Equity and other non-fixed income instruments	(20)	4,119	3,348	4,119	3,348
Investment in subsidiaries	(21)	-	-	305	55
Investment in associates	(22)	18,256	17,926	14,887	14,887
Intangible assets	(23)	4,061	3,137	4,061	3,137
Investment properties	(16)	3,793	3,965	3,793	3,965
Property and equipment	(24)	14,147	13,394	14,147	13,394
Current tax		-	209	-	209
Deferred tax assets	(25)	1,502	2,076	1,502	2,076
Other receivables	(26)	6,673	5,278	6,690	5,294
TOTAL ASSETS		1,284,515	1,111,461	1,281,468	1,108,493
LIABILITIES					
Amounts owed to banks	(27)	36,204	35,327	36,204	35,327
Derivative financial instruments	(17)	3,164	3,560	3,164	3,560
Amounts owed to customers	(28)	1,099,115	942,921	1,099,406	942,973
Current Tax		39	-	39	-
Other liabilities	(29)	8,340	3,630	8,337	3,627
Accruals	(30)	8,265	8,224	8,265	8,224
TOTAL LIABILITIES		1,155,127	993,662	1,155,415	993,711
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)	21,177	18,739	21,177	18,739
Retained earnings	(34)	47,648	38,654	44,313	35,637
Dividend reserve		1,188	1,031	1,188	1,031
TOTAL EQUITY		129,388	117,799	126,053	114,782
TOTAL LIABILITIES AND EQUITY		1,284,515	1,111,461	1,281,468	1,108,493
MEMORANDUM ITEMS					
Contingent liabilities	(35)	6,112	5,606	6,112	5,606
Commitments	(36)	379,078	209,567	379,078	209,567

The financial statements on pages 20 to 70 were authorised for issue by the Board of Directors on 30 March 2017 and were signed by:

E. P. DELIA
Chairman

J. C. CARUANA
Director

STATEMENTS OF CHANGES IN EQUITY

for the year ended 31 December 2016

	Attributable to the equity holders of the parent							
The Group	Issued capital €000	Share premium €000	Revaluation reserve €000	Dividend reserve €000	Retained earnings €000	Total €000	Non-Controlling interest €000	Total equity €000
FINANCIAL YEAR ENDED 31 DECEMBER 2016								
Balance at 1 January 2016	57,605	1,770	18,739	1,031	38,654	117,799	-	117,799
Profit for the year	-	-	-	-	10,944	10,944	-	10,944
Other comprehensive income	-	-	2,438	-	-	2,438	-	2,438
Total comprehensive income	-	-	2,438	-	10,944	13,382	-	13,382
Dividends paid (note 12)	-	-	-	(1,031)	(762)	(1,793)	-	(1,793)
Dividends proposed (note 12)	-	-	-	1,188	(1,188)	-	-	-
Balance at 31 December 2016	**57,605**	**1,770**	**21,177**	**1,188**	**47,648**	**129,388**	**-**	**129,388**
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 in 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**

STATEMENTS OF CHANGES IN EQUITY (Continued)

for the year ended 31 December 2016

The Bank	Issued capital €000	Share premium €000	Revaluation reserve €000	Dividend reserve €000	Retained earnings €000	Total €000
FINANCIAL YEAR ENDED 31 DECEMBER 2016						
Balance at 1 January 2016	57,605	1,770	18,739	1,031	35,637	114,782
Profit for the year	-	-	-	-	10,626	10,626
Other comprehensive income	-	-	2,438	-	-	2,438
Total comprehensive income	-	-	2,438	-	10,626	13,064
Dividends paid (note 12)	-	-	-	(1,031)	(762)	(1,793)
Dividends proposed (note 12)	-	-	-	1,188	(1,188)	-
Balance at 31 December 2016	57,605	1,770	21,177	1,188	44,313	126,053
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

STATEMENTS OF CASH FLOWS

for the year ended 31 December 2016

		The Group		The Bank	
	Note	2016	2015	2016	2015
		€000	€000	€000	€000
OPERATING ACTIVITIES					
Interest and commission receipts		32,390	30,946	32,390	30,946
Interest and commission payments		(10,865)	(13,173)	(10,865)	(13,173)
Cash paid to employees and suppliers/depositors		(18,446)	(16,404)	(18,434)	(16,400)
Operating profit before changes in operating assets and liabilities		3,079	1,369	3,091	1,373
(Increase)/decrease in operating assets					
Loans and advances to customers		(111,027)	(72,693)	(111,027)	(72,693)
Loans and advances to banks		(3,649)	(7,713)	(3,649)	(7,713)
Reserve deposit with Central Bank of Malta		(791)	(756)	(791)	(756)
Cheques in course of collection		1,928	215	1,928	215
Other assets		1	1	-	-
Increase/(decrease) in operating liabilities					
Amounts owed to customers		159,841	47,820	159,830	47,817
Other liabilities		1,284	(352)	1,284	(352)
Cash from/(used in) operating activities before tax		50,666	(32,109)	50,666	(32,109)
Income tax paid		(4,924)	(4,354)	(4,924)	(4,354)
Net cash flows from/(used in) operating activities		45,742	(36,463)	45,742	(36,463)
INVESTING ACTIVITIES					
Dividends received		211	190	710	787
Interest income from debt securities		13,121	14,833	13,121	14,833
Purchase of held-to-maturity debt security instruments		(5,767)	(3,555)	(5,767)	(3,555)
Proceeds on maturity of held-to-maturity debt security instruments		9,546	12,185	9,546	12,185
Purchase of available-for-sale debt security instruments		(66,827)	(36,608)	(66,827)	(36,608)
Proceeds on disposal of available-for-sale debt security instruments		41,084	83,203	41,084	83,203
Purchase of financial assets at fair value through profit or loss		(2,582)	(1,090)	(2,582)	(1,090)
Proceeds on disposal of financial assets at fair value through profit or loss		3,041	1,307	3,041	1,307
Purchase of equity and other non-fixed income instruments		(807)	(617)	(807)	(617)
Proceeds on disposal of equity and other non-fixed income instruments		169	-	169	-
Purchase of property, equipment and intangible assets		(3,413)	(2,272)	(3,413)	(2,272)
Proceeds on disposal of property and equipment		17	-	17	-
Net cash flows (used in)/from investing activities		(12,207)	67,576	(11,708)	68,173
FINANCING ACTIVITIES					
Dividends paid		(1,294)	(928)	(1,793)	(1,525)
Net cash flows used in financing activities		(1,294)	(928)	(1,793)	(1,525)
Net increase in cash and cash equivalents		32,241	30,185	32,241	30,185
Cash and cash equivalents at 1 January		8,219	(21,966)	8,219	(21,966)
Cash and cash equivalents at 31 December	(37)	40,460	8,219	40,460	8,219

NOTES TO THE FINANCIAL STATEMENTS

1. CORPORATE INFORMATION

APS Group comprises APS Bank Limited, APS Consult Limited, APS Funds SICAV p.l.c. and ReAPS Asset Management Limited.

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. ReAPS Asset Management Limited, a fully owned subsidiary of the Bank was incorporated in October 2016 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 to provide investment services in terms of the Investment Services Act, Cap. 370 of the Laws of Malta and the investment services licence issued by the MFSA.

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

2. SIGNIFICANT ACCOUNTING POLICIES

2.1 BASIS OF PREPARATION

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

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

Statement of compliance

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

Basis of consolidation

The consolidated financial statements comprise the financial statements of APS Bank Limited and its subsidiaries for the year ended 31 December 2016, which together are referred to as the 'Group'. Subsidiaries are fully consolidated from the date on which the Group achieves control and continue to be consolidated until the date that such control ceases. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if, and only if, the Group has:

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

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

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

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

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

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

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

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

During the year under review ReAPS Asset Management Limited has not been in operation and no material transactions were effected. In this respect the company's financial figures have not been consolidated within the Group's financial statements on the basis of materiality.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

The Group has adopted the following new and amended IFRS and IAS interpretations during the year.

- IAS 16 and IAS 38 (Amendments) - Clarification of acceptable methods of depreciation
- IFRS 11 (Amendments) - Accounting for acquisitions of interests in joint operations
- IAS 27 (Amendments) - Equity method in separate financial statements
- IAS 16 and IAS 41 - Bearer Plants
- IFRS 10, IFRS 12 and IAS 28 (Amendments) - Investment Entities: Applying the consolidation exception
- IAS 1 (Amendments) - Disclosure initiative
- Annual Improvements to IFRSs 2012-2014 Cycle

IAS 1 (Amendments) - Disclosure initiative, the amendments to IAS 1 is 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 determine where and in what order information is presented in the financial disclosures.

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 as endorsed by the EU 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.

- IFRS 9 - Financial instruments (effective for financial years beginning on or after 1 January 2018)
- IFRS 15 - Revenue from contracts with customers (effective for financial years beginning on or after 1 January 2018)

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 is still assessing the impact that the new standards will have on the financial statements.

