ANNUAL REPORT & FINANCIAL STATEMENTS 2017

APS bank

MISSION STATEMENT

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

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BANK INFORMATION

DIRECTORS
Frederick Mifsud Bonnici, Chairman
Emanuel P. Delia, Chairman (resigned on 27 July 2017)
Franco Azzopardi
Joseph C. Caruana (resigned on 27 July 2017)
Laragh Cassar
Alfred DeMarco
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
Registration Number: C2192

WEBSITE
www.apsbank.com.mt

BOARD OF DIRECTORS

8 5 7 3

1. FREDERICK MIFSUD BONNICI

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

Mr Mifsud Bonnici was appointed Chairman of APS Bank Limited on July 2017. Mr Mifsud Bonnici spent the whole of his professional career of over 42 years with PricewaterhouseCoopers primarily as an Audit Partner. Within the same firm, he also held the position of partner responsible for Risk Management and Independence, Head of Assurance, and was a member of the firm's Management Board. He is a non-executive director of De Raekt Malta Holdings Limited and De Raekt Malta Investments Malta Limited as well as non-executive Director and Chairman of Blevins Franks Trustees Limited and Blevins Franks Gamma Limited. He is Chairman of the Malta Airport Foundation. In the past he served as Chairman of the Malta Stock Exchange between 1994 and 1999, and as Deputy Chairman of the same institution between 1991 and 1994. He recently served as a non-executive director and Chair of the Audit Committee of MeDirect Group Limited and its subsidiary MeDirect Bank p.l.c., as well as of Malita Investments plc. Between 2012 and 2013, he was non-executive Chairman of Bank of Valletta p.l.c. and Mapfre MSV Life (formerly MSV life). He has also been a senior lecturer in Auditing within the Faculty of Economics, Management and Accountancy at the University of Malta for 30 years.

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. 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 thesis.

1 4 6 2 9

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 forty five 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. 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.

6. 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.

7. 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.

8. 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.

9. 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), Board Credit Committee (BCC), Governance Committee (GC), IT Steering Committee (ITSC) and Risk Committee (RC).


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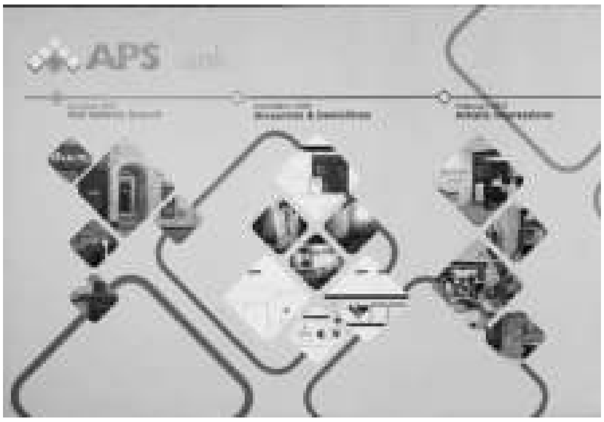
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CHAIRMAN'S STATEMENT

CHAIRMAN'S STATEMENT

Overall Performance

I am pleased to present the Chairman's Statement in respect of the year ended 31 December 2017. This is my first such report following my appointment on 27 July 2017.

The Economy

During the year under review, the Eurozone economies enjoyed strong growth with inflation remaining subdued. This had a very positive effect on Malta's performance as this positive environment reigning in Europe and indeed in most of the global economies influenced the buoyancy of the primary drivers of our local economy. Financial services, i-gaming and tourism together with the Government's IIP programme carried on from the successful performance of 2016 and spurred the local construction industry to new levels in the form of a robust demand for new buildings both for residential and office purposes with the consequent multiplier effect across the whole economy. As a result, the bank continued with its strong growth and the results as set out in this report and more amply explained in the CEO's review clearly demonstrate.

Unfortunately, this progress has its challenges. The apparently unrestrained momentum in new property development projects and the construction activity that goes with it is not only causing an impact on the local environment but also raises questions about its economic sustainability. Furthermore, certain incidents that put Malta's name in the news and attract international attention, including where these refer to the banking sector, preoccupy operators and place the country's hard-earned reputation at risk. The need to safeguard the integrity of the country's institutions, the quality of our economic progress and the standing of our financial services industry cannot be over-emphasised.

Bank Performance

In this positive environment, the Bank continued to grow selectively by offering its services in as a user-friendly way as is possible within the limits allowed by regulation. In this regard, the level of regulatory change remains high, competition continues to be fierce and the pace of technological change requires continuing innovation while posing new threats from data and cyber security. This reinforces our conviction that our differentiated, customer focused, simple and low risk business model is the right approach. This mind set will, going forward, I believe, help us to continue to deliver to customers and shareholders and to support the communities in which we operate.

Increased regulation has a strong impact on technological change which adds to the Bank's burden when it is also in the process of improving its services to customers with faster, more convenient and more extensive propositions tailored to meet their needs. As a Board, we are spending time discussing the path we need to follow to succeed as a 'Community Bank of the Future'. The transformation we have recently embarked on will ensure we maintain our core values while equipping us to succeed in the future to meet our customer needs effectively. The pace and scale of this transformation is challenging to every bank, but we have a very strong foundation from which to move forward with confidence.

The Board

Prof. Emanuel P. Delia and Mr Joseph C. Caruana stepped down as Chairman and Director respectively at the end of the Annual General Meeting held on 27 July 2017 after several years of dedicated service on the Board of the Bank. At the end of AGM I was appointed Chairman. I am very grateful to my predecessor, Prof Delia for ensuring a smooth handover.

The Year Ahead

The Bank is in the process of updating its strategic plan as the current one covered the three years to the end of 2018. While the economic conditions suggest Malta will continue to enjoy reasonable growth, national reputational and governance issues present challenges that need to be addressed. International geo-political tensions remain high and the EU struggles to get its act together particularly in matters such as migration, defence and foreign policy. I am, however, optimistic that with our solid foundations, strong capital base, highly engaged and committed staff, we can look forward to another year of satisfactory results.

Finally, I would like to thank our customers for giving us the opportunity to be of service to them; my colleagues on the Board, management and all our staff for their tremendous effort in carrying out their daily work. I would also like to add a special word of thanks to the shareholders who have given me unstinted support since I was appointed Chairman.

Frederick Mifsud Bonnici
Chairman

25 April 2018


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CEO'S REVIEW

APS Bank carried out its business in 2017 in a favourable environment, one of the most positive in recent years. The Maltese economy continued to perform very strongly while the global markets, particularly those to which the Bank is mainly exposed, maintained the upswing started in the second half of 2016. Although the low interest rate environment in most mature economies remained a limiting factor for banking activity, APS Bank performance underscored the soundness of our business model and the transformation that we are experiencing.

It is again with great privilege that we are able to announce record growth and profit for the financial year ended 31 December 2017. This brief overview once more looks at our results through the lens of the five 'P' focus areas that guided my activity in this second year in office: Principles, Performance, Products, Projects and People.

Principles

Our objective is to strengthen our position as a retail and commercial bank of choice with an emphasis on community and societal involvement. We are doing this as our industry continues to face some of its greatest challenges arising from new technologies and increased regulation, which in turn are changing customer behaviours and creating new competitive pressures. Maltese banks, and APS Bank nonetheless, are not immune to these challenges and we continue to invest a lot of effort in strengthening the governance framework as well as our various lines of defences while becoming more customer-centric in our business approach. All this is also happening in a domestic environment of full employment which consequently causes pressure on talent cost and availability.

2017 saw further reinforcement of the Bank's governance and organisation structure, with new functions, positions and reporting lines being set in place and greater emphasis being made on business development. The headcount increased across all levels and in all areas of activity, but particular attention is being given to strengthen the risk and compliance infrastructure with the employment of additional human resources and tools. Even more importantly, we are conscious of the importance of imbuing a superlative risk culture across all lines of the Bank, bolstering, among others, our defences against cyber risk, hazards from financial and economic crime and operational and reputational risk. We believe that these measures are necessary to make sure that our business growth, which traditionally was mainly organic but now increasingly addressing new personal and commercial markets, is also safe. We are also using our growth as an opportunity to diversify in terms of geographies, industries and maturities, which we believe to be very beneficial for the soundness of our business model.

We remain focused on developing the Bank around three main segments, i.e. personal, business and investments, where the Bank enjoys an excellent reputation and high degree of loyalty. Growth was experienced right across these lines. However, there is scope to do more and we will be looking at better data mining and analytics to help in this process. The Bank's continued development has also been accompanied by a drive to strengthen controls, improve efficiency and sharpen our customer orientation. Our model continues to be underlined by a philosophy that sees our strategic and commercial ambitions boosted by the values of social and ethical banking.

Performance

Like 2016, the financial year under review was marked by a climate of exceptionally low or even negative interest rates, increasingly onerous regulatory obligations, shifting international geopolitical situations and generally improving economic conditions across Europe, with Malta being amongst the best performing in terms of growth, employment and budget management.

We are pleased to report a strong performance at both Group and Bank levels, with activity reaching all-round record levels. Group Operating Income expanded by 22.5%, from €34.9 million to €42.8 million (Bank: by 21.3% to €42.9 million) and Pre-tax Profit increasing by 16.5%, from €15.8 million to €18.4 million (Bank: by 18.3% to €18.3 million). This result was achieved despite the significant growth in business momentum and the programme of heavy investment in technology, branch transformation, functional and process reorganisation which continue relentlessly. Cost-Efficiency remained around the 50% level despite higher personnel, operating and compliance expenses arising from the significantly increased activity.

Overall credit quality at Bank level continued to improve, with NPLs to Gross Loans reducing from 6.5% in 2016 to 4.2% in 2017 despite higher net impairment provisions. ROAE increased to a strong 11.5% (2016: 10.6%). Balance Sheet growth was also very robust, with total assets increasing by 16.5% to €1.49 billion and with deposit raising and credit activity growing by 11.5% and 26.9% respectively over 2016.

At 14.8% (Bank: 14.2%), the Group Total Capital ratio, consisting primarily of Tier 1 equity, is down from last year yet still comfortably above the regulatory minimum. In view of our outlook for next year and beyond, work has commenced on a capital development plan and discussions have already started with our shareholders.

More numbers and statistics from the 2017 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 more detail, however the message that these numbers transmit is that amidst a competitive and challenging environment, the Bank has been able to draw on its market strengths and maximise on the business and revenue opportunities that they offer.

Products

Our business model revolves around three main product segments, namely Personal, Business and Investments. The strong inroads

made in commercial activity in 2017 did nothing to shift the Bank's lending mix resulting from being a favourite mortgage institution in Malta, with about two-thirds of the total loan portfolio remaining directed to individual and family home financing. The product offering was improved further last year with the launch of a new buy-to-let scheme, more attractive mortgage terms and the introduction of a home loan scheme for Malta-based international clients. The optimism of the market and strong demand for first and successive properties also helped this segment. The Bank has selectively been a competitive player in the financing of commercial and residential real estate developments on the Maltese Islands, hotel and office accommodation, the markets for which remained particularly buoyant.

Other areas that are promoted with interest include eco-friendly and sustainable energy projects, education, healthcare and retirement. In 2017 we signed an agreement with the University of Malta launching a new service for its International Students and with plans to establish a presence on the Msida campus. We are also keenly interested in the opportunities we see in the personal lending segment, particularly if complemented with retirement and pensions solutions where we especially see a market gap. Work progresses in earnest to develop new products and schemes in this important market. Moreover, the agreements signed with the European Investment Fund in 2016 also supported the Bank in extending 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.

In 2017 we continued to actively look at ways of bringing more diversification to our credit risk, particularly in terms of geography, industry and maturity. Therefore, we maintained a small ticket activity of participations in short-term trade-related facilities sourced from banks of good repute and experience in this area. We also continued to expand our book of syndicated loan participations of medium term duration originated by high quality international names, reaching €40 million in approved facilities spread over more than ten obligors.

We are also proud to be maintaining our leading position as providers of social banking services, through a concessionary home loan scheme launched in April 2017 in collaboration with the Malta Government and social welfare agencies. We are also collaborators of micro-credit schemes for the Fondazzjoni Vittmi tal-Użura, Malta Microfinance and Asylum Seekers and are working at improving our offering further in these areas.

The prevailing low interest rate environment continued to dampen hopes of decent returns in the immediate future. During 2017 the investment distribution and advisory service was reorganised across the branch network as we also prepared for the introduction of more stringent investment services requirements arising from the introduction of the MIFID 2 regulations early in 2018. Our product range was enhanced with the creation of a new sub-fund under the APS Funds SICAV umbrella, the Diversified Bond Fund. With this addition, the funds under management in the APS Funds SICAV p.l.c. approximated €155 million. ReAPS Asset Management Limited, the wholly-owned investment management subsidiary, was authorised by the Malta Financial Services Authority in February 2017 and acts as manager of the SICAV. As stated in last year's review, 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. With the further strengthening of the investment management function targeted for 2018, we intend to dedicate more focus and resources to this important area.

Projects

The year under review saw the results of a number of projects aimed at upgrading the infrastructure and quality of our network. A new branch on Sliema Tower Road was inaugurated in October and completely transformed Valletta Republic Street offices opened for business in December. The Valletta offices also include two floors that now house the Legal Contracts Unit, transferred from older offices in St Paul's Street. The new branch layout is modern and creates an innovative experience for our customers. Complementing the new branch journey, we made enhancements to our in-house ATM and self-service banking channels, including the introduction of Teller Cash Recyclers. The new offices also improve the digital interaction with our customers although more is being planned for 2018. Centralisation of deposit services away from branches was also introduced, freeing up time for more interfacing and quality time with our customers. Reorganisation of Contact Centre at Swatar and other centralisation of operational services were also executed or are in progress.

Works on a new Disaster Recovery Centre continued to make steady progress and the new facility is expected to be operational later in 2018. Mosta Rotunda Square and Victoria Gozo branches are the next to undergo transformation together with new premises in Qormi, which will house our upgraded branch presence in that town. We are very pleased with the results delivered through the collaboration between UK-based international design firm I-AM, which was entrusted with the transformation strategy of the branch network, and our staff, consultants and contractors who delivered the projects on schedule and to the highest standards.

Infrastructural improvements have also been under way at the Swatar Head Office, increasing the floor area capacity, creating new offices and meeting spaces and modern dining facilities for staff. Works are continuing in 2018 in respect of further extensions which will bring together, amongst others, the Commercial Lending team. New training and conferencing facilities are also being developed. Construction and M&E works on a new Central Document Repository and Archiving Building in Marsa have also made good progress and the new facilities are expected to be functional later in 2018, later to be complemented by a Digitisation project.

The successful implementation of our core banking system ICBS in 2016 paved the way for an ambitious programme of other projects all aimed at enhancing the delivery experience for our customers. An agreement was signed with NF Innova for the design and implementation of an omni-channel solution which will include mobile banking, an improved internet banking experience and other digital channels. Despite considerable progress made to enhance our offering of card products, our original plans of a roll-out in late 2017 have now been delayed and we are looking at implementation in 2019. The solution we are looking at encompasses outsourced card management and processing services and we have had to deal with comprehensive risk assessments which also presented their challenges. We have an endless pipeline of technology projects that also include those mandated by risk and compliance requirements. Our aim remains that of permitting 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 various touch points. Once again, I cannot reiterate enough that APS Bank will remain a customer-friendly bank and we will not push the technology agenda to an extent that it replaces the customer's personal experience.

People

2017 opened with the signing of a new Collective Agreement with the Malta Union of Bank Employees for 2017-2019, introducing new terms and conditions for staff covered by the Agreement. These included progressive measures and improved benefits which, helped by a professional job evaluation exercise that was started and concluded later in the year, will recognise better the job requirements and responsibilities and lead to improved rewards for individual competence and experience.

The rise in average headcount between 2016 and 2017 was of 16%, with 361 staff on our books at the end of the year under review. This increase across all strata of the Bank reflects the growth and opportunities being created, with the strengthening of functions and positions continuing in 2018. We do not see this as an increase in overheads but as one of the choicest investments we can make. Hence why our slogan 'Being the employer of choice' is the statement underscoring the belief that all our plans 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. So we have continued to build on devising a modern, future-looking organisation structure that is opening new paths for career appointments and development. We have also widened further our horizons in search of the best talent, increasing the range of nationalities, backgrounds and experience of our staff. The Bank also makes available very generous programmes to promote staff engagement, including mentoring and coaching, training and education opportunities, family-friendly work arrangements, schemes assisting with home and content financing and other rewards & incentives structures. The Undergraduate Work Placement programme gained traction in 2017 and a management development curriculum is now in place. New, modern staff uniforms were introduced, the online Staff Suggestion Scheme continued and the social and recreational programme kept its tempo of activities for staff and their families.

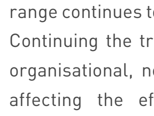
We firmly believe that our employees are our best resource and want to create for them a relationship that goes beyond employment, an environment based on the wholesome development of the self. High on our agenda for 2018 are the promotion of workplace diversity and a better work-life balance.

The next steps

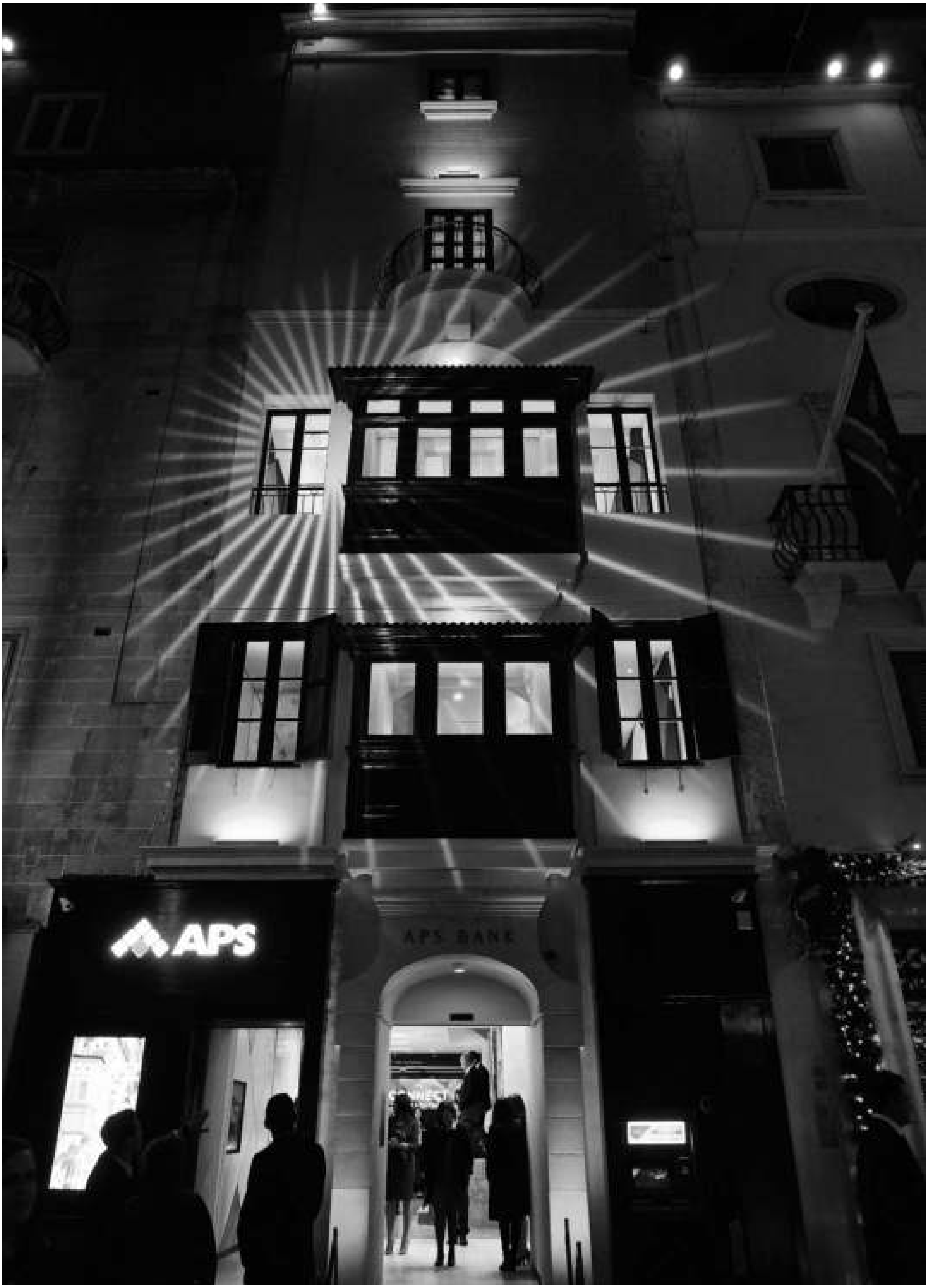
My interpretation of the 'APS' name is a forward-looking one which has in sight the Bank being Alternative, Progressive and Superior in our product range and market reach. We also want our delivery and channels to be Available, Personal and Simple for our customers. Whatever meaning we may give to our name, what matters is that APS becomes even more a bank that is personalised and relevant for each customer. In a world that increasingly places pressure on banks to meet their customers digitally, we continue to believe in the importance of a personal experience at both the retail and commercial level.

For 2018, I list the following five particular areas of focus:

1. Improving the quality and diversification of the income statement in an environment with continued pressure on spreads;
2. Gaining further market share on a sustained basis, as our base of relationships and product range continues to widen;
3. Continuing the transformation at various levels, organisational, network and processes, without affecting the efficiency ratio and optimising on costs;
4. Improving further governance, risk and compliance infrastructure, particularly in the face of regulatory and accounting game-changers like IFRS 9, PSD 2, MIFID 2 and GDPR; and
5. Above all, producing a bold and visionary 2019-2021 Business Strategy which will also embrace the capital planning required to scale the Bank up to the next level.



Sincerely,
Marcel Cassar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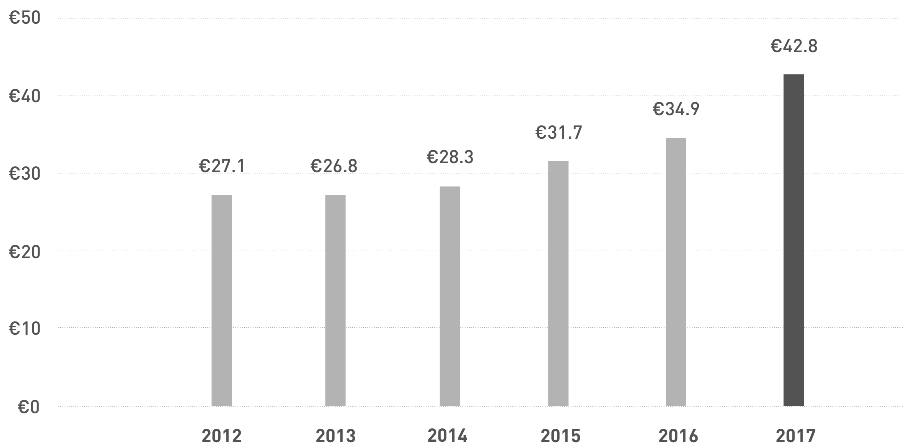
FINANCIAL STATEMENTS AND OTHER INFORMATION

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 2017.

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 (liquidated), and APS Funds SICAV p.l.c. which consists of three sub-funds: the APS Regular Income Ethical Fund and the APS Income Fund, both of which are associates of the Bank (the 'Associates'), and the APS Diversified Bond Fund which was launched in October 2017 and is a Subsidiary of the Bank.

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 in terms of the Insurance Intermediaries Act (Cap. 487 of the Laws of Malta).

Along the years, the Bank has grown into a main provider of banking and financial services, employing an average of 323 employees and operating through a strategic network of branches and outlets across Malta and Gozo.

Subsidiaries and Associates

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 and is licenced by the MFSA to perform investment management services under the Investment Services Act. ReAPS Asset Management Limited was appointed as the new Investment Manager of APS Funds SICAV p.l.c., taking over this function from APS Bank Ltd. During the period the Company generated a profit before tax of €0.2 million and its total assets as at end of December 2017, stood at € 0.6 million.

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 three sub-funds, namely the APS Income Fund, the APS Regular Income Ethical Fund and the APS Diversified Bond Fund. As at end of December 2017, the total assets under management for APS Funds SICAV p.l.c. stood at €155 million, representing an increase of €44.8 million, or 40.5%, over the previous year. This increase is principally attributable to the APS Diversified Bond Fund which was launched to the public in October 2017. During the year under review, APS Funds SICAV p.l.c. was converted from a Retail Non-UCITS Scheme into a Retail UCITS Scheme.

