ANNUAL REPORT & FINANCIAL STATEMENTS 2013

APS bank

MISSION STATEMENT

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

CONTENTS

BANK INFORMATION

DIRECTORS

Emanuel P. Delia M.A., M.Litt. (Oxon.), Chairman
Franco Azzopardi M.Sc. Finance (Leicester UK), F.I.A., C.P.A.
Joseph C. Caruana A.C.I.B.
Arthur Galea Salomone LL.M. (Toronto), LL.D.
Frederick F. Micallef M.I.M.I.S., M.B.A.
Victor Gusman
Martin Scicluna FCIB, DipFS(i)

(i) Appointed on 5 November 2013

COMPANY SECRETARY

Mario Felice LL.D.

CHIEF EXECUTIVE OFFICER

Edward Cachia A.C.I.B.

REGISTERED OFFICE

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

CHAIRMAN'S STATEMENT

CHAIRMAN'S STATEMENT

Overall Performance

The year under review has been characterised by both positive signals in terms of economic growth, globally, EU-wide and in Malta, countered by disappointing results in many countries particularly in terms of employment generation.

Policy makers at various political levels appear at a loss on the way ahead in deriving a set of measures spanning fiscal, monetary and currency exchange rates that, together, can lead to steady and reasonable rates of economic growth, complemented by an expansionary employment generation, and acceptable inflation levels. Indeed, the euro zone in particular, seems to be characterised by slow employment growth, hence high unemployment rates particularly for the young, besides facing the threat of overall price deflation.

The Maltese Islands fared relatively better than the 'average' results emerging from the euro area. The Gross Domestic Product grew by 2.4% in real terms in 2013 but the external sector and aggregate investment did not perform as expected, with the economy having to rely on government expenditure and private consumption to drive aggregate output ahead. The overall consumer price level rises also registered signs of slowing down.

Given this environment, the performance of the APS Group and of APS Bank Limited during 2013 has once more been a positive one. Pre-tax profits increased from €9.9 million in 2012 to €13.8 million. Customers' trust was the main contributory factor to this success, as evidenced by a further increase of €38.1 million in deposits; lending has also risen to €563.3 million from €520.9 million last year. And there has been a write-back in past provisions, which reflects the strategies adopted in the lending sector. This happened while the Bank at all times remained willing to use funds at its disposal as effectively as possible by extending financing to projects that demonstrate long-term sustainability.

The year 2013 saw the completion of the capitalisation exercise undertaken by the Bank's shareholders through which a total of €12 million in fresh funds were injected in the Bank. Share capital stands at €57.6 million, while shareholders' funds are now €98.6 million. Coinciding with the launch of the business programme for 2013-2015, these funds will allow the Bank to further strengthen its presence within local communities as it meets the new regulatory requirements that are to come into force in the years ahead. The need to invest further in our infrastructure and human resources has never been greater as competition and compliance needs intensify.

The Bank's physical presence has also been extended so as to ensure greater market penetration. In October a new mini-branch was opened in Żejtun while by year end all preparations had been completed for the Attard branch to transfer to new and more congenial premises. These moves demonstrate a willingness by the Bank to seek greater integration within the community while continuing to serve those sectors that constituted part of its original customer base. More important still, it shows that the Bank's policy to train and invest in its employees can give the desired results. The groundwork has also been laid for a major information technology project which is to commence in 2014. This should allow the Bank to further increase the efficiency with which it delivers its services.

APS Funds SICAV p.l.c. has also registered another positive year as assets under management increased from €40.3 million in 2012 to €49.9 million. The performance of the APS Regular Income Ethical Fund in its first year of full operation was more than satisfactory, showing that there was a local demand for an investment opportunity allowing for return on capital to be reconciled with socially-responsible investment decisions. As regards APS Consult Limited, the reassessment of its role within the Group is close to completion, with any necessary changes to take place in 2014 to ensure that it continues to be an effective instrument in attaining the group's objectives. Foremost amongst these is the aim to facilitate social and economic transformation.

Rooted in the Past, Serving the Future

A too-strong emphasis on economic and financial progress may produce an unsustainable lopsided development in a community. Whether examined on an individual or a collective basis, the true realisation of one's potential requires that social and cultural aspirations be also addressed. This is carried out in two ways. The Bank and its two subsidiaries direct resources to the various stakeholders in the respective sectors in which they operate, in the process creating a surplus. In turn this 'profit' is distributed to its shareholders who are actively engaged in several initiatives that enhance society's network of individual and/or group support. Besides, the Bank acts as an empowering agent itself in the social and cultural areas and collaborates directly with many organisations and individuals to enhance the quality of life for local society and for groups in other countries.

Participation in social or cultural projects is based on two principles: complementarity and empowerment. There are many socially valuable initiatives going on; so the Bank seeks to expand them by branching out into new areas. In this way, society is better off. At the same time, the Bank shares support with other groups or individuals. This approach enables us to undertake a greater number of initiatives, even though we do focus on selected themes.

In 2013 the Bank continued with its artistic sponsorships in music, visual arts, and publications. Indeed, the highlight of the Bank's cultural calendar remains its annual concert. In 2013 it featured Christopher Muscat's *Stabat Mater,* the winning entry of the Bank's second National Music Competition for Maltese composers. Besides, it launched a programme aimed for the young through *Taqbila* compilation, a collection of Maltese poems set to music by Dominic Galea.

In photography, the Bank collaborated with the Malta Photographic Society in holding its exhibition, entitled *Movement* in April in Malta and in July in Gozo, besides launching the theme *Contrast,* which again proved to be successful with photographers. Twelve of the entries were printed in the Bank's calendar for 2014. Also acclaimed was the photographic exhibition at the Saint James Cavalier of works by Peter Paul Barbara on the theme *The Trees of Buskett.*

The year 2013 also saw the third exhibition of artistic works by established and emergent local artists in various media – wood, ceramics and paintings. One is pleased to note that both the exhibits and the supporting programme were very much appreciated for their visual impact and educational content.

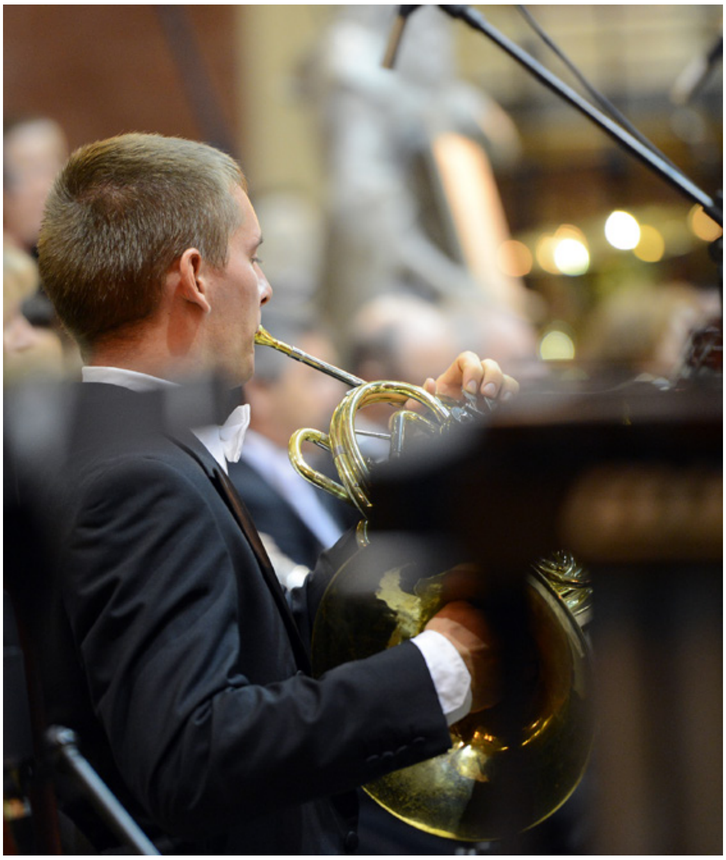
Among the publications supported by the Bank, two stand out. One refers to Sports and its contribution to personal and social development: *Agon – Ġabra ta' Studji dwar l-Isport matul iż-Żmien*. The other one refers to a laborious research exercise which documents the many statues that are widely spread across the Maltese Islands; it is entitled *Ġabra ta' Statwi u Niċeċ Reliġjuzi fit-Toroq ta' Malta u Għawdex*. Of major significance this year was the completion of the preparatory work for the publication of a history of the *Unione Cattolica San Giuseppe,* the Founder of APS Bank. The said publication will ensure that the legacy of an organisation that contributed in no small way to the empowerment of Maltese families be preserved for generations to come.

Concluding Remarks

There are big challenges ahead. They are there to be faced with both prudence and vigour. I am convinced that with the participation of all stakeholders, the Bank will continue to propagate its legacy and assist in the development of Maltese society and other groups elsewhere. Collaboration is empowerment.

I take this opportunity to thank all those who have contributed to another successful year – our customers who continue to trust us with their resources and opinions and, more important, with their aspirations and dreams; our shareholders for their continuing support, both moral and financial; and all employees who persevere in providing a customer-oriented environment. Last but not least I would like to thank my fellow directors whose advice I have found to be indispensable over the years. In this regard I would like to welcome Mr Martin Scicluna who has recently joined the Bank's Board of Directors and from whose experience the Bank and its customers will undoubtedly benefit.

E. P. DELIA
Chairman









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

FINANCIAL STATEMENTS 2013

The Directors present their report together with the audited financial statements of APS Group and the Bank for the year ended 31 December 2013.

PRINCIPAL ACTIVITIES

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

APS Bank Limited is incorporated as a private limited liability company under the Companies Act, Cap. 386 of the Laws of Malta. The Bank is licensed by the Malta Financial Services Authority (MFSA) to carry out the business of banking and investment services in terms of the Banking Act, Cap. 371 of the Laws of Malta, and the Investment Services Act, Cap. 370 of the Laws of Malta, respectively.

Subsidiaries and Associate

APS Consult Limited is a wholly owned subsidiary of the Bank. The company has been providing various advisory services to customers in niche markets ever since its incorporation in June 2006.

APS Funds SICAV p.l.c. was incorporated in January 2008 and is licensed by the MFSA as a collective investment scheme under the Investment Services Act, Cap. 370 of the Laws of Malta. The company consists of two funds, the APS Income Fund and the APS Regular Income Ethical Fund. The APS Income Fund is listed on the Malta Stock Exchange. As at end of December 2013, the net asset value of APS Funds SICAV p.l.c. stood at €49.9 million, an increase of €9.6 million over the previous year. The net assets attributable to the shareholders of APS Income Fund increased to €40.1 million (2012: €32.1 million) while net assets of APS Regular Income Ethical Fund increased to €9.8 million (2012: €8.2 million).

FINANCIAL PERFORMANCE

The Group's financial performance for the year under review has been a positive one even though 2013 was characterised by a challenging economic environment. Profit before tax amounted to €13.8 million, representing an increase of €3.9 million or 39.8% when compared to the results for 2012. This was primarily attributable to the improved credit quality of the loans and advances portfolio.

Operations

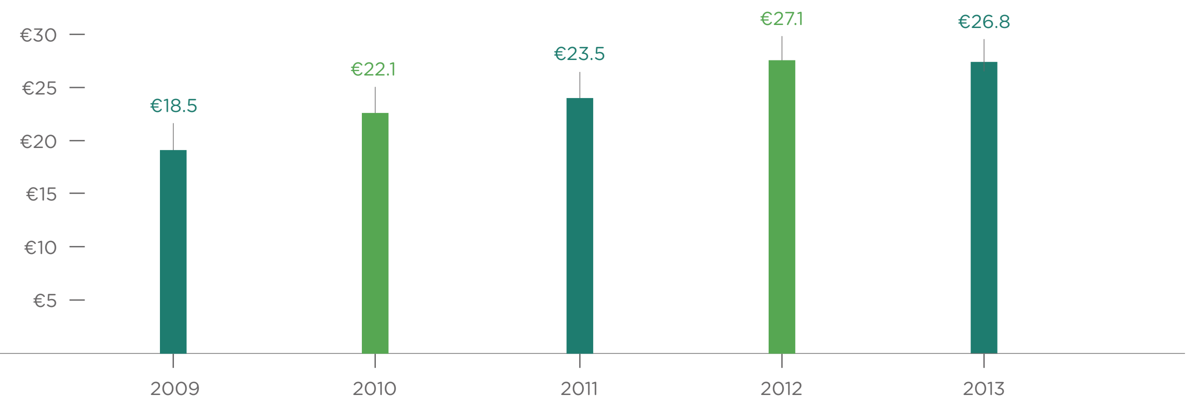
At €21.8 million net interest income was virtually unchanged over the previous year, registering only a marginal increase of €0.03 million. This arose from the growth recorded in the Group's interest bearing financial assets which more than offset the contraction in its net interest margin occasioned by the continued downward drift in market interest rates.