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

The following standards, interpretations and amendments have been issued by the IASB but not yet endorsed by the EU:

- IFRS 14 - Regulatory deferral accounts (effective for financial years on or after 1 January 2019)
- IFRS 16 - Leases (effective for financial years on or after 1 January 2019)
- IFRS 10 and IAS 28 (Amendments) - Sale or contributions of assets between an investor and its associate or joint venture (effective date deferred indefinitely)
- IAS 12 (Amendments) - Recognition of deferred tax assets for unrealised losses (effective for financial years on or after 1 January 2017)
- IAS 7 (Amendments) - Disclosure initiative (effective for financial years on or after 1 January 2017)
- IAS 40 (Amendments) - Transfers of investment property (effective for financial years on or after 1 January 2018)
- IFRS 15 (Clarifications) - Revenue from Contracts with Customers (effective for financial years on or after 1 January 2018)
- IFRS 2 (Amendments) - Classification and measurement of share based payments (effective for financial years on or after 1 January 2018)
- IFRS 4 (Amendments) - Applying IFRS 9 with IFRS 4 (effective for financial years on or after 1 January 2018)
- Annual Improvements to IFRSs 2014-2016 Cycle (effective for financial years on or after 1 January 2018)
- IFRIC 22 - Foreign currency transactions and advance considerations (effective for financial years on or after 1 January 2018)

The changes resulting from these standards, interpretations and amendments are not expected to have a material effect on the financial statements of the Group.

2.3 SUMMARY OF SIGNIFICANCT ACCOUNTING POLICIES

Recognition of income and expenses

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

Interest and similar income and expense

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

Fees and commission income

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

Dividend income

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

Net gains on financial instruments

Net gains on financial instruments include realised gains and losses on disposal of financial instruments and unrealised gains and losses on financial assets designated at fair value through profit or loss. Realised gains and losses on disposal of financial instruments represent the difference between an 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 the Group and applies to loans and advances to banks and loans and advances to customers.

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

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

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

Held-to-maturity financial investments

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

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

Available-for-sale financial investments

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

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

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

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

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

Derecognition of financial assets

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

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

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

Impairment of financial assets

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

Financial assets carried at amortised cost

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

If there is objective evidence that an impairment loss on loans and receivables and held-to-maturity investments carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original EIR (i.e. the EIR computed at initial recognition). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in profit or loss. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

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

Available-for-sale financial investments

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

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

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

Renegotiated loans

Where possible, the 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 Bank 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 recognised as an intangible asset when the Group can demonstrate:

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

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

Investment properties

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

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

Impairment of non-financial assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or Cash Generating Unit's fair value less costs to sell and its value in use. Where the carrying amount of an asset or Cash Generating Unit exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

Impairment losses are recognised in the statement of profit or loss in those expense categories consistent with the function of the impaired asset.

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

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

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

Investments in subsidiaries

Investments in subsidiaries are 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, the investment in an associate is initially recognised at cost in the statement of financial position. The carrying amount of the investment is adjusted to recognise changes in the Group's share of net assets of the associate since acquisition date. Goodwill relating to the 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 associates 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 is recognised only to the extent of the distributions received by the Bank.

Dividends payable on ordinary shares

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

Taxation

Current income tax

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

Deferred income tax

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

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

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

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

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

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

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

Retirement benefit costs

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

Other liabilities

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

Financial guarantees

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

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

Cash and cash equivalents

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

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

Fair value measurement

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

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

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

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

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

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

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

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

Significant accounting 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:

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

As at 31 December 2016, the Group directly held 15.19% (2015: 17.58%) 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:

- Representation in the board of directors;
- Participation in policy-making process;
- Material transaction between the investee and the Bank;
- 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 rights

As at 31 December 2016, the Group directly held 21.96% (2015: 24.95%) interest in APS Regular 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's financial statements and accounted for as an investment in associate under the equity method.

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 2016. 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	
	2016	2015	2016	2015
	€000	€000	€000	€000
On loans and advances to banks	47	11	47	11
On loans and advances to customers	27,242	25,584	27,242	25,584
On balances with Central Bank of Malta	-	2	-	2
	27,289	25,597	27,289	25,597
On debt securities	12,586	14,842	12,586	14,842
Amortisation of premiums and discounts	(1,008)	(1,655)	(1,008)	(1,655)
	11,578	13,187	11,578	13,187
	38,867	38,784	38,867	38,784

Interest receivable on loans and advances to customers is netted off with €654,424 (2015: €161,745) in respect of interest accrued on impaired loans and advances to customers (note 15).

4. INTEREST PAYABLE

	The Group		The Bank	
	2016	2015	2016	2015
	€000	€000	€000	€000
On amounts owed to banks	-	44	-	44
On amounts owed to customers	10,865	13,129	10,865	13,129
	10,865	13,173	10,865	13,173

5. DIVIDEND INCOME

	The Group		The Bank	
	2016	2015	2016	2015
	€000	€000	€000	€000
From equity shares held in local and foreign companies	246	229	745	826

6. TRADING INCOME

	The Group		The Bank	
	2016	2015	2016	2015
	€000	€000	€000	€000
Unrealised gain on exchange	223	233	223	233
Realised gain on exchange	143	470	143	470
	366	703	366	703

7. NET GAINS ON FINANCIAL INSTRUMENTS

	The Group		The Bank	
a) Net realised gains on disposal of available-for sale investments	2016	2015	2016	2015
	€000	€000	€000	€000
Realised gains on disposal of available-for-sale investments	1,282	1,511	1,282	1,511
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	92	(74)	92	(74)
Realised gains/(losses) on disposal of financial assets at fair value through profit or loss	37	(44)	37	(44)
	129	(118)	129	(118)
	1,411	1,393	1,411	1,393

8. PERSONNEL EXPENSES

	The Group		The Bank	
	2016	2015	**2016**	2015
	€000	€000	**€000**	€000
Wages and salaries:				
- key management personnel	**963**	354	**963**	354
- other staff	**7,463**	6,857	**7,463**	6,857
- wages recharged to subsidiary at cost	**-**	-	**(2)**	(5)
Social security costs	**535**	509	**535**	509
	8,961	7,720	**8,959**	7,715

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	
	2016	2015	**2016**	2015
	€000	€000	**€000**	€000
Managerial	**46**	37	**46**	37
Senior officers and officers	**221**	215	**221**	215
Others	**10**	10	**10**	10
	277	262	**277**	262

9. OTHER ADMINISTRATIVE EXPENSES

	The Group		The Bank	
	2016	2015	**2016**	2015
	€000	€000	**€000**	€000
Remuneration payable to the auditors for:				
- the audit of financial statements	**48**	32	**39**	31
- tax compliance services	**2**	2	**1**	2
Directors' emoluments	**228**	139	**223**	135
Insurance	**977**	990	**977**	990
Professional fees	**753**	1,098	**752**	1,097
Repairs and maintenance	**2,019**	1,454	**2,019**	1,454
Telecommunications	**342**	343	**342**	343
Office operating expenses	**1,751**	1,555	**1,751**	1,555
Card and other financial charges	**443**	365	**443**	365
Others	**1,702**	1,752	**1,709**	1,757
	8,265	7,730	**8,256**	7,729

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

10. NET IMPAIRMENT LOSSES

	The Group		The Bank	
	2016	2015	**2016**	2015
	€000	€000	**€000**	€000
Charge for the year:				
Loans and advances to customers:				
- collective impairment (note 15)	**154**	166	**154**	166
- individual impairment (note 15)	**2,122**	2,166	**2,122**	2,166
- bad debts written off	**1,522**	23	**1,522**	23
	3,798	2,355	**3,798**	2,355
Reversal of write-downs:				
Loans and advances to customers:				
- individual impairment (note 15)	**(2,810)**	(1,649)	**(2,810)**	(1,649)
Net impairment losses	**988**	706	**988**	706

11. INCOME TAX EXPENSE

The major components of income tax expense for the years ended 31 December 2016 and 2015 are:

	The Group		The Bank	
	2016	2015	2016	2015
	€000	€000	€000	€000
Current income tax	5,094	5,296	5,094	5,296
Deferred income tax	(274)	272	(274)	272
Income tax expense	4,820	5,568	4,820	5,568

A reconciliation between tax expense and the product of accounting profit multiplied by the applicable tax rate in Malta of 35% (2015: 35%) for the years ended 31 December 2016 and 2015 is as follows:

	The Group		The Bank	
	2016	2015	2016	2015
	€000	€000	€000	€000
Profit before tax	15,764	15,571	15,446	14,420
Theoretical tax expense at 35%	5,517	5,450	5,406	5,047
Tax effect of:				
- Differences between depreciation and capital allowances	(127)	95	(127)	95
- Income subject to reduced rates of tax	(125)	(185)	(125)	(185)
- Others	(445)	208	(334)	611
Income tax expense	4,820	5,568	4,820	5,568

12. DIVIDENDS PAID AND PROPOSED

	The Group		The Bank	
	2016	2015	2016	2015
	€000	€000	€000	€000
Dividends paid 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
Interim gross of income tax for 2016:				
2.54 cents per share (2015: 2.54 cents per share)	1,172	1,172	1,172	1,172
Interim net of income tax for 2016:				
1.65 cents per share (2015: 1.65 cents per share)	762	762	762	762

Dividends proposed for approval at annual general meeting were not recognised as a liability as at 31 December 2016 and are presented below:

	The Group		The Bank	
	2016	2015	2016	2015
	€000	€000	€000	€000
Dividends proposed on ordinary shares:				
Final gross of income tax for 2016:				
3.97 cents per share (2015: 3.44 cents per share)	1,828	1,586	1,828	1,586
Final net of income tax for 2016				
2.58 cents per share (2015: 2.24 cents per share)	1,188	1,031	1,188	1,031

13. CASH AND BALANCES WITH CENTRAL BANK OF MALTA

	The Group		The Bank	
	2016	2015	**2016**	2015
	€000	€000	**€000**	€000
Cash in hand (note 37)	**6,464**	6,832	**6,464**	6,832
Balances with Central Bank of Malta (excluding reserve deposit) (note 37)	**21,400**	1,400	**21,400**	1,400
Reserve deposit with Central Bank of Malta	**8,556**	7,765	**8,556**	7,765
	36,420	15,997	**36,420**	15,997

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 (2015: the same) pledged in favour of the MFSA's Depositors' Compensation Scheme (note 19).

