ANNUAL REPORT & FINANCIAL STATEMENTS 2019

MISSION STATEMENT

TO BE THE COMMUNITY BANK IN MALTA BY MAKING THE BANKING EXPERIENCE SIMPLER AND MORE PERSONAL, INSPIRED BY OUR COMMITMENT TO SOCIAL, ECONOMIC AND ENVIRONMENTAL PROGRESS, WHILE PROVIDING OUR STAKEHOLDERS WITH OPPORTUNITIES TO GROW.

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BANK INFORMATION

DIRECTORS

Frederick Mifsud Bonnici, Chairman

Victor E. Agius

Joseph C. Attard

Franco Azzopardi

Laragh Cassar

Alfred DeMarco

Victor Gusman

Michael Pace Ross

Martin Scicluna

COMPANY SECRETARY

Graziella Bray

REGISTERED OFFICE

APS Bank plc
APS Centre
Tower Street
Birkirkara, BKR 4012
Malta
Registration Number: C2192

WEBSITE

www.apsbank.com.mt

SENIOR MANAGEMENT

Marcel Cassar, Chief Executive Officer
(EXCO[1], MANCO[1], MCC[1], BCC[2], TAIC[2], CC[2], ALCO[2], RC[2], GCC[2], RMC[2])

Giovanni Bartolotta, Chief Risk Officer
(CC[1], EXCO[2], MANCO[2], ALCO[2], MCC[2], RC[2], BCC[2])

Anthony Buttigieg, Chief Banking Officer
(EXCO[2], MANCO[2], CC[2], MCC[2], BCC[2])
With effect from 1 July 2019, previously Head of Banking

Jonathan Caruana, Chief Technology Officer
(TAIC[2], EXCO[2], MANCO[2])

Hervé Delpech, Chief Strategy Officer
(TAIC[2], EXCO[2], MANCO[2], GCC[2])

Noel McCarthy, Chief Financial Officer
(BCC[2], TAIC[2], EXCO[2], MANCO[2], ALCO[2], MCC[2], RC[2])

Wilhelm Attard, Head of Operations
(MANCO[2])

Raymond Bonnici, Head of Human Capital
(EXCO[2], MANCO[2], RMC[2])

Cynthia Borg, Head of Financial Crime Compliance
(CC[2], MANCO[2])
Appointed 14 June 2019

Edward J. Calleja, Head of Risk
(MANCO[2], ALCO[2], MCC[2], RC[2], BCC[2])

Alexander Camilleri, Head of Support
(MANCO[2])

Angele De Mesquita, Head of Business Transformation
(MANCO[2])
Appointed 29 April 2019

Joseph Farrugia, Head of Compliance
(MANCO[2], CC[2])

Marvin Farrugia, Head of Asset-Liability Management
(ALCO[1], MANCO[2])

Mario Gauci, Head of Commercial Banking
(MANCO[2], MCC[2])
With effect from 1 July 2019, previously Senior Manager Commercial Banking

Dione Stephan Gravino, Head of IT Infrastructure & Operations
(MANCO[2])

Nives Grixti, Head Legal
(EXCO[2], MANCO[2], MCC[2], GCC[2])

Aaron Mifsud, Head of Retail Banking
(MANCO[2], MCC[2])
With effect from 1 July 2019, previously Senior Manager Retail Banking

Josef Portelli, Head of Investment Management
(MANCO[2], ALCO[2], RC[2])

Ronald Psaila, Head of Business Solutions
(MANCO[2], TAIC[2])
Appointed 18 March 2019

Richard Scerri, Head of Internal Audit
(MANCO[2])

[1] Denotes Committee chairmanship.

[2] Denotes Committee memberships.

Board Credit Committee (BCC), Governance and Credit Committee (GCC), Remuneration Committee (RMC), Risk Committee (RC), Technology and Innovation Committee (TAIC), Executive Committee (EXCO), Management Committee (MANCO), Compliance Committee (CC), Assets-Liabilities Committee (ALCO) , Management Credit Committee (MCC)
Other Management members, not listed above, sit on the Management Credit Committee, Compliance Committee and Assets-Liabilities Committee.

BOARD OF DIRECTORS

1. FREDERICK MIFSUD BONNICI

Chairman and Non-Executive Director

Date of First Appointment: 27 July 2017

Committee Memberships:

- Chairman, Governance & Conduct Committee;
- Chairman, Remuneration Committee

Skills & Experience: Mr. Mifsud Bonnici, who is a Fellow of the Institute of Chartered Accountants in England & Wales and of the Malta Institute of Accountants spent his professional career with PricewaterhouseCoopers (PwC). During his time at PwC, he held the position of Audit Partner, Partner responsible for Risk Management and Independence, Head of Assurance, and was a member of the firm's Management Board. Between 2014 and 2017 he served as a Non-Executive Director and Chair of the Audit Committee of MeDirect Bank plc, and between 2012 and 2016 of Malita Investments plc. Between 2012 and 2013, he served as Non-Executive Chairman of Bank of Valletta plc and Mapfre MSV Life. In the past, he served as Deputy Chairman and subsequently Chairman of the Malta Stock Exchange between 1991 and 1999. He served as a senior lecturer in Auditing at the University of Malta for 30 years.

Significant External Appointments: Non-Executive Chairman – Blevins Franks Trustees Limited.

2. VICTOR E. AGIUS

Non-Executive Director

Date of First Appointment: 15 October 2018

Committee Memberships:

- Chairman, Board Credit Committee;
- Member, Risk Committee

Skills & Experience: Mr. Agius joined APS Bank after a diverse career in international investment, banking and development project finance. This included 23 years at the World Bank Group in Washington DC, over three years at the EBRD in London and 17 years with the Council of Europe Development Bank in Paris. His work comprised extensive field mission leadership responsibilities to over sixty countries in Africa, East Asia, MENA, Europe and in Former Soviet Republics. Mr. Agius graduated with a BA Hons. (Economics) from the Royal University of Malta, an MBA from Manchester Business School and completed Senior Finance and Banking Executive programs at the Wharton School of Finance and at the Stanford Graduate School of Business.

Significant External Appointments: Nil

3. JOSEPH C. ATTARD

Non-Executive Director

Date of First Appointment: 26 July 2018

Committee Memberships:

- Chairman, Technology and Innovation Committee;
- Member, Board Credit Committee;
- Member, Risk Committee

Skills & Experience: Dr. Ing. Attard has over 25 years of local and international experience in the Information and Communication Technology (ICT) sector. Between 2007 and 2015 he was the Chief Technology Officer of Emirates International Telecommunications LLC. Between 1997 and 2007, he held senior positions at Maltacom plc. Dr. Ing. Attard holds a B.Elec.Eng.(Hons) degree from the University of Malta, an M.Sc. (in Operational Telecommunications) from the University of Coventry (UK) and a Ph.D. (in Telecommunications Engineering) from University College London (UK). Since 2002 he has regularly lectured at University College London on ICT related topics.

Significant External Appointments: Since 2015, Chief Technical Officer - GO plc.

4. FRANCO AZZOPARDI

Non-Executive Director

Date of First Appointment: 30 September 2008

Committee Memberships:

- Chairman, Audit Committee;
- Member, Risk Committee;
- Member, Technology and Innovation Committee

Skills & Experience: Mr. Azzopardi is a professional director and a registered fellow member of the UK Institute of Directors. He serves on the Boards of Directors, and on Audit and Risk Committees of both listed and private companies in various sectors including banking, insurance, software and logistics. He had, prior to 2007, spent 27 years working in public practice, ten of which with Deloitte Haskins and Sells in Malta and in Italy, and later in an accounting and auditing firm he co-founded in 1990. He holds an M.Sc. degree in Finance from the University of Leicester (UK) and is an Honorary Fellow member of Malta Institute of Accountants, having served on the Council from 2007 to 2019. He was also elected and served as President of the Institute for the term 2015-2017. He is also a Certified Public Accountant.

Significant External Appointments: Chairman and CEO - Express Trailers Limited; Non-Executive Director, Audit Committee Chair, Member of Risk Committee, Member of Investments Committee - Atlas Insurance PCC Limited; Non-Executive Director - RS2 Software plc; Non-Executive Director - Grand Harbour Marina plc.

5. LARAGH CASSAR

Non-Executive Director

Date of First Appointment: 28 April 2016

Committee Memberships:

- Member, Governance & Conduct Committee;
- Member, Remuneration Committee;
- Member, Technology and Innovation Committee

Skills & Experience: Throughout her career, Dr. Cassar has gained vast experience in many areas of practice including banking, investment services, asset management, capital markets and corporate law restructuring. She commenced her professional career as an advocate in 2003 having joined Camilleri Preziosi as an associate. She was admitted to partnership in 2009, where she held this position until 2015 when she founded the firm 'Camilleri Cassar Advocates'. Dr. Cassar obtained a degree in law from the University of Malta in 2002 and a Master of Law in Banking and Finance from the University of London in 2003. She is often appointed by the Faculty of Laws of the University of Malta to supervise and examine LL.D. and M.A. Financial Services theses.

Significant External Appointments: Since 2015, Partner - Camilleri Cassar Advocates; Non-Executive Director - Hili Properties plc; Non-Executive Director / Company Secretary - Medserv plc.

6. ALFRED DEMARCO

Non-Executive Director

Date of First Appointment: 28 April 2016

Committee Memberships:

- Member, Board Credit Committee;
- Member, Risk Committee

Skills & Experience: Mr. DeMarco is an associate of the Institute of Financial Services, London (ACIB) and holds a degree in economics from the University of London. He is a central banker by profession with more than forty years' experience at the Central Bank of Malta (CBM). He progressed through senior executive positions at the bank including that of Director of the Economics and External Relations Division. He was appointed Deputy Governor in April 2010, a position he held until end-March 2015.

Significant External Appointments: Member, Kunsill Finanzjarju Djoċeżan.

7. VICTOR GUSMAN

Non-Executive Director

Date of First Appointment: 27 April 2012

Committee Memberships:

- Member, Governance and Conduct Committee;
- Member, Remuneration Committee;
- Member, Technology and Innovation Committee

Skills & Experience: During the 35 years at the helm of the Lemco Group, Mr. Gusman led the administration team of a workforce of over 650 with manufacturing basis in Italy and Poland and a sales force operating in 34 countries. He gained experience in dealing with a workforce composed of various nationalities, servicing international companies with custom-made products to accommodate their own products and brands. He was central in dealing with Government Departments for the supply of specialised requirements in their hardware and manufacturing sectors, negotiating with Unions in Italy and Poland.

Significant External Appointments: Administrative Secretary - Diocese of Gozo; Executive Director – GDH Company Limited.

8. MICHAEL PACE ROSS

Non-Executive Director

Date of First Appointment: 23 November 2015

Committee Memberships:

- Member, Audit Committee;
- Member, Governance & Conduct Committee

Skills & Experience: Mr. Pace Ross previously served as Director General of the National Statistics Office for six years, sitting on a number of national and European committees, including the European Statistical Advisory Committee (ESAC). He was also responsible for the 2011 nationwide Census on Population and Housing. Mr. Pace Ross is currently the Administrative Secretary of the Archdiocese of Malta. He is a Council member of the Malta Employers Association (MEA). He is also a Board member on Discern, a research institute on the signs of the times, and on the Voluntary Solidarity Fund, a charity which embraces core values inspired by and aligned with the Catholic social teachings on solidarity. Mr. Pace Ross holds a BA (Honours) degree in Economics and Management, and also holds an MBA from the University of Malta. He is also an associate of the London College of Music. He was invested as Knight in a papal equestrian order by Cardinal Edwin O'Brien in 2019.

Significant External Appointments: Administrative Secretary - Archdiocese of Malta; Non-Executive Director - Amalgamated Investments SICAV plc; Company Secretary - AROM Holdings Limited.

9. MARTIN SCICLUNA

Non-Executive Director

Date of First Appointment: 5 November 2013

Committee Memberships:

- Chairman, Risk Committee;
- Member, Audit Committee

Skills & Experience: Since 2012, Mr. Scicluna has held a number of directorships in asset management and insurance companies licenced in Malta. He started his banking career with Mid-Med Bank in 1976. In 1996, he joined Midland Bank, which later became HSBC Bank Malta plc, where he held various senior executive posts. He also served on several boards for HSBC Bank Malta plc subsidiaries, and on the said bank's Audit Committee. Mr. Scicluna is an Associate of the Chartered Institute of Bankers, holds a Diploma in Financial Studies and was elected as a Fellow of the Institute of Financial Services in 1999. Mr. Scicluna is active on several high profile volunteer organisations.

Significant External Appointments: Non-Executive Director – ReAPS Asset Management Limited; Non-Executive Director & Audit Committee Member – Merck Capital Asset Management Limited; Non-Executive Director – Accredited Insurance (Europe) Limited; Chairman – Zarattini International Limited.

10. GRAZIELLA BRAY

Company Secretary

Date of Appointment: 1 July 2008

Skills & Experience: Dr. Bray graduated with a Doctor of Laws from the University of Malta in 2004 and joined APS Bank in 2006. Over the years, she has performed duties in various areas of law, regulation & compliance, including providing support to the Board and Committees. Dr. Bray lectures in Company Law, Regulation and Corporate Governance at the University of Malta and the Malta Stock Exchange Institute.

Significant External Appointments: Company Secretary – ReAPS Asset Management Limited.

1. APS Bank Customer Christmas Drinks held last December at The Phoenicia Hotel, Valletta.
2. As part of the Branch Transformation Programme, the APS Branch in Victoria, Gozo underwent extensive refurbishment.
3. The inauguration of the architectural lighting at APS Bank's Head Office in Swatar.
4 / 5. APS Mosta Branch was also revamped as part of the programme, with the objective to improve customer experience.

CHAIRMAN'S STATEMENT

CHAIRMAN'S STATEMENT

The low interest rate environment continued unabated throughout 2019. Unfortunately, there is nothing imminent to suggest that this state of affairs will change any time soon. The global scene continued in a state of near turmoil, with the US stand on bilateral tariff arrangements with its major partners and the impact of proposed changes on world economic growth remaining at the top of the agenda for most of the year. The uncertainty surrounding the resolution of these trade talks, especially those with China, and the erratic manner in which they were conducted, seriously affected global trade and financial markets. The Brexit debacle in the UK did not help. World economic growth trended downwards, especially in the Eurozone.

Malta, however, still registered a robust 4.4% increase in GDP, a robust growth by European standards. Tourist arrivals continued buoyant, but other sectors were influenced by apprehensions regarding the findings of the MONEYVAL Report which was eventually published late in the year. Its conclusions were disturbing. Furthermore, the concerns that had been emerging during the year with regard to perceived or actual lack of proper governance exercised by national institutions, helped in no small way to cast a shadow on Malta's reputation internationally, with negative consequences for the financial sector in general, and the banking sector in particular. Regrettably, Malta's reputation which had been painstakingly built over many years, has suffered considerably because of the failures of operators and institutions whose very existence were meant to safeguard the country's name, particularly, in its international dimension. I trust that a concerted effort will be initiated by the authorities and operators alike to do their utmost to give appropriate replies, both in words and deeds, to the MONEYVAL Report to ensure that Malta does not end up in the FATF grey list. That would be catastrophic for Malta should it be allowed to happen.

Bank performance

Notwithstanding the uncertainty in the international scene, as indicated above, Malta's economy continued to perform satisfactorily, and while trending downwards compared with previous years, compares favourably with other Eurozone countries. The Bank has performed satisfactorily, increasing profitability before tax by 10%. This was a remarkable achievement when one considers the low interest rate environment and the challenge this presents for a committed community bank whose business model depends for its profitability and future investment plans on the net interest margin earned on its loan portfolio net of funding costs. This must also be seen in the light of the Bank's successful drive to be innovative and to raise the quality of its services to its customers. Indeed, during 2019, we reengineered the process for on-boarding new clients, and launched our OMNI-channel product.

These are all initiatives that take a considerable amount of time and effort by the Bank's staff to reach the stage of final successful implementation. Last year also saw the successful completion of the first phase of our capital raising plan; we increased our capital by a shareholder cash injection of €13 million, in addition to the usual retention of a large portion of our net earnings.

Our employees remain the most important lynchpin underlying our performance and during the year we have taken important initiatives to reflect the level of commitment the Bank has towards its staff. We carried out our first internal people survey, for which we had a 90% response rate, to help us in developing further a two-way communication process and to understand more our employees' needs and secure their engagement at a time when the Bank is undergoing a major transformation. This survey will become an annual event. We also created the framework to introduce more flexibility in working hours as well as to permit remote working in a safe environment and pursued a concerted program of staff training and related initiatives to enhance job performance and satisfaction, and better position the Bank for the challenges posed by rapid technological and regulatory changes.

Sustainability, economic, social and environmental considerations are today high on the list of any self-respecting organisation and the APS agenda in this regard is very much at the forefront of the Bank's commitment to the community. In 2019, we organised our first Malta Sustainability Forum. This event proved to be an enormous organisational success. It underlines our enthusiasm for helping to create a better world for all and we are committed to organise the Forum on an annual basis. The Bank is also in the process of addressing the effects of changing demographics of the country specifically to enhance choice in the area of private pensions, both savings and investment products and related products.

The CEO's Review explains in more detail the success the Bank has achieved in its financial performance.

The Board

With great satisfaction, during the year, the Board commissioned outside consultants to carry out an independent individual and collective suitability review to identify those areas where the Board's competencies could be improved, particularly to meet the challenges posed by the continued broadening of the regulatory and reporting landscape, and the increase in competition and rapid technological advances.

There were no changes to the Board in the past year with the two new Directors appointed last year fitting in nicely with their specific competencies to the enhancement of the Board's performance.

I would like to thank my fellow colleagues on the Board for their full commitment to a proper working of our governance infrastructure and Board's oversight responsibilities.

Looking ahead

In recent years, Malta has coped well with the various challenges that the volatility of the globalised world has constantly put across its bows. This may, however, change if there is a confluence of systemic risk factors such as the dislocations related to the evolution of the Coronavirus pandemic, a sharp slowdown in China with disruption to global supply chains, trade wars, and a disorderly Brexit. In such scenario we should expect some impact on tourism and financial services and related sectors, and it would be wise for the public and private sector to consider, beforehand, what measures would best support the economy in the event of a prolonged slowdown. Equally important, one need not emphasise the importance of a proper response to the MONEYVAL Report in all its dimensions.

For the Bank, an important topic on the agenda will be fine-tuning of the next phase of the Capital Development Plan for a successful execution by the end of the year.

I have full confidence that the management team and our staff will meet the challenges that 2020 will bring, no doubt supported by the Bank's three year rolling Business Plan, to the satisfaction of our customer base.

Finally, on behalf of my fellow Directors, I wish to thank the management team and staff for their dedication and constant effort and commitment to raise performance standards to the satisfaction of our clients.

My fellow Directors and I wish also to thank the shareholders of the Bank for their continued constant support throughout the year.

F. Mifsud Bonnici
Chairman

12 March 2020

CEO'S REVIEW

The year under review marked the start of our new 3-year Strategy: the first one drawn up in my tenure as CEO and covering the years 2019-2021. It was the result of a very structured and comprehensive process, intense market analysis, consultation and discussion that had taken up most of 2018 producing key directional points for the years ahead. In last year's Annual Report we had summarised APS Bank's mission as being *"to make the banking experience simpler and more personal, inspired by a commitment to social, economic and environmental progress while providing all stakeholders with opportunities to grow"*. And we captured that vision in a simple slogan: 'to be *the* community bank in Malta'.

That process also saw us re-defining our core values, placing a focus on:

1. *Excellence,* that is being outstanding of extremely good at what we do internally and externally, taking ownership and delivering the best which is what our customers deserve and expect;
2. *Authenticity,* that is being true to one's own personality, spirit or character, understanding and trusting while acting always with integrity;
3. *Passion,* showing eagerness for an idea, proposal or cause, bringing high energy levels into what we do, being inspiring by leading and caring;
4. *Contemporary,* meaning that we need to be relevant to our time, in sync with the world, testing, learning, adopting and sharing – pushing the boundaries to make things better; and
5. *Inclusiveness,* meaning that we welcome differences, respect diversity, actually leveraging on different perspectives and backgrounds, building on them for the good of all.

This Review will go over the Bank's performance during 2019, measuring progress against the core values while taking a look at our programme for 2020. So it is again with pleasure, that we report another year of record growth and profit despite operating in an environment that presented many opportunities but increasingly stiffer challenges. A low interest rate environment continued to present difficulties for banks to find acceptable returns in a domestic economic environment that is slowing compared to previous years. The risk landscape also continued to change more so because of jurisdictional reputation issues which have started to show on Malta's financial services industry. Nevertheless, our business model again delivered excellent results in a year also characterised by the continuation of our transformation journey.

Excellence

In an environment that remained marked by low or negative interest rates, increased regulatory obligations, a fast-evolving risk panorama and cost pressures, including labour and compliance, Malta remained one of the best performing European players, in terms of growth, employment and budget management.

We are again pleased to report a record performance at both Group and Bank levels, with all-round growth in activity. Group Operating Income increased by 26.7%, from €44.7 million to €56.7 million (Bank: by 15.8% to €52.9 million) and Pre-Tax Profit expanded by 44.1%, from €18.6 million to €26.8 million (Bank: by 10.0% to €21.6 million). This result was achieved on the back of another strong performance in the main income constituents, namely Net interest income (up by 18.1% on 2018) and Fees and Commissions (up by 13.0%). But an important contributor to the exceptional Group numbers was the Bank's equity investment in the APS Funds SICAV and other debt securities where significant gains, classified differently as trading or fair value through profit or loss (FVTPL), were recorded.

All the main revenue streams contributed strongly to these results. Despite aggressive competition in the domestic market, home finance remained an important source of credit activity and 2019 saw us increasing market share despite a softening in the speed of new house purchases. The year under review also saw more diversification taking place towards commercial and corporate lending with new sanctions reaching record levels. We are pleased to now see APS being a principal banker for some of Malta's leading corporate names while equally giving the same deserved attention to young students at the start of their life's journey. Further credit diversification is pursued through our growing book of international loan participations, with the benefit of exposing the Bank to different geographies, industries and shorter maturities than our domestic corporate book.

Overall credit quality at Bank level continued to improve, with NPLs to Gross Loans reducing significantly from 3.8% in 2018 to 2.6% in 2019. The stock of NPLs maintained a fair distribution across sectors, with Construction & Real Estate (27%) and Manufacturing (23%) being the main components. Credit loss experience remained prudent: ECL for Stage 1 & 2 loans was estimated to close at around the previous year's level of 15bp while persistent recovery efforts and improvements in collateral positions also resulted in aggregate lower net impairment provisions compared to 2018.

The Group's ROE increased to 11.0% (2018: 9.7%) while Balance Sheet growth was again strong, with total assets increasing by 14.7% to €2.17 billion. At 16.16% (Bank: 15.28%), the Group Total Capital Ratio, consisting solely of Tier 1 equity, is up on last year's ratios of 13.94% and 13.59% for Group and Bank, respectively. This reinforcement of capital adequacy is part of the Bank's Capital Development Plan which in 2019 saw a fully-subscribed Rights Issue of €13 million, a revaluation surplus of office premises and buildings of €16 million and retained earnings all contributing to the strengthened ratios.

Correspondingly, throughout the year the Bank operated its Liquidity Coverage Ratios (LCR) and Net Stable Funding Ratios (NSFR) within prudent ranges and well above the minimum regulatory requirements. Similarly the Loan-Deposits Ratio (LDR) was also managed at comfortable levels supported by a healthy cash flow in the lending and deposit books. In the prevailing interest rate conditions, our funding diversification strategy returned liquidity levels without necessarily compensating spreads, with Central Bank of Malta and other bank balances attracting penalising (negative) returns. This caused us to contain further growth by limiting funding opportunities that would not have been productively employed.

In terms of cost efficiency, 2019 saw the Group Cost / Income ratio improve from 55.0% to 53.6% while, conversely, the Bank's worsened from 53.5% to 57.0%. Although these ratios still compare well with the core domestic banking segment and are below the average EU ranges, they reflect the continued growth in the Bank's organisation and infrastructure. Recruitment at all levels and in new areas of specialisation as well as further career progression and development of staff increased personnel expenses up by 13.3%. But the increase in operating expenses, particularly technology, security, insurance, maintenance and regulation-induced costs, pushed the bill up by 36.1% and the pressures are not showing signs of abating yet.

More numbers and statistics from the 2019 financial results can be found in the 'Financial Statements' section of the Annual Report. This Review is not meant to delve into performance indicators in more detail, however the message that these numbers transmit is that amidst a competitive and challenging environment, the Bank drew on its market strengths and maximised on the business opportunities presented to deliver excellent results in the circumstances.

Authenticity

If 2018 was a game-changer for banks with the onset of regulatory and accounting overloads like IFRS 9, PSD 2, MIFID 2 and GDPR, 2019 brought about yet further challenges for our industry as Malta came under increased scrutiny from international regulatory and supervisory bodies particularly after the publication of the MONEYVAL Report. The Report confirmed serious institutional weaknesses in the fight against money laundering while revealing that the financial sector's appreciation of financial crime compliance and related risks varies, with some segments and professions showing serious deficiencies. Although the banks generally scored the best, MONEYVAL has become another game-changer because the remediation timelines it requires are onerous and, if they are not met, the implications for Malta's financial sector can be far-reaching.

Maltese banks, and APS Bank nonetheless, are not immune to the challenges facing our industry resulting from these developments. The changing profile of Malta as a business jurisdiction has in turn presented the opportunity for USD correspondent banks to close their appetite and scale back their services. There are also challenges from new technologies, increased regulation and closer supervisory oversight which cause customer behaviours to change and create new competitive pressures. All this requires us to respond by investing continuously in the governance framework and our various lines of defence, at the same remaining customer-centric in our business approach. In this regard particular emphasis was placed on Board and Management training especially in the face of challenges resulting from the Bank's increased systemic relevance.

The revamped structure of Board and Management committees has proved effective with a number of these bodies specifically dedicated to safeguarding the authenticity of the Bank's business. These include in particular the Audit Committee, Risk Committee and Governance & Conduct Committee where the presence of only Non-Executive Directors as voting members brings a strong measure of independent oversight on Management's workings. 2019 was also the first full-year of operation for the Compliance Committee, created late in 2018 to serve as an ongoing Management forum for account on-boarding and separation decisions as well as other day-to-day compliance issues. Strengthening of AML controls, risk assessment and KYC processes also continue to feature on the agenda and a new Financial Crime Compliance Unit was set up distinct from the Regulatory Compliance Unit. 2019 also saw further strengthening of the Operational Risk Unit and investment in cyber risk prevention systems, in particular.

Early in the fourth quarter the Board of Directors approved a revision of the Bank's organisation structure which should continue to strengthen the Bank's corporate governance arrangement. The new structure will see a number of new senior positions being created and others being filled and will come into effect in the first half of 2020 once the appointments process will have concluded. Authenticity and integrity of business requires not only the highest ethical conduct at all times but also the availability of expert and experienced staff, particularly at senior and professional levels - which in a domestic environment of full employment further creates pressures on cost and accessibility to talent. It is a demanding journey but as banks we must continue to do our part, diligently, prudently, even when we are sometimes criticised for being difficult in accepting business. Our duty to support business activity comes with the obligation to exercise the highest duty of care in safeguarding the integrity of our financial system because by doing so we are also preserving the authenticity of Malta's reputation.

Passion

Growth in 2019 was spurred by deposit raising and lending activity which grew by 16.9% and 20.4% respectively over 2018. Assets Under Management in the APS Funds SICAV also increased according to expectations. It is the Bank's strategy to increase its market share through strategic, selective business development operating a model which continues to be centred around three main product segments, namely Personal, Business and Investments.

We are pleased to note that our liability management targets for 2019 were met as we managed to attract a healthy mix of institutional and retail funding at a pace that was pretty consistently spread throughout the year. In an environment of continued interest rate compression which limited the origination of new deposit products, the Bank maintained its 'tap' on retail funding pursuant to the authorisation received from Bafin in 2018 to passport its services in Germany. Despite another interesting year in which mixed circumstances and high levels of liquidity caused us to tighten our pricing to this platform, deposits increased in the aggregate while this source remained highly diversified and overall not exceeding 5% of the total base.

The Bank also made further inroads in commercial activity while maintaining our place as a leading home loan institution in Malta, with 61% of the total loan portfolio directed to individual and family home financing. APS Bank remains a household name for residential financing despite competition in this segment becoming increasingly stiff. On 1 July the Directive on Borrower-Based Measures was issued by the Central Bank of Malta and its timing, coupled with a relative slowing down in new house sales, helped bring some softening in residential real estate market prices. The Bank has otherwise remained a competitive albeit selective player in the financing of commercial and residential real estate developments, hotel and office accommodation, the markets for which continued buoyant in the year under review. We are pleased to report the inroads made by APS Bank in adopting new, important corporate relationships with key, established players in the Malta business community. At the same time we continued to diversify our geography, industry and maturity through small ticket activity of participations in short-term trade-related and forfaiting assets, 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 quality international names spread over sectors such as banking, technology, wholesale & retail, transport, communication, health and social work.

We are also proud to be maintaining our leading position as providers of social banking services and in May 2019 we exclusively launched, in conjunction with Government and the Housing Authority, the Home Equity Sharing Scheme. The Scheme is targeted towards aspiring buyers with a limited pool of assets, short of being able to access the homeownership market, yet ineligible for social accommodation. It provides loans for individuals and couples aiming to buy a home from the private sector. Another project we have been actively working on in conjunction with the Ministry for Social Accommodation relates to Affordable Housing. We hope to make further progress in the coming months despite the recent sad demise of Joe Bartolo, a key Government consultant and proponent of the project as well as long-time collaborator of APS Bank through his involvement in the Anti-Poverty Forum.

APS Bank continues to be an active player in the community space with products and services aimed at segments ranging from students to different types of social cases. We have also continued to promote with interest eco-friendly and sustainable energy schemes, as well as financing of projects in education, healthcare and retirement facilities. At the same time we are actively interested in opportunities in the personal lending segment and retirement and pensions solutions where we especially see a market gap and where our plans for new products are quite advanced. 2019 also saw the soft launch of our new VISA Debit contactless cards ahead of their full launch early in 2020.

June also marked the launch of our OMNI-Channel solution 'myAPS', enabling customers to carry out transactions seamlessly over different channels and across internet and mobile banking. The new mobile app 'myAPS' with biometric authentication allows users to manage their personal and business accounts with versatility to see account balances, transfer money between accounts or to third parties, create payment templates and standing orders and carry out mobile payments. Other notable developments included the award of 5 stars by Morningstar to the APS Income Fund and APS Regular Income Ethical Fund, sub-funds of the APS Funds SICAV – the highest rating a fund can achieve on this scale. We note with great satisfaction the strong performance of all three sub-funds during the year under review and I acknowledge the work of the Investment Management team at APS Bank whose services are sub-contracted to our wholly-owned investment management subsidiary ReAPS Asset Management. The SICAV itself came under new leadership when at the Annual General Meeting held on 25 April a new Chairman was appointed. We are privileged that Tony Mejlaq, a professional of long-standing managerial, commercial, business and investment experience, accepted to take this position.

Contemporary

The year under review saw further results being achieved in the network transformation programme. Our revamped branches at Mosta and Victoria, Gozo were re-launched with events at which the guests in attendance included Board members, our valued staff and clients. Summer saw the start of transformation of Swatar branch which was completed just before Christmas. In the meantime works on the new Qormi branch continued to progress with an opening targeted for summer 2020. The branch layouts – based on designs of UK-based international firm I-AM, which was entrusted with the transformation strategy of the branch network - are modern, create an innovative, contemporary experience for our customers and introduce more digital interaction and space for meetings. Our vision remains that of a branch network that complements and enhances the customer's experience with APS Bank, which is also why we extended the evening services further in 2019. We like to view our branches as living rooms where our customers can conveniently come to discuss their financial requirements and receive advice!

Works were also concluded on the new Central Document Repository and Archiving Building in Marsa, which also includes facilities for the Digitisation project starting in 2020. Moreover we took up further office footprint at the Swatar Head Office to accommodate the larger teams made up of permanent as well as temporary personnel. Other important projects included new and upgraded meeting rooms as well as a new, multi-purpose conference room / auditorium seating up to 110 and equipped with the latest sound and vision technology. We are once again proud to note that the design, construction and finishing work at all branches and facilities were overseen by the Bank's Support Department assisted by our consultant architects and engineers. All complex projects that require meticulous planning, hard work, professionalism and dedication, as well as coordination from our esteemed partners.

In June we announced our participation in a new limited liability company for the purpose of carrying out the business of life insurance. The equity of the company is equally amongst the four promoters, the others being Atlas Insurance PCC, GasanMamo Insurance Limited and MaltaPost plc. The project is presently at application stage with the MFSA and, subject to all regulatory authorisations being forthcoming in due course, we anticipate that the new undertaking should become operational in 2020. Under the able leadership of CEO Reuben Zammit who is putting together the management team, we are excited about this development which comes in the wake of our business expansion of recent years and the opportunities we see for the future. With our partners we see an opportunity for this venture to grow into a strong market player that will benefit the community at large.

Mention should also be made of the various projects which are progressing in the backrooms and which we hope to roll-out in the coming months. From a new offering of credit cards to developing our PSD2 / Open Banking platform, from increased automation of processes to new tools and systems to enhance our regulatory reporting, FCC, KYC and transaction monitoring capabilities, we are also looking at the use of AI and robotics where these could help the efficiency and effectiveness of our operations. The list of projects is practically endless and overarching everything is the need to ensure that procedures are simplified and processes made as efficient as possible. Ultimately our objective remains that of permitting customers to access our range of financial products and services from a variety of channels while preserving the safety, security and integrity of our banking franchise.

Inclusiveness

No journey such as ours is possible without an engaged and motivated workforce. During the year under review there were increases in staff across all strata of the Bank, reflecting the strengthening of functions and positions as well as the general growth in business activity. As stated in past Reviews, I reiterate that we do not look at the higher payroll as an increase in overheads but as one of the choicest investments we can make. Our slogan 'Being the employer of choice' is the statement underscoring the belief that all our plans and ambitions 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. Late in 2019 we continued refining the organisation structure, making it more modern and responsive to current trends while at the same time opening new paths for career progression. New senior positions have been created to strengthen the Management team and by widening further our horizons in search of the best talent, we are also making the Bank more international, enriching its overall fabric and culture.

We also continued to make available very generous programmes to promote the wholesome development of our staff, including 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 scheme gained further momentum in 2019, various staff development and training programmes, local and overseas, are in place and e-learning facilities were stepped up. Following a series of professional staff surveys carried out during the first half of 2019, various measures were introduced to further promote staff engagement, including remote working, more flexible working hours / arrangements and a heavily-subsidised ride-sharing service for all staff travelling to / from their place of work.

During the year under review a large number of staff were rewarded for their academic achievements and long service at special, appositely-held events. Showing recognition and appreciation to our staff is at the heart of our philosophy and we do this regularly in various forms. The tempo of Staff and Management meetings and Townhalls was also scaled up, as well as the quality and format of these meetings. Both the Social Activities Committee and the Sports Committee were busy throughout the year, enriching the social and welfare calendar of staff and their families while supporting participation in various sports disciplines including at overseas events. I also take the opportunity to refer to our intense CSR programme which sees the Bank actively supporting various events in the arts, culture and community spaces and which is generously extended for our staff to attend (more about that in the separate CSR Report on pages XIV to XVII).

We firmly believe that our employees are our best resource and want to create for them a relationship that goes beyond employment,

offering them an environment where high career ambitions and work-life balance both have a place. At the same time we are mindful of the challenges and pressures on our staff as their careers develop so we are working with our main stakeholders, i.e. shareholders and trade union, as applicable, to introduce schemes that should further solidify their long term career engagement with the Bank.