Non-interest income stood at €4.9 million compared to €5.3 million in 2012. It is to be noted that 2012 had been characterised by a one-off gain generated by the sale of investments downgraded during the financial crises. Fees and commission income in 2013 constituted more than fifty per cent of non-interest income, with the main contributors being fees and commission generated from investment services, portfolio management and advances.

Operating expenses increased by 15.5% to €15.1 million, while operating income declined marginally by 1.1%. While cost management remains important, the Group recognises the importance of new initiatives if it is to continue expanding its operations. Moreover, increasingly onerous regulatory requirements translate themselves into increased costs. This entails on-going investment in human resources, systems and infrastructure. In line with its plans, the Group will continue re-engineering its operations in order to enhance overall efficiency and ensure that the services offered to its customers remain competitive.

During 2013, the Group recorded a decrease in net impairment losses of €1.6 million, as a result of the enhancement in the credit risk profile prevailing as at year-end.

GROUP TOTAL OPERATING INCOME (€ MILLION)



Statement of Financial Position

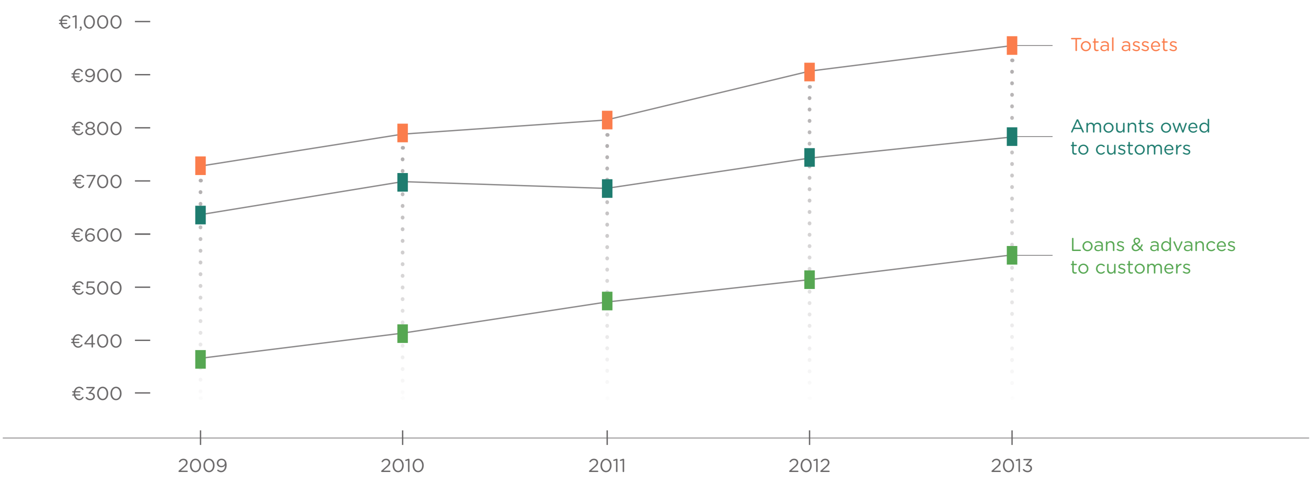
The Group's total assets as at the end of 2013 stood at €965.1 million, an increase of €55.0 million over the previous year. The main increases were recorded in loans and advances to customers which comprise more than half of the Group's asset base, followed by investments in debt and other fixed income instruments.

Loans and advances to customers gross of provisions stood at €563.3 million at the reporting date (2012: €520.9 million). The €42.4 million increase registered in 2013 was mainly generated by fresh facilities granted to households and individuals. While the Group continued to support its customers by maintaining the availability of lending, it was prudent in balancing risk against return and restricted its exposure to volatile sectors. During the financial year under review, the debt and other fixed income instruments classified as available-for-sale stood at €241.2 million, with the portfolio growing by a further €32.7 million.

Notwithstanding the increased competition for customer deposits, the Group managed to further expand its deposit base, which rose by €38.1 million to €781.2 million as at the reporting date. This was achieved in tandem with a marked improvement in the cost of funds rate. The series of innovative Kapital Plus products launched during the year contributed significantly to this growth.

As of 31 December 2013 Banking Rule 09 (BR09) was revised with the aim of strengthening the provisioning of non-performing loans and improving local banks' coverage ratios. The Rule requires banks to allocate a sum equivalent to a percentage of their non-performing loans to a Reserve for General Banking Risks. The Rule stipulates that the appropriation to this Reserve has to be funded from planned dividend distributions for the year. The Bank has accordingly set aside €740,346 in 2013. Notwithstanding that the Rule granted a transitory period of three years for the initial appropriation of funds to the Reserve for General Banking Risks, the Bank made 100% of the appropriation in the year under review.

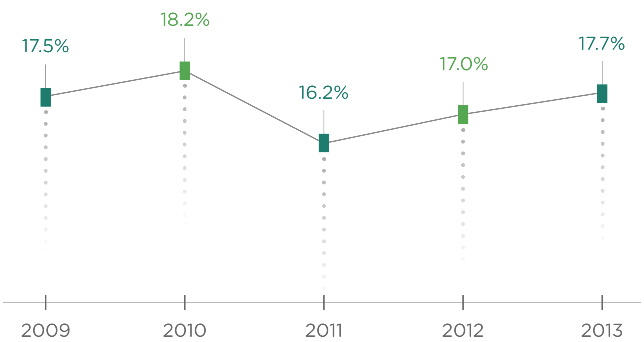
THE GROUP'S GROWTH OVER A 5-YEAR PERIOD (€ MILLION)



Capital Management

During the year, the Group continued to adopt an active and prudent approach towards the management of capital in order to maintain strong liquidity and capital adequacy ratios while meeting its obligations towards its shareholders. The Group's equity base has been further strengthened through the capitalisation of retained earnings and a fresh capital injection, with issued capital increasing by €14.8 million in 2013. This tranche concluded the capital increase exercise begun in 2011, with the issued and paid up share capital reaching €57.6 million by the end of December 2013. This strong capital base ensures that the Group remains able to meet the increased regulatory requirements whilst being poised for future growth.

GROUP'S SOLVENCY RATIO



Outlook

2014 is set to present more challenges to the Group as the consequences of the sovereign debt crises within the Eurozone are still being felt. The introduction of new regulatory requirements and a possible slowdown in government spending to achieve budgetary targets can only add to already existing difficulties.

The prudent liquidity and high solvency ratios maintained by the Group throughout the years will allow it to face successfully the challenges ahead. While it is set to maintain a conservative and prudent approach so as to retain its levels of profitability and strengthen further its position in the market, the Group is also conscious that this requires further investment in its present structures. A more articulate and flexible distribution network is required, with new premises to be complemented by a major information technology project that will continue to enhance the Group's infrastructure. Well aware of the importance of having a robust corporate governance and risk management framework, the Group is to continue strengthening the same to ensure that it reflects both regulatory requirements and internationally accepted best practices. These elements will continue to sustain the Group's performance in the coming years.

CORPORATE GOVERNANCE

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

Board of Directors

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

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

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

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

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

In accordance with the Memorandum and Articles of Association of the Bank, all Directors retire at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election.

Committees established by the Board

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

The Audit Committee

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

The Risk Management and Compliance Committee

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

The Advances Executive Committee

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

The Investments and Treasury Executive Committee

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

The Administration Executive Committee

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

The Information Technology Executive Committee

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

Senior Executive Committee

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

Principles of business conduct

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

INTERNAL CONTROL

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

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

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

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

RELATIONS WITH SHAREHOLDERS AND THE ANNUAL GENERAL MEETING

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

The Bank also communicates with its shareholders through the Annual General Meeting. This is to be held on 25 April 2014.

DIRECTORS' RESPONSILBILITIES FOR THE FINANCIAL STATEMENTS

The Companies Act, Cap. 386 of the Laws of Malta requires the Directors to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the Bank at the end of each financial year and of its profit or loss for that financial year in accordance with the requirements of International Financial Reporting Standards as adopted by the 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 and the Banking Act, Cap.371 of the Laws of Malta.

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

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

During the year ended 31 December 2013, no shares in the Bank were:

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

STANDARD LICENCE CONDITIONS

In accordance with paragraph 10.35 of the Investment Services Guidelines issued by the MFSA, licence holders are required to disclose any regulatory breaches of standard licence conditions in their annual report. During the year under review, there were no breaches of the standard licence conditions or regulatory sanctions imposed by the MFSA.

AUDITORS

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

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

E. P. DELIA
Chairman

J. C. CARUANA
Director

3 April 2014

Remuneration Committee

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

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

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

Remuneration Policy

The Bank's Remuneration Policy is in line with the provisions of Banking Rule BR/12/2013 – the Supervisory Review Process of Credit Institutions Authorised Under the Banking Act 1994 and fulfils established recommendations on Corporate Governance.

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

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

Senior Executive Management

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

Directors

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

Total fees received by Directors during the financial year 2013 are reported below:

	€
Chairman	39,700
Other Directors	73,597
	113,297

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

1. INTRODUCTION

The objective of this report is to provide information on the Group's implementation of the Basel II framework and risk assessment processes in accordance with the Pillar III requirements, as governed by Banking Rule BR/07/2013 - Publication of Annual Report and Audited Financial Statements of Credit Institutions Authorised Under the Banking Act 1994.

In line with the Banking Rules, this report is not subject to external audit, with the exception of any disclosures which are equivalent to those made in the Annual Report 2013 which adhere to International Financial Reporting Standards (IFRSs). However, this report has been subject to comprehensive internal review and approval by the Group's Risk Management and Compliance Committee (RMCC) and the Board of Directors (hereafter referred to as 'the Board'). This information is published annually. The Group is satisfied that internal verification procedures ensure that these Additional Regulatory Disclosures are presented fairly.

2. THE RISK MANAGEMENT FUNCTION

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

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

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

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

3. CREDIT RISK

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

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

3.1 Executive Committees

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

3.2 Advances Credit Criteria

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

3.3 Credit Administration and Monitoring Processes

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

3.4 Credit Limits

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

3.5 Credit Approval, Extension and Retention

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

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

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

3.6 Provisioning

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

3.7 Collateral

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

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

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

December 2013	% of gross loans & advances
Residential property	61.89
Commercial property	14.72
Cash and shares	7.93
Insurance	1.05

3.8 Sensitivity Testing

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

3.9 Capital Requirement

The Group adopts the Standardised Approach (as per Banking Rule BR/04/2013 - Capital Requirements of Credit Institutions Authorised Under the Banking Act 1994) for the purposes of calculating the risk-weighted exposures to credit risk. It adopts credit ratings by Standard and Poor's (if not available, Moody's or Fitch, applicable in that order) to establish the credit quality of all exposure classes, that is, institutions, government and corporate debt securities. The Standardised Approach is based on the assumption that the Group's portfolio is infinitely granular, as this methodology has been calibrated for internationally active banks. For this reason, the Group also allocates additional capital to cover concentration risk separately.

3.10 Concentration Risk

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

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

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

4. MARKET RISK

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

5. OPERATIONAL RISK

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

6. NON-TRADING BOOK EXPOSURES IN EQUITIES

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

7. INTEREST RATE RISK IN THE BANKING BOOK

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

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

The Group uses simulation modelling on a quarterly basis to monitor the sensitivity of projected net interest income for the next twelve months. The model simulates a 25 basis points parallel shift in interest rates and the impact on cash flows and the resulting income streams. The estimated impact of a decrease in interest rates by 25 basis points on all yield curves on the first day of the following month, based on the Balance Sheet position as at 31 December 2013, is a decrease in net interest income of €87K. On the other hand, a parallel increase in interest rates of 25 basis points is expected to result in an increase of €87K in net interest income. The parallel shift is assumed to take place on the first day of the following month, or following maturity in the case of debt securities, fixed rate loans and term deposits. The impact of interest rate movements on future income is low, as the gap between interest-sensitive assets and liabilities is narrowing.