During the year ended 31 December 2016 the Bank has been compliant with the reserve deposit requirement (2015: the same).

14. LOANS AND ADVANCES TO BANKS

	The Group		The Bank	
	2016	2015	**2016**	2015
	€000	€000	**€000**	€000
Repayable on call and at short notice (note 37)	**48,800**	35,314	**48,800**	35,314
Placements with other banks not repayable at short notice	**11,362**	7,713	**11,362**	7,713
	60,162	43,027	**60,162**	43,027
Analysed by currency:				
- Euro	**35,851**	34,070	**35,851**	34,070
- Foreign	**24,311**	8,957	**24,311**	8,957
	60,162	43,027	**60,162**	43,027

15. LOANS AND ADVANCES TO CUSTOMERS

	The Group		The Bank	
	2016	2015	**2016**	2015
	€000	€000	**€000**	€000
Repayable on call and at short notice	**57,414**	55,668	**57,414**	55,668
Term loans and advances	**762,900**	654,315	**762,900**	654,315
Gross loans and advances (i)	**820,314**	709,983	**820,314**	709,983
Less: allowance for impairment losses (ii)	**(14,303)**	(14,183)	**(14,303)**	(14,183)
Net loans and advances	**806,011**	695,800	**806,011**	695,800

(i) Gross loans and advances analysed by currency

	The Group		The Bank	
	2016	2015	**2016**	2015
	€000	€000	**€000**	€000
- Euro	**814,616**	706,115	**814,616**	706,115
- Foreign	**5,698**	3,868	**5,698**	3,868
	820,314	709,983	**820,314**	709,983

15. LOANS AND ADVANCES TO CUSTOMERS (Continued)

(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	
	2016 €000	2015 €000	2016 €000	2015 €000
At 1 January	14,183	13,338	14,183	13,338
Charge/(Reversal) for the year:				
- Collective (note 10)	154	166	154	166
- Individual (note 10)	(688)	517	(688)	517
- Accrued interest (note 3)	654	162	654	162
At 31 December	14,303	14,183	14,303	14,183
- Individual impairment losses, including accrued interest	11,463	11,497	11,463	11,497
- Collective impairment losses	2,840	2,686	2,840	2,686
	14,303	14,183	14,303	14,183

With the individually assessed allowance for impairment losses at the reporting date is included an amount of €4,910,905 (2015: €4,257,026) which has been netted-off against interest receivable.

The aggregate amount of non-performing loans and advances at the reporting date amounted to €52,335,983 (2015: €62,068,977)

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	2016 €000	2015 €000
Agriculture	8,933	7,532
Fishing	2,257	3,469
Manufacturing	23,180	21,142
Electricity, gas and water supply	11,137	18,269
Construction	41,317	74,929
Wholesale and retail trade	32,841	39,537
Hotels and restaurants, excluding related construction activities	16,978	18,220
Transport, storage and communication	4,114	1,848
Financial intermediation	57,551	1,639
Real estate, renting and business	40,558	19,318
Professional, Scientific and technical	4,043	5,320
Administrative and Support services	13,096	6,245
Public administration	4,135	6,704
Education	11,501	12,083
Health and social work	3,942	3,203
Community, recreational and personal service activities	2,583	2,935
Households and individuals	542,148	467,590
	820,314	709,983

16. INVESTMENT PROPERTIES

The Group's investment property consists of commercial property and residential properties in Malta. As at 31 December 2016 and 2015 the fair values of investment properties held by the Group were as follows:

	The Group		The Bank	
	2016	2015	2016	2015
	€000	€000	€000	€000
As at 1 January	3,965	4,147	3,965	4,147
Deductions	(172)	-	(172)	-
Fair value movement	-	(182)	-	(182)
As at 31 December	3,793	3,965	3,793	3,965

17. DERIVATIVE FINANCIAL INSTRUMENTS

	The Group		The Bank	
	2016	2015	2016	2015
	€000	€000	€000	€000
Derivative assets, designated as at fair value through profit or loss, not designated as hedges	3,164	3,560	3,164	3,560
Derivative liabilities, designated as at fair value through profit or loss, not designated as hedges	3,164	3,560	3,164	3,560

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 2016 €000	Assets 2016 €000	Liabilities 2016 €000	Notional 2015 €000	Assets 2015 €000	Liabilities 2015 €000
Over the counter derivatives:						
Equity/commodity-index warrants purchased	59,775	3,164	-	65,775	3,560	-
Equity/commodity-index warrants written	(59,775)	-	3,164	(65,775)	-	3,560
	-	3,164	3,164	-	3,560	3,560

The Group's exposure under the derivative contracts is closely monitored as part of the overall management of market risk.

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	
	2016	2015	2016	2015
	€000	€000	€000	€000
Debt and other fixed income instruments	2,732	3,225	2,732	3,225
Equity and other non-fixed income instruments	589	590	589	590
	3,321	3,815	3,321	3,815
Analysed by currency:				
- Euro	3,321	3,368	3,321	3,368
- Foreign	-	447	-	447
	3,321	3,815	3,321	3,815

19. DEBT AND OTHER FIXED INCOME INSTRUMENTS

	The Group		The Bank	
	2016	2015	2016	2015
	€000	€000	€000	€000
Held-to-maturity	72,916	76,999	72,916	76,999
Available-for-sale	249,928	220,960	249,928	220,960
	322,844	297,959	322,844	297,959
Held-to-maturity				
Issued by public bodies:				
- Local government	63,120	72,944	63,120	72,944
Issued by other issuers:				
- Foreign government	9,282	3,555	9,282	3,555
- Foreign others	514	500	514	500
	9,796	4,055	9,796	4,055
Total	72,916	76,999	72,916	76,999
Available-for-sale				
Issued by public bodies:				
- Local government	67,629	67,910	67,629	67,910
- Foreign government	17,099	14,392	17,099	14,392
	84,728	82,302	84,728	82,302
Issued by other issuers:				
- Local banks	2,389	2,214	2,389	2,214
- Foreign banks	48,900	24,926	48,900	24,926
- Foreign others	110,641	108,130	110,641	108,130
- Local others	3,270	3,388	3,270	3,388
	165,200	138,658	165,200	138,658
Total	249,928	220,960	249,928	220,960
Total debt and other fixed income instruments	322,844	297,959	322,844	297,959
Analysed by currency:				
- Euro	277,683	251,760	277,683	251,760
- Foreign	45,161	46,199	45,161	46,199
	322,844	297,959	322,844	297,959
Unamortised premiums on debt and other fixed income instruments	7,833	7,363	7,833	7,363
Listing status:				
- Listed on Malta Stock Exchange	136,409	146,456	136,409	146,456
- Listed elsewhere	185,921	151,003	185,921	151,003
- Unlisted	514	500	514	500
	322,844	297,959	322,844	297,959

Eligible debt instruments with a nominal value of €103,016,549 (2015: €112,563,045) 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 (2015: the same) have been pledged in favour of the MFSA's Depositors' Compensation Scheme, as follows:

The Group / Bank	2016	2015
	€000	€000
Deposit with Central Bank of Malta (note 13)	1,400	1,400
Debt instruments with local government	3,850	3,850
	5,250	5,250

20. EQUITY AND OTHER NON-FIXED INCOME INSTRUMENTS

	The Group		The Bank	
	2016	2015	2016	2015
Available-for-Sale	€000	€000	€000	€000
Listing status:				
- Listed on Malta Stock Exchange	3,735	3,113	3,735	3,113
- Listed elsewhere	96	102	96	102
- Unlisted	288	133	288	133
	4,119	3,348	4,119	3,348

21. INVESTMENT IN SUBSIDIARIES

	2016	2015
	€000	€000
Cost		
At 1 January	650	5,650
Loss of control of subsidiary	-	(5,000)
Increase in investments	250	-
As at 31 December	900	650
Provision for diminution in value		
At 1 January and 31 December	(595)	(595)
Carrying amount		
At 31 December	305	55

The shares in subsidiaries are made up as follows:

				Cost	
	Country of	% equity interest		2016	2015
Name	incorporation	2016	2015	€000	€000
APS Consult Limited	Malta				
259,999 ordinary shares at €2.50		99.99	99.99	55	55
(2015:259,999 ordinary shares at €2.50)					
ReAPS Asset Management Limited	Malta				
250,000 ordinary shares at €1.00		100.00	-	250	-
				305	55

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.