The next steps

When last year I announced our 'Strategy 2019-2021' and the vast effort that went into formulating that document, I also referred to the fact that any strategy must be dynamic if it is to remain relevant and 'alive'. So that means we now work to a rolling 3-year Business Plan for 2020-2022 which is still guided by our vision of being a leading community bank that is forward-looking in its product range, market reach and governance standards. Becoming an increasingly important player in the Maltese system places on us added challenges as well as responsibilities – and we see the Business Plan as the roadmap to deliver all that in the right balance. It is a Plan that belongs to all of us at APS and will only be effective to the extent that we all make it our very known while also communicating it to all our stakeholders.

Although this Review is an opportunity to present a fairly detailed point of view about what we've been doing, the things we believe really matter and what we think it all means for our business, it is not possible to capture the intense rhythm and scale of activity that is taking place at APS Bank in a two-dimensional narrative of a few thousand words! So in keeping with our core values I also seek to give a 'contemporary' interpretation of the 'APS' acronym and, aligned with our mission statement, I feel that this is expressed as our commitment to deliver an experience that makes us Available, Personal and Simple. And as a bank rooted in the community for more than a century, that means ensuring that the economic development we are financing is sustainable. But our concern for sustainability cannot be an abstract or high level concept - it must also be contemporary, that is, it must address the issues of today. That is also what our customers expect of us and we must deliver it by showing increasingly our responsibility towards a business model that embraces and promotes change while at the same time respecting sustainability and the aspirations of future generations.

2020 has started with a bang, presenting us with challenges, ranging from the threat of a global pandemic to urgent and long-term repair to Malta's hard-hit reputation, from the risk of extensive international economic slowdown to trying times ahead for key Maltese industries. We need foresight, perseverance and hard work to navigate our way forward.

Let's do it!

Sincerely,
Marcel Cassar

CORPORATE SOCIAL RESPONSIBILITY STATEMENT

For over a century and from its inception, APS Bank has been a leader, in its own way, in supporting projects of a social nature and initiatives to help those in need or excluded, such as providing basic social assistance, medical care and education. During its journey, the values of acceptance, inclusiveness and tolerance that have guided the Bank actions have been a strong driver that remain today.

APS Bank is the only Maltese bank, member of the FEBEA (Fédération Européenne des Banques Ethiques et Alternatives) that has the aim of developing ethical and social finance in Europe. The Bank prides itself with a high level of personalised service to its Customers, enhanced through its Branch Transformation Programme which started 3 years ago, with the objective to improve the Customer experience through improved accessibility, more transparency (information about the Bank's products and services available on digital screens at the Branch) and increased privacy to conduct meetings, etc.

In line with international best practices, the Bank has also established a Board Governance and Conduct Committee, with the responsibility to oversee the Bank's corporate governance framework, including reputational risk that may arise from conduct issues, ethical breaches and non-compliance with applicable laws and regulations.

Moreover, the Bank, through its wholly owned subsidiary ReAPS Asset Management Limited, manages the APS Regular Income Ethical Fund, part of the APS Funds SICAV umbrella, the first and most important fund project in Malta invested in ethical companies.

Over the past decade or so, APS Bank has been a leader in supporting the communities where it is largely active. Known particularly for being a leading sponsor of various initiatives in the fields of culture, literature, education and youth, in recent years the Bank has decided to focus on contemporary issues of interest to society.

Through its CSR programme the Bank is currently supporting various entities such as St Jeanne Antide Foundation, on the theme of the violence made at women, which is one of the critical topics highlighted in the Gender Equality Index report published by the European Institute for Gender Equality. An art exhibition entitled 'UMAMA' stemming from art therapy sessions by survivors of domestic violence was hosted at APS Centre in Swatar. A booklet has been published to illustrate the aims of the project, including paintings created by domestic violence survivors as part of their therapy. This booklet was distributed through all APS Bank branches during International Women's Day.

During 2019, the Bank organised several APS talks covering topics such as gender pay gap, trading on China's new Silk Road, emotional intelligence in the workplace, Artificial Intelligence, sustainable regeneration of built heritage, Brexit, GDPR and several others. The idea of APS talks is simple: bring the best experts in their field to share knowledge and build awareness on various topics for the benefit of other communities that go beyond the limited circle of experts. Events are free and allow for networking.

The Bank has participated in the publication of different books such as 'The Examined Life – writings in honour of Guido Lanfranco', edited by Prof. Mark-Anthony Falzon and 'Ir-Redentur: History, Art and Cult of the miraculous effigy of Christ the Redeemer at Senglea, Malta' published by Midsea Books amongst others.

Part of its on-going support to the arts, the Bank has collaborated with artist and photographer David Pisani on his unique 'Vanishing Valletta' photography project, which documents Malta's ever-changing capital city of Valletta over the past three decades. The exhibition held at Spazju Kreattiv in Valletta, provided fascinating insight into the changing face of the island's capital city, and allowed people to remember the past while also appreciating the present.

The Bank also supported 'Esprit Méditerranéen', a concert by world renowned German harpist Florence Sitruk at the Mdina Cathedral Museum courtyard. The concert included works by Mediterranean composers, such as Manuel de Falla and Albert Pace.

The Bank not only supports established artists but also prides itself on encouraging and facilitating the emergence of the talents of tomorrow. The collaboration with Ħassle Mejjet Theatre Collective for the production of 'PANDORA' at Teatru Manoel Studio Theatre was one of these rare opportunities.

For the first time, following a long standing partnership with the University of Malta, APS Bank supported the 27th edition of Evening on Campus, a highlight of Malta's summer cultural life.

The 2019 Bank's calendar 'Time to Care' was realised through a photo competition, with the objective to raise awareness and inspire people to take action to protect their "home" and environment as a commitment to the well-being of future generations.

Sustainability and a sense of caring, have been key principles guiding the actions of the Bank throughout its history. It is with no surprise that APS Bank decided to take the lead on one of the most contemporary topics of the century. The organisation of the first ever 'Malta Sustainability Forum' had the objective to raise awareness on the topic of sustainability, while empowering citizens to make conscious decisions towards a sustainable life.

Through the overarching theme of 'The Thinking Citizen', the conference brought together local and international speakers, and targeted both consumers and corporations. The three pillars of sustainability, i.e. social, environmental and economic in the context of the 17 Sustainable Development Goals (SDGs) set by the United Nations were addressed during the event.

Time has come to rethink our strategies, to focus on how to ensure we are working together for the sustainability of the world that we know; to ensure that through simple yet effective ways we are creating a brighter future, one that has economic value long term, and is not setting us on a path towards degradation but is re-angled towards a thriving future for business, environment and people. This starts with us; and the time is now.

APS Bank will continue, as part of its CSR strategy, to support initiatives that have the objective to bring the communities together and contribute to make the world a better place to live for the future generations. Be it through the arts, education, protection of the Maltese heritage or addressing the challenges created by climate change, the Bank will continue leading the way.

2019 CORPORATE SOCIAL RESPONSIBILITY HIGHLIGHTS

1. 'The Human Turned Divine' exhibition and catalogue, as part of the 50th anniversary celebrations of the Metropolitan Cathedral Museum.
2. 'Il-Kbir Għadu Ġej', a hit musical based on the music of Freddie Portelli hosted at Mediterranean Conference Centre, Valletta.
3. 'Xebgħa Nies 2-The Human Clay', displayed works of art by 8 leading Maltese artists exploring the theme of the human figure.
4. APS Bank's Porta Cabin at the University of Malta is a 'Green Space' to be used by students for gatherings.
5. Installation of solar panels at one of the YMCA residences in Msida (Dar Niki Cassar) as part of 'The Homeless Energy Project'.

6. 'APS Teatru Unplugged', a landmark music event at the Manoel Theatre supported for the fourth consecutive year.
7. As part of the Bank's support of Din l-Art Ħelwa, a private event for customers at Wignacourt Tower in St. Paul's Bay.
8. 'Virtousi', a fundraising concert for the University of Malta's Research & Innovation Development Trust Fund (RIDT) featuring violinist Carmine Lauri and guitarist Simon Schembri.
9. Collaborating with artist and photographer David Pisani on 'Vanishing Valletta' photography project.
10. The launch of the 'APS Mdina Cathedral Contemporary Art Biennale' was organised at the APS hub, a space designed for the community, that offers modern facilities with WiFi connectivity for meetings, exhibitions and events of a public or social nature.

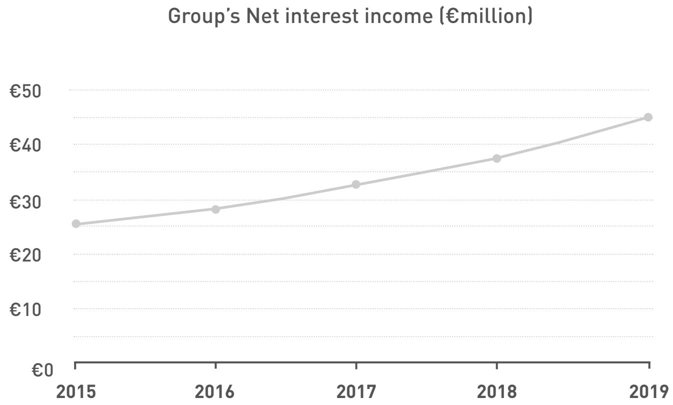
11. The first 'Malta Sustainability Forum 2019', delving into the three facets of sustainability, was held at the Westin Dragonara Resort in November.
12. 'UMAMA' art exhibition organised by St Jeanne Antide Foundation was displayed at APS Bank's Head Office in Swatar, as part of its support towards this cause.
13. The monthly 'APS talks' series covering topics of general public interest was launched; photo shows the event on Sustainable Regeneration of Built Heritage presented by Architect Amber Wismayer.
14. The 27th edition of 'Evenings on Campus', a summer festival of culture and performing arts, was held at University campus in August and September.
15. The 'Time to Care' Photography Competition contributed to the creation of the Bank's 2019 Calendar, depicting images with the aim of raising awareness and inspire people to take action to protect the environment.

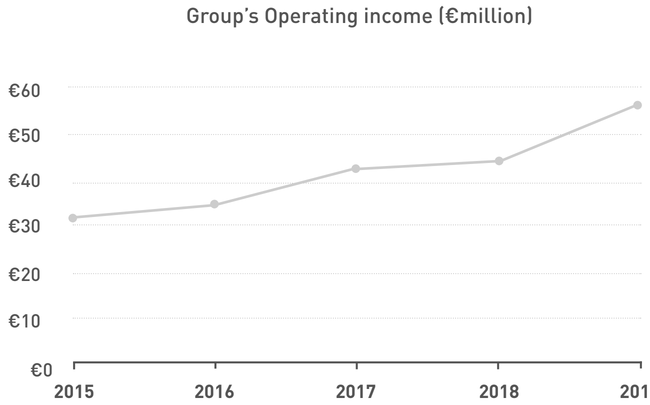

APS
bank

FINANCIAL STATEMENTS

DIRECTORS' REPORT

The Directors present their report together with the audited financial statements of APS Bank Group and APS Bank plc for the year ended 31 December 2019.





Constitution
On the 1 April 2019, APS Bank plc (the 'Bank') converted to a 'public limited company' under a new Memorandum and Articles of Association approved in 2018.

APS Bank Group (the 'Group') comprises APS Bank - its subsidiary ReAPS Asset Management Limited, a UCITS fund management company, and APS Funds SICAV plc - a UCITS collective investment scheme.

Parent company - principal activities
The Bank 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 and the Investment Services Act, respectively. The Bank is also enrolled in the Tied Insurance Intermediaries List in terms of the Insurance Intermediaries Act.

Through its wide range of services tailored to its customers' requirements, the Bank is one of the leading service providers within the industry, employing over 430 staff members and operating through a strategic and dynamic network of Branches and Mini-Branches across Malta and Gozo. A list of Branches and Mini-Branches is provided on page 116.

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. As the Investment Manager of APS Funds SICAV plc, during the reporting period, the company registered a profit before tax of €0.2 million and a total net asset base of €0.9 million.

APS Funds SICAV plc was incorporated in January 2008 and is licensed by the MFSA as a UCITS collective investment scheme under the Investment Services Act. The company consists of three sub-funds: the APS Income Fund and the APS Regular Income Ethical Fund, both of which are associates of the Bank (the 'Associates'), and the APS Diversified Bond Fund being a Subsidiary of the Bank. During the period under review, the three sub-funds posted positive results. As at end of December 2019, the total assets under management for APS Funds SICAV plc stood at €170.9 million, denoting a growth of €21.0 million, or 14.0%, over the previous year.

Directors
Details of the Directors who served during the year and continue to serve at the date of approval of the Directors Report are set out on pages IV to V.

Financial performance
As of 31 December 2019, the Group posted a profit after tax of €19.6 million, a rise of 55.5% over the previous year, with a return on average equity of 12.7%. The results of the Group were positively affected by the performance of the sub-funds, which contributed €5.0 million to the profits. When excluding these gains, increase in profit after tax amounted to 15.8% over 2018. These strong results portray how the Group is strengthening its positon in an ever-changing and competitive market whilst staying true to its core values. Customers and the community always remain on top of the Group's agenda with continuous enhancement of its product offerings and customer experience.

Operations
In 2019, the Group's registered Net interest income was €44.6 million, further improving by 18.1% when compared to the €37.8 million of 2018. Interest receivable on Loans and Advances remains the strongest pillar of the Group's revenue, with an increase of €9.7 million or 23.7%, mainly driven by growth in the retail and commercial lending portfolio complemented by a small but growing book of trade finance, syndicated loan and forfaiting exposures. Concurrently, Interest Payable rose by €1.2 million or 10.1%, with the increase being mainly attributable to both term and demand deposits, which supported the credit activity. Taking into consideration the increasing competitive pressures, the Group's net interest spread remained constant, with a net interest margin of 2.7%.

At Group level, the total fees and commission income reached €7.0 million in 2019, rising by 13.0% from 2018. This is primarily attributable to growth in lending activities and investments services. Moreover, 2019 was marked by an increase in the fair value movements, stemming from the positive performance of its sub-funds. In total, this gain amounted to €5.0 million, with the Diversified Bond Fund registering an increase in net assets value of €3.8 million.

Operating Expenses for the year amounted to €30.4 million, rising by 23.5% over the previous year. The key elements contributing towards this increase were again the continuous investment in human resources and the spend to enhance systems, infrastructure and technology to sustain the Group's growth trajectory. The Group invested heavily in systems to make the banking experience a simpler and more personal one, thus enabling customers to carry out transactions seamlessly over the different channels. Furthermore, the Group kept strengthening its compliance procedures and risk management functions to make the safety of the business more robust. This had an impact on costs, especially since both compliance and regulation are vital elements in this ever-changing environment.

Cost-to-Income ratio stood at 53.6%, improving by 1.4% when compared to the ratio of last year. This illustrates how the Group is managing its efficiency especially when considering the current market environment and the heavy investment in infrastructure, systems, personnel and compliance.

Net impairment charges for the period under review were €1.1 million, reflecting the prudent approach of the Group toward its lending policies and procedures, ultimately aiming to keep a good quality book.

Statements of financial position

By end 2019, the Group's asset base reached €2.2 billion, representing a total increase of €277.7 million or 14.7% when compared to 2018. Once again, Loans and Advances resulted to be the main contributors, with €154.1 million extended to Households and Individuals and €78.0 million to the Commercial sector. Trade financing and forfaiting followed, with a further expansion of €36.0 million and almost reaching €100.0 million. This further affirms the Group's commitment to its diversification strategy whilst expanding its operations. Non-performing loans continued to decline reaching 2.6%, a decrease of 1.2% from the preceding year as a result of the Group's effective risk management framework.

The Group's customer deposit portfolio expanded by a further €278.7 million reaching a total balance of €1.9 billion as the Group continued attracting new clients and existing customers increased their deposits. This is particularly essential in sustaining the Group's business strategy for the future years. Moreover, the main increase was in demand deposits, depicting more than 90% of the overall growth and resulting in a lower cost of funding.

Capital and liquidity management

CET1 capital ratio reported for the Group as of December 2019 was 16.2%. The Group remains positive about its growth prospects in line with its business plan as well as further pursuing its capital development plan. Phase 1 of this plan was executed in May 2019 with the completion of a Rights Issue which raised €13 million of new core capital.

In such a dynamic environment with continuous regulatory pressures, liquidity requirements are also deemed as one of the vital aspects for the Group's plans and prospects. The Group strives in maintaining adequate liquidity levels to minimize risks and hence ensuring high quality liquid assets are at the centre of liquidity management and core objectives of the Group. As at end of year the Liquidity Coverage Ratio (LCR) stood at 131.9%, being well above the regulatory threshold and the Group's risk appetite.

Dividend

Details of the dividend can be found on page 50, Note 12.

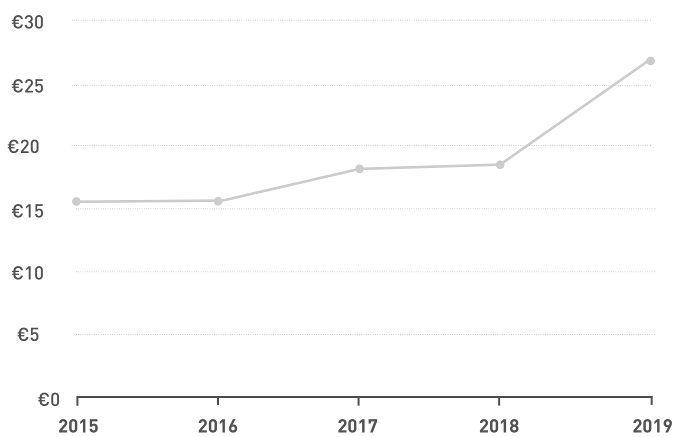
Principal risks and uncertainties

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 assess and review 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:

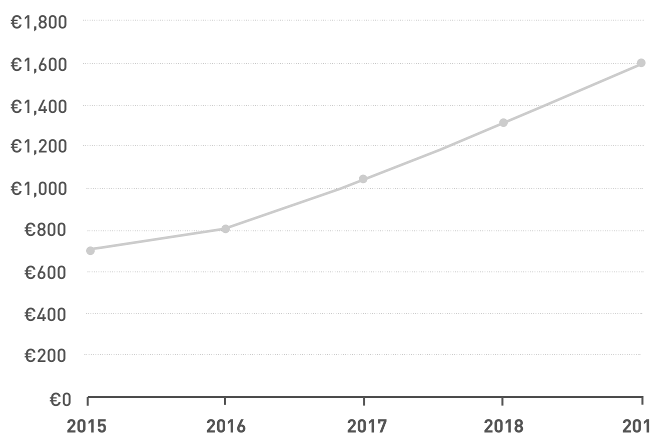
(a) Market and competition

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

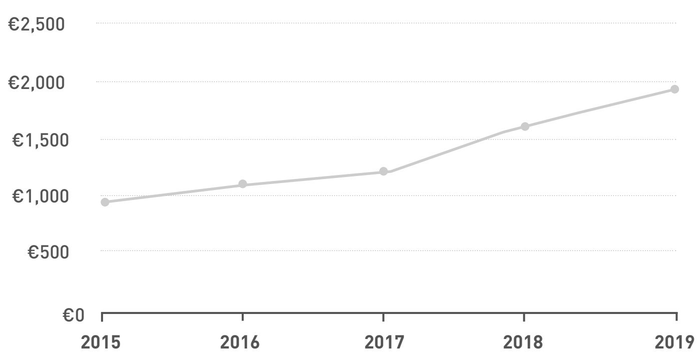
Group's Profit before tax (€ million)



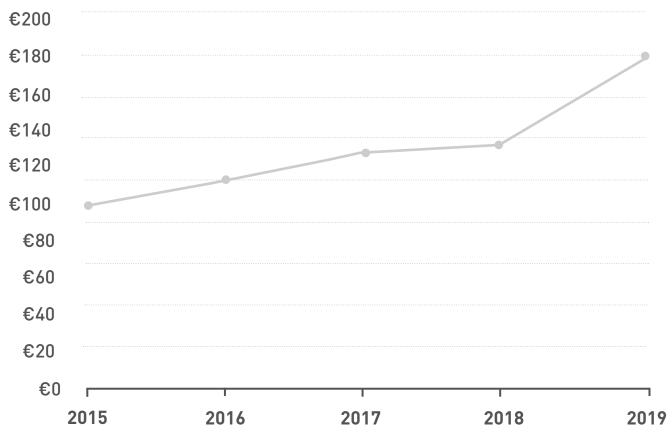
Loans and advances to customers
(Gross of allowance for impairment losses (€ million))



Amounts owed to customers (€ million)



Total own funds (€million)



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. Accordingly, employee arrangements and initiatives are in place to gauge employee effectiveness to achieve this objective.

(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.

(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 a 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 Bank's customers.

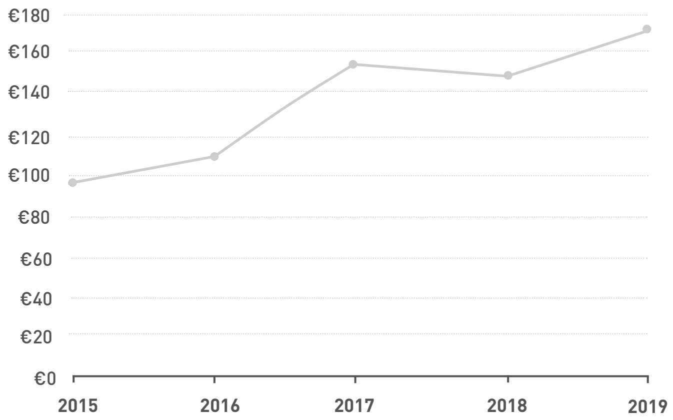
(i) Financial risk management
Note 43 to the financial statements provides details in connection with the Group's financial risk management objectives and policies and the financial risks to which it is exposed.

(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 38 to the financial statements provides details in connection with the Group's contingent liabilities.

Outlook
2019 has been another remarkable year especially when taking into consideration the momentum the Group has maintained as market share gradually increases year on year in the face of the challenging and competitive business environment.

Funds under SICAV management (€thousand)



Capital development planning

On 28 May 2019 a Rights Issue in the amount of Eur13 million was issued which saw an allotment of shares to the existing four shareholders. The successful execution of the Rights Issue denoted the completion of the first phase of the capital development plan in support of the business strategy and projected growth of the coming years.

As at 31 December 2019, the four shareholders of the Bank were:

Shareholder	Holding of issued share capital %
AROM Holdings Limited	79.66%
Diocese of Gozo	18.00%
Metropolitan Cathedral Chapter	2.31%
Abbey Holdings Limited*	0.03%

* Abbey Holdings Limited is owned by the Archdiocese of Malta

Strengthening of control functions

At the same time, the Group continued to build its governance and risk management structures by expanding on human resources and implementing software tools to enhance compliance monitoring, whilst adopting further streamlined processes.

The risk and compliance function at ReAPS Asset Management Limited is performed holistically by an enhanced risk and compliance team, following a segregation of duties between parent and subsidiary, with the Compliance Officer and Risk Manager reporting to the Board of Directors of the said subsidiary. Moving forward, ReAPS Asset Management Limited is in the process of enhancing its activities to focus further on investment management activities.

Transformation

Simultaneously, the Group keeps on investing heavily into the automation of both regulatory and management reporting systems. 2019 was also the year that marked the launch of the Bank's OMNI-Channel solution 'myAPS'. Moving forward, the Group's ongoing commitment in redefining customer experience can also be gauged through the Branch Transformation projects with a number of branches already completed and others planned to commence in the upcoming months. Supplementary to this is the enhanced cards offering, which is scheduled to be fully operational by end of 2020. The establishment of the VOC (Voice of the Customer) Unit in January 2019 is a commitment of the Bank to put customers' interests and service at the heart of its operating model.

Moving forward

The Bank is determined to improve efficiency and operating performance in line with its vision and strategy to be acknowledged as "The community bank in Malta".

To this end, the Bank is further strengthening its governance structures and management teams with implementation planned to start soon. All this is intended to better align with, and support, the 2020-2022 Business Plan which is built around a business model that aims to scale up and accelerate the growth in our core markets while seeking opportunities to selectively diversify into new revenue streams, which would focus on long term benefits for customers and employees alike.

The Bank will continue to contribute to the development of the life insurance company that is currently in the process of being licensed by the MFSA, and in which the Bank holds 25%.

Going concern

The financial statements are prepared on a going concern basis. The Directors regard this is appropriate, after due consideration of the Bank`s profitability, liquidity, the statements of financial position, capital adequacy and solvency. Specifically, the Directors have prepared financial and capital plans for the next three years which shows that the Bank is in a position to continue operating as a going concern for the foreseeable future.

Directors' responsibilities for the financial statements

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

The Directors are responsible for ensuring that:

- Appropriate accounting policies have been consistently applied and supported by reasonable and prudent judgments and estimates.
- Financial statements have been drawn up in accordance with International Financial Reporting Standards as adopted by the EU.

- The financial statements are prepared on the basis that the Bank must be presumed to be carrying on its business as a going concern.
- Account has been taken of income and charges relating to the accounting period, irrespective of the date of receipt or payment.

The Directors are responsible for ensuring that proper accounting records are kept which disclose with reasonable accuracy at any time, the financial position of the Bank and which enable them to ensure that the financial statements comply with the Companies Act, Cap. 386 of the Laws of Malta and the Banking Act, Cap. 371 of the Laws of Malta.

The Directors are also responsible for safeguarding the assets of the Bank and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Sixth Schedule of the Companies Act, (Cap. 386) of the Laws of Malta

During the year ended 31 December 2019, 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

F. Azzopardi
Director

12 March 2020

CAPITAL ADEQUACY & RISK DISCLOSURES REPORT

The objective of this report is to implement the Additional Regulatory Disclosures for the APS Bank Group, as referred to in Banking Rule BR / 07 / 2014 - *Publication of Annual Report and Audited Financial Statements of Credit Institutions Authorised Under the Banking Act 1994*, and governed by Part Eight of the Capital Requirements Regulation (CRR) No. 575 / 2013.

1. Introduction

This report is not subject to external audit, with the exception of any disclosures that are equivalent to those made in the 2019 Annual Report, which adhere to International Financial Reporting Standards (IFRSs). However, this report has been subject to comprehensive internal review and has been 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 present a fair and accurate picture of the financial condition of the Group.

2. Risk governance

Responsibility for risk management lies at all levels within the Bank through the adoption of a three lines of defence model. Business units, as the first line of defence, are responsible for identifying, assessing and managing the risks to which the Group is exposed in the respective operating units. The management of the various forms of risk is then co-ordinated and monitored by the second line of defence, namely the Risk and Compliance Departments. The Internal Audit Department, as the third line of defence, provides independent assurance to the Board.

The Risk and Compliance Departments are headed by the Chief Risk Officer who reports directly to the Risk Committee. The Risk Committee establishes and ensures the implementation of the Group's risk management and compliance strategy, systems and policies. The Risk Committee is composed of five Non-Executive Directors (one of whom chairs the Committee) while the Chief Executive Officer, Chief Risk Officer, Chief Financial Officer, Head Risk and Head Investment Management are non-voting members of the Committee. The Risk Committee meets regularly to monitor the assessment and management of the risk profile of the Group, and ensures that policies are in place in line with the Group's risk appetite, as set by the Board. Policies, including revisions to existing ones, are recommended to the Board for approval, unless the Board specifically delegates this authority to other Committees.

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 is reviewed and approved by the Board through the annual review of its Risk Appetite Statement. The Risk Department is responsible for bringing to the attention of the Risk Committee emerging risks and material changes to existing risks within the Group's risk profile, including 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 Chair of the Risk Committee to report to the Board on such updates. As the second line of defence, the Risk Department operates independently of the Bank's business activities vested in the first line of defence. The Department comprises:

- **Credit Risk Management Unit (CRMU):** The CRMU is responsible for the oversight of the Bank's credit risk exposure and management thereof. The Unit is responsible for reviewing the Credit Risk Policy, duly supported by the underlying procedures, in line with the Bank's Risk Appetite. The CRMU provides independent evaluation / recommendation of credit proposals, exceeding a given threshold, presented by the first line of defence. The CRMU monitors key credit risk indicators, and pursues escalation procedures when appropriate, to ensure that the Bank's credit risk exposure is within the corresponding risk appetite set by the Board. The Unit also ensures that the lending practice is consistent with the applicable regulations, as well as the Bank's credit risk appetite. Ensuring compliance with the credit regulatory reporting framework is the responsibility of the CRMU. The identification and monitoring of Non-Performing Loans and relative provisioning falls under the remit of this function. The development and adherence to the Non-Performing Loan Reduction Plan falls under the responsibility of the Recoveries and Rehabilitation Units of the Bank, both within the Credit Risk Unit.
- **Enterprise Risk Management Unit (ERMU):** The ERMU's objective is to articulate and champion the Risk Appetite set by the Board and ensure that business functions operate within this framework. The Unit continuously seeks to enhance the Bank's risk culture through risk-awareness initiatives which are considered a key element of an effective risk management function. The ongoing update of the Risk Register resides with the ERMU through the collaboration with other Departments within the Bank. The compilation and submission of the Internal Capital and Liquidity Adequacy Assessment Process and Recovery Planning Process falls under the remit of this function, in addition to co-operating with the National Competent Authority in the Resolution Planning Process. The ERMU performs regular sensitivity analyses and stress testing encompassing all material risks facing the Bank. The management of credit risk within the investments portfolio, liquidity and funding risk and market risk are also the responsibility of the ERMU.
- **Operational Risk Management Unit (ORMU):** The main areas of focus of the ORMU are IT and Cyber Risk, Operational Risk Governance, Business Continuity Management and Bank Insurance cover. The ORMU is responsible for independently complementing the first line of defence, monitoring, measuring and reporting on the Group's exposure to IT and Cyber risks. The Unit also monitors and reports on the Group's operational risk profile and its management within the corresponding appetite, maintains a database of operational losses and compiles / presents to the Risk Committee the quarterly operational losses and near misses report, is responsible for business continuity planning, as well as maintaining a comprehensive and effective insurance cover for all insurable bank risks not related to specific products, which responsibility is vested in the Strategy and Propositions Department.

From an internal governance perspective, the Compliance Department is overseen by the Compliance Committee, a management committee which meets on a regular basis. The purpose of this Committee is to ensure implementation of the Bank's compliance strategy, systems and policies, as determined and delegated by the Risk Committee. One of the responsibilities of the Compliance Committee is to ensure that regulations, rules, policies, guidelines and procedures are being followed and also anticipated – as may be appropriate. This includes oversight of major compliance projects, client data reviews, KYC and transaction monitoring tools. The Compliance Committee also takes decisions related to accepting or exiting high risk customers.

The Compliance function is constituted as follows:

- Regulatory Compliance: This Unit covers all licensable activities, thus including Banking, Investment Services and Insurance Intermediation. Hence, through the Regulatory Development Officer, the Unit keeps abreast of the 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, overseen by the Data Protection Officer, and the handling of customer complaints with specific emphasis on all matters, which are referred to the appropriate regulatory body i.e. the Office of the Arbiter for Financial Services (OAFS).
- Financial Crime Compliance: This Unit is responsible for effective risk management in the context of the prevention and detection of financial crimes through the implementation of a robust Financial Crime framework. The Unit covers Anti-Money Laundering, Countering Funding of Terrorism, Sanctions, Bribery & Corruption and Anti-Fraud. It also acts as the Subject Matter Expert for the branch network, back office functions and Senior Management.
- Customer Profiling Unit: This Unit is involved in the on-boarding and periodical reviews of all personal and non-personal client profiles with specific reference to corporate entities and high risk clients. It is also involved in assessment exercises, which may potentially lead to declining or exiting a customer 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 impact on the Group's risk profile. The subsidiary has its own Risk Management and Compliance policies and documented procedures that delineate the risk management and compliance processes, which facilitate reporting to the Risk Committee on the assessment of the subsidiary's risk profile, carried out by the Risk and Compliance personnel engaged with the entity.

3. Credit risk

This is the possibility that a borrower or counterparty fails to meet its obligations in accordance with, or performing according to, agreed terms. Alternatively, losses may result from reduction in asset value arising from actual or perceived deterioration in credit quality. The Bank's exposure to credit risk is diversified by maximum single exposure, by sector, by geography, by tenor and by product, through its engagement in Retail Lending, Commercial Lending, Trade Finance and selected participations in Syndicated Lending. 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 lending portfolios.

The Group has a detailed Credit Risk Policy in support of the Bank's Credit Risk Appetite, which lays down the principles for the management of credit risk within each business area mentioned above. The following sections provide a brief outline of the main elements of the Group's credit risk management framework.

3.1 Approval committees

The main functions of the Board Credit Committee (BCC) relate to the credit risk framework within which credit applications are reviewed, approved, or recommended to the Board. It advises the Risk Committee on credit limits by counterparty, country / geography and sector, as required by the Bank's Credit Risk Policy.

The BCC is composed of three Non-Executive Directors together with the Chief Executive Officer and Chief Financial Officer. The Chief Risk Officer, Head Risk and Chief Banking Officer are non-voting members of the Committee. In order to fulfil its duties, the BCC is authorised by the Board to delegate certain powers and authorities to the Management Credit Committee (MCC).

The MCC periodically reviews and recommends to the Risk Committee the Credit Risk Policy proposed by the CRMU. It also receives and reviews credit applications and approves credit limits for customers and credit lines for correspondent banks proposed by the Asset Liability Unit, within the parameters set by the BCC in terms of the credit policy and procedures. It refers and recommends to the BCC applications where these exceed its (MCC) limits. The MCC is composed of the Chief Executive Officer, who chairs the meetings, the Chief Financial Officer, Chief Risk Officer, Chief Banking Officer and Head Retail. Head Risk, Head Legal and Head Commercial are non-voting members of the Committee. Credit applications that exceed the limit established for the BCC are recommended to the Board for approval.

The Asset Liability Committee (ALCO) is responsible to employ the Bank's Investment assets and liquidity to ensure the desired balance between the maturity of its total assets and total liabilities. It ensures that there exists an appropriate margin between interest receivable and interest payable (net interest margin). ALCO is also responsible to maintain and optimise capital usage. Thus, it must ensure that capital optimisation is considered in every activity. ALCO also regularly appraises the Bank performance in terms of ALM strategy. The members of the ALCO are the Head Asset Liability Management (Chair), Chief Executive Officer, Chief Financial Officer, Chief Risk Officer, Head Risk, Head Investment Management and Senior Manager Finance.

3.2 Credit approval

The Group has a process in place for the approval of new credit facilities, as well as the amendment, renewal and review of existing credits. The Group's credit approval process establishes delegated authority and corresponding accountability for decisions taken. It designates different levels of authority to approve credits or changes in credit terms as approved by the Risk Committee and the Board of Directors.

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

Syndicated loan proposals are evaluated by the Syndications and Trade Finance Unit, reviewed by the Chief Financial Officer and recommended by the Credit Risk Management Unit. These are then approved by the respective delegated Management authority or MCC / BCC.

New Investment products are proposed by the Investment Management Department to ALCO, responsible for pricing decisions, and are approved by the Executive Committee (EXCO). Counterparty exposures and credit limits with correspondent banks are recommended by the Group's Assets Liabilities Management function to ALCO for approval.

3.3 Credit analysis

The Group has detailed credit granting processes and criteria to evaluate the credit risk inherent in a borrowing application. Current lending procedures in place comply with current banking regulations identifying situations where, in considering an advance, it is appropriate to classify a group of borrowers as connected counterparties and, are thus treated as being a single exposure. The Group takes into consideration the total credit 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 a 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 physical dossiers with all the relevant information and documentation supporting credit decisions made. The Group applies an automated proprietary credit rating system to differentiate the degree of credit risk inherent in advances extended to its customers. Internal ratings are used to grade loans and advances with a view to assess the repayment ability of the borrower and to assist in the monitoring and control of credit risk. The credit rating process also provides a basis for the recognition of any under-performing or non-performing credit facilities and for the assessment of expected credit losses in line with IFRS 9 regulations.