The Group also monitors the impact of interest rate movements on its economic value on a quarterly basis using duration gap analysis. As at 31 December 2013, the Group assumed an extreme scenario of a 100 basis points parallel shift downwards. As a result of the Group's asset-sensitive gap, a decline in market interests by 100 basis points would result in a decline of €1,015K in its economic value, and vice versa.

8. LIQUIDITY RISK

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

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

The Group funds advances primarily from deposits. As at 31 December 2013 the Group's advances to deposits ratio was equal to 70%. The Group also has a liquidity ratio which is comfortably in excess of the 30% minimum regulatory requirement. Moreover, the Group has a level of stable deposits which acts as a permanent source of liquidity. The Group also has a portfolio of highly marketable assets that can be easily liquidated in the event of an unforeseen requirement of cash flow.

9. REPUTATION RISK

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

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

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

10. OTHER RISKS

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

11. CAPITAL

11.1 Capital Planning

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

In its capital planning, the Group has also been preparing for the new Capital Requirements Directive IV and Capital Requirements Regulation which will enter into force in January 2014. The Group has been participating on a voluntarily basis in the Basel III Quantitative Impact Study (QIS) exercise, which is repeated semi-annually using end-December and end-June reporting dates, and which seeks to monitor the impact of the new regulations on the banking industry.

11.2 Capital Adequacy

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

For the purposes of allocating capital to cover foreign exchange risk, the Group adopts the Basic Method (Banking Rule BR/08/2012 – Capital Adequacy of Credit Institutions Authorised Under the Banking Act 1994). The capital allocation for foreign exchange risk is therefore equal to 8% of the higher of the sum of the Group's net short or the net long positions as at 31 December 2013.

The Group adopts the Basic Indicator Approach (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 the Basel II framework. Under this approach a 15% charge is applied on average revenue for the previous three financial years.

AT 31 DECEMBER 2013	Book Value €000	Risk Weighted Exposure €000	Capital Allocation €000
Standardised Approach - Credit Risk			
Government	215,164	7,148	572
Home loans	399,488	123,976	9,918
Institutions	37,787	15,605	1,248
Short term claims on institutions	15,171	7,514	601
Corporate	367,249	221,925	17,754
Collective investment undertakings	19,351	14,659	1,173
Retail	60,573	28,077	2,246
Other	26,033	24,611	1,969
	1,140,816	**443,515**	**35,481**
Basic Indicator Approach			
Operational Risk		46,338	3,707
Basic Method			
Foreign Exchange Risk		809	65
Total		**490,662**	**39,253**
Own Funds Analysis			
Issued capital (note 31)		57,605	
Share premium (note 32)		1,770	
Regulatory reserve		1	
Retained earnings (note 34)		12,337	
Non-controlling interest		4,583	
Deductions:			
Intangible assets (other than goodwill) (note 23)		(929)	
Original own funds		**75,367**	
Revaluation reserves (note 33)		9,147	
Collective provisions (note 15)		2,341	
Additional own funds		11,488	
Total Own Funds		**86,855**	
Capital Adequacy Ratio		**17.70%**	

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

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

11.3 Internal Capital Adequacy Assessment Process

The Bank performs the Internal Capital Adequacy Assessment Process (ICAAP) on an annual basis in compliance with the Pillar II requirements of Banking Rule BR/12/2013 – The Supervisory Review Process of Credit Institutions Authorised Under the Banking Act 1994. This process continues to be of utmost importance for keeping the Board of Directors informed of the Bank's ongoing risk assessment, the mitigation measures adopted and their impact on the capital requirements.

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

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

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

The ICAAP has once again concluded that the Bank is well capitalised. The document was reviewed in detail by the Bank's Internal Audit Unit and by the RMCC and subsequently presented to the Board of Directors for approval. The Board approved the ICAAP document on 27 June 2013 which was submitted to the MFSA.

We have audited the accompanying financial statements of APS Bank Limited ('the Bank') and its subsidiaries ('the Group'), set on pages 16 to 71 which comprise the statements of financial position as at 31 December 2013 and the income statements, the statements of comprehensive income, statements of changes in equity and the statements of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. These standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements:

- give a true and fair view of the Bank's and the Group's financial position as at 31 December 2013, and of their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union; and
- have been properly prepared in accordance with the requirements of the Companies Act, Cap. 386 and the Banking Act, Cap. 371 of the Laws of Malta.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Auditors' Responsibility

We are required by the Banking Act, Cap. 371 of the Laws of Malta, to report whether we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit, whether in our opinion proper books of account have been kept by the Bank so far as appears from our examination thereof, whether these financial statements are in agreement with the books, and whether in our opinion, and to the best of our knowledge and according to the explanations given to us, these financial statements give the information required by law or regulations in the manner so required and give a true and fair view.

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

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

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

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

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

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

3 April 2014

INCOME STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

	Note	The Group 2013 €000	The Group 2012 €000	The Bank 2013 €000	The Bank 2012 €000
Interest receivable and similar income:					
On loans and advances, balances with the Central Bank of Malta and treasury bills	(3)	**21,761**	21,440	**21,752**	21,439
On debt securities	(3)	**15,068**	14,771	**14,657**	14,685
		36,829	36,211	**36,409**	36,124
Interest payable	(4)	**(15,004)**	(14,417)	**(15,050)**	(14,466)
Net interest income		**21,825**	21,794	**21,359**	21,658
Dividend income	(5)	**215**	141	**827**	518
Fees and commission income		**2,676**	2,508	**2,743**	2,534
Trading income	(6)	**255**	55	**255**	55
Net gains on financial instruments	(7)	**1,579**	2,345	**1,609**	2,062
Other operating income		**208**	216	**130**	158
Total operating income		**26,758**	27,059	**26,923**	26,985
Personnel expenses	(8)	**(7,129)**	(6,146)	**(7,020)**	(6,038)
Other administrative expenses	(9)	**(6,200)**	(5,109)	**(6,095)**	(5,029)
Amortisation of intangible assets	(23)	**(551)**	(606)	**(551)**	(606)
Depreciation of property and equipment	(24)	**(1,262)**	(1,250)	**(1,262)**	(1,244)
Operating profit		**11,616**	13,948	**11,995**	14,068
Share of results of associate, net of tax	(22)	**624**	689	**-**	-
Operating profit before impairment, reversals and provisions		**12,240**	14,637	**11,995**	14,068
Net impairment reversals/(losses)	(10)	**1,584**	(4,748)	**1,254**	(4,998)
Profit before tax		**13,824**	9,889	**13,249**	9,070
Income tax expense	(11)	**(4,648)**	(2,876)	**(4,526)**	(2,789)
Profit for the year		**9,176**	7,013	**8,723**	6,281

	The Group		The Bank	
	2013	2012	**2013**	2012
	€000	€000	**€000**	€000
Profit for the year	**9,176**	7,013	**8,723**	6,281
Other comprehensive income:				
Net (loss)/gain on available-for-sale financial assets	**(1,906)**	9,053	**(1,906)**	9,053
Net gain/(loss) released on disposal of available-for-sale financial assets	**1,554**	(779)	**1,554**	(779)
Income tax relating to the components of other comprehensive income	**806**	(2,557)	**806**	(2,557)
Other comprehensive income for the year, net of tax	**454**	5,717	**454**	5,717
Total comprehensive income for the year, net of tax	**9,630**	12,730	**9,177**	11,998
Profit attributable to:				
Equity holders of the parent	**9,138**	6,888	**8,723**	6,281
Non-controlling interest	**38**	125	**-**	-
	9,176	7,013	**8,723**	6,281
Total comprehensive income attributable to:				
Equity holders of the parent	**9,592**	12,605	**9,177**	11,998
Non-controlling interest	**38**	125	**-**	-
	9,630	12,730	**9,177**	11,998

STATEMENTS OF FINANCIAL POSITION AS AT 31 DECEMBER 2013

	Note	The Group 2013 €000	The Group 2012 €000	The Bank 2013 €000	The Bank 2012 €000
ASSETS					
Balances with Central Bank of Malta, treasury bills and cash	(13)	**16,657**	40,658	**16,657**	40,658
Cheques in course of collection		**1,778**	2,650	**1,778**	2,650
Loans and advances to banks	(14)	**15,471**	14,926	**15,171**	14,926
Loans and advances to customers	(15)	**548,919**	506,023	**548,919**	506,045
Derivative financial instruments	(17)	**2,480**	-	**2,480**	-
Debt and other fixed income instruments	(18)	**328,873**	304,457	**328,873**	304,457
Financial assets at fair value through profit or loss	(19)	**12,902**	5,886	**4,172**	-
Equity and other non-fixed income instruments	(20)	**2,439**	1,402	**2,439**	1,402
Investment in subsidiaries	(21)	**-**	-	**5,055**	5,250
Investment in associate	(22)	**10,437**	10,206	**9,887**	9,887
Intangible assets	(23)	**929**	636	**929**	636
Investment property	(15)	**330**	330	**330**	330
Property and equipment	(24)	**14,058**	13,636	**14,056**	13,633
Deferred tax assets	(25)	**3,881**	3,284	**4,002**	3,371
Other receivables	(26)	**5,987**	6,065	**5,790**	5,892
TOTAL ASSETS		**965,141**	910,159	**960,538**	909,137
LIABILITIES					
Amounts owed to banks	(27)	**70,771**	70,021	**70,771**	70,021
Derivative financial instruments	(17)	**2,480**	-	**2,480**	-
Amounts owed to customers	(28)	**781,242**	743,106	**781,879**	745,234
Other liabilities	(29)	**3,080**	4,951	**3,060**	4,947
Taxation		**1,288**	1,920	**1,288**	1,920
Accruals	(30)	**7,722**	6,373	**7,693**	6,364
TOTAL LIABILITIES		**866,583**	826,371	**867,171**	828,486
EQUITY					
Share capital	(31)	**57,605**	42,803	**57,605**	42,803
Share premium	(32)	**1,770**	1,770	**1,770**	1,770
Revaluation reserve	(33)	**9,147**	8,693	**9,147**	8,693
Retained earnings	(34)	**23,928**	26,315	**23,320**	26,122
Dividend reserve		**1,525**	1,263	**1,525**	1,263
		93,975	80,844	**93,367**	80,651
Non-controlling interest		**4,583**	2,944	**-**	-
TOTAL EQUITY		**98,558**	83,788	**93,367**	80,651
TOTAL LIABILITIES AND EQUITY		**965,141**	910,159	**960,538**	909,137
MEMORANDUM ITEMS					
Contingent liabilities	(35)	**5,869**	5,944	**5,869**	5,944
Commitments	(36)	**169,654**	156,314	**169,654**	156,314

The financial statements on pages 16 to 71 were authorised for issue by the Board of Directors on 3 April 2014 and were signed by:

E.P. DELIA
Chairman

J.C. CARUANA
Director

E. CACHIA
Chief Executive Officer

THE GROUP	Share 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 2013								
Balance at 1 January 2013	42,803	1,770	8,693	1,263	26,315	80,844	2,944	83,788
Profit for the year	-	-	-	-	9,138	9,138	38	9,176
Other comprehensive income	-	-	454	-	-	454	-	454
Total comprehensive income	-	-	454	-	9,138	9,592	38	9,630
Increase in share capital (note 31)	4,802	-	-	-	-	4,802	-	4,802
Capitalisation of retained earnings (note 31)	10,000	-	-	-	(10,000)	-	-	-
Dividends paid (note 12)	-	-	-	(1,263)	-	(1,263)	-	(1,263)
Dividends proposed (note 12)	-	-	-	1,525	(1,525)	-	-	-
Net share capital issued in subsidiary company	-	-	-	-	-	-	1,601	1,601
Balance at 31 December 2013	**57,605**	**1,770**	**9,147**	**1,525**	**23,928**	**93,975**	**4,583**	**98,558**
FINANCIAL YEAR ENDED 31 DECEMBER 2012								
Balance at 1 January 2012	29,202	1,770	2,976	1,061	30,690	65,699	-	65,699
Profit for the year	-	-	-	-	6,888	6,888	125	7,013
Other comprehensive income	-	-	5,717	-	-	5,717	-	5,717
Total comprehensive income	-	-	5,717	-	6,888	12,605	125	12,730
Increase in share capital (note 31)	3,601	-	-	-	-	3,601	-	3,601
Capitalisation of retained earnings (note 31)	10,000	-	-	-	(10,000)	-	-	-
Dividends paid (note 12)	-	-	-	(1,061)	-	(1,061)	-	(1,061)
Dividends proposed (note 12)	-	-	-	1,263	(1,263)	-	-	-
Net share capital issued in subsidiary company	-	-	-	-	-	-	2,819	2,819
Balance at 31 December 2012	**42,803**	**1,770**	**8,693**	**1,263**	**26,315**	**80,844**	**2,944**	**83,788**