22. INVESTMENT IN ASSOCIATES

The Bank	Country of	% equity interest		Cost	
				2016	2015
Name	incorporation	2016	2015	€000	€000
APS Funds SICAV p.l.c.	Malta				
1,199 founder shares at €1.00		99.99*	99.99*	1	1
(2015: 1,199 founder shares at €1.00)					
APS Income Fund	Malta				
98,853.14 units at €100.01		15.19	17.58	9,886	9,886
(2015: 98,853.14 units at €100.01)					
APS Regular Income Ethical Fund	Malta				
5,000,000 units at €1.00		21.96	24.95	5,000	5,000
(2015: 5,000,000 units at €1.00)					
				14,887	14,887

*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 table illustrates summarised financial information of APS Income Fund and APS Regular Income Ethical Fund:

	APS Income Fund		APS Regular Income Ethical Fund	
	2016	2015	2016	2015
	€000	€000	€000	€000
Current assets	3,157	3,464	1,856	1,823
Non-current assets	80,979	67,157	24,576	20,978
Current liabilities	(313)	(253)	(134)	(112)
Net asset value	83,823	70,368	26,298	22,689
Carrying amount of the Group's investment	12,648	12,366	5,608	5,560

	APS Income Fund		APS Regular Income Ethical Fund	
	2016	2015	2016	2015
	€000	€000	€000	€000
Income	5,066	9,112	1,441	558
General and other expenses	(865)	(624)	(329)	(266)
Finance cost	(1,732)	(1,653)	(449)	(517)
Profit/(loss) before tax	2,469	6,835	663	(225)
Tax	(321)	(433)	(25)	(12)
Profit/(loss) after tax	2,148	6,402	638	(237)
Group's share of profit for the year	639	1,587	189	167

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

	2016	2015
	€000	€000
Carrying amount of the investment at 1 January	17,926	11,171
Fair value of subsidiary upon loss of control	-	5,599
Share of associates' results, net of tax	828	1,754
Dividend distribution	(498)	(598)
Carrying amount of the investment at 31 December	18,256	17,926

The associates had no contingent liabilities or capital commitments as at 31 December 2016 (2015: the same).

The fair value of the investment in associates as at 31 December 2016 amounted to €18,507,594 (2015: €18,033,767).

23. INTANGIBLE ASSETS

The Group / Bank	Computer software €000
Cost	
At 1 January 2015	9,912
Additions	1,545
At 31 December 2015	11,457
Adjustments to opening balance	(100)
Additions	1,685
At 31 December 2016	**13,042**
Amortisation	
At 1 January 2015	7,821
Charge for the year	499
At 31 December 2015	8,320
Adjustments to opening balance	13
Charge for the year	648
At 31 December 2016	**8,981**
Net book value	
At 31 December 2016	**4,061**
At 31 December 2015	3,137
At 1 January 2015	2,091

	2016 €000	2015 €000
Future capital expenditure:		
- Authorised by the Directors and contracted	823	2,466
- Authorised by the Directors but not yet contracted	3,287	606
	4,110	3,072

The gross carrying amount of any fully amortised intangible assets that is still in use as at 31 December 2016 was of €8,041,902 (2015: €6,986,054).

24. PROPERTY AND EQUIPMENT

The Group	Land and Buildings €000	Computer Equipment €000	Other €000	Total €000
Cost				
At 1 January 2015	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
Adjustments to opening balance	-	(196)	135	(61)
Additions	1,054	422	411	1,887
Disposals	-	(6)	(78)	(84)
At 31 December 2016	**13,264**	**5,206**	**12,408**	**30,878**
Depreciation				
At 1 January 2015	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
Adjustments to opening balance	-	(122)	97	(25)
Charge for the year	144	338	616	1,098
Disposals	-	(6)	(78)	(84)
At 31 December 2016	**1,937**	**4,539**	**10,255**	**16,731**
Net Book Value				
At 31 December 2016	**11,327**	**667**	**2,153**	**14,147**
At 31 December 2015	10,417	657	2,320	13,394
At 1 January 2015	10,472	601	2,740	13,813

	2016 €000	2015 €000
Future capital expenditure:		
- Authorised by the Directors and contracted	**1,505**	2,546
- Authorised by the Directors but not yet contracted	**6,978**	3,078
	8,483	5,624

The gross carrying amount of any fully depreciated property and equipment that is still in use as at 31 December 2016 was of €10,851,344 (2015: €8,739,055).

24. PROPERTY AND EQUIPMENT (Continued)

The Bank	Land and Buildings €000	Computer Equipment €000	Other €000	Total €000
Cost				
At 1 January 2015	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
Adjustments to opening balance	-	(196)	135	(61)
Additions	1,054	422	411	1,887
Disposals	-	(6)	(78)	(84)
At 31 December 2016	**13,264**	**5,199**	**12,410**	**30,873**
Depreciation				
At 1 January 2015	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
Adjustments to opening balance	-	(122)	97	(25)
Charge for the year	144	338	616	1,098
Disposals	-	(6)	(78)	(84)
At 31 December 2016	**1,937**	**4,531**	**10,258**	**16,726**
Net Book Value				
At 31 December 2016	**11,327**	**668**	**2,152**	**14,147**
At 31 December 2015	10,417	658	2,319	13,394
At 1 January 2015	10,472	602	2,737	13,811

	2016 €000	2015 €000
Future capital expenditure:		
- Authorised by the Directors and contracted	**1,505**	2,546
- Authorised by the Directors but not yet contracted	**6,978**	3,078
	8,483	5,624

The gross carrying amount of any fully depreciated property and equipment that is still in use as at 31 December 2016 was of €10,851,344 (2015: €8,739,055).

25. DEFERRED TAX ASSETS

Deferred income tax at 31 December relates to the following:

	The Group		The Bank	
	2016	2015	2016	2015
	€000	€000	€000	€000
Fair value movements in investment securities	(3,049)	(2,165)	(3,049)	(2,165)
Impairment allowance for loans and advances to customers	5,006	4,964	5,006	4,964
Excess of capital allowances over depreciation	(455)	(723)	(455)	(723)
	1,502	2,076	1,502	2,076

Deferred tax arising on the fair value movements on investment securities, amounting to €847,771 (2015: €1,665,889) was debited (2015: credited) directly in equity. For other movements' details refer to note 11.

26. OTHER RECEIVABLES

	The Group		The Bank	
	2016	2015	2016	2015
	€000	€000	€000	€000
Accrued income	5,921	4,660	5,921	4,660
Prepayments and other receivables	752	618	752	617
Amounts due from subsidiaries	-	-	17	17
	6,673	5,278	6,690	5,294

27. AMOUNTS OWED TO BANKS

	The Group		The Bank	
	2016	2015	2016	2015
	€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)	36,204	35,327	36,204	35,327
Analysed by currency:				
- Euro	31,476	35,282	31,476	35,282
- Foreign	4,728	45	4,728	45
	36,204	35,327	36,204	35,327

28. AMOUNTS OWED TO CUSTOMERS

	The Group		The Bank	
	2016	2015	2016	2015
	€000	€000	€000	€000
Term deposits	545,306	524,733	545,306	524,733
Repayable on demand	553,809	418,188	554,100	418,240
	1,099,115	942,921	1,099,406	942,973
Analysed by currency:				
- Euro	1,029,192	883,831	1,029,483	883,883
- Foreign	69,923	59,090	69,923	59,090
	1,099,115	942,921	1,099,406	942,973

29. OTHER LIABILITIES

	The Group		The Bank	
	2016	2015	2016	2015
	€000	€000	€000	€000
Other liabilities	8,340	3,630	8,335	3,625
Amounts due to subsidiaries	-	-	2	2
	8,340	3,630	8,337	3,627

30. ACCRUALS

	The Group		The Bank	
	2016	2015	2016	2015
	€000	€000	€000	€000
Accrued interest payable	5,884	5,724	5,884	5,724
Other accruals	2,381	2,500	2,381	2,500
	8,265	8,224	8,265	8,224

31. SHARE CAPITAL

	The Group		The Bank	
	2016	2015	2016	2015
	€000	€000	€000	€000
Authorised				
60,000,000 ordinary shares of €1.25 each				
(2015: the same)	75,000	75,000	75,000	75,000
Issued and fully paid				
46,083,840 ordinary shares of €1.25 each				
(2015: the same)	57,605	57,605	57,605	57,605

The Group / Bank	2016 Number of shares '000	2015 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 Archdiocese of Malta.

32. SHARE PREMIUM

	The Group		The Bank	
	2016	2015	2016	2015
	€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 the amount of €45,400 from the planned dividend distributions during 2015. 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. No amounts were required to be allocated during 2016.

35. CONTINGENT LIABILITIES

	The Group		The Bank	
	2016	2015	2016	2015
	€000	€000	€000	€000
Guarantees	5,408	5,233	5,408	5,233
Other contingent liabilities	704	373	704	373
	6,112	5,606	6,112	5,606

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 2016 and 31 December 2015.