3.4 Credit and concentration risk limits

The Risk Department monitors the Group's exposure to credit risk to ensure that this remains within the Group's risk appetite. The Group has in place credit risk metrics, and associated risk appetite limits, which are reported to Executive Management, Risk Committee and the Board. These include, inter alia, the Value-at-Risk of the Group's Investments, Credit Growth, Expected Credit Loss, Non-performing Loans and credit risk weighted assets.

The Group is exposed to concentration risk within its advances and investments portfolios (as well as within its deposits portfolios). Concentration risk arises when the Group has significant exposures to a single counterparty, groups of connected counterparties, and counterparties in the same geographic region or from the same sector of activity.

To manage its exposure to concentration risk across its portfolios, the Group adopts an exposure limits system by individual and connected exposures, sector and geography. The Risk Committee and the Board are regularly informed about the exposure 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 / connected counterparties, sectoral concentration and country concentration within both its advances and investments portfolios and translates this into an economic capital figure for the purposes of capital allocation as part of its ICAAP, using the Herfindahl-Hirschman Index (HHI). 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 (Gross of impairment provision)

2019	Financial Institutions €000	Manu-facturing €000	Real Estate €000	Wholesale and Retail €000	Public Sector €000	Other Industries €000	Individuals €000	Total €000
Government	-	-	-	-	20,029	-	-	20,029
Real Estate	-	-	-	-	-	-	941,976	941,976
Corporate	69,119	37,158	87,614	37,284	-	223,677	-	454,852
of which SME	*6,238*	*11,213*	*87,614*	*27,242*	-	*202,471*	-	*334,778*
Retail	-	1,000	18,224	8,423	-	16,790	23,731	68,168
of which SME	-	*1,000*	*18,224*	*8,423*	-	*16,790*	-	*44,437*
High Risks Items	-	-	73,002	-	-	-	-	73,002
Exposures in Default	-	9,871	11,744	4,328	-	8,546	8,713	43,202
Total	**69,119**	**48,029**	**190,584**	**50,035**	**20,029**	**249,013**	**974,420**	**1,601,229**

Table 2
Residual maturity of the Group's advances portfolio broken down by exposure classes

2019	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	-	9,451	2,706	7,872	20,029
Home loans	18	2,130	6,728	933,117	941,993
Corporate	6,693	133,274	97,177	217,710	454,854
Retail	1,131	5,862	11,487	49,687	68,167
High risks items	1,569	21,668	31,997	17,767	73,001
Exposures in default	19,852	12,965	1,908	8,460	43,185
Total	**29,263**	**185,350**	**152,003**	**1,234,613**	**1,601,229**

3.5 Related parties

The Group has in place a Related Party Transactions Approval Framework, which sets out the safeguards that are to be applied to transactions and arrangements between the Group and a related party, which transactions must be entered into at arm's length and on a normal, commercial basis.

Credit facilities negotiated with related parties are approved by the Audit Committee and are adequately disclosed in the Financial Statements in line with the relevant IFRS.

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.

3.6 Collateral

The Group generally takes collateral against its loans and advances portfolio, 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 provided does not form the main basis of the lending decision. The Group has to be satisfied, amongst other things, that the primary source of repayment will be reliable and sustainable. In this spirit, 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 Credit Risk Policy of the Bank stipulates inter alia the types of collateral and valuations to be carried out.

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.

The value and type of collateral required depends on an assessment of the credit risk of the counterparty. The main types of collateral held at the end of 2019 were as follows:

	€000
Government and other Guarantees	24,029
Cash or Quasi Cash	31,973
Commercial Real Estate	309,296
Residential Real Estate	940,321
Unsecured	295,610
	1,601,229

Collateral held as security for financial assets other than loans and advances depends on the nature of the instrument. Debt securities are generally unsecured, with the exception of covered bonds, which are mainly secured by residential mortgages.

3.7 Expected credit loss

In line with IFRS 9, the Group calculates the Expected Credit Loss in respect of financial instruments, which is based on the probability of default (PD), loss given default (LGD) and exposure at default (EAD) of each exposure. The Risk Committee is responsible to certify to the Bank's Board that provisioning levels recommended by Management are adequate and in line with the Bank's approved methodologies and the related financial reporting standards.

3.8 Credit risk reporting

The Risk Department is responsible for monitoring of and reporting on the credit quality of both the advances and investments portfolios, ensuring that these are in line with the Bank's Risk Appetite. The Risk Department presents regular risk reports to the Board, Risk Committe and Executive Committee. These reports include, but are not limited to, an analysis of credit growth, non-performing exposures, value at risk and concentration risk.

3.9 Capital allocation

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 assigned 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, risk weights are assigned in accordance with the CRR. The Standardised Approach is based on the assumption that the Group's portfolio is sufficiently granular, as this methodology has been calibrated for internationally active banks. For this reason, the Group also allocates additional capital to cover concentration risk under Pillar 2 (Section 3.4). Further information on the Bank's risk-weighted exposure to credit risk is provided in Section 9.

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 portfolio 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 related to:

i. Interest rate risk – the risk that the Group's financial position and cash flow are exposed to unfavourable movements in interest rates;
ii. Foreign exchange risk – the risk that the Group's financial position and cash flow are exposed to unfavourable movements in foreign exchange rates.

The Group had an investment of €934K in equities at the end of 2019. The risk associated with this exposure is not considered to be material.

The ALCO is primarily responsible for balance sheet management and pricing policies. 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.

As from July 2019, the Group updated its interest rate risk management framework in line with the relevant guidelines issued by the EBA (EBA / GL / 2018 / 02) which came into force as from 30 June 2019. The Group's exposure to interest rate risk is monitored on a monthly basis by the ERMU and verified by Asset Liability Management, and is reported to Executive Committee and Risk Committee on a quarterly basis.

4.2 The measurement of interest rate risk

Interest rate risk is measured from two perspectives – the economic value of equity (EVE) and the earnings-based approach. Both of these perspectives are complementary in understanding and assessing IRRBB. Earnings measures capture the short-term effect of interest rate changes on the Group's earnings. On the other hand, economic value measures capture the long-term effect of interest rate changes, which is a key aspect in defining 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 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 an adequate net interest margin. In pricing commercial facilities, Management is guided by the Bank's credit pricing model, which takes into consideration loan characteristics, such as, the loan term, amount, capital requirement and collateral.

The ERMU also monitors on a monthly basis the sensitivity of financial assets and liabilities to parallel shifts in the yield curve of 200 basis points over a time horizon of one year. Sensitivity of the net interest income as at December 2019 was within the Group's Risk Appetite. Further disclosures are found in Note 43.4 appended to the Financial Statements.

The management of interest rate risk through the economic value perspective

Modelling of non-maturity deposits (NMDs) forms an integral part of the management of IRRBB. A NMD is, as the name suggests, a deposit that does not have a predetermined maturity, i.e. the deposit can be withdrawn at any time. However, even though NMDs can be withdrawn at any time, the volumes of NMDs have historically been relatively stable. Through a historical analysis of customer deposits, the Group identifies the proportion of core deposits, these being NMDs which are unlikely to reprice even under significant changes in interest rates. Non-core deposits are considered as overnight deposits and placed into the overnight time bucket. Core deposits are slotted into the appropriate time bucket, up to a maximum average maturity of five years.

On a monthly basis, the ERMU monitors the impact of six predefined shock scenarios, where the maximum change in EVE is expressed as a percentage of Tier 1 Capital. In line with the EBA guidelines, the Bank's economic value must not decline by more than 15% of Tier 1 Capital. In the event that the decline in economic value exceeds the applicable threshold, the Bank is required to inform the regulator. During 2019, 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. Further disclosures are found in Note 43.4 appended to the Financial Statements.

4.3 Foreign exchange risk

The Group's financial assets and liabilities are predominantly 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 ERMU 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.

4.4 Capital allocation

The Group allocates internal capital commensurate with its exposure to IRRBB, taking into account the impact of potential changes in its economic value and future earnings resulting from changes in interest rates.

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 adversely affect the Bank's 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 risk appetite.

The Group maintains a database to regularly quantify and record operational losses and near miss events, reported by the first line of defence and co-ordinated and analysed by the Operational Risk Management Unit, in order to promote a culture of cooperation, communication and continuous improvement where lessons are learnt from incidents and near misses. Operational risk assessments are carried out in order to facilitate the identification and evaluation of operational risk through process and risk mapping, with a view to assess inherent operational risks and residual operational risks after the application of the relevant mitigating actions and controls. These assessments act as an independent means of capturing operational risks not originally identified by the first line of defence.

The Group also has a Business Continuity Plan (BCP) in place, which is regularly updated and provides a standard procedure that must be followed in the eventuality that a disruption affects its operations, to ensure that resumption of core services and critical functions 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 strategy which is monitored and renewed yearly by the Operational Risk Management Unit.

5.1 IT and cyber risk

The Group continues to capitalise on IT within its activities and strengthen its online presence, whilst cognisant of the evolving cyber threats landscape. The Group maintains zero tolerance to events that could compromise the confidentiality and integrity of data, as well as the availability of its IT systems.

The Technology and Innovation Committee (TAIC) provides the Bank's Board with oversight and direction over the Bank's Information, Communications and Technology programmes including innovation initiatives. The TAIC is composed of four Non-Executive Directors, one of whom chairs the Committee, together with the Chief Executive Officer, Chief Financial Officer, Chief Technology Officer and Chief Strategy Officer.

In this complex operating environment, the Bank has embarked on an extensive programme to update its information and cyber security operating frameworks, continue implementation of avant-garde information security tools, partnering with industry specialists to be fully equipped to prevent information security and cyber threats and to be agile to respond to security threats with minimal disruption on the Bank's operations. The Bank also has an IT / cyber insurance policy in place to safeguard its interests.

The Risk Department, as the second line of defence, includes dedicated (and separate) functions for Information Security Governance, reporting directly to the CRO, and IT and Cyber Risk oversight. The Information Security Governance function established an IT policies working group (ITPWG). Its mission is to align the Bank's IT policies with international / industry best practices, the Bank's IT strategy with the Bank's Risk Appetite as set by the Board. This function has further capitalised on the agreement the Bank has with its IT security partner to carry out more specialised security threats assessments with the aim of assessing the Bank's IT resiliency against the evolving threat landscape. More specialised security training was provided across all areas of the Bank's organisational structure, including the carrying out of social engineering simulation exercises. The Information Security Governance function also collaborated with the IT department to consolidate the database monitoring logs.

5.2 Capital allocation

The Group allocates capital for operational risk in line with the Basic Indicator Approach as regulated by the CRR. Further information on the Bank's risk-weighted exposure to operational risk is provided in Section 9. In addition to this, the Bank also sets aside capital for IT / Cyber risks as part of its Pillar 2 capital allocation.

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 its assets are not stably funded in the medium and long term.

The Group manages this risk by seeking to match 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 the Policy; whereas ALCO is responsible for monitoring and ensuring the implementation of and adherence with the Policy, as well as ensuring 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 covering 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 the 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 in liquidity and funding management. The latest 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 regulator.

The Group funds loans primarily by sourcing retail deposits. As at 31 December 2019, the Group's Loan-to-Deposit ratio, computed in line with the methodology adopted by the EBA, was equal to 94.4%, which is in line with the Bank's risk appetite. Moreover, the Group has a level of stable deposits, which acts as a virtually permanent source of liquidity. The Group also has a portfolio of highly marketable assets that can be easily liquidated in the event of any unforeseen cash flow requirements.

The Liquidity Coverage Ratio (LCR) measures the Group's liquidity buffer to its net liquidity outflows over a 30 calendar days stress period. The Bank reports this ratio to the Regulator on a monthly basis. During 2019 the Bank's LCR fluctuated consistently above the applicable minimum requirement of 100% and, as at 31 December 2019, stood at 132%.

The Net Stable Funding Ratio (NSFR) measures the amount of stable funding available to a financial institution against the required amount of stable funding. The NSFR is subject to an observation period until a binding minimum standard is introduced by the Authorities. The Bank officially reports information on its funding structure to the regulator on a quarterly basis. In addition, the Bank monitors its NSFR in line with Basel III rules, which as at 31 December 2019 stood at 132%.

7. Reputation risks

Reputation is considered by the Group to be its most valuable intangible asset and is governed by a suitable Reputational Risk Policy.

The Bank has zero appetite to maximising profitability to the detriment of its reputation and standing.

Moreover, the Group has a number of systems and techniques in place to mitigate reputational risk; including a Board succession policy, a detailed risk management framework, a business continuity plan, the Code of Conduct, established credit granting criteria, sound investment parameters and comprehensive anti-money laundering procedures. During 2019, the Bank strengthened further its governance framework through various actions, which include the introduction and revision of various policies including the Credit Risk Policy, Liquidity and Funding Risk Policy, Stress Testing Framework, Dividend Policy, Expenditure Policy, Best Execution Policy, Conflicts of Interest Policy, Telephone Recording Policy, Succession and Talent Planning Policy, Cloud Computing Policy, Information Classification and Ownership Policy, Operational Risk 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 the Board of Directors.

9. Capital

9.1 Capital requirement

Capital planning is a crucial pillar of the Group's business planning process. The Group examines both the current and future capital requirements in line with its Risk Appetite and 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*. In accordance with this Rule, the Bank maintains a Capital Conservation Buffer and Countercyclical Capital Buffer. During 2019, the Bank has been classified as an Other-Systemically Important Institution (O-SII), requiring an additional capital buffer that will be fully implemented by January 2023.

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 currently entirely 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 43.6.

As mentioned above, 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 credit risk-weighted exposures.

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

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 the average operating income for the previous three financial years.

The Group's capital ratios are regularly monitored and reported to Executive Management, ALCO, Risk Committee and Board. The following table discloses the Group's capital position as at 31 December 2019. 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 immaterial. Capital allocation is based on the methods highlighted above. Further information on the Bank's capital position is provided in note 43.6.

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

31 December 2019	Book Value €000	Risk Weighted Exposure €000	Capital Allocation €000
Standardised Approach - Credit Risk			
Sovereign	354,176	12,639	1,011
Institutions	112,679	34,228	2,738
Corporates	532,227	344,688	27,575
Retail	72,298	53,051	4,244
Home loans	941,751	377,139	30,171
Exposures in default	23,083	27,627	2,210
Items associated with particular high risk	68,967	103,450	8,276
Collective investment undertakings	22,748	16,675	1,334
Equity exposures	934	934	75
Other assets	54,881	53,050	4,244
	2,183,744	**1,023,481**	**81,878**
Basic Indicator Approach			
Operational Risk		84,340	6,747
Basic Method			
Foreign Exchange Risk		563	45
		1,108,384	**88,670**
Total Own Funds		**179,123**	
Capital Adequacy Ratio		**16.16%**	

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 about 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 production of 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 rapid 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 the economic value approach; and
- A detailed analysis of controls and mitigation techniques for other risks, particularly reputation, legal, strategic, systemic and residual risks.

The latest ICAAP, which concluded that the Bank is adequately capitalised, was reviewed in detail by the Bank's Internal Audit Department 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 regulator.

10. Leverage

The CRR introduced the Leverage Ratio, which measures the relationship between the Bank's Tier 1 Capital and its on- and off-balance sheet exposures.

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 2019 the Group's leverage ratio remained well above the regulatory minimum requirement of 3% and within the Bank's risk appetite. As at 31 December 2019 the Group's leverage ratio stood at 8.20%.

REMUNERATION REPORT

Terms of reference
The Remuneration Committee (or the "Committee") is responsible for overseeing the development and implementation of the remuneration and related policies of the Group and to exercise a competent and independent judgement on its remuneration practices. This is achieved in line with the APS Group's business strategy and risk tolerance, objectives, values and long-term interests of its stakeholders, including its shareholders. The Policy is also in line with other values such as compliance, culture, ethics, conduct towards customers, and measures to mitigate conflicts of interest.

Membership and meetings
The members of the Remuneration Committee are:

- Frederick Mifsud Bonnici – Chair
- Victor Gusman
- Laragh Cassar
- Marcel Cassar (non-voting)
- Ray Bonnici (non-voting) and Secretary to the Committee

The Committee held two (2) meetings during the period under review. One of the members was excused from the second meeting.

Remuneration policy statement
The Remuneration Policy aims to enable APS Group to exercise a competent and independent judgement on its remuneration practices and its incentives created for managing risk, capital and liquidity and ensure that they are in line with applicable legislation, directives, regulations and guidelines.

The approval of the Bank's Remuneration Policy is the responsibility of the Board of Directors and covers 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.

In 2017 the Bank signed a Collective Agreement with the Malta Union of Bank Employees for the years 2017-2019, covering all staff excluding Senior Management. References in this Report to types and modes of remuneration apply to all staff but where these refer to staff covered by the Collective Agreement it shall be construed accordingly.

Fixed remuneration
The base salary provides a predictable base level of income reflecting each staff member's level of responsibility, capabilities, skills and experience. Base salaries are reviewed annually and increases are granted in line with performance and when a staff member assumes increased responsibilities or significantly deepens knowledge and expertise. Base salaries may also be reviewed when there is a material change in the remuneration levels of comparable roles in the respective market.

Variable remuneration
Staff members may have a variable component to their remuneration in addition to their fixed remuneration. The relation between fixed and variable remuneration shall not exceed twenty five (25) per cent of the fixed component for each individual.

The variable portion is clearly connected to the work and performance of the staff member, the performance of his / her business unit and the overall performance of the Bank and its subsidiaries. The goals are based on factors that support APS Group's long-term strategy and business objectives.

Staff in Control Functions are adequately compensated in accordance with their own objectives and not directly tied to the results of any business unit. They are judged on their success in developing appropriate policies, developing effective risk management controls and procedures, monitoring risk and building control systems.

Bonuses related to individual performance are based on both quantitative and qualitative targets. Qualitative criteria considers (i) adherence to the applicable regulatory framework, (ii) treating customers fairly and (iii) the on-going provision of a high quality service to customers. Performance bonus and profit sharing schemes promote teamwork and encourage all staff members to perform to the best of their abilities, for their mutual benefit and the long-term sustainable success of APS Group.

APS Group ensures that bonuses are fair, transparent, easy to understand and based on the Bank's Business Plan and Annual Budgets. Any variable remuneration, be it monetary or non-monetary, outside the parameters of the Policy is referred to the Remuneration Committee for approval.

Variable remuneration does not include 'claw-back' provisions. APS Group 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. There is also no remuneration that is subject to deferral.

During the year ended 31 December 2019, there were no new sign-on and severance payments made either to Directors or members of the Senior Management of the Group.

The Remuneration Policy is reviewed internally on a regular basis and is updated when required. An updated Remuneration Policy was approved by the Board on 5 December 2017, with amendments recommended and approved by the Committee following the annual internal audit review of 2018.

Identified staff
The target population defined as Identified Staff for the purposes of this report (excluding those allocated to the Supervisory function) represents 11% of the total number of employees in the Group. Identified staff were determined in line with the Regulatory Technical Standard EU604 / 2014 regarding qualitative and appropriate quantitative criteria that came into force in June 2014 in order to identify the core categories of staff whose professional activities have a material impact on an institution's risk profile and includes:

- All Non-Executive Directors;
- Senior Management that are also responsible for certain business units; and
- Senior Management responsible for business units / business lines of Finance, Support and Human Capital, as well as those responsible for Internal Audit and Risk Management functions.

For the purposes of remuneration, Identified Staff have been aggregated and split into business areas according to the European Banking Authority 'EBA Guidelines on Sound Remuneration Policies' under Articles 74(3) and 75(2) of Directive 2013 / 36 / EU, and disclosures under

Article 450 of Regulation (EU) No 575 / 2013 in line with the remuneration benchmarking exercise EBA / GL / 2014 / 08 dated 16 July 2014. The tables in the sections that follow include total fixed and variable remuneration and the number of beneficiaries per and within each business area.

Non-Executive Directors

Non-Executive Directors are non-employees and receive a fee for their services as Directors. They are not eligible to receive a base salary, fixed pay allowance, benefits, pension or any variable pay. Non-Executive Directors are entitled to participate in a health insurance scheme.

The remuneration of the Non-Executive Chairman and Non-Executive Directors of the Bank and its subsidiaries is proposed by the Governance Committee and approved by the shareholders at the respective Annual General Meeting. The remuneration consists of fixed fees for the office of Director as well as for membership in any Board committee. It is set at a level which broadly reflects:

– market practices and rates of compensation at comparable regulated firms;
– the competencies and contribution required; and
– the extent of responsibilities and the number of board meetings and committee membership / s.

The table below includes Directors' Fees and Board Committees Fees received by the Non-Executive Directors (including the Chairman) who held office during the financial year 2019.

	€
As Chairman	50,000
As Directors and Members of Committees	259,000
	309,000

Senior Management, Material Risk Takers (MRTs) and other identified staff

The Chief Executive Officer makes a proposal regarding the remuneration of Senior Management, i.e. Chief Officers and Heads, to the Remuneration Committee for approval by the Committee. In considering the level of remuneration, the Chief Executive Officer ensures that it is in line with the Remuneration Policy and makes a clear distinction between fixed and variable remuneration. Remuneration of other MRTs and Identified Staff is managed by the Senior Management in terms of the Remuneration Policy, including the provisions of the Collective Agreement.

Basic fixed remuneration reflects relevant professional experience and organisational responsibility as set out in the staff member's position description. Variable remuneration reflects a sustainable and risk adjusted performance in excess of that required to fulfil the staff member's role and responsibilities. The factors that determine the extent a staff member shall participate in a bonus distribution shall include:

– reward for personal performance (both results and behaviour);
– performance of the Bank – achievement of planned profit targets;
– performance of the Department and Unit / Branch;
– adherence to all internal policies and procedures; and
– performance relative to risk and capital usage.

The remuneration plan for all other staff members, i.e. excluding Senior Management, is governed by the Bank's Collective Agreement, with a clear distinction between fixed and variable remuneration. In fact the variable remuneration is arrived at by calculating 10% of the excess over a pre-determined benchmark profit before tax based on 10% of the Bank's own funds at the beginning of the year under evaluation. Upon the recommendation of the CEO, the Board also authorises additional variable remuneration outside the structures of the Collective Agreement where this is especially merited.

The table below includes total fixed and variable remuneration for all forty-eight Identified Staff, excluding Non-Executive Directors, during the financial year 2019:

	€	%
Fixed remuneration	3,031,621	89
Variable remuneration	358,793	11
	3,390,414	**100**

The table below shows total fixed and variable remuneration for Identified Staff during the financial year 2019 broken down by business area, Senior Management and members of staff whose actions have a material impact on the risk profile of the institution.

	Management Function	Portfolio Management and Wealth Management	Retail Banking	Asset Liability Management	Corporate Functions	Independent Control Functions
Senior Management						
Number of Identified Staff	18					
Total Fixed Remuneration (€)[1]	1,793,308					
Total Variable Remuneration (€)	237,127					
Material Risk Takers (non-senior management)						
Number of identified staff		5	11	4	5	5
Total fixed remuneration (€)[1]		219,261	461,370	89,890	269,507	198,284
Total variable remuneration (€)		25,764	40,851	14,230	25,564	15,257
Total						
Number of identified staff	**18**	**5**	**11**	**4**	**5**	**5**
Total fixed remuneration (€)[1]	**1,793,308**	**219,261**	**461,370**	**89,890**	**269,507**	**198,284**
Total variable remuneration (€)	**237,127**	**25,764**	**40,851**	**14,230**	**25,564**	**15,257**

[1] Total fixed remuneration comprises non-cash benefits specifically company car allowance.

CORPORATE GOVERNANCE STATEMENT

The Board of Directors (the "Board" or "Directors") of APS Bank plc (the "Bank") is committed to uphold the highest standards of corporate governance and to promote the Bank's culture, values and behaviours. The Board sets the Group's strategy and objectives, and oversees and monitors internal controls, risk management, principal risks, governance and viability of the company. 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 long-term success by upholding strong principles of general governance, and ensuring its proper administration, management and the general supervision of its affairs. The Board is committed to continually improving its practices so that it can effectively discharge its role and responsibilities as the Bank's needs evolve.

An overview of the Board's composition and evolving key governance practices follows.

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.

As at the date of this Statement, the Board is composed of nine non-executive Directors, including the Chairman. Biographies for each Director and membership of the various Board Committees can be found on pages IV to V. Details of their other significant appointments are also set out. The Board seeks to have an appropriate mix of skills, expertise and experience to enable it to deal with current and emerging opportunities and issues and to effectively review the performance of management. In the process, due regard is given to diversity in its widest sense.

The Board delegates specific responsibilities to Committees, which are explained in more detail hereunder.

The Board is assisted by a full-time Company Secretary which position, following a recent review of the Bank organogram, is now separate and independent from other management bodies, covering also Corporate Governance and Investor Relations. All Directors have access to the Company Secretary. The Company Secretary works closely with the Chairman to ensure effective functioning of the Board and appropriate information flows between the Board and its Committees. The Company Secretary also facilitates Board induction and Directors' professional development.

Guideline 2: The Chairman of the Board

The Chairman is appointed from amongst the Directors, by the largest shareholder holding at least thirty-three per cent of the ordinary issued share capital of the Bank. The Chairman is responsible for leading the Board and setting its agenda for meetings, ensuring that the Directors receive precise, timely and objective information so that they can properly execute their duties, while encouraging their active engagement at meetings and on issues of a complex or contentious nature. The Chairman holds a non-executive independent function. His role is separate and distinct from that of the Chief Executive Officer with a clear division of responsibilities.

The Chief Executive Officer (CEO) is responsible for the running of the Bank's business and leads the Management Team which comes together to communicate, review and agree on issues and actions of Group-wide significance, with the exception of those matters reserved for the Board or specifically delegated by the Board to its Committees. He is also responsible for the recruitment and appointment of Senior Management, after consultation with the Governance & Conduct Committee.

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 Board balances longer-serving Directors, and newer Directors with fresh insights. The Directors combine broad business and commercial experience with independent and objective judgement and they provide independent challenge to the executive. All Directors hold office in a non-executive capacity while they also actively participate in Board Committees. All Board Directors have exposure to good corporate governance practices and are committed to acting ethically.

In terms of the 'Evaluation Policy and Procedure', at least once a year an evaluation is carried out to assess the Board's performance and that of its individual Directors in accordance with best practice and guidelines issued by the European Banking Authority. The evaluation of a Director's performance is an integral part of the process for recommending or otherwise a Director's continuation in office. In 2019 an External Evaluation of the Director's individual and collective suitability was undertaken. Independent specialist overseas evaluators carried out one-to-one meetings with each Director over a span of two days. The evaluation considered the knowledge, skills and experience of Directors, the composition of the Board, Board Committee Meetings, remuneration and succession planning. The results were presented at the following Board Meeting and a report circulated to the Directors. The Directors considered this exercise - a first for the Bank - to have been a very useful experience. A set of recommendations were devised which form the basis of the Director's Training Plan for 2020 and the Governance & Conduct Committee's Work Plan for 2020.

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 regularly, typically on the last Thursday of the month and meetings are preceded by a more casual, offsite gathering on the eve of each meeting, usually over dinner, where Directors have the opportunity to discuss the Agenda informally. In addition to scheduled meetings, additional meetings of the Board and its Committees were held on an ad hoc basis to deal with time-critical matters. During the year under review, the Board met 14 times, three meetings of which were held on an ad hoc basis. Directors are knowledgeable of their expected time commitment towards the Bank. During 2019, all meetings were attended by the large majority of Directors and the average rate of attendance was of 89%. Where a Director is unable to attend there is the possibility to appoint the Chairman or another Director to act as alternate.

The Board approves and oversees the implementation of the Bank's strategic objectives and sets the Bank's risk tolerance through policy approval. Board agendas invariably include discussions and decisions on strategic matters, detailed update presentations by the Chief Executive Officer, Chief Financial Officer, Chief Risk Officer, Chief Strategy Officer and other members of the executive management team, as appropriate. Structured reporting from the Committees and Subsidiaries are a regular feature of each Board Meeting. The CEO is invited to attend all Board meetings, and other senior executives attend Board meetings throughout the year, as required, with regard to their specific area of responsibility. This provides the Board with an opportunity to engage directly with Senior Management on key issues. After each Board Meeting, minutes are drawn up by the Company Secretary and circulated to all Directors. Minutes faithfully record the attendance of Directors at said Meetings, conflicts raised, matters discussed, the considerations made and decisions taken.

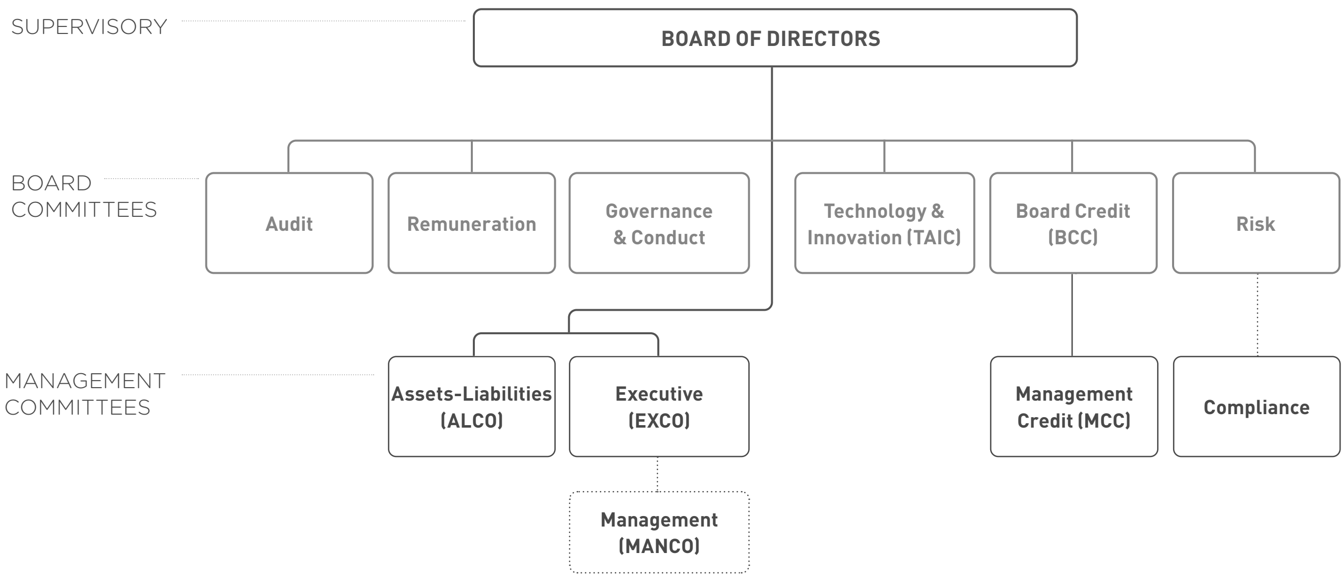
In 2019, in addition to its scheduled meetings, the Board also met with the Management Team in July for the annual Business Plan Off-Site Workshop, which included particular focus on the Bank's purpose and long-term future, agility, customer-centricity, technology and innovation. In October, the Board held a Business Plan & Budget Review Off-Site Meeting with the Management Team looking into the Bank's main priorities for the updated 2020-2022 Plan and strategic initiatives for the same period.

During the year under review the Board also continued to strengthen its oversight of the Bank's subsidiary, ReAPS Asset Management Limited, with additional reporting obligations implemented at Board level.

Committees

In order to provide effective oversight and leadership, the Board has established a number of Board committees with particular responsibilities. 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. All Directors have access to Committee papers and Minutes, which are also tabled at Board meetings. Committee Chairs report on Committee business at the subsequent Board meetings, also through written briefs.

An infographic of the organisational structure is provided below.



BOARD COMMITTEES

AUDIT

- Monitors the financial reporting process, including the audit of the annual accounts and review of any interim reporting.
- Reviews proposed transactions by the Bank with related parties and oversees the standards / performance of the Internal Audit Unit, whilst approving and monitoring its Audit Plan.
- Monitors the effectiveness of the internal control environment and accounting framework.
- Considers the adequacy of contingency plans for processing and production of financial information.
- 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.

GOVERNANCE & CONDUCT

- Acts as first point of reference on Board governance policies and procedures, codes of conduct and conflicts of interest.
- Oversees the structure and performance of the Bank's Committees, whilst itself performing the function of Nomination Committee.
- Steering the process of Directors' evaluation, both individually and collectively as a Board.
- Considers and approves senior executive appointments and assesses the performance of the CEO.
- Oversees the brand, valued behaviours and reputation of the Bank, by covering the review of brand positioning, the Bank's culture, compliance with stated values and reputational risk management.

RISK

- Recommends the Bank's risk profile and proposes the risk appetite statement for approval by the Board of Directors.
- Periodically reviews the Bank's risk management framework.
- 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.
- Approves risk policies, limits and delegations, including those of the Credit Committees.
- 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.
- Considers impairment and provisioning recommendations as prepared by Management and recommends them for adoption.
- Draws up risk reports in the financial statements and assists in the process of compilation of reports such as ICAAP, ILAAP and Recovery Plans.

BOARD CREDIT (BCC)

- 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.
- Receives and reviews updates/ amendments to approved facilities and approves, or delegates approval, for deviations as the case may be.
- 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.

TECHNOLOGY & INNOVATION

- Oversees management with regard to IT-related risks, security and business continuity plans.
- Intervenes with the Board to secure sponsorships and support for the main IT strategic decisions & projects.
- Provides strategic leadership through a steady flow of innovative ideas that will serve as a catalyst for innovation at the Bank as well as monitoring IT project implementation.

REMUNERATION

- Responsible for informing, advising and supporting the Board of Directors on the design, revision and implementation of the Remuneration Policy.
- Responsible for considering specific remuneration arrangements and schemes.

Further information on the Remuneration Committee may be found in the Remuneration Report on pages 15 to 17.

MANAGEMENT COMMITTEES

ASSETS-LIABILITIES (ALCO)

- Generally responsible for the asset liability management ('ALM') strategy, policy, surveying of market developments, including the Bank's Base Rate and funding strategy.
- Monitors interest rate, liquidity and currency risks and determines treasury strategy accordingly.
- Focuses on liquidity management and contingency planning, determines the liquidity strategy.
- Optimises capital allocation in terms of ALM strategy and regulatory requirements.
- 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.
- Regularly appraises Bank performance in terms of ALM strategy.

EXECUTIVE (EXCO)

- Acts as consultative body and advisor to the CEO on matters such as strategy, operations and business.
- Reviews and debates relevant items before consideration by the Board / Board Committees and escalates key issues.
- Focuses on the four Ps, namely Performance, Products, Projects and People, and these four broad areas describe adequately the coverage of this Committee.
- 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.
- Has first line of oversight of the control frameworks, receiving and considering reports of operational reports, including serious service / product complaints and / or incidents.

MANAGEMENT CREDIT (MCC)

- 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 and procedures.
- Refers and recommends to the BCC 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 BCC on credit limits and / or any matter for approval that is within its BCC competence.

COMPLIANCE

- Ensures that prescribed regulations, rules, policies, guidelines and procedures are being followed and also anticipated in advance.
- Acts as a decision point for business acceptance, on-boarding and dismissal of customers, in line with the Bank's on-boarding and exit policies.
- It ensures that the Bank's Compliance function takes a holistic as well as balanced view of compliance risk.
- The Compliance Committee reports to the Risk Committee.

MANAGEMENT (MANCO)

- Reports into the EXCO, with which it also works very closely especially because all members are common. Meetings of the Management Committee are characterised by their regular frequency, tour-de-table style and informality, which serves to instill a high degree of communication and collaboration between the members.
- The Management Committee brings together the senior levels of management, essentially Chief Officers, Heads and Senior Managers, in a weekly forum where all members share updates about their respective areas of responsibility, work plans as well as matters or items of significant interest.

Guideline 6: Information and professional development
The high standards of continuing professional development embedded in the Bank's culture run across the entire organisation and include the Board.