THE BANK	Share capital €000	Share premium €000	Revaluation reserve €000	Dividend reserve €000	Retained earnings €000	Total €000
FINANCIAL YEAR ENDED 31 DECEMBER 2013						
Balance at 1 January 2013	42,803	1,770	8,693	1,263	26,122	80,651
Profit for the year	-	-	-	-	8,723	8,723
Other comprehensive income	-	-	454	-	-	454
Total comprehensive income	-	-	454	-	8,723	9,177
Increase in share capital (note 31)	4,802	-	-	-	-	4,802
Capitalisation of retained earnings (note 31)	10,000	-	-	-	(10,000)	-
Dividends paid (note 12)	-	-	-	(1,263)	-	(1,263)
Dividends proposed (note 12)	-	-	-	1,525	(1,525)	-
Balance at 31 December 2013	**57,605**	**1,770**	**9,147**	**1,525**	**23,320**	**93,367**
FINANCIAL YEAR ENDED 31 DECEMBER 2012						
Balance at 1 January 2012	29,202	1,770	2,976	1,061	31,104	66,113
Profit for the year	-	-	-	-	6,281	6,281
Other comprehensive income	-	-	5,717	-	-	5,717
Total comprehensive income	-	-	5,717	-	6,281	11,998
Increase in share capital (note 31)	3,601	-	-	-	-	3,601
Capitalisation of retained earnings (note 31)	10,000	-	-	-	(10,000)	-
Dividends paid (note 12)	-	-	-	(1,061)	-	(1,061)
Dividends proposed (note 12)	-	-	-	1,263	(1,263)	-
Balance at 31 December 2012	**42,803**	**1,770**	**8,693**	**1,263**	**26,122**	**80,651**

STATEMENTS OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2013

	Note	The Group 2013 €000	The Group 2012 €000	The Bank 2013 €000	The Bank 2012 €000
OPERATING ACTIVITIES					
Interest and commission receipts		**25,597**	24,511	**25,189**	24,554
Interest and commission payments		**(13,524)**	(13,946)	**(13,570)**	(13,976)
Cash paid to employees and suppliers		**(12,639)**	(11,967)	**(12,428)**	(11,806)
Operating loss before changes in operating assets and liabilities		**(566)**	(1,402)	**(809)**	(1,228)
(Increase) / decrease in operating assets					
Loans and advances to customers		**(42,320)**	(38,270)	**(42,320)**	(38,292)
Reserve deposit with Central Bank of Malta		**916**	(4,871)	**916**	(4,871)
Cheques in course of collection		**872**	(1,727)	**872**	(1,727)
Other assets		**-**	60	**-**	-
Increase / (decrease) in operating liabilities					
Amounts owed to customers		**39,553**	55,481	**40,085**	57,588
Other liabilities		**(5,121)**	2,919	**(5,119)**	2,936
Cash (used in) / from operating activities before tax		**(6,666)**	12,190	**(6,375)**	14,406
Income tax paid		**(4,985)**	(4,341)	**(4,984)**	(4,341)
Net cash flows (used in) / from operating activities		**(11,651)**	7,849	**(11,359)**	10,065
INVESTING ACTIVITIES					
Dividends received		**570**	484	**793**	484
Interest income from debt securities		**16,287**	16,094	**16,287**	16,094
Purchase of held-to-maturity debt security instruments		**(5,518)**	(12,421)	**(5,518)**	(12,421)
Proceeds on maturity of held-to-maturity debt security instruments		**13,532**	3,345	**13,532**	3,345
Purchase of available-for-sale debt security instruments		**(101,907)**	(112,225)	**(101,907)**	(112,225)
Proceeds on disposal of available-for-sale debt security instruments		**68,751**	99,835	**68,751**	99,834
Purchase of financial assets at fair value through profit or loss		**(15,499)**	(5,828)	**(6,351)**	-
Proceeds on disposal of financial assets at fair value through profit or loss		**10,294**	225	**2,320**	-
Purchase of equity and other non-fixed income instruments		**(789)**	(141)	**(939)**	(141)
Investment in subsidiaries		**-**	-	**-**	(5,000)
Proceeds on disposal of equity and other non-fixed income instruments		**-**	826	**-**	826
Purchase of property and equipment		**(2,737)**	(1,002)	**(2,737)**	(1,002)
Net cash flows (used in) investing activities		**(17,016)**	(10,808)	**(15,769)**	(10,206)
FINANCING ACTIVITIES					
Dividends paid		**(1,325)**	(1,061)	**(1,263)**	(1,061)
Proceeds from issue of share capital		**4,802**	3,601	**4,802**	3,601
Net proceeds from non-controlling interest for shares in subsidiary		**1,601**	2,818	**-**	-
Net cash flows from financing activities		**5,078**	5,358	**3,539**	2,540
Net (decrease) / increase in cash and cash equivalents		**(23,589)**	2,399	**(23,589)**	2,399
Cash and cash equivalents at 1 January		**(21,643)**	(24,042)	**(21,643)**	(24,042)
Cash and cash equivalents at 31 December	(37)	**(45,232)**	(21,643)	**(45,232)**	(21,643)

1. CORPORATE INFORMATION

APS Group comprises APS Bank Limited, APS Consult Limited and APS Regular Income Ethical Fund.

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

The Bank also holds an investment in APS Income Fund, a sub-fund of APS Funds Sicav p.l.c. This investment is recognised as an investment in associate as at 31 December 2013 (note 22) (2012: the same).

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

2. ACCOUNTING POLICIES

2.1 BASIS OF PREPARATION

The consolidated financial statements have been prepared on a historical cost basis, except for financial assets designated at fair value through profit or loss, available-for-sale financial assets, derivative financial instruments and investment property, all of which have been measured at fair value. The consolidated financial statements are presented in Euro (€), and all values are rounded to the nearest thousand (€1,000) except when otherwise indicated.

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

Statement of compliance

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

Presentation of Financial Statements

Basis of consolidation

The consolidated financial statements comprise the financial statements of APS Bank Limited and its subsidiaries for the year ended 31 December 2013, which together are referred to as the 'Group'. All intra-group balances, transactions, income and expenses between the Bank and the subsidiaries have been eliminated on consolidation. 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 where the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies.

Non-controlling interest represents the portion of profit or loss and net assets of subsidiaries that is not owned by the Group. Non-controlling interest is presented separately in the consolidated income statement and within equity in the consolidated statement of financial position, but separately from parent shareholders' equity. Any losses applicable to the non-controlling interest are allocated even if this results in a deficit balance.

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 assets (including goodwill) and liabilities of the subsidiary
- Derecognises the carrying amount of any non-controlling interest
- Derecognises the cumulative translation differences recorded in equity
- Recognises the fair value of the consideration received
- Recognises the fair value of any investments retained
- Recognises any surplus or deficit in profit and loss
- Reclassifies the parent's share of components previously recognised in other comprehensive income to profit and loss or retained earnings, as appropriate.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

Amendments to IFRS effective as of 1 January 2013

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

The accounting policies are consistent with those of the previous financial year, except for the following standards, interpretations and amendments effective as of 1 January 2013.

- IAS 1 Presentation of items of Other Comprehensive Income
- IFRS 7 (Amendment) Financial Instruments: Disclosures – Offsetting of financial assets and financial liabilities
- IFRS 13 Fair Value Measurement
- Annual Improvements to IFRSs 2009-2011 Cycle (issued in May 2012)
- Amendments to IFRS1 – First time adoption of International Financial Reporting Standards – Government Loans

IAS 1 Presentation of Items of Other Comprehensive Income – Amendments to IAS 1

The amendments to IAS 1 introduce a grouping of items presented in OCI. Items that will be reclassified ('recycled') to profit or loss at a future point in time (e.g., net loss or gain on AFS financial assets) have to be presented separately from items that will not be reclassified (e.g., revaluation of land and buildings). The amendments affect presentation only and have no impact on the Group's financial position or performance.

IFRS 13 Fair Value Measurement

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS. IFRS 13 defines fair value as an exit price. As a result of the guidance in IFRS 13, the Group re-assessed its policies for measuring fair values, in particular, its valuation inputs such as non-performance risk for fair value measurement of liabilities. IFRS 13 also requires additional disclosures. Application of IFRS 13 has not materially impacted the fair value measurements of the Group. Additional disclosures where required, are provided in the individual notes relating to the assets and liabilities whose fair values were determined.

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

Standards, interpretations and amendments to published standards 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 Group have not been adopted early, but plans to adopt upon their effective date. The changes resulting from these standards are not expected to have a material effect on the financial statement of the Group. The new and amended standards are as follows:

- IAS 32 (Amendments) – Financial Instruments – Presentation – Offsetting of financial assets and financial liabilities presentation (effective for financial years beginning on or after 1 January 2014).

These amendments clarify the meaning of "currently has a legally enforceable right to set-off". It will be necessary to assess the impact to the Group by reviewing settlement procedures and legal documentation to ensure that offsetting is still possible in cases where it has been achieved in the past. In certain cases, offsetting may no longer be achieved. In other cases, contracts may have to be renegotiated. The requirement that the right of set-off be available for all counterparties to the netting agreement may prove to be a challenge for contracts where only one party has the right to offset in the event of default.

The amendments also clarify the application of the IAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. Offsetting on the grounds of simultaneous settlement is particularly relevant for the Group as to where it engages in large numbers of sale and repurchase transactions. Currently, transactions settled through clearing systems are, in most cases, deemed to achieve simultaneous settlement. While many settlement systems are expected to meet the new criteria, some may not.

- IAS 39 (Amendments) - Novation of Derivatives and Continuation of Hedge Accounting (effective for financial years on or after 1 January 2014).

Amendments to permit an entity to elect to continue to apply the hedge accounting requirements in IAS 39 for a fair value hedge of the interest rate exposure of a portion of a portfolio of financial assets or financial liabilities when IFRS 9 is applied, and to extend the fair value option to certain contracts that meet the 'own use' scope exception.

- IAS 36 (Amendments) – Recoverable Amount Disclosures for Non-Financial Assets (effective for financial years on or after 1 January 2014).
- IFRS 10, IFRS 12 and IAS 27 (Amendments) – Investment Entities (effective for financial years on or after 1 January 2014).
- IFRS 10, IFRS 11 and IFRS 12 (Amendments) – Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities – Transition Guidance (effective for financial years on or after 1 January 2014).

Unless otherwise stated, these standards do not have an impact on the financial statements or performance of the Group.

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

- IFRS 9 Financial Instruments – Including subsequent amendments to IFRS 9 and IFRS 7 (the effective date for financial years beginning on or after 1 January 2015 was removed on 19 November 2013 by the IASB and it was then tentatively decided at the IASB's February 2014 meeting to set 1 January 2018 as the effective date for the mandatory application of IFRS 9);
- IFRIC Interpretation 21 Levies (effective for financial years beginning on or after 1 January 2014);
- IAS 19 (Amendments) Employee Benefits (effective for the annual periods beginning on or after 1 July 2014);
- IFRS 14 – Regulatory Deferral Accounts (issued on 30 January 2014 and effective for the financial years beginning on or after 1 January 2016);
- Annual Improvements to IFRSs 2010 – 2012 Cycle (issued on 12 December 2013 and effective for the annual periods beginning on or after 1 July 2014);
- Annual Improvements to IFRSs 2011 – 2013 Cycle (issued on 12 December 2013 and effective for the annual periods beginning on or after 1 July 2014).

  The Group is still assessing the impact that these standards will have on the financial statements.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Recognition of income and expenses

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

Interest and similar income and expense

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

Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Fees and commission income

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

Dividend income

Dividend income from investments is recognised when the Group's right to receive the payment is established.