36. COMMITMENTS

	The Group		The Bank	
	2016	2015	2016	2015
	€000	€000	€000	€000
Undrawn formal standby facilities, credit facilities and other commitments to lend	379,078	209,567	379,078	209,567

37. NOTES TO THE STATEMENTS OF CASH FLOWS

	The Group		The Bank	
	2016	2015	2016	2015
	€000	€000	€000	€000
Cash in hand (note 13)	6,464	6,832	6,464	6,832
Balances with Central Bank of Malta (excluding reserve deposit) (note 13)	21,400	1,400	21,400	1,400
Loans and advances to banks (repayable within 3 months) (note 14)	48,800	35,314	48,800	35,314
Amounts owed to banks (note 27)	(36,204)	(35,327)	(36,204)	(35,327)
Cash and cash equivalents included in the statements of cash flows	40,460	8,219	40,460	8,219

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 2016	2015
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	Malta	22	21.96	24.95
APS Income Fund (sub-fund of APS Funds Sicav p.l.c.)	Associate	Malta	22	15.19	17.58
ReAPS Asset Management Limited	Subsidiary	Malta	21	100.00	-

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 p.l.c. 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
Subsidiary:					
APS Consult Limited	**2016**	**2**	**-**	**17**	**40**
APS Consult Limited	2015	2	-	17	51
Associates:					
APS Income Fund	**2016**	**586**	**198**	**155**	**18,427**
APS Income Fund	2015	476	106	131	7,805
APS Regular Income Ethical Fund	**2016**	**234**	**38**	**64**	**6,019**
APS Regular Income Ethical Fund	2015	189	22	53	4,348

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 (2015: the same).

(b) Other transactions with directors:

	2016 €000	2015 €000
Loans and advances	92	104
Commitments	10	9

38. RELATED PARTY DISCLOSURES (Continued)

Transactions with key management personnel of the Bank (Continued)

	2016 €000	2015 €000
Loans and advances	871	446
Commitments	19	12

Transactions with other related parties

	Balances as at 31.12.2016 €000	Interest receivable €000	Balances as at 31.12.2015 €000	Interest receivable €000
Amounts due from other related parties:				
Shareholders and entities with common directorship	7,434	253	7,243	265

	Balances as at 31.12.2016 €000	Interest payable €000	Balances as at 31.12.2015 €000	Interest payable €000
Amounts due to other related parties:				
Shareholders	40,325	427	38,557	945
Key Management Personnel	1,243	5	505	9
Other Related Parties	12,721	47	9,750	100

Included in the amounts due to shareholders, are deposits of €250,000 (2015: the same) held as collateral for loan commitments and overdraft facilities granted to related parties. Also included are term deposits of €150,000 (2015: €26,921,722), which bear interest at the prevailing Bank rates.

For the year ended 31 December 2016, the Bank has not made any provision for impairment of receivables relating to amounts due from related parties (2015: the same).

No guarantees were received by related parties as at end of December 2016 (2015: the same).

39. RISK MANAGEMENT

39.1 Introduction

The Group's main activities are subject to a combination of financial risks which are inherent to 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.

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

	Fair value measurement hierarchy			
The Group / Bank	**Level 1**	**Level 2**	**Level 3**	**Total**
	€000	**€000**	**€000**	**€000**
Assets as at 31 December 2016				
Investment properties (Note 16)				
- Residential properties	-	2,488	-	2,488
- Commercial property	-	-	1,305	1,305
Derivative assets not designated as hedges (Note 17)	-	3,164	-	3,164
Financial assets at fair value through profit or loss (Note 18)				
- debt and other fixed income instruments	2,732	-	-	2,732
- equity and other non-fixed income instruments	589	-	-	589
Available-for-sale financial assets				
- debt and other fixed income instruments (Note 19)	249,928	-	-	249,928
- equity and other non-fixed income instruments (Note 20)	4,119	-	-	4,119
Total	**257,368**	**5,652**	**1,305**	**264,325**
Liabilities as at 31 December 2016				
Derivative liabilities not designated as hedges (Note 17)	-	3,164	-	3,164
Total	**-**	**3,164**	**-**	**3,164**

39. RISK MANAGEMENT (Continued)

39.2 Fair values (Continued)

The Group / Bank	Fair value measurement hierarchy Level 1 €000	Level 2 €000	Level 3 €000	Total €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)	3,348	-	-	3,348
Total	**228,123**	**6,220**	**1,305**	**235,648**
Liabilities as at 31 December 2015				
Derivative liabilities not designated as hedges (Note 17)	-	3,560	-	3,560
Total	**-**	**3,560**	**-**	**3,560**

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.

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

	Valuation Technique	Significant Unobservable Inputs	Range 2016
Commercial property	DCF method	Estimated rental value per sqm per year	€125 - €150 (2015: the same)
		Discount rate	6% (2015: the same)
		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 2016, the Bank recognised a fair value gain of nil (2015: €305,000), 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 2016 (2015: the same), the Group has no restrictions on the realisation of investment properties.

39. RISK MANAGEMENT (Continued)

39.2 Fair values (Continued)

Derivative assets not designated as hedges

The last valuation for derivative instruments was made on 31 December 2016 (2015: 31 December 2015) 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.

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.

Equity and other non-fixed income instruments

The Bank's investments of NOK 800,000 equivalent to €88,096 (2015: €83,228) in Cultura Sparebank and of €200,000 (2015: €50,000) 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 2016 (2015: 31 December 2015) 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. The fair value was determined using a Level 2 valuation technique.

Debt securities classified as held-to-maturity investments are carried in the statement of financial position at amortised cost (Level 1). At the reporting date the amortised cost of these assets amounted to €72.9 million (2015: €77.0 million). Their market value amounted to €86.5 million (2015: €92.0 million), whilst their nominal value amounted to €71.5 (2015: €75.4 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, 76% (2015: 74%) have contractual re-pricing within one year, whilst 24% (2015: 26%) 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 2.2.

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	
	2016	2015	2016	2015
	€000	€000	€000	€000
Cash and balances with Central Bank of Malta (excluding cash in hand)	29,956	9,165	29,956	9,165
Cheques in course of collection	42	1,970	42	1,970
Loans and advances to banks	60,162	43,027	60,162	43,027
Loans and advances to customers	566,648	492,107	566,648	492,107
Loans and advances to corporate entities	239,363	203,693	239,363	203,693
Derivative financial instruments	3,164	3,560	3,164	3,560
Debt and other fixed income instruments	322,844	297,959	322,844	297,959
Financial assets at fair value through profit and loss	2,732	3,225	2,732	3,225
Other receivables	6,673	5,278	6,690	5,294
	1,231,584	1,059,984	1,231,601	1,060,000
Credit risk exposures relating to off-balance sheet items are as follows:				
Financial guarantees	6,112	5,606	6,112	5,606
Commitments	379,078	209,567	379,078	209,567
	385,190	215,173	385,190	215,173

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

The Group	Government	Real Estate	Institutions	Short term claims on institutions	Corporate	Retail	Other	Total
	€000	€000	€000	€000	€000	€000	€000	€000
Cash and balances with Central Bank of Malta (excluding cash in hand)	29,956	-	-	-	-	-	-	29,956
Cheques in course of collection	-	-	-	-	-	-	42	42
Loans and advances to banks	-	-	-	60,162	-	-	-	60,162
Loans and advances to customers	5,465	522,933	6,539	-	227,497	45,321	-	807,755
Derivative financial instruments	-	-	3,164	-	-	-	-	3,164
Debt and other fixed income instruments	156,865	-	25,584	-	140,395	-	-	322,844
Financial assets at fair value through profit or loss	1,694	-	-	-	1,038	-	-	2,732
Other receivables	-	-	-	-	-	-	6,673	6,673
At 31 December 2016	**193,980**	**522,933**	**35,287**	**60,162**	**368,930**	**45,321**	**6,715**	**1,233,328**
At 31 December 2015	172,167	451,115	34,917	40,313	313,164	42,318	7,248	1,061,242
Financial guarantees	12	90	-	-	4,296	1,714	-	6,112
Commitments	9,433	189,688	-	-	164,411	15,546	-	379,078
At 31 December 2016	**9,445**	**189,778**	**-**	**-**	**168,707**	**17,260**	**-**	**385,190**
At 31 December 2015	12,404	117,340	-	-	71,921	13,508	-	215,173

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)	29,956	-	-	-	-	-	-	29,956
Cheques in course of collection	-	-	-	-	-	-	42	42
Loans and advances to banks	-	-	-	60,162	-	-	-	60,162
Loans and advances to customers	5,465	522,933	6,539	-	227,497	45,321	-	807,755
Derivative financial instruments	-	-	3,164	-	-	-	-	3,164
Debt and other fixed income instruments	156,865	-	25,584	-	140,395	-	-	322,844
Financial assets at fair value through profit or loss	1,694	-	-	-	1,038	-	-	2,732
Other receivables	-	-	-	-	-	-	6,690	6,690
At 31 December 2016	**193,980**	**522,933**	**35,287**	**60,162**	**368,930**	**45,321**	**6,732**	**1,233,345**
At 31 December 2015	172,167	451,115	34,917	40,313	313,164	42,318	7,264	1,061,258
Financial guarantees and other contingent liabilities	12	90	-	-	4,296	1,714	-	6,112
Commitments	9,433	189,688	-	-	164,411	15,546	-	379,078
At 31 December 2016	**9,445**	**189,778**	**-**	**-**	**168,707**	**17,260**	**-**	**385,190**
At 31 December 2015	12,404	117,340	-	-	71,921	13,508	-	215,173

Collateral

The Bank holds collateral for its loans and advances portfolio. Of the total loans and advances to customers, 86.95% (2015: 86.63%) 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 2016 there were no financial assets or liabilities arising from these agreements.