The Directors have access to a wide range of briefing and training sessions and other professional development opportunities. Internal and online training relevant to the business of the Bank is also provided. Directors undertake the training they consider necessary to assist them in carrying out their duties and responsibilities as Directors. Directors may also request individual in-depth briefings from time to time on areas of particular interest. Directors are also invited to visit key operational facilities. During 2019, bespoke training was arranged for the Directors on a range of subjects to enhance their knowledge, including, EU regulations pertaining to significant institutions, the future of banking, open banking, cyber security and correspondent banking.

Upon appointment, all Directors are offered familiarisation of the Bank by the Chairman and CEO, co-ordinated by the Company Secretary and tailored to suit the requirements of the individual concerned. This includes providing an overview of the Bank's Memorandum and Articles of Association, Board Charter and key policies and practices relevant to the Board. The induction programme also includes briefings from the various members of the Management team.

Access to the services and resources of the Bank, including, where necessary, independent professional advice at the Bank's expense, are also available.

Guideline 7: Relations with shareholders and other stakeholders
In 2019, the Board dedicated time to engage with its shareholders and other stakeholders, as part of its commitment to promote effective channels of communication. This ensures a flow of communication about the Bank's strategy and updates on performance.

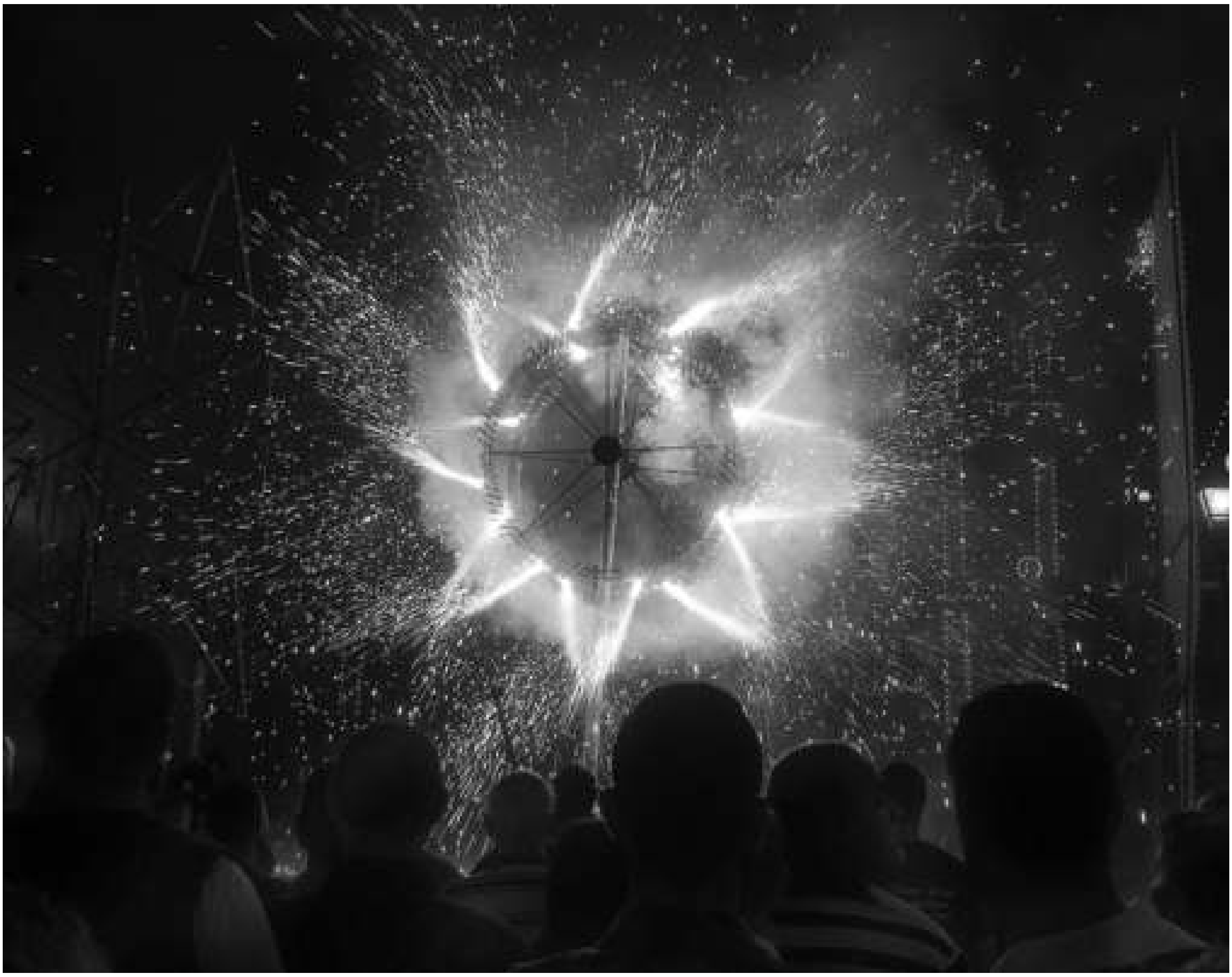
The table below identifies the Bank's key stakeholders and how both the Bank and the Board engaged with them throughout 2019 (more information is available on pages XIV - XVII). The aim of these engagements is to nurture relationships with stakeholders which in turn helps the Board as it strengthens the business and helps to deliver a positive result for all stakeholder groups.

KEY STAKEHOLDERS	REASON FOR ENGAGEMENT AND KEY PRIORITIES FOR 2019
SHAREHOLDERS	Meetings with shareholders are conducted in a structured manner, with meetings held separately with the main shareholders, namely AROM Holdings Limited (Archdiocese of Malta), the Diocese of Gozo and the Metropolitan Chapter, as well as with their financial advisers. Collective shareholders' meetings were also held, including the Bank's Annual General Meeting.
BUSINESS CLIENTS, POTENTIAL NEW CLIENTS, FINANCIAL ADVISERS	The Bank engages with business clients, potential new clients and financial advisers to ensure strong relationships are maintained allowing its vision, business model and modus operandi to be communicated, with emphasis on strategy and delivery.
EMPLOYEES	Employee engagement is measured through the PEAKON platform introduced in 2019. An overview of key findings from the first PEAKON survey was presented to the Board and improvement areas identified. This led to a number of action points developed to address the priority issues. Meetings with employees are a constant feature of the Management's agenda, from weekly Unit / Departmental meetings to Townhalls, where all staff are invited. These further promote the full engagement of employees with the Bank scoping both short term targets and longer term strategic goals.
RELEVANT INFORMATION PROVIDED TO STAKEHOLDERS	1. FINANCIAL REPORTING Annual financial reporting takes place after each Annual General Meeting to shareholders and stakeholders who are invited for the Presentation of the Financial Results. This presentation is one particular opportunity where the stakeholders are also invited to receive a detailed appraisal of the Bank's performance and outlook for the current year. As from 2019, the Bank also started publishing unaudited half-yearly financial results. 2. PRESS RELEASES The Bank issues Press Releases on a regular basis in order to inform its clients and other stakeholders about developments and news. Vast use of social media has helped to increase the reach and speed of communication. 3. WEBSITE The Bank's website (www.apsbank.com.mt) is the platform through which interested parties may have access to Bank information. The Annual Report, information on the Bank and its Directors and press releases are also accessible from the website.

Guideline 8: Conflicts of interest
Each Director is expected to act to the highest standards of ethical behaviour and fiduciary duties. 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, as also provided in the amended Conflicts of Interest Policy. 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 book 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 or asked to absent himself / herself when the conflicting matter is discussed.

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 such programmes, the Bank promotes positive social change as well as a sense of common good. During 2019, the Bank scaled up its CSR programme and details of the main activities are elaborated upon in a dedicated part of the Annual Report. In particular, the Bank organised the first ever Malta Sustainability Forum on the 14 November 2019 attracting 350 delegates and 20 local and international speakers. The Forum was a unique opportunity to bring the topic of sustainability at the forefront of the agenda of the Maltese Islands, raise awareness, facilitate exchange between the different stakeholders and encourage the "Thinking Citizen" to get into action and make conscious decisions towards a more sustainable life.



INDEPENDENT AUDITOR'S REPORT

Report on the Audit of the Financial Statements

Opinion
We have audited the financial statements of APS Bank plc (the Bank) and the consolidated financial statements of the Bank and its subsidiaries (together, the Group), set out on pages 27 to 109, which comprise the statements of financial position as at 31 December 2019, 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 2019, 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. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a seperate opinion on these matters.

Impairment of loans and advances to customers
At 31 December 2019 the Group and Bank reported total gross loans and advances of EUR1,502,822,000 and EUR15,953,000 of expected credit loss provisions.

Key judgements and estimates in respect of the timing and measurement of expected credit losses (ECL) include:

- Grouping of assets by extent of potential impairment (stages 1,2 or 3) using criteria in accordance with *IFRS 9 - Financial Instruments*;
- Accounting interpretations and modelling assumptions used to build the models that calculate the ECL;
- Completeness and accuracy of data used to calculate the ECL;
- Inputs and assumptions used to estimate the impact of multiple economic scenarios;
- Completeness and valuation of post model adjustments (management overlays);
- Measurements of individually assessed provisions including the assessment of multiple scenarios; and
- Accuracy and adequacy of the financial statements disclosures.

Our audit response to address the risk of material misstatement arising from the ECL calculation comprised the following:

- We tested the design, implementation and operating effectiveness of the Group's and Bank's key controls across the processes relevant to the ECL calculation. These Group and Bank processes included model governance, the allocation of assets into stages, data accuracy and completeness, preparation of multiple economic scenarios, post model adjustments, individual provisions and disclosures.
- We reviewed and challenged the inputs, assumptions and adjustments to the ECL.
- We challenged the criteria used to allocate an asset to stage 1, 2 or 3 in accordance with IFRS 9. We tested assets in stage 1, 2 and 3 to verify that they were allocated to the appropriate stage.
- To verify data quality, we tested the data used in the ECL calculation by reconciling to source systems. To test credit monitoring, we recalculated the risk ratings (credit gradings) for a sample of performing loans.
- We assessed the completeness and appropriateness of post model adjustments.
- We performed an overall assessment of the ECL provision levels by stage for reasonability considering the Group and Bank's portfolio, risk profile, credit risk management practices and the macroeconomic environment. In doing so, we considered trends in the economy and industries to which the Group and Bank are exposed.
- 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.
- We assessed the adequacy and appropriateness of disclosures for compliance with the accounting standards.

The Group and Bank's disclosures about impairment are included in Notes 2.3, 15 and 43, which include the Directors' assessment of the adequacy of the impairment provisions.

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,

the Board of Directors, the Chairman's Statement, the CEO's Review, the Directors' Report, Capital Adequacy and Risk Disclosures Report, the Remuneration Report, the Corporate Governance Statement and Five-Year Summaries. 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).

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 6, 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 Group 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 pages 5 to 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.

In terms of article 179A(4) of the Companies Act (Cap. 386), the scope of our audit does not include assurance on the future viability of the audited entity or on the efficiency or effectiveness with which the Directors have conducted or will conduct the affairs of the entity.

As part of an audit in accordance with ISAs, we exercise professional judgment 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, intentional omissions, misrepresentations, or the override of internal contol.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's 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 our audit.
We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them 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 com municated 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, and were subsequently reappointed as statutory auditor by the members of the Company on an annual basis. The period of total uninterrupted engagement as statutory auditor of the firm is 3 financial years.

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
Central Business District,
Birkirkara,
Malta

12 March 2020

STATEMENTS OF PROFIT OR LOSS

For the year ended 31 December 2019

	Note	The Group 2019 €000	The Group 2018 €000	The Bank 2019 €000	The Bank 2018 €000
Interest receivable and similar income:					
On loans and advances, balances with the Central Bank of Malta and treasury bills	(3)	**50,668**	40,947	**50,641**	40,940
On debt securities:					
Measured at amortised cost		**2,616**	3,643	**2,616**	3,643
Amortisation on premiums and discounts on debt securities measured at amortised cost		**(788)**	(477)	**(788)**	(477)
Measured at FVTPL		**1,342**	1,020	**22**	22
Other debt securities		**5,138**	5,858	**5,138**	5,858
Amortisation on premiums and discounts on other debt securities		**(955)**	(1,028)	**(955)**	(1,028)
	(3)	**7,353**	9,016	**6,033**	8,018
Total interest receivable and similar income	(3)	**58,021**	49,963	**56,674**	48,958
Interest payable	(4)	**(13,379)**	(12,149)	**(13,379)**	(12,182)
Net interest income		**44,642**	37,814	**43,295**	36,776
Dividend income	(5)	**196**	575	**1,572**	1,604
Fees and commission income		**6,980**	6,179	**6,919**	6,120
Gains / (losses) on foreign exchange	(6)	**687**	260	**460**	446
Net gains / (losses) on financial instruments	(7)	**3,956**	(674)	**415**	153
Other operating income		**220**	565	**220**	565
Operating income		**56,681**	44,719	**52,881**	45,664
Personnel expenses	(8)	**(15,328)**	(13,534)	**(15,328)**	(13,534)
Fees and commission expenses	(9)	**(384)**	(405)	**(384)**	(405)
Other administrative expenses	(9)	**(11,546)**	(8,763)	**(11,356)**	(8,616)
Depreciation of property and equipment	(25)	**(1,559)**	(1,099)	**(1,559)**	(1,099)
Amortisation of intangible assets	(26)	**(1,165)**	(774)	**(1,164)**	(773)
Depreciation of right-of-use assets	(27)	**(372)**	-	**(372)**	-
Net operating profit before associates' results & impairment gains & losses		**26,327**	20,144	**22,718**	21,237
Share of results of associates, net of tax	(22)	**1,585**	38	**-**	-
Operating profit before impairment gains and losses		**27,912**	20,182	**22,718**	21,237
Net impairment losses	(10)	**(1,074)**	(1,555)	**(1,074)**	(1,555)
Profit before tax		**26,838**	18,627	**21,644**	19,682
Income tax expense	(11)	**(7,268)**	(6,043)	**(7,182)**	(5,974)
Profit for the year		**19,570**	12,584	**14,462**	13,708
Profit for the year attributable to:					
Equity holders of the parent		**19,116**	12,610	**14,462**	13,708
Non-controlling interest		**454**	(26)	**-**	-
		19,570	12,584	**14,462**	13,708

STATEMENTS OF COMPREHENSIVE INCOME

For the year ended 31 December 2019	The Group		The Bank	
	2019	2018	2019	2018
	€000	€000	€000	€000
Profit for the year	**19,570**	12,584	**14,462**	13,708
Other comprehensive income:				
Items that may be subsequently reclassified to profit or loss:				
Change in fair value on debt instruments measured at fair value through other comprehensive income (FVTOCI)	**2,040**	(4,159)	**2,040**	(4,159)
Revaluation of land and buildings	**18,807**	-	**18,807**	-
Release of fair value on disposal of debt instruments measured at FVTOCI	**410**	(183)	**410**	(183)
Deferred income tax relating to the components of other comprehensive income (OCI)	**(192)**	879	**(192)**	879
Deferred income tax relating to components reclassified from OCI to profit and loss on derecognition of FVTOCI debt instruments	**8**	-	**8**	-
Deferred income tax relating to the revaluation on land and building	**(2,681)**	-	**(2,681)**	-
Items that may not be subsequently reclassified to profit or loss:				
Change in fair value on equity instruments held at FVTOCI	**(84)**	(273)	**(84)**	(273)
Other comprehensive income / (loss) for the year, net of tax	**18,308**	(3,736)	**18,308**	(3,736)
Total comprehensive income for the year, net of tax	**37,878**	8,848	**32,770**	9,972
Total comprehensive income attributable to:				
Equity holders of the parent	**37,424**	8,910	**32,770**	9,972
Non-controlling interest	**454**	(62)	**-**	-
	37,878	8,848	**32,770**	9,972

STATEMENTS OF FINANCIAL POSITION

As at 31 December 2019

	Note	The Group 2019 €000	The Group 2018 €000	The Bank 2019 €000	The Bank 2018 €000
ASSETS					
Cash and Balances with Central Bank of Malta	(13)	**166,402**	175,408	**162,403**	174,511
Cheques in course of collection		**128**	69	**128**	69
Loans and advances to banks	(14)	**55,841**	50,384	**54,841**	49,384
Loans and advances to customers	(15)	**1,486,869**	1,253,883	**1,486,869**	1,253,883
Syndicated loans	(16)	**97,228**	61,610	**97,228**	61,610
Derivative financial instruments	(17)	**721**	822	**721**	822
Financial assets at FVTPL	(18)	**41,478**	36,241	**464**	879
Other debt and fixed income instruments	(19)	**238,166**	251,040	**238,166**	251,040
Equity and other non-fixed income instruments	(20)	**308**	1,272	**308**	1,272
Investment in subsidiaries	(21)	**-**	-	**40,250**	40,250
Investment in associates	(22)	**19,257**	17,748	**15,262**	14,887
Non-current assets held for sale	(23)	**-**	2,600	**-**	2,600
Investment properties	(24)	**1,830**	1,860	**1,830**	1,860
Property and equipment	(25)	**43,851**	22,286	**43,851**	22,286
Intangible assets	(26)	**7,320**	5,861	**7,318**	5,858
Right-of-use assets	(27)	**2,592**	-	**2,592**	-
Deferred tax assets	(28)	**460**	3,853	**460**	3,853
Other receivables	(29)	**6,478**	6,293	**5,907**	5,845
TOTAL ASSETS		**2,168,929**	1,891,230	**2,158,598**	1,890,909
LIABILITIES					
Amounts owed to banks	(30)	**24,512**	74,473	**24,512**	74,473
Derivative financial instruments	(17)	**721**	822	**721**	822
Amounts owed to customers	(31)	**1,928,971**	1,650,308	**1,929,504**	1,653,309
Current tax		**463**	1,389	**452**	1,321
Lease liabilities	(27)	**2,629**	-	**2,629**	-
Other liabilities	(32)	**10,966**	11,892	**10,966**	11,892
Accruals	(33)	**8,752**	10,102	**8,712**	10,077
TOTAL LIABILITIES		**1,977,014**	1,748,986	**1,977,496**	1,751,894
EQUITY					
Issued capital	(34)	**62,255**	57,605	**62,255**	57,605
Share premium	(35)	**10,140**	1,770	**10,140**	1,770
Revaluation reserve	(36)	**30,706**	12,398	**30,706**	12,398
Retained earnings	(37)	**82,785**	68,478	**78,001**	67,242
Attributable to equity holders of the parent		**185,886**	140,251	**181,102**	139,015
Non-controlling interest	(21)	**6,029**	1,993	**-**	-
TOTAL EQUITY		**191,915**	142,244	**181,102**	139,015
TOTAL LIABILITIES AND EQUITY		**2,168,929**	1,891,230	**2,158,598**	1,890,909
MEMORANDUM ITEMS					
Contingent liabilities	(38)	**22,855**	23,269	**22,855**	23,269
Commitments	(39)	**757,638**	711,160	**757,638**	711,160

The financial statements on pages 27 to 109 were authorised for issue by the Board of Directors on 12 March 2020 and were signed by:

F. MIFSUD BONNICI
Chairman

F.AZZOPARDI
Director

M. CASSAR
Chief Executive Officer

N. MCCARTHY
Chief Financial Officer

STATEMENTS OF CHANGES IN EQUITY

For the year ended 31 December 2019

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 2019								
Balance at 1 January 2019	57,605	1,770	12,398	-	68,478	140,251	1,993	142,244
Profit for the year	-	-	-	-	19,116	19,116	454	19,570
Other comprehensive income	-	-	18,308	-	-	18,308	-	18,308
Total comprehensive income	-	-	18,308	-	19,116	37,424	454	37,878
Dividends paid (note 12)	-	-	-	-	(4,681)	(4,681)	(55)	(4,736)
Issue of share capital (note 34)	4,650	-	-	-	-	4,650	-	4,650
Increase in share premium (note 35)	-	8,370	-	-	-	8,370	-	8,370
Retained earnings adjustment due to tax	-	-	-	-	(128)	(128)	-	(128)
Net share capital issued in subsidiary company	-	-	-	-	-	-	3,637	3,637
Balance at 31 December 2019	62,255	10,140	30,706	-	82,785	185,886	6,029	191,915
FINANCIAL YEAR ENDED 31 DECEMBER 2018								
Balance at 1 January 2018	57,605	1,770	16,134	-	59,668	135,177	1,100	136,277
Profit for the year	-	-	-	-	12,610	12,610	(26)	12,584
Other comprehensive loss	-	-	(3,736)	-	-	(3,736)	-	(3,736)
Total comprehensive (loss) / income	-	-	(3,736)	-	12,610	8,874	(26)	8,848
Dividends paid (note 12)	-	-	-	-	(3,676)	(3,676)	(32)	(3,708)
Retained earnings adjustment due to tax	-	-	-	-	(124)	(124)	-	(124)
Net share capital issued in subsidiary company	-	-	-	-	-	-	951	951
Balance at 31 December 2018	57,605	1,770	12,398	-	68,478	140,251	1,993	142,244

THE BANK	Issued capital €000	Share premium €000	Revaluation reserve €000	Dividend reserve €000	Retained earnings €000	Total €000
FINANCIAL YEAR ENDED 31 DECEMBER 2019						
Balance at 1 January 2019	57,605	1,770	12,398	-	67,242	139,015
Profit for the year	-	-	-	-	14,462	14,462
Other comprehensive income	-	-	18,308	-	-	18,308
Total comprehensive income	-	-	18,308	-	14,462	32,770
Dividends paid (note 12)	-	-	-	-	(3,575)	(3,575)
Issue of share capital	4,650	-	-	-	-	4,650
Increase in share premium	-	8,370	-	-	-	8,370
Retained earnings adjustment due to tax	-	-	-	-	(128)	(128)
Balance at 31 December 2019	62,255	10,140	30,706	-	78,001	181,102
FINANCIAL YEAR ENDED 31 DECEMBER 2018						
Balance at 1 January 2018	57,605	1,770	16,134	-	56,275	131,784
Profit for the year	-	-	-	-	13,708	13,708
Other comprehensive loss	-	-	(3,736)	-	-	(3,736)
Total comprehensive (loss) / income	-	-	(3,736)	-	13,708	9,972
Dividends paid (note 12)	-	-	-	-	(2,617)	(2,617)
Retained earnings adjustment due to tax	-	-	-	-	(124)	(124)
Balance at 31 December 2018	57,605	1,770	12,398	-	67,242	139,015

STATEMENTS OF CASH FLOWS

For the year ended 31 December 2019

	Note	The Group 2019 €000	The Group 2018 €000	The Bank 2019 €000	The Bank 2018 €000
OPERATING ACTIVITIES					
Interest and commission receipts		**58,435**	47,976	**58,158**	47,713
Interest and commission payments		**(12,354)**	(11,426)	**(13,320)**	(12,182)
Cash paid to employees and suppliers / depositors		**(28,557)**	(22,699)	**(28,482)**	(22,633)
Operating profit before changes in operating assets and liabilities		**17,524**	13,851	**16,356**	12,898
(Increase) / decrease in operating assets					
Loans and advances to customers		**(266,995)**	(292,617)	**(266,995)**	(292,617)
Reserve deposit with Central Bank of Malta		**(992)**	(3,360)	**(992)**	(3,360)
Cheques in course of collection		**(59)**	(30)	**(59)**	(30)
Other assets		**(62)**	(14)	**-**	-
Increase / (decrease) in operating liabilities					
Amounts owed to customers		**276,163**	423,796	**276,195**	423,919
Amounts owed to banks		**(74,069)**	(441)	**(74,069)**	(441)
Other liabilities		**(1,065)**	5,730	**(1,082)**	5,686
Cash (used in) / from operating activities before tax		**(49,555)**	146,915	**(50,646)**	146,055
Income tax paid		**(7,675)**	(5,071)	**(7,531)**	(5,011)
Net cash flows (used in) / from operating activities		**(57,230)**	141,844	**(58,177)**	141,044
INVESTING ACTIVITIES					
Dividends received		**195**	596	**1,572**	1,604
Interest income from debt securities		**7,811**	9,546	**7,811**	9,546
Purchase of financial assets measured at amortised cost		**(14,813)**	(38,997)	**(14,813)**	(38,997)
Proceeds on maturity of financial assets measured at amortised cost		**20,504**	25,174	**20,504**	25,174
Purchase of debt instruments measured at FVTOCI		**(11,622)**	(6,617)	**(11,622)**	(6,617)
Proceeds on disposal of debt instruments measured at FVTOCI		**19,986**	16,023	**19,986**	16,023
Purchase of financial assets at FVTPL		**(34,520)**	(30,124)	**-**	(184)
Proceeds on disposal of financial assets at FVTPL		**34,224**	26,741	**213**	221
Proceeds on disposal of equity and other non-fixed income instruments		**880**	397	**880**	397
Investment in associate		**(375)**	-	**(375)**	-
Purchase of property, equipment and intangible assets		**(6,781)**	(7,543)	**(6,781)**	(7,543)
Proceeds on disposal of property and equipment		**-**	7	**-**	7
Net cash flows from / (used in) investing activities		**15,489**	(4,797)	**17,375**	(369)
FINANCING ACTIVITIES					
Dividends paid		**(3,171)**	(2,135)	**(3,575)**	(2,617)
Amounts paid on redemption of units in subsidiary		**(228)**	(64)	**-**	-
Net proceeds from issue of units in subsidiary		**-**	1,017	**-**	-
Proceeds from issue of share capital		**16,885**	-	**13,020**	-
Cash payment for the principal portion of lease liability		**(394)**	-	**(394)**	-
Net cash flows from / (used in) financing activities		**13,092**	(1,182)	**9,051**	(2,617)
Net (decrease) / increase in cash and cash equivalents		**(28,649)**	135,865	**(31,751)**	138,058
Cash and cash equivalents at 1 January		**210,978**	75,113	**210,081**	72,023
Cash and cash equivalents at 31 December	(40)	**182,329**	210,978	**178,330**	210,081

NOTES TO THE FINANCIAL STATEMENTS

1. Corporate information

APS Group comprises APS Bank plc (formerly APS Bank Limited), ReAPS Asset Management Limited and APS Diversified Bond Fund (a sub-fund of APS Funds SICAV plc).

APS Bank plc is incorporated and domiciled in Malta as a public limited company under the Companies Act (Cap. 386 of the Laws of Malta). The Bank was incorporated as a private limited liability company back in 1970 followed by the attainment of its commercial banking licence in 1990. In 2018, APS Bank plc passed a resolution to commence the process of converting from a private limited liability company to a public limited company which conversion took place on 1 April 2019. 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 plc 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 plc 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 and separate financial statements have been prepared on a historical cost basis, except for derivative financial instruments, certain financial assets and investment property, which have been measured at fair value and land and buildings classified in the statements of financial position as property and equipment, which have been measured at their revalued amounts by virtue of a change in accounting policy during the year under review (see note 25). The consolidated and separate financial statements are presented in Euro (€), and all values are rounded to the nearest thousand (€000) except when otherwise indicated.

The Group and the Bank present their statements of financial position in order of liquidity.

Statement of compliance

The consolidated and separate 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 plc and its subsidiaries, 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 OCI are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance.

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

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

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

2.2 Changes in accounting policies and disclosures

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

In the current year, the Group and the Bank have applied IFRS 16, Leases, issued in January 2016.

This note explains the impact of the adoption of IFRS 16 on the financial statements of the Group and the Bank.

IFRS 16 is effective for annual periods beginning on or after 1 January 2019, with earlier application being permitted. IFRS 16 introduces new or amended requirements with respect to lease accounting. It introduces significant changes to the lessee accounting by removing the distinction between operating and finance leases and by requiring the recognition of a right-of-use asset and lease liability at commencement for all leases, except for short-term leases and leases of low value assets when such recognition exemptions are adopted. In contrast to lessee accounting, the requirements for lessor accounting have remained largely unchanged.

IFRS 16 supersedes the following lease Standards and Interpretations upon its effective date: IAS 17 Leases, IFRIC 4 *Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives; and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.*

Changes in accounting policies

Prior to the adoption of IFRS 16, leases of property, plant and equipment were classified as operating leases in these financial statements whenever the lease did not transfer substantially all the risks and rewards incidental to ownership of an asset. The corresponding lease expense was presented within 'other administrative expenses' in the statements of profit or loss and the corresponding lease payments were presented within operating activities in the statements of cash flows.

From 1 January 2019, the date of initial application of IFRS 16, the Group and the Bank recognise a right-of-use asset and a corresponding lease liability for all leases in which they are a lessee, except for the following:

1. Short-term leases; and
2. Leases for which the underlying asset is of low value.

In terms of IFRS 16, the Group and the Bank present interest expense on the lease liability separately from the depreciation charge for the right-of-use asset. For short-term leases and leases of low value assets, the expense continues to be presented within 'other administrative expenses' in the statements of profit or loss.

In the statements of cash flows, cash payments for the principal portion of the lease liability are presented within financing activities and cash payments for the interest portion of the lease liability continue to be presented within operating activities. Similarly, short-term lease payments, payments for leases of low value assets and variable lease payments not included in the measurement of the lease liability continue to be presented within operating activities.

Practical expedients

In applying IFRS 16 for the first time, the Group and the Bank have used the following practical expedients permitted by the standard;

- Applying a single discount rate to a portfolio of leases with reasonably similar characteristics;
- Relying on previous assessments on whether leases are onerous applying IAS 37 immediately before 1 January 2019 as an alternative to performing an impairment review – there were no onerous contracts as at January 2019;
- Excluding initial direct costs for the measurement of the right-of-use asset at the date of initial application, and
- Using hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Group and the Bank have also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Group and the Bank relied on their assessment made by applying IAS17 and Interpretation 4 *Determining whether an arrangement contains a lease.* Accordingly, the new requirements for the identification of a lease are applied to contracts entered into (or changed) on or after 1 January 2019.

The Group and the Bank have adopted IFRS 16 retrospectively as from 1 January 2019 using the cumulative catch-up approach where no restatement of comparatives for the 2018 reporting period is made and where the cumulative effect of initially applying the Standard, if any, is recognised against the opening balance of equity.

On adoption of IFRS 16, the Group and the Bank recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 Leases. These liabilities were measured at 1 January 2019 at the present value of the remaining lease payments, discounted using the lessee`s incremental borrowing rate as of that date. The weighted average lessee`s incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 2% per annum.

Measurement of lease liabilities at 1 January 2019	**2019** **€000**
Operating leases commitments applying IAS 17 disclosed at 31 December 2018	3,447
Discounted using the lessee`s incremental borrowing rate at the date on initial application	(502)
Lease liabilities recognised under IFRS 16 at 1 January 2019	**2,945**

Lease liabilities recognised at 1 January 2019	
Of which are:	
Current lease liabilities	400
Non-current lease liabilities	2,545
	2,945

Measurement of right-of-use assets at 1 January 2019

The Group and the Bank have elected to measure right-of-use assets at 1 January 2019 at the amount equal to the lease liability, adjusted by the amount of any previously recognised prepaid or accrued lease payments relating to that lease. In this respect, there were no material adjustments of any prepaid or accrued lease payments.

Adjustments recognised in the statements of financial position on 1 January 2019

The introduction of IFRS 16 affected the following items in the statements of financial position on 1 January 2019:

- Right-of-use assets - increase by € 2,944,758
- Lease liabilities - increase by € 2,944,758

The above decreases / increases in the above items resulted in no impact on retained earnings at 1 January 2019.

Accounting for the Group's leasing activities

The Group and the Bank lease properties, warehouses, office spaces, vehicles, spaces for the utilisation of parking, spaces for the use of offsite ATMs, IT equipment and other office equipment.

Rental contracts are typically made for fixed periods with lease term varying from 4 years to 20 years with the majority of the leases having a remaining period of less than 5 years, with some agreements containing an extension option.

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions.

There are a number of contracts on going where no lease term is stipulated in the contract, mainly related to spaces for the utilisation of parking, office space and a property. The assumption is to base the lease term on a period of 20 years. Nevertheless, this assumption is to be reassessed on a yearly basis.

Extension and termination options

Extension and termination options are included in a number of property and equipment leases across the Group. These are used to maximise operational flexibility in terms of managing the assets used in the Group`s operations. The majority of extension and termination options held are exercisable only after an express written consent by both parties after expiration of the contract.

Given that consent should be provided by both parties in determining the lease term, the latter includes only the non-cancellable lease term.

Extension options for offices have not been included in the lease liability, because the Group could replace the assets without significant cost or business disruption.

Variable lease payments

Some property leases contain variable payment terms that depend on an index / rate such as the property / retail / consumer price index. The lessee measures the index of the lease payments using the rate at the commencement date. After the commencement date, lessees are required to re-measure the lease liability to reflect changes to the lease payments arising from changes in the index or rate. The subsequent remeasurement of the lease liability is adjusted against the right-of-use asset.

Residual guarantees

During the current financial year, there were no leases with residual value guarantees.

Expenses recognised in relation to low value assets and short term lease

The Group has elected not to recognise right-of-use assets and lease liabilities for short-term leases of machinery that have a lease term of 12 months or less and leases of low value assets. The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term. There were no short term leases during the current year.

The Group determines that the following leases qualify as leases of low-value assets on the basis of the Group's accounting policy for such items:

(a) Leases of IT equipment; and
(b) Leases of water dispensers.

The Group has entered into a new lease agreement during the current financial year to lease IT equipment more specifically, photocopier machines. The lessee has elected to apply the low value asset exemption for such an agreement where these costs are expensed as incurred and included within administrative expenses and therefore not shown in the lease liability.

Purchase options

If the lessee is reasonably certain to exercise a purchase option, the exercise price is included as a lease payment. That is, entities consider the exercise price of asset purchase options included in lease contracts consistently with the evaluation of lease renewal and termination options. The Group leases vehicles with terms of five to seven years. After expiration of the agreement, the lessee has the option to purchase the vehicle. However, the Group has no intention to exercise this option.

Restrictions or covenants

The Group is restricted from assigning, letting or subletting of the premises to third parties. However there are cases where the lessee may be able to do so with prior written consent of the lessor and which approval shall remain in the absolute discretion of the lessor.

Restrictions are also imposed in cases of motor vehicles where the lessee is expressly prohibited from lending, leasing, hiring or in any other manner transferring control or use of the vehicle to third parties whether gratuitously or against payment or in any other manner, whether directly or indirectly, using the vehicle for hire and reward purposes.

The Group is expressly precluded from permitting the utilisation of the properties or any part thereof for any other purpose than that stipulated in the contract.

Leases not yet commenced to which the lessee is committed

Other future cash outflows to which the lessee is potentially exposed to that are not reflected in the measurement of lease liabilities includes the exposure arising from leases not yet commenced to which the lessee is committed. The Group has entered into commitments for certain leases with a commencement date which begins after 31 December 2019. The future cash outflows expected from these leases is € 876,000.

Investment property

During the period under review, there are no right-of-use assets that meet the definition of investment property, as a lessee.

Depreciation of the right-of-use asset and interest on the lease liability

After the commencement date, a lessee recognises depreciation of the right-of-use asset and separately recognises interest on the lease liability.

When a lessee depreciates the right-of-use asset on a straight-line basis, the total periodic expense (i.e. the sum of interest and depreciation expense) is generally higher in the early periods and lower in the future periods. Because a constant interest rate is applied to the lease liability, interest expense decreases as cash payments are made during the lease term and the lease liability decreases. Therefore, more interest expense is incurred in the early periods and less in the future periods. This trend in the interest expense, combined with straight-line depreciation of the right-of-use asset, results in a front-loaded expense recognition pattern.

Voluntary change in accounting policy

During the year under review, the Group and the Bank changed their accounting policy for the subsequent measurement of land and buildings from the cost model to the revaluation model. Accordingly, subsequent to initial recognition, land and buildings are stated at fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

The new accounting policy provides reliable and more relevant information since the land and buildings of the Group will be shown in the statements of financial position at their true fair value as determined from market based evidence by appraisal, which is undertaken by professionally qualified valuers.