Net gains on financial instruments

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

Foreign currency translation

The consolidated financial statements are presented in Euro, which is the Group's functional and presentation currency. Transactions in foreign currencies are translated at the rate of exchange prevailing on the date of transaction. Monetary assets and liabilities denominated in foreign currencies are translated in the functional currency at the rates of exchange ruling at the reporting date. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of recognition.

Financial instruments

Classification

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

Initial recognition and subsequent measurement of financial instruments

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

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

Derivative financial instruments

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

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

Financial assets and financial liabilities at fair value through profit or loss

Financial assets and financial liabilities classified in this category are those that have been designated by management upon initial recognition. Management may only designate an instrument at fair value through profit or loss upon initial recognition when the following criteria are met. Designation is determined on an instrument-by-instrument basis:

- The designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognising gains or losses on them on a different basis.
- The assets and liabilities are part of a group of financial assets, financial liabilities or both, which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy.
- The financial instrument contains one or more embedded derivatives, which significantly modify the cash flows that would otherwise be required by the contract.

Financial assets and financial liabilities at fair value through profit or loss are recorded in the statement of financial position at fair value. Changes in fair value are recorded in "Net gains on financial instruments". Interest earned or incurred is accrued in Interest income using the effective interest rate (EIR), while dividend income is recorded in "Other operating income" when the right to the payment has been established.

The Group did not include any loans and receivables in this category during 2013 and the previous year.

Held-to-maturity financial investments

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

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

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

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

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

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

The Group has not designated any loans and receivables as available-for-sale.

After initial measurement, available-for-sale financial investments are subsequently measured at fair value. Unrealised gains and losses are recognised directly in equity (Other comprehensive income) in the Revaluation reserve. When the investment is disposed of, the cumulative gain or loss previously recognised in equity is recognised in the income statement in Net gains on financial instruments. Where the Group holds more than one investment in the same security they are deemed to be disposed of on a first-in first-out basis. Interest earned whilst holding available-for-sale financial assets is reported as interest income using the EIR. Dividends earned whilst holding available-for-sale financial investments are recognised in the income statement when the right of the payment has been established. The losses arising from impairment of such investments are recognised in the income statement in Net impairment losses and removed from Revaluation reserve.

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

Fair value measurement
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.

For all other financial instruments not traded in an active market, the fair value is determined by using valuation techniques deemed to be appropriate in the circumstances. Valuation techniques may include the market approach (i.e., using recent arm's length market transactions adjusted as necessary and reference to the current market value of another instrument that is substantially the same) and the income approach (i.e., discounted cash flow analysis and option pricing models making as much use of available and supportable market data as possible).

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.

Reclassification of financial assets
Effective from 1 July 2008, the Group was permitted to reclassify, in certain circumstances, non-derivative financial assets out of the held-for-trading category and into the available-for-sale, loans and receivables, or held-to-maturity categories. From this date, it was also permitted to reclassify, in certain circumstances, financial instruments out of the available-for-sale category and into the loans and receivables category. Reclassifications are recorded at fair value at the date of reclassification, which becomes the new amortised cost.

For a financial asset reclassified out of the available-for-sale category, any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the EIR. Any difference between the new amortised cost and the expected cash flows is also amortised over the remaining life of the asset using the EIR. If the asset is subsequently determined to be impaired, then the amount recorded in equity is recycled to the income statement.

The Group may reclassify a non-derivative trading asset out of the held-for-trading category and into the loans and receivables category if it meets the definition of loans and receivables and the Group has the intention and ability to hold the financial asset for the foreseeable future or until maturity. If a financial asset is reclassified, and if the Group subsequently increases its estimates of future cash receipts as a result of increased recoverability of those cash receipts, the effect of that increase is recognised as an adjustment to the EIR from the date of the change in estimate.

During 2013 the Group had not reclassified any financial assets (note 18, 19 and 20).

Derecognition of financial assets and financial liabilities

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

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

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

Financial liabilities
A financial liability is derecognised when the obligation under the liability is either discharged or cancelled or expires. Where 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 a derecognition of the original liability and the recognition of a new liability, and the difference between the carrying value of the original financial liability and the consideration paid is recognised in profit or loss.

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

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

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

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

Impairment of financial assets

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

Financial assets carried at amortised cost

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

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

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

Available-for-sale financial investments

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

In the case of equity investments classified as available-for-sale, objective evidence would include a 'significant' or 'prolonged' decline in the fair value of the investments below its cost. The Group treats 'significant' generally as 30% and 'prolonged' generally as greater than 12 months. Where there is evidence of impairment, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the income statement, is removed from equity and recognised in the income statement. Impairment losses on equity investments are not reversed through the income statement; increases in their fair value after impairment are recognised directly in other comprehensive income.

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

Renegotiated loans

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

Property and equipment

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

	%
Building	1
Computer equipment	25
Other	5-20

Works of art and land are not depreciated.

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

Intangible assets

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

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

Development costs

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

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

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 income statement in the period in which they arise, including the corresponding tax effect.

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 income statement in the period of derecognition.

Impairment of non-financial assets

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

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

Investments in subsidiaries

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

Investment in associate

The Group

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

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

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

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

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

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

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

The Bank

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

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

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

Taxation

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

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

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

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

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

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

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

Deferred income tax relating to items recognised directly in equity is recognised in equity and not in the income statement. 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 income statement as they accrue. The Group does not contribute towards any retirement benefit plans.

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

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

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

- Cash in hand and deposits repayable on call or short notice or with a contractual period to maturity of less than three months, with any bank or financial institution.
- Short-term highly liquid investments which are readily convertible into known amounts of cash without notice, subject to an insignificant risk of changes in value and with a contractual period of maturity of less than three months.
- Advances to/from banks repayable within three months from the date of the advance.
- Treasury bills with an original maturity of less than 90 days.

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.

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

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

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

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

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

The impairment loss on loans and advances is disclosed in more detail in note 10.

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

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

The impairment loss on available-for-sale investments and held-to-maturity investments is disclosed in more detail in note 10.

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

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

3. INTEREST RECEIVABLE AND SIMILAR INCOME

	The Group		The Bank	
	2013	2012	**2013**	2012
	€000	€000	**€000**	€000
On loans and advances to banks	**13**	17	**13**	17
On loans and advances to customers	**21,706**	21,250	**21,697**	21,249
On balances with Central Bank of Malta	**39**	86	**39**	86
On treasury bills	**3**	87	**3**	87
	21,761	21,440	**21,752**	21,439
On debt securities	**16,697**	15,928	**16,286**	15,842
Amortisation of premiums and discounts	**(1,629)**	(1,157)	**(1,629)**	(1,157)
	15,068	14,771	**14,657**	14,685
	36,829	36,211	**36,409**	36,124

Interest receivable on loans and advances to customers is netted off with €1,044,631 (2012: €485,883) in respect of interest accrued on impaired loans and advances to customers (note 15).

4. INTEREST PAYABLE

	The Group		The Bank	
	2013	2012	**2013**	2012
	€000	€000	**€000**	€000
On deposits by banks	**400**	614	**400**	614
On customer accounts	**14,604**	13,803	**14,650**	13,852
	15,004	14,417	**15,050**	14,466

5. DIVIDEND INCOME

	The Group		The Bank	
	2013	2012	**2013**	2012
	€000	€000	**€000**	€000
From equity shares held in local and foreign companies	**215**	141	**827**	518

6. TRADING INCOME

	The Group		The Bank	
	2013	2012	**2013**	2012
	€000	€000	**€000**	€000
Gains on foreign exchange activities	**255**	55	**255**	55

7. NET GAINS ON FINANCIAL INSTRUMENTS

a) Net realised gains on disposal of available-for-sale investments	The Group		The Bank	
	2013	2012	2013	2012
	€000	€000	€000	€000
Realised gains on disposal of available-for-sale investments	**1,586**	2,062	**1,586**	2,062

b) Net changes in fair value of financial assets at fair value through profit or loss				
Unrealised net fair value movements on financial assets at fair value through profit or loss	**(176)**	276	**42**	-
Realised gains/(losses) on disposal of financial assets at fair value through profit or loss	**169**	7	**(19)**	-
	(7)	283	**23**	-
	1,579	2,345	**1,609**	2,062

8. PERSONNEL EXPENSES

	The Group		The Bank	
	2013	2012	2013	2012
	€000	€000	€000	€000
Wages and salaries:				
- key management personnel	**391**	391	**309**	315
- other staff	**6,285**	5,335	**6,325**	5,378
- wages recharged to subsidiary at cost	**-**	-	**(63)**	(71)
Social security costs	**453**	420	**449**	416
	7,129	6,146	**7,020**	6,038

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

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

	The Group		The Bank	
	2013	2012	2013	2012
	Number of Employees	Number of Employees	Number of Employees	Number of Employees
Managerial	**39**	41	**38**	39
Supervisory and clerical	**190**	177	**190**	176
Others	**12**	12	**12**	12
	241	230	**240**	227

9. OTHER ADMINISTRATIVE EXPENSES

	The Group		The Bank	
	2013	2012	**2013**	2012
	€000	€000	**€000**	€000
Remuneration payable to the auditors for:				
- the audit of financial statements	**37**	31	**35**	28
- tax compliance services	**2**	2	**2**	2
Directors' emoluments	**117**	108	**113**	103
Insurance	**380**	337	**375**	333
Professional fees	**583**	415	**570**	405
Repairs and maintenance	**1,393**	1,098	**1,391**	1,090
Telecommunications	**307**	270	**304**	267
Office operating expenses	**1,434**	1,148	**1,410**	1,119
Others	**1,947**	1,700	**1,895**	1,682
	6,200	5,109	**6,095**	5,029

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

10. NET IMPAIRMENT (REVERSALS)/LOSSES

	The Group		The Bank	
	2013	2012	**2013**	2012
	€000	€000	**€000**	€000
Charge for the year:				
Loans and advances to customers:				
- collective impairment (note 15)	**(1,235)**	232	**(1,235)**	232
- individual impairment	**1,834**	6,162	**1,834**	6,162
- bad debts written off	**21**	2	**6**	2
On investments:				
- provision on debt and other fixed income instruments	**-**	(1,361)	**-**	(1,361)
- write off of bonds	**-**	699	**-**	699
On investment in subsidiary (note 21)	**-**	-	**345**	250
	620	5,734	**950**	5,984
Reversal of write-downs:				
Loans and advances to customers:				
- individual impairment	**(2,204)**	(986)	**(2,204)**	(986)
Net impairment (reversals)/losses	**(1,584)**	4,748	**(1,254)**	4,998

11. INCOME TAX EXPENSE

The major components of income tax expense for the years ended 31 December 2013 and 2012 are:

	The Group		The Bank	
	2013	2012	**2013**	2012
	€000	€000	**€000**	€000
Current income tax	**4,352**	4,467	**4,352**	4,467
Deferred income tax	**296**	(1,591)	**174**	(1,678)
Income tax expense	**4,648**	2,876	**4,526**	2,789

A reconciliation between tax expense and the product of accounting profit multiplied by the applicable tax rate in Malta of 35% (2012: 35%) for the years ended 31 December 2013 and 2012 is as follows:

	The Group		The Bank	
	2013	2012	**2013**	2012
	€000	€000	**€000**	€000
Profit before tax	**13,824**	9,889	**13,249**	9,070
Theoretical tax expense at 35%	**4,838**	3,461	**4,637**	3,175
Tax effect of:				
- Differences between depreciation and capital allowances	**49**	37	**49**	37
- Non-taxable income	**-**	(445)	**-**	(214)
- Non-deductible expenses	**-**	2	**-**	-
- Income subject to reduced rates of tax	**(171)**	(122)	**(171)**	(122)
- Current year tax losses surrendered by a group company	**-**	-	**(27)**	(46)
- Others	**(68)**	(57)	**38**	(41)
Income tax expense	**4,648**	2,876	**4,526**	2,789

12. DIVIDENDS PAID AND PROPOSED

	The Group		The Bank	
	2013	2012	**2013**	2012
	€000	€000	**€000**	€000
Dividends paid on ordinary shares:				
Final gross of income tax for 2012: 2.72 cents per share (2011: 2.46 cents per share)	**1,943**	1,195	**1,943**	1,195
Final net of income tax for 2012: 1.77 cents per share (2011: 2.18 cents per share)	**1,263**	1,061	**1,263**	1,061

Dividends proposed for approval at Annual General Meeting (not recognised as a liability as at 31 December):

	The Group		The Bank	
	2013	2012	**2013**	2012
	€000	€000	**€000**	€000
Proposed final gross of income tax for 2013: 5.09 cents per share (2012: 2.72 cents per share)	**2,346**	1,943	**2,346**	1,943
Final net of income tax for 2013: 3.31 cents per share (2012: 1.77 cents per share)	**1,525**	1,263	**1,525**	1,263

13. BALANCES WITH CENTRAL BANK OF MALTA, TREASURY BILLS AND CASH

	The Group		The Bank	
	2013	2012	**2013**	2012
	€000	€000	**€000**	€000
Cash in hand (note 37)	**5,274**	4,814	**5,274**	4,814
Balances with Central Bank of Malta (excluding reserve deposit) (note 37)	**5,094**	25,656	**5,094**	25,656
Reserve deposit with Central Bank of Malta	**6,289**	7,206	**6,289**	7,206
Treasury bills (note 37)	-	2,982	-	2,982
	16,657	40,658	**16,657**	40,658

Reserve deposit with the Central Bank of Malta represent mandatory reserve deposits and are not available for use in the Group's day-to-day operations. It is held in terms of article 32 of the Central Bank of Malta Act, Cap. 204 of the Laws of Malta. Included in this balance is an amount of €1,400,000 (2012: €1,150,000) pledged in favour of the MFSA's Depositors' Compensation Scheme (note 18).