Financial Performance

In 2017, the Group achieved a profit before tax of €18.4 million representing an increase of 16.5% on 2016 and a return on average equity of 11.5%. This strong financial performance reflects the Group's successful business strategy. The Group kept on strengthening its business and asset base, whilst continuing to invest heavily in its channel infrastructure, organisational structure, human capital and technology. This activity was accompanied by enhanced governance and risk management frameworks. In today's dynamic business environment, these strategic developments and change drivers suitably position the Group for continued growth.

Operations

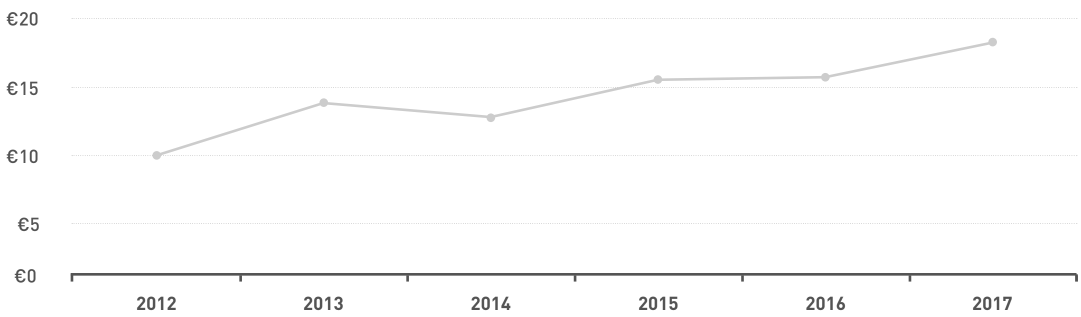
At €32.8 million, the Net Interest Income registered an increase of 17.1% when compared to the €28.0 million generated in 2016, with interest receivable on loans and advances to customers registering an increase of €4.6 million or 16.6%. Additionally, interest payable decreased by €1.3 million as the deposit mix became characterised by a higher proportion of demand deposits as opposed to term deposits, in an environment of sustained low interest rates.

Non-Interest Income increased by a significant €3.0 million or 44.3%. This favourable development is mainly attributable to two factors, namely the net gains realised on the disposal of financial instruments and an increase in fee and commission income from banking and lending activities. The Group's increased efforts to strengthen its position in lending and investment services resulted in higher fees and commissions from both business segments. The disposal of financial instruments, mainly debt securities, which were applied to provide the seed capital for the APS Diversified Bond Fund also netted overall gains. The Group's Operating Income for the year under review reached €42.8 million, representing a 22.5% increase when compared to the €34.9million registered during the previous year.

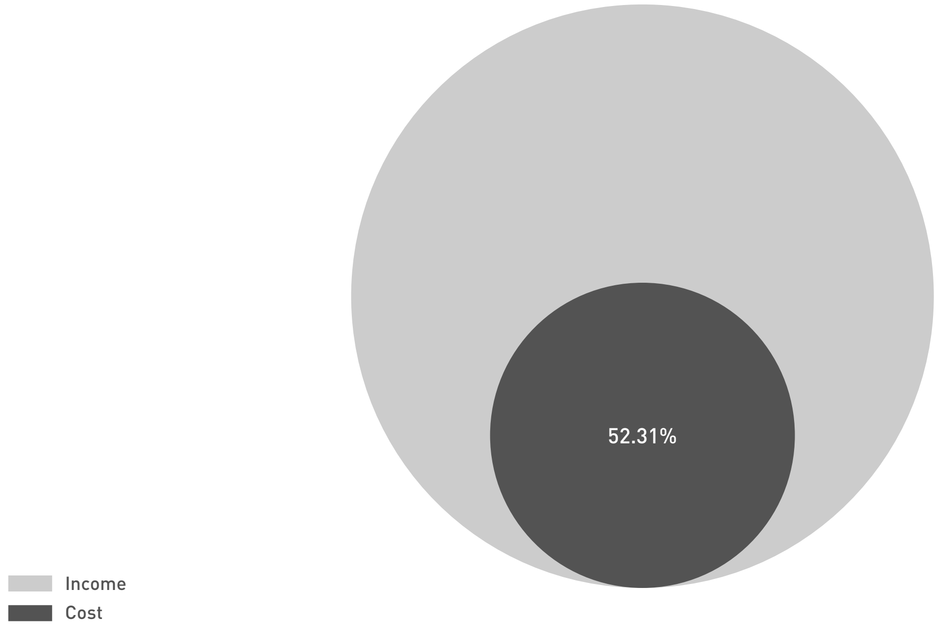
As the Group's business continued to grow, operating expenses increased by 17.9%, reaching €22.4 million. Staff costs were the main contributor to the increase with the continuous expansion and strengthening of the Group's human capital being fundamental to the ongoing growth and success of the Group. Following up on the previous year, the Bank continued its Branch Transformation Project by extending and refurbishing its branch network. The newly transformed branch network will offer the Bank's customers a modernized retail experience through high-tech delivery and innovative designs, whilst ensuring a tailored customer experience that caters for the individual needs of clients. The Group also embarked on various projects to further strengthen its customer experience and improve transaction processing. Given the ever increasing regulatory environment, during the period under review the Group strongly focused on the requirements for the implementation of IFRS 9, AnaCredit, and General Data Protection Regulation ('GDPR'). Despite the increase in costs, the Group has managed to improve its cost-to-income ratio to 52.3% vis-a-vis the 54.4% reported in 2016. This reflects the Group's commitment of attaining long-term growth whilst sustainably managing the increase in costs.

Net Impairments increased when compared to financial year 2016. Nevertheless, the credit quality of the loan portfolio remained healthy and well balanced. More specifically, the portion of non-performing loans out of the total loan portfolio declined to 4.2% from the 6.5% registered during the previous financial year. These metrics reflect the cautious approach to lending that the Group has adopted along the years.

Group's Profit before Tax (€ million)



Group's Cost to Income



Statement of Financial Position

During the year under review, the Group expanded its total asset base by €212 million, or 16.5%, reaching a total of €1.5 billion. The rate of expansion was almost double that registered during the previous financial year. The growth was mainly driven by the increase of €130 million in Gross Loans and Advances to Households and Individuals, followed by an increase of €64 million in loans and advances extended to the Commercial Sector. At the end of the year under review, the Syndicated Loan Book stood at €26 million, with further expansion being planned for 2018.

As at the end of financial year 2017, Debt and Other Fixed Income Instruments stood at €252.3 million, representing a decrease of €70.5 million, or 21.8% from the previous year end. As outlined earlier, this is in part a reflection of the €40 million which were reallocated as seed capital in the APS Diversified Bond Fund.

The growth of the Group was supported by an increase in customer deposits, mainly retail. Specifically, the amounts owed to customers increased by €126.5 million to €1.2 billion, or 11.5% on the previous year. Apart from being a representation of the trust customers have in the APS brand, such growth provided the opportunity to the Group to further strengthen its funding structure and to improve its liquidity.

Capital Management

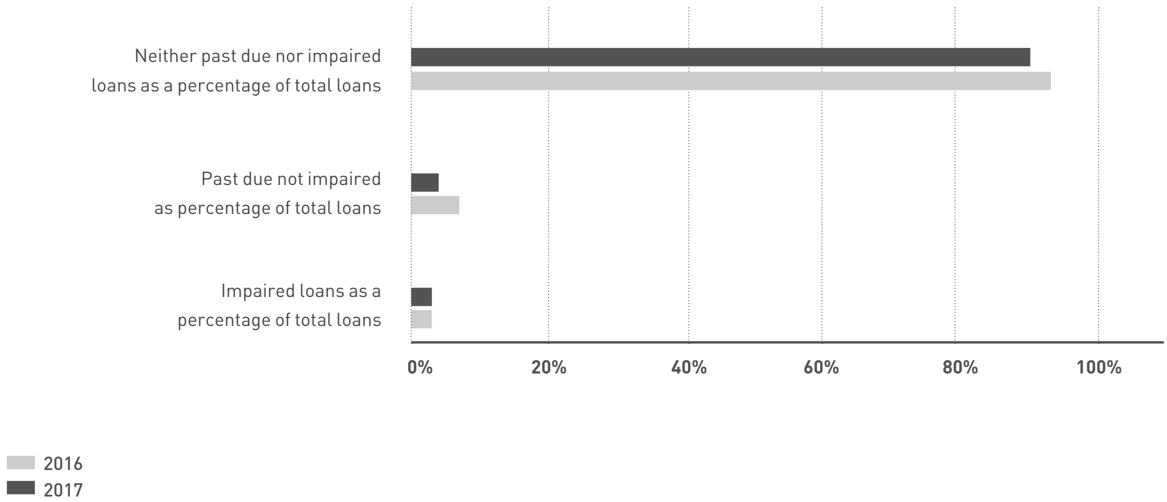
The objective of capital management is to ensure that the Group is adequately positioned to support its growth aspirations in line with its risk appetite. Throughout the year, the Bank maintained an active and prudent approach against a constantly demanding and evolving environment. Notwithstanding the essential reorganisation, heavy investments, and a boost in the loans portfolio and syndications, the Group remained well-capitalised with a solvency ratio of 14.82% of which 14.44% is CET1, which is well above the statutory minima. The amount of profit carried to reserves for the Group and the Bank at 31 December 2017 amounted to €13.1 million.

Principal Risks and Uncertainties

The successful management of risk is essential to enable the Group to achieve its objectives. The ultimate responsibility for risk management rests with the Bank's Directors, who evaluate the Group's risk appetite and formulate policies for identifying and managing such risks. The principal risks and uncertainties facing the Group are included below:

Group's Return on Average Equity

Group's Credit Quality



Principal Risks and Uncertainties (continued)

(a) Market and competition

The Group operates in a competitive environment and faces competition from various other entities. Technological developments also have the ability to create new forms of quickly evolving competition. An effective, coherent and consistent strategy to respond to competitors and changing markets enables the Bank to sustain its increase in market share and its profitability. The Group continues to focus on service quality and performance in managing this risk.

(b) Legislative pressures

The Group is subject to numerous laws and regulations covering a wide range of matters. Failure to comply could have financial or reputational implications and could materially affect the Group's ability to operate. The Group has embedded operating policies and procedures to ensure compliance with existing legislation.

(c) Talent and skills

Failure to engage and develop the Group's existing employees or attract and retain talented employees could hamper the Group's ability to deliver in the future. Regular reviews are undertaken of the Group's resource requirements.

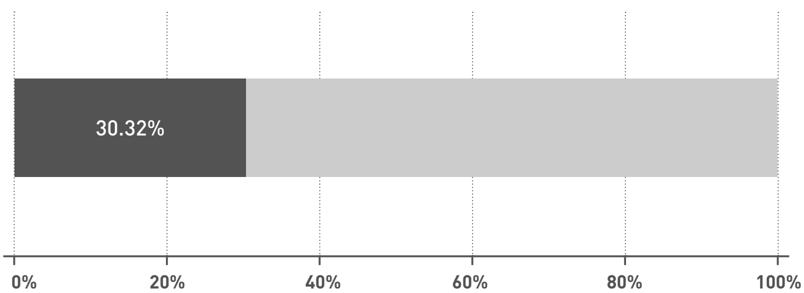
(d) Brand and reputation risk

Damage to the Group's reputation could ultimately impede the Group's ability to execute its corporate strategy. To mitigate this risk, the Group strives continually to build its reputation through a commitment to sustainability, transparency, effective communication and best practices. The Group works to develop and maintain its brand value.

(e) Economic and market environment

The Group is susceptible to changing market conditions in the broader economy within which it operates. A significant economic decline could impact on the Group's ability to continue to attract and retain customers. Demand for the Group's products can be adversely affected by weakness in the wider economy which are beyond the Group's control. This risk is evaluated as part of the Group's strategy process covering the key areas of investment and development and updated regularly throughout the year. The Group continues to make significant investment in innovation. The Group regularly reviews its pricing structure to ensure that its products are appropriately placed within the markets in which it operates.

Group's Non-interest income to Interest income



(f) Technology and business interruption

The Group relies on information technology in all aspects of the business. In addition, the service that the Group offers to its customers are reliant on complex technical infrastructure. A failure in operation of the Group's key systems or infrastructure could cause a failure of service to its customers, thus negatively impacting its brand, and increased costs. The Group makes significant investment in technology infrastructure to enable it to continue to support the growth of its business and has a robust selection and monitoring process of third-party providers. The Group also invests in technology infrastructure which enables it to reduce cyber risk. The Group also organises regular business continuity exercises to ensure ongoing readiness of key systems and sites.

(g) Supply chain

The Group relies on a number of third parties and outsourced suppliers to support its supply chain. A significant failure within the supply chain could adversely affect the Group's ability to deliver products and services to its customers. A robust supplier selection process is in place with appropriate ongoing management and monitoring of key suppliers.

(h) Customer service

The Group's revenues are at risk if it does not continue to provide the level of service expected by its customers. The Group's commitment to customers is embedded in its values. The relevant employees undertake intensive training programmes to ensure that they are aware of, and abide by, the levels of service that are required by the company's customers.

(i) Financial risk management

Note 39 to the financial statements provides details in connection with the Group's financial risk management objectives and policies and the financial risks to which it is exposed.

(j) Significant judgements and estimates

Note 2.3 to the financial statements provides details in connection with the inherent uncertainties that surround the preparation of the financial statements and which require significant estimates and judgements.

(k) Contingent liabilities

Note 35 to the financial statements provides details in connection with the Group's contingent liabilities.

Outlook

2017 turned out to be another remarkable year for the Bank, with various milestones being achieved in terms of growth, profitability and projects. These serve to prove that the Bank is poised to continue growing and transforming particularly as it takes advantage of the current favourable economic environment. At the same time, considerable emphasis, and investment, will continue being made in strengthening governance, risk management and compliance structures as well as diversifying the business base in line with the demands for more safety and prudent risk taking.

Early in 2018 the Bank started a Supervisory Review and Evaluation Process ('SREP') being conducted by MFSA, which involves an analysis of the business model assessing material risks, internal governance and controls. This is complimentary to the fact that the Bank is officially designated as a 'High Priority Less Significant Institution'. The new year also marks the last of the outgoing 2016-2018 Business Plan and preparations are in earnest to prepare for a new Business Plan 2019-2021. Major projects are also continuing or in the pipeline, namely, Omni-Channelling and the implementation of the Bank's own Cards offering. Additionally, the Bank is planning to continue its branch transformations with the aim of giving its customers a fresher and more contemporary retail environment.

The plans to make APS Bank a leading player in the banking market places various challenges, not least on our capital requirements. With the transformation of the Bank into a p.l.c. (public limited company) plans will mature further to address the capital needs for the coming years. As importantly, the Bank will continue to place its values-driven culture at the core of its business model. This is represented by a commitment to integrity, transparency and ethics in all that we do and deliver. We believe that this fosters our reputation as the Bank that does good business, keeps the customer at the centre of its activity and delivers long term value to all its stakeholders. We are confident that 2018 is going to be another year that takes the Group and the Bank to the next 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').

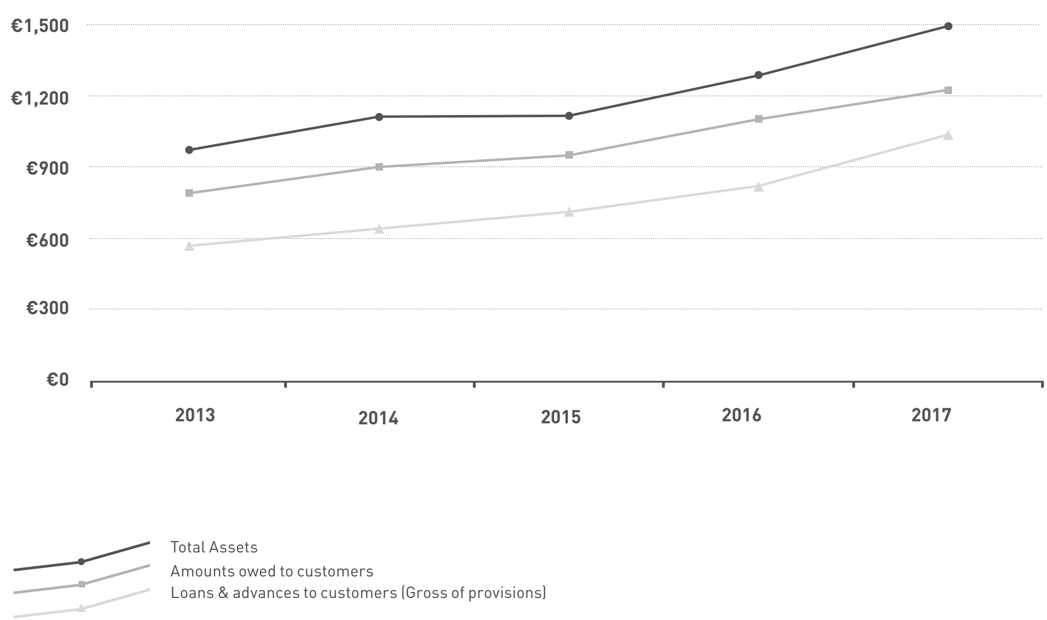
The Directors are responsible for ensuring that:

- 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.

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.

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



Disclosure in terms of the sixth schedule to the companies act, Cap. 386 of the laws of Malta

During the year ended 31 December 2017, 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

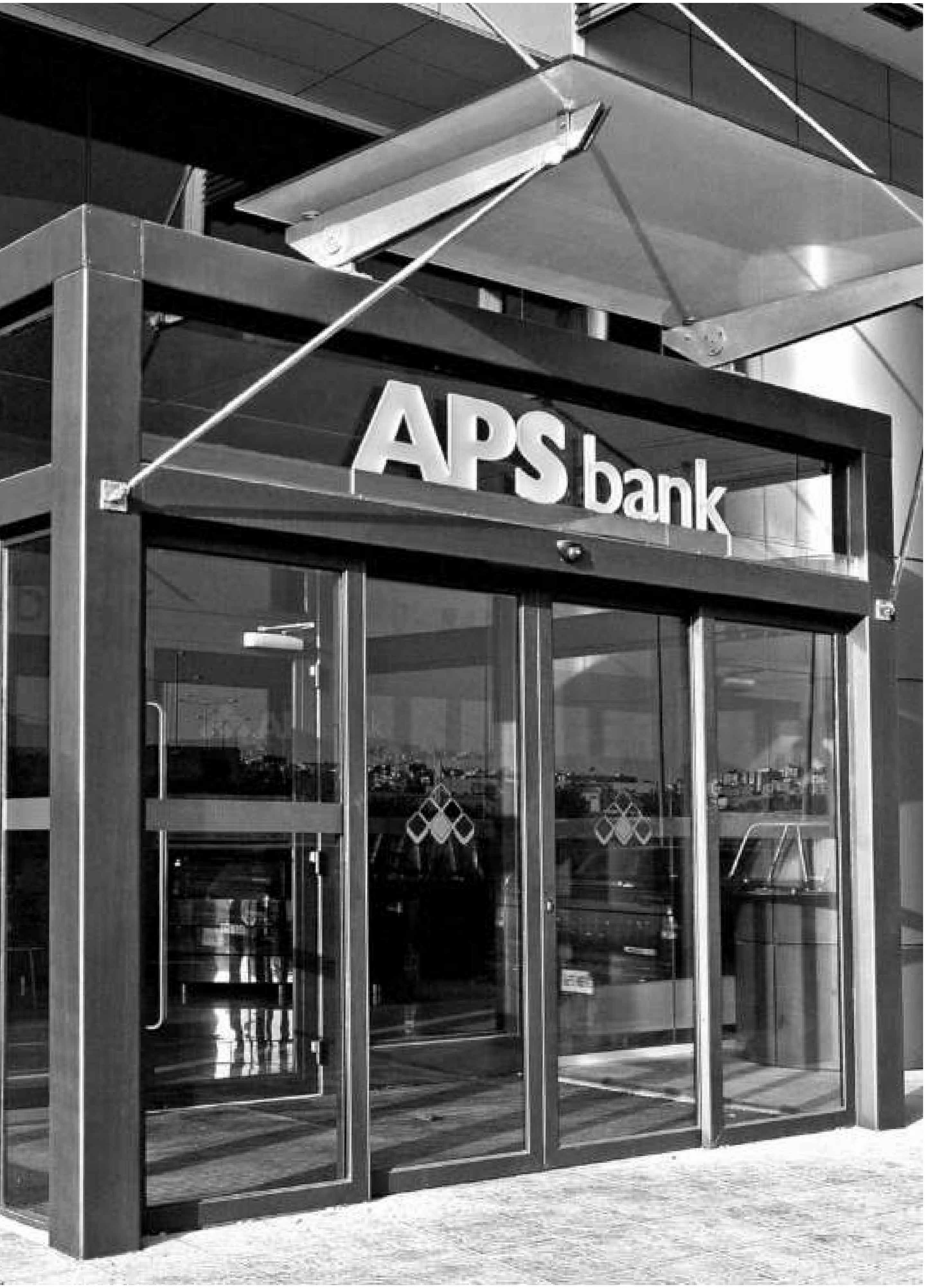
Deloitte Audit Limited have signified their willingness to continue in office as auditors of the Bank and a resolution proposing their reappointment will be put to the Annual General Meeting.

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

F. MIFSUD BONNICI
Chairman

A. GALEA SALOMONE
Director

25 April 2018


APS bank

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.

1. In line with the Banking Rule, this report is not subject to external audit, with the exception of any disclosures which are equivalent to those made in the 2017 Annual Report which adhere to International Financial Reporting Standards (IFRSs). However, this report has been subject to 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

Responsibility for risk lies at all levels within the Bank through a three lines of defence model. Business units, as the first line of defence, are responsible for identifying, assessing and mitigating 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 second line of defence, namely the Risk and Compliance functions. The Internal Audit Unit, as the third line of defence, provides independent assurance to the Board.

The Risk Department is headed by a senior member of management with distinct responsibility for risk management and control and reports directly to the Risk Committee. The Risk Department maintains a comprehensive enterprise-wide view of the risks facing the Group and ensures that these are within the Risk Appetite set by the Board. The Group's Risk Appetite for 2017 was approved by the Board through the annual review of its Risk Appetite Statement in December 2016. The Risk Department performs regular sensitivity analyses and stress testing exercises and is 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 Risk Department is also responsible for the compilation and submission of the Internal Capital and Liquidity Adequacy Assessment Processes and Recovery Plan.

The Risk Committee establishes and ensures implementation of the Group's risk management and compliance strategy, systems and policies. The Committee is composed of four Non-Executive Directors (one of whom chairs the Committee). During 2017 the following Senior Management members attended the Risk Committee meetings: 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. Policies, including revisions to existing ones, are recommended to the Board for approval, unless the Board specifically delegates this authority.

The Compliance function is constituted as follows:

- Regulatory Compliance: this Unit covers all licensable activities, thus including Banking, Investment Services and Insurance Intermediation. Hence, it keeps under constant review local and EU based regulatory developments and assesses potential impacts on the Group's daily activities. Furthermore, the Unit's remit also includes the Data Protection capacity (including the Data Protection Officer appointed following the General Data Protection Regulation (GDPR)) and the handling of complaints.
- Financial Crime Compliance: this Unit essentially covers all Anti-Money Laundering (AML) and Combatting the Funding of Terrorism (CFT) initiatives/controls and Sanctions monitoring. It also acts as the Subject Matter Expert for the branch network, back office functions and Senior Management.
- Customer Profiling: this Unit is heavily involved in the on-boarding and periodical reviews of all corporate entities and high risk clients. It is also involved in assessment exercises which may potentially lead to declining or exiting a relationship.

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, ReAPS Asset Management Limited, 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.

3. Credit Risk

This is the possibility that a borrower or counterparty fails to meet their 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 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 Approval

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 approval process establishes accountability for decisions taken and designates authority to approve credits or changes in credit terms as approved by the Risk Committee and the Board of Directors. The Group also has an established approval process based on established criteria and dealing limits.

Proposals for credit facilities are issued by business units (the first line of defence) and escalated to higher levels for approval, depending on various criteria and dealing limits. Credit facilities above a certain limit, or which do not fall under the Bank's lending policies, are proposed to the Credit Risk Unit for evaluation and recommended to the Management Credit Committee (MCC), Board Credit Committee (BCC) and Board depending on the exposure involved or the relative terms and conditions.