In accordance with IFRS, the change in accounting policy is dealt with as a revaluation in accordance with IAS 16 rather than in accordance with IAS 8. Accordingly, comparative figures were not restated.

The change in accounting policy affected the following financial statement line items at 1 January 2019:

- Property and equipment (note 25)
- Revaluation reserve (note 36)

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 Amendment - Prepayment Features with Negative Compensation (effective for financial years beginning on or after 1 January 2019) – endorsed by the EU.
- IAS 1 and IAS 8 (Amendment) – Definition of material (effective for financial years on or after 1 January 2020) – endorsed by the EU.
- The Conceptual Framework and Amendments to References to the Conceptual Framework in IFRS Standards – endorsed by the EU.
- Amendments to IFRS 9, IAS 39 and IFRS 7- Interest Rate Benchmark Reform (effective for financial years on or after 1 January 2020) – endorsed by the EU.

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, except as disclosed below:

- IFRS 17 – Insurance Contracts (effective for financial years on or after 1 January 2021).
- IFRS 3 (Amendment) – Definition of a Business (acquisitions that occur on or after the 1 January 2020).
- Amendments to IAS 1 – Classification of Liabilities as Current or Non-Current (effective for financial years on or after 1 January 2022).

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

2.3 Summary of significant accounting policies

Recognition of income and expenses

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

Interest and similar income and expense

Interest income and expense are recognised in profit or loss using the effective interest method. The 'effective interest rate' is the rate that exactly discounts estimated future cash payments or receipts, excluding expected credit losses (ECLs), through the expected life of the financial instrument, or where appropriate, a shorter period, to that instrument's gross carrying amount on initial recognition.

The calculation of the effective interest rate includes transaction costs and fees and points paid or received that are an integral part of the effective interest rate.

Fees and commissions

The Group earns fees 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 right to receive income 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 at FVTPL. Realised gains and losses on disposal of financial assets at FVTPL represent the difference between an instrument's carrying amount and disposal amount and are recognised on the value date of transaction. Unrealised gains and losses on financial assets at FVTPL represent changes in fair value of financial instruments during the year and up to the reporting date. Net gains on financial instruments also include the reclassification of cumulative fair value movements from OCI to profit or loss on derecognition of debt instruments at FVTOCI.

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.

Net gains or losses resulting from foreign exchange on financial assets and financial liabilities are recognised in note 6 – Gains / (Losses) on Foreign Exchange.

Financial assets and liabilities

Initial recognition and measurement

Financial assets and financial liabilities are recognised when the entity becomes a party to the contractual provisions of the instrument. Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Group commits to purchase or sell the asset.

At initial recognition, the Group measures a financial asset or financial liability at its fair value plus or minus in the case of a financial asset or financial liability not at FVTPL, transaction costs that are incremental and directly attributable to the acquisition or issue of the financial asset or financial liability, such as fees and commissions. Transaction costs of financial assets and financial liabilities carried at FVTPL are expensed immediately in profit or loss.

Derecognition

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.

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expired.

Offsetting financial instruments

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

Financial assets

Classification and subsequent measurement

From 1 January 2018, the Group has applied IFRS 9 and classifies its financial assets in the following principal categories:

- Fair value through profit or loss (FVTPL);
- Fair value through other comprehensive income (FVTOCI); or
- Amortised cost

Consequently, all recognised financial assets are subsequently measured in their entirety at either amortised cost or fair value. Derivatives embedded in hybrid contracts that contain financial asset hosts within the scope of IFRS 9 are not separated; instead, the hybrid contract is classified and subsequently measured in its entirety at either amortised cost or fair value.

Classification and subsequent measurement of financial assets depend on:

1. the Group's business model for managing the asset; and
2. the cash flow characteristics of the asset.

Business model assessment

The business model reflects how the Group manages its financial assets in order to achieve a particular business objective. That is, whether the Group's objective is solely to hold assets to collect the contractual cash flows from assets or both to collect the contractual cash flows and to sell the assets. If neither of these is applicable i.e. financial assets are held for trading purposes or financial assets are managed and their performance is evaluated on a fair value basis, then the financial assets that meet the solely payment of principle and interest (SPPI) criterion are classified as part of 'other' business model and measured at FVTPL.

The Bank's business model does not depend on management's intentions for an individual instrument, therefore the business model assessment is performed at a higher level of aggregation rather than on an instrument-by-instrument basis. Factors considered by the Group in determining the business model for a group of assets include;

- 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
- past experience i.e. 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.

Solely payment of principle and interest (SPPI)

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.

Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and to sell, the Group assesses whether the financial instruments' cash flows represent solely payments of principal and interest (the 'SPPI test'). In assessing whether the contractual cash flows are SPPI, the Group considers the contractual terms of the instrument. This includes 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.

Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset fails the SPPI test. Financial assets with embedded derivatives are considered in their entirety, when determining whether their cash flows are SPPI. If the hybrid contract contains a host that is a financial asset, then the Group assesses the entire contract as described in the financial assets section for classification and measurement purposes.

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.

The Group reclassifies financial assets when and only when the business model for managing those assets changes. The reclassification takes place from the start of the first reporting period following the change. Such changes are expected to be very infrequent and none occurred during the period.

Debt instruments

Amortised cost

Debt financial assets which are held within a business model whose objective is to hold assets for collection of contractual cash flows where those cash flows give rise on specified dates to cash flows that are SPPI, and that are not designated at FVTPL, are measured at amortised cost.

Appropriate allowances for ECLs are recognised in profit or loss in accordance with the Bank's accounting policy on ECLs. The amortised cost of a financial asset is the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, adjusted for any loss allowance. The gross carrying amount of a financial asset is the amortised cost of a financial asset before adjusting for any loss allowance. Interest income from these financial assets is included in 'Interest receivable and similar income' using the effective interest rate method.

Financial assets classified in this category are principally as follows – Cash and bank balances, loans and advances to banks and customers, certain debt and fixed income instruments and syndicated loans.

Fair value through other comprehensive income (FVTOCI)

Debt financial assets that are held within a business model whose objective is achieved by both collection of contractual cash flows and sale of the assets, where those cash flows give rise on specified dates to cash flows that are SPPI, and that are not designated at FVTPL, are measured at FVTOCI.

Appropriate allowances for ECLs are recognised in profit or loss in accordance with the Bank's accounting policy on ECLs. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses on the instrument's amortised cost which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in 'Net gains on financial instruments'. Interest income from these financial assets is included in 'Interest receivable and similar income' using the effective interest rate method. Certain debt and other fixed income instruments are being classified in this category.

Fair value through profit or loss (FVTPL)

Debt financial assets that are not measured at amortised cost or FVTOCI are measured at FVTPL. Certain debt and other fixed income instruments are being classified in this category.

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 FVTOCI, as FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise. The Group did not designate any of its debt financial assets in terms of this requirement.
A gain or loss on a debt investment that is subsequently measured at FVTPL is recognised in profit or loss and presented in the profit or loss statement within 'Net gain on financial instruments' in the period in which it arises. Interest income from these financial assets is included in 'Interest receivable and similar income' using the effective interest rate method.

Equity instruments

The Group subsequently measures all equity investments at FVTPL, except where the Group's management has elected, at initial recognition, to irrevocably designate an equity investment at FVTOCI; unless the instrument is held for trading. The Group's policy is to designate equity investments as FVTOCI when those investments are held for purposes other than to generate investment returns.

When the FVTOCI election is used, fair value gains and losses are recognised in OCI and are not subsequently reclassified to profit or loss, including on disposal. Dividends, when representing a return on such investments, continue to be recognised in profit or loss as 'Dividend income' when the Group's right to receive payments is established.

Gains and losses on equity investments at FVTPL are included in the 'Net gains / (losses) on financial instruments' line in the statements of profit or loss.

Impairment of financial assets

IFRS 9 introduced a forward-looking (ECL) model. This requires considerable judgement over how changes in economic factors affect ECLs, which are determined on a probability-weighted basis.

The Group assesses on a forward-looking basis the ECL associated with;

- debt financial assets carried at amortised cost and FVTOCI, comprising mainly debt and other fixed income securities, loans and advances to customers and banks, syndicated loans and balances with CBM and
- irrevocable loan commitments and financial guarantee contracts issued.

The Group recognises a loss allowance for such losses at each reporting date. The measurement of ECL reflects:

- an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- the time value of money; and

- reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

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 recognises 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 credit risk note provides more detail of how the ECL allowance is measured. Loss allowances for ECL are presented as follows:
- financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets;
- loan commitments and financial guarantee contracts, generally, as a provision;
- where a financial instrument includes both a drawn and an undrawn component, and the Group cannot identify the ECL on the loan commitment component separately from those on the drawn component, the Group presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component; and
- debt instruments measured at FVTOCI: no loss allowance is recognised in the statements of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is recognised in OCI and accumulated in the fair value reserve.

Under IFRS 9, no impairment loss is recognised on equity investments and other financial instruments measured at FVTPL.

Modification of loans

The Group sometimes renegotiates or otherwise modifies the contractual cash flows of loans to customers. When this happens, the Group assesses whether this modification results in derecognition. A modification results in derecognition when the new terms are substantially different to the original terms. The Group does this by considering, among others, the following factors:
- If the borrower is in financial difficulty, whether the modification merely reduces the contractual cash flows to amounts the borrower is expected to be able to pay;
- Whether any substantial new terms are introduced;
- Significant extension of the loan term when the borrower is not in financial difficulty;
- Significant change in the interest rate;
- Insertion of collateral, other security or credit enhancements that significantly affect the credit risk associated with the loan.

If the terms are substantially different, the Group derecognises the original financial asset and recognises a 'new' asset at amortised cost and recalculates a new effective interest rate for the asset. The date of renegotiation is consequently considered to be the date of initial recognition for impairment calculation purposes, including for the purpose of determining whether a significant increase in credit risk has occurred. However, the Group also assesses whether the new financial asset recognised is deemed to be credit-impaired at initial recognition, especially in circumstances where the renegotiation was driven by the debtor being unable to make the originally agreed payments. Differences in the carrying amount are also recognised in profit or loss as a gain or loss on derecognition.

If the terms are not substantially different, the renegotiation or modification does not result in derecognition, and the Group recalculates the gross carrying amount based on the revised cash flows of the financial asset and recognises a modification gain or loss in profit or loss. The new gross carrying amount is recalculated by discounting the modified cash flows at the original effective interest rate.

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 the underlying loans continue to be recognised.

Financial liabilities

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 subsequently measured at amortised cost using the EIR method.

Modification of financial liabilities

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 at fair value. The difference in the respective carrying amounts is recognised in the statements of profit or loss.

The terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10% different from the discounted present value of the cash flows of the original financial liability. In addition, other qualitative factors, such as the currency that the instrument is denominated in, changes in the type of interest rate, new conversion features attached to the instrument and change in covenants are also taken into consideration. If an exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment. If the exchange or modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the liability and are amortised over the remaining term of the modified liability.

Derivative financial instruments

Derivatives 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 hybrid contracts that contain financial asset hosts are not separated; instead, the hybrid contract is classified and subsequently measured in its entirety at either amortised cost or fair value. Derivatives embedded in hybrid contracts that contain financial liability hosts are treated as separate derivatives and measured 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 measured at FVTPL.

Financial guarantee contracts and loan commitments

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Such financial guarantees are given to banks, financial institutions and others on behalf of customers to secure loans, overdrafts and other banking facilities.

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 amount of the loss allowance determined in accordance with IFRS 9 arising as a result of the financial guarantee.

Any increase in the liability relating to financial guarantees is taken to the statements of profit or loss.

Loan commitments are firm commitments to provide credit under pre-specified terms and conditions.

Loan commitments provided by the Group are considered for loss allowance determined in accordance with IFRS 9. The Group has not provided any commitment to provide loans at a below-market interest rate, or that can be settled net in cash or by delivering or issuing another financial instrument. For loan commitments and financial guarantee contracts, the loss allowance would be recognised as a provision. However, for contracts that include both a loan and an undrawn commitment and the Group cannot separately identify the ECLs on the undrawn commitment component from those on the loan component, the ECLs on the undrawn commitment are recognised together with the loss allowance for the loan. To the extent that the combined ECLs exceed the gross carrying amount of the loan, the ECLs are recognised as a provision.

Equity

An equity instrument is any contract that evidences a residual interest in the assets of the company after deducting all of its liabilities. Equity instruments are recorded at the proceeds received, net of direct issue costs. Redemptions or refinancing of equity instruments are recognised as changes in equity.

Ordinary shares issued by the company are classified as equity instruments.

Repurchase and reverse repurchase agreements

Securities sold under agreements to repurchase at a specified future date are not derecognised from the statements 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 statements 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 statements of financial position. The consideration paid, including accrued interest, is recorded in the statements 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

Property and equipment are initially recorded at cost.

As disclosed in Note 2.2, during the year under review, the Group changed their accounting policy for the subsequent measurement of land and buildings from the cost model to the revaluation model. Accordingly, subsequent to initial recognition, land and buildings are stated at fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are made for the entire class of land and buildings and with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the end of the reporting period. Any accumulated depreciation at the date of the revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset.

Any revaluation increase arising on the revaluation is recognised in OCI and accumulated in equity under the heading of revaluation reserve unless it reverses a revaluation decrease for the same asset previously recognised in profit or loss, in which case the increase is credited to profit and loss to the extent of the decrease previously charged. A decrease in carrying amount arising on the revaluation is recognised in profit and loss to the extent that it exceeds the balance, if any, held in the revaluation reserve relating to a previous revaluation of the asset.

Other tangible assets are 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 or revalued amount 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 de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statements 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.

Right of use assets, that would be presented within property and equipment if they were owned, are presented separately in the statements of financial position and their accounting policy is included below.

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 statements 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 statements 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 statements of profit or loss in the period of derecognition.

Impairment of non-financial assets and investments in subsidiaries and associates

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

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

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

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

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 statements of profit or loss.

Deferred income tax

Deferred income tax is provided using the balance sheet 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 statements 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 statements 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.

Cash and cash equivalents

For the purpose of the statements 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 Group 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.

Non-current assets held for sale

A non-current asset is classified as held for sale if it is available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets and its sale must be highly probable, that is:

- Management is committed to a plan to sell the asset and an active programme to locate a buyer and complete the plan have been initiated;
- The asset is being actively marketed for sale at a sales price reasonable in relation to its current fair value; and
- Actions required to complete the plan indicate that it is unlikely that the plan will be significantly changed or withdrawn.

Immediately before the initial classification of the asset as held for sale, the carrying amount of the asset will be measured in accordance with the applicable IFRSs. After classification, non-current assets held for sale are measured at the lower of the carrying amount and fair value less cost to sell. Non-current assets that are classified as held for sale are not depreciated.

Leases

Since the Group does not act as lessor, the accounting policies herein address the accounting treatment of the Group as lessee.

As disclosed in Note 2.2, the Group applied IFRS 16 using the cumulative catch-up approach and therefore comparative information has not been restated and is presented under IAS 17. The details of accounting policies under both IAS 17 and IFRS 16 are presented separately below.

The Group as Lessee

Comparative year

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.

Current year

The Group assesses whether a contract is or contains a lease at inception of the contract. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The Group recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets. For these leases, the Group has elected to apply the recognition exemptions and to recognise the lease payments as an expense on a straight-line basis over the lease term unless another systematic basis is more representative of the pattern of the lessee's benefit.

The Group assesses the value of an underlying asset based on the value of the asset when it is new, regardless of the age of the asset being leased. The assessment of whether an underlying asset is of low value is performed on an absolute basis. Leases of low-value assets qualify for the exemption regardless of whether those leases are material to the lessee. The assessment is not affected by the size, nature or circumstances of the lessee. Accordingly, different lessees are expected to reach the same conclusion about whether a particular underlying asset is of low-value.

The lease term is the non-cancellable period of a lease, together with both (a) periods covered by an option to extend the lease if the lessee is reasonably certain to extend that option; and (b) periods covered by an option to terminate the lease if the lessee is reasonably certain not to exercise that option. In assessing the length of the non-cancellable period of a lease, the Group applies the definition of a contract to determine the period for which the contract is enforceable. A lease is no longer enforceable when the lessee and the lessor each has the right to terminate the lease without permission from the other party with no more than an insignificant penalty.

The lessee revises the lease term if there is a change in the non-cancellable period of a lease, for example if it exercises or does not exercise an option or if an event occurs that contractually obliges or prohibits the lessee from exercising an option. A lessee reassesses whether it is reasonably certain to exercise or not to exercise an option upon the occurrence of either a significant event or a significant change in circumstances that: (a) is within its control and (b) affects whether the lessee is reasonably certain to exercise or not to exercise an option.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, the lessee uses its incremental borrowing rate. Lease payments included in the measurement of the lease liability comprise:

- Fixed lease payments, less any lease incentives receivable;

- Variable lease payments that depend on an index or a rate, initially measured using the index or rate at the commencement date;
- Amounts expected to be payable by the lessee under residual value guarantees;
- The exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and
- Payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect lease payments made.

The right-of-use assets at the commencement date comprise the initial measurement of the corresponding lease liability, any lease payments made at or before the commencement date, less any lease incentives received and any initial direct costs. They are subsequently measured at cost less any accumulated depreciation and impairment losses.

Whenever the Group incurs an obligation for costs to dismantle and remove a leased asset, restore the site on which it is located or restore the underlying asset to the condition required by the terms and conditions of the lease, a provision is recognised and measured under IAS 37. To the extent that the costs relate to a right-of-use asset, the costs are included in the related right-of-use asset, unless those costs are incurred to produce inventories.

Right-of-use assets are depreciated from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Group expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset.

The Group applies IAS 36 to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss as described in the Section entitled 'Impairment of non-financial assets and investments in subsidiaries and associates'.

Variable lease payments that do not depend on an index or rate are not included in the measurement of the lease liability and the right-of-use asset. The related payments are recognised as an expense in the period in which the event or condition that triggers those payments occurs and are included in the line item in other administrative expenses in profit or loss.

As a practical expedient, a lessee may elect, by class of underlying asset, not to separate non-lease components from lease components, and instead account for each lease component and any associated non-lease components as a single arrangement. The Group does not apply this practical expedient. Accordingly, the Group is required to account for each lease component within the contract as a lease separately from non-lease components of the contract.

The lease liability is remeasured to reflect any reassessment or lease modifications, or to reflect revised in-substance fixed lease payments. The amount of the remeasurement of the lease liability is recognised as an adjustment to the right-of-use asset until this is reduced to zero after which the corresponding adjustment is recognised in profit or loss. A lessee remeasures the lease liability by discounting the revised lease payments using a revised discount rate if (a) there is a change in the lease term or (b) there is a change in the assessment of a purchase option. A lessee remeasures the lease liability by discounting the revised lease payments if (a) there is a change in the amounts expected to be payable under a residual value guarantee or (b) there is a change in future lease payments resulting from a change in an index or a rate used to determine those payments.

For a lease modification (that is, a change in the scope of a lease, or the consideration for a lease, that was not part of the original terms and conditions of the lease) that is not accounted for as a separate lease, the lessee remeasures the lease liability by discounting the revised lease payments using a revised discount rate.

The Group presents lease liabilities and right-of-use assets that are not investment property separately from other assets and liabilities in the statements of financial position. The Group presents interest expense on the lease liability separately from the depreciation charge for the right-of-use asset. In the statements of cash flows, cash payments for the principal portion of the lease liability are presented within financing activities and cash payments for the interest portion of the lease liability are presented within operating activities. Short-term lease payments, payments for leases of low value assets and variable lease payments not included in the measurement of the lease liability are presented within operating activities.

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. Selection criteria of valuer include market knowledge, reputation, independence and whether professional standards are maintained.

Significant accounting judgements, estimates and assumptions

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

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

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

As of 31 December 2019, the Bank directly held 15.77% (2018: 16.80%) interest in APS Income Fund and 18.51% (2018: 18.90%) 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 and the Bank continues to account for the investment in APS Income Fund and APS Regular Income Ethical Fund as an associate.

Fair value of investment properties

The Group carries investment properties at fair value, with changes in fair value being recognised in the statements of profit or loss. The Group engaged an independent valuation specialist to assess fair value as at 31 December 2019 and 31 December 2018. For investment properties, the valuation specialist determines the most appropriate methodology (market / income approach) depending on the nature of the property.

Fair value of land and buildings included within property and equipment

Land and buildings owned by the Group are carried at fair value, with changes in fair value being recognised in OCI. The Group engaged an independent valuation specialist to assess the fair value as at 31 December 2019. 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 28).

Impairment losses on loans and advances

The Bank reviews individually significant loans and advances at each reporting date to assess whether an impairment loss should be recorded in the statements 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.

The critical judgements and estimates in the process of introducing IFRS 9 are explained in note 43.2 Credit Risk.

Impairment of debt and other fixed income securities.

The Group reviews its debt investments measured at FVTOCI and its debt investments measured at amortised cost at each reporting date to assess whether they are impaired. This requires similar judgment as applied to the individual assessment of loans and advances.

3. Interest receivable and similar income

	The Group		The Bank	
	2019	2018	2019	2018
	€000	€000	€000	€000
On loans and advances to banks	942	313	942	306
On loans and advances to customers	49,726	40,634	49,699	40,634
	50,668	40,947	50,641	40,940
On debt securities:				
Measured at amortised cost	2,616	3,643	2,616	3,643
Amortisation on premiums and discounts on debt securities measured at amortised cost	(788)	(477)	(788)	(477)
Measured at FVTPL	1,342	1,020	22	22
Other debt securities	5,138	5,858	5,138	5,858
Amortisation on premiums and discounts on other debt securities	(955)	(1,028)	(955)	(1,028)
	7,353	9,016	6,033	8,018
	58,021	49,963	56,674	48,958

4. Interest payable

	The Group		The Bank	
	2019	2018	2019	2018
	€000	€000	€000	€000
On amounts owed to banks	579	572	579	572
On amounts owed to customers	12,741	11,577	12,741	11,610
On lease liabilities	59	-	59	-
	13,379	12,149	13,379	12,182

5. Dividend income

	The Group		The Bank	
	2019	2018	2019	2018
	€000	€000	€000	€000
From equity shares held in local and foreign entities and collective investment schemes	196	575	1,572	1,604

During the year the Group recognised dividend income of €13K (2018: €4K) on equity instruments designated at FVTOCI upon initial recognition which were derecognised during the year. During 2018 the Group recognised dividend income amounting to €27K on equity designated at FVTOCI upon initial recognition which were still held at year end. No dividend has been recognised during 2019 in this respect.

6. Gains / (losses) on foreign exchange

	The Group		The Bank	
	2019	2018	2019	2018
	€000	€000	€000	€000
Net unrealised / realised gain on foreign exchange	687	260	460	446

7. Net gains / (losses) on financial instruments

a) Net realised gains on disposal of financial assets measured at FVTOCI

	The Group		The Bank	
	2019	2018	2019	2018
	€000	€000	€000	€000
Realised gains on disposal of financial assets at FVTOCI	402	140	402	140

b) Net changes in fair value of financial assets at FVTPL

Unrealised net fair value movements on financial assets at FVTPL	2,108	(961)	(23)	(7)
Realised gains on disposal of financial assets at FVTPL	1,446	147	36	20
	3,554	(814)	13	13
	3,956	(674)	415	153

8. Personnel expenses

	The Group		The Bank	
	2019	2018	2019	2018
	€000	€000	€000	€000
Wages and salaries (short-term):				
- key management personnel other than Directors	2,883	2,541	2,883	2,541
- other staff	11,555	10,205	11,555	10,205
Social security costs	890	788	890	788
	15,328	13,534	15,328	13,534

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

	The Group		The Bank	
	2019	2018	2019	2018
Managerial	95	81	95	81
Senior officers and officers	293	282	293	282
Others	8	9	8	9
	396	372	396	372

9. Other administrative expenses

	The Group		The Bank	
	2019	2018	2019	2018
	€000	€000	€000	€000
Remuneration payable to the auditors for:				
- the audit of financial statements	**76**	92	**51**	78
- tax advisory services	**6**	6	**4**	4
- other non-audit services	**15**	14	**15**	8
Directors' emoluments (i)	**333**	282	**309**	259
Insurance	**2,050**	1,089	**2,050**	1,089
Professional fees	**1,443**	1,270	**1,353**	1,189
Repairs and maintenance	**2,046**	1,242	**2,046**	1,242
Telecommunications	**413**	425	**413**	425
Office operating expenses	**2,648**	2,388	**2,641**	2,383
Card and other financial charges	**185**	99	**185**	99
Others	**2,331**	1,856	**2,289**	1,840
	11,546	8,763	**11,356**	8,616
Fees and commission expenses	**384**	405	**384**	405
	11,930	9,168	**11,740**	9,021

(i) Directors' emoluments are split as follows:

	The Bank	
	2019	2018
	€	€
Frederick Mifsud Bonnici		
- as Chairman's remuneration	**50,000**	50,000
- as Chair of Board Credit Committee	-	14,000
Victor E. Agius (appointed on 15 October 2018)	**33,000**	8,250
Joseph C. Attard (appointed on 26 July 2018)	**38,000**	13,851
Franco Azzopardi	**36,000**	29,000
Laragh Cassar	**33,000**	22,000
Alfred DeMarco	**29,000**	22,333
Arthur Galea Salomone (resigned on 26 July 2018)	-	14,875
Victor Gusman	**33,000**	22,000
Frederick F. Micallef (resigned on 26 July 2018)	-	13,125
Michael Pace Ross	**27,000**	23,000
Martin Scicluna	**30,000**	27,000
	309,000	259,434

Total Directors' emoluments (excluding Chairman) amount to €259,000 (2018: €195,434) out of which €120,000 (2018: €99,000) were paid in relation to Directors' fees and €139,000 (2018: €96,434) were in relation to Committee fees. Each Director receives the amount of €15,000 (2018: €12,750) yearly as honoraria for sitting on the Board of Directors. The Directors, who are all non-executive do not receive pension entitlements from the Group.

10. Net impairment losses

	The Group		The Bank	
	2019	2018	2019	2018
	€000	€000	€000	€000
Charge for the year:				
- collective impairment	**1,044**	827	**1,044**	827
- individual impairment	**4,971**	5,200	**4,971**	5,200
- bad debts written off	**1,539**	528	**1,539**	528
	7,554	6,555	**7,554**	6,555
Reversal of write-downs:				
- collective impairment	**(634)**	(663)	**(634)**	(663)
- individual impairment	**(5,846)**	(4,337)	**(5,846)**	(4,337)
	(6,480)	(5,000)	**(6,480)**	(5,000)
Net impairment losses	**1,074**	1,555	**1,074**	1,555

	The Group / The Bank	
	2019	2018
	€000	€000
Loans and advances to customers:		
Charge for the year		
- Stage 1	**565**	230
- Stage 2	**96**	316
- Stage 3	**4,971**	5,200
- Bad debts written off	**1,539**	528
	7,171	6,274
Reversal of write downs		
- Stage 1	**(511)**	(513)
- Stage 2	**(123)**	(150)
- Stage 3	**(5,846)**	(4,337)
	(6,480)	(5,000)
Net impairment losses		
- Stage 1	**54**	(283)
- Stage 2	**(27)**	166
- Stage 3	**664**	1,391
	691	1,274
Syndicated loans:		
- Stage 1	**(57)**	259
- Stage 2	**455**	92
- Stage 3	**-**	-
	398	351
Debt securities at amortised cost:		
- Stage 1	**(1)**	12
- Stage 2	**-**	-
- Stage 3	**-**	-
	(1)	12
Debt securities at FVTOCI:		
- Stage 1	**(14)**	(82)
- Stage 2	**-**	-
- Stage 3	**-**	-
	(14)	(82)
Net impairment losses	**1,074**	1,555

11. Income tax expense

The major components of income tax expense recognised in profit and loss for the years ended 31 December 2019 and 2018 are:

	The Group		The Bank	
	2019	2018	**2019**	2018
	€000	€000	**€000**	€000
Current income tax	**6,749**	6,263	**6,663**	6,194
Deferred income tax	**519**	(220)	**519**	(220)
Income tax expense	**7,268**	6,043	**7,182**	5,974

A reconciliation between tax expense and the product of accounting profit multiplied by the applicable tax rate in Malta of 35% (2018: 35%) for the years ended 31 December 2019 and 2018 is as follows:

	The Group		The Bank	
	2019	2018	**2019**	2018
	€000	€000	**€000**	€000
Profit before tax	**26,838**	18,627	**21,644**	19,682
Theoretical tax expense at 35%	**9,393**	6,519	**7,575**	6,889
Tax effect of:				
- Non-taxable sale of investments	**(139)**	(41)	**(139)**	(41)
- Income taxed at lower rates of tax	**(550)**	(528)	**(550)**	(528)
- Depreciation not recovered by way of capital allowance	**206**	51	**206**	51
- Income from financial instruments included in untaxed account	**(1,732)**	-	**-**	-
- Others	**90**	42	**90**	(397)
Income tax expense	**7,268**	6,043	**7,182**	5,974

12. Dividends paid and proposed

	The Bank	
	2019	2018
	€000	€000
Final gross of income tax for 2018: 7.59 cents per share (2017: 5.48 cents per share)	**3,500**	2,527
Final net of income tax for 2018: 4.94 cents per share (2017: 3.56 cents per share)	**2,275**	1,642
Interim gross of income tax for 2019: 4.02 cents per share (2018: 3.25 cents per share)	**2,000**	1,500
Interim net of income tax for 2019: 2.61 cents per share (2018: 2.12 cents per share)	**1,300**	975

During the year the Group`s subsidiaries paid dividends amounting to €1,161,365 to their shareholders (2018: €1,091,380).

The Directors have agreed to postpone their recommendation on any dividend distribution to later in 2020. Any proposed distribution would be subject to approval by the MFSA.

13. Cash and balances with Central Bank of Malta

	The Group		The Bank	
	2019	2018	2019	2018
	€000	€000	€000	€000
Cash in hand (note 40)	15,224	10,387	11,225	9,490
Balances with Central Bank of Malta (excluding reserve deposit) (note 40)	136,776	151,611	136,776	151,611
Reserve deposit with Central Bank of Malta	14,402	13,410	14,402	13,410
	166,402	175,408	162,403	174,511

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 (2018: €1,400,000) pledged in favour of the MFSA's Depositors' Compensation Scheme (note 19).

During the current and the prior year the Bank has been compliant with the reserve deposit requirement.

14. Loans and advances to banks

	The Group		The Bank	
	2019	2018	2019	2018
	€000	€000	€000	€000
Repayable on call and at short notice (note 40)	54,841	49,384	54,841	49,384
Placements with other banks not repayable at short notice	1,000	1,000	-	-
	55,841	50,384	54,841	49,384
Analysed by currency:				
- Euro	24,013	17,537	23,013	16,537
- Foreign	31,828	32,847	31,828	32,847
	55,841	50,384	54,841	49,384

15. Loans and advances to customers

	The Group		The Bank	
	2019	2018	2019	2018
	€000	€000	€000	€000
Repayable on call and at short notice	90,122	79,689	90,122	79,689
Term loans and advances	1,412,700	1,190,996	1,412,700	1,190,996
Gross loans and advances (i)	1,502,822	1,270,685	1,502,822	1,270,685
Less: allowance for impairment losses (ii)	(15,953)	(16,802)	(15,953)	(16,802)
Net loans and advances	1,486,869	1,253,883	1,486,869	1,253,883

15. Loans and advances to customers (Continued)

(i) Gross loans and advances analysed by currency

	The Group		The Bank	
	2019	2018	2019	2018
	€000	€000	€000	€000
- Euro	1,487,773	1,262,901	1,487,773	1,262,901
- Foreign	15,049	7,784	15,049	7,784
	1,502,822	1,270,685	1,502,822	1,270,685

(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	
	2019	2018	2019	2018
	€000	€000	€000	€000
At 1 January	16,802	16,055	16,802	16,055
Charge / (Reversal) for the year:				
- Collective (note 10)	26	(116)	26	(116)
- Individual (note 10)	(875)	863	(875)	863
At 31 December	15,953	16,802	15,953	16,802
- Individual impairment losses	15,172	16,047	15,172	16,047
- Collective impairment losses	781	755	781	755
	15,953	16,802	15,953	16,802

Concentration of loans and advances to customers

The following table shows the risk concentration by industry for loans and advances to customers, gross of ECLs:

The Group / The Bank	2019	2018
	€000	€000
Agriculture	14,191	11,637
Fishing	17,522	12,144
Mining and quarrying	37	34
Manufacturing	23,225	21,997
Electricity, gas and water supply	3,709	3,940
Construction	93,001	81,268
Wholesale and retail trade	40,080	42,418
Hotels and restaurants, excluding related construction activities	90,699	73,228
Transport, storage and communication	22,853	4,733
Financial intermediation	79,169	73,897
Real estate, renting and business	94,985	78,420
Professional, Scientific and technical	9,633	7,650
Administrative and Support services	7,213	8,626
Public administration	12,713	11,210
Education	7,696	10,709
Health and social work	4,299	4,085
Community, recreational and personal service activities	6,347	3,364
Households and individuals	975,450	821,325
	1,502,822	1,270,685

16. Syndicated loans

The Group / The Bank	2019 €000	2018 €000
Manufacturing	**24,823**	25,043
Wholesale and retail trade	**10,042**	10,000
Transport, storage and communication	**4,572**	9,500
Financial intermediation	**41,712**	5,000
Public administration	**7,140**	2,622
Health and social work	**10,118**	10,225
Gross syndicated loans (i)	**98,407**	62,390
Less: allowance for impairment loss	**(1,179)**	(780)
Net syndicated loans	**97,228**	61,610

(i) Gross loans and advances analysed by currency	The Group		The Bank	
	2019 €000	2018 €000	2019 €000	2018 €000
- Euro	**74,775**	59,768	**74,775**	59,768
- Foreign	**23,632**	2,622	**23,632**	2,622
	98,407	62,390	**98,407**	62,390

17. Derivative financial instruments

	The Group / The Bank	
	2019 €000	2018 €000
Derivative assets, designated at FVTPL, not designated as hedges	**721**	822
Derivative liabilities, designated at FVTPL, not designated as hedges	**721**	822

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 / The Bank	Notional 2019 €000	Assets 2019 €000	Liabilities 2019 €000	Notional 2018 €000	Assets 2018 €000	Liabilities 2018 €000
Over the counter derivatives:						
Equity / commodity-index warrants purchased	**38,975**	**721**	**-**	49,475	822	-
Equity / commodity-index warrants written	**(38,975)**	**-**	**721**	(49,475)	-	822
	-	**721**	**721**	-	822	822

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

18. Financial assets at FVTPL

Financial investments at FVTPL were made as follows:

	The Group		The Bank	
	2019	2018	2019	2018
	€000	€000	€000	€000
Fixed income instruments and collective investment schemes	41,478	36,241	464	879
Analysed by currency:				
- Euro	24,358	27,305	464	879
- Foreign	17,120	8,936	-	-
	41,478	36,241	464	879
Carrying value				
At 1 January	36,241	37,045	879	942
Disposals	(28,872)	(21,954)	(392)	(240)
Acquisitions	32,019	22,127	-	184
Increase / (decrease) in fair values	2,090	(977)	(23)	(7)
At 31 December	41,478	36,241	464	879

The above financial assets are mandatorily measured at FVTPL in terms of IFRS 9.