During the year ended 31 December 2013 the Bank has been compliant with the reserve deposit requirement (2012: the same).

14. LOANS AND ADVANCES TO BANKS

	The Group		The Bank	
	2013	2012	2013	2012
	€000	€000	€000	€000
Repayable on call and at short notice (note 37)	15,171	14,926	15,171	14,926
Placements with other banks not repayable at short notice	300	-	-	-
	15,471	14,926	15,171	14,926
Analysed by currency:				
- Euro	9,899	5,721	9,599	5,721
- Foreign	5,572	9,205	5,572	9,205
	15,471	14,926	15,171	14,926

15. LOANS AND ADVANCES TO CUSTOMERS

	The Group		The Bank	
	2013	2012	2013	2012
	€000	€000	€000	€000
Repayable on call and at short notice	60,094	60,829	60,094	60,851
Term loans and advances	503,181	460,111	503,181	460,111
Gross loans and advances	563,275	520,940	563,275	520,962
Less allowance for impairment losses	(14,356)	(14,917)	(14,356)	(14,917)
	548,919	506,023	548,919	506,045

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	
	2013	2012	2013	2012
	€000	€000	€000	€000
At 1 January	14,917	9,023	14,917	9,023
(Reversal)/charge for the year:				
- Collective (note 10)	(1,235)	232	(1,235)	232
- Individual	674	5,662	674	5,662
At 31 December	14,356	14,917	14,356	14,917

Included in the movement of the individual impairment allowance is an amount of €1,044,631 (2012: €485,883) in respect of accrued interest on impaired loans and advances to customers (note 3).

15. LOANS AND ADVANCES TO CUSTOMERS - CONTINUED

Impairment allowance for loans and advances to customers (continued)

Impairment losses:

	The Group		The Bank	
	2013	2012	**2013**	2012
	€000	€000	**€000**	€000
- Individual	**12,015**	11,341	**12,015**	11,341
- Collective	**2,341**	3,576	**2,341**	3,576
	14,356	14,917	**14,356**	14,917

Gross loans and advances analysed by currency:

	The Group		The Bank	
	2013	2012	**2013**	2012
	€000	€000	**€000**	€000
- Euro	**562,381**	519,871	**562,381**	519,893
- Foreign	**894**	1,069	**894**	1,069
	563,275	520,940	**563,275**	520,962

Included with the individually assessed allowance at the reporting date is an amount of €2,845,795 (2012: €1,801,164) which has been netted-off against interest receivable.

The aggregate amount of impaired loans and advances at the reporting date amounted to €16,593,000 (2012: €17,156,832).The amount and type of collateral required depends on an assessment of the credit risk of the customer. For a more detailed description see 'Collateral' in note 39.3.

Collateral repossessed

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

16. CONCENTRATION OF LOANS AND ADVANCES TO CUSTOMERS

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

THE GROUP	2013 €000	2012 €000
Agriculture	**8,281**	8,403
Fishing	**4,137**	4,342
Mining and quarrying	**27**	122
Manufacturing	**26,201**	20,837
Electricity, gas and water supply	**17,130**	16,987
Construction	**78,782**	79,006
Wholesale and retail trade	**40,131**	35,640
Hotels and restaurants, excluding related construction activities	**24,199**	25,479
Transport, storage and communication	**1,521**	2,172
Financial intermediation	**2,051**	2,292
Real estate, renting and business	**15,044**	19,214
Public administration	**3,251**	1,229
Education	**12,212**	12,734
Health and social work	**819**	1,296
Community, recreational and personal service activities	**6,312**	7,033
Households and individuals	**323,177**	284,154
	563,275	520,940

THE BANK	2013 €000	2012 €000
Agriculture	**8,281**	8,403
Fishing	**4,137**	4,342
Mining and quarrying	**27**	122
Manufacturing	**26,201**	20,837
Electricity, gas and water supply	**17,130**	16,987
Construction	**78,782**	79,006
Wholesale and retail trade	**40,131**	35,640
Hotels and restaurants, excluding related construction activities	**24,199**	25,479
Transport, storage and communication	**1,521**	2,172
Financial intermediation	**2,051**	2,314
Real estate, renting and business	**15,044**	19,214
Public administration	**3,251**	1,229
Education	**12,212**	12,734
Health and social work	**819**	1,296
Community, recreational and personal service activities	**6,312**	7,033
Households and individuals	**323,177**	284,154
	563,275	520,962

17. DERIVATIVE FINANCIAL INSTRUMENTS

	The Group		The Bank	
	2013	2012	2013	2012
	€000	€000	€000	€000
Derivative assets, designated as at fair value through profit or loss, not designated as hedges	2,480	-	2,480	-
Derivative liabilities, designated as at fair value through profit or loss, not designated as hedges	2,480	-	2,480	-

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

THE GROUP / BANK	Notional 2013 €000	Assets 2013 €000	Liabilities 2013 €000	Notional 2012 €000	Assets 2012 €000	Liabilities 2012 €000
Over the counter derivatives:						
Equity/commodity-index warrants purchased	47,000	2,480	-	-	-	-
Equity/commodity-index warrants written	47,000	-	2,480	-	-	-
		2,480	2,480	-	-	-

The Group's exposure under the derivative contracts is closely monitored as part of the overall management of market risk. The Group classifies its derivative instruments as Level 2 in accordance with IFRS 13 fair value hierarchy. The valuations are based on valuation techniques using observable inputs.

18. DEBT AND OTHER FIXED INCOME INSTRUMENTS

	The Group		The Bank	
	2013	2012	**2013**	2012
	€000	€000	**€000**	€000
Held-to-maturity	**87,723**	95,985	**87,723**	95,985
Available-for-sale	**241,150**	208,472	**241,150**	208,472
	328,873	304,457	**328,873**	304,457
Held-to-maturity				
Issued by public bodies:				
- Local government	**86,629**	94,661	**86,629**	94,661
Issued by other issuers:				
- Foreign others	**1,094**	1,324	**1,094**	1,324
Total	**87,723**	95,985	**87,723**	95,985
Available-for-sale				
Issued by public bodies:				
- Local government	**75,915**	70,156	**75,915**	70,156
- Foreign government	**16,330**	18,406	**16,330**	18,406
	92,245	88,562	**92,245**	88,562
Issued by other issuers:				
- Local banks	**2,179**	2,153	**2,179**	2,153
- Foreign banks	**30,193**	27,535	**30,193**	27,535
- Foreign others	**110,728**	84,517	**110,728**	84,517
- Local others	**5,805**	5,705	**5,805**	5,705
	148,905	119,910	**148,905**	119,910
Total	**241,150**	208,472	**241,150**	208,472
Total debt and other fixed income instruments	**328,873**	304,457	**328,873**	304,457
Analysed by currency:				
- Euro	**284,862**	258,967	**284,862**	258,967
- Foreign	**44,011**	45,490	**44,011**	45,490
	328,873	304,457	**328,873**	304,457
Unamortised premiums on debt and other fixed income instruments	**13,152**	5,082	**13,152**	5,082
Listing status:				
- Listed on Malta Stock Exchange	**170,528**	172,676	**170,528**	172,676
- Listed elsewhere	**158,345**	131,781	**158,345**	131,781
	328,873	304,457	**328,873**	304,457

18. DEBT AND OTHER FIXED INCOME INSTRUMENTS - CONTINUED

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

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

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

As at 31 December 2013, the Group had Portuguese and Irish debt instruments classified as available-for-sale amounting to €2,058,370 (2012: €2,478,073) and €2,390,478 (2012: €598,512) respectively. Also, the Group had available-for-sale instruments in Italy amounting to €11,129,441 (2012: €12,232,466), in Spain amounting to €9,041,010 (2012: €6,423,567). There were no financial assets held in Greece as at 31 December 2013 (2012: €221,533).

Debt instruments issued by local government with a nominal value of €85,478,416 (2012: €98,289,970) have been pledged against the provision of credit lines by the Central Bank of Malta, under the usual terms and conditions applying to such agreements. Financial assets with a nominal value of €4,400,000 (2012: €4,150,000) have been pledged in favour of the MFSA's Depositors' Compensation Scheme, as follows:

	2013	2012
THE GROUP / BANK	**€000**	€000
Deposit with Central Bank of Malta (note 13)	**1,400**	1,150
Debt instruments with local government	**3,000**	3,000
	4,400	4,150

19. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

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

	The Group		The Bank	
	2013	2012	**2013**	2012
	€000	€000	**€000**	€000
Debt and other fixed income instruments	**12,814**	5,886	**4,084**	-
Equity and other non-fixed income instruments	**88**	-	**88**	-
	12,902	5,886	**4,172**	-
Analysed by currency:				
- Euro	**8,381**	3,708	**4,028**	-
- Foreign	**4,521**	2,178	**144**	-
	12,902	5,886	**4,172**	-

All financial assets at fair value through profit or loss of the Group as at 31 December 2013 and 31 December 2012 were classified as Level 1 in accordance with IFRS 13 fair value hierarchy.

20. EQUITY AND OTHER NON-FIXED INCOME INSTRUMENTS

Available-for-sale

	The Group		The Bank	
	2013	2012	**2013**	2012
	€000	€000	**€000**	€000
Listed on Malta Stock Exchange	**1,974**	1,213	**1,974**	1,213
Listed elsewhere	**226**	189	**226**	189
Unlisted	**239**	-	**239**	-
	2,439	1,402	**2,439**	1,402

All available-for-sale equities are recorded at fair value value (Level 1 in accordance with IFRS 13 fair value hierarchy), except for the Bank's investment of NOK 800,000 equivalent to €95,402 (2012: €108,528) in Cultura Sparebank, which is unquoted and thus recorded at cost since its fair value cannot be reliably estimated (2012: the same). There is no market for this investment and the Bank intends to hold it for the long term.

21. INVESTMENT IN SUBSIDIARIES

	2013	2012
	€000	€000
Cost		
At 1 January	**5,500**	5,500
Increase in investment	**150**	-
At 31 December	**5,650**	5,500
Provision for diminution in value		
At 1 January	**250**	-
Impairment allowance (note 10)	**345**	250
At 31 December	**595**	250
Carrying amount		
At 31 December	**5,055**	5,250

The shares in the subsidiaries are made up as follows:

		% equity interest		Cost	
Name	**Country of incorporation**	**2013**	2012	**2013 €000**	2012 €000
APS Consult Limited	**Malta**				
259,999 ordinary shares at €2.50		**99.99**	99.99	**650**	500
(2012: 199,999 ordinary shares at €2.50)					
APS Regular Income Ethical Fund	**Malta**				
5,000,000 units at €1.00		**53.26**	63.97	**5,000**	5,000
(2012: 5,000,000 units at €1.00)					
				5,650	5,500

21. INVESTMENT IN SUBSIDIARIES - CONTINUED

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

The investment of €650,000 in APS Consult Limited has been partially impaired due to the losses incurred by the subsidiary. An impairment loss of €345,000 (2012: €250,000) was recognised in the income statement for the year ended 31 December 2013 (note 10).