The BCC is composed of two members who are Non-Executive Directors. The Chief Executive Officer, Chief Finance Officer, Head Banking and Head Risk attend the BCC meetings. In order to fulfil its duties, the BCC is authorised by the Board to delegate certain powers and authorities to the MCC. The BCC considers lending proposals, above a certain threshold, recommended by the MCC. The MCC is composed of the Chief Executive Officer, who chairs the meetings, the Chief Finance Officer, Head Banking, Senior Manager (Commercial) and Senior Manager (Retail). Head Risk and four other Executives attend the meeting to have a multi-disciplinary presence at the MCC when considering credit applications. Credit applications that exceed the limit established for the BCC are recommended to the Board for approval.

Counterparty exposures and credit limits with correspondent banks are recommended by the Group's Asset Liability Management function to the MCC for its consideration. If in agreement, the MCC approves or recommends these proposals to the BCC depending on the amount involved. The BCC ensures that the Group adopts an investment strategy to diversify its revenue streams within a risk-reward trade-off.

3.2 Credit Analysis

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.

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 electronic credit profiles and dossiers with all the relevant information and documentation supporting decisions made. The Group applies an automated credit rating 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 credit rating process also provides a basis for the recognition of any non-performing loans.

3.3 Credit Limits

The Group has established exposure limits at the level of individual borrowers and counterparties, and groups of counterparties. These limits are approved by the above-mentioned Credit Committees, the Risk Committee as well as the Board. The Country Risk Policy puts forward a methodology to align the Bank's exposure to foreign countries with its risk appetite. In addition, the Credit Risk Policy also stipulates limits on a sectorial basis.

3.4 Related Parties

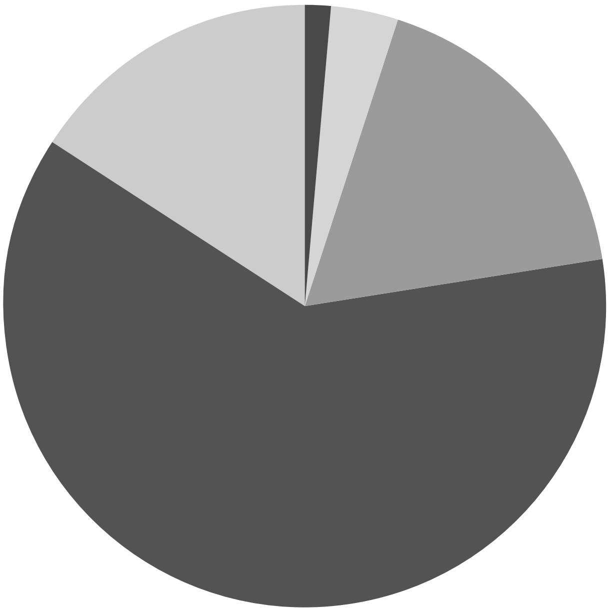
Credit facilities negotiated with related parties are reported to the Board on a quarterly basis and adequately disclosed in the Financial Statements. Requests by related parties for credit facilities which are not at arm's length are subject to approval by the BCC and reported to the Board on a quarterly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

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

3.5 Collateral Cover

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 neither considered a substitute for a comprehensive assessment of the credit application and the corresponding 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 collateral, which is not tangible, is sought 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.



Collateral Cover

- Government and other Guarentees (1.6%)
- Cash or Quasi Cash (3.5%)
- Commercial Real Estate (17.5%)
- Residential Real Estate (61.7%)
- Unsecured (15.7%)

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:

3.6 Provisioning

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

3.7 Credit Risk Management

The Risk Department is responsible for monitoring and reporting on the credit quality of both the advances and investments portfolios. The Risk Department presents regular risk reports to the Board, Risk Committee and Executive Committee. These reports include an analysis of credit growth, non-performing exposures, probability of default and concentration risk.

3.8 Capital Requirement

The Group adopts the Standardised Approach (as per Regulation No. 575/2013 - Capital Requirements Regulation (CRR)) for the purposes of calculating the risk-weighted exposures to credit risk. For rated investments within its investment portfolio, the Group adopts credit ratings issued by reputable credit rating agencies to establish the credit quality of all exposure classes, that is, institutions, government and corporate debt securities. For unrated investments and exposures within the advances portfolio, the risk weighted exposure is determined in accordance with the risk weights stipulated by the CRR. 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. Further information on the Bank's risk-weighted exposure to credit risk is provided in Section 9.

3.9 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.

In terms of the CRR, an exposure to a customer or group of connected customers is considered to be a large exposure where its value, before the deduction of eligible credit risk mitigation, is equal to or exceeds 10% of the Group's Own Funds. Large exposures are reported both internally and to the Authority, and are monitored continuously to ensure that these do not exceed the regulatory threshold of 25% of the Bank's Own Funds.

The Group also monitors the individual and sectoral concentration index and translates this into an economic capital figure for the purposes of capital allocation.

Exposures by Industry of the Group's advances portfolio broken down by exposure classes are shown in Table 1, while Table 2 shows the residual maturity of the Group's advances portfolio broken down by exposure classes.

Table 1

Exposures by Industry of the Group's advances portfolio broken down by exposure class:

	Financial Institutions €000	Manu-facturing €000	Real Estate €000	Wholesale and Retail €000	Public Sector €000	Other Industries €000	Individuals €000	Total €000
Government	-	-	7,073	-	9,097	214	-	16,384
Real Estate	-	-	-	-	-	-	666,962	666,962
Corporate	69,265	20,628	54,919	22,727	2,510	62,458	7,769	240,276
of which SME	69,265	20,628	*54,919*	*22,727*	2,510	*62,458*	*7,769*	*240,276*
Retail	20	1,616	5,830	4,801	-	15,346	-	27,613
of which SME	*20*	*1,616*	*5,830*	*4,801*	-	*15,346*	-	*27,613*
High Risks Items[1]	-	-	39,269	-	-	-	-	39,269
Exposures in Default[2]	4,012	9,929	17,306	4,738	-	5,885	8,611	50,481
Total	**73,297**	**32,173**	**124,397**	**32,266**	**11,607**	**83,903**	**683,342**	**1,040,985**

Table 2

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	0	5,263	68	11,053	16,384
Home Loans	284	4,232	11,922	650,524	666,962
Corporate	5,173	57,618	31,839	145,646	240,276
Retail	42	3,293	3,434	20,844	27,613
High Risks Items	266	6,769	21,721	10,513	39,269
Exposures in Default	17,536	18,033	4,162	10,750	50,481
Total	**23,301**	**95,208**	**73,146**	**849,330**	**1,040,985**

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. This is consistent with the Group's Risk Appetite. In accordance with the CRR, it is therefore exempted from the trading book capital requirements.

The Group's exposure to market risk is mainly in the form of:

i. Interest rate risk – the risk that the Group's financial position is exposed to unfavourable movements in interest rates.

ii. Foreign exchange risk – the risk that the Group's financial position and cash flow is exposed to unfavourable movements in foreign exchange rates.

The Group has an investment of €1.8 million in equities. The risk associated with this exposure is not considered to be material

The Assets and Liabilities Committee (ALCO) is constituted by five senior executives, namely the Chief Finance Officer who chairs the meetings, the Chief Executive Officer, Head Asset Liability Management, Head Risk, Head Banking and Senior Manager Finance. It is primarily responsible for balance sheet risk management. Towards this, it reviews financial information and assesses the impact of various types of risks—related to changes in interest rates, exchange rates and the market—on the Bank's profitability and financial statements.

4.1 Interest Rate Risk in the Banking Book

The Group is mainly exposed to interest rate risk in the banking book (IRRBB) which arises from the Bank's non-trading activities. The Group has an Interest Rate Risk Policy approved by the Board, which sets out a comprehensive risk management process that identifies, measures, monitors and controls interest rate risk exposures, whilst also ensuring appropriate oversight by Senior Management, Board appointed committees and ultimately the Board to confirm that this risk is consistent with its risk appetite.

[1] Exposure to 'High Risk Items' is in line with the definition stipulated by the CRR and is composed solely of performing exposures.
As at end December 2017, 99% of the Group's exposure to 'High Risk Items' were covered by collateral.

[2] As at end December 2017, 74% of the Group's 'Exposures in Default' were covered by collateral.

Interest rate risk is measured from two perspectives – the earnings perspective and economic value perspective. Both of these perspectives are complementary in understanding and assessing IRRBB. Earnings measures capture the short-term effect of the interest rate changes on the Group's earnings. On the other hand, economic value measures capture the long-term effect of the interest rate changes, which is a key aspect in choosing a business strategy and keeping an adequate level of capitalisation in the long term.

The management of Interest Rate Risk through the Earnings Perspective.

The ALCO is responsible to maintain an effective balance between the assets and liabilities of the Bank. The Net Interest Margin is the main driver of the Group's profitability. Therefore, the primary objective of ALCO is to ensure that there exists an appropriate margin between interest receivable and interest payable. Consequently, ALCO must ensure that the pricing of assets and liabilities supports the Net Interest Margin.

The Group also monitors its resilience to interest rate shocks by adopting a capital approach using the Duration Gap Analysis. This methodology is based on offsetting the interest-sensitive longs and shorts in each time band, resulting in a single short or long position in each time band. This is the interest rate gap. Assets and liabilities are then re-priced according to a 100 basis points parallel shift in the yield curve over a period of one year. These are then netted off to determine the total impact of the assumed interest rate shift. As at 31 December 2017, the resulting impact on the Group's net interest income following a 100 basis points parallel movement in interest rates over a period of one year amounts to €500k, as per note 39.5. This is within the Group's Risk Appetite.

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. As at 31 December 2017, an increase in interest rates by 25 basis points leads to an increase of €140k in projected net interest income, while a decline in interest rates by 25 basis points leads to decline of €1.1m in projected net interest income, as per note 39.5. These fall within the Group's Risk Appetite.

The management of Interest Rate Risk through the Economic Value Perspective.

The Interest Rate Risk Policy establishes a limit where the Group's economic value must not decline by more than 20% of Own Funds as a result of a sudden and unexpected parallel shift in interest rates of 200 basis points. In line with the CRD IV, in the event that the decline in economic value is greater than 20% of Own Funds, the Bank is required to inform the Authority. During 2017, the resulting impact on the Group's economic value was at all times well within the established regulatory requirement and within the Group's risk appetite.

4.2. Foreign Exchange Risk

The Group's financial assets and liabilities are substantially held in Euro. The Foreign Exchange Risk Policy puts forth a framework for identifying, measuring, managing and reporting on the Bank's exposure to this risk. The Policy clearly outlines the structure, responsibilities and controls for the management of foreign exchange risk and sets limits, on the level of exposure by currency and in total, which are monitored regularly. The Risk Department is responsible for carrying out sensitivity analyses showing the impact on the Bank's financial position as a result of an adverse/favourable movement in all currencies against the Euro. Capital is allocated for the Bank's exposure to foreign exchange risk in line with the Basic Method stipulated by the CRR. Further information on the Bank's risk-weighted exposure to foreign exchange risk is provided in Section 9.

5. Operational Risk

Operational risk is the risk of loss arising from inadequate or failed internal processes, people and systems, or from external events. The Operational Risk Policy sets forth a framework for the identification, management, monitoring and reporting on the Group's exposure to this risk. The Policy also seeks to continuously enhance the Group's operational risk management culture.

When internal controls fail, operational risk can inflict damage to reputation, have legal or regulatory implications, and/or lead to financial loss. The Group cannot expect to eliminate all operational risks, but through its control framework and by monitoring and responding to potential risks, it is able to manage operational risks effectively. Controls include appropriate segregation of duties, ensuring that Staff Members have appropriate expertise and training and regular verification and reconciliation of transactions and accounts.

The Policy clearly sets out the responsibilities for the management of operational risk, as well as the operational risk management process to ensure that the operational risk level is aligned with the Group's operational risk appetite.

The Group maintains a database to regularly record and quantify losses and near miss events, reported by the first line of defence, 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 and risk mapping.

The Group also has a Business Continuity Plan (BCP) in place, which provides a standard procedure that must be followed in the eventuality that a disruption affects its operations, to ensure that resumption of services is carried out in an efficient and prioritised manner. The likelihood and/or impact of particular events may also be mitigated through the Group's comprehensive insurance coverage.

5.1. Digital Risks

The Group leverages the strategic value of IT within its operational and regulatory framework. The Information Technology Steering Committee provides strategic leadership and ensures that decision making occurs with due observance of the IT strategy, policies and standards.

With the ever-evolving IT and cyber risk landscape, in 2017 the Group has established a dedicated Cyber Risk function within the Risk Department. This Cyber Risk function provides oversight on the Group's IT risk posture in line with the cyber risk policy statements endorsed by the Risk Committee.

The Group business strategy is cognisant of the developments in IT enabled banking models, ensuring that the Group's operating model remain current, providing value added services to its customer base.

5.2. Capital Requirement

The Group allocates capital for operational risk in line with the Basic Indicator Approach put forth by the CRR. Further information on the Bank's risk-weighted exposure to operational risk is provided in Section 9.

6. Liquidity and Funding Risk

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 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 Asset Liability Management Unit is responsible for implementing these policies; whereas ALCO is responsible for monitoring and ensuring the implementation of and adherence with these policies, and their consistency with the Bank's Risk Appetite. It also ensures that adequate liquidity is held to meet both expected and unexpected commitments. This Policy includes 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.

Through the Internal Liquidity Adequacy Assessment Process (ILAAP), the Group ensures that it 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. Thus the ILAAP serves as a key decision making tool. The ILAAP, compiled in line with EBA Guidelines, concluded that the Bank maintains adequate levels of liquidity buffers and adequate funding. The document is reviewed in detail by the Bank's Internal Audit Unit and Risk Committee and subsequently presented to the Board for approval. Following Board approval, the ILAAP Report is submitted to the MFSA.

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 2017 the Bank's LCR fluctuated healthily above the applicable minimum requirement of 80% and as at 31 December 2017 stood at 146%.

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

7. 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 only objective that the Group follows.

Moreover, the Group has a number of factors in place to mitigate reputation risk; including the Board succession policy, 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 2017 the Bank strengthened further its governance through various actions which include the introduction and revision of various policies including the Nomination and Succession Policy, Remuneration Policy, Conflicts of Interest Policy, Anti-Bribery and Anti-Corruption Policy and Go-to-Market Policy.

8. 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 Risk Committee and Board.

9. Capital

9.1 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 line with its Risk Appetite and reflected in 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. Capital planning is the responsibility of the ALCO.

Furthermore, as part of its capital planning process, the Bank takes into consideration the requirements of Banking Rule BR/15/2015 – Capital Buffers of Credit Institutions Authorised Under Banking Act 1994, which introduced capital buffers. These buffers entered into force as from January 2016, with full application by January 2019. The Group already meets the CRD IV capital requirements under the full application.

As an integral part of the Group's business planning process, the Risk Department performs a detailed analysis of the capital requirements over the medium- and long-term. This involves compiling scenario analysis and stress testing exercises to evaluate the impact of the Bank's strategic growth on its risk profile, whilst also taking into consideration regulatory requirements. The impact of business objectives on the Group's risk profile is also evaluated as part of the annual budgeting process.

9.2 Capital Adequacy

The Group's capital is mainly composed of Common Equity Tier 1 (CET 1) instruments, as defined by the CRR. Further information on the main features and terms and conditions of the Group's capital instruments is provided in note 39.7.

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 calculated at 8% of the risk-weighted exposures as at 31 December 2017.

For the purposes of allocating capital to cover foreign exchange risk, the Group adopts the Basic Method (as per the CRR - 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 net long positions as at 31 December 2017.

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 ratios are regularly monitored and reported to the Management, ALCO, Risk Committee and Board. The following table discloses the Group's capital position as at 31 December 2017. 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. Capital allocation is based on the methods highlighted above. Further information on the Bank's capital position is provided in note 39.7.

Table 3
The Group's risk-weighted exposures and capital requirements

	Book Value €000	Risk Weighted Exposure €000	Capital Allocation €000
31 December 2017			
Standardised Approach - Credit Risk			
Sovereign	272,105	7,967	637
Institutions	68,896	19,664	1,572
Corporates	322,727	203,550	16,284
Retail	52,508	37,557	3,005
Home loans	644,822	259,317	20,746
Exposures in default	31,909	38,873	3,110
Items associated with particular high risk	43,613	65,419	5,234
Collective investment undertakings	32,954	29,301	2,344
Equity exposures	1,493	1,493	119
Other assets	31,587	36,033	2,883
	1,502,614	**699,174**	**55,934**
Basic Indicator Approach			
Operational Risk		63,154	5,052
Basic Method			
Foreign Exchange Risk		134	11
		762,462	**60,997**
Total Own Funds		**112,978**	
Capital Adequacy Ratio		**14.82%**	
Capital Conservation Buffer		**1.25%**	

9.3 Internal Capital Adequacy Assessment Process

The Bank performs an Internal Capital Adequacy Assessment Process (ICAAP) 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 key decision-making tool is 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. The ICAAP is led by the Risk Department, taking into consideration the Bank's Risk Appetite and underlying risk profile, as well as the external environment.

In this exercise, the Bank's capital requirements are set at a starting point of zero. A structured and comprehensive assessment and quantification of all the material risks are performed. This involves an analysis 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, additional capital is allocated to account for individual and sectoral concentration. This capital allocation is based on the results of an index-based model. For prudence purposes, the Bank allocates an extra portion of capital to operational risk to account for the growth in its operations. The Bank also assesses and measures 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, which concluded that the Bank is well capitalised, 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, the ICAAP Report was submitted to the MFSA.

9.4 Leverage

The CRR introduced the Leverage Ratio, which is subject to an observation period with a view to migrating to a binding requirement on 1 January 2018.

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 Executive Management, Risk Committee and Board. During 2017 the Bank's leverage ratio remained well above the regulatory minimum requirement and within the Bank's risk appetite. As at 31 December 2017 the Group's leverage ratio stood at 7.52% which is in line with the CRR.

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'). In 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'). During the period under review, the Committee was convened whenever there arose remuneration-related issues falling within its remit. The Committee also recommended to the Board of Directors an updated Remuneration Policy which was approved on 5 December 2017.

The Committee is responsible for the preparation of decisions on remuneration to be taken, in particular regarding the remuneration plan of the members of its executive management function as well as of other material risk takers. It also ensures the adequacy of the information provided to shareholders on remuneration policies and practices, in particular on the higher maximum level of the ratio between fixed and variable remuneration.

The Committee assesses the remuneration mechanisms and systems adopted to ensure that the Bank's and its subsidiaries' properly take into account all types of risks, liquidity and capital levels. It further ensures that the overall Remuneration Policy is consistent with and promotes sound and effective risk management in line with the business strategy, objectives, corporate culture, values and the long-term interest of the institution.

Remuneration Policy

The Remuneration Policy (hereinafter the "Policy") of APS Bank Limited and its Subsidiaries (hereafter referred to as "APS Group") includes all categories of staff including senior management, risk takers and staff engaged in control functions. The application of the principles of Directive 2013/36/EU and of the EBA Guidelines on sound remuneration policies set out in this Policy take into account the nature and scale of APS Group and the complexity of its activities.

The Policy aims to enable APS Group to exercise a competent and independent judgement on its remuneration practices and its incentives created for managing risk. 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. Staff members may have a variable component to their remuneration in addition to their fixed remuneration. The relation between fixed and variable remuneration does not exceed 25% of the fixed component for each individual.

Remuneration to staff members (excluding Executive Management) is established in the Collective Agreement. Senior 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, is 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 Banks' and their individual performance linked to Key Performance Indicators (KPIs) which take into consideration people management, internal processes, service/client delivery, financial, market position risk and control as well as strategic initiatives.

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 and was updated during the year under review.

Senior Management, Material Risk Takers (MRTs) and other Identified Staff

The Chief Executive Officer makes a proposal regarding the remuneration of Senior Management, MRT and other Identified Staff to the Remuneration Committee for approval by the Committee. In considering the level of remuneration, the Chief Executive Officer ensures that remuneration plan is in line with the Policy and makes a clear distinction between fixed and variable remuneration.

Basic fixed remuneration reflects relevant professional experience and organisational responsibility as set out in the staff member's job description. Variable remuneration reflects a sustainable and risk adjusted performance in excess of that required to fulfil the staff member's job description and considers the:

- performance of individual Senior Management member, MRT and other Identified Staff;
- performance of the Bank – achievement of planned profit targets; and
- market environment.

Remuneration for Non-Executive Directors

The remuneration of the Chairman and the Non-Executive Directors of APS Bank Ltd and its subsidiaries is proposed by the Governance Committee and approved by the shareholders at the Annual General Meeting of each respective entity. Their remuneration is of a fixed pay and set at a level which:

- broadly reflects the rest of the market;
- reflects the competencies and contribution required; and
- reflects the extent of responsibilities and the number of board meetings and committee membership/s.

The table below includes total fees received by Directors during the financial year 2017:

	€
Chairman	46,202
Other Directors	181,625
Total	**227,827**

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

Remuneration of Identified Staff

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

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

The table below includes total fixed and variable remuneration for Identified Staff during the financial year 2017.

Number of Identified Staff	26
	€
Total fixed remuneration	1,147,552
Total variable remuneration	154,659

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. In doing so, it seeks to be one of the leading drivers of ethical, social and economic development in the financial services industry. The Annual Report includes the extent to which the Bank has adopted the 'Corporate Governance Guidelines for Public Interest Companies' (the "Guidelines") as well as the effective measures taken to ensure compliance with such Guidelines, and this in the interest of portraying to the stakeholders the commitment to excellence in corporate governance.

Guideline 1: The Board

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.

During the year under review the Board continued to embrace the principles enunciated in the Board Charter, which serves as a guidance to 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.

In January 2017, the Board started implementing a Nomination and Succession Policy & Procedure, which sets out the process of Board succession in a more formal and structured manner. The Annual General Meeting held in July 2017 brought about changes to the Board of Directors, namely the appointment of a new Chairman. Mr Frederick Mifsud Bonnici was appointed Chairman in Prof. Emanuel P. Delia's stead, who held office for almost 18 years. Mr Joseph C. Caruana also retired from office at the same Meeting after serving in office for 13 years. The Board is therefore currently composed of nine non-executive Directors, including the Chairman. Further detail on the Directors is found on page IV.

The Board delegates specific responsibilities to the Committees it set up, explained in more detail hereunder.

Guideline 2: The Chairman of the Board

The Chairman is appointed by the shareholders from amongst the Directors. He 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. 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 new Chairman has introduced new ideas and methods for the Board members to meet in preparation for their formal Board meetings. These include fora where matters of Board interest are broached without the presence of Management. One-to-one meetings with individual Directors are also a regular feature on the Chairman's agenda, as are communications and sharing of information of technical interest to the Board.

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 subsequent 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. The combined and varied knowledge and competences permit the Board to function properly in a dynamic environment. All Directors hold office in a non-executive capacity while they also actively partipate in committees of the Board.

As at the date of this Statement, the Bank's Directors in office as from the 2017 Annual General Meeting, hold the following number of directorships, that includes their role as Director of the Bank. Directorships held within the same group are considered as one; further, no account is taken of directorships in organisations which do not pursue predominantly commercial objectives, including directorships in non-profit-making or charitable organisations.

Frederick Mifsud Bonnici – 3;
Franco Azzopardi – 9;
Laragh Cassar – 7.
Alfred De Marco – 1;
Arthur Galea Salomone – 12;
Victor Gusman – 2;
Frederick Micallef – 5;
Michael Pace Ross – 2;
Martin Scicluna – 5;

In 2017, the 'Evaluation Policy and Procedure' came into effect. The Policy and Procedure provides that at least once a year, an evaluation takes place to assess the Board's performance and that of its individual Directors. The evaluation of a Director's performance is an integral part of the process for recommending or otherwise a

Director's continuation in office. Over and above the performance of the Board, both individually and collectively, the Board also considered the notion of independence of Directors. In determining the independence of Directors, or otherwise, the Board considered the principles emanating from the European Banking Union and general good practice principles.

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

The board conducts itself in a manner which ensures effective execution of its functions to set strategy and formulate policy as well as to exercise stewardship and oversight.

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 94%.

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 a number of Board 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.