19. Other debt and fixed income instruments

	The Group		The Bank	
	2019	2018	2019	2018
	€000	€000	€000	€000
At amortised cost	79,617	85,905	79,617	85,905
FVTOCI	158,595	165,184	158,595	165,184
Gross other debt and fixed income instruments	238,212	251,089	238,212	251,089
Less: allowance for impairment losses	(46)	(49)	(46)	(49)
Net other debt and fixed income instruments	238,166	251,040	238,166	251,040

	The Group		The Bank	
At amortised cost	2019	2018	2019	2018
	€000	€000	€000	€000
Issued by public bodies:				
- Local government	17,580	37,779	17,580	37,779
Issued by other issuers:				
- Foreign government	56,742	47,626	56,742	47,626
- Foreign others	5,295	500	5,295	500
	62,037	48,126	62,037	48,126
Total	79,617	85,905	79,617	85,905

19. Other debt and fixed income instruments (Continued)

FVTOCI	The Group 2019 €000	The Group 2018 €000	The Bank 2019 €000	The Bank 2018 €000
Issued by public bodies:				
- Local government	50,235	53,322	50,235	53,322
- Foreign government	17,280	19,711	17,280	19,711
	67,515	73,033	67,515	73,033
Issued by other issuers:				
- Local banks	500	504	500	504
- Foreign banks	27,612	22,027	27,612	22,027
- Foreign other	62,921	69,573	62,921	69,573
- Local other	47	47	47	47
	91,080	92,151	91,080	92,151
Total	158,595	165,184	158,595	165,184
Total debt and other fixed income instruments	238,212	251,089	238,212	251,089
Analysed by currency:				
- Euro	205,468	214,507	205,468	214,507
- Foreign	32,744	36,582	32,744	36,582
	238,212	251,089	238,212	251,089
Unamortised premiums on debt and other fixed income instruments	6,007	4,720	6,007	4,720

	The Group 2019 €000	The Group 2018 €000	The Bank 2019 €000	The Bank 2018 €000
Listing status:				
- Listed on Malta Stock Exchange	68,362	91,652	68,362	91,652
- Listed elsewhere	169,550	158,937	169,550	158,937
- Unlisted	300	500	300	500
	238,212	251,089	238,212	251,089

At amortised cost Carrying value – Gross of ECL allowances	The Group 2019 €000	The Group 2018 €000	The Bank 2019 €000	The Bank 2018 €000
At 1 January	85,905	72,775	85,905	72,775
Redemptions and disposals	(20,312)	(25,175)	(20,312)	(25,175)
Acquisitions	14,812	38,782	14,812	38,782
Amortisation	(788)	(477)	(788)	(477)
At 31 December	79,617	85,905	79,617	85,905

19. Other debt and fixed income instruments (Continued)

FVTOCI Carrying value - Gross of ECL allowances	The Group 2019 €000	 2018 €000	The Bank 2019 €000	 2018 €000
At 1 January	165,184	179,549	165,184	179,549
Redemptions and disposals	(18,213)	(15,883)	(18,213)	(15,883)
Acquisitions	9,938	7,027	9,938	7,027
Amortisation	(987)	(1,054)	(987)	(1,054)
Change in fair value	2,834	(4,047)	2,834	(4,047)
Exchange adjustments	(161)	(408)	(161)	(408)
At 31 December	158,595	165,184	158,595	165,184
Total other debt and fixed income instruments	238,212	251,089	238,212	251,089

Eligible debt instruments with a nominal value of € 119,251,504 (2018: € 146,475,471) 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 (2018: €5,250,000) have been pledged in favour of the MFSA's Depositors' Compensation Scheme, as follows:

During the current and the prior year the Bank has been compliant with the reserve deposit requirement.

The Group / The Bank	2019 €000	2018 €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

FVTOCI	The Group 2019 €000	 2018 €000	The Bank 2019 €000	 2018 €000
Listing status:				
- Listed on Malta Stock Exchange	-	963	-	963
- Unlisted	308	309	308	309
	308	1,272	308	1,272

20. Equity and other non-fixed income instruments (Continued)

	The Group		The Bank	
	2019	2018	2019	2018
	€000	€000	€000	€000
Carrying value				
At 1 January	**1,272**	1,793	**1,272**	1,793
Disposals	**(880)**	(276)	**(880)**	(276)
Acquisitions	**-**	28	**-**	28
Increase in fair value	**(84)**	(273)	**(84)**	(273)
	308	1,272	**308**	1,272

These are equity investments which are not held for trading.

	The Group		The Bank	
	2019	2018	2019	2018
	€000	€000	€000	€000
FVTOCI				
Sector:				
Monetary financial institutions	81	80	81	80
Public non-financial corporations	-	964	-	964
Private non-financial corporations	227	228	227	228
	308	1,272	308	1,272

When launching new sub-funds, the Bank invests an amount as seed capital. The Bank never increases or decreases the investment and has no intention of disposing of such investments. Therefore, these investments are classified as FVTOCI.

During the prior year the Group revised its business model and concluded that these type of investments do not form part of its core business. Given that the market conditions were favourable, in 2018 the Group decided to dispose of a number of equity instruments. The fair value of the equity instruments measured at FVTOCI derecognised during 2019 was €964,000 (2018: €426,900). The cumulative gains on the disposal of these instruments was of €380,000 (2018: €99,528).

21. Investment in subsidiaries

The Bank	2019 €000	2018 €000
Cost		
At 1 January and 31 December	**40,250**	40,250

The shares in subsidiaries are made up as follows:

Name	Country of incorporation	Equity interest 2019 %	2018 %	Cost 2019 €000	2018 €000
APS Diversified Bond Fund 40,000,000 ordinary shares at €1.00 (2018: 40,000,000 ordinary shares at €1.00)	**Malta**	**87.75**	95.10	**40,000**	40,000
ReAPS Asset Management Limited 250,000 ordinary shares at €1.00 (2018: 250,000 ordinary shares at €1.00)	**Malta**	**100.00**	100.00	**250**	250
				40,250	40,250

	APS Diversified Bond Fund 2019 €000	APS Diversified Bond Fund 2018 €000	**ReAPS Asset Management Limited 2019 €000**	ReAPS Asset Management Limited 2018 €000
Current assets	**46,535**	40,200	**863**	773
Non-current assets	**-**	-	**2**	3
Current liabilities	**(86)**	(68)	**(246)**	(287)
Net assets value	**46,449**	40,132	**619**	489
Income	**4,189**	(490)	**1,164**	1,108
Expenses	**(331)**	(281)	**(964)**	(912)
Profit / (loss) before tax	**3,858**	(771)	**200**	196
Tax	**(16)**	-	**(70)**	(69)
Profit / (loss) after tax	**3,842**	(771)	**130**	127

Non-controlling interest	**APS Diversified Bond Fund 2019 €000**	APS Diversified Bond Fund 2018 €000
At 1 January	**1,993**	1,099
Creation of shares	**3,865**	1,016
Redemption of shares	**(228)**	(64)
Dividends paid	**(55)**	(32)
Profit / (loss) after tax	**454**	(26)
At 31 December	**6,029**	1,993

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	
	2019	2018	2019	2018
	€000	€000	€000	€000
Current assets	90,404	79,486	34,375	30,641
Current liabilities	(203)	(189)	(144)	(148)
Net assets value	90,201	79,297	34,231	30,493
Split into:				
Accumulator shares	21,524	17,095	11,728	9,860
Distributor shares	68,677	62,202	22,503	20,633
	90,201	79,297	34,231	30,493
Group's percentage of distributor shares' NAV	13,159	12,481	5,917	5,437

	APS Income Fund		APS Regular Income Ethical Fund	
	2019	2018	2019	2018
	€000	€000	€000	€000
Income	7,787	2,536	3,805	(696)
Expenses	(817)	(769)	(422)	(403)
Finance cost	(1,636)	(1,694)	(457)	(568)
Profit before tax	5,334	73	2,926	(1,667)
Tax	(398)	(404)	(36)	(45)
Profit / (Loss) after tax	4,936	(331)	2,890	(1,712)
Group's share of profit / (loss) for the year	1,012	(221)	573	259

During the year under review the Group invested €375,000 in Vitae Life Limited. This has been treated as an associate since the Group holds 25% shareholding in the company. Vitae Life Limited has not been in operation during the year since the registration date of the company was 24 December 2019.

22. Investment in associates (Continued)

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

	2019 €000	2018 €000
Carrying amount of the investment at 1 January	17,748	18,224
Share of associates' results, net of tax	1,585	38
Investment in associate	375	-
Dividend distribution	(451)	(514)
Carrying amount of the associates at 31 December	19,257	17,748

The associates had no contingent liabilities or capital commitments as at 31 December 2019 (2018: the same).

The fair value of the investments in APS Income Fund (Class D) and APS Ethical Income Fund (Class B) as at 31 December 2019 amounted to €19,075,666 (2018: €17,918,288).

The following are quoted market prices of the associate as at end of December 2019 and December 2018 and represent Level 1 investments in the fair value hierarchy:

	APS Income Fund	
	2019 €000	2018 €000
Accumulator	193.7937	179.0534
Distributor	133.1133	126.1875

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

	APS Regular Income Ethical Fund	
	2019 €000	2018 €000
Accumulator Class A	1.4731	1.3243
Distributor Class B	1.1834	1.0872
Accumulator Class C	1.4680	1.3206
Distributor Class D	1.1811	1.0856

22. Investment in associates (Continued)

The Bank

Name	Country of incorporation	Equity interest 2019 %	Equity interest 2018 %	Cost 2019 €000	Cost 2018 €000
APS Funds SICAV plc 1,199 founder shares at €1.00 (2018: 1,199 founder shares at €1.00)	Malta	99.99	99.99*	1	1
APS Income Fund 98,853.14 units at €100.01 (2018: 98,853.14 units at €100.01)	Malta	15.77	16.80	9,886	9,886
APS Regular Income Ethical Fund 5,000,000 units at €1.00 (2018: 5,000,000 units at €1.00)	Malta	18.51	18.90	5,000	5,000
Vitae Life Limited 375,000 units at €1.00	Malta	25.00	-	375	-
				15,262	14,887

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

APS Income Fund and APS Regular Income Ethical Fund are both sub-funds of APS Funds SICAV plc. 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. Non current assets held for sale

	The Group / The Bank 2019 €000	The Group / The Bank 2018 €000
At 1 January	2,600	-
Property reclassified as held for sale	-	2,600
Property sold during the year	(2,600)	-
At 31 December	-	2,600

During the year under review the Group sold one of the investment properties for which a promise of sale agreement already existed in 2018 at a price of €2,600,000. There were no properties held for sale as at end of December 2019.

24. Investment properties

The Group's investment properties consist of commercial properties and residential properties in Malta. As at 31 December 2019 and 2018 the fair values of investment properties held by the Group were as follows:

	The Group		The Bank	
	2019	2018	2019	2018
	€000	€000	€000	€000
At 1 January	1,860	4,203	1,860	4,203
Property sold during the year	(100)	-	(100)	-
Property reclassified as held for sale	-	(2,600)	-	(2,600)
Fair value movement	70	257	70	257
At 31 December	1,830	1,860	1,830	1,860

During the year under review the Group sold an investment property at a price of €100,000. No new properties have been repossessed as at end of December 2019. The fair value movement for the year is recognised in the following line item – Other operating income.

25. Property and equipment

The Group	Land and Buildings	Computer Equipment	Other	Total
	€000	€000	€000	€000
Cost or valuation				
At 1 January 2018	14,422	6,257	14,497	35,176
Additions	2,022	1,415	2,243	5,680
Reclassification	-	-	(64)	(64)
At 31 December 2018				
As previously reported	16,444	7,672	16,676	40,792
Effect of changes in accounting policy	18,807	-	-	18,807
As restated	35,251	7,672	16,676	59,599
Accumulation of depreciation on revalued properties	(1,599)	-	-	(1,599)
Additions	1,674	1,039	1,604	4,317
At 31 December 2019	**35,326**	**8,711**	**18,280**	**62,317**
Depreciation				
At 1 January 2018	2,089	4,749	10,632	17,470
Charge for the year	146	245	708	1,099
Reclassification	-	-	(63)	(63)
At 31 December 2018	2,235	4,994	11,277	18,506
Accumulation of depreciation on revalued properties	(1,599)	-	-	(1,599)
Charge for the year	217	760	582	1,559
At 31 December 2019	**853**	**5,754**	**11,859**	**18,466**
Net Book Value				
At 31 December 2019	**34,473**	**2,957**	**6,421**	**43,851**
At 31 December 2018	14,209	2,678	5,399	22,286
At 1 January 2018	12,333	1,508	3,865	17,706

The Group (Continued)	2019 €000	2018 €000
Future capital expenditure:		
- Authorised by the Directors and contracted	809	396
- Authorised by the Directors but not yet contracted	4,652	4,783
	5,461	5,179

The Bank	Land and Buildings €000	Computer Equipment €000	Other €000	Total €000
Cost or valuation				
At 1 January 2018	14,422	6,257	14,497	35,176
Additions	2,022	1,415	2,243	5,680
Reclassification	-	-	(64)	(64)
At 31 December 2018				
As previously reported	16,444	7,672	16,676	40,792
Effect of changes in accounting policy	18,807	-	-	18,807
As restated	35,251	7,672	16,676	59,599
Accumulation of depreciation on revalued properties	(1,599)	-	-	(1,599)
Additions	1,674	1,039	1,604	4,317
At 31 December 2019	**35,326**	**8,711**	**18,280**	**62,317**
Depreciation				
At 1 January 2018	2,089	4,749	10,632	17,470
Charge for the year	146	245	708	1,099
Reclassification	-	-	(63)	(63)
At 31 December 2018	2,235	4,994	11,277	18,506
Accumulation of depreciation on revalued properties	(1,599)	-	-	(1,599)
Charge for the year	217	760	582	1,559
At 31 December 2019	**853**	**5,754**	**11,859**	**18,466**
Net Book Value				
At 31 December 2019	**34,473**	**2,957**	**6,421**	**43,851**
At 31 December 2018	14,209	2,678	5,399	22,286
At 1 January 2018	12,333	1,508	3,865	17,706

25. Property and equipment (Continued)

The Bank (Continued)	2019 €000	2018 €000
Future capital expenditure:		
- Authorised by the Directors and contracted	809	396
- Authorised by the Directors but not yet contracted	4,652	4,783
	5,461	5,179

The gross carrying amount of any fully depreciated property and equipment that is still in use as at 31 December 2019 was of €15,641K (2018: €15,035K).

The carrying amount of property and equipment at 31 December 2019 that would have been recognised had land and buildings been carried under the cost model is € 25,044K for both the Group and the Bank.

26. Intangible assets	The Group Computer software €000	The Bank Computer software €000
Cost		
At 1 January 2018	14,914	14,910
Additions	1,542	1,542
At 31 December 2018	16,456	16,452
Additions	2,624	2,624
At 31 December 2019	**19,080**	**19,076**
Amortisation		
At 1 January 2018	9,821	9,821
Charge for the year	774	773
At 31 December 2018	10,595	10,594
Charge for the year	1,165	1,164
At 31 December 2019	**11,760**	**11,758**
Net book value		
At 31 December 2019	**7,320**	**7,318**
At 31 December 2018	5,861	5,858
At 1 January 2018	5,093	5,089

	2019 €000	2018 €000
Future capital expenditure:		
- Authorised by the Directors and contracted	3,272	885
- Authorised by the Directors but not yet contracted	4,510	6,157
	7,782	7,042

The gross carrying amount of any fully amortised intangible assets that is still in use as at 31 December 2019 was of € 8,958K (2018: same).

27. Right-of-use assets and lease liabilities

The statements of financial position show the following amounts relating to leases.

	The Group / The Bank 2019 €000
As at 31 December 2019	
Right-of-use-assets – Property and equipment	
Property	2,405
Equipment	39
Vehicles	148
	2,592
Lease liabilities	
Current	355
Non-Current	2,274
	2,629

Additions to the right-of-use assets during 2019 financial year were € 44,327. Total cash outflows in relation to leases during the year amounted to € 394,576.

The statements of profit or loss show the following amounts relating to leases:

	The Group / The Bank 2019 €000
For the year ended 31 December 2019	
Depreciation charge on right-of-use assets	
Property	301
Equipment	10
Vehicles	61
	372

	The Group / The Bank 2019 €000
As at 31 December 2019	
Interest expense (included in interest payable)	59
Expenses relating to leases of low-value assets (included in administrative expenses)	108
	167

27. Right-of-use assets and lease liabilities (Continued)

	The Group / The Bank
Comparative year	2018 €000
Minimum lease payments under operating leases recognised as an expense for the year	402

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

	2018 €000
Within one year	444
Between one and five years	1,275
Over five years	1,641
	3,360

Operating lease payments 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.

28. Deferred tax assets

Deferred income tax at 31 December relates to the following:

	The Group		The Bank	
	2019	2018	**2019**	2018
	€000	€000	**€000**	€000
Fair value movements in investment securities	**(1,396)**	(1,197)	**(1,396)**	(1,197)
Fair value movements on investment properties	**(146)**	(148)	**(146)**	(148)
Impairment allowance for loans and advances to customers	**5,996**	6,154	**5,996**	6,154
Impairment allowance for investment securities	**37**	43	**37**	43
Excess of capital allowances over depreciation	**(1,362)**	(999)	**(1,362)**	(999)
Movement on right-of-use assets	**12**	-	**12**	-
On revaluation of land and buildings	**(2,681)**	-	**(2,681)**	-
	460	3,853	**460**	3,853

Deferred tax arising on the fair value movements on land and buildings classified in the statements of financial position within property and equipment and on investment securities, amounting to €2,872,859 was debited (2018: €878,334 credited) directly in OCI. For other movements' details refer to note 11.

29. Other receivables

	The Group		The Bank	
	2019	2018	2019	2018
	€000	€000	€000	€000
Accrued income	4,875	4,826	4,875	4,826
Prepayments and other receivables	1,603	1,467	812	821
Amounts due from subsidiaries	-	-	220	198
	6,478	6,293	5,907	5,845

30. Amounts owed to banks

	The Group		The Bank	
	2019	2018	2019	2018
	€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 40)	24,512	404	24,512	404
- over 3 months but less than 1 year but not repayable on demand	-	7,059	-	7,059
- Over 1 year	-	67,010	-	67,010
	24,512	74,473	24,512	74,473
Analysed by currency:				
- Euro	7,915	74,079	7,915	74,079
- Foreign	16,597	394	16,597	394
	24,512	74,473	24,512	74,473

31. Amounts owed to customers

	The Group		The Bank	
	2019	2018	2019	2018
	€000	€000	€000	€000
Term deposits	795,653	784,587	795,653	787,087
Repayable on demand	1,133,318	865,721	1,133,851	866,222
	1,928,971	1,650,308	1,929,504	1,653,309
Analysed by currency:				
- Euro	1,842,341	1,570,396	1,842,874	1,573,397
- Foreign	86,630	79,912	86,630	79,912
	1,928,971	1,650,308	1,929,504	1,653,309

32. Other liabilities

	The Group		The Bank	
	2019	2018	2019	2018
	€000	€000	€000	€000
Other liabilities	10,966	11,892	10,966	11,892

33. Accruals

	The Group		The Bank	
	2019	2018	2019	2018
	€000	€000	€000	€000
Accrued interest payable	**4,242**	5,608	**4,242**	5,608
Other accruals	**4,510**	4,494	**4,470**	4,452
Amounts due to subsidiaries	**-**	-	**-**	17
	8,752	10,102	**8,712**	10,077

34. Issued capital

	The Group / The Bank	
	2019	2018
	€000	€000
Authorised		
60,000,000 ordinary shares of €1.25 each (2018: same)	**75,000**	75,000
Issued and fully paid		
49,803,840 ordinary shares of €1.25 each (2018: 46,083,840 ordinary shares of €1.25 each)	**62,255**	57,605

The Group / The Bank	2019 Number of shares 000	2018 Number of shares 000
At 1 January	**46,084**	46,084
Issue of share capital	**3,720**	-
At 31 December	**49,804**	46,084

During the year under review the Bank has increased its share capital through a rights issue to its current shareholders. The Bank's major shareholders are AROM Holdings Limited and the Diocese of Gozo which hold 79.66% (2018: 83.33%) and 18.00% (2018:16.67%) of the share capital, respectively. The accounts of APS Bank plc 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 plc is the Archdiocese of Malta.

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

35. Share premium

	The Group / The Bank	
	2019	2018
	€000	€000
At 1 January	**1,770**	1,770
Issue of share capital	**8,370**	-
At 31 December	**10,140**	1,770

The share premium reserve is not available for distribution.

36. Revaluation reserve

As disclosed in Note 2.2, during the year under review, the Group and the Bank changed their accounting policy for the subsequent measurement of land and buildings classified in the statements of financial position within property and equipment from the cost model to the revaluation model.

The following table shows the movement in the revaluation reserve attributable to the land and buildings during the year under review:

	The Group / The Bank
	€000
Revaluation adjustment at 1January 2019 , gross of tax	18,807
Deferred tax thereon at 1 January 2019	(2,681)
Revaluation adjustment in 2019, gross of tax	-
Deferred tax thereon in 2019	-
Carrying amount at 31 December 2019	**16,126**

The revaluation reserve is also used to record movements in the fair value of financial instruments measured at FVTOCI, net of deferred taxation thereon.

The revaluation reserve is not available for distribution.

37. 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 2018 and 2019. 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.

38. Contingent liabilities

	The Group		The Bank	
	2019	2018	**2019**	2018
	€000	€000	**€000**	€000
Guarantees	**22,331**	22,762	**22,331**	22,762
Other contingent liabilities	**524**	507	**524**	507
	22,855	23,269	**22,855**	23,269

In the ordinary course of business, the Bank gives financial guarantees, consisting of letters of credit and guarantees. The measurement of these instruments is disclosed in the accounting policies.

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 2019 and 31 December 2018.

39. Commitments

	The Group		The Bank	
	2019	2018	**2019**	2018
	€000	€000	**€000**	€000
Undrawn formal standby facilities, credit facilities and other commitments to lend	**757,638**	711,160	**757,638**	711,160

40. Notes to the statements of cash flows

	The Group		The Bank	
	2019	2018	2019	2018
	€000	€000	€000	€000
Cash in hand (note 13)	**15,224**	10,387	**11,225**	9,490
Balances with Central Bank of Malta (excluding reserve deposit) (note 13)	**136,776**	151,611	**136,776**	151,611
Loans and advances to banks (repayable within 3 months) (note 14)	**54,841**	49,384	**54,841**	49,384
Amounts owed to banks (note 30)	**(24,512)**	(404)	**(24,512)**	(404)
Cash and cash equivalents included in the statements of cash flows	**182,329**	210,978	**178,330**	210,081

41. Related party disclosures

The Group structure

These consolidated financial statements of the Group include the financial statements of APS Bank plc and its subsidiaries and associates, as disclosed in Notes 21 and 22 respectively.

The registered office of APS Funds SICAV plc, 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.

Note 34 provides disclosures on the Bank's shareholders.

Related party transactions

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

Related parties	Year	Income from related parties	Expenses charged to / (by) related parties	Amounts owed by related parties	Amounts owed to related parties
		€000	€000	€000	€000
Subsidiaries					
APS Diversified Bond Fund	**2019**	**-**	**-**	**-**	**3**
APS Diversified Bond Fund	2018	-	33	-	2,500
ReAPS Asset Management Limited	**2019**	**887**	**-**	**220**	**530**
ReAPS Asset Management Limited	2018	845	-	198	488
Associates					
APS Income Fund	**2019**	**-**	**170**	**-**	**6,771**
APS Income Fund	2018	-	58	-	5,024
APS Regular Income Ethical Fund	**2019**	**-**	**10**	**-**	**226**
APS Regular Income Ethical Fund	2018	-	3	-	219

41. Related party disclosures (Continued)

Transactions with key management personnel of the Group / Bank

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

The amounts disclosed in note 8 and 9 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. (2018: the same).

(b) Other transactions with Directors:

	2019 €000	2018 €000
Loans and advances	661	287
Commitments	206	400

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:

	2019 €000	2018 €000
Loans and advances	3,754	2,030
Commitments	203	174

Transactions with other related parties:

	Balances at 31.12.2019 €000	Interest receivable 2019 €000	Balances at 31.12.2018 €000	Interest receivable 2018 €000
Amounts due from other related parties:				
Shareholders and entities with common Directorship	6,901	198	7,219	231

	Balances at 31.12.2019 €000	Interest payable 2019 €000	Balances at 31.12.2018 €000	Interest payable 2018 €000
Amounts due to other related parties:				
-Shareholders	21,391	467	29,295	611
-Key management personnel	1,524	5	922	4
-Other related parties	16,085	184	25,170	296

Included in the amounts due to shareholders, are deposits of €250,000 (2018: €250,000) held as collateral for loan commitments and overdraft facilities granted to related parties. Also included are term deposits of €6,833,720 (2018: €11,383,597), which bear interest at the prevailing Bank rates. Furthermore, the amounts due from other related parties includes a secured element of €6,890,620 (2018: €7,204,075) and €10,017 (2018: €14,451) as unsecured.

For the year ended 31 December 2019, the Bank did not require to provide for impairment of receivables relating to amounts due from related parties (2018: the same).

No guarantees were received by related parties as at end of December 2019 (2018: the same). Special guarantees given to related parties amount to €226,633 (2018: €235,132).

42. 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 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 Group's and 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 at 31 December 2019				
Property and Equipment (Note 25)				
- Land and buildings	34,473	-	-	34,473
Investment properties (Note 24)				
- Residential properties	-	-	400	400
- Commercial properties	-	-	1,430	1,430
Derivative assets not designated as hedges (Note 17)	-	721	-	721
Financial assets at FVTPL (Note 18)				
- fixed income instruments and collective investment schemes	41,478	-	-	41,478
Financial assets at FVTOCI				
- other debt and fixed income instruments (Note 19)	158,595	-	-	158,595
- equity and other non-fixed income instruments (Note 20)	-	-	308	308
Total	**234,546**	**721**	**2,138**	**237,405**
Liabilities at 31 December 2019				
Derivative liabilities not designated as hedges (Note 17)	-	721	-	721
Total	**-**	**721**	**-**	**721**

42. Fair values (Continued)

The Group	Level 1	Fair value measurement hierarchy Level 2	Level 3	Total
	€000	€000	€000	€000
Assets at 31 December 2018				
Investment properties (Note 24)				
- Residential properties	-	-	460	460
- Commercial properties	-	-	1,400	1,400
Non-Current assets held for sale	-	-	2,600	2,600
Derivative assets not designated as hedges (Note 17)	-	822	-	822
Financial assets at FVTPL (Note 18)				
- fixed income instruments and collective investments schemes	36,241	-	-	36,241
Financial assets at FVTOCI				
- other debt and fixed income instruments (Note 19)	165,184	-	-	165,184
- equity and other non-fixed income instruments (Note 20)	963	-	309	1,272
Total	**202,388**	**822**	**4,769**	**207,979**
Liabilities at 31 December 2018				
Derivative liabilities not designated as hedges (Note 17)	-	822	-	822
Total	**-**	**822**	**-**	**822**

The Bank	Level 1	Fair value measurement hierarchy Level 2	Level 3	Total
	€000	€000	€000	€000
Assets at 31 December 2019				
Property and equipment (Note 25)				
- Land and buildings	34,473	-	-	34,473
Investment properties (Note 24)				
- Residential properties	-	-	400	400
- Commercial properties	-	-	1,430	1,430
Derivative assets not designated as hedges (Note 17)	-	721	-	721
Financial assets at FVTPL (Note 18)				
- Fixed income instruments and collective investment schemes	464	-	-	464
Financial assets at FVTOCI				
- other debt and fixed income instruments (Note 19)	158,595	-	-	158,595
- equity and other non-fixed income instruments (Note 20)	-	-	308	308
Total	**193,532**	**721**	**2,138**	**196,391**
Liabilities at 31 December 2019				
Derivative liabilities not designated as hedges (Note 17)	-	721	-	721
Total	**-**	**721**	**-**	**721**

42. Fair values (Continued)

The Bank	Level 1	Level 2	Level 3	Total
	Fair value measurement hierarchy			
	€000	€000	€000	€000
Assets at 31 December 2018				
Investment properties (Note 24)				
- Residential properties	-	-	460	460
- Commercial properties	-	-	1,400	1,400
Non-current assets held for sale	-	-	2,600	2,600
Derivative assets not designated as hedges (Note 17)	-	822	-	822
Financial assets at FVTPL (Note 18)				
- fixed income instruments and collective investment schemes	879	-	-	879
Financial assets at FVTOCI				
- other debt and fixed income instruments (Note 19)	165,184	-	-	165,184
- equity and other non-fixed income instruments (Note 20)	963	-	309	1,272
Total	**167,026**	**822**	**4,769**	**172,617**
Liabilities at 31 December 2018				
Derivative liabilities not designated as hedges (Note 17)	-	822	-	822
Total	**-**	**822**	**-**	**822**

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, except as disclosed below.

Investment properties

Property held by the Group and the Bank was valued by an independent architect. Both commercial and residential properties were valued using the market value basis, as defined in the European Valuation Standards manual, namely, the price at which land and buildings could be sold under private contract between a willing seller and an arm's length buyer on the date of valuation, it being assumed that the property is publicly exposed to the market, that market conditions permit orderly disposal and that a normal period, having regard to the nature of the property, is available for the negotiation of sale. Market value in relation to the commercial property was based on the price of €2,471 per square metre whereas the price of residential property was of €1,896 per square metre.

In 2018, commercial property was valued using the investment method, whereby the potential rental value estimated to be in the €130 and €160 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. The residential property was valued using a comparative sales method with prices in the range of €270 and €300 per square metre adjusted for the specific attributes of the property which is in need of a refurbishment. The Bank's objective is to dispose of the properties in an orderly fashion to reduce or repay outstanding claims and accordingly their current use is not necessarily the highest and best use in terms of IFRS 13.

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

As at the end of 31 December 2019 (2018: the same) the Group has no restrictions on the realisation of investment properties in Note 24.

As disclosed in Note 24, the fair value movement on property held by the Group and the Bank amounted to €70k for 2019 (2018: €257k). This fair value movement is all attributable to assets held at year end and no fair value movement was recognised in respect of assets disposed during the year.

42. Fair values (Continued)

	Residential properties		Commercial properties	
	2019	2018	2019	2018
	€000	€000	€000	€000
At 1 January	**460**	2,803	**1,400**	1,400
Disposals	**(100)**	-	-	-
Property classified as held for sale	-	(2,600)	-	-
Fair value movement	**40**	257	**30**	-
At 31 December	**400**	460	**1,430**	1,400

Property and equipment – Land and buildings

An independent architect has been engaged to provide valuations based on a market value basis, namely, the price at which land and buildings could be sold under private contract between a willing seller and an arm's length buyer on the date of the valuation, it being assumed that the property is publicly exposed to the market, that market conditions permit orderly disposal and that a normal period, having regard to the nature of the property, is available for the negotiation of sale. Market value was based on prices in the range of €1,172 and €10,909 per square metre.

Significant increases (decreases) in estimated market rates per square metre in isolation would result in a significantly higher (lower) fair value of the properties. The property is being used at its highest and best use and valuation on the properties was done as at 31 December 2019.

Derivative assets not designated as hedges

The last valuation for derivative instruments was made on 31 December 2019 (2018: 31 December 2018) 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 FVTPL – fixed income instruments and collective investments schemes

All of the Group's financial assets at FVTPL are carried at market value using available quoted market prices.

FVTOCI

Fair values of debt and equity instruments classified in this category are generally based on quoted market prices, if available.

Other financial instruments

The amounts stated for cash balances, balances with the Central Bank of Malta and loans and advances to banks which are repayable on call and at short notice are highly liquid assets. The Directors regard the amounts shown in the statements 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 of the placements with other banks not repayable at short notice is not materially different from their carrying amount since these carry an arm's length rate of interest which is reflective of conditions at year end. The fair value was determined using a Level 2 discounted cash flow valuation technique using relevant interest rates as the major inputs.

At the reporting date, debt securities classified at amortised cost amounted to €79.6million (2018: €85.9million). Their market value amounted to €88.3 million (2018: €93.1 million) (Level 1), whilst their nominal value amounted to €76.3 million (2018: €81.6 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.

At the reporting date, syndicated loans classified at amortised cost amounted to €97.2 million (2018: €61.6 million). Their market value amounted to €95.5 million (2018: €60.6 million) (Level 2), whilst their nominal value amounted to €98.1 million (2018: €62.3 million). For other details refer to Note 16.

Amounts owed to banks and customers are mainly deposit liabilities. Of this category of liability, 81% (2018: 76%) have contractual re-pricing within one year, whilst 19% (2018: 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 after one year with a carrying amount of €378.8 million (2018: €412.7 million), fair value is €378.8 million (2018: €412.7 million). All term deposits at different maturities were revalued to reflect the current interest rates. The fair value measurement is classified as Level 2.

The reconciliation of Level 3 fair value measurements of financial instruments is disclosed below.

	The Group / The Bank	
	2019	2018
	€000	€000
Opening balance at 1 January	309	282
Acquisitions	-	28
Fair value movements	(1)	(1)
Closing balance at 31 December	**308**	309

43. Risk management

43.1 Introduction

43.1.1 Risk management framework

The Board of Directors (hereafter referred to as "the Board") has overall responsibility for the establishment and oversight of the Group's risk management framework. The Board has established the Risk Committee. The Risk Committee proposes the risk appetite statement for approval by the Board and ensures implementation of the Group's risk management and compliance strategy, systems and policies. The Group's Risk Appetite Statement articulates the types and level of risk that the Group is willing to take in the pursuit of the strategic objectives. The risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities.

The Group's risk governance framework ensures oversight of, and accountability for, the effective management of risk. Responsibility for risk lies at all levels within the Group 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 function. The management of the various forms of risk is then coordinated and monitored by the Risk and Compliance functions. The Internal Audit Department, as the third line of defence, provides independent assurance to the Board on the adequacy of the risk management framework.

43.2 Credit Risk

Credit Risk is the possibility that a borrower or counterparty fails to meet its obligations in accordance with (or performing according to) agreed terms, causing a financial loss, including losses resulting from a reduction in portfolio value arising from actual or perceived deterioration in credit quality.

Credit risk arises mainly from interbank, commercial and consumer loans and advances, and loan commitments arising from such lending activities, but can also arise from credit enhancement provided, such as financial guarantees, letters of credit, endorsements and acceptances.

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 statements 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 is also exposed to credit risk arising from investments in debt securities and other financial instruments arising from its trading and investment activities including non-equity portfolio assets and derivatives as well as settlement balances with market counterparties, reverse repurchase agreements and balances with CBM.

The Group has a detailed Credit Risk Policy, which lays down the principles for the management of credit risk. The Group manages and controls its exposure to credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and connected entities, as well as by geographical and industry concentrations.

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 counterparts 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.

43.2.1 Credit Risk Measurement

The estimation of credit exposure for risk management purposes is complex and requires the use of models, as the exposure varies with changes in market conditions, expected cash flows and the passage of time. The assessment of credit risk of a portfolio of assets entails further estimations as to the likelihood of defaults occurring, of the associated loss ratios and of default correlations between counterparties.

43.2.1.1 Credit Risk Grading

The Group allocates 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 uses these grades in identifying significant increases in credit risk under IFRS 9. Credit risk grades are a primary input into the determination of the term structure of PD for exposures.

The Group uses internal rating models tailored to the various categories of counterparty. Borrower and loan specific information collected at the time of application (such as the level of collateral for retail exposures and turnover and industry type for wholesale exposures) is fed into this rating model. This is supplemented with external data such as information from the credit risk register. In addition, the models enable management overlay by the responsible person, to be fed into the final internal credit rating for each exposure. This allows for considerations which may not be captured as part of the other data inputs into the model.

The following are additional considerations for each type of portfolio held by the Group:

Retail

After the date of initial recognition, for retail business, the payment behaviour of the borrower is monitored on a periodic basis to develop a behavioural score. Any other known information about the borrower which impacts their creditworthiness, such as unemployment and previous delinquency history, is also incorporated into the internal credit rating system.

Wholesale

For wholesale business, the rating is determined at the borrower level. A relationship manager will incorporate any updated or new information / credit assessments into the credit system on an ongoing basis. In addition, the relationship manager will also update information about the creditworthiness of the borrower every year from sources such as public financial statements. This will determine the updated internal credit rating.

Treasury

For debt securities in the Treasury portfolio, external rating agency credit grades are used. These published grades are continuously monitored and updated. The PDs associated with each grade are determined based on historical realised default rates, as published by an external credit rating agency.