Financial information of the subsidiary in which Group has material non-controlling interest is provided below:

Name	**2013** %	2012 %
APS Regular Income Ethical Fund	**46.74**	36.03

22. INVESTMENT IN ASSOCIATE

THE BANK Name	Country of incorporation	% equity interest **2013**	2012	**2013** €000	2012 €000
APS Income Fund	**Malta**				
1,199 founder shares at €1.00		**99.99**	99.99	**1**	1
98,853.14 units at €100.01 (2012: 98,853.14 units at €100.1)		**26.43**	32.09	**9,886**	9,886
				9,887	9,887

The following table illustrates summarised financial information of the Group's investment in APS Income Fund. This information is based on amounts before inter-company eliminations:

THE GROUP	**2013** €000	2012 €000
Share of associate's statement of financial position:		
Current assets	**185**	285
Non-current assets	**10,283**	9,977
Current liabilities	**(31)**	(56)
Net asset value	**10,437**	10,206
Share of associate's revenue and profits:		
Revenue	**755**	711
Share of results of associate, net of tax	**624**	689
Carrying amount of the investment at 1 January	**10,206**	9,894
Share of results of associate, net of tax	**624**	689
Dividend distribution	**(393)**	(377)
Carrying amount of the investment at 31 December	**10,437**	10,206

The associate had no contingent liabilities or capital commitments as at 31 December 2013 and 2012.

23. INTANGIBLE ASSETS

THE GROUP / BANK	Computer software €000
Cost	
At 1 January 2012	7,119
Additions	280
Disposals	(2)
At 31 December 2012	7,397
Additions	845
Disposals	(1)
At 31 December 2013	**8,241**
Amortisation	
At 1 January 2012	6,156
Charge for the year	606
Disposals	(1)
At 31 December 2012	6,761
Charge for the year	551
Disposals	-
At 31 December 2013	**7,312**
Net book value	
At 31 December 2013	**929**
At 31 December 2012	636
At 1 January 2012	963

	2013 €000	2012 €000
Future capital expenditure:		
- Authorised by the Directors and contracted	**1,897**	589
- Authorised by the Directors but not yet contracted	**140**	672
	2,037	1,261

The gross carrying amount of any fully amortised intangible assets that are still in use as at 31 December 2013 was of €2,459,645 (2012: the same).

24. PROPERTY AND EQUIPMENT

THE GROUP	Land and Buildings €000	Computer Equipment €000	Other €000	Total €000
Cost				
At 1 January 2012	10,472	3,661	10,991	25,124
Additions	239	272	206	717
Disposals	-	(30)	(9)	(39)
At 31 December 2012	10,711	3,903	11,188	25,802
Additions	1,150	281	254	1,685
Disposals	-	(12)	(31)	(43)
At 31 December 2013	**11,861**	**4,172**	**11,411**	**27,444**
Depreciation				
At 1 January 2012	1,291	3,119	6,543	10,953
Charge for the year	99	272	879	1,250
Disposals	-	(30)	(7)	(37)
At 31 December 2012	1,390	3,361	7,415	12,166
Charge for the year	131	275	856	1,262
Disposals	-	(12)	(30)	(42)
At 31 December 2013	**1,521**	**3,624**	**8,241**	**13,386**
Net book value				
At 31 December 2013	**10,340**	**548**	**3,170**	**14,058**
At 31 December 2012	9,321	542	3,773	13,636
At 1 January 2012	9,181	542	4,448	14,171

	2013 €000	2012 €000
Future capital expenditure:		
- Authorised by the Directors and contracted	**316**	610
- Authorised by the Directors but not yet contracted	**1,887**	1,250
	2,203	1,860

The gross carrying amount of any fully depreciated property and equipment that are still in use as at 31 December 2013 was of €2,977,689 (2012: €2,858,980).

24. PROPERTY AND EQUIPMENT - CONTINUED

THE BANK	Land and Buildings €000	Computer Equipment €000	Other €000	Total €000
Cost				
At 1 January 2012	10,472	3,654	10,961	25,087
Additions	239	272	206	717
Disposals	-	(30)	(9)	(39)
At 31 December 2012	10,711	3,896	11,158	25,765
Additions	1,150	281	254	1,685
Disposals	-	(12)	(31)	(43)
At 31 December 2013	**11,861**	**4,165**	**11,381**	**27,407**
Depreciation				
At 1 January 2012	1,291	3,112	6,522	10,925
Charge for the year	99	271	874	1,244
Disposals	-	(30)	(7)	(37)
At 31 December 2012	1,390	3,353	7,389	12,132
Charge for the year	131	275	856	1,262
Disposals	-	(12)	(31)	(43)
At 31 December 2013	**1,521**	**3,616**	**8,214**	**13,351**
Net book value				
At 31 December 2013	**10,340**	**549**	**3,167**	**14,056**
At 31 December 2012	9,321	543	3,769	13,633
At 1 January 2012	9,181	542	4,439	14,162

	2013 €000	2012 €000
Future capital expenditure:		
- Authorised by the Directors and contracted	**316**	610
- Authorised by the Directors but not yet contracted	**1,887**	1,250
	2,203	1,860

The gross carrying amount of any fully depreciated property and equipment that are still in use as at 31 December 2013 was of €2,977,689 (2012: €2,858,980).

25. DEFERRED TAX ASSETS

Deferred income tax at 31 December relates to the following:

	The Group		The Bank	
	2013	2012	**2013**	2012
	€000	€000	**€000**	€000
Fair value movements in investment securities	**(1,150)**	(1,956)	**(1,150)**	(1,956)
Impairment allowance for loans and advances to customers	**5,024**	5,221	**5,024**	5,221
Impairment allowance for investment in subsidiary	**-**	-	**121**	87
Excess of capital allowances over depreciation	**7**	19	**7**	19
	3,881	3,284	**4,002**	3,371

Deferred tax arising on the fair value movements on investment securities, amounting to €806,147 was credited directly in equity (2012: debited €2,556,573). Details of movements in the income statement of the Group and the Bank are described in note 11.

26. OTHER RECEIVABLES

	The Group		The Bank	
	2013	2012	**2013**	2012
	€000	€000	**€000**	€000
Accrued income	**5,542**	5,523	**5,360**	5,374
Prepayments and other receivables	**445**	542	**394**	490
Amounts due from subsidiaries	**-**	-	**36**	28
	5,987	6,065	**5,790**	5,892

27. AMOUNTS OWED TO BANKS

	The Group		The Bank	
	2013	2012	**2013**	2012
	€000	€000	**€000**	€000
With agreed maturity dates or periods of notice, by remaining maturity:				
- 3 months or less but not repayable on demand (note 37)	**70,771**	70,021	**70,771**	70,021
Analysed by currency:				
- Euro	**70,771**	70,020	**70,771**	70,020
- Foreign	**-**	1	**-**	1
	70,771	70,021	**70,771**	70,021

28. AMOUNTS OWED TO CUSTOMERS

	The Group		The Bank	
	2013	2012	**2013**	2012
	€000	€000	**€000**	€000
Term deposits	**531,371**	512,187	**531,671**	514,187
Repayable on demand	**249,871**	230,919	**250,208**	231,047
	781,242	743,106	**781,879**	745,234
Analysed by currency:				
- Euro	**731,395**	691,626	**732,032**	693,754
- Foreign	**49,847**	51,480	**49,847**	51,480
	781,242	743,106	**781,879**	745,234

29. OTHER LIABILITIES

	The Group		The Bank	
	2013	2012	**2013**	2012
	€000	€000	**€000**	€000
Other liabilities	**3,080**	4,951	**3,056**	4,926
Amounts due to subsidiaries	**-**	-	**4**	21
	3,080	4,951	**3,060**	4,947

30. ACCRUALS

	The Group		The Bank	
	2013	2012	**2013**	2012
	€000	€000	**€000**	€000
Accrued interest payable	**5,824**	5,077	**5,826**	5,097
Other accruals	**1,898**	1,296	**1,867**	1,267
	7,722	6,373	**7,693**	6,364

31. SHARE CAPITAL

	The Group		The Bank	
	2013	2012	**2013**	2012
	€000	€000	**€000**	€000
Authorised				
60,000,000 ordinary shares of €1.25 each (2012: 125,000,000 ordinary shares of €0.60 each)	**75,000**	75,000	**75,000**	75,000
Issued and fully paid				
46,083,840 ordinary shares of €1.25 each (2012: 59,333,000 ordinary shares of €0.60 each fully paid and 20,008,000 ordinary shares of €0.60 each (60% paid up))	**57,605**	42,803	**57,605**	42,803

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

	2013	2012
	Number of shares	Number of Shares
At 1 January	**79,341**	62,675
Capitalisation of retained earnings	**16,667**	16,666
Decrease in number of shares through re-domination	**(49,924)**	-
At 31 December	**46,084**	79,341

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

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

32. SHARE PREMIUM

	The Group		The Bank	
	2013	2012	**2013**	2012
	€000	€000	**€000**	€000
Balance at beginning and end of year	**1,770**	1,770	**1,770**	1,770

The share premium reserve is not available for distribution.

33. REVALUATION RESERVE

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

34. RETAINED EARNINGS

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

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

35. CONTINGENT LIABILITIES

	The Group		The Bank	
	2013	2012	**2013**	2012
	€000	€000	**€000**	€000
Guarantees	**5,549**	5,805	**5,549**	5,805
Other contingent liabilities	**320**	139	**320**	139
	5,869	5,944	**5,869**	5,944

In the ordinary course of business, the Bank gives financial guarantees, consisting of letters of credit and guarantees. These are recognised in the financial statements at fair value, being a commitment of the Bank to make payments on behalf of its customers in the event of a claim raised by counterparty. The majority of contingent liabilities are backed by corresponding obligations from third parties. There were no significant law suits against the Group and the Bank as at 31 December 2013 and 31 December 2012.

36. COMMITMENTS

	The Group		The Bank	
	2013	2012	**2013**	2012
	€000	€000	**€000**	€000
Undrawn formal standby facilities, credit facilities and other commitments to lend	**169,654**	156,314	**169,654**	156,314

37. NOTES TO THE STATEMENTS OF CASH FLOWS

	The Group		The Bank	
	2013	2012	**2013**	2012
	€000	€000	**€000**	€000
Cash in hand (note 13)	**5,274**	4,814	**5,274**	4,814
Balances with Central Bank of Malta (excluding reserve deposit) (note 13)	**5,094**	25,656	**5,094**	25,656
Treasury bills (with original maturity of less than 3 months) (note 13)	**-**	2,982	**-**	2,982
Loans and advances to banks (repayable within 3 months) (note 14)	**15,171**	14,926	**15,171**	14,926
Amounts owed to banks (note 27)	**(70,771)**	(70,021)	**(70,771)**	(70,021)
Cash and cash equivalents included in the statements of cash flows	**(45,232)**	(21,643)	**(45,232)**	(21,643)

38. RELATED PARTY DISCLOSURES

The Group structure

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

		Country of incorporation	Note	% equity interest 2013	% equity interest 2012
APS Consult Limited	Subsidiary	Malta	21	**99.99**	99.99
APS Regular Income Ethical Fund (sub-fund of APS Funds Sicav p.l.c.)	Subsidiary	Malta	21	**53.26**	63.97
APS Income Fund (sub-fund of APS Funds Sicav p.l.c.)	Associate	Malta	22	**26.43**	32.09

The registered office of APS Consult Limited is APS House, 20, St. Anne Square, Floriana, FRN 9020 while the registered office of APS Funds SICAV p.l.c. is APS Centre, Tower Street, Birkirkara, BKR4012.

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

Related party transactions

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

Related parties	Year	Income from related parties €000	Expenses charged to / (by) related parties €000	Amounts owed by related parties €000	Amounts owed to related parties €000
Subsidiaries:					
APS Consult Limited	**2013**	**14**	-	**17**	**2**
APS Consult Limited	2012	14	-	14	2
APS Regular Income Ethical Fund	**2013**	**290**	-	**19**	**2**
APS Regular Income Ethical Fund	2012	26	-	14	19
Associate:					
APS Income Fund	**2013**	**661**	-	**78**	**105**
APS Income Fund	2012	570	-	54	34

38. RELATED PARTY DISCLOSURES - CONTINUED

Transactions with key management personnel of the Bank

(a) Compensation of key management personnel of the Bank

The amounts disclosed in note 8 are recognised as an expense during the reporting year and are paid to key management personnel of the Group. These only include short-term employee benefits (2012: the same).