Board Committees:

1. Audit Committee:

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:

The Risk Committee recommends the Bank's risk profile and proposes its risk appetite statement for approval by the Board of Directors, whilst periodically reviewing the Bank's risk management framework. It reviews strategic decisions, including new products and markets, acquisitions, and disposals, from a risk perspective while it keeps sight of regulatory and market developments and how these can impact on the Bank's risk appetite. 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 risk, market risk, operational risk, technology/cyber risk, concentration risk, liquidity risk as well as compliance matters. The Committee considers impairment and provisioning recommendations as prepared by Management and recommends them for adoption. It also considers risk reporting in the financial statements and the process of compilation of reports such as ICAAP, ILAAP and Recovery Plans, amongst others.

3. Governance Committee:

The Governance Committee recommends and reviews the Bank's governance policies/procedures as well as internal delegation 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 Committee considers and approves senior executive appointments and assesses the performance of the CEO. The Governance Committee oversees the structure and performance of the Bank's committees, whilst itself performing the function of Nomination Committee and Remuneration Committee. As a Nomination Committee, the Directors are also involved in the process of Directors' evaluation, both individually and collectively as a Board. As a Remuneration Committee, the Directors are responsible for the preparation of decisions on remuneration to be taken, in particular regarding the remuneration plan of the members of its executive management function as well as of other material risk takers. Further information is found in the Remuneration Report found on pages 17-18.

4. Board Credit Committee:

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:

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:

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:

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:

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.

During the period under review the Bank continued to implement a review of the organisational structure that was approved by the Board of Directors in 2016. The organisational chart contemplates new management positions at senior level as well as strengthening of a number of functions. The majority of the posts have been filled although the strengthening of resources is an ongoing process.

Guideline 6: Information and Professional Development

Upon 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 an 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 Management 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, as the case may be, and are conducted in a structured manner.

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. The presentation of the annual financial results is one particular opportunity where the shareholders are also invited to receive a detailed appraisal of the Bank's performance and outlook for the current year.

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 2017 are elaborated upon in other parts of the Annual Report. During the year under review the Department of Strategy & Marketing was created and a new Head was appointed. CSR was identified as one of the priority areas for updating and a comprehensive plan was put together and presented to the Board for its approval early in 2018, detailing the sequence and resources to be allocated to different CSR segments.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INDEPENDENT AUDITOR'S REPORT

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of APS Bank Limited (the Bank) and the consolidated financial statements of the Bank and its subsidiaries (together, the Group), set out on pages 26 to 90, which comprise the statements of financial position as at 31 December 2017, and the statements of profit or loss and other comprehensive income, statements of changes in equity and statements of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Bank and the Group as at 31 December 2017, and of the Bank's and the Group's financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU and have been properly prepared in accordance with the requirements of the Companies Act (Cap.386) and the Banking Act (Cap.371).

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 and the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the Accountancy Profession (Code of Ethics for Warrant Holders) Directive (Maltese Code) that are relevant to our audit of the financial statements in Malta, and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code and the Maltese Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion. In conducting our audit, we have remained independent of the Bank and the Group and have not provided any of the non-audit services prohibited by article 18A(1) of the Accountancy Profession Act (Cap. 281).

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. The key audit matters described below pertain to the audit of both the individual and consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Impairment of loans and advances to customers

Impairment allowances represent management's best estimates of credit losses incurred within the portfolio at the balance sheet date. The identification and determination of allowances is inherently judgemental. The key allowance risks are within the construction and real estate sectors.

Loss allowances are calculated on a collective and an individual basis. The methodology used for calculating the collective impairment allowance involves the use of General Provision (GP) factors by economic sector. The economic sector groupings are deemed to reflect the specific credit risk characteristics of the customers operating within those sectors given that the performance of the economic sector would have a bearing on the debtors' ability to pay. These GP factors are derived by reference to the Bank's actual historical loss data. GP factors by sector are applied to the unsecured portion of the loan portfolio in order to calculate the collective impairment allowance at a point in time. GP factors are updated with sufficient regularity in order to ensure relevance for the purpose of this calculation.

Individually significant loans are reviewed annually in order to assess for impairment. There is significant judgement required for each loan to determine the level of any provision.

Our audit focus was on the timely identification of impaired loans and the principal assumptions applied by management in estimating the impairment allowance. These comprise mainly expected cash flows and the valuation of collateral held, including the application of a haircut to fair value.

Our audit procedures comprised a combination of control and substantive procedures. We understood and documented the design of the key controls over the impairment processes and tested their operating effectiveness and also performed test of details. Key procedures included:

- assessment of appropriateness of the collective impairment methodology applied by the Bank and adherence to the requirements of IAS39 and applicable banking rules,
- testing the automated and manual controls over the credit grading process which impacts the collective provisioning calculation,
- testing the appropriateness of GP factors used by reference to historical loss data,
- testing the accuracy of collateral data held by reviewing methodologies applied by the Bank including the use of external valuation specialists by the Bank,
- ensuring the mathematical accuracy of the calculation of the collective provision,
- for a sample of individually impaired loans we evaluated the specific circumstances of the customer, including latest available information, the basis for measuring the impairment provision, and whether

key judgements were appropriate. We re-performed management's impairment calculations, which were largely based on the expected recovery from collateral held. We tested the valuation of collateral challenging subjective estimates by referring to actual historical recovery data, and
- reviewing a sample of loans which were not individually impaired to ascertain whether these displayed impairment indicators.

The Bank's disclosures about impairment are included in Notes 2.3, 15 and 39, which include the directors assessment of the adequacy of the impairment provisions.

Other Matters

The financial statements of the Bank for the year ended 31 December 2016 were audited by another auditor who expressed an unmodified opinion on those statements on 30 March 2017.

Information Other than the Financial Statements and the Auditor's Report Thereon

The directors are responsible for the other information. The other information comprises the following - Bank information, Board of Directors, Directors' report, Capital adequacy and risk disclosures report, Remuneration report, Corporate governance statement and Five year summaries, the Chairman's statement and the CEO's review. However, the other information does not include the individual and consolidated financial statements and our auditor's report thereon.

Except for our opinion on the Directors' report in accordance with the Companies Act (Cap. 386), our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above 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.

With respect to the Directors' report, we also considered whether the Directors' report includes the disclosure requirements of Article 177 of the Companies Act (Cap. 386).

When we read the other information expected to be made available to us after the date of this audit report and set out above, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the Audit Committee and, if necessary, to take appropriate action, considering our legal rights and obligations, to seek to have an uncorrected material misstatement appropriately brought to the attention of users for whom the auditor's report is prepared, for example by addressing the matter in a general meeting of shareholders.

In accordance with the requirements of sub-article 179(3) of the Companies Act (Cap. 386) in relation to the Directors' Report on pages 2 to 7, in our opinion, based on the work undertaken in the course of the audit:

- The information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with those financial statements; and
- The Directors' Report has been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the Directors' Report.

Responsibilities of the Directors and the Audit Committee for the Financial Statements

As explained more fully in the Statement of directors' responsibilities on page 6, the directors are responsible for the preparation of financial statements that give a true and fair view in accordance with IFRSs as adopted by the EU and the requirements of the Companies Act (Cap.386) and the Banking Act (Cap.371), and for such internal control as they 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 and the Group'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 and the Group or to cease operations, or have no realistic alternative but to do so.

The directors have delegated the responsibility for overseeing the Bank's and the Group's financial reporting process to the Audit Committee.

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 judgement and maintain professional scepticism 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, international 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 on the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's and the Group'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 and the Group'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 or the Group 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 the Audit Committee 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 out audit.

We also provide the Audit Committee with a statement that we have compiled with relevant ethical requirements regarding independence, and to communicate with the all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

Additional matters on which we are required to report pursuant to the Banking Act (Cap. 371)

In our opinion:

- Proper accounting records have been kept so far as it appears from our examination thereof;
- The financial statements are in agreement with the accounting records; and
- We have obtained all the information and explanations which, to the best of our knowledge and belief, are necessary for the purpose of our audit.

Matters on which we are required to report by exception pursuant to the Companies Act (Cap. 386) in addition to those reported above

We have responsibilities to report to you if in our opinion:

- Proper returns adequate for our audit have not been received from branches not visited by us; or
- The financial statements are not in agreement with the returns.

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

Auditor tenure

We were first appointed to act as statutory auditor of the Bank and its Group by the members of the Bank on 27 July 2017 for the financial year ended 31 December 2017. The period of total uninterrupted engagement as statutory auditor of the firm is 1 financial year.

Consistency of the audit report with the additional report to the Audit Committee

Our audit opinion is consistent with the additional report to the Audit Committee in accordance with the provisions of Article 11 of the EU Audit Regulation No. 537/2014.

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

Registered auditor
Mriehel, Malta.

25 April 2018

STATEMENTS OF PROFIT OR LOSS

for the year ended 31 December 2017

	Note	The Group 2017 €000	The Group 2016 €000	The Bank 2017 €000	The Bank 2016 €000
Interest receivable and similar income:					
On loans and advances, balances with the Central Bank of Malta and treasury bills	(3)	31,861	27,289	31,861	27,289
On debt securities	(3)	10,535	11,578	10,423	11,578
		42,396	38,867	42,284	38,867
Interest payable	(4)	(9,592)	(10,865)	(9,592)	(10,865)
Net interest income		32,804	28,002	32,692	28,002
Dividend income	(5)	214	246	656	745
Fees and commission income		4,956	4,393	5,390	4,393
Trading income	(6)	299	366	418	366
Net gains on financial instruments	(7)	3,349	1,411	3,356	1,411
Other operating income		1,128	478	436	478
Operating income		42,750	34,896	42,948	35,395
Personnel expenses	(8)	(11,148)	(8,961)	(11,148)	(8,959)
Fees and commission expense	(9)	(554)	(352)	(554)	(352)
Other administrative expenses	(9)	(8,780)	(7,913)	(8,617)	(7,904)
Amortisation of intangible assets	(23)	(840)	(648)	(840)	(648)
Depreciation of property and equipment	(24)	(1,041)	(1,098)	(1,041)	(1,098)
Net operating profit		20,387	15,924	20,748	16,434
Share of results of associates, net of tax	(22)	441	828	-	-
Operating profit before impairment, reversals and provisions		20,828	16,752	20,748	16,434
Net impairment losses	(10)	(2,470)	(988)	(2,470)	(988)
Profit before tax		18,358	15,764	18,278	15,446
Income tax expense	(11)	(5,250)	(4,820)	(5,190)	(4,820)
Profit for the year		13,108	10,944	13,088	10,626
Profit for the year attributable to:					
Equity holders of the parent		13,110	10,944	13,088	10,626
Non-controlling interest		(2)	-	-	-
		13,108	10,944	13,088	10,626

STATEMENTS OF COMPREHENSIVE INCOME

for the year ended 31 December 2017

	The Group		The Bank	
	2017	2016	2017	2016
	€000	€000	€000	€000
Profit for the year	**13,108**	10,944	**13,088**	10,626
Other comprehensive income:				
Items that may be reclassified subsequently to profit or loss sets				
Change in fair value on available-for-sale financial assets	**(2,406)**	3,901	**(2,406)**	3,901
Release of fair value on disposal of available-for-sale financial assets	**(4,070)**	(615)	**(4,070)**	(615)
Deferred income tax relating to the components of other comprehensive income (note 25)	**1,195**	(848)	**1,195**	(848)
Other comprehensive (loss) / income for the year, net of tax	**(5,281)**	2,438	**(5,281)**	2,438
Total comprehensive income for the year, net of tax	**7,827**	13,382	**7,807**	13,064
Total comprehensive income attributable to:				
Equity holders of the parent	**7,829**	13,382	**7,807**	13,064
Non-controlling interest	**(2)**	-	**-**	-
	7,827	13,382	**7,807**	13,064

STATEMENTS OF FINANCIAL POSITION

as at 31 December 2017

	Note	The Group 2017 €000	The Group 2016 €000	The Bank 2017 €000	The Bank 2016 €000
ASSETS					
Cash and Balances with Central Bank of Malta	(13)	**89,539**	36,420	**86,449**	36,420
Cheques in course of collection		**39**	42	**39**	42
Loans and advances to banks	(14)	**33,246**	60,162	**32,246**	60,162
Loans and advances to customers	(15)	**1,024,590**	806,011	**1,024,590**	806,011
Derivative financial instruments	(17)	**3,008**	3,164	**3,008**	3,164
Financial assets at fair value through profit or loss	(18)	**37,045**	3,321	**942**	3,321
Debt and other fixed income instruments	(19)	**252,324**	322,844	**252,324**	322,844
Equity and other non-fixed income instruments	(20)	**1,793**	4,119	**1,793**	4,119
Investment in subsidiaries	(21)	**-**	-	**40,250**	305
Investment in associates	(22)	**18,224**	18,256	**14,887**	14,887
Intangible assets	(23)	**5,093**	4,061	**5,089**	4,061
Investment properties	(16)	**4,203**	3,793	**4,203**	3,793
Property and equipment	(24)	**17,706**	14,147	**17,706**	14,147
Current tax		**-**	39	**-**	39
Deferred tax assets	(25)	**2,985**	1,502	**2,985**	1,502
Other receivables	(26)	**6,650**	6,673	**6,122**	6,690
TOTAL ASSETS		**1,496,445**	1,284,554	**1,492,633**	1,281,507
LIABILITIES					
Amounts owed to banks	(27)	**111,132**	36,204	**111,132**	36,204
Derivative financial instruments	(17)	**3,008**	3,164	**3,008**	3,164
Amounts owed to customers	(28)	**1,225,576**	1,099,115	**1,226,382**	1,099,406
Current Tax		**198**	-	**138**	-
Other liabilities	(29)	**9,530**	8,418	**9,530**	8,415
Accruals	(30)	**10,598**	8,265	**10,533**	8,265
TOTAL LIABILITIES		**1,360,042**	1,155,166	**1,360,723**	1,155,454
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)	**15,896**	21,177	**15,896**	21,177
Retained earnings	(34)	**60,032**	47,648	**56,639**	44,313
Dividend reserve		**-**	1,188	**-**	1,188
Attributable to equity holders of the parent		**135,303**	129,388	**131,910**	126,053
Non-controlling interest		**1,100**	-	**-**	-
TOTAL EQUITY		**136,403**	129,388	**131,910**	126,053
TOTAL LIABILITIES AND EQUITY		**1,496,445**	1,284,554	**1,492,633**	1,281,507
MEMORANDUM ITEMS					
Contingent liabilities	(35)	**10,834**	6,112	**10,834**	6,112
Commitments	(36)	**552,000**	379,078	**552,000**	379,078

The financial statements on pages 26 to 90 were authorised for issue by the Board of Directors on 25 April 2018 and were signed by:

F. MIFSUD BONNICI
Chairman

A. GALEA SALOMONE
Director

M. CASSAR
Chief Executive Officer

N. MCCARTHY
Chief Finance Officer

STATEMENTS OF CHANGES IN EQUITY

for the year ended 31 December 2017

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
	Attributable to the equity holders of the parent							
FINANCIAL YEAR ENDED 31 DECEMBER 2017								
Balance at 1 January 2017	**57,605**	**1,770**	**21,177**	**1,188**	**47,648**	**129,388**	**-**	**129,388**
Profit for the year	-	-	-	-	13,110	13,110	(2)	13,108
Other comprehensive loss	-	-	(5,281)	-	-	(5,281)	-	(5,281)
Total comprehensive (loss) / income	**-**	**-**	**(5,281)**	**-**	**13,110**	**7,829**	**(2)**	**7,827**
Reversal of retained earnings on liquidation of subsidiary	-	-	-	-	36	36	-	36
Net share capital issued in subsidiary company	-	-	-	-	-	-	1,102	1,102
Dividends paid (note 12)	-	-	-	(1,188)	(762)	(1,950)	-	(1,950)
Balance at 31 December 2017	**57,605**	**1,770**	**15,896**	**-**	**60,032**	**135,303**	**1,100**	**136,403**
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**

STATEMENTS OF CHANGES IN EQUITY (Continued)

for the year ended 31 December 2017

The Bank	Issued capital €000	Share premium €000	Revaluation reserve €000	Dividend reserve €000	Retained earnings €000	Total €000
FINANCIAL YEAR ENDED 31 DECEMBER 2017						
Balance at 1 January 2017	**57,605**	**1,770**	**21,177**	**1,188**	**44,313**	**126,053**
Profit for the year	-	-	-	-	13,088	13,088
Other comprehensive loss	-	-	(5,281)	-	-	(5,281)
Total comprehensive (loss) / income	**-**	**-**	**(5,281)**	**-**	**13,088**	**7,807**
Dividends paid (note 12)	-	-	-	(1,188)	(762)	(1,950)
Balance at 31 December 2017	**57,605**	**1,770**	**15,896**	**-**	**56,639**	**131,910**
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**

STATEMENTS OF CASH FLOWS

for the year ended 31 December 2017

	Note	The Group 2017 €000	The Group 2016 €000	The Bank 2017 €000	The Bank 2016 €000
OPERATING ACTIVITIES					
Interest and commission receipts		37,955	32,390	37,696	32,390
Interest and commission payments		(9,892)	(10,865)	(9,592)	(10,865)
Cash paid to employees and suppliers/depositors		(17,420)	(18,446)	(17,333)	(18,434)
Operating profit before changes in operating assets and liabilities		10,643	3,079	10,771	3,091
(Increase)/decrease in operating assets					
Loans and advances to customers		(221,199)	(111,027)	(221,199)	(111,027)
Loans and advances to banks		11,362	(3,649)	11,362	(3,649)
Reserve deposit with Central Bank of Malta		(1,494)	(791)	(1,494)	(791)
Cheques in course of collection		3	1,928	3	1,928
Other assets		(257)	1	-	-
Increase/(decrease) in operating liabilities					
Amounts owed to customers		126,691	159,841	126,820	159,830
Amounts owed to banks		74,510	-	74,510	-
Other liabilities		(994)	1,284	(1,168)	1,284
Cash (used in)/from operating activities before tax		(735)	50,666	(395)	50,666
Income tax paid		(5,302)	(4,924)	(5,302)	(4,924)
Net cash flows (used in) /from operating activities		(6,037)	45,742	(5,697)	45,742
INVESTING ACTIVITIES					
Dividends received		126	211	588	710
Interest income from debt securities		12,074	13,121	12,074	13,121
Purchase of held-to-maturity debt security instruments		(155)	(5,767)	(155)	(5,767)
Proceeds on maturity of held-to-maturity debt security instruments		-	9,546	-	9,546
Purchase of available-for-sale debt security instruments		(12,584)	(66,827)	(12,584)	(66,827)
Proceeds on disposal of available-for-sale debt security instruments		79,412	41,084	79,412	41,084
Purchase of financial assets at fair value through profit or loss		(38,595)	(2,582)	(502)	(2,582)
Proceeds on disposal of financial assets at fair value through profit or loss		2,766	3,041	2,350	3,041
Purchase of equity and other non-fixed income instruments		-	(807)	-	(807)
Proceeds on disposal of equity and other non-fixed income instruments		2,055	169	2,055	169
Investment in subsidiary		-	-	(40,000)	-
Purchase of property, equipment and intangible assets		(4,064)	(3,413)	(4,059)	(3,413)
Proceeds on disposal of property and equipment		31	17	31	17
Net cash flows from / (used in) investing activities		41,066	(12,207)	39,210	(11,708)
FINANCING ACTIVITIES					
Dividends paid		(1,478)	(1,294)	(1,950)	(1,793)
Amounts paid on redemption of units in subsidiary		(50)	-	-	-
Net proceeds from issue of units in subsidiary		1,152	-	-	-
Net cash flows (used in) financing activities		(376)	(1,294)	(1,950)	(1,793)
Net increase in cash and cash equivalents		34,653	32,241	31,563	32,241
Cash and cash equivalents at 1 January		40,460	8,219	40,460	8,219
Cash and cash equivalents at 31 December	(37)	75,113	40,460	72,023	40,460

NOTES TO THE FINANCIAL STATEMENTS

1. CORPORATE INFORMATION

APS Group comprises APS Bank Limited, APS Consult Limited (liquidated), ReAPS Asset Management Limited and APS Diversified Bond Fund (a sub-fund of APS Funds SICAV p.l.c.).

APS Bank Limited is incorporated and domiciled in Malta as a limited liability company under the Companies Act, Cap. 386 of the Laws of Malta. 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. APS Funds SICAV p.l.c. is licensed by the Malta Financial Services Authority as a Collective Investment Scheme under the Investment Services Act, Cap. 370 of the Laws of Malta.

The registered office of APS Bank Limited is APS Centre, Tower Street, Birkirkara, BKR 4012 and the registration number is C2192.

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, its subsidiaries for the year ended 31 December 2017, 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, a majority of voting rights results in control to the extent that such substantive rights provide the investor with the current ability to direct the relevant activities of the investee. 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 APS Consult Limited was liquidated and any assets and liabilities consolidated as at December 2016 were derecognised.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

Standards, interpretations and amendments to published standards, which are effective in the current year

In the current year, the Group and the Company have applied the following:

IAS 7 Disclosure Initiative (Amendments)

The Group and the Bank applied these amendments for the first time in the current year. The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both cash and non-cash changes. The Group's liabilities arising from financing activities consist of those included in the section entitled 'Cash flows from financing activities' in the Statement of Cash Flows. The relevant movements are shown in the Statement of Cash Flows and accordingly the application of these amendments has had no impact on these financial statements.

IAS 12 Recognition of Deferred Tax Assets for Unrealised Losses (Amendments)

The Group and the Bank have applied these amendments for the first time in the current year. The amendments clarify how an entity should evaluate whether there will be sufficient future taxable profits against which it can utilise a deductible temporary difference. The amendments also clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of deductible temporary differences. Furthermore, the amendments explain the circumstances in which the estimate of probable future taxable profit may include the recovery of an entity's assets for more than their carrying amount. The application of these amendments has had no impact on these financial statements.

IFRS 12 Amendments as a result of the Annual Improvements to IFRS Standards 2014-2016 Cycle

The Group and the Bank applied these amendments for the first time in the current year. IFRS 12 states that an entity need not provide summarised financial information for interests in subsidiaries, associates and joint ventures that are classified (or included in a disposal group that is classified) as held for sale. The amendments clarify that this is the only concession from the disclosure requirements of IFRS 12 to such interests. The application of these amendments has had no impact on these financial statements as none of the Bank's interests in these entities are classified, or included in a disposal group that is classified, as held for sale.

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).

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted. It replaces IAS 39 Financial Instruments: Recognition and Measurement.

The Group and the Bank will apply IFRS 9 as issued in July 2014 initially as from 1 January 2018.

Classification – Financial assets

IFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics

IFRS 9 includes three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income ("FVOCI") and fair value through profit or loss ("FVTPL"). It eliminates the existing IAS 39 categories of held to maturity, loans and receivables and available for sale.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding.

A financial asset is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an investment-by investment basis.

All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL. In addition, on initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise. A financial asset is classified into one of these categories on initial recognition.

Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of IFRS 9 are not separated. Instead, the hybrid financial instrument as a whole is assessed for classification.

Business model assessment

The Group made an assessment of the objective of the business model in which a financial asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information that has been considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice, including whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of assets;
- how the performance of the portfolio is evaluated and reported to the Group's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed; and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Group's stated objective for managing the financial assets is achieved and how cash flows are realised.

Financial assets that are held for trading and those that are managed and whose performance is evaluated on a fair value basis will be measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

Assessment of whether contractual cash flows are solely payments of principal and interest

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money, for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Group will consider the contractual terms of the instrument. This will include assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Group will consider:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms; and
- features that modify consideration for the time value of money - e.g. periodic reset of interest rates.

Interest rates on certain retail loans made by the Group are based on standard variable rates (SVRs) that are set at the discretion of the Group. SVRs generally reflect the market environment and include a discretionary spread. In these cases, the Group will assess whether the discretionary feature is consistent with the SPPI criterion by considering a number of factors, including whether:

- the borrowers are able to prepay the loans without significant penalties;
- the market competition ensures that interest rates are consistent between banks; and
- any regulatory or customer protection framework is in place that requires banks to treat customers fairly.

All of the Group's retail loans and certain fixed-rate corporate loans contain prepayment features.

A prepayment feature is consistent with the SPPI criterion if the prepayment amount substantially represents unpaid amounts of principal and interest on the principal amount outstanding, which may include reasonable compensation for early termination of the contract.