Syndicated Loans

Similar to debt securities, syndicated loans are rated using an external rating agency credit grades. Again, these credit grades are frequently reviewed and monitored for immediate update where necessary.

The Group's internal gradings for loans and advances comprise of nine (9) rating levels including three (3) default classes, whilst the remaining rating levels represent exposures not in default. Each rating category is assigned a stage under IFRS 9, where the PDs differ according to which stage, the rating category falls under.

For debt securities and syndicated loans, PDs are obtained from market data provided by a third party. PDs are assigned to the instruments, according to their external credit rating, region and sector. The risk of default increase exponentially at each higher credit risk rating. This means that the difference in the PD between an A and A- rating grade is lower than the difference in the PD between a B and B- rating grade.

43.2.2 Expected Credit Loss Measurement
IFRS 9 outlines a 'three-stage' model for impairment based on changes in credit quality since initial recognition as summarised below:

- A financial instrument that is not credit-impaired on initial recognition is classified in 'Stage 1' and has its credit risk continuously monitored by the Group.
- If a significant increase in credit risk ('SICR') since initial recognition is identified, the financial instrument is moved to 'Stage 2' but is not yet deemed to be credit-impaired. Please refer to note 43.2.2.1 for a description of how the Group determines when a significant increase in credit risk has occurred.
- If the financial instrument is credit-impaired, the financial instrument is then moved to 'Stage 3'. Please refer to note 43.2.2.2 for a description of how the Group defines credit-impaired and default.
- Financial instruments in Stage 1 have their ECL measured at an amount equal to the portion of lifetime ECLs that result from default events possible within the next 12 months. Instruments in Stages 2 or 3 have their ECL measured based on expected credit losses on a lifetime basis. Please refer to note 43.2.2.3 for a description of inputs, assumptions and estimation techniques used in measuring the ECL.
- A pervasive concept in measuring ECL in accordance with IFRS 9 is that it should consider forward looking information. Note 43.2.2.4 includes an explanation of how the Group has incorporated this in its ECL models.

Further explanation is also provided in note 43.2.2.5 on how the Group determines appropriate groupings when ECL is measured on a collective basis.

The following diagram summarises the impairment requirements under IFRS 9:

Change in credit quality since initial recognition

Stage 1	Stage 2	Stage 3
Initial Recognition	Significant increase in credit risk since initial recognition	Credit-impaired assets
12 month ECL	Lifetime ECL	Lifetime ECL

The key judgements and assumptions adopted by the Group in addressing the requirements of the standard are discussed in the following notes.

43.2.2.1 Significant increase in Credit Risk (SICR)
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 and banks, 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 and balances with CBM, 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.
- In assessing whether there has been a significant increase in the credit risk since initial recognition of a loan commitment, the Group considers changes in the risk of a default occurring on the loan to which a loan commitment relates; for financial guarantee contracts, the Group considers the changes in the risk that the specified debtor will default on the contract.

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, as discussed in note 2.3 Modification of loans.

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.

43.2.2 Expected Credit Loss Measurement (Continued)

Quantitative Criteria:

For financial instruments other than the Group's investment portfolio, the Group will presumptively consider that a significant increase in credit risk occurs when the borrower is more than 30 days past due on its contractual payments. 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. In assessing whether a financial instrument has experienced a SICR, the Group also considers non-payments on connected accounts of the same issuer to the Group, which exceed 30 days.

Qualitative Criteria:

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 based on particular qualitative indicators that it considers indicative of such and whose effect may not otherwise be fully reflected in its quantitative analysis on a timely basis.

If the borrower meets one or more of the following criteria, the internal grading of the credit facility falls due to a significant increase in credit risk i.e. transition to Stage 2:

- Excesses over an overdraft limit become fairly frequent and / or exceed the 30 days past due (latter automated in the core banking system);
- A few cheques returned unpaid;
- Review of borrowing accounts overdue;
- Trading losses that indicate a negative financial trend leading to an unsound financial position;
- A significant downgrade from a superior credit rating;
- Significant decrease in collateral value which is expected to increase risk of default (for bullet repayment loans only, such as commercial property-for-resale and / or residential Bridge Loans repayable from sale of the same collateral); and
- Early signs of cash flow / liquidity problems such as delay in servicing of trade creditors / loans and / or non-collection of debtors / amounts due.

The assessment of SICR incorporates forward-looking information and is performed on a regular basis. More detail is provided in note 43.2.2.1.

The Group monitors 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 (Stage 1) to credit-impaired (Stage 3).

The Group has used the low credit risk exemption for the investments' portfolio in the current and prior year, meaning that such financial instruments were not subject to the SICR test.

43.2.2.2 Definition of Default and credit impaired

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.

At each reporting date, the Group assesses whether financial assets carried at amortised cost, debt financial assets carried at FVTOCI, loan commitments and financial guarantees are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- the restructuring of a loan or advance by the Group on terms that the Group would not consider otherwise;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for a security because of financial difficulties.

A loan that has been renegotiated due to a deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment.

An instrument is considered to no longer be in default (i.e. to have cured) when it no longer meets any of the default criteria for a consecutive period of three months. This period of three months has been determined based on an analysis which considers the likelihood of a financial instrument returning to default status after cure using different possible cure definitions.

43.2.2.3 Measuring ECL – Explanation of inputs, assumptions and estimation techniques

The ECL is measured on either a 12-month (12M) or Lifetime basis depending on whether a significant increase in credit risk has occurred since initial recognition or whether an asset is considered to be credit impaired.

ECLs are the discounted product of the Probability of Default (PD), Exposure at Default (EAD), and Loss Given Default (LGD), defined as follows:

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

information as described below. Market data, obtained from a third party service provider, is used for the PD of investment portfolio, balances with CBM and loans and advances to banks.
- EAD represents the expected exposure in the event of a default. The Group derives 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 is the gross carrying amount at default. For lending commitments and financial guarantees, the EAD considers 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 determines EAD by modelling the range of possible exposure outcomes at various points in time using scenario and statistical techniques.
- LGD is the magnitude of the likely loss if there is a default. The Group estimates LGD parameters based on the history of recovery rates of claims, adjusted by the cure rates, against defaulted counterparties. The LGD models 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 are calibrated for different economic scenarios and, for real estate lending, to reflect possible changes in property prices. They are calculated on a discounted cash flow basis using the effective interest rate as the discounting factor.

ECLs are a probability-weighted estimate of credit losses and are 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.

Subject to using a maximum of a 12-month PD for financial assets for which credit risk has not significantly increased, the Group measures 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 measures 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.

43.2.2.4 Forward Looking Information

Under IFRS 9, the Group incorporates 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 performs a historical analysis and identifies the key economic variables affecting credit risk and ECLs 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 represents the most-likely outcome and is 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.

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.

43.2.2.5 Grouping shared risk characteristics

For ECL provisions modelled on a collective basis, a grouping of exposures is performed on the basis of shared risk characteristics, such that risk exposures within a group are homogeneous. In performing this grouping, there must be sufficient information for the group to be statistically credible. The characteristics and any supplementary data used to determine groupings are outlined below;
- Product type (e.g. residential / buy to let mortgage, credit cards);
- Credit risk grades;
- Industry – taking into consideration external information;
- LTV ratio band;
- Repayment type (e.g. bullet cash flow type);
- Collateral type; and
- Geographic region of exposure.

The Group has classified the existent portfolios into the following groups;

- Loans and advances to customers;
  a. Mortgages
  b. Personal
  c. Commercial
  d. Accommodation and food
  e. Construction
- Loans and advances to banks;
- Debt instruments; and
- Syndicated loans.

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

43.2.3 Credit Risk Exposure

43.2.3.1 Maximum exposure to credit risk without taking account of any collateral and other credit enhancements

With respect to financial instruments which expose the Group to credit risk, the maximum exposure equals the carrying amount of these instruments, except for loan commitments and financial guarantees.

Credit risks exposures relating to the statements of financial position assets and off-balance sheet items are as follows:

	The Group Maximum exposure		The Bank Maximum exposure	
	2019	2018	2019	2018
	€000	€000	€000	€000
Cash and balances with Central Bank of Malta (excluding cash in hand)	151,178	165,021	151,178	165,021
Cheques in course of collection	128	69	128	69
Loans and advances to banks	55,841	50,384	54,841	49,384
Loans and advances to customers (net)	1,022,680	864,162	1,022,680	864,162
Loans and advances to corporate entities (net)	464,189	389,721	464,189	389,721
Syndicated loans (net)	97,228	61,610	97,228	61,610
Derivative financial instruments	721	822	721	822
Other debt and fixed income instruments (net)	238,166	251,040	238,166	251,040
Financial assets at FVTPL	41,478	36,241	464	879
Other receivables	6,478	6,293	5,907	5,845
At 31 December	2,078,087	1,825,363	2,035,502	1,788,553
Credit risk exposures relating to off-balance sheet items are as follows:				
Financial guarantees and other contingent liabilities	22,855	23,269	22,855	23,269
Commitments	757,638	711,160	757,638	711,160
At 31 December	780,493	734,429	780,493	734,429

43. Risk management (Continued)

43.2 Credit risk (Continued)

43.2.3.2 Concentration of Risk

The Group

Concentrations of risk	Financial Institutions €000	Manufac -turing €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)	151,178	-	-	-	-	-	-	151,178
Cheques in course of collection	128	-	-	-	-	-	-	128
Loans and advances to banks	55,841	-	-	-	-	-	-	55,841
Loans and advances to customers (gross)	27,407	23,206	190,584	39,993	12,890	234,322	974,420	1,502,822
Syndicated loans (gross)	41,712	24,823	-	10,042	7,139	14,691	-	98,407
Derivative financial instruments	721	-	-	-	-	-	-	721
Other debt and fixed income instruments (gross)	43,597	11,609	3,015	13,857	147,644	18,490	-	238,212
Financial assets at FVTPL	8,357	1,405	-	-	20,083	11,633	-	41,478
Other receivables	-	-	-	-	-	6,478	-	6,478
At 31 December 2019	**328,941**	**61,043**	**193,599**	**63,892**	**187,756**	**285,614**	**974,420**	**2,095,265**
Financial guarantees and other contingent liabilities	3,731	199	10,694	1,658	-	4,288	2,285	22,855
Commitments	26,825	8,181	206,541	12,590	625	91,115	411,761	757,638
At 31 December 2019	**30,556**	**8,380**	**217,235**	**14,248**	**625**	**95,403**	**414,046**	**780,493**

The Group

Concentrations of risk	Financial Institutions €000	Manufac -turing €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)	165,021	-	-	-	-	-	-	165,021
Cheques in course of collection	69	-	-	-	-	-	-	69
Loans and advances to banks	50,384	-	-	-	-	-	-	50,384
Loans and advances to customers (gross)	73,928	21,996	160,746	42,089	11,210	135,969	824,747	1,270,685
Syndicated loans (gross)	5,000	25,043	-	10,000	2,622	19,725	-	62,390
Derivative financial instruments	822	-	-	-	-	-	-	822
Other debt and fixed income instruments (gross)	40,899	13,282	3,526	13,563	159,912	19,907	-	251,089
Financial assets at FVTPL	10,679	777	-	-	14,952	9,833	-	36,241
Other receivables	-	-	-	-	-	6,293	-	6,293
At 31 December 2018	**346,802**	**61,098**	**164,272**	**65,652**	**188,696**	**191,727**	**824,747**	**1,842,994**
Financial guarantees and other contingent liabilities	2,384	260	12,666	1,439	-	4,765	1,755	23,269
Commitments	51,268	2,108	145,995	17,032	4,129	92,422	398,206	711,160
At 31 December 2018	**53,652**	**2,368**	**158,661**	**18,471**	**4,129**	**97,187**	**399,961**	**734,429**

43. Risk management (Continued)

43.2 Credit risk (Continued)

43.2.3.2 Concentration of Risk (Continued)

The Bank

Concentrations of risk	Financial Institutions €000	Manufac -turing €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)	151,178	-	-	-	-	-	-	151,178
Cheques in course of collection	128	-	-	-	-	-	-	128
Loans and advances to banks	54,841	-	-	-	-	-	-	54,841
Loans and advances to customers (gross)	27,407	23,206	190,584	39,993	12,890	234,322	974,420	1,502,822
Syndicated loans (gross)	41,712	24,823	-	10,042	7,139	14,691	-	98,407
Derivative financial instruments	721	-	-	-	-	-	-	721
Other debt and fixed income instruments (gross)	43,597	11,609	3,015	13,857	147,644	18,490	-	238,212
Financial assets at FVTPL	-	-	-	-	464	-	-	464
Other receivables	-	-	-	-	-	5,907	-	5,907
At 31 December 2019	**319,584**	**59,638**	**193,599**	**63,892**	**168,137**	**273,410**	**974,420**	**2,052,680**
Financial guarantees and other contingent liabilities	3,731	199	10,694	1,658	-	4,288	2,285	22,855
Commitments	26,825	8,181	206,541	12,590	625	91,115	411,761	757,638
At 31 December 2019	**30,556**	**8,380**	**217,235**	**14,248**	**625**	**95,403**	**414,046**	**780,493**

The Bank

Concentrations of risk	Financial Institutions €000	Manufac -turing €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)	165,021	-	-	-	-	-	-	165,021
Cheques in course of collection	69	-	-	-	-	-	-	69
Loans and advances to banks	49,384	-	-	-	-	-	-	49,384
Loans and advances to customers (gross)	73,928	21,996	160,746	42,089	11,210	135,969	824,747	1,270,685
Syndicated loans (gross)	5,000	25,043	-	10,000	2,622	19,725	-	62,390
Derivative financial instruments	822	-	-	-	-	-	-	822
Other debt and fixed income instruments (gross)	40,899	13,282	3,526	13,563	159,912	19,907	-	251,089
Financial assets at FVTPL	-	-	-	-	879	-	-	879
Other receivables	-	-	-	-	-	5,845	-	5,845
At 31 December 2018	**335,123**	**60,321**	**164,272**	**65,652**	**174,623**	**181,446**	**824,747**	**1,806,184**
Financial guarantees and other contingent liabilities	2,384	260	12,666	1,439	-	4,765	1,755	23,269
Commitments	51,268	2,108	145,995	17,032	4,129	92,422	398,206	711,160
At 31 December 2018	**53,652**	**2,368**	**158,661**	**18,471**	**4,129**	**97,187**	**399,961**	**734,429**

43. Risk management (Continued)

43.2 Credit risk (Continued)

43.2.3.3 Collateral and other credit enhancements

The Group employs a range of policies and practices to mitigate credit risk. The most common of these is accepting collateral for funds advanced. The Group has internal policies on the acceptability of specific classes of collateral or credit risk mitigation. Of the total loans and advances to customers, 86.86% (2018: 87.16%) were collateralised.

The Group prepares a valuation of the collateral obtained as part of the loan origination process. This assessment is reviewed periodically. The principal collateral types for loans and advances are:

- Cash and securities;
- Government guarantees;
- Mortgages over residential properties, with the substantial majority being situated in Malta;
- Charges over business assets such as premises, inventory and accounts receivable; and
- Charges over financial instruments such as debt securities, equities and insurance policies.

Longer-term finance and lending to corporate entities are generally secured, however, revolving personal credit facilities are, generally, unsecured.

Collateral held as security for financial assets other than loans and advances depends on the nature of the instrument. Debt securities are generally unsecured, with the exception of covered bonds, which are mainly secured by residential mortgages.

The Group's policies regarding obtaining collateral have not significantly changed during the reporting period and there has been no significant change in the overall quality of the collateral held by the Group since the prior period.

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. During the year the Bank sold two properties one of which was held for sale and the other as investment property with a value of €2,600,000 and €100,000 respectively. (Note 23 and 24).

The Group also makes use of master netting agreements with counter parties. As at 31 December 2019 and 31 December 2018 there were no financial assets or liabilities arising from these agreements.

A portion of the Group's financial assets originated by the mortgage business has sufficiently low 'loan to value' (LTV) ratios, which results in no loss allowance being recognised in accordance with the Group's expected credit loss model. The carrying amount of such financial assets is €862 million as at 31 December 2019 (2018 - €767 million).

The group closely monitors collateral held for financial assets considered to be credit-impaired, as it becomes more likely that the Group will take possession of collateral to mitigate potential credit losses. Financial assets that are credit-impaired and related collateral held in order to mitigate potential losses are shown below.

The Group / The Bank	Gross Exposure	Impairment allowance	Carrying amount	Fair value of collateral held
31 December 2019	€000	€000	€000	€000
Credit-impaired assets				
Loans to individuals:				
– Overdraft	928	611	317	315
– Credit cards	-	-	-	-
– Term loans	2,308	946	1,362	1,562
– Mortgages	7,724	2,836	4,888	4,927
Loans to corporate entities				
– Large corporate entities	-	-	-	-
– Small and medium-sized enterprises (SMEs)	32,224	10,656	21,568	22,527
– Other	-	-	-	-
Total credit-impaired assets	**43,184**	**15,049**	**28,135**	**29,331**

43. Risk management (Continued)
43.2 Credit risk (Continued)

43.2.3.3 Collateral and other credit enhancements (Continued)

The Group / The Bank 31 December 2018	Gross Exposure €000	Impairment allowance €000	Carrying amount €000	Fair value of collateral held €000
Credit-impaired assets				
Loans to individuals:				
– Overdraft	2,089	1,358	731	745
– Credit cards	-	-	-	-
– Term loans	2,847	1,184	1,663	2,067
– Mortgages	6,269	1,312	4,957	5,153
Loans to corporate entities				
– Large corporate entities	-	-	-	-
– Small and medium-sized enterprises (SMEs)	39,130	12,193	26,937	29,022
– Other	-	-	-	-
Total credit-impaired assets	**50,335**	**16,047**	**34,288**	**36,987**

The Group / The Bank

The following table shows the distribution of LTV ratios for the Group's mortgage and term loans credit-impaired portfolio:

Mortgage portfolio- LTV distribution	Credit-impaired (Gross carrying amount)	
	2019 €000	2018 €000
Lower than 50%	4,053	2,937
50 to 60%	321	176
60 to 70%	274	203
70 to 80%	479	305
80 to 90%	1,184	1,094
90 to 100%	1,066	990
Higher than 100%	347	564
Total	**7,724**	**6,269**

43. Risk management (Continued)
43.2 Credit risk (Continued)

43.2.3.4 Credit quality

The following table sets out information about the credit quality of financial assets measured at amortised cost and FVTOCI. Unless specifically indicated, for financial assets, the amount in the table represents gross carrying amounts.

Explanation of the terms: 12-month ECL, lifetime ECL and credit-impaired are included previous notes discussed.

The Group / The Bank 31 December 2019	12-month ECL €000	Lifetime ECL not credit-impaired €000	Lifetime ECL credit-impaired €000	Total €000
Loans and advances to customers - amortised cost				
Grade 1-4: Low risk	1,451,427	-	-	1,451,427
Grades 5-6: Watch & substandard	-	8,211	-	8,211
Grade 7: Doubtful	-	-	18,009	18,009
Grade 8: Classified	-	-	25,175	25,175
Loss allowance	(781)	(123)	(15,049)	(15,953)
Carrying amount	**1,450,646**	**8,088**	**28,135**	**1,486,869**
Debt securities - amortised cost				
Investment grade	79,317	-	-	79,317
Sub Investment grade	300	-	-	300
Loss Allowance	(46)	-	-	(46)
Carrying amount	**79,571**	**-**	**-**	**79,571**
Debt securities - FVTOCI[2]				
Investment grade	157,470	-	-	157,470
Sub Investment grade	1,125	-	-	1,125
Carrying amount	**158,595**	**-**	**-**	**158,595**
Syndicated loans				
Investment grade	7,694	-	-	7,694
Sub Investment grade	75,671	15,042	-	90,713
Loss allowance	(632)	(547)	-	(1,179)
Carrying amount	**82,733**	**14,495**	**-**	**97,228**

43. Risk management (Continued)
43.2 Credit risk (Continued)

43.2.3.4 Credit quality (Continued)

The Group / The Bank 31 December 2018	12-month ECL €000	Lifetime ECL not credit-impaired €000	Lifetime ECL credit-impaired €000	Total €000
Loans and advances to customers - amortised cost				
Grade 1-4: Low risk	1,202,105	-	-	1,202,105
Grades 5-6: Watch & substandard	-	18,245	-	18,245
Grade 7: Doubtful	-	-	21,774	21,774
Grade 8: Classified	-	-	28,561	28,561
Loss allowance	(337)	(418)	(16,047)	(16,802)
Carrying amount	**1,201,768**	**17,827**	**34,288**	**1,253,883**
Debt securities - amortised cost				
Investment grade	85,405	-	-	85,405
Sub Investment grade	500	-	-	500
Loss Allowance	(49)	-	-	(49)
Carrying amount	**85,856**	**-**	**-**	**85,856**
Debt securities - FVTOCI[2]				
Investment grade	163,899	-	-	163,899
Sub Investment grade	1,285	-	-	1,285
Carrying amount	**165,184**	**-**	**-**	**165,184**
Syndicated loans				
Investment grade	5,000	-	-	5,000
Sub Investment grade	52,390	5,000	-	57,390
Loss allowance	(688)	(92)	-	(780)
Carrying amount	**56,702**	**4,908**	**-**	**61,610**

43.2.4 Loss allowance

The loss allowance recognised in the period is impacted by a variety of factors, as described below:

- Transfers between Stage 1 and Stage 2 or 3 due to financial instruments experiencing significant increases (or decreases) of credit risk or becoming credit-impaired in the period and the consequent "step up" (or "step down") between 12 month and Lifetime ECL.
- Additional allowance for new financial instruments recognised during the period, as well as releases for financial instruments de-recognised in the period.
- Impact on the measurement of ECL due to changes in PDs, EADs and LGDs in the period, arising from regular refreshing of inputs to models.
- Impacts on the measurements of ECL due to changes made to models and assumptions.
- Discount unwind within ECL due to passage of time, as ECL is measured on a present value basis.
- Foreign exchange retranslations for assets denominated in foreign currencies and other movements.
- Financial assets derecognised during the period and write-offs of allowances related to assets that were written off during the period.

[2] No loss allowance is recognised in the statements of financial position for debt instruments measured at FVTOCI as the amount is at fair value.

43. Risk management (Continued)

43.2 Credit risk (Continued)

43.2.4 Loss allowance (Continued)

The Group / The Bank Loans and advances to customers at amortised cost	Stage 1 12-month ECL €000	Stage 2 Lifetime ECL €000	Stage 3 Lifetime ECL (but not POCI) €000	Total €000
Loss allowance at 1 January 2019 under IFRS 9	**337**	**418**	**16,047**	**16,802**
Movements in loss allowance				
Transfers:				
Transfer to Stage 1	2	-	-	2
Transfer to Stage 2	-	(250)	-	(250)
Transfer to Stage 3	-	-	313	313
Write-offs	-	-	(1,539)	(1,539)
New financial assets originated or purchased	311	8	374	693
Financial assets derecognised during the period	(77)	(44)	(117)	(238)
Increases / (decreases) due to change in credit risk	208	(9)	(29)	170
Loss allowance at 31 December 2019	**781**	**123**	**15,049**	**15,953**

The Group / The Bank Loans and advances to customers at amortised cost	Stage 1 12-month ECL €000	Stage 2 Lifetime ECL €000	Stage 3 Lifetime ECL (but not POCI) €000	Total €000
Loss allowance at 1 January 2018 under IFRS 9	**620**	**251**	**15,184**	**16,055**
Movements in loss allowance				
Transfers:				
Transfer to Stage 1	(52)	-	-	(52)
Transfer to Stage 2	-	-	-	-
Transfer to Stage 3	-	-	(19)	(19)
Write-offs	-	-	(528)	(528)
New financial assets originated or purchased	129	23	1,875	2,027
Financial assets derecognised during the period	(173)	(11)	(1,047)	(1,231)
Increases / (decreases) due to change in credit risk	(187)	155	582	550
Loss allowance at 31 December 2018	**337**	**418**	**16,047**	**16,802**

43. Risk management (Continued)

43.2 Credit risk (Continued)

43.2.4 Loss allowance (Continued)

The Group / The Bank Debt securities at amortised cost	Stage 1 12-month ECL €000	Stage 2 Lifetime ECL €000	Stage 3 Lifetime ECL (but not POCI) €000	Total €000
Loss allowance at 1 January 2019 under IFRS 9	49	-	-	49
Movements in loss allowance				
Transfers:				
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	-	-	-	-
Transfer to Stage 3	-	-	-	-
Write-offs	-	-	-	-
New financial assets originated or purchased	10	-	-	10
Financial assets derecognised during the period	(18)	-	-	(18)
Increases / (decreases) due to change in credit risk	7	-	-	7
Changes in model / risk parameters	-	-	-	-
Foreign exchange and other movements	(2)	-	-	(2)
Loss allowance at 31 December 2019	46	-	-	46

The Group / The Bank Debt securities at amortised cost	Stage 1 12-month ECL €000	Stage 2 Lifetime ECL €000	Stage 3 Lifetime ECL (but not POCI) €000	Total €000
Loss allowance at 1 January 2018 under IFRS 9	37	-	-	37
Movements in loss allowance				
Transfers:				
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	-	-	-	-
Transfer to Stage 3	-	-	-	-
Write-offs	-	-	-	-
New financial assets originated or purchased	23	-	-	23
Financial assets derecognised during the period	(3)	-	-	(3)
Increases / (decreases) due to change in credit risk	(8)	-	-	(8)
Changes in model / risk parameters	-	-	-	-
Foreign exchange and other movements	-	-	-	-
Loss allowance at 31 December 2018	49	-	-	49

43. Risk management (Continued)
43.2 Credit risk (Continued)

43.2.4 Loss allowance (Continued)

The Group / The Bank Debt securities at FVTOCI	Stage 1 12-month ECL €000	Stage 2 Lifetime ECL €000	Stage 3 Lifetime ECL (but not POCI) €000	Total €000
Loss allowance at 1 January 2019 under IFRS 9	157	-	-	157
Movements in loss allowance				
Transfers:				
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	-	-	-	-
Transfer to Stage 3	-	-	-	-
Write-offs	-	-	-	-
New financial assets originated or purchased	4	-	-	4
Financial assets derecognised during the period	(12)	-	-	(12)
Increases / (decreases) due to change in credit risk	(6)	-	-	(6)
Changes in model / risk parameters	-	-	-	-
Loss allowance at 31 December 2019	143	-	-	143

The Group / The Bank Debt securities at FVTOCI	Stage 1 12-month ECL €000	Stage 2 Lifetime ECL €000	Stage 3 Lifetime ECL (but not POCI) €000	Total €000
Loss allowance at 1 January 2018 under IFRS 9	238	-	-	238
Movements in loss allowance				
Transfers:				
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	-	-	-	-
Transfer to Stage 3	-	-	-	-
Write-offs	-	-	-	-
New financial assets originated or purchased	5	-	-	5
Financial assets derecognised during the period	(20)	-	-	(20)
Increases / (decreases) due to change in credit risk	(66)	-	-	(66)
Changes in model / risk parameters	-	-	-	-
Loss allowance at 31 December 2018	157	-	-	157

43. Risk management (Continued)

43.2 Credit risk (Continued)

43.2.4 Loss allowance (Continued)

The Group / The Bank Syndicated loans	Stage 1 12-month ECL €000	Stage 2 Lifetime ECL €000	Stage 3 Lifetime ECL (but not POCI) €000	Total €000
Loss allowance at 1 January 2019 under IFRS 9	688	92	-	780
Movements in loss allowance				
Transfers:				
Transfer to Stage 1	(455)	-	-	(455)
Transfer to Stage 2	-	455	-	455
Transfer to Stage 3	-	-	-	-
Write-offs	-	-	-	-
New financial assets originated or purchased	250	-	-	250
Financial assets derecognised during the period	(107)	-	-	(107)
Increases / (decreases) due to change in credit risk	256	-	-	256
Changes in model / risk parameters	-	-	-	-
Foreign exchange and other movements	-	-	-	-
Loss allowance at 31 December 2019	632	547	-	1,179

The Group / The Bank Syndicated loans	Stage 1 12-month ECL €000	Stage 2 Lifetime ECL €000	Stage 3 Lifetime ECL (but not POCI) €000	Total €000
Loss allowance at 1 January 2018 under IFRS 9	429	-	-	429
Movements in loss allowance				
Transfers:	-	-	-	-
Transfer to Stage 1	(92)	-	-	(92)
Transfer to Stage 2	-	92	-	92
Transfer to Stage 3	-	-	-	-
Write-offs	-	-	-	-
New financial assets originated or purchased	483	-	-	483
Financial assets derecognised during the period	-	-	-	-
Increases / (decreases) due to change in credit risk	(132)	-	-	(132)
Changes in model / risk parameters	-	-	-	-
Foreign exchange and other movements	-	-	-	-
Loss allowance at 31 December 2018	688	92	-	780

43. Risk management (Continued)
43.2 Credit risk (Continued)

43.2.4 Loss allowance (Continued)

The following tables further explain changes in the gross carrying amount of each portfolio to help explain their significance to the changes in the loss allowance for the same portfolio as discussed in previous table:

The Group / The Bank	Stage 1	Stage 2	Stage 3	
Loans and advances to customers at amortised cost	12-month ECL	Lifetime ECL	Lifetime ECL (but not POCI)	Total
	€000	€000	€000	€000
Gross carrying amount at 1 January 2019	1,202,105	18,245	50,335	1,270,685
Movements in loss allowance				
Transfers:				
Transfer to Stage 1	(2,201)	-	-	(2,201)
Transfer to Stage 2	-	(379)	-	(379)
Transfer to Stage 3	-	-	(17)	(17)
Write-offs	-	-	(1,539)	(1,539)
New financial assets originated or purchased	370,562	349	1,398	372,309
Financial assets derecognised during the period	(124,053)	(4,125)	(6,522)	(134,700)
Increases / (decreases) due to changes in Credit Risk	1,073	(322)	(2,087)	(1,336)
Gross carrying amount at 31 December 2019	**1,447,486**	**13,768**	**41,568**	**1,502,822**

The Group / The Bank	Stage 1	Stage 2	Stage 3	
Loans and advances to customers at amortised cost	12-month ECL	Lifetime ECL	Lifetime ECL (but not POCI)	Total
	€000	€000	€000	€000
Gross carrying amount at 1 January 2018	938,933	21,683	54,155	1,014,771
Movements in loss allowance				
Transfers:				
Transfer to Stage 1	117	-	-	117
Transfer to Stage 2	-	(1,097)	-	(1,097)
Transfer to Stage 3			105	105
Write-offs	-	-	(528)	(528)
New financial assets originated or purchased	316,559	2,833	5,951	325,343
Financial assets derecognised during the period	(91,996)	(3,495)	(8,563)	(104,054)
Increases / (decreases) due to changes in Credit Risk	38,492	(1,679)	(785)	36,028
Gross carrying amount at 31 December 2018	**1,202,105**	**18,245**	**50,335**	**1,270,685**

43. Risk management (Continued)
43.2 Credit risk (Continued)

43.2.4 Loss allowance (Continued)

The Group / The Bank	Stage 1	Stage 2	Stage 3	
Debt securities at amortised cost	12-month ECL	Lifetime ECL	Lifetime ECL (but not POCI)	Total
	€000	€000	€000	€000
Gross carrying amount at 1 January 2019	85,905	-	-	85,905
Movements in loss allowance				
Transfers:				
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	-	-	-	-
Transfer to Stage 3	-	-	-	-
Write-offs	-	-	-	-
New financial assets originated or purchased	15,114	-	-	15,114
Financial assets derecognised during the period	(20,649)	-	-	(20,649)
Changes to modifications that did not result in derecognition	(753)	-	-	(753)
Changes in model / risk parameters	-	-	-	-
Foreign exchange and other movements	-	-	-	-
Gross carrying amount at 31 December 2019	**79,617**	**-**	**-**	**79,617**

The Group / The Bank	Stage 1	Stage 2	Stage 3	
Debt securities at amortised cost	12-month ECL	Lifetime ECL	Lifetime ECL (but not POCI)	Total
	€000	€000	€000	€000
Gross carrying amount at 1 January 2018	72,775	-	-	72,775
Movements in loss allowance				
Transfers:	-	-	-	-
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	-	-	-	-
Transfer to Stage 3	-	-	-	-
Write-offs	-	-	-	-
New financial assets originated or purchased	38,399	-	-	38,399
Financial assets derecognised during the period	(24,973)	-	-	(24,973)
Changes to modifications that did not result in derecognition	(296)	-	-	(296)
Changes in model / risk parameters	-	-	-	-
Foreign exchange and other movements	-	-	-	-
Gross carrying amount at 31 December 2018	**85,905**	**-**	**-**	**85,905**

43. Risk management (Continued)
43.2 Credit risk (Continued)

43.2.4 Loss allowance (Continued)

The Group / The Bank	Stage 1	Stage 2	Stage 3	
Syndicated loans	12-month ECL	Lifetime ECL	Lifetime ECL (but not POCI)	Total
	€000	€000	€000	€000
Gross carrying amount at 1 January 2019	57,390	5,000	-	62,390
Movements in loss allowance				
Transfers:				
Transfer to Stage 1	(10,042)	-	-	(10,042)
Transfer to Stage 2	-	10,042	-	10,042
Transfer to Stage 3	-	-	-	-
Write-offs	-	-	-	-
New financial assets originated or purchased	46,108	-	-	46,108
Financial assets derecognised during the period	(10,148)	-	-	(10,148)
Changes in model / risk parameters	-	-	-	-
Foreign exchange and other movements	57	-	-	57
Gross carrying amount at 31 December 2019	**83,365**	**15,042**	**-**	**98,407**

The Group / The Bank	Stage 1	Stage 2	Stage 3	
Syndicated loans	12-month ECL	Lifetime ECL	Lifetime ECL (but not POCI)	Total
	€000	€000	€000	€000
Gross carrying amount at 1 January 2018	26,213	-	-	26,213
Movements in loss allowance				
Transfers:				
Transfer to Stage 1	(5,000)	-	-	(5,000)
Transfer to Stage 2	-	5,000	-	5,000
Transfer to Stage 3	-	-	-	-
Write-offs	-	-	-	-
New financial assets originated or purchased	36,177	-	-	36,177
Financial assets derecognised during the period	-	-	-	-
Changes in model / risk parameters	-	-	-	-
Foreign exchange and other movements	-	-	-	-
Gross carrying amount at 31 December 2018	**57,390**	**5,000**	**-**	**62,390**

Other financial assets include, loans and advances to banks, financial guarantees, letters of credit, balances with other banks and money markets. During 2019, these financial assets did not suffer any SICR and thus were all allocated to Stage 1. Loss allowance on these assets is not material.

43.2.5 Write-off Policy

The Group writes off financial assets, in whole or in part, when it has exhausted all practical recovery efforts and has concluded there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include:

- ceasing enforcement activity; and
- situations where the Group's recovery method is foreclosing on collateral and the value of the collateral is such that there is no reasonable expectation of recovering in full.

The Group does not have any enforcement activities, meaning that the Group does not seek to recover amounts which is legally owed in full, once these are written off.

43.2.6 Modification of Financial Assets

The Group sometimes modifies the terms of loans provided to customers. 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;
- 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.

43.3 Liquidity risk

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

The Group maintains a portfolio of highly marketable and diverse assets that can be easily liquidated in the event of an unforeseen interruption of cash flow.

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.