(b) Other transactions with directors:

	2013	2012
	€000	€000
Loans and advances	**137**	132
Commitments	**8**	11

(c) Transactions with executive employees:

	2013	2012
	€000	€000
Loans and advances	**2,588**	2,990
Commitments	**128**	101

Transactions with other related parties

	Balances as at 31.12.2013	**Balances as at 31.12.2013**	Balances as at 31.12.2012	Balances as at 31.12.2012
	€000	**€000**	€000	€000
Amounts due from other related parties:				
Individuals related to directors	**-**	**-**	-	6
Entities with common directorship	**18,612**	**715**	19,458	718
	18,612	**715**	19,458	724

	Balances as at 31.12.2013	**Balances as at 31.12.2013**	Balances as at 31.12.2012	Balances as at 31.12.2012
	€000	**€000**	€000	€000
Amounts due to other related parties:				
Shareholders	**38,007**	**693**	29,006	543

Included in the amounts due to shareholders, are deposits of €6,775,000 (2012: €5,300,000) held as collateral for loan commitments and overdraft facilities granted to related parties.

For the year ended 31 December 2013, the Bank has not made any provision for impairment of receivables relating to amounts due from related parties (2012: the same).

No guarantees were received by related parties as at end of December 2013 (2012: the same).

39. RISK MANAGEMENT

39.1 Introduction

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

39.2 Fair values

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

Level 1: quoted prices in active markets for identical assets;

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market.

The reporting of fair values is intended to guide users as to the amount, timing and certainty of cash flows. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

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

All the Group's listed equities are carried in the statement of financial position at market value. Debt securities which are classified as available-for-sale investments and derivative financial instruments are also carried in the statement of financial position at market value. However, debt securities classified as held-to-maturity investments are carried in the statement of financial position at amortised cost. At the reporting date the amortised cost of these assets amounted to €87.7 million (2012: €96.0 million). Their market value amounted to €100.6 million (2012: €108.9 million), whilst their nominal value amounted to €87.3 million (2012: €95.9 million). For other details refer to Note 18.

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

Amounts owed to banks and customers are mainly deposit liabilities. Of this category of liability, 70% (2012: 72%) have contractual re-pricing within one year, whilst 30% (2012: 28%) re-prices between one year and over. For demand deposits and deposits within one year, fair value is taken to be the amount payable on demand at the reporting date.

39.3 Credit risk

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

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

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

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

39. RISK MANAGEMENT – CONTINUED

39.3 Credit risk - continued

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

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

	The Group Gross Maximum exposure		The Bank Gross Maximum exposure	
	2013	2012	**2013**	2012
	€000	€000	**€000**	€000
Treasury bills	**-**	2,982	**-**	2,982
Cash and balances with Central Bank of Malta (excluding cash in hand)	**11,383**	32,862	**11,383**	32,862
Cheques in course of collection	**1,778**	2,650	**1,778**	2,650
Loans and advances to banks	**15,471**	14,926	**15,171**	14,926
Loans and advances to customers	**352,342**	294,527	**352,342**	294,527
Loans and advances to corporate entities	**196,577**	211,496	**196,577**	211,518
Derivative financial instruments	**2,480**	-	**2,480**	-
Debt and other fixed income instruments	**328,873**	304,457	**328,873**	304,457
Financial assets at fair value through profit and loss	**12,902**	5,886	**4,172**	-
Equity and other non-fixed income instruments	**2,439**	1,402	**2,439**	1,402
Investment in subsidiaries	**-**	-	**5,055**	5,250
Investment in associate	**10,437**	10,206	**9,887**	9,887
Other receivables	**5,987**	6,065	**5,790**	5,892
Total	**940,669**	887,459	**935,947**	886,353

Credit risk exposures relating to off-balance sheet items are as follows:				
Financial guarantees	**5,869**	5,944	**5,869**	5,944
Commitments	**169,654**	156,314	**169,654**	156,314
	175,523	162,258	**175,523**	162,258

39. RISK MANAGEMENT – CONTINUED

39.3 Credit risk - continued

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

THE GROUP	Government €000	Real Estate €000	Institutions €000	Short term claims on insitutions €000	Corporate €000	CIU €000	Retail €000	Other €000	Total €000
Cash and balances with Central Bank of Malta (excluding cash in hand)	11,383	-	-	-	-	-	-	-	11,383
Cheques in course of collection	-	-	-	-	-	-	-	1,778	1,778
Loans and advances to banks	-	-	-	15,171	-	300	-	-	15,471
Loans and advances to customers	8,341	303,921	-	-	188,228	-	49,510	-	550,000
Derivative financial instruments	-	-	2,480	-	-	-	-	-	2,480
Debt and other fixed income instruments	177,966	-	33,875	-	117,032	-	-	-	328,873
Financial assets at fair value through profit or loss	725	-	191	-	3,256	8,730	-	-	12,902
Equity and other non-fixed income instruments	-	-	1,241	-	960	238	-	-	2,439
Investment in associate	-	-	-	-	-	10,437	-	-	10,437
Other receivables	-	-	-	-	-	-	-	5,987	5,987
At 31 December 2013	**198,415**	**303,921**	**37,787**	**15,171**	**309,476**	**19,705**	**49,510**	**7,765**	**941,750**
At 31 December 2012	224,674	261,509	31,265	14,926	283,650	16,317	49,491	8,715	890,547
Financial guarantees	-	131	-	-	3,928	-	1,810	-	5,869
Commitments	11,475	95,435	-	-	53,491	-	9,253	-	169,654
At 31 December 2013	**11,475**	**95,566**	**-**	**-**	**57,419**	**-**	**11,063**	**-**	**175,523**
At 31 December 2012	15,659	73,857	-	-	64,970	-	7,772	-	162,258

39. RISK MANAGEMENT – CONTINUED

39.3 Credit risk - continued

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

THE BANK	Government €000	Real Estate €000	Institutions €000	Short term claims on insitutions €000	Corporate €000	CIU €000	Retail €000	Other €000	Total €000
Cash and balances with Central Bank of Malta (excluding cash in hand)	11,383	-	-	-	-	-	-	-	11,383
Cheques in course of collection	-	-	-	-	-	-	-	1,778	1,778
Loans and advances to banks	-	-	-	15,171	-	-	-	-	15,171
Loans and advances to customers	8,341	303,921	-	-	188,228	-	49,510	-	550,000
Derivative financial instruments	-	-	2,480	-	-	-	-	-	2,480
Debt and other fixed income instruments	177,966	-	33,875	-	117,032	-	-	-	328,873
Financial assets at fair value through profit or loss	725	-	191	-	3,256	-	-	-	4,172
Equity and other non-fixed income instruments	-	-	1,241	-	960	238	-	-	2,439
Investment in subsidiaries	-	-	-	-	55	5,000	-	-	5,055
Investment in associate	-	-	-	-	-	9,887	-	-	9,887
Other receivables	-	-	-	-	-	-	-	5,790	5,790
At 31 December 2013	**198,415**	**303,921**	**37,787**	**15,171**	**309,531**	**15,125**	**49,510**	**7,568**	**937,028**
At 31 December 2012	224,674	261,509	31,265	14,926	283,922	15,112	49,491	8,542	889,441
Financial guarantees	-	131	-	-	3,928	-	1,810	-	5,869
Commitments	11,475	95,435	-	-	53,491	-	9,253	-	169,654
At 31 December 2013	**11,475**	**95,566**	**-**	**-**	**57,419**	**-**	**11,063**	**-**	**175,523**
At 31 December 2012	15,659	73,857	-	-	64,970	-	7,772	-	162,258

39. RISK MANAGEMENT – CONTINUED

39.3 Credit risk - continued

Collateral

The Bank holds collateral for its loans and advances portfolio. Of the total loans and advances to customers, 86.31% (2012: 86.49%) were collateralised. The amount and type of collateral required depends on an assessment of the credit risk of the counter party. Guidelines are in place covering the acceptability and valuation of each type of collateral accepted by the Group. The main types are as follows:

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

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

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

The Group also makes use of master netting agreements with counter parties.

THE GROUP

Concentrations of risk	Financial institutions €000	Manu-facturing €000	Real estate €000	Wholesale and Retail trade €000	Public sector €000	Other industries €000	Individuals €000	Total €000
Cash and balances with Central Bank of Malta (excluding cash in hand)	11,383	-	-	-	-	-	-	11,383
Cheques in course of collection	1,778	-	-	-	-	-	-	1,778
Loans and advances to banks	15,471	-	-	-	-	-	-	15,471
Loans and advances to customers	2,051	25,799	79,863	38,655	3,251	78,272	321,028	548,919
Derivative financial instruments	2,480	-	-	-	-	-	-	2,480
Debt and other fixed income instruments	76,119	12,035	5,654	20,988	179,766	34,311	-	328,873
Financial assets at fair value through profit or loss	4,260	1,624	357	884	2,757	3,020	-	12,902
Equity and other non-fixed income instruments	1,417	-	-	-	-	1,022	-	2,439
Investment in associate	-	-	-	-	-	10,437		10,437
Other receivables	-	-	-	-	-	5,987	-	5,987
At 31 December 2013	**114,959**	**39,458**	**85,874**	**60,527**	**185,774**	**133,049**	**321,028**	**940,669**
At 31 December 2012	124,399	30,569	88,341	50,320	188,667	110,636	294,527	887,459
Financial guarantees	-	34	658	1,864	-	1,952	1,361	5,869
Commitments	2,654	4,675	20,479	7,619	1,045	37,747	95,435	169,654
At 31 December 2013	**2,654**	**4,709**	**21,137**	**9,483**	**1,045**	**39,699**	**96,796**	**175,523**
At 31 December 2012	2,922	6,147	31,279	12,598	4,617	27,879	76,816	162,258

39. RISK MANAGEMENT – CONTINUED

39.3 Credit risk - continued

THE BANK

Concentrations of risk	Financial institutions €000	Manu-facturing €000	Real estate €000	Wholesale and Retail trade €000	Public sector €000	Other industries €000	Individuals €000	Total €000
Cash and balances with Central Bank of Malta (excluding cash in hand)	11,383	-	-	-	-	-	-	11,383
Cheques in course of collection	1,778	-	-	-	-	-	-	1,778
Loans and advances to banks	15,171	-	-	-	-	-	-	15,171
Loans and advances to customers	2,051	25,799	79,863	38,655	3,251	78,272	321,028	548,919
Derivative financial instruments	2,480	-	-	-	-	-	-	2,480
Debt and other fixed income instruments	76,119	12,035	5,654	20,988	179,766	34,311	-	328,873
Financial assets at fair value through profit or loss	1,239	208	253	663	725	1,084	-	4,172
Equity and other non-fixed income instruments	1,417	-	-	-	-	1,022	-	2,439
Investment in subsidiaries	-	-	-	-	-	5,055	-	5,055
Investment in Associate	-	-	-	-	-	9,887	-	9,887
Other receivables	-	-	-	-	-	5,790	-	5,790
At 31 December 2013	**111,638**	**38,042**	**85,770**	**60,306**	**183,742**	**135,421**	**321,028**	**935,947**
At 31 December 2012	120,981	30,164	88,127	50,097	188,464	113,993	294,527	886,353
Financial guarantees	-	34	658	1,864	-	1,952	1,361	5,869
Commitments	2,654	4,675	20,479	7,619	1,045	37,747	95,435	169,654
At 31 December 2013	**2,654**	**4,709**	**21,137**	**9,483**	**1,045**	**39,699**	**96,796**	**175,523**
At 31 December 2012	2,922	6,147	31,279	12,598	4,617	27,879	76,816	162,258

39. RISK MANAGEMENT – CONTINUED

39.3 Credit risk - continued

Credit quality

Debt securities and other bills by rating agencies Standard & Poor's, (if not available Moody's and Fitch, applicable in that order):

THE GROUP

At 31 December 2013	Balances with CBM and Treasury bills €000	Derivative financial instruments €000	Financial assets at fair value through profit and loss €000	Debt securities €000	Loans and advances to banks €000	Total €000
AAA	