In addition, a prepayment feature is treated as consistent with this criterion if:

- a financial asset is acquired or originated at a premium or discount to its contractual par amount,
- the prepayment amount substantially represents the contractual par amount plus accrued (but unpaid) contractual interest (which may also include reasonable compensation for early termination); and
- the fair value of the prepayment feature is insignificant on initial recognition.

Impact assessment

The standard will affect the classification and measurement of financial assets held as at 1 January 2018 as follows.

- Trading assets and derivative assets held for risk management, classified as held-for-trading and measured at FVTPL under IAS 39, will also be measured at FVTPL under IFRS 9
- Loans and advances to banks and to customers and cash and balances with the Central Bank of Malta that are classified as loans and receivables and measured at amortised cost under IAS 39, will in general also be measured at amortised cost under IFRS 9
- Held-to-maturity debt investment securities measured at amortised cost under IAS 39, will in general also be measured at amortised cost under IFRS 9
- Debt investment securities that are classified as available-for-sale under IAS 39 may, under IFRS 9, be measured at amortised cost, FVOCI or FVTPL, depending on the particular circumstances
- Investment securities that are designated as at FVTPL under IAS 39 will in general, continue to be measured at FVTPL under IFRS 9
- Equity investment securities that are classified as available-for-sale under IAS 39 will be measured at FVTOCI under IFRS 9 unless these equity investments are classified as held-for-trading in which case these will be measured at FVTPL under IFRS 9.

Impairment - Financial assets, loan commitments and financial guarantee contracts

IFRS 9 replaces the 'incurred loss' model in IAS 39 with a forward-looking 'expected credit loss' model. This will require considerable judgement over how changes in economic factors affect ECLs, which will be determined on a probability-weighted basis.

The main financial instruments that are not measured at FVTPL that will be subject to the new impairment model are the following:

- financial assets, comprising mainly the following:
  - loans and advances to customers and banks;
  - debt investment securities; and
- irrevocable loan commitments and financial guarantee contracts issued (previously, impairment was measured under IAS 37 Provisions, Contingent Liabilities and Contingent Assets).

Under IFRS 9, no impairment loss is recognised on equity investments. This transition impact is not significant to the Group since the current investment strategy is that the Group will not hold equity investments and equity investments at 1 January 2018 are not material.

IFRS 9 requires a loss allowance to be recognised at an amount equal to either 12-month ECLs or lifetime ECLs. Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument, whereas 12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date.

The Group will recognise loss allowances at an amount equal to lifetime ECLs, except in the following cases, for which the amount recognised will be 12-month ECLs:

- financial assets, including debt investment securities that are determined to have low credit risk at the reporting date. The Group considers a debt security to have low credit risk when its credit risk rating is equivalent to the definition of 'investment-grade'.; and
- other financial instruments for which credit risk has not increased significantly since initial recognition.

The impairment requirements of IFRS 9 are complex and require management judgements, estimates and assumptions, particularly in the following areas, which are discussed in detail below:

- assessing whether the credit risk of an instrument has increased significantly since initial recognition; and
- incorporating forward-looking information into the measurement of ECLs.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses and will be measured as follows:

- financial assets that are not credit-impaired at the reporting date: the present value of all cash shortfalls i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive;

- financial assets that are credit-impaired at the reporting date: the difference between the gross carrying amount and the present value of estimated future cash flows;
- undrawn irrevocable loan commitments: the present value of the difference between the contractual cash flows that are due to the Group if the commitment is drawn down and the cash flows that the Group expects to receive; and
- financial guarantee contracts: the present value of the expected payments to reimburse the holder less any amounts that the Group expects to recover.

IFRS 9 defines financial assets that are credit-impaired in a similar way to financial assets that are impaired under IAS 39

Definition of default

Under IFRS 9, the Group will consider a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held);
- with respect to loans and advances to customers, the borrower is more than 90 days past due on any material credit obligation to the Group. Overdrafts are considered past due once the customer has either exceeded a sanctioned limit or has been advised of a limit that is smaller than the current balance outstanding; or
- with regards to investments' portfolio, a payment by the counterparty or issuer is more than 30 days past due.

This definition is largely consistent with the definition that will be used for regulatory purposes.

In assessing whether a borrower is in default, the Group will consider indicators that are:

- qualitative: e.g. breaches of covenant;
- quantitative: e.g. overdue status and non-payment of another obligation of the same issuer to the Group; and
- based on data developed internally and obtained from external sources.

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances.

Significant increase in credit risk

Under IFRS 9, when determining whether the credit risk (i.e. risk of default) on a financial instrument has increased significantly since initial recognition, the Group will consider reasonable and supportable information that is relevant and available without undue cost or effort, including both quantitative and qualitative information and analysis based on the Group's historical experience, expert credit assessment and forward-looking information.

The main judgements that will be made by the Group in identifying whether a significant increase in credit risk has occurred for an exposure are as follows:

- For loans and advances to customers, the Group's internal credit risk grades will be used to assess whether there has been a significant increase in credit risk, performed by comparing the internal credit risk grades as at reporting date with the internal credit risk grades on initial recognition.
- For the investments' portfolio, the Group will apply the low credit risk simplification to all its exposures, thus to the extent that these investments are considered to be low credit risk, they are not subject to the significant increase in credit risk assessment.

Assessing whether credit risk has increased significantly since initial recognition of a financial instrument requires identifying the date of initial recognition of the instrument, together with its internal grading/credit rating on initial recognition. For certain revolving facilities (e.g. overdrafts), the date when the facility was first entered into, could be a long time ago. Modifying the contractual terms of a financial instrument may also affect this assessment, which is discussed below.

Credit risk grades

The Group will allocate each exposure to a credit risk grade based on a variety of data that is determined to be predictive of the risk of default and applying experienced credit judgement. The Group will use these grades in identifying significant increases in credit risk under IFRS 9. Credit risk grades are defined using qualitative and quantitative factors that are indicative of the risk of default. These factors may vary depending on the nature of the exposure and the type of borrower.

Credit risk grades reflect the gradations of potential credit risk inherent to credit facilities granted to borrowing customers. e.g. the difference in the risk of default between credit risk grades "Regular" and "Watch" is smaller than the difference between credit risk grades "Watch" and "Substandard".

Each exposure will be allocated to a credit risk grade on initial recognition based on available information about the borrower. Exposures will be subject to ongoing monitoring, which may result in an exposure being moved to a different credit risk grade.

Generating the term structure of probability of default ("PD")

Credit risk grades will be a primary input into the determination of the term structure of PD for exposures. For loans and advances to customers, the Group will collect performance and default information about its credit risk exposures analysed by type of product and borrower and by internal credit risk grades. For investments in debt securities and all other remaining financial assets, PD information is purchased from an external credit rating agency.

For the loans and advances to customers, the Group will employ statistical models to analyse the data collected and generate estimates of the remaining lifetime PD of exposures and how these are expected to change as a result of the passage of time.

This analysis will include the identification and calibration of relationships between changes in default rates and changes in key macro-economic factors, as well as in-depth analyses of the impact of certain other factors (e.g. forbearance experience) on the risk of default. For most exposures, key macroeconomic indicators are likely to include GDP growth, inflation and unemployment.

For exposures to specific industries, the analysis may extend to relevant commodity and/or real estate prices.

The Group's approach to incorporating forward-looking information into this assessment is discussed below.

Determining whether credit risk has increased significantly

The Group has established a framework that incorporates both quantitative and qualitative information to determine whether the credit risk on a particular financial instrument has increased significantly since initial recognition. The framework aligns with the Group's internal credit risk management process.

The criteria for determining whether credit risk has increased significantly will vary by portfolio and will include a backstop based on delinquency

In certain instances, using its expert credit judgement and, where possible, relevant historical experience, the Group may determine that an exposure has undergone a significant increase in credit risk if particular qualitative factors indicate so and those indicators may not be fully captured by its quantitative analysis on a timely basis. As a backstop, and as required by IFRS 9, the Group will presumptively consider that a significant increase in credit risk occurs when an asset is more than 30 days past due. The Group will determine days past due by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received.

The Group will monitor the effectiveness of the criteria used to identify significant increases in credit risk by regular reviews to confirm that:

- the criteria are capable of identifying significant increases in credit risk before an exposure is in default;
- the average time between the identification of a significant increase in credit risk and default appears reasonable; and
- exposures are not generally transferred directly from 12-month ECL measurement to credit-impaired.

Modified financial asset

The contractual terms of a loan may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer. An existing loan whose terms have been modified may be derecognised and the renegotiated loan recognised as a new loan at fair value.

Under IFRS 9, when the terms of a financial asset are modified but the modification does not result in derecognition, the determination of whether the asset's credit risk has increased significantly reflects comparison of:

- internal grading/credit rating at the reporting date based on the modified terms; with
- internal grading/credit rating on initial recognition at the original contractual terms.

The Group renegotiates loans and advances to customers in financial difficulties (referred to as 'forbearance activities') to maximise collection opportunities and minimise the risk of default. Under the Group's forbearance policy, loan forbearance is granted on a selective basis if the debtor is currently in default on its debt or if there is a high risk of default and there is evidence that the debtor made all reasonable efforts to pay under the original contractual terms, and the debtor is expected to be able to meet the revised terms.

The revised terms usually include extending the maturity, revision of interest rate, or changing the timing of interest payments. Both retail and corporate loans are subject to the forbearance policy. The appropriate committee, depending on the facility amount and type of facility, reviews reports on forborne facilities on a regular basis.

For financial assets modified as part of the Group's forbearance policy, the credit grading will reflect whether the modification has improved or restored the Group's ability to collect interest and principal and the Group's previous experience of similar forbearance action. As part of this process, the Group will evaluate the borrower's payment performance against the modified contractual terms and consider various behavioural indicators.

Generally, forbearance is a qualitative indicator of default and credit impairment and expectations of forbearance are relevant to assessing whether there is a significant increase in credit risk. Following forbearance, a customer needs to demonstrate consistently good payment behaviour over a period of one year before the exposure is no longer considered to be in default/credit-impaired.

Inputs into measurement of ECLs

The key inputs into the measurement of ECLs are likely to be the term structures of the following variables:

- PD;
- loss given default ("LGD"); and
- exposure at default ("EAD").

PD estimates are estimates at a certain date, which, for loans and advances to customers, will be calculated based on statistical rating models and assessed using rating tools tailored to the various categories of counterparties and exposures. These statistical models will be based on internally-compiled data comprising both quantitative and qualitative factors. PDs will be estimated considering the contractual maturities of exposures and estimated prepayment rates. They will be adjusted to reflect forward-looking information as described below.

Market data, obtained from a third party service provider, will be used for the PD of investment securities.

LGD is the magnitude of the likely loss if there is a default. The Group will estimate LGD parameters based on the history of recovery rates of claims, adjusted by the cure rates, against defaulted counterparties. The LGD models will consider the structure, collateral, seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the financial asset. LGD estimates will be calibrated for different economic scenarios and, for real estate lending, to reflect possible changes in property prices. They will be calculated on a discounted cash flow basis using the effective interest rate as the discounting factor.

EAD represents the expected exposure in the event of a default. The Group will derive the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract, including amortisation, and prepayments. The EAD of a financial asset will be the gross carrying amount at default. For lending commitments and financial guarantees, the EAD will consider the amount drawn, as well as potential future amounts that may be drawn or repaid under the contract, which will be estimated based on historical observations and forward-looking forecasts. For some financial assets, the Group will determine EAD by modelling the range of possible exposure outcomes at various points in time using scenario and statistical techniques.

As described above, and subject to using a maximum of a 12-month PD for financial assets for which credit risk has not significantly increased, the Group will measure ECLs considering the risk of default over the maximum contractual period (including any borrower's extension options) over which it is exposed to credit risk, even if, for risk management purposes, the Group considers a longer period. The maximum contractual period extends to the date at which the Group has the right to require repayment of an advance or terminate a loan commitment or guarantee.

For retail overdrafts and certain corporate revolving facilities that include both a loan and an undrawn commitment component, the Group will measure ECLs over a period longer than the maximum contractual period if the Group's contractual ability to demand repayment and cancel the undrawn commitment does not limit the Group's exposure to credit losses to the contractual notice period. These facilities do not have a fixed term or repayment structure and are risk managed on an individual basis; these facilities are however collectively assessed for IFRS 9 purposes. Although the Group can cancel these facilities with immediate effect, this contractual right is not enforced in the normal day-to-day management, but rather only when the Group becomes aware of an increase in credit risk at the facility level. This longer period will be estimated taking into account the credit risk management actions that the Group expects to take and that serve to mitigate ECLs. These include a reduction in limits and cancellation of the facility.

Where modelling of a parameter is carried out on a collective basis, the financial instruments will be grouped on the basis of shared risk characteristics that include:

- Credit risk grades;
- Product type;
- LTV ratio band;
- Industry;
- Collateral type; and
- Geographic region of exposure.

The groupings will be subject to regular review to ensure that exposures within a particular group remain appropriately homogeneous.

Forward-looking information

Under IFRS 9, the Group will incorporate forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since initial recognition and its measurement of ECLs. The assessment of significant increase in credit risk and the calculation of ECL, both incorporate forward-looking information. The Group will perform a historical analysis and identify the key economic variables affecting credit risk and expected credit losses for each portfolio. These economic variables and their associated impact on the PD, EAD and LGD may vary by financial instrument. The Group performs expert judgement in this process.

A third party provider has been engaged to provide, on a regular basis, the forecasted macro-economic scenarios covering a ten year time horizon. The 'base line' scenario will represent the most-likely outcome and will be the same scenario considered by the Group for the purposes of strategic planning and budgeting. Apart from the 'base line' scenario, the Group considers two other macro-economic scenarios, which represent more optimistic and more pessimistic outcomes. The Group will also periodically carry out stress testing of more extreme shocks to calibrate its determination of these other representative scenarios. The Group will put in place the appropriate governance arrangements to analyse, review and challenge the macro-economic scenarios provided by the third party

As with any macro-economic forecasts, the projections and likelihoods of occurrence are subject to a high degree of uncertainty and therefore, the actual outcomes may be significantly different to those projected. The Group considers these forecasts to represent its best estimate of the possible outcomes.

The Group has identified key drivers of credit risk and credit losses for each portfolio of financial instruments and, using an analysis of historical data, has analysed relationships between macro-economic variables and credit risk and credit losses. These key drivers include inflation rates, unemployment rates and GDP forecasts.

Classification – Financial liabilities

IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities.

Disclosures

IFRS 9 will require extensive new disclosure, in particular about credit risk and ECLs.

Impact Assessment

Based on the impact assessment undertaken to date by the management of the Group in respect of the financial instruments identified below, the total estimated impact of the adoption of IFRS 9 on the opening balance of the Group's and the Bank's equity as extrapolated at 1 January 2018 is not expected to be material on the basis of the factors listed below.

The said assessment covers the following financial instruments;

i. loans and advances to customers;
ii. debt investment securities; and
iii. irrevocable loan commitments.

The said assessment is on-going at the date of authorisation of these financial statements and the judgements and estimates being used are still subject to more detailed reviews by the management of the Bank. The actual impact of adopting IFRS 9 at 1 January 2018 may change because:

- IFRS 9 will require the Group to revise its accounting processes and internal controls and these changes are not yet complete;
- the new systems and associated controls in place are not yet fully operational;
- the Group has not finalised the testing and assessment of controls over its new IT systems and changes to its governance framework;
- the Group is refining and finalising its models for expected credit loss ("ECL") calculations; and
- the new accounting policies, assumptions, judgements and estimation techniques employed are subject to change until the Group finalises its first financial statements that include the date of initial application. The more significant estimates applied for the purpose of this assessment are being included below.

Loans and advances to customers:

- Management overlays: As further described below, the inputs and models being used for calculating ECLs at the date of transition may not always capture all the required characteristics and thus qualitative adjustments or overlays are being made by management based on a documented risk management approach. Examples of instances where this is applied include the following - (i) where clients have outstanding balances with privileged creditors and (ii) estimating the recovery rate on classified loans.
- Forward-looking information and macroeconomic data: For the purpose of measuring the estimated ECL on transition, the Group is applying reasonable and supportable forward looking information obtained from a third party provider
- Probability of default ("PD"): PD constitutes a key input in measuring ECL and represents an estimate of the likelihood of default over a given time horizon. The calculation of the estimated PDs at the date of transition includes the use of historical data, assumptions and expectations of future conditions.
- Loss Given Default: LGD is an estimate of the loss arising on default and is based on the difference between the contractual cash flows due and those that the lender would expect to receive, taking into account cash flows from collateral and integral credit enhancements. In its initial estimate the Group is estimating the LGD parameters based on the history of recovery rates of claims, adjusted by the cure rates of defaulted counterparties and by considering the structure, collateral, seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the financial asset.
- The expected life: the determination of the expected life requires the use of estimates, in particular in determining the likelihood of the prepayment options being exercised for the term deposits and in determining the contractual period over which the Bank is exposed to credit risk for the revolving facilities.
- Probability-weighted amounts: In estimating the ECL, the Group used probability weighting for macro-economic data which evaluate a range of possible outcomes.
- The use of undue cost or effort: in certain limited instances, the Group considers that undue cost or effort is required in obtaining information, for example in determining forward looking macro-economic forecasts on the initial recognition of loans, which forecasts are thus assumed to be incorporated in the origination PDs.
- Significant increase in credit risk: The Bank has established a framework that incorporates both quantitative and qualitative information to determine whether the credit risk on a particular financial instrument has increased significantly since initial recognition.
- Grouping: For the purpose of performing a collective assessment at the date of transition, management is grouping its loans into six groupings that are deemed to reflect the credit risk characteristics of the Group's loan portfolio.

Debt investment securities

The substantial majority of the portfolio is of investment grade and mainly comprises listed bonds with an external rating. The Group is expecting to elect to apply the low credit risk simplification for this portfolio, thus resulting in the ECL being measured using a 12 month PD. At the date of transition, the determination of a significant increase in credit risk for those investments that are no longer investment grade is being incorporated by reference to notches of downgrades. At the date of transition, the Group is applying vendor-provided PDs and LGDs and is modelling the respective EADs using cash flows.

Impact on Capital Planning

Guidelines on the transition requirements for the implementation of IFRS 9 issued by the regulator allow a choice of two approaches to the recognition of the impact of adoption of the standard on regulatory capital:

- phasing in the full impact on a straight –line basis over a five-year period; or
- recognising the full impact on the day of adoption.

The Group has decided to adopt the second approach. The principal impact on the Group's regulatory capital of the implementation of IFRS 9 will arise from the new impairment requirements.

Under the standardised approach, the capital requirement is calculated based on the gross exposure net of specific provisions – i.e. net exposure. Based on an assessment, the adoption of IFRS 9 at the date of transition has no material impact on the Bank's capital requirement.

Transition

Changes in accounting policies resulting from the adoption of IFRS 9 will generally be applied retrospectively, except as described below.

- The Group will take advantage of the exemption allowing it not to restate comparative information for prior periods with respect to classification and measurement (including impairment) changes. Differences in the carrying amounts of financial assets and financial liabilities, if any, resulting from the adoption of IFRS 9 will generally be recognised in retained earnings and reserves as at 1 January 2018.
- The following assessments have to be made on the basis of the facts and circumstances that exist at the date of initial application:
    - the determination of the business model within which a financial asset is held;
    - the designation and revocation of previous designations of certain financial assets and financial liabilities as measured at FVTPL; and
    - the designation of certain investments in equity instruments not held for trading as at FVOCI.
- If a debt investment security has low credit risk at 1 January 2018, then the Group will determine that the credit risk on the asset has not increased significantly since initial recognition.

IFRS 15 Revenue from Contracts with Customers (effective for financial years beginning on or after 1 January 2018)

In May 2014, the IASB issued IFRS 15 "Revenue from Contracts with Customers". The standard is the result of a convergence project between the IASB and the FASB. IFRS 15 specifies how and when an IFRS reporter will recognise revenue as well as requiring such entities to provide users of financial statements with more informative, relevant disclosures. The standard supersedes IAS 18 'Revenue', IAS 11 'Construction Contracts' and a number of revenue-related interpretations. Application of the standard is mandatory for all IFRS reporters and it applies to nearly all contracts with customers: the main exceptions being leases, financial instruments and insurance contracts.

By virtue of an amendment issued on 11 September 2015, the effective date of the Standard was deferred by one year to annual periods beginning on or after 1 January 2018, with earlier application being permitted.

IFRS 15 Clarifications Revenue from Contracts with Customers (effective for financial years beginning on or after 1 January 2018)

In April 2016, a clarification was issued with the Amendments to the Revenue Standard, IFRS 15 Revenue from Contracts with Customers, clarify some requirements and provide additional transitional relief for companies that are implementing the new Standard. The clarifications are effective for annual periods beginning on or after 1 January 2018, with earlier application being permitted. The directors do not anticipate that this standard will have a material impact on the financial statements of the company in the period of initial application.

IFRS 16 Leases (effective for financial years beginning on or after 1 January 2019)

During January 2016, the IASB issued a new standard IFRS 16 "Leases". The new standard brings most leases on-balance sheet for lessees under a single model, eliminating the distinction between operating and finance leases. Lessor accounting however remains substantially unchanged (except for a requirement to provide enhanced disclosures) and the distinction between operating and finance leases is retained. IFRS 16 supersedes IAS 17 'Leases' and related interpretations. IFRS 16 is effective for periods beginning on or after 1 January 2019. Early application is permitted for companies that also apply IFRS 15 Revenue from Contracts with Customers. The directors are currently assessing the impact this standard will have on the financial statements on initial application.

In relation to other IFRS that are not included above and that are in issue at the date of authorisation of these financial statements but not yet effective, the Board of Directors anticipate that their adoption will have no material impact on the financial statements of the Group in the period of initial application.

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

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

- IFRS 9 (Amendment) – Prepayment Features with Negative Compensation (effective for financial years on or after 1 January 2019)
- IFRS 17 – Insurance Contracts (effective for financial years on or after 1 January 2021)
- IAS 28 (Amendment) – Long-term Interest in Associates and Joint Ventures (effective for financial years on or after 1 January 2019)
- IFRS 2 (Amendment) – Classification and Measurement of Share-Based Payment Transactions (effective for financial years on or after 1 January 2018)
- The Annual Improvements to IFRS Standards 2014 – 2016 Cycle – Investments in Associates and Joint Ventures (effective for financial years on or after 1 January 2018)
- The Annual Improvements to IFRS Standards 2015 – 2017 Cycle – Business Combinations (effective for financial years on or after 1 January 2019)
- IAS 40 (Amendment) – Transfers of Investment Property (effective for financial years on or after 1 January 2018)
- IFRIC 22 – Foreign Currency Transactions and Advance Consideration (effective for financial years on or after 1 January 2018)
- IFRIC 23 – Uncertainty over income tax treatments (effective for financial years on or after 1 January 2019)

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

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, 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 presentation currency and the functional currency of the Bank. 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.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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. 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 effective interest rate (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 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.

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. Where there is evidence of impairment, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the statement of profit or loss, is removed from other comprehensive income and recognised in the statement of profit or loss. Impairment losses on equity investments are not reversed through the statement of profit or loss; increases in their fair value after impairment are recognised directly in other comprehensive income.

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

Renegotiated loans

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

Collateral valuation

The 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 to the extent that they continue to be recognised.

Financial liabilities

Initial recognition

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

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

Subsequent measurement

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

Amounts owed to banks and to customers

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

Derivative financial instruments

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

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

Derecognition

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

Offsetting financial instruments

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

Repurchase and reverse repurchase agreements

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

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

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

Property and equipment

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

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

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

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

Intangible assets

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

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

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

Development costs

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

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

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

Investment properties

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

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

Impairment of non-financial assets

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

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

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

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

Investments in subsidiaries

Investments in subsidiaries are accounted for at cost less any accumulated impairment losses in the separate financial statements of the Bank.

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 associate and, therefore, represents profit after tax and non-controlling interests in the subsidiaries of the associate.

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

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

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

The Bank

The investment in associates is stated in the separate financial statements of the Bank at cost less any accumulated impairment losses. 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.

Provisions, contingent liabilities and contingent assets

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

Provisions are measured at the directors' best estimate of the expenditure required to settle the present obligation at the end of the reporting period. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Provisions are not recognised for future operating losses.

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

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

Leases

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

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

Fair value measurement

The Group measures certain financial instruments and certain non-financial assets at fair value at each reporting date as disclosed in the Basis of Preparation.