43. Risk management (Continued)

43.3 Liquidity risk (Continued)

The Group At 31 December 2019	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
Assets						
Cash and balances with Central Bank of Malta	166,402	-	-	-	-	166,402
Cheques in course of collection	128	-	-	-	-	128
Loans and advances to banks	54,841	1,000	-	-	-	55,841
Loans and advances to customers (net)	22,921	132,016	104,026	1,227,906	-	1,486,869
Syndicated loans (net)	-	46,075	46,638	4,515	-	97,228
Derivative financial instruments	-	-	554	167	-	721
Other debt and fixed income instruments (net)	7,329	18,012	114,806	98,019	-	238,166
Financial assets at FVTPL	202	356	12,936	22,398	5,586	41,478
Equity and other non-fixed income instruments	-	-	-	-	308	308
Investment in associates	-	-	-	-	19,257	19,257
Other assets	5,472	1,005	-	-	56,054	62,531
	257,295	**198,464**	**278,960**	**1,353,005**	**81,205**	**2,168,929**
Liabilities and equity						
Amounts owed to banks	24,512	-	-	-	-	24,512
Derivative financial instruments	-	-	554	167	-	721
Amounts owed to customers	1,283,878	267,398	340,233	37,462	-	1,928,971
Lease liabilities	8	356	922	1,343	-	2,629
Other liabilities	1,015	924	2,399	366	15,477	20,181
Equity	-	-	-	-	191,915	191,915
	1,309,413	**268,678**	**344,108**	**39,338**	**207,392**	**2,168,929**
Gap	(1,052,118)	(70,214)	(65,148)	1,313,667	(126,187)	-

43. Risk management (Continued)
43.3 Liquidity risk (Continued)

The Group At 31 December 2018	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
Assets						
Cash and balances with Central Bank of Malta	175,408	-	-	-	-	175,408
Cheques in course of collection	69	-	-	-	-	69
Loans and advances to banks	49,384	1,000	-	-	-	50,384
Loans and advances to customers (net)	15,144	101,297	97,039	1,040,403	-	1,253,883
Syndicated loans (net)	-	-	22,536	39,074	-	61,610
Derivative financial instruments	-	3	717	102	-	822
Other debt and fixed income instruments (net)	3,633	36,106	98,552	112,749	-	251,040
Financial assets at FVTPL	-	656	7,598	21,517	6,470	36,241
Equity and other non-fixed income instruments	-	-	-	-	1,272	1,272
Investment in associates	-	-	-	-	17,748	17,748
Other assets	3,227	1,162	185	1,719	36,460	42,753
	246,865	**140,224**	**226,627**	**1,215,564**	**61,950**	**1,891,230**
Liabilities and equity						
Amounts owed to banks	404	7,059	67,010	-	-	74,473
Derivative financial instruments	-	3	717	102	-	822
Amounts owed to customers	1,002,209	302,371	296,564	49,164	-	1,650,308
Other liabilities	3,448	1,179	1,974	395	16,387	23,383
Equity	-	-	-	-	142,244	142,244
	1,006,061	**310,612**	**366,265**	**49,661**	**158,631**	**1,891,230**
Gap	**(759,196)**	**(170,388)**	**(139,638)**	**1,165,903**	**(96,681)**	**-**

43. Risk management (Continued)

43.3 Liquidity risk (Continued)

The Bank At 31 December 2019	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
Assets						
Cash and balances with Central Bank of Malta	162,403	-	-	-	-	162,403
Cheques in course of collection	128	-	-	-	-	128
Loans and advances to banks	54,841	-	-	-	-	54,841
Loans and advances to customers (net)	22,921	132,016	104,026	1,227,906	-	1,486,869
Syndicated loans (net)	-	46,075	46,638	4,515	-	97,228
Derivative financial instruments	-	-	554	167	-	721
Other debt and fixed income instruments (net)	7,329	18,012	114,806	98,019	-	238,166
Financial assets at FVTPL	202	-	262	-	-	464
Equity and other non-fixed income instruments	-	-		-	308	308
Investment in subsidiaries	-	-	-	-	40,250	40,250
Investment in associates	-	-	-	-	15,262	15,262
Other assets	4,681	1,005	-	-	56,272	61,958
	252,505	**197,108**	**266,286**	**1,330,607**	**112,092**	**2,158,598**
Liabilities and equity						
Amounts owed to banks	24,512	-	-	-	-	24,512
Derivative financial instruments	-	-	554	167	-	721
Amounts owed to customers	1,284,411	267,398	340,233	37,462	-	1,929,504
Lease Liabilities	8	356	922	1,343	-	2,629
Other liabilities	1,005	924	2,399	366	15,436	20,130
Equity	-	-	-	-	181,102	181,102
	1,309,936	**268,678**	**344,108**	**39,338**	**196,538**	**2,158,598**
Gap	**(1,057,431)**	**(71,570)**	**(77,822)**	**1,291,269**	**(84,446)**	**-**

43. Risk management (Continued)

43.3 Liquidity risk (Continued)

The Bank At 31 December 2018	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
Assets						
Cash and balances with Central Bank of Malta	174,511	-	-	-	-	174,511
Cheques in course of collection	69	-	-	-	-	69
Loans and advances to banks	49,384	-	-	-	-	49,384
Loans and advances to customers (net)	15,144	101,297	97,039	1,040,403	-	1,253,883
Syndicated loans (net)	-	-	22,536	39,074	-	61,610
Derivative financial instruments	-	3	717	102	-	822
Other debt and fixed income instruments (net)	3,633	36,106	98,552	112,749	-	251,040
Financial assets at FVTPL	-	-	483	396	-	879
Equity and other non-fixed income instruments	-	-	-	-	1,272	1,272
Investment in subsidiaries	-	-	-	-	40,250	40,250
Investment in associates	-	-	-	-	14,887	14,887
Other assets	2,581	1,162	185	1,719	36,655	42,302
	245,322	**138,568**	**219,512**	**1,194,443**	**93,064**	**1,890,909**
Liabilities and equity						
Amounts owed to banks	404	7,059	67,010	-	-	74,473
Derivative financial instruments	-	3	717	102	-	822
Amounts owed to customers	1,005,210	302,371	296,564	49,164	-	1,653,309
Other liabilities	3,380	1,179	1,974	395	16,362	23,290
Equity	-	-	-	-	139,015	139,015
	1,008,994	**310,612**	**366,265**	**49,661**	**155,377**	**1,890,909**
Gap	**(763,672)**	**(172,044)**	**(146,753)**	**1,144,782**	**(62,313)**	**-**

As mentioned in Section 43.2, the Group and the Bank enter into commitments and contingent liabilities to meet the financial needs of customers. As at 31 December 2019, the maturities of these commitments and contingent liabilities were not later than one year.

The Group / The Bank	Not later than one year 2019 €000	2018 €000
Loan commitments	**757,638**	711,160
Guarantees, acceptance and other financial facilities	**22,855**	23,269
	780,493	734,429

43. Risk management (Continued)
43.3 Liquidity risk (Continued)

Analysis of financial liabilities by remaining contractual maturities

The table below summarises the maturity profile of the Group's financial liabilities as at 31 December 2019 and 31 December 2018 based on contractual undiscounted repayment obligations:

The Group At 31 December 2019	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
Liabilities						
Amounts owed to banks	24,512	-	-	-	-	24,512
Derivative financial instruments	-	-	554	167	-	721
Amounts owed to customers	1,308,644	267,803	342,677	38,340	-	1,957,464
Lease liabilities	8	407	1,036	1,544	-	2,995
Other liabilities	1,015	924	2,399	366	15,477	20,181
	1,334,179	269,134	346,666	40,417	15,477	2,005,873

The Group At 31 December 2018	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
Liabilities						
Amounts owed to banks	404	7,059	67,010	-	-	74,473
Derivative financial instruments	-	3	717	102	-	822
Amounts owed to customers	1,004,272	303,546	298,538	49,560	-	1,655,916
Other liabilities	3,448	1,179	1,974	395	16,387	23,383
	1,008,124	311,787	368,239	50,057	16,387	1,754,594

Analysis of financial liabilities by remaining contractual maturities

The table below summarises the maturity profile of the Bank's financial liabilities as at 31 December 2019 and 31 December 2018 based on contractual undiscounted repayment obligations:

The Bank At 31 December 2019	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
Liabilities						
Amounts owed to banks	24,512	-	-	-	-	24,512
Derivative financial instruments	-	-	554	167	-	721
Amounts owed to customers	1,309,174	267,803	342,677	38,340	-	1,957,994
Lease liabilities	8	407	1,036	1,544	-	2,995
Other liabilities	1,005	924	2,399	366	15,436	20,130
	1,334,699	269,134	346,666	40,417	15,436	2,006,352

43. Risk management (Continued)

43.3 Liquidity risk (Continued)

The Bank At 31 December 2018	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
Liabilities						
Amounts owed to banks	404	7,059	67,010	-	-	74,473
Derivative financial instruments	-	3	717	102	-	822
Amounts owed to customers	1,007,273	303,546	298,538	49,560	-	1,658,917
Other liabilities	3,380	1,179	1,974	395	16,362	23,290
	1,011,057	**311,787**	**368,239**	**50,057**	**16,362**	**1,757,502**

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 Assets at 31 December 2019	Carrying amount of encumbered assets €000	Fair value of encumbered assets €000	Carrying amount of unencumbered assets €000	Fair value of unencumbered assets €000
Equity instruments	-	-	19,565	934
Debt securities	125,697	134,448	153,945	119,305
Other assets	1,400	-	1,868,322	-
Assets of the reporting institution	**127,097**	**134,448**	**2,041,832**	**120,239**

The Group Assets at 31 December 2018	Carrying amount of encumbered assets €000	Fair value of encumbered assets €000	Carrying amount of unencumbered assets €000	Fair value of unencumbered assets €000
Equity instruments	-	-	19,020	1,524
Debt securities	148,644	155,820	138,637	108,773
Other assets	1,400	-	1,583,529	-
Assets of the reporting institution	**150,044**	**155,820**	**1,741,186**	**110,297**

43. Risk management (Continued)

43.3 Liquidity risk (Continued)

The Bank Assets at 31 December 2019	Carrying amount of encumbered assets	Fair value of encumbered assets	Carrying amount of unencumbered assets	Fair value of unencumbered assets
	€000	€000	€000	€000
Equity instruments	-	-	55,820	934
Debt securities	119,244	127,995	119,384	119,305
Other assets	1,400	-	1,862,750	-
Assets of the reporting institution	**120,644**	**127,995**	**2,037,954**	**120,239**

The Bank Assets at 31 December 2018	Carrying amount of encumbered assets	Fair value of encumbered assets	Carrying amount of unencumbered assets	Fair value of unencumbered assets
	€000	€000	€000	€000
Equity instruments	-	-	56,409	1,524
Debt securities	143,185	150,361	108,735	108,773
Other assets	1,400	-	1,581,180	-
Assets of the reporting institution	**144,585**	**150,361**	**1,746,324**	**110,297**

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		The Bank	
Encumbered assets / collateral received and associated liabilities at 31 December 2019	Matching liabilities	Encumbered Assets	Matching liabilities	Encumbered Assets
	€000	€000	€000	€000
Carrying amount of selected financial liabilities	**931,449**	**127,097**	**931,449**	**120,644**

	The Group		The Bank	
Encumbered assets / collateral received and associated liabilities at 31 December 2018	Matching liabilities	Encumbered Assets	Matching liabilities	Encumbered Assets
	€000	€000	€000	€000
Carrying amount of selected financial liabilities	**799,985**	**150,044**	**799,985**	**144,585**

43.4 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 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. Also, as disclosed in Note 17, the Bank enters into derivative contracts to economically hedge against movement in certain cash flows on financial liabilities having embedded derivatives which are separately accounted for.

43.4.1 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 interest rates repricing gaps and both economic value and earnings based measures. In 2019, the Group updated its interest rate risk management framework in line with the relevant guidelines issued by the EBA, which came into force as from 30 June 2019. Further information is provided in the Capital Adequacy and Risk Disclosures Report.

43. Risk management (Continued)
43.4 Market risk (Continued)

43.4.1 Interest rate risk (Continued)

The following tables show the impact on the Group's economic value and net interest income under different interest rate scenarios.

	Parallel shock up €000	Parallel shock down €000	Short rates up €000	Short rates down €000	Steepner €000	Flattner €000
Sensitivity of reported equity to interest rates movements At 31 December 2019						
Average for the period	(6,313)	1,411	(12,732)	4,310	8,783	(11,630)
Maximum for the period	(5,121)	1,757	(12,112)	5,391	9,614	(11,191)
Minimum for the period	(7,562)	816	(13,228)	3,707	8,217	(12,306)

	Parallel shock up €000	Parallel shock down €000
Sensitivity of projected net interest rate income to interest rates movements At 31 December 2019		
Average for the period	219	90
Maximum for the period	608	36
Minimum for the period	129	209

Comparative year
Duration gap analysis

The table below shows the impact of a 100 basis points parallel shift in the yield curve on the interest rate gap over a period of one year.

	2018 €000
Net effect for a twelve-month period	1,602

Projected net interest income

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	Effect on profit before tax €000
2018	+25	408
	-25	(1,380)

43. Risk management (Continued)

43.4 Market risk (Continued)

43.4.1 Interest rate risk (Continued)

The below tables set out interest sensitive assets and liabilities categorised by repricing dates.

The Group

At 31 December 2019	Up to 1 year €000	1 – 5 years €000	5 – 10 years €000	More than 10 years €000
Assets				
Cash and balances with Central Bank of Malta	136,776	-	-	-
Loans and advances to banks	55,841	-	-	-
Loans and advances to customers (gross)	1,253,776	248,087	433	525
Syndicated loans (gross)	98,407	-	-	-
Financial assets at FVTPL (gross)	2,249	16,335	18,476	300
Debt securities (gross)	25,341	114,827	50,789	47,256
	1,572,390	**379,249**	**69,698**	**48,081**
Liabilities				
Amounts owed to banks	24,512	-	-	-
Amounts owed to customers	1,129,343	761,949	38,213	-
	1,153,855	**761,949**	**38,213**	**-**
Net interest rate risk GAP at 31 December 2019	**418,535**	**(382,700)**	**31,485**	**48,081**

The Group

At 31 December 2018	Up to 1 year €000	1 – 5 years €000	5 – 10 years €000	More than 10 years €000
Assets				
Cash and balances with Central Bank of Malta	151,611	-	-	-
Loans and advances to banks	50,384	-	-	-
Loans and advances to customers (gross)	1,047,171	223,514	-	-
Syndicated loans (gross)	62,390	-	-	-
Financial assets at FVTPL (gross)	5,842	10,520	11,591	1,817
Debt securities (gross)	39,749	98,561	62,344	50,435
	1,357,147	**332,595**	**73,935**	**52,252**
Liabilities				
Amounts owed to banks	7,463	67,010	-	-
Amounts owed to customers	1,300,086	299,315	51,283	125
	1,307,549	**366,325**	**51,283**	**125**
Net interest rate risk GAP at 31 December 2018	**49,598**	**(33,730)**	**22,652**	**52,127**

43. Risk management (Continued)

43.4 Market risk (Continued)

43.4.1 Interest rate risk (Continued)

The below tables set out interest sensitive assets and liabilities categorised by repricing dates.

The Bank

At 31 December 2019	Up to 1 year €000	1 – 5 years €000	5 – 10 years €000	More than 10 years €000
Assets				
Cash and balances with Central Bank of Malta	136,776	-	-	-
Loans and advances to banks	54,841	-	-	-
Loans and advances to customers (gross)	1,253,776	248,087	433	525
Syndicated loans (gross)	98,407	-	-	-
Financial assets at FVTPL (gross)	202	263	-	-
Debt securities (gross)	25,341	114,827	50,789	47,256
	1,569,343	**363,177**	**51,222**	**47,781**
Liabilities				
Amounts owed to banks	24,512	-	-	-
Amounts owed to customers	1,129,343	761,949	38,213	-
	1,153,855	**761,949**	**38,213**	**-**
Net interest rate risk GAP at 31 December 2019	**415,488**	**(398,772)**	**13,009**	**47,781**

The Bank

At 31 December 2018	Up to 1 year €000	1 – 5 years €000	5 – 10 years €000	More than 10 years €000
Assets				
Cash and balances with Central Bank of Malta	151,611	-	-	-
Loans and advances to banks	49,384	-	-	-
Loans and advances to customers (gross)	1,047,171	233,514	-	-
Syndicated loans (gross)	62,390	-	-	-
Financial assets at FVTPL (gross)	-	484	396	-
Debt securities (gross)	39,749	98,561	62,344	50,435
	1,350,305	**332,559**	**62,740**	**50,435**
Liabilities				
Amounts owed to banks	7,463	67,010	-	-
Amounts owed to customers	1,302,586	299,315	51,283	125
	1,310,049	**366,325**	**51,283**	**125**
Net interest rate risk GAP at 31 December 2018	**40,256**	**(33,766)**	**11,457**	**50,310**

The carrying amount of assets and liabilities that carry a variable interest rate is €1.4 billion and €1.1 billion respectively (2018: €1.2 billion and €866 million).

43. **Risk management (Continued)**
43.4 Market risk (Continued)

43.4.2 Currency risk

Currency risk is the risk of the exposure of the Group's financial position, financial performance 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:

	2019			
	USD €000	GBP €000	Other €000	Total €000
Assets	**41,667**	**46,899**	**15,749**	**104,316**
Liabilities	**41,228**	**46,939**	**15,626**	**103,792**

	2018			
	USD €000	GBP £000	Other €000	Total €000
Assets	20,152	44,880	11,446	76,478
Liabilities	20,141	44,880	11,290	76,312

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

43.5 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.

43.6 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 Banking Rule BR / 12 / 2014 - The Supervisory Review Process of Credit.

Institutions Authorised Under the Banking Act 1994, are mandated by the Capital Requirements Directive. 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. This process takes into consideration Pillar I risks, as well as other material risks (Pillar II risks) including concentration risk, interest rate risk and reputational risk. Thus, the ICAAP serves as a key decision-making tool. The ICAAP demonstrated that the Group is well capitalised. The document was approved by the Board of Directors and submitted to the MFSA.

43. Risk management (Continued)

43.6 Capital management (Continued)

Further information on the Group's capital position may be found in the Capital Adequacy and Risk Disclosures Report which is prepared in line 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, and governed by the Capital Requirements Regulation.

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

	The Group		The Bank	
	2019	2018	2019	2018
	€000	€000	€000	€000
Adjusted book value	2,183,744	1,907,820	2,173,414	1,907,498
Risk weighted amounts:				
Credit risk calculation - standardised approach	1,023,481	865,982	1,016,425	866,086
Operational risk - basic indicator approach	84,340	72,462	84,207	72,821
Foreign exchange risk	563	167	563	167
Total credit, operational and foreign exchange risk	1,108,384	938,611	1,101,195	939,074
Tier 1 Capital	179,123	130,888	168,317	127,659
Tier 2 Capital	-	-	-	-
Total Own Funds	179,123	130,888	168,317	127,659
Capital Adequacy Ratio				
Tier 1 Ratio	16.16%	13.94%	15.28%	13.59%
Total Capital Ratio	16.16%	13.94%	15.28%	13.59%

* 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).

43. Risk management (Continued)

43.6 Capital management (Continued)

The Group	2019 €000	2018 €000
Common Equity Tier 1 (CET1) capital	179,123	130,888
CET1 capital: instruments and reserves	186,664	136,971
Capital instruments and the related share premium accounts	72,395	59,375
Retained earnings	75,834	61,505
Accumulated OCI	30,706	12,398
Funds for general banking risk	1,700	1,700
Non-controlling interest	6,029	1,993
CET1 capital: regulatory adjustments	(7,541)	(6,083)
Intangible assets	(7,320)	(5,861)
Regulatory adjustments relating to unrealised gains and losses pursuant to Articles 467 and 468 of Regulation (EU) No 571 / 2013	-	-
Regulatory adjustments due to the requirements for prudent valuation pursuant to Article 4 of Delegated Regulation (EU) 2016 / 101	(221)	(222)
Tier 2 capital	-	-
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)	-	-
Total Capital	179,123	130,888
Total Risk Weighted Assets	1,108,384	938,611
Capital Ratios		
CET1 Capital Ratio	16.16%	13.94%
Total Capital Ratio	16.16%	13.94%
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)	6,447	7,271

43. Risk management (Continued)

43.6 Capital management (Continued)

The Bank	2019 €000	2018 €000
Common Equity Tier 1 (CET1) capital	168,317	127,659
CET1 capital: instruments and reserves	175,852	133,741
Capital instruments and the related share premium accounts	72,395	59,375
Retained earnings	71,051	60,268
Accumulated OCI	30,706	12,398
Funds for general banking risk	1,700	1,700
Non-controlling interest	-	-
CET1 capital: regulatory adjustments	(7,535)	(6,082)
Intangible assets	(7,318)	(5,858)
Regulatory adjustments relating to unrealised gains and losses pursuant to Articles 467 and 468 of Regulation (EU) No 571 / 2013	-	-
Regulatory adjustments due to the requirements for prudent valuation pursuant to Article 4 of Delegated Regulation (EU) 2016 / 101	(217)	(224)
Tier 2 capital	-	-
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)	-	-
Total Capital	168,317	127,659
Total Risk Weighted Assets	1,101,195	939,074
Capital Ratios		
CET1 Capital Ratio	15.28%	13.59%
Total Capital Ratio	15.28%	13.59%
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)	6,447	7,271

43. Risk management (Continued)

43.6 Capital management (Continued)

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

Capital Instruments Main Features	
Issuer	APS Bank plc
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	62,255
Nominal amount of instrument	62,255
Issue price	N / A
Redemption price	N / A
Accounting classification	Shareholder's equity
Original date of issuance	1 June 1970*
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
Non-cumulative 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 28 May 2019.

Full Reconciliation of Own Funds Items to Audited Financial Statements of the Group as at 31 December 2019 is presented below:

The Group	Balance sheet in accordance with IFRS €000	Reconciling items €000	Balance sheet in accordance with regulatory scope €000
Called up share capital (note 34)	62,255	-	62,255
Share premium (note 35)	10,140	-	10,140
Revaluation reserve (note 36)	30,706	-	30,706
Retained earnings (note 37)	82,785	(5,250)	77,535
of which general banking reserves (note 37)	1,700	-	1,700
of which general reserve	1	-	1
Dividend reserve	-	-	-
Intangible assets (note 26)	7,320	-	7,320
Prudent valuation adjustment	-	(221)	(221)
Non-controlling interest	6,029	-	6,029

FIVE-YEAR SUMMARIES

STATEMENTS OF PROFIT OR LOSS

The Group	2019 €000	2018 €000	2017 €000	2016 €000	2015 €000
Interest receivable and similar income	**58,021**	49,963	42,396	38,867	38,784
Interest payable	**(13,379)**	(12,149)	(9,592)	(10,865)	(13,173)
Net interest income	**44,642**	37,814	32,804	28,002	25,611
Other operating income	**12,039**	6,905	9,946	6,894	6,094
Total operating income	**56,681**	44,719	42,750	34,896	31,705
Other operating charges	**(30,354)**	(24,575)	(22,363)	(18,972)	(17,182)
Share of results of associates, net of tax	**1,585**	38	441	828	1,754
Net impairment losses	**(1,074)**	(1,555)	(2,470)	(988)	(706)
Profit before tax	**26,838**	18,627	18,358	15,764	15,571
Income tax expense	**(7,268)**	(6,043)	(5,250)	(4,820)	(5,568)
Profit for the year	**19,570**	12,584	13,108	10,944	10,003

The Bank	2019 €000	2018 €000	2017 €000	2016 €000	2015 €000
Interest receivable and similar income	**56,674**	48,958	42,284	38,867	38,784
Interest payable	**(13,379)**	(12,182)	(9,592)	(10,865)	(13,173)
Net interest income	**43,295**	36,776	32,692	28,002	25,611
Other operating income	**9,586**	8,888	10,256	7,393	6,691
Total operating income	**52,881**	45,664	42,948	35,395	32,302
Other operating charges	**(30,163)**	(24,427)	(22,200)	(18,961)	(17,176)
Net impairment losses	**(1,074)**	(1,555)	(2,470)	(988)	(706)
Profit before tax	**21,644**	19,682	18,278	15,446	14,420
Income tax expense	**(7,182)**	(5,974)	(5,190)	(4,820)	(5,568)
Profit for the year	**14,462**	13,708	13,088	10,626	8,852

THE GROUP'S STATEMENTS OF FINANCIAL POSITION

	2019 €000	2018 €000	2017 €000	2016 €000	2015 €000
ASSETS					
Cash, treasury bills and balances with Central Bank of Malta	**15,224**	10,387	13,089	6,464	6,832
Balances with Central Bank of Malta	**151,178**	165,021	76,450	29,956	9,165
Cheques in course of collection	**128**	69	39	42	1,970
Loans and advances to banks	**55,841**	50,384	33,246	60,162	43,027
Loans and advances to customers	**1,486,869**	1,253,883	998,377	806,011	695,800
Syndicated loans	**97,228**	61,610	26,213	-	-
Derivative financial instruments	**721**	822	3,008	3,164	3,560
Financial assets at FVTPL	**41,478**	36,241	37,045	3,321	3,815
Other debt and fixed income instruments	**238,166**	251,040	252,324	322,844	297,959
Equity and other non-fixed income instruments	**308**	1,272	1,793	4,119	3,348
Investment in associates	**19,257**	17,748	18,224	18,256	17,926
Intangible assets	**7,320**	5,861	5,093	4,061	3,137
Investment properties	**1,830**	1,860	4,203	3,793	3,965
Non-current assets held for sale	**-**	2,600	-	-	-
Property and equipment	**43,851**	22,286	17,706	14,147	13,394
Current tax	**-**	-	-	39	209
Right-of-use assets	**2,592**	-	-	-	-
Deferred tax assets	**460**	3,853	2,985	1,502	2,076
Other receivables	**6,478**	6,293	6,650	6,673	5,278
TOTAL ASSETS	**2,168,929**	1,891,230	1,496,445	1,284,554	1,111,461
LIABILITIES					
Amounts owed to banks	**24,512**	74,473	111,132	36,204	35,327
Derivative financial instruments	**721**	822	3,008	3,164	3,560
Amounts owed to customers	**1,928,971**	1,650,308	1,225,576	1,099,115	942,921
Current tax	**463**	1,389	198	-	-
Lease liabilities	**2,629**	-	-	-	-
Other liabilities	**10,966**	11,892	9,530	8,418	3,630
Accruals	**8,752**	10,102	10,598	8,265	8,224
TOTAL LIABILITIES	**1,977,014**	1,748,986	1,360,042	1,155,166	993,662
EQUITY					
Issued capital	**62,255**	57,605	57,605	57,605	57,605
Share premium	**10,140**	1,770	1,770	1,770	1,770
Revaluation reserve	**30,706**	12,398	15,896	21,177	18,739
Retained earnings	**82,785**	68,478	60,032	47,648	38,654
Dividend reserve	**-**	-	-	1,188	1,031
Non-controlling interest	**6,029**	1,993	1,100	-	-
TOTAL EQUITY	**191,915**	142,244	136,403	129,388	117,799
TOTAL LIABILITIES AND EQUITY	**2,168,929**	1,891,230	1,496,445	1,284,554	1,111,461
MEMORANDUM ITEMS					
Contingent liabilities	**22,855**	23,269	10,834	6,112	5,606
Commitments	**757,638**	711,160	552,000	379,078	209,567

FIVE-YEAR SUMMARIES

THE BANK'S STATEMENTS OF FINANCIAL POSITION

	2019 €000	2018 €000	2017 €000	2016 €000	2015 €000
ASSETS					
Cash, treasury bills and balances with Central Bank of Malta	**11,225**	9,490	9,999	6,464	6,832
Balances with Central Bank of Malta	**151,178**	165,021	76,450	29,956	9,165
Cheques in course of collection	**128**	69	39	42	1,970
Loans and advances to banks	**54,841**	49,384	32,246	60,162	43,027
Loans and advances to customers	**1,486,869**	1,253,883	998,377	806,011	695,800
Syndicated loans	**97,228**	61,610	26,213	-	-
Derivative financial instruments	**721**	822	3,008	3,164	3,560
Financial assets at FVTPL	**464**	879	942	3,321	3,815
Other debt and fixed income instruments	**238,166**	251,040	252,324	322,844	297,959
Equity and other non-fixed income instruments	**308**	1,272	1,793	4,119	3,348
Investment in subsidiaries	**40,250**	40,250	40,250	305	55
Investment in associates	**15,262**	14,887	14,887	14,887	14,887
Intangible assets	**7,318**	5,858	5,089	4,061	3,137
Investment properties	**1,830**	1,860	4,203	3,793	3,965
Non-current assets held for sale	**-**	2,600	-	-	-
Property and equipment	**43,851**	22,286	17,706	14,147	13,394
Current Tax	**-**	-	-	39	209
Right-of-use assets	**2,592**	-	-	-	-
Deferred tax assets	**460**	3,853	2,985	1,502	2,076
Other receivables	**5,907**	5,845	6,122	6,690	5,294
TOTAL ASSETS	**2,158,598**	1,890,909	1,492,633	1,281,507	1,108,493
LIABILITIES					
Amounts owed to banks	**24,512**	74,473	111,132	36,204	35,327
Derivative financial instruments	**721**	822	3,008	3,164	3,560
Amounts owed to customers	**1,929,504**	1,653,309	1,226,382	1,099,406	942,973
Current Tax	**452**	1,321	138	-	-
Lease liabilities	**2,629**	-	-	-	-
Other liabilities	**10,966**	11,892	9,530	8,415	3,627
Accruals	**8,712**	10,077	10,533	8,265	8,224
TOTAL LIABILITIES	**1,977,496**	1,751,894	1,360,723	1,155,454	993,711
EQUITY					
Issued capital	**62,255**	57,605	57,605	57,605	57,605
Share premium	**10,140**	1,770	1,770	1,770	1,770
Revaluation reserve	**30,706**	12,398	15,896	21,177	18,739
Retained earnings	**78,001**	67,242	56,639	44,470	35,637
Dividend reserve	**-**	-	-	1,031	1,031
TOTAL EQUITY	**181,102**	139,015	131,910	126,053	114,782
TOTAL LIABILITIES AND EQUITY	**2,158,598**	1,890,909	1,492,633	1,281,507	1,108,493
MEMORANDUM ITEMS					
Contingent liabilities	**22,855**	23,269	10,834	6,112	5,606
Commitments	**757,638**	711,160	552,000	379,078	209,567

THE GROUP'S STATEMENTS OF CASH FLOWS

	2019 €000	2018 €000	2017 €000	2016 €000	2015 €000
Net cash flows (used in) / from operating activities	(57,230)	141,844	(6,037)	45,742	(36,463)
Investing activities					
Dividends received	195	596	126	211	190
Interest income from debt securities	7,811	9,546	12,074	13,121	14,833
Purchase of other debt and fixed income instruments	(26,435)	(45,614)	(12,739)	(72,594)	(40,163)
Proceeds on maturity and disposal of debt and other fixed income instruments	40,490	41,197	79,412	50,630	95,388
Purchase of financial assets at FVTPL	(34,520)	(30,124)	(38,595)	(2,582)	(1,090)
Proceeds on disposal of financial assets at FVTPL	34,224	26,741	2,766	3,041	1,307
Purchase of equity and other non-fixed income instruments	(375)	-	-	(807)	(617)
Proceeds on disposal of equity and other non-fixed income instruments	880	397	2,055	169	-
Purchase of property and equipment	(6,781)	(7,543)	(4,064)	(3,413)	(2,272)
Proceeds on disposal of property and equipment	-	7	31	17	-
Net cash flows from / (used in) investing activities	15,489	(4,797)	41,066	(12,207)	67,576
Financing activities					
Dividends paid	(3,171)	(2,135)	(1,478)	(1,294)	(928)
Amounts paid on redemption of units in subsidiary	(228)	(64)	(50)	-	-
Net proceeds from issue of units in subsidiary	-	1,017	1,152	-	-
Proceeds from issue of share capital	16,885	-	-	-	-
Cash payment for the principal portion of lease liability	(394)	-	-	-	-
Net cash flows from / (used in) financing activities	13,092	(1,182)	(376)	(1,294)	(928)
Net (decrease) / increase in cash and cash equivalents	(28,649)	135,865	34,653	32,241	30,185
Cash and cash equivalents at 1 January	210,978	75,113	40,460	8,219	(21,966)
Cash and cash equivalents at 31 December	182,329	210,978	75,113	40,460	8,219

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THE BANK'S STATEMENTS OF CASH FLOWS

	2019 €000	2018 €000	2017 €000	2016 €000	2015 €000
Net cash flows (used in) / from operating activities	**(58,177)**	141,044	(5,697)	45,742	(36,463)
Investing activities					
Dividends received	**1,572**	1,604	588	710	787
Interest income from debt securities	**7,811**	9,546	12,074	13,121	14,833
Purchase of other debt and fixed income instruments	**(26,435)**	(45,614)	(12,739)	(72,594)	(40,163)
Proceeds on maturity and disposal of debt and other fixed income instruments	**40,490**	41,197	79,412	50,630	95,388
Purchase of equity and other non-fixed income instruments	**(375)**	-	-	(807)	(617)
Proceeds on disposal of equity and other non-fixed income instruments	**880**	397	2,055	169	-
Purchase of financial assets at FVTPL	**-**	(184)	(502)	(2,582)	(1,090)
Proceeds on disposal of financial assets at FVTPL	**213**	221	2,350	3,041	1,307
Purchase of property and equipment	**(6,781)**	(7,543)	(4,059)	(3,413)	(2,272)
Proceeds on disposal of property and equipment	**-**	7	31	17	-
Investment in subsidiaries	**-**	-	(40,000)	-	-
Net cash flows from / (used in) investing activities	**17,375**	(369)	39,210	(11,708)	68,173
Financing activities					
Dividends paid	**(3,575)**	(2,617)	(1,950)	(1,793)	(1,525)
Proceeds from issue of share capital	**13,020**	-	-	-	-
Cash payment for the principal portion of lease liability	**(394)**	-	-	-	-
Net cash flows from / (used in) financing activities	**9,051**	(2,617)	(1,950)	(1,793)	(1,525)
Net (decrease) / increase in cash and cash equivalents	**(31,751)**	138,058	31,563	32,241	30,185
Cash and cash equivalents at 1 January	**210,081**	72,023	40,460	8,219	(21,966)
Cash and cash equivalents at 31 December	**178,330**	210,081	72,023	40,460	8,219

ACCOUNTING RATIOS

The Group	2019 %	2018 %	2017 %	2016 %	2015 %
Net interest income and other operating income to total assets	**2.6**	2.4	2.9	2.7	2.9
Operating expenses to total assets	**1.4**	1.3	1.5	1.5	1.5
Cost to income ratio	**53.6**	55.0	52.3	54.4	54.2
Profit before tax to total assets	**1.2**	1.0	1.2	1.2	1.4
Return on average capital employed after tax *	**12.7**	10.1	11.5	10.6	10.0
Profit after tax to equity *	**11.0**	9.7	10.9	10.1	10.1

	2019	2018	2017	2016	2015
Shares in issue (thousands)	**49,804**	46,084	46,084	46,084	46,084
Net assets per share *	**356c**	282c	261c	235c	215c

The Bank	2019 %	2018 %	2017 %	2016 %	2015 %
Net interest income and other operating income to total assets	**2.4**	2.4	2.9	2.8	2.9
Operating expenses to total assets	**1.4**	1.3	1.5	1.5	1.5
Cost to income ratio	**57.0**	53.5	51.7	53.6	53.2
Profit before tax to total assets	**1.0**	1.0	1.2	1.2	1.3
Return on average capital employed after tax *	**10.2**	11.2	11.8	10.6	9.6
Profit after tax to equity *	**8.7**	10.8	11.3	10.1	9.2

	2019	2018	2017	2016	2015
Shares in issue (thousands)	**49,804**	46,084	46,084	46,084	46,084
Net assets per share *	**334c**	275c	252c	228c	208c

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

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.

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Floriana FRN 9020

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Mosta MST 9042

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Paola PLA 1260

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Qormi, QRM 2335

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Sliema SLM 1600

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Valletta VLT 1111

VICTORIA (GOZO) BRANCH
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Victoria VCT 1341

ŻEJTUN MINI BRANCH
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Żejtun ZTN 1011

APS bank