39. RISK MANAGEMENT (Continued)

39.3 Credit Risk (Continued)

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)	29,956	-	-	-	-	-	-	29,956
Cheques in course of collection	42	-	-	-	-	-	-	42
Loans and advances to banks	60,162	-	-	-	-	-	-	60,162
Loans and advances to customers	57,551	23,180	74,829	32,841	4,043	67,152	560,718	820,314
Derivative financial instruments	3,164	-	-	-	-	-	-	3,164
Debt and other fixed income instruments	52,311	30,853	8,002	28,730	158,592	44,356	-	322,844
Financial assets at fair value through profit or loss	-	208	-	731	1,694	99	-	2,732
Other receivables	-	-	-	-	-	6,673	-	6,673
At 31 December 2016	**203,186**	**54,241**	**82,831**	**62,302**	**164,329**	**118,280**	**560,718**	**1,245,887**
At 31 December 2015	121,996	37,150	93,755	57,447	164,408	109,340	475,888	1,059,984
Financial guarantees and other contingent liabilities	142	370	738	1,577	12	2,150	1,123	6,112
Commitments	17,801	2,927	75,853	15,374	7,119	67,556	192,448	379,078
As at 31 December 2016	**17,943**	**3,297**	**76,591**	**16,951**	**7,131**	**69,706**	**193,571**	**385,190**
At 31 December 2015	1,775	4,034	42,723	14,332	1,268	30,958	120,083	215,173

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)	29,956	-	-	-	-	-	-	29,956
Cheques in course of collection	42	-	-	-	-	-	-	42
Loans and advances to banks	60,162	-	-	-	-	-	-	60,162
Loans and advances to customers	57,551	23,180	74,829	32,841	4,043	67,152	560,718	820,314
Derivative financial instruments	3,164	-	-	-	-	-	-	3,164
Debt and other fixed income instruments	52,311	30,853	8,002	28,730	158,592	44,356	-	322,844
Financial assets at fair value through profit or loss	-	208	-	731	1,694	99	-	2,732
Other receivables	-	-	-	-	-	6,690	-	6,690
At 31 December 2016	**203,186**	**54,241**	**82,831**	**62,302**	**164,329**	**118,297**	**560,718**	**1,245,904**
At 31 December 2015	121,996	37,150	93,755	57,447	164,408	109,356	475,888	1,060,000
Financial guarantees and other contingent liabilities	142	370	738	1,577	12	2,150	1,123	6,112
Commitments	17,801	2,927	75,853	15,374	7,119	67,556	192,448	379,078
As at 31 December 2016	**17,943**	**3,297**	**76,591**	**16,951**	**7,131**	**69,706**	**193,571**	**385,190**
At 31 December 2015	1,775	4,034	42,723	14,332	1,268	30,958	120,083	215,173

39. RISK MANAGEMENT (Continued)

39.3 Credit Risk (Continued)

Credit quality

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

The Group

At 31 December 2016	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	-	-	-	1,655	-	1,655
AA+ to AA-	-	-	464	26,428	-	26,892
A+ to A-	29,956	713	294	192,762	6,427	230,152
Lower than A-	-	2,451	1,672	95,172	53,735	153,030
Unrated	-	-	302	6,827	-	7,129
	29,956	**3,164**	**2,732**	**322,844**	**60,162**	**418,858**

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**

The Bank

At 31 December 2016	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	-	-	-	1,655	-	1,655
AA+ to AA-	-	-	464	26,428	-	26,829
A+ to A-	29,956	713	294	192,762	6,427	230,152
Lower than A-	-	2,451	1,672	95,172	53,735	153,030
Unrated	-	-	302	6,827	-	7,129
	29,956	**3,164**	**2,732**	**322,844**	**60,162**	**418,858**

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**

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 realization 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.

Impairment Allowances on Total/Forborne Exposures

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

The Group / Bank	Total 2016 €000	of which forborne 2016 €000	Total 2015 €000	of which forborne 2015 €000
Performing				
Neither past due nor impaired	2,840	25	2,686	28
Past due < 90 days, but not impaired	-	-	-	-
Non-performing				
Past due > 90 days, but not impaired	1,452	567	2,599	771
Impaired	10,011	3,749	8,898	3,184
Total allowances	14,303	4,341	14,183	3,983

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 2016 €000	of which forborne 2016 €000	Total 2015 €000	of which forborne 2015 €000
Performing				
Neither past due nor impaired	736,436	2,962	638,680	2,046
Past due < 90 days, but not impaired	31,543	576	9,234	366
Non-performing				
Past due > 90 days, but not impaired	27,760	17,587	38,774	19,940
Impaired	24,575	10,927	23,295	7,424
Total gross/forborne exposures	820,314	32,052	709,983	29,776

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	2016	2015
	€000	€000
Neither past due nor impaired	736,436	638,680
Past due but not impaired	59,303	48,008
Impaired	24,575	23,295
	820,314	709,983

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

The Group / Bank	2016	2015
	€000	€000
Regular	713,306	627,364
Watch List	15,937	1,758
Sub-Standard	472	2,162
Doubtful	6,721	7,396
	736,436	638,680

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	2016	2015
	€000	€000
Past due up to 29 days	14,532	17,808
Past due 30-59 days	20,175	3,205
Past due 60-89 days	13,507	6,028
Past due over 90 days	11,089	20,967
	59,303	48,008

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 €7,7,774,671 (2015: €7,460,294).

Information on impaired and past due facilities by significant industry and by significant geographical area, as required by BR/07/2014 – *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 2016						
Assets						
Cash and balances with Central Bank of Malta	36,420	-	-	-	-	36,420
Cheques in course of collection	42	-	-	-	-	42
Loans and advances to banks	60,162	-	-	-	-	60,162
Loans and advances to customers	68,420	33,816	64,399	639,376	-	806,011
Derivative financial instruments	3,164	-	-	-	-	3,164
Debt and other fixed income financial instruments	4,500	13,913	141,792	162,639	-	322,844
Financial assets at fair value through profit and loss	-	-	1,248	1,484	589	3,321
Equity and other non-fixed income instruments	-	-	-	-	4,119	4,119
Investment in associates	-	-	-	-	18,256	18,256
Other assets	3,899	1,657	88	1,029	23,503	30,176
	176,607	**49,386**	**207,527**	**804,528**	**46,467**	**1,284,515**
Liabilities and equity						
Amounts owed to banks	5,934	-	30,270	-	-	36,204
Derivative financial instruments	3,164	-	-	-	-	3,164
Amounts owed to customers	641,156	222,790	194,007	41,162	-	1,099,115
Other liabilities	700	1,576	3,313	332	10,723	16,644
Equity	-	-	-	-	129,388	129,388
	650,954	**224,366**	**227,590**	**41,494**	**140,111**	**1,284,515**
Gap	**(474,374)**	**(174,980)**	**(20,063)**	**763,034**	**(93,644)**	**-**

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 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 associate	-	-	-	-	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 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 2016						
Assets						
Cash and balances with Central Bank of Malta	36,420	-	-	-	-	36,420
Cheques in course of collection	42	-	-	-	-	42
Loans and advances to banks	60,162	-	-	-	-	60,162
Loans and advances to customers	68,420	33,816	64,399	639,376	-	806,011
Derivative financial instruments	3,164	-	-	-	-	3,164
Debt and other fixed income financial instruments	4,500	13,913	141,792	162,639	-	322,844
Financial assets at fair value through profit and loss	-	-	1,248	1,484	589	3,321
Equity and other non-fixed income instruments	-	-	-	-	4,119	4,119
Investment in subsidiaries	-	-	-	-	305	305
Investment in associates	-	-	-	-	14,887	14,887
Other assets	3,917	1,657	88	1,029	23,502	30,193
	176,625	**49,386**	**207,527**	**804,528**	**43,402**	**1,281,468**
Liabilities and equity						
Amounts owed to banks	5,934	-	30,270	-	-	36,204
Derivative financial instruments	3,164	-	-	-	-	3,164
Amounts owed to customers	641,447	222,790	194,007	41,162	-	1,099,406
Other liabilities	700	1,576	3,313	332	10,720	16,641
Equity	-	-	-	-	126,053	126,053
	651,245	**224,366**	**227,590**	**41,494**	**136,773**	**1,281,468**
Gap	**(474,620)**	**(174,980)**	**(20,063)**	**763,034**	**(93,371)**	**-**

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 associate	-	-	-	-	14,887	14,887
Other assets	3,969	1,534	-	-	22,572	28,075
	135,179	**38,691**	**208,817**	**684,354**	**41,452**	**1,108493**
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)**	**-**

Off – Balance sheet items

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

The Group / Bank	Not later than one year 2016 €000	2015 €000
Loan commitments	**379,078**	209,567
Guarantees, acceptance and other financial facilities	**6,112**	5,606
	385,190	215,173