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 of 31 December 2017, the Group directly held 15.48 % (2016: 15.19%) interest in APS Income Fund and 17.78% (2016: 21.96%) interest in APS Regular Income Ethical Fund.

The Group assessed whether it has significant influence over the investees and concluded that significant influence can be clearly established upon considering the following factors:

- Representation in the board of directors.
- Participation in policy-making processes.
- 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 and APS Regular Income Ethical Fund as an associate under equity method.

Impairment losses on loans and advances

The Group 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 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 2017. For investment properties, the valuation specialist determines 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	
	2017	2016	**2017**	2016
	€000	€000	**€000**	€000
On loans and advances to banks	**102**	47	**102**	47
On loans and advances to customers	**31,759**	27,242	**31,759**	27,242
	31,861	27,289	**31,861**	27,289
On debt securities	**12,190**	12,586	**12,078**	12,586
Amortisation of premiums and discounts	**(1,655)**	(1,008)	**(1,655)**	(1,008)
	10,535	11,578	**10,423**	11,578
	42,396	38,867	**42,284**	38,867

Interest receivable on loans and advances to customers is netted off with € 879,687 (2016: €654,424) in respect of interest accrued on impaired loans and advances to customers (note 15).

4. INTEREST PAYABLE

	The Group		The Bank	
	2017	2016	**2017**	2016
	€000	€000	**€000**	€000
On amounts owed to banks	**55**	-	**55**	-
On amounts owed to customers	**9,537**	10,865	**9,537**	10,865
	9,592	10,865	**9,592**	10,865

5. DIVIDEND INCOME

	The Group		The Bank	
	2017	2016	**2017**	2016
	€000	€000	**€000**	€000
From equity shares held in local and foreign entities and collective investment schemes	**214**	246	**656**	745

6. TRADING INCOME

	The Group		The Bank	
	2017	2016	2017	2016
	€000	€000	€000	€000
Unrealised gain on foreign exchange	299	223	418	223
Realised gain on exchange	-	143	-	143
	299	366	418	366

7. NET GAINS ON FINANCIAL INSTRUMENTS

	The Group		The Bank	
a) Net realised gains on disposal of available-for sale investments	2017	2016	2017	2016
	€000	€000	€000	€000
Realised gains on disposal of available-for-sale investments	3,281	1,282	3,281	1,282

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	(72)	92	(65)	92
Realised gains on disposal of financial assets at fair value through profit or loss	140	37	140	37
	68	129	75	129
	3,349	1,411	3,356	1,411

8. PERSONNEL EXPENSES

	The Group		The Bank	
	2017	2016	2017	2016
	€000	€000	€000	€000
Wages and salaries (short-term):				
- key management personnel	1,303	963	1,303	963
- other staff	9,209	7,463	9,209	7,463
- wages recharged to subsidiary at cost	-	-	-	(2)
Social security costs	636	535	636	535
	11,148	8,961	11,148	8,959

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

	The Group		The Bank	
	2017	2016	2017	2016
Managerial	59	46	59	46
Senior officers and officers	255	221	255	221
Others	9	10	9	10
	323	277	323	277

9. OTHER ADMINISTRATIVE EXPENSES

	The Group		The Bank	
	2017	2016	2017	2016
	€000	€000	€000	€000
Remuneration payable to the auditors for:				
- the audit of financial statements	52	48	41	39
- tax compliance services	7	2	5	1
Directors' emoluments	252	228	228	223
Insurance	810	977	810	977
Professional fees	1,604	753	1,557	752
Repairs and maintenance	1,731	2,019	1,731	2,019
Telecommunications	366	342	366	342
Office operating expenses	2,167	1,751	2,160	1,751
Card and other financial charges	170	91	170	91
Fees and commission expenses	554	352	554	352
Others	1,621	1,702	1,549	1,709
	9,334	8,265	9,171	8,256

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

10. NET IMPAIRMENT LOSSES

	The Group		The Bank	
	2017	2016	2017	2016
	€000	€000	€000	€000
Charge for the year:				
Loans and advances to customers:				
- collective impairment (note 15)	589	154	589	154
- individual impairment (note 15)	2,679	2,122	2,679	2,122
- bad debts written off	1,258	1,522	1,258	1,522
	4,526	3,798	4,526	3,798
Reversal of write-downs:				
Loans and advances to customers:				
- individual impairment (note 15)	(2,056)	(2,810)	(2,056)	(2,810)
Net impairment losses	2,470	988	2,470	988

11. INCOME TAX EXPENSE

The major components of income tax expense for the years ended 31 December 2017 and 2016 are:

	The Group		The Bank	
	2017	2016	2017	2016
	€000	€000	€000	€000
Current income tax	5,539	5,094	5,479	5,094
Deferred income tax	(289)	(274)	(289)	(274)
Income tax expense	5,250	4,820	5,190	4,820

11. INCOME TAX EXPENSE (Continued)

A reconciliation between tax expense and the product of accounting profit multiplied by the applicable tax rate in Malta of 35% (2016: 35%) for the years ended 31 December 2017 and 2016 is as follows:

	The Group		The Bank	
	2017	2016	2017	2016
	€000	€000	€000	€000
Profit before tax	18,358	15,764	18,278	15,446
Theoretical tax expense at 35%	6,425	5,517	6,397	5,406
Tax effect of:				
- Non-taxable sale of investments	(1,148)	(24)	(1,148)	(24)
- Income taxed at lower rates of tax	(129)	(125)	(129)	(125)
- Depreciation not recovered by way of capital allowance	53	50	53	50
- Others	49	(598)	17	(487)
Income tax expense	5,250	4,820	5,190	4,820

12. DIVIDENDS PAID AND PROPOSED

	The Group		The Bank	
	2017	2016	2017	2016
	€000	€000	€000	€000
Dividends paid 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
Interim gross of income tax for 2017:				
2.54 cents per share (2016: 2.54 cents per share)	1,172	1,172	1,172	1,172
Interim net of income tax for 2017:				
1.65 cents per share (2016: 1.65 cents per share)	762	762	762	762

13. CASH AND BALANCES WITH CENTRAL BANK OF MALTA

	The Group		The Bank	
	2017	2016	2017	2016
	€000	€000	€000	€000
Cash in hand (note 37)	13,089	6,464	9,999	6,464
Balances with Central Bank of Malta (excluding reserve deposit) (note 37)	66,400	21,400	66,400	21,400
Reserve deposit with Central Bank of Malta	10,050	8,556	10,050	8,556
	89,539	36,420	86,449	36,420

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. Included in this balance is an amount of € 1,400,000 (2016: €1,400,000) pledged in favour of the MFSA's Depositors' Compensation Scheme (note 19).

During the year ended 31 December 2017 the Bank has been compliant with the reserve deposit requirement (2016: the same).

14. LOANS AND ADVANCES TO BANKS

	The Group		The Bank	
	2017	2016	2017	2016
	€000	€000	€000	€000
Repayable on call and at short notice (note 37)	32,246	48,800	32,246	48,800
Placements with other banks not repayable at short notice	1,000	11,362	-	11,362
	33,246	60,162	32,246	60,162
Analysed by currency:				
- Euro	9,324	35,851	8,324	35,851
- Foreign	23,922	24,311	23,922	24,311
	33,246	60,162	32,246	60,162

15. LOANS AND ADVANCES TO CUSTOMERS

	The Group		The Bank	
	2017	2016	2017	2016
	€000	€000	€000	€000
Repayable on call and at short notice	88,015	57,414	88,015	57,414
Term loans and advances	952,970	762,900	952,970	762,900
Gross loans and advances (i)	1,040,985	820,314	1,040,985	820,314
Less: allowance for impairment losses (ii)	(16,395)	(14,303)	(16,395)	(14,303)
Net loans and advances	1,024,590	806,011	1,024,590	806,011

(i) Gross loans and advances analysed by currency

	The Group		The Bank	
	2017	2016	2017	2016
	€000	€000	€000	€000
- Euro	1,024,331	814,616	1,024,331	814,616
- Foreign	16,654	5,698	16,654	5,698
	1,040,985	820,314	1,040,985	820,314

(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	
	2017	2016	2017	2016
	€000	€000	€000	€000
At 1 January	14,303	14,183	14,303	14,183
Charge/(Reversal) for the year:				
- Collective (note 10)	589	154	589	154
- Individual (note 10)	623	(688)	623	(688)
- Accrued interest (note 3)	880	654	880	654
At 31 December	16,395	14,303	16,395	14,303
- Individual impairment losses, including accrued interest	12,966	11,463	12,966	11,463
- Collective impairment losses	3,429	2,840	3,429	2,840
	16,395	14,303	16,395	14,303

With the individually assessed allowance for impairment losses at the reporting date is included an amount of € 5,791,137 (2016: €4,910,905) which has been netted-off against interest receivable.

The aggregate amount of non-performing loans and advances at the reporting date amounted to € 43,454,070 (2016: €53,051,168)

15. LOANS AND ADVANCES TO CUSTOMERS (Continued)

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	2017 €000	2016 €000
Agriculture	8,572	8,933
Fishing	9,444	2,257
Mining and quarrying	46	-
Manufacturing	29,850	23,180
Electricity, gas and water supply	2,870	11,137
Construction	58,392	41,317
Wholesale and retail trade	32,266	32,841
Hotels and restaurants, excluding related construction activities	28,506	16,978
Transport, storage and communication	8,519	4,114
Financial intermediation	75,618	57,551
Real estate, renting and business	65,534	40,558
Professional, Scientific and technical	7,185	13,096
Administrative and Support services	6,684	4,135
Public administration	11,607	4,043
Education	11,066	11,501
Health and social work	9,507	3,942
Community, recreational and personal service activities	2,946	2,583
Households and individuals	672,373	542,148
	1,040,985	820,314

16. INVESTMENT PROPERTIES

The Group's investment property consists of commercial property and residential properties in Malta. As at 31 December 2017 and 2016 the fair values of investment properties held by the Group were as follows:

	The Group		The Bank	
	2017 €000	2016 €000	2017 €000	2016 €000
As at 1 January	3,793	3,965	3,793	3,965
Additions / (Deductions)	150	(172)	150	(172)
Fair value movement	260	-	260	-
As at 31 December	4,203	3,793	4,203	3,793

17. DERIVATIVE FINANCIAL INSTRUMENTS

	The Group		The Bank	
	2017 €000	2016 €000	2017 €000	2016 €000
Derivative assets, designated as at fair value through profit or loss, not designated as hedges	3,008	3,164	3,008	3,164
Derivative liabilities, designated as at fair value through profit or loss, not designated as hedges	3,008	3,164	3,008	3,164

17. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

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 2017 €000	Assets 2017 €000	Liabilities 2017 €000	Notional 2016 €000	Assets 2016 €000	Liabilities 2016 €000
Over the counter derivatives:						
Equity/commodity-index warrants purchased	49,375	3,008	-	59,775	3,164	-
Equity/commodity-index warrants written	(49,375)	-	3,008	(59,775)	-	3,164
	-	3,008	3,008	-	3,164	3,164

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	
	2017 €000	2016 €000	2017 €000	2016 €000
Fixed income instruments and collective investment schemes	37,013	2,732	910	2,732
Equity and other non-fixed income instruments	32	589	32	589
	37,045	3,321	942	3,321
Analysed by currency:				
- Euro	25,228	3,321	942	3,321
- Foreign	11,817	-	-	-
	37,045	3,321	942	3,321
Carrying value				
At 1 January	3,321	3,815	3,321	3,815
Disposals	(2,802)	(3,194)	(2,802)	(3,194)
Acquisitions	36,633	2,680	502	2,680
(Decrease) / increase in fair values	(107)	20	(79)	20
	37,045	3,321	942	3,321

19. DEBT AND OTHER FIXED INCOME INSTRUMENTS

	The Group		The Bank	
	2017	2016	2017	2016
	€000	€000	€000	€000
Held-to-maturity	72,775	72,916	72,775	72,916
Available-for-sale	179,549	249,928	179,549	249,928
	252,324	322,844	252,324	322,844
Held-to-maturity				
Issued by public bodies:				
- Local government	62,851	63,120	62,851	63,120
Issued by other issuers:				
- Foreign government	9,255	9,282	9,255	9,282
- Foreign others	669	514	669	514
	9,924	9,796	9,924	9,796
Total	72,775	72,916	72,775	72,916
Available-for-sale				
Issued by public bodies:				
- Local government	61,953	67,629	61,953	67,629
- Foreign government	20,634	17,099	20,634	17,099
	82,587	84,728	82,587	84,728
Issued by other issuers:				
- Local banks	1,875	2,389	1,875	2,389
- Foreign banks	17,646	48,900	17,646	48,900
- Foreign others	77,395	110,641	77,395	110,641
- Local others	46	3,270	46	3,270
	96,962	165,200	96,962	165,200
Total	179,549	249,928	179,549	249,928
Total debt and other fixed income instruments	252,324	322,844	252,324	322,844
Analysed by currency:				
- Euro	215,810	277,683	215,810	277,683
- Foreign	36,514	45,161	36,514	45,161
	252,324	322,844	252,324	322,844
Unamortised premiums on debt and other fixed income instruments	5,503	7,833	5,503	7,833
Listing status:				
- Listed on Malta Stock Exchange	126,725	136,409	126,725	136,409
- Listed elsewhere	124,930	185,921	124,930	185,921
- Unlisted	669	514	669	514
	252,324	322,844	252,324	322,844
Available-for-sale				
Carrying value				
At 1 January	249,928	220,959	249,928	220,959
Redemptions and disposals	(76,131)	(39,673)	(76,131)	(39,673)
Acquisitions	14,518	72,114	14,518	72,114
Amortisation	(1,355)	(1,243)	(1,355)	(1,243)
Change in fair value	(5,552)	3,129	(5,552)	3,129
Exchange adjustments	(1,859)	(5,358)	(1,859)	(5,358)
	179,549	249,928	179,549	249,928

19. DEBT AND OTHER FIXED INCOME INSTRUMENTS (Continued)

	The Group		The Bank	
	2017	2016	2017	2016
	€000	€000	€000	€000
Held-to-maturity				
Carrying value				
At 1 January	72,916	76,999	72,916	76,999
Redemptions and disposals	-	(9,546)	-	(9,546)
Acquisitions	155	5,767	155	5,767
Amortisation	(296)	(304)	(296)	(304)
Exchange adjustments	-	-	-	-
	72,775	72,916	72,775	72,916
	252,324	322,844	252,324	322,844

Eligible debt instruments with a nominal value of €121,066,549 (2016: €106,516,549) 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 (2016: €5,250,000) have been pledged in favour of the MFSA's Depositors' Compensation Scheme, as follows:

The Group / Bank	2017	2016
	€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	
	2017	2016	2017	2016
Available-for-Sale	€000	€000	€000	€000
Listing status:				
- Listed on Malta Stock Exchange	1,511	3,735	1,511	3,735
- Listed elsewhere	-	96	-	96
- Unlisted	282	288	282	288
	1,793	4,119	1,793	4,119

Carrying value				
At 1 January	4,119	3,348	4,119	3,348
Disposals	(2,479)	(16)	(2,479)	(16)
Acquisitions	47	453	47	453
Increase in fair values	106	334	106	334
	1,793	4,119	1,793	4,119

21. INVESTMENT IN SUBSIDIARIES

The Bank	2017	2016
	€000	€000
Cost		
At 1 January	305	650
Dissolution of subsidiary	(55)	-
Increase in investments	40,000	250
As at 31 December	40,250	900
Provision for diminution in value		
At 1 January and 31 December	-	(595)
Carrying amount		
At 31 December	40,250	305

The shares in subsidiaries are made up as follows:

				Cost	
	Country of	% equity interest		2017	2016
Name	incorporation	2017	2016	€000	€000
APS Diversified Bond Fund 40,000,000 ordinary shares at €1.00	Malta	97.32	-	40,000	-
APS Consult Limited 259,999 ordinary shares at €2.50 (2016: 259,999 ordinary shares at €2.50)	Malta	-	99.99	-	55
ReAPS Asset Management Limited 250,000 ordinary shares at €1.00 (2016: 250,000 ordinary shares at €1.00)	Malta	100.00	100.00	250	250
				40,250	305

During the year under review, APS Consult Limited was liquidated and the investment that the Bank had in this company was reversed.

	APS Diversified Bond Fund	ReAPS Asset Management Ltd.
	2017	2017
	€000	€000
Current assets	41,094	591
Non-Current assets	-	4
Current liabilities	(53)	(234)
Net assets value	41,041	361
Income	15	692
Expenses	(76)	(521)
(Loss)/Profit before tax	(61)	171
Tax	-	(60)
(Loss)/Profit after tax	(61)	111

22. INVESTMENT IN ASSOCIATES

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	
	2017	2016	2017	2016
	€000	€000	€000	€000
Current assets	81,571	3,157	32,728	1,856
Non-current assets	-	80,979	-	24,576
Current liabilities	(207)	(313)	(174)	(134)
Net asset value	81,364	83,823	32,554	26,298
Carrying amount of the Group's investment	12,595	12,648	5,788	5,608

	APS Income Fund		APS Regular Income Ethical Fund	
	2017	2016	2017	2016
	€000	€000	€000	€000
Income	2,886	5,171	1,375	1,441
Expenses	(829)	(865)	(414)	(329)
Finance cost	(1,644)	(1,732)	(569)	(449)
Profit before tax	413	2,574	392	663
Tax	(421)	(426)	(44)	(25)
(Loss) / Profit after tax	(8)	2,148	348	638
Group's share of profit for the year	262	639	179	189

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

	2017	2016
	€000	€000
Carrying amount of the investment at 1 January	18,256	17,926
Share of associate's results, net of tax	441	828
Dividend distribution	(473)	(498)
Carrying amount of the investment at 31 December	18,224	18,256

The associates had no contingent liabilities or capital commitments as at 31 December 2017 (2016: the same).

The fair value of the investment in associates as at 31 December 2017 amounted to € 18,383,199 (2016: €18,507,594).

22. INVESTMENT IN ASSOCIATES (Continued)

The following are quoted market prices of the associate as at end of December 2017 and December 2016 and represent Level 1 investments in the fair value hierarchy:

	APS Income Fund	
	2017	2016
	€	€
Accumulator	**175.9104**	172.3487
Distributor	**127.3622**	127.9522

The following sub-fund is not quoted and represents a Level 2 investment in the fair value hierarchy:

	APS Regular Income Ethical Fund	
	2017	2016
	€	€
Accumulator Class A	**1.3731**	1.3297
Distributor Class B	**1.1573**	1.1521
Accumulator Class C	**1.3703**	1.3279
Distributor Class D	**1.1563**	1.1517

The Bank

				Cost	
	Country of	% equity interest		2017	2016
Name	incorporation	2017	2016	€000	€000
APS Funds SICAV p.l.c. 1,199 founder shares at €1.00 (2016: 1,199 founder shares at €1.00)	**Malta**	**99.99**	99.99*	**1**	1
APS Income Fund 98,853.14 units at €100.01 (2016: 98,853.14 units at €100.01)	**Malta**	**15.48**	15.19	**9,886**	9,886
APS Regular Income Ethical Fund 5,000,000 units at €1 (2016: 5,000,000 units at €1.00)	**Malta**	**17.78**	21.96	**5,000**	5,000
				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.

APS Income Fund and APS Regular Income Ethical Fund are both sub-funds of APS Funds SICAV p.l.c. The Company is recognised under the laws of Malta as a multi-fund public limited liability company with variable share capital pursuant to the Companies Act. The Company and its sub-funds are authorised in terms of the Investment Services Act (Cap. 370, Laws of Malta) as an open-ended collective investment scheme qualifying as a Maltese UCITS , and licensed and regulated by the MFSA.

23. INTANGIBLE ASSETS

	The Group Computer software €000	The Bank Computer software €000
Cost		
At 1 January 2016	11,457	11,457
Adjustments to opening balance	(100)	(100)
Additions	1,685	1,685
At 31 December 2016	13,042	13,042
Additions	1,872	1,868
At 31 December 2017	**14,914**	**14,910**
Amortisation		
At 1 January 2016	8,320	8,320
Adjustments to opening balance	13	13
Charge for the year	648	648
At 31 December 2016	8,981	8,981
Charge for the year	840	840
At 31 December 2017	**9,821**	**9,821**
Net book value		
At 31 December 2017	**5,093**	**5,089**
At 31 December 2016	4,061	4,061
At 1 January 2016	3,137	3,137

	2017 €000	2016 €000
Future capital expenditure:		
- Authorised by the Directors and contracted	1,141	823
- Authorised by the Directors but not yet contracted	2,307	3,287
	3,448	4,110

The gross carrying amount of any fully amortised intangible assets that is still in use as at 31 December 2017 was of € 8,703,492 (2016: €8,041,902).

24. PROPERTY AND EQUIPMENT

The Group	Land and Buildings	Computer Equipment	Other	Total
	€000	€000	€000	€000
Cost				
At 1 January 2016	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
Additions	1,158	1,294	2,161	4,613
Reclassification	-	(213)	213	-
Disposals	-	(30)	(285)	(315)
At 31 December 2017	**14,422**	**6,257**	**14,497**	**35,176**
Depreciation				
At 1 January 2016	1,793	4,329	9,620	15,742
Adjustments to opening	-	(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
Charge for the year	152	305	584	1,041
Reclassification	-	(77)	77	-
Disposals	-	(18)	(284)	(302)
At 31 December 2017	**2,089**	**4,749**	**10,632**	**17,470**
Net Book Value				
At 31 December 2017	**12,333**	**1,508**	**3,865**	**17,706**
At 31 December 2016	11,327	667	2,153	14,147
At 1 January 2016	10,417	657	2,320	13,394

	2017	2016
	€000	€000
Future capital expenditure:		
- Authorised by the Directors and contracted	**1,082**	1,505
- Authorised by the Directors but not yet contracted	**7,593**	6,978
	8,675	8,483

24. PROPERTY AND EQUIPMENT (Continued)

The Bank	Land and Buildings €000	Computer Equipment €000	Other €000	Total €000
Cost				
At 1 January 2016	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
Additions	1,158	1,294	2,161	4,613
Reclassification	-	(213)	213	-
Disposals	-	(23)	(287)	(310)
At 31 December 2017	**14,422**	**6,257**	**14,497**	**35,176**
Depreciation				
At 1 January 2016	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
Charge for the year	152	305	584	1,041
Reclassification	-	(77)	77	-
Disposals	-	(10)	(287)	(297)
At 31 December 2017	**2,089**	**4,749**	**10,632**	**17,470**
Net Book Value				
At 31 December 2017	**12,333**	**1,508**	**3,865**	**17,706**
At 31 December 2016	11,327	668	2,152	14,147
At 1 January 2016	10,417	658	2,319	13,394

	2017 €000	2016 €000
Future capital expenditure:		
- Authorised by the Directors and contracted	**1,082**	1,505
- Authorised by the Directors but not yet contracted	**7,593**	6,978
	8,675	8,483

The gross carrying amount of any fully depreciated property and equipment that is still in use as at 31 December 2017 was of € 11,481,946 (2016: €10,851,344).

25. DEFERRED TAX ASSETS

Deferred tax at 31 December relates to the following:

	The Group		The Bank	
	2017	2016	2017	2016
	€000	€000	€000	€000
Fair value movements in investment securities	(1,956)	(3,049)	(1,956)	(3,049)
Impairment allowance for loans and advances to customers	5,739	5,006	5,739	5,006
Excess of capital allowances over depreciation	(798)	(455)	(798)	(455)
	2,985	1,502	2,985	1,502

Deferred tax arising on the fair value movements on investment securities, amounting to € 1,194,914 was credited (2016: €847,771 debited) directly in equity. For other movements' details refer to note 11.