39. RISK MANAGEMENT (Continued)

39.4 Liquidity risk (Continued)

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 assetsrs €000	Fair value of unencumbered assets €000
Assets as at 31 December 2016				
Equity instruments	-	-	22,963	4,959
Debt securities	125,349	138,770	200,227	200,374
Other assets	1,400	-	934,576	-
Assets of the reporting institution	**126,749**	**138,770**	**1,157,766**	**205,333**
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 institution	**133,933**	**147,587**	**977,528**	**177,230**

The Bank	Carrying amount of encumbered assets €000	Fair value of encumbered assets €000	Carrying amount of unencumbered assetsrs €000	Fair value of unencumbered assets €000
Assets as at 31 December 2016				
Equity instruments	-	-	19,899	4,959
Debt securities	125,349	138,770	200,227	200,374
Other assets	1,400	-	934,593	-
Assets of the reporting institution	**126,749**	**138,770**	**1,154,719**	**205,333**
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	-	787,029	-
Assets of the reporting institution	**133,933**	**147,587**	**974,560**	**177,230**

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	Matching liabilities €000	Encumbered Assets €000
Encumbered assets/collateral received and associated liabilities as at 31 December 2016		
Carrying amount of selected financial liabilities	**652,603**	**126,749**
Encumbered assets/collateral received and associated liabilities as at 31 December 2015		
Carrying amount of selected financial liabilities	**803,779**	**133,933**

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:

	2016			
	USD €000	GBP €000	Other €000	Total €000
Assets	16,823	45,244	9,644	71,711
Liabilities	16,820	45,248	9,447	71,515

	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

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 is taken by realigning the maturities of and re-pricing the assets and liabilities.

Projected net interest income

A principal part of all 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 €000	Effect on profit before tax €000
2016	+25	9
	-25	(660)
2015	+25	110
	-25	(644)

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:

	2016 €000	2015 €000
Net effect for a twelve month period	829	561

39. RISK MANAGEMENT (Continued)

39.6 Operational risk

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to a 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, 1994*. 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 2016.

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, 1994.*

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. 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.

	The Group 2016 €000	The Group 2015 €000	The Bank 2016 €000	The Bank 2015 €000
Adjusted book value	1,360,963	1,153,333	1,357,916	1,150,366
Risk weighted amounts:				
Credit risk calculation - standardised approach				
Total assets and off-balance sheet items	593,291	541,417	591,078	539,508
Operational risk - basic indicator approach				
15% of the three year adjusted average operating income	55,010	49,884	55,764	51,420
Foreign exchange risk				
8% of the capital requirement of the net short or long position, whichever is the higher	200	366	200	366
Total credit, operational and foreign exchange risk	648,501	591,667	647,042	591,294
Tier 1 Capital	101,420	87,484	98,406	85,618
Tier 2 Capital	8,471	11,244	8,471	11,244
Total Own Funds	109,891	98,728	106,877	96,862
Capital Adequacy Ratio				
Tier 1 Ratio	15.64%	14.79%	15.21%	14.48%
Total Capital Ratio	16.95%	16.69%	16.52%	16.38%

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 1 January 2014 to 31 December 2017, which covers the phasing-in of the regulatory adjustments, institutions are required to complete the transitional disclosure template.

* The 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 Group	2016 €000	2015 €000
Common Equity Tier 1 (CET1) capital	**101,420**	87,484
CET1 capital: instruments and reserves	**113,952**	101,865
Capital instruments and the related share premium accounts	59,375	59,375
Retained earnings	31,700	22,051
Accumulated other comprehensive income	21,177	18,739
Funds for general banking risk	1,700	1,700
CET1 capital: regulatory adjustments	**(12,532)**	(14,381)
Intangible assets	(4,061)	(3,137)
Regulatory adjustments relating to unrealised gains and losses pursuant to Articles 467 and 468	(8,471)	(11,244)
Tier 2 capital	**8,471**	11,244
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)	8,471	11,244
Total Capital	**109,891**	98,728
Total Risk Weighted Assets	**648,501**	591,668
Capital Ratios		
CET1 Capital Ratio	15.64%	14.79%
Total Capital Ratio	**16.95%**	16.69%
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)	**10,575**	2,579

39. RISK MANAGEMENT (Continued)

39.7 Capital management (Continued)

The Bank	2016 €000	2015 €000
Common Equity Tier 1 (CET1) capital	**98,406**	85,618
CET1 capital: instruments and reserves	**110,938**	99,999
Capital instruments and the related share premium accounts	59,375	59,375
Retained earnings	28,686	20,185
Accumulated other comprehensive income	21,177	18,739
Funds for general banking risk	1,700	1,700
Non-controlling interest	-	-
CET1 capital: regulatory adjustments	**(12,532)**	(14,381)
Intangible assets	(4,061)	(3,137)
Regulatory adjustments relating to unrealised gains and losses pursuant to Articles 467 and 468	(8,471)	(11,244)
Tier 2 capital	**8,471**	11,244
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)	8,471	11,244
Total Capital	**106,877**	96,862
Total Risk Weighted Assets	**647,042**	591,294
Capital Ratios		
CET1 Capital Ratio	15.21%	14.48%
Total Capital Ratio	**16.52%**	16.38%
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)	**10,575**	2,579

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

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

39. RISK MANAGEMENT (Continued)

39.7 Capital management (Continued)

	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)	21,177	-	21,177
Retained earnings (note 34)	47,801	(16,101)	31,700
of which general banking reserves (note 34)	*1,700*	-	*1,700*
of which general reserve	*1*	-	*1*
Dividend reserve	1,188	(1,188)	-
Intangible assets (note 23)	4,061	-	4,061

FIVE YEAR SUMMARIES

STATEMENTS OF PROFIT OR LOSS

The Group	2016	2015	2014	2013	2012
	€000	€000	€000	€000	€000
Interest receivable and similar income	38,867	38,784	38,026	36,829	36,211
Interest payable	(10,865)	(13,173)	(15,880)	(15,004)	(14,417)
Net interest income	28,002	25,611	22,146	21,825	21,794
Other operating income	6,894	6,094	6,178	4,933	5,265
Total operating income	34,896	31,705	28,324	26,758	27,059
Other operating charges	(18,972)	(17,182)	(15,494)	(15,142)	(13,111)
Share of results of associates, net of tax	828	1,754	1,142	624	689
Net impairment (losses)/reversals	(988)	(706)	(1,201)	1,584	(4,748)
Profit before tax	15,764	15,571	12,771	13,824	9,889
Income tax expense	(4,820)	(5,568)	(3,835)	(4,648)	(2,876)
Profit for the year	10,944	10,003	8,936	9,176	7,013

The Bank	2016	2015	2014	2013	2012
	€000	€000	€000	€000	€000
Interest receivable and similar income	38,867	38,784	37,409	36,409	36,124
Interest payable	(10,865)	(13,173)	(15,898)	(15,050)	(14,466)
Net interest income	28,002	25,611	21,511	21,359	21,658
Other operating income	7,393	6,691	5,703	5,564	5,327
Total operating income	35,395	32,302	27,214	26,923	26,985
Other operating charges	(18,961)	(17,176)	(15,401)	(14,928)	(12,917)
Net impairment (losses)/reversals	(988)	(706)	(1,194)	1,254	(4,998)
Profit before tax	15,446	14,420	10,619	13,249	9,070
Income tax expense	(4,820)	(5,568)	(3,835)	(4,526)	(2,789)
Profit for the year	10,626	8,852	6,784	8,723	6,281

THE GROUP'S STATEMENTS OF FINANCIAL POSITION

	2016	2015	2014	2013	2012
	€000	€000	€000	€000	€000
ASSETS					
Cash, treasury bills and balances with Central Bank of Malta	6,464	6,832	5,927	5,274	7,796
Reserve deposit with Central Bank of Malta	29,956	9,165	8,370	11,383	32,862
Cheques in course of collection	42	1,970	2,185	1,778	2,650
Loans and advances to banks	60,162	43,027	49,951	15,471	14,926
Loans and advances to customers	806,011	695,800	623,631	548,919	506,023
Derivative financial instruments	3,164	3,560	3,872	2,480	-
Financial assets at fair value through profit or loss	3,321	3,815	16,106	12,902	5,886
Debt and other fixed income instruments	322,844	297,959	356,404	328,873	304,457
Equity and other non-fixed income instruments	4,119	3,348	2,448	2,439	1,402
Investment in associates	18,256	17,926	11,171	10,437	10,206
Intangible assets	4,061	3,137	2,091	929	636
Investment properties	3,793	3,965	4,147	330	330
Property and equipment	14,147	13,394	13,813	14,058	13,636
Current tax	-	209	1,150	-	-
Deferred tax assets	1,502	2,076	682	3,881	3,284
Other receivables	6,673	5,278	5,890	5,987	6,065
TOTAL ASSETS	1,284,515	1,111,461	1,107,838	965,141	910,159
LIABILITIES					
Amounts owed to banks	36,204	35,327	78,568	70,771	70,021
Derivative financial instruments	3,164	3,560	3,872	2,480	-
Amounts owed to customers	1,099,115	942,921	892,829	781,242	743,106
Current tax	39	-	-	1,288	1,920
Other liabilities	8,340	3,630	3,914	3,080	4,951
Accruals and deferred income	8,265	8,224	8,807	7,722	6,373
TOTAL LIABILITIES	1,155,127	993,662	987,990	866,583	826,371
EQUITY					
Issued capital	57,605	57,605	57,605	57,605	42,803
Share premium	1,770	1,770	1,770	1,770	1,770
Revaluation reserve	21,177	18,739	19,062	9,147	8,693
Retained earnings	47,648	38,654	30,444	23,928	26,315
Dividend reserve	1,188	1,031	763	1,525	1,263
Non-controlling interest	-	-	10,204	4,583	2,944
TOTAL EQUITY	129,388	117,799	119,848	98,558	83,788
TOTAL LIABILITIES AND EQUITY	1,284,515	1,111,461	1,107,838	965,141	910,159
MEMORANDUM ITEMS					
Contingent liabilities	6,112	5,606	5,328	5,869	5,944
Commitments	379,078	209,567	211,470	169,654	156,314