26. OTHER RECEIVABLES

	The Group		The Bank	
	2017	2016	2017	2016
	€000	€000	€000	€000
Accrued income	5,204	5,921	5,204	5,921
Prepayments and other receivables	1,446	752	759	752
Amounts due from subsidiaries	-	-	159	17
	6,650	6,673	6,122	6,690

27. AMOUNTS OWED TO BANKS

	The Group		The Bank	
	2017	2016	2017	2016
	€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)	36,622	36,204	36,622	36,204
- over 3 months but less than 1 year but not repayable on demand	7,500	-	7,500	-
- over 1 year	67,010	-	67,010	-
	111,132	36,204	111,132	36,204
Analysed by currency:				
- Euro	109,677	31,476	109,677	31,476
- Foreign	1,455	4,728	1,455	4,728
	111,132	36,204	111,132	36,204

28. AMOUNTS OWED TO CUSTOMERS

	The Group		The Bank	
	2017	2016	2017	2016
	€000	€000	€000	€000
Term deposits	544,330	545,306	545,091	545,306
Repayable on demand	681,246	553,849	681,291	554,100
	1,225,576	1,099,155	1,226,382	1,099,406
Analysed by currency:				
- Euro	1,149,921	1,029,232	1,150,727	1,029,483
- Foreign	75,655	69,923	75,655	69,923
	1,225,576	1,099,155	1,226,382	1,099,406

29. OTHER LIABILITIES

	The Group		The Bank	
	2017	2016	2017	2016
	€000	€000	€000	€000
Other liabilities	9,530	8,418	9,530	8,413
Amounts due to subsidiaries	-	-	-	2
	9,530	8,418	9,530	8,415

30. ACCRUALS

	The Group		The Bank	
	2017	2016	2017	2016
	€000	€000	€000	€000
Accrued interest payable	5,132	5,884	5,132	5,884
Other accruals	5,466	2,381	5,400	2,381
Amounts due to subsidiaries	-	-	1	-
	10,598	8,265	10,533	8,265

31. SHARE CAPITAL

	The Group/Bank	
	2017	2016
	€000	€000
Authorised		
60,000,000 ordinary shares of €1.25 each		
(2016: the same)	75,000	75,000
Issued and fully paid		
46,083,840 ordinary shares of €1.25 each		
(2016: the same)	57,605	57,605

The Group / Bank	2017 Number of shares ‘000	2016 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 accounts of APS Bank Limited are included in the consolidated financial statements of AROM Holdings Limited, a copy of which can be obtained from the Registry of Companies. The ultimate controlling party of APS Bank Limited is the Archdiocese of Malta.

The registered office of AROM Holdings Limited and the Archdiocese of Malta is Archbishop Curia, St. Calcedonius Square, Floriana.

32. SHARE PREMIUM

	The Group/Bank	
	2017	2016
	€000	€000
Balance at beginning and end of year	1,770	1,770

The share premium reserve is not available for distribution.

33. REVALUATION RESERVE

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

34. RETAINED EARNINGS

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

In accordance with the revised Banking Rule BR/09/2013, which became applicable as from 31 December 2013, the Bank has set aside in 2015 the amount of €45,400 from the planned dividend distributions. No amounts were required to be allocated during 2016 and 2017. The full appropriation has been made, despite the fact that the Authority granted a transitory period of three years for the initial appropriation of funds to the Reserve for General Banking Risks.

35. CONTINGENT LIABILITIES

	The Group		The Bank	
	2017	2016	2017	2016
	€000	€000	€000	€000
Guarantees	8,666	5,408	8,666	5,408
Other contingent liabilities	2,168	704	2,168	704
	10,834	6,112	10,834	6,112

In the ordinary course of business, the Bank gives financial guarantees, consisting of letters of credit and guarantees. As disclosed in the accounting policies, 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 2017 and 31 December 2016.

36. COMMITMENTS

	The Group		The Bank	
	2017	2016	2017	2016
	€000	€000	€000	€000
Undrawn formal standby facilities, credit facilities and other commitments to lend	552,000	379,078	552,000	379,078

37. NOTES TO THE STATEMENTS OF CASH FLOWS

	The Group		The Bank	
	2017	2016	2017	2016
	€000	€000	€000	€000
Cash in hand (note 13)	13,089	6,464	9,999	6,464
Balances with Central Bank of Malta (excluding reserve deposit) (note 13)	66,400	21,400	66,400	21,400
Loans and advances to banks (repayable within 3 months) (note 14)	32,246	48,800	32,246	48,800
Amounts owed to banks (note 27)	(36,622)	(36,204)	(36,622)	(36,204)
Cash and cash equivalents included in the statements of cash flows	75,113	40,460	72,023	40,460

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 2017	2016
APS Regular Income Ethical Fund (sub-fund of APS Funds Sicav p.l.c.)	Associate	Malta	22	**17.78**	21.96
APS Income Fund (sub-fund of APS Funds Sicav p.l.c.)	Associate	Malta	22	**15.48**	15.19
APS Consult Limited	Subsidiary	Malta	21	-	99.99
ReAPS Asset Management Limited	Subsidiary	Malta	21	**100.00**	100.00
APS Diversified Bond Fund (sub-fund of APS Funds SICAV p.l.c.)	Subsidiary	Malta	21	**97.32**	-

The registered office of APS Consult Limited is APS House, 20, St. Anne's Square, Floriana, FRN 9020 while the registered office of APS Funds SICAV p.l.c., APS Regular Income Ethical Fund, APS Income Fund, APS Diversified Bond Fund and ReAPS Asset Management Limited 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 associate for the relevant financial year:

Related Parties	Year	Income from related parties €000	Expenses charged to / (by) related parties €000	Amounts owed by related parties €000	Amounts owed to related parties €000
Subsidiaries:					
APS Diversified Bond Fund	**2017**	-	-	-	**472**
APS Diversified Bond Fund	2016	-	-	-	-
ReAPS Asset Management Ltd.	**2017**	**434**	-	**159**	**334**
ReAPS Asset Management Ltd.	2016	-	-	-	-
Associates:					
APS Income Fund	**2017**	**97**	**366**	-	**8,935**
APS Income Fund	2016	586	198	155	18,427
APS Regular Income Ethical Fund	**2017**	**134**	**24**	-	**19,391**
APS Regular Income Ethical Fund	2016	234	38	64	6,019

38. RELATED PARTY DISCLOSURES (Continued)

Transactions with key management personnel of the Bank/Group

(a) Compensation of key management personnel of the Bank/Group

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 (2016: the same).

(b) Other transactions with directors:

	2017 €000	2016 €000
Loans and advances	83	92
Commitments	7	10

The above facilities do not involve more than the normal risk of repayment or present other unfavourable features and were made in the ordinary course of business on substantially the same terms as for comparable transactions with persons of a similar standing, or where applicable, other employees.

(c) Transactions with executive employees:

	2017 €000	2016 €000
Loans and advances	1,638	871
Commitments	123	19

Transactions with other related parties

	Balances as at 31.12.2017 €000	Interest receivable 2017 €000	Balances as at 31.12.2016 €000	Interest receivable 2016 €000
Amounts due from other related parties:				
Shareholders and entities with common directorship	7,184	248	7,434	253

	Balances as at 31.12.2017 €000	Interest payable 2017 €000	Balances as at 31.12.2016 €000	Interest payable 2016 €000
Amounts due to other related parties:				
Shareholders	27,700	671	40,325	427
Key Management Personnel	561	2	1,243	5
Other Related Parties	12,385	98	12,721	47

Included in the amounts due to shareholders, are deposits of €250,000 (2016: €250,000) held as collateral for loan commitments and overdraft facilities granted to related parties. Also included are term deposits of €23,200,779 (2016: €28,136,152), which bear interest at the prevailing Bank rates.

For the year ended 31 December 2017, the Bank did not require to provide for impairment of receivables relating to amounts due from related parties (2016: the same).

No guarantees were received by related parties as at end of December 2017 (2016: the same).

39. RISK MANAGEMENT

39.1 Introduction

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

39.2 Fair values

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

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

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

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

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

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

	Fair value measurement hierarchy			
The Group	Level 1	Level 2	Level 3	Total
	€000	€000	€000	€000
Assets as at 31 December 2017				
Investment properties (Note 16)				
- Residential properties	-	-	2,803	2,803
- Commercial property	-	-	1,400	1,400
Derivative assets not designated as hedges (Note 17)	-	3,008	-	3,008
Financial assets at fair value through profit or loss (Note 18)				
- debt and other fixed income instruments	37,013	-	-	37,013
- equity and other non-fixed income instruments	32	-	-	32
Available-for-sale financial assets				
- debt and other fixed income instruments (Note 19)	179,549	-	-	179,549
- equity and other non-fixed income instruments (Note 20)	1,505	-	-	1,505
Total	**218,099**	**3,008**	**4,203**	**225,310**
Liabilities as at 31 December 2017				
Derivative liabilities not designated as hedges (Note 17)	-	3,008	-	3,008
Total	**-**	**3,008**	**-**	**3,008**

39. RISK MANAGEMENT (Continued)

39.2 Fair values (Continued)

The Bank	Fair value measurement hierarchy Level 1	Level 2	Level 3	Total
	€000	€000	€000	€000
Assets as at 31 December 2017				
Investment properties (Note 16)				
- Residential properties	-	-	2,803	2,803
- Commercial property	-	-	1,400	1,400
Derivative assets not designated as hedges (Note 17)	-	3,008	-	3,008
Financial assets at fair value through profit or loss (Note 18)				
- debt and other fixed income instruments	910	-	-	910
- equity and other non-fixed income instruments	32	-	-	32
Available-for-sale financial assets				
- debt and other fixed income instruments (Note 19)	179,549	-	-	179,549
- equity and other non-fixed income instruments (Note 20)	1,505	-	-	1,505
Total	**181,996**	**3,008**	**4,203**	**189,207**
Liabilities as at 31 December 2017				
Derivative liabilities not designated as hedges (Note 17)	-	3,008	-	3,008
Total	**-**	**3,008**	**-**	**3,008**

The Group/ The Bank	Fair value measurement hierarchy 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**	**3,164**	**3,793**	**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)

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. The change in the level hierarchy in the prior years was affected in order to reflect the Valuation Methodology adopted by the bank.

Property held by the Group and the Bank was valued by an independent architect. Commercial property was valued using the investment method, whereby the potential rental value estimated to be in the range of €125 and €150 per square metre of this property was estimated and then capitalized using a yield of 6% which has been deemed to be fair and reasonable. Furthermore, the potential increased floor area of the property as allowed by the Planning Authority was also taken into consideration. One of the residential properties was valued using a comparative sales method adjusted for the specific attributes of the property which is under construction. The fair value of the second residential property was established by using the results of two separate valuation methods. The first method was the comparative sales method for all units forming part of this residential complex and the second method was replacement cost. The value obtained from both of these valuations range between €270 and €300 per square metre.

Significant increases (decreases) in estimated market rates per square meter in isolation would result in a significantly higher (lower) fair value of the properties.

Except for one property with a fair value of €2,400,000 as at 31 December 2017 (2016: the same), the Group has no restrictions on the realisation of investment properties.

Derivative assets not designated as hedges
The last valuation for derivative instruments was made on 31 December 2017 (2016: 31 December 2016) on the basis of observable inputs using a discounted cash flow model by applying appropriate yield curves at the balance sheet date.

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 (2016: same) in Cultura Sparebank and of €200,000 (2016: same) 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 2017 (2016: 31 December 2016) on the basis of observable inputs using a discounted cash flow model by applying appropriate yield curves at the balance sheet date.

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. At the reporting date the amortised cost of these assets amounted to €72.8 million (2016: €72.9 million). Their market value amounted to €82.6 million (2016: €86.5 million) (Level 1), whilst their nominal value amounted to €71.6 million (2016: €71.5 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 as these are re-priced to take into consideration changes in both the Bank's base rate and credit margins. The fair value measurement is classified as Level 2.

Amounts owed to banks and customers are mainly deposit liabilities. Of this category of liability, 79% (2016: 76%) have contractual re-pricing within one year, whilst 21% (2016: 24%) re-prices between one year and over. For demand deposits and term deposits within one year, fair value is taken to be the amount payable on demand at the reporting date. For term deposits maturing after one year, fair value is €217.4 million. All term deposits at different maturities were revalued to reflect the current interest rates. The fair value measurement maturing is classified as Level 2.

39. RISK MANAGEMENT (Continued)

39.3 Credit Risk

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

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

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

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

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

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

	The Group		The Bank	
	Gross		Gross	
	Maximum exposure		Maximum exposure	
	2017	2016	2017	2016
	€000	€000	€000	€000
Cash and balances with Central Bank of Malta (excluding cash in hand)	76,450	29,956	76,450	29,956
Cheques in course of collection	39	42	39	42
Loans and advances to banks	33,246	60,162	32,246	60,162
Loans and advances to customers	703,302	566,648	703,302	566,648
Loans and advances to corporate entities	321,288	239,364	321,288	239,364
Derivative financial instruments	3,008	3,164	3,008	3,164
Debt and other fixed income instruments	252,324	322,844	252,324	322,844
Financial assets at fair value through profit and loss	37,013	2,732	910	2,732
Other receivables	6,650	6,673	6,122	6,690
	1,433,320	1,231,585	1,395,689	1,231,603
Credit risk exposures relating to off-balance sheet items are as follows:				
Financial guarantees and other contingent liabilities	10,834	6,112	10,834	6,112
Commitments	552,000	379,078	552,000	379,078
	562,834	385,190	562,834	385,190

39. RISK MANAGEMENT (Continued)

39.3 Credit Risk (Continued)

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

The Group	Government	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)	76,450	-	-	-	-	-	-	76,450
Cheques in course of collection	-	-	-	-	-	-	39	39
Loans and advances to banks	-	-	1,000	32,246	-	-	-	33,246
Loans and advances to customers	18,893	650,052	14,706	-	288,653	55,712	-	1,028,016
Derivative financial instruments	-	-	3,008	-	-	-	-	3,008
Debt and other fixed income instruments	153,302	-	20,913	-	78,110	-	-	252,325
Financial assets at fair value through profit or loss	10,371	-	32	-	12,211	-	-	22,614
Other receivables	-	-	-	-	-	-	6,654	6,654
At 31 December 2017	**259,016**	**650,052**	**39,659**	**32,246**	**378,974**	**55,712**	**6,693**	**1,422,352**
Financial guarantees and other contingent liabilities	-	109	-	-	8,290	2,442	-	10,841
Commitments	11,521	296,946	-	-	218,594	24,938	-	551,999
At 31 December 2017	**11,521**	**297,055**	**-**	**-**	**226,884**	**27,380**	**-**	**562,840**

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**
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**

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)	76,450	-	-	-	-	-	-	76,450
Cheques in course of collection	-	-	-	-	-	-	39	39
Loans and advances to banks	-	-	-	32,246	-	-	-	32,246
Loans and advances to customers	18,893	650,052	14,706	-	288,653	55,712	-	1,028,016
Derivative financial instruments	-	-	3,008	-	-	-	-	3,008
Debt and other fixed income instruments	153,302	-	20,880	-	78,110	-	-	252,292
Financial assets at fair value through profit or loss	705	-	32	-	205	-	-	942
Other receivables	-	-	-	-	-	-	6,123	6,123
At 31 December 2017	**249,350**	**650,052**	**38,626**	**32,246**	**366,968**	**55,712**	**6,162**	**1,399,116**
Financial guarantees and other contingent liabilities	-	109	-	-	8,290	2,442	-	10,841
Commitments	11,521	296,946	-	-	218,594	24,938	-	551,999
At 31 December 2017	**11,521**	**297,055**	**-**	**-**	**226,884**	**27,380**	**-**	**562,840**

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**
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**

39. RISK MANAGEMENT (Continued)

39.3 Credit Risk (Continued)

Collateral

The Bank holds collateral for its loans and advances portfolio. Of the total loans and advances to customers, 84.34% (2016: 86.95%) were collateralised. The amount and type of collateral required depends on an assessment of the credit risk of the counter party. Guidelines are in place covering the acceptability and valuation of each type of collateral accepted by the Group. The main types are as follows:

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

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

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

The Group also makes use of master netting agreements with counter parties. As at 31 December 2017 and 31 December 2016 there were no financial assets or liabilities arising from these agreements.

The Group

Concentrations of risk	Financial institutions €000	Manu-facturing €000	Real estate €000	Wholesale and Retail trade €000	Public sector €000	Other industries €000	Individuals €000	Total €000
Cash and balances with Central Bank of Malta (excluding cash in hand)	76,450	-	-	-	-	-	-	76,450
Cheques in course of collection	39	-	-	-	-	-	-	39
Loans and advances to banks	33,246	-	-	-	-	-	-	33,246
Loans and advances to customers	73,298	31,004	122,686	32,228	11,607	97,868	672,294	1,040,985
Derivative financial instruments	3,008	-	-	-	-	-	-	3,008
Debt and other fixed income instruments	37,247	15,100	4,070	17,877	156,224	21,806	-	252,324
Financial assets at fair value through profit or loss	16,551	984	-	826	12,812	5,840	-	37,013
Other receivables	-	-	-	-	-	6,650	-	6,650
At 31 December 2017	**239,839**	**47,088**	**126,756**	**50,931**	**180,643**	**132,164**	**672,294**	**1,449,715**
Financial guarantees and other contingent liabilities	2,662	390	1,387	1,486	-	3,537	1,381	10,843
Commitments	35,416	3,153	115,677	16,666	4,705	72,299	304,084	552,000
As at 31 December 2017	**38,078**	**3,543**	**117,064**	**18,152**	**4,705**	**75,836**	**305,465**	**562,843**

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	560,719	820,315
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**	**560,719**	**1,245,888**
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**

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)	76,450	-	-	-	-	-	-	76,450
Cheques in course of collection	39	-	-	-	-	-	-	39
Loans and advances to banks	32,246	-	-	-	-	-	-	32,246
Loans and advances to customers	73,298	31,004	122,686	32,228	11,607	97,868	672,294	1,040,985
Derivative financial instruments	3,008	-	-	-	-	-	-	3,008
Debt and other fixed income instruments	37,247	15,100	4,070	17,877	156,224	21,806	-	252,324
Financial assets at fair value through profit or loss	-	205	-	-	705	-	-	910
Other receivables	-	-	-	-	-	6,122	-	6,122
At 31 December 2017	**222,288**	**46,309**	**126,756**	**50,105**	**168,536**	**125,796**	**672,294**	**1,412,084**
Financial guarantees and other contingent liabilities	2,662	390	1,387	1,486	-	3,537	1,381	10,843
Commitments	35,416	3,153	115,677	16,666	4,705	72,299	304,084	552,000
As at 31 December 2017	**38,078**	**3,543**	**117,064**	**18,152**	**4,705**	**75,836**	**305,465**	**562,843**

39. RISK MANAGEMENT (Continued)

39.3 Credit Risk (Continued)

The Bank

Concentrations of risk	Financial institutions	Manu-facturing	Real estate	Wholesale and Retail trade	Public sector	Other industries	Individuals	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	57,551	23,180	74,829	32,841	4,043	67,152	560,719	820,315
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**	**560,719**	**1,245,905**
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**

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 2017	Balances with CBM	Derivative financial instruments	Financial assets at fair value through profit and loss	Debt securities	Loans and advances to banks	Total
	€000	€000	€000	€000	€000	€000
AAA	-	-	2,441	7,624	-	10,065
AA+ to AA-	-	-	202	21,393	1,164	22,759
A+ to A-	76,450	3,008	1,062	174,586	27,477	282,583
Lower than A-	-	-	18,878	47,657	3,605	70,140
Unrated	-	-	14,430	1,064	1,000	16,494
	76,450	3,008	37,013	252,324	33,246	402,041

At 31 December 2016	Balances with CBM	Derivative financial instruments	Financial assets at fair value through profit and loss	Debt securities	Loans and advances to banks	Total
	€000	€000	€000	€000	€000	€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

The Bank

At 31 December 2017	Balances with CBM	Derivative financial instruments	Financial assets at fair value through profit and loss	Debt securities	Loans and advances to banks	Total
	€000	€000	€000	€000	€000	€000
AAA	-	-	-	7,624	-	7,624
AA+ to AA-	-	-	202	21,393	1,164	22,759
A+ to A-	76,450	3,008	286	174,586	27,477	281,807
Lower than A-	-	-	423	47,657	3,605	51,685
Unrated	-	-	-	1,064	-	1,064
	76,450	3,008	910	252,324	32,246	364,939

At 31 December 2016	Balances with CBM	Derivative financial instruments	Financial assets at fair value through profit and loss	Debt securities	Loans and advances to banks	Total
	€000	€000	€000	€000	€000	€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

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.

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

Impairment Allowances on Total/Forborne Exposures

The Group / Bank	Total 2017 €000	of which forborne 2017 €000	Total 2016 €000	of which forborne 2016 €000
Performing				
Neither past due nor impaired	3,377	19	2,840	25
Past due < 90 days, but not impaired	52	1	-	-
Non-performing				
Past due > 90 days, but not impaired	2,690	822	1,452	567
Impaired	10,276	3,663	10,011	3,749
Total allowances	16,395	4,505	14,303	4,341

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 2017 €000	of which forborne 2017 €000	Total 2016 €000	of which forborne 2016 €000
Performing				
Neither past due nor impaired	966,974	3,294	736,436	2,962
Past due < 90 days, but not impaired	23,528	3,690	31,543	576
Non-performing				
Past due > 90 days, but not impaired	19,173	7,401	27,760	17,587
Impaired	31,310	16,152	24,575	10,927
Total gross/forborne exposures	1,040,985	30,537	820,314	32,052

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	2017 €000	2016 €000
Neither past due nor impaired	966,974	736,436
Past due but not impaired	42,701	59,303
Impaired	31,310	24,575
	1,040,985	820,314

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

The Group / Bank	2017 €000	2016 €000
Regular	949,937	713,307
Watch List	8,820	15,937
Sub-Standard	8,217	472
Doubtful	-	6,721
	966,974	736,437

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	2017 €000	2016 €000
Past due up to 29 days	13,573	14,532
Past due 30-59 days	9,391	20,175
Past due 60-89 days	564	13,507
Past due over 90 days	19,173	11,089
	42,701	59,303

Individually impaired gross loans by segment;

	2017 €000	2016 €000
Personal	7,366	8,631
Business	36,088	44,420
	43,454	53,051

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.

Rescheduled loans and advances to customers that would otherwise be past due totalled €3,261,898 (2016: €7,774,671).

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 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.

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

The table below analyses the assets and liabilities into relevant maturity groupings, based on the remaining period to the contractual maturity date. 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 2017						
Assets						
Cash and balances with Central Bank of Malta	89,539	-	-	-	-	89,539
Cheques in course of collection	39	-	-	-	-	39
Loans and advances to banks	32,246	1,000	-	-	-	33,246
Loans and advances to customers	22,935	93,709	71,994	835,952	-	1,024,590
Derivative financial instruments	-	-	1,492	1,516	-	3,008
Debt and other fixed income financial instruments	253	37,685	113,252	101,134	-	252,324
Financial assets at fair value through profit and loss	-	1,474	4,495	16,614	14,462	37,045
Equity and other non-fixed income instruments	-	-	-	-	1,793	1,793
Investment in subsidiaries	-	-	-	-	-	-
Investment in associate	-	-	-	-	18,224	18,224
Other assets	4,165	1,361	89	1,034	29,988	36,637
	149,177	**135,229**	**191,322**	**956,250**	**64,467**	**1,496,445**
Liabilities and equity						
Amounts owed to banks	30,200	13,922	67,010	-	-	111,132
Derivative financial instruments	-	-	1,492	1,516	-	3,008
Amounts owed to customers	805,347	209,856	152,727	57,646	-	1,225,576
Other liabilities	634	1,840	2,469	387	14,996	20,326
Equity	-	-	-	-	136,403	136,403
	836,181	**225,618**	**223,698**	**59,549**	**151,399**	**1,496,445**
Gap	**(687,004)**	**(90,389)**	**(32,376)**	**896,701**	**(86,932)**	**-**

39. RISK MANAGEMENT (Continued)

39.4 Liquidity Risk (Continued)

The Group	Less than Three months	Between Three months and One year	Between One year and Five years	More than Five years	Others	Total
	€000	€000	€000	€000	€000	€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 associate	-	-	-	-	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	**(474,347)**	**(174,980)**	**(20,063)**	**763,034**	**(93,644)**	**-**

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 2017						
Assets						
Cash and balances with Central Bank of Malta	86,449	-	-	-	-	86,449
Cheques in course of collection	39	-	-	-	-	39
Loans and advances to banks	32,246	-	-	-	-	32,246
Loans and advances to customers	22,935	93,709	71,994	835,952	-	1,024,590
Derivative financial instruments	-	-	1,492	1,516	-	3,008
Debt and other fixed income financial instruments	253	37,685	113,252	101,134	-	252,324
Financial assets at fair value through profit and loss	-	-	708	202	32	942
Equity and other non-fixed income instruments	-	-	-	-	1,793	1,793
Investment in subsidiaries	-	-	-	-	40,250	40,250
Investment in associates	-	-	-	-	14,887	14,887
Other assets	3,478	1,361	89	1,034	30,143	36,105
	145,400	**132,755**	**187,535**	**939,838**	**87,105**	**1,492,633**
Liabilities and equity						
Amounts owed to banks	30,200	13,922	67,010	-	-	111,132
Derivative financial instruments	-	-	1,492	1,516	-	3,008
Amounts owed to customers	805,726	210,283	152,727	57,646	-	1,226,382
Other liabilities	574	1,840	2,470	387	14,930	20,201
Equity	-	-	-	-	131,910	131,910
	836,500	**226,045**	**223,699**	**59,549**	**146,840**	**1,492,633**
Gap	**(691,100)**	**(93,290)**	**(36,164)**	**880,289**	**(59,735)**	**-**

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)**	**-**

Analysis of financial liabilities by remaining contractual maturities

The table below summarises the maturity profile of the Group's financial liabilities at 31 December 2017 and 31 December 2016 based on contractual undiscounted repayment obligations:

The Group	Less than Three months €000	Between Three months and One year €000	Between One year and Five years €000	More than Five years €000	Others €000	Total €000
At 31 December 2017						
Liabilities						
Amounts owed to banks	30,200	13,922	67,010	-	-	111,132
Derivative financial instruments	-	-	1,492	1,516	-	3,008
Amounts owed to customers	806,543	212,546	155,616	58,034	-	1,232,739
Other Liabilities	634	1,840	2,469	387	14,996	20,326
Equity	-	-	-	-	136,403	136,403
	837,377	**228,308**	**226,587**	**59,937**	**151,399**	**1,503,608**

39. RISK MANAGEMENT (Continued)

39.4 Liquidity Risk (Continued)

The Group	Less than Three months	Between Three months and One year	Between One year and Five years	More than Five years	Others	Total
	€000	€000	€000	€000	€000	€000
At 31 December 2016						
Liabilities						
Amounts owed to banks	5,934	-	30,270	-	-	36,204
Derivative financial instruments	3,164	-	-	-	-	3,164
Amounts owed to customers	641,227	224,257	206,157	47,952	-	1,119,593
Other Liabilities	700	1,576	3,313	332	10,723	16,644
Equity	-	-	-	-	129,388	129,388
	651,025	225,833	239,740	48,284	140,111	1,304,993

The table below summarises the maturity profile of the Bank's financial liabilities at 31 December 2017 and 31 December 2016 based on contractual undiscounted repayment obligations:

The Bank	Less than Three months	Between Three months and One year	Between One year and Five years	More than Five years	Others	Total
	€000	€000	€000	€000	€000	€000
At 31 December 2017						
Liabilities						
Amounts owed to banks	30,200	13,922	67,010	-	-	111,132
Derivative financial instruments	-	-	1,492	1,516	-	3,008
Amounts owed to customers	806,164	212,119	155,616	58,034	-	1,231,933
Other Liabilities	574	1,840	2,465	387	14,930	20,196
Equity	-	-	-	-	131,910	131,910
	836,938	227,881	226,583	59,937	146,840	1,498,179

The Bank	Less than Three months	Between Three months and One year	Between One year and Five years	More than Five years	Others	Total
	€000	€000	€000	€000	€000	€000
At 31 December 2016						
Liabilities						
Amounts owed to banks	5,934	-	30,270	-	-	36,204
Derivative financial instruments	3,164	-	-	-	-	3,164
Amounts owed to customers	641,519	224,257	206,157	47,952	-	1,119,885
Other Liabilities	700	1,576	3,313	332	10,720	16,641
Equity	-	-	-	-	126,053	126,053
	651,317	225,833	239,740	48,284	136,323	1,301,947

39. RISK MANAGEMENT (Continued)

39.4 Liquidity Risk (Continued)

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 2017 €000	Not later than one year 2016 €000
Loan commitments	522,000	379,078
Guarantees, acceptance and other financial facilities	10,834	6,112
	532,834	385,190

Asset encumbrance

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

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

The Group	Carrying amount of encumbered assets €000	Fair value of encumbered assets €000	Carrying amount of unencumbered assets €000	Fair value of unencumbered assets €000
Assets as at 31 December 2017				
Equity instruments	-	-	20,017	2,044
Debt securities	140,408	150,197	148,961	114,551
Other assets	1,400	-	1,185,657	-
Assets of the reporting institutions	**141,808**	**150,197**	**1,354,635**	**116,595**
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 institutions	**126,749**	**138,770**	**1,157,766**	**205,333**

39. RISK MANAGEMENT (Continued)

39.4 Liquidity risk (Continued)

The Bank	Carrying amount of encumbered assets €000	Fair value of encumbered assets €000	Carrying amount of unencumbered assets €000	Fair value of unencumbered assets €000
Assets as at 31 December 2017				
Equity instruments	-	-	56,930	2,044
Debt securities	138,732	148,521	114,534	114,551
Other assets	1,400	-	1,181,037	-
Assets of the reporting institutions	**140,132**	**148,521**	**1,352,501**	**116,595**
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 institutions	**126,749**	**138,770**	**1,154,719**	**205,333**

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	Matching liabilities €000	Encumbered Assets €000
Encumbered assets/collateral received and associated liabilities as at 31 December 2017		
Carrying amount of selected financial liabilities	773,137	141,808
Encumbered assets/collateral received and associated liabilities as at 31 December 2016		
Carrying amount of selected financial liabilities	652,603	126,749

The Bank	Matching liabilities €000	Encumbered Assets €000
Encumbered assets/collateral received and associated liabilities as at 31 December 2017		
Carrying amount of selected financial liabilities	773,137	140,132
Encumbered assets/collateral received and associated liabilities as at 31 December 2016		
Carrying amount of selected financial liabilities	652,603	126,749

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 the prices of equities, bonds and commodities.

The Group's exposure to market risk is mainly in the form of interest rate risk and foreign exchange risk. The risk associated with the Group's exposure in equities is not considered to be material.

39.5.1 Interest rate risk

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

The Group manages its exposure to interest rate risk using duration gap analysis, simulation modelling and interest rate repricing gaps.

Duration Gap Analysis

The Group also monitors its resilience to interest rate shocks by adopting a capital approach using the Duration Gap Analysis. This methodology is based on offsetting the interest-sensitive longs and shorts in each time band, resulting in a single short or long position in each time band. This is the interest rate gap. Assets and liabilities are then re-priced according to a 100 basis points parallel shift in the yield curve over a period of one year. These are then netted off to determine the total impact of the assumed interest rate shift.

	2017 €000	2016 €000
Net effect for a twelve month period	500	829

Projected net interest income

A principal part of the Group's management of interest rate 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 interest income of a 25 basis points shift 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
2017	+25	140
	-25	(1,114)
2016	+25	9
	-25	(660)

Impact of Interest Rate Risk on Economic Value

The Group also monitors the estimated impact of an immediate 200 basis points increase in yields on its economic value. Economic value is defined as the present value of the expected future cash flows to be generated by the investment portfolios. The resulting impact is expressed as a percentage of the Group's Own Funds.

39. RISK MANAGEMENT (Continued)

39.5 Market risk (Continued)

39.5.2 Currency risk

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

The Group's financial assets and liabilities are substantially held in Euro. Limits are set on the level of exposure, both by individual currency and in total. The exposure is also monitored through regular sensitivity analysis.

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

	2017			
	USD	GBP	Other	Total
	€000	€000	€000	€000
Assets	8,506	44,532	12,428	65,466
Liabilities	8,516	44,533	12,304	65,353

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

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

39.6 Operational risk

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

39.7 Capital management

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

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

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

39. RISK MANAGEMENT (Continued)

39.7 Capital management (Continued)

	The Group 2017 €000	The Group 2016 €000	The Bank 2017 €000	The Bank 2016 €000
Adjusted book value	1,502,614	1,360,963	1,498,804	1,357,916
Risk weighted amounts:				
Credit risk calculation - standardised approach				
Total assets and off-balance sheet items	699,174	593,291	696,133	591,078
Operational risk - basic indicator approach				
15% of the three year adjusted average operating income	63,154	55,010	63,940	55,764
Foreign exchange risk				
8% of the capital requirement of the net short or long position, whichever is the higher	134	200	134	200
Total credit, operational and foreign exchange risk	762,462	648,501	760,207	647,042
Tier 1 Capital	110,066	101,420	105,001	98,406
Tier 2 Capital	2,912	8,471	2,912	8,471
Total Own Funds	112,978	109,891	107,913	106,877
Capital Adequacy Ratio				
Tier 1 Ratio	14.44%	15.64%	13.81%	15.21%
Total Capital Ratio	14.82%	16.95%	14.19%	16.52%

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

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

39. RISK MANAGEMENT (Continued)

39.7 Capital management (Continued)

The Group	2017 €000	2016 €000
Common Equity Tier 1 (CET1) capital	**110,066**	101,420
CET1 capital: instruments and reserves	**118,070**	113,952
Capital instruments and the related share premium accounts	59,375	59,375
Retained earnings	42,434	31,700
Accumulated other comprehensive income	14,561	21,177
Funds for general banking risk	1,700	1,700
Non-controlling interest	-	-
CET1 capital: regulatory adjustments	**(8,004)**	(12,532)
Intangible assets	(5,092)	(4,061)
Regulatory adjustments relating to unrealised gains and losses pursuant to Articles 467 and 468	2,912	8,471
Tier 2 capital	**2,912**	8,471
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)	2,912	8,471
Total Capital	**112,978**	109,891
Total Risk Weighted Assets	**762,462**	648,501
Capital Ratios		
CET1 Capital Ratio	14.44%	15.64%
Total Capital Ratio	**14.82%**	16.95%
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)	9,105	10,575

39. RISK MANAGEMENT (Continued)

39.7 Capital management (Continued)

The Bank	2017 €000	2016 €000
Common Equity Tier 1 (CET1) capital	**105,001**	98,406
CET1 capital: instruments and reserves	**113,001**	110,938
Capital instruments and the related share premium accounts	59,375	59,375
Retained earnings	37,365	28,686
Accumulated other comprehensive income	14,561	21,177
Funds for general banking risk	1,700	1,700
Non-controlling interest	-	-
CET1 capital: regulatory adjustments	**(8,000)**	(12,532)
Intangible assets	(5,088)	(4,061)
Regulatory adjustments relating to unrealised gains and losses pursuant to Articles 467 and 468	(2,912)	(8,471)
Tier 2 capital	**2,912**	8,471
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)	2,912	8,471
Total Capital	**107,913**	106,877
Total Risk Weighted Assets	**760,207**	647,042
Capital Ratios		
CET1 Capital Ratio	13.81%	15.21%
Total Capital Ratio	**14.19%**	16.52%
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)	**9,105**	10,575

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 €000	Reconciling items €000	Balance Sheet in accordance with regulatory scope €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)	60,032	(15,897)	44,135
of which general banking reserves (note 34)	*1,700*	-	*1,700*
of which general reserve	*1*	-	*1*
Dividend reserve	-	-	-
Intangible assets (note 23)	5,092	-	5,092

40. OPERATING LEASES – THE BANK AS LESSEE

	2017 €000	2016 €000
Minimum lease payments under operating leases recognised as an expense for the year	316,901	137,288

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

	2017 €000	2016 €000
Within one year	349,170	256,326
Between one and five years	1,262,664	1,363,141
Over five years	1,699,012	1,947,706
	3,310,846	3,567,173

Operating lease payments mainly represent rentals payable by the Bank for certain buildings. The leases for the buildings have varying terms ranging from 6 years to 20 years and certain leases have a renewable clause. A number of leases also have an escalation clause within the lease amount increasing generally based on the Property Price Index, Retail or Consumer Price Index.

FIVE YEAR SUMMARIES

STATEMENTS OF PROFIT OR LOSS

The Group	2017	2016	2015	2014	2013
	€000	€000	€000	€000	€000
Interest receivable and similar income	42,396	38,867	38,784	38,026	36,829
Interest payable	(9,592)	(10,865)	(13,173)	(15,880)	(15,004)
Net interest income	32,804	28,002	25,611	22,146	21,825
Other operating income	9,946	6,894	6,094	6,178	4,933
Total operating income	42,750	34,896	31,705	28,324	26,758
Other operating charges	(22,363)	(18,972)	(17,182)	(15,494)	(15,142)
Share of results of associates, net of tax	441	828	1,754	1,142	624
Net impairment (losses)/reversals	(2,470)	(988)	(706)	(1,201)	1,584
Profit before tax	18,358	15,764	15,571	12,771	13,824
Income tax expense	(5,250)	(4,820)	(5,568)	(3,835)	(4,648)
Profit for the year	13,108	10,944	10,003	8,936	9,176

The Bank	2017	2016	2015	2014	2013
	€000	€000	€000	€000	€000
Interest receivable and similar income	42,284	38,867	38,784	37,409	36,409
Interest payable	(9,592)	(10,865)	(13,173)	(15,898)	(15,050)
Net interest income	32,692	28,002	25,611	21,511	21,359
Other operating income	10,256	7,393	6,691	5,703	5,564
Total operating income	42,948	35,395	32,302	27,214	26,923
Other operating charges	(22,200)	(18,961)	(17,176)	(15,401)	(14,928)
Net impairment (losses)/reversals	(2,470)	(988)	(706)	(1,194)	1,254
Profit before tax	18,278	15,446	14,420	10,619	13,249
Income tax expense	(5,190)	(4,820)	(5,568)	(3,835)	(4,526)
Profit for the year	13,088	10,626	8,852	6,784	8,723

THE GROUP'S STATEMENTS OF FINANCIAL POSITION

	2017	2016	2015	2014	2013
	€000	€000	€000	€000	€000
ASSETS					
Cash, treasury bills and balances with Central Bank of Malta	**9,954**	6,464	6,832	5,927	5,274
Balances with Central Bank of Malta	**79,585**	29,956	9,165	8,370	11,383
Cheques in course of collection	**39**	42	1,970	2,185	1,778
Loans and advances to banks	**33,246**	60,162	43,027	49,951	15,471
Loans and advances to customers	**1,024,590**	806,011	695,800	623,631	548,919
Derivative financial instruments	**3,008**	3,164	3,560	3,872	2,480
Financial assets at fair value through profit or loss	**37,045**	3,321	3,815	16,106	12,902
Debt and other fixed income instruments	**252,324**	322,844	297,959	356,404	328,873
Equity and other non-fixed income instruments	**1,793**	4,119	3,348	2,448	2,439
Investment in associates	**18,224**	18,256	17,926	11,171	10,437
Intangible assets	**5,093**	4,061	3,137	2,091	929
Investment properties	**4,203**	3,793	3,965	4,147	330
Property and equipment	**17,706**	14,147	13,394	13,813	14,058
Current tax	**-**	39	209	1,150	-
Deferred tax assets	**2,985**	1,502	2,076	682	3,881
Other receivables	**6,650**	6,673	5,278	5,890	5,987
TOTAL ASSETS	**1,496,445**	1,284,554	1,111,461	1,107,838	965,141
LIABILITIES					
Amounts owed to banks	**111,132**	36,204	35,327	78,568	70,771
Derivative financial instruments	**3,008**	3,164	3,560	3,872	2,480
Amounts owed to customers	**1,225,576**	1,099,115	942,921	892,829	781,242
Current tax	**198**	-	-	-	1,288
Other liabilities	**9,530**	8,418	3,630	3,914	3,080
Accruals and deferred income	**10,598**	8,265	8,224	8,807	7,722
TOTAL LIABILITIES	**1,360,042**	1,155,166	993,662	987,990	866,583
EQUITY					
Issued capital	**57,605**	57,605	57,605	57,605	57,605
Share premium	**1,770**	1,770	1,770	1,770	1,770
Revaluation reserve	**15,896**	21,177	18,739	19,062	9,147
Retained earnings	**60,032**	47,648	38,654	30,444	23,928
Dividend reserve	**-**	1,188	1,031	763	1,525
Non-controlling interest	**1,100**	-	-	10,204	4,583
TOTAL EQUITY	**136,403**	129,388	117,799	119,848	98,558
TOTAL LIABILITIES AND EQUITY	**1,496,445**	1,284,554	1,111,461	1,107,838	965,141
MEMORANDUM ITEMS					
Contingent liabilities	**10,834**	6,112	5,606	5,328	5,869
Commitments	**552,000**	379,078	209,567	211,470	169,654

THE BANK'S STATEMENTS OF FINANCIAL POSITION

	2017	2016	2015	2014	2013
	€000	€000	€000	€000	€000
ASSETS					
Cash, treasury bills and balances with Central Bank of Malta	9,999	6,464	6,832	5,927	5,274
Balances with Central Bank of Malta	76,450	29,956	9,165	8,370	11,383
Cheques in course of collection	39	42	1,970	2,185	1,778
Loans and advances to banks	32,246	60,162	43,027	49,314	15,171
Loans and advances to customers	1,024,590	806,011	695,800	623,631	548,919
Derivative financial instruments	3,008	3,164	3,560	3,872	2,480
Financial assets at fair value through profit or loss	942	3,321	3,815	3,483	4,172
Debt and other fixed income instruments	252,324	322,844	297,959	356,404	328,873
Equity and other non-fixed income instruments	1,793	4,119	3,348	2,448	2,439
Investment in subsidiaries	40,250	305	55	5,055	5,055
Investment in associates	14,887	14,887	14,887	9,887	9,887
Intangible assets	5,089	4,061	3,137	2,091	929
Investment properties	4,203	3,793	3,965	4,147	330
Property and equipment	17,706	14,147	13,394	13,811	14,056
Current tax	-	39	209	1,150	-
Deferred tax assets	2,985	1,502	2,076	682	4,002
Other receivables	6,122	6,690	5,294	5,605	5,790
TOTAL ASSETS	1,492,633	1,281,507	1,108,493	1,098,062	960,538
LIABILITIES					
Amounts owed to banks	111,132	36,204	35,327	78,568	70,771
Derivative financial instruments	3,008	3,164	3,560	3,872	2,480
Amounts owed to customers	1,226,382	1,099,406	942,973	895,156	781,879
Current tax	138	-	-	-	1,288
Other liabilities	9,530	8,415	3,627	3,892	3,060
Accruals and deferred income	10,533	8,265	8,224	8,796	7,693
TOTAL LIABILITIES	1,360,723	1,155,454	993,711	990,284	867,171
EQUITY					
Issued capital	57,605	57,605	57,605	57,605	57,605
Share premium	1,770	1,770	1,770	1,770	1,770
Revaluation reserve	15,896	21,177	18,739	19,062	9,147
Retained earnings	56,639	44,470	35,637	28,578	23,320
Dividend reserve	-	1,031	1,031	763	1,525
TOTAL EQUITY	131,910	126,053	114,782	107,778	93,367
TOTAL LIABILITIES AND EQUITY	1,492,633	1,281,507	1,108,493	1,098,062	960,538
MEMORANDUM ITEMS					
Contingent liabilities	10,834	6,112	5,606	5,328	5,869
Commitments	552,000	379,078	209,567	211,470	169,654

THE GROUP'S STATEMENTS OF CASH FLOWS

	2017 €000	2016 €000	2015 €000	2014 €000	2013 €000
Net cash flows (used in)/from operating activities	**(6,037)**	45,742	(36,463)	24,197	(11,651)
Investing activities					
Dividends received	**126**	211	190	373	570
Interest income from debt securities	**12,074**	13,121	14,833	16,105	16,287
Purchase of debt and other fixed income instruments	**(12,739)**	(72,594)	(40,163)	(79,730)	(107,425)
Proceeds on maturity and disposal of debt and other fixed income instruments	**79,412**	50,630	95,388	64,570	82,283
Purchase of financial assets at fair value through profit or loss	**(38,595)**	(2,582)	(1,090)	(16,643)	(15,499)
Proceeds on disposal of financial assets at fair value through profit or loss	**2,766**	3,041	1,307	14,499	10,294
Purchase of equity and other non-fixed income instruments	**-**	(807)	(617)	(359)	(789)
Proceeds on disposal of equity and other non-fixed income instruments	**2,055**	169	-	369	-
Purchase of property and equipment	**(4,064)**	(3,413)	(2,272)	(2,557)	(2,737)
Proceeds on disposal of property and equipment	**31**	17	-	3	-
Net cash flows from/(used in) investing activities	**41,066**	(12,207)	67,576	(3,370)	(17,016)
Financing activities					
Dividends paid	**(1,478)**	(1,294)	(928)	(2,288)	(1,325)
Net proceeds from non-controlling interest for shares in subsidiaries	**(50)**	-	-	4,727	1,601
Proceeds from issue of share capital	**1,152**	-	-	-	4,802
Net cash flows (used in)/from financing activities	**(376)**	(1,294)	(928)	2,439	5,078
Net increase/(decrease) in cash and cash equivalents	**34,653**	32,241	30,185	23,266	(23,589)
Cash and cash equivalents at 1 January	**40,460**	8,219	(21,966)	(45,232)	(21,643)
Cash and cash equivalents at 31 December	**75,113**	40,460	8,219	(21,966)	(45,232)

THE BANK'S STATEMENTS OF CASH FLOWS

	2017	2016	2015	2014	2013
	€000	€000	€000	€000	€000
Net cash flows (used in)/from operating activities	**(5,697)**	45,742	(36,463)	25,721	(11,359)
Investing activities					
Dividends received	**588**	710	787	808	793
Interest income from debt securities	**12,074**	13,121	14,833	16,105	16,287
Purchase of debt and other fixed income instruments	**(12,739)**	(72,594)	(40,163)	(79,730)	(107,425)
Proceeds on maturity and disposal of debt and other fixed income instruments	**79,412**	50,630	95,388	64,570	82,283
Purchase of equity and other non-fixed income instruments	**-**	(807)	(617)	(359)	(939)
Proceeds on disposal of equity and other non-fixed income instruments	**2,055**	169	-	366	-
Purchase of financial assets at fair value through profit or loss	**(502)**	(2,582)	(1,090)	(6,029)	(6,351)
Proceeds on disposal of financial assets at fair value through profit or loss	**2,350**	3,041	1,307	6,656	2,320
Purchase of property, equipment and intangible assets	**(4,059)**	(3,413)	(2,272)	(2,557)	(2,737)
Proceeds on disposal of property and equipment	**31**	17	-	3	-
Investment in subsidiary	**(40,000)**	-	-	-	-
Net cash flows from/(used in) investing activities	**39,210**	(11,708)	68,173	(167)	(15,769)
Financing activities					
Dividends paid	**(1,950)**	(1,793)	(1,525)	(2,288)	(1,263)
Proceeds from issue of share capital	**-**	-	-	-	4,802
Net cash flows (used in)/from financing activities	**(1,950)**	(1,793)	(1,525)	(2,288)	3,539
Net increase/(decrease) in cash and cash equivalents	**31,563**	32,241	30,185	23,266	(23,589)
Cash and cash equivalents at 1 January	**40,460**	8,219	(21,966)	(45,232)	(21,643)
Cash and cash equivalents at 31 December	**72,023**	40,460	8,219	(21,966)	(45,232)

ACCOUNTING RATIOS

The Group	**2017**	2016	2015	2014	2013
	%	%	%	%	%
Net interest income and other operating income to total assets	**2.9**	2.7	2.9	2.6	2.8
Operating expenses to total assets	**1.5**	1.5	1.5	1.4	1.6
Profit before tax to total assets	**1.2**	1.2	1.4	1.2	1.4
Return on average capital employed before tax *	**11.5**	10.6	10.0	9.4	11.1
Profit after tax to equity *	**10.9**	10.1	10.1	8.9	10.3

	2017	2016	2015	2014	2013
Shares in issue (thousands)	**46,084**	46,084	46,084	46,084	46,084
Net assets per share *	**261c**	235c	215c	197c	194c

The Bank	**2017**	2016	2015	2014	2013
	%	%	%	%	%
Net interest income and other operating income to total assets	**2.9**	2.8	2.9	2.5	2.8
Operating expenses to total assets	**1.5**	1.5	1.5	1.4	1.6
Profit before tax to total assets	**1.2**	1.2	1.3	1.0	1.4
Return on average capital employed before tax *	**11.8**	10.6	9.6	7.9	11.3
Profit after tax to equity *	**11.3**	10.1	9.2	7.6	10.4

	2017	2016	2015	2014	2013
Shares in issue (thousands)	**46,084**	46,084	46,084	46,084	46,084
Net assets per share *	**252c**	228c	208c	193c	183c

*Return on average capital employed, profit after tax to equity and net assets per share are calculated on equity excluding the revaluation reserve.

Return on 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.