THE BANK'S STATEMENTS OF FINANCIAL POSITION

	2016	2015	2014	2013	2012
	€000	€000	€000	€000	€000
ASSETS					
Cash, treasury bills and balances with Central Bank of Malta	6,464	6,832	5,927	5,274	7,796
Reserve deposit with Central Bank of Malta	29,956	9,165	8,370	11,383	32,862
Cheques in course of collection	42	1,970	2,185	1,778	2,650
Loans and advances to banks	60,162	43,027	49,314	15,171	14,926
Loans and advances to customers	806,011	695,800	623,631	548,919	506,045
Derivative financial instruments	3,164	3,560	3,872	2,480	-
Financial assets at fair value through profit or loss	3,321	3,815	3,483	4,172	-
Debt and other fixed income instruments	322,844	297,959	356,404	328,873	304,457
Equity and other non-fixed income instruments	4,119	3,348	2,448	2,439	1,402
Investment in subsidiaries	305	55	5,055	5,055	5,250
Investment in associates	14,887	14,887	9,887	9,887	9,887
Intangible assets	4,061	3,137	2,091	929	636
Investment properties	3,793	3,965	4,147	330	330
Property and equipment	14,147	13,394	13,811	14,056	13,633
Current tax	-	209	1,150	-	-
Deferred tax assets	1,502	2,076	682	4,002	3,371
Other receivables	6,690	5,294	5,605	5,790	5,892
TOTAL ASSETS	1,281,468	1,108,493	1,098,062	906,538	909,137
LIABILITIES					
Amounts owed to banks	36,204	35,327	78,568	70,771	70,021
Derivative financial instruments	3,164	3,560	3,872	2,480	-
Amounts owed to customers	1,099,406	942,973	895,156	781,879	745,234
Current tax	39	-	-	1,288	1,920
Other liabilities	8,337	3,627	3,892	3,060	4,947
Accruals and deferred income	8,265	8,224	8,796	7,693	6,364
TOTAL LIABILITIES	1,155,415	993,711	990,284	867,171	828,486
EQUITY					
Issued capital	57,605	57,605	57,605	57,605	42,803
Share premium	1,770	1,770	1,770	1,770	1,770
Revaluation reserve	21,177	18,739	19,062	9,147	8,693
Retained earnings	44,313	35,637	28,578	23,320	26,122
Dividend reserve	1,188	1,031	763	1,525	1,263
TOTAL EQUITY	126,053	114,782	107,778	93,367	80,651
TOTAL LIABILITIES AND EQUITY	1,281,468	1,108,493	1,098,062	960,538	909,137
MEMORANDUM ITEMS					
Contingent liabilities	6,112	5,606	5,328	5,869	5,944
Commitments	379,078	209,567	211,470	169,654	156,314

THE GROUP'S STATEMENTS OF CASH FLOWS

	2016	2015	2014	2013	2012
	€000	€000	€000	€000	€000
Net cash flows from/(used in) operating activities	**45,742**	(36,463)	24,197	(11,651)	7,849
Investing activities					
Dividends received	**211**	190	373	570	484
Interest income from debt securities	**13,121**	14,833	16,105	16,287	16,094
Purchase of debt and other fixed income instruments	**(72,594)**	(40,163)	(79,730)	(107,425)	(124,646)
Proceeds on maturity and disposal of debt and other fixed income instruments	**50,630**	95,388	64,570	82,283	103,180
Purchase of financial assets at fair value through profit or loss	**(2,582)**	(1,090)	(16,643)	(15,499)	(5,828)
Proceeds on disposal of financial assets at fair value through profit or loss	**3,041**	1,307	14,499	10,294	225
Purchase of equity and other non-fixed income instruments	**(807)**	(617)	(359)	(789)	(141)
Proceeds on disposal of equity and other non-fixed income instruments	**169**	-	369	-	826
Purchase of property and equipment	**(3,413)**	(2,272)	(2,557)	(2,737)	(1,002)
Proceeds on disposal of property and equipment	**17**	-	3	-	-
Net cash flows (used in)/from investing activities	**(12,207)**	67,576	(3,370)	(17,016)	(10,808)
Financing activities					
Dividends paid	**(1,294)**	(928)	(2,288)	(1,325)	(1,061)
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
Net cash flows (used in)/from financing activities	(1,294)	(928)	2,439	5,078	5,358
Net increase/(decrease) in cash and cash equivalents	**32,241**	30,185	23,266	(23,589)	2,399
Cash and cash equivalents at 1 January	**8,219**	(21,966)	(45,232)	(21,643)	(24,042)
Cash and cash equivalents at 31 December	**40,460**	8,219	(21,966)	(45,232)	(21,643)

THE BANK'S STATEMENTS OF CASH FLOWS

	2016	2015	2014	2013	2012
	€000	€000	€000	€000	€000
Net cash flows from/(used in) operating activities	**45,742**	(36,463)	25,721	(11,359)	10,065
Investing activities					
Dividends received	**710**	787	808	793	484
Interest income from debt securities	**13,121**	14,833	16,105	16,287	16,094
Purchase of debt and other fixed income instruments	**(72,594)**	(40,163)	(79,730)	(107,425)	(124,646)
Proceeds on maturity and disposal of debt and other fixed income instruments	**50,630**	95,388	64,570	82,283	103,179
Purchase of equity and other non-fixed income instruments	**(807)**	(617)	(359)	(939)	(141)
Proceeds on disposal of equity and other non-fixed income instruments	**169**	-	366	-	826
Purchase of financial assets at fair value through profit or loss	**(2,582)**	(1,090)	(6,029)	(6,351)	-
Proceeds on disposal of financial assets at fair value through profit or loss	**3,041**	1,307	6,656	2,320	-
Purchase of property, equipment and intangible assets	**(3,413)**	(2,272)	(2,557)	(2,737)	(1,002)
Proceeds on disposal of property and equipment	**17**	-	3	-	-
Investment in subsidiaries	**-**	-	-	-	(5,000)
Net cash flows (used in)/from investing activities	**(11,708)**	68,173	(167)	(15,769)	(10,206)
Financing activities					
Dividends paid	**(1,793)**	(1,525)	(2,288)	(1,263)	(1,061)
Proceeds from issue of share capital	**-**	-	-	4,802	3,601
Net cash flows (used in)/from financing activities	**(1,793)**	(1,525)	(2,288)	3,539	2,540
Net increase/(decrease) in cash and cash equivalents	**32,241**	30,185	23,266	(23,589)	2,399
Cash and cash equivalents at 1 January	**8,219**	(21,966)	(45,232)	(21,643)	(24,042)
Cash and cash equivalents at 31 December	**40,460**	8,219	(21,966)	(45,232)	(21,643)

ACCOUNTING RATIOS

The Group	**2016**	2015	2014	2013	2012
	%	%	%	%	%
Net interest income and other operating income to total assets	**2.7**	2.9	2.6	2.8	3.0
Operating expenses to total assets	**1.5**	1.5	1.4	1.6	1.4
Profit before tax to total assets	**1.2**	1.4	1.2	1.4	1.1
Return on average capital employed before tax *	**15.2**	15.6	13.4	16.8	14.4
Profit after tax to equity *	**10.1**	10.1	8.9	10.3	9.3

	2016	2015	2014	2013	2012
Shares in issue (thousands)	**46,084**	46,084	46,084	46,084	71,338
Net assets per share *	**235c**	215c	197c	194c	105c
Net dividends per share	**4c**	3c	3c	3c	2c
Dividend cover	**5.6**	5.6	5.9	6.0	5.6

The Bank	**2016**	2015	2014	2013	2012
	%	%	%	%	%
Net interest income and other operating income to total assets	**2.8**	2.9	2.5	2.8	3.0
Operating expenses to total assets	**1.5**	1.5	1.4	1.6	1.4
Profit before tax to total assets	**1.2**	1.3	1.0	1.4	1.0
Return on average capital employed before tax *	**15.4**	15.6	12.3	17.2	13.8
Profit after tax to equity *	**10.1**	9.2	7.6	10.4	8.7

	2016	2015	2014	2013	2012
Shares in issue (thousands)	**46,084**	46,084	46,084	46,084	71,338
Net assets per share *	**228c**	208c	193c	183c	101c
Net dividends per share	**4c**	3c	3c	3c	2c
Dividend cover	**5.5**	4.9	4.4	5.7	5.0

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

Return of average capital employed before tax of the Bank is calculated as the return as a percentage of the 12 months ending equity balances. The average capital employed of the Group is calculated as the average of the opening and closing equity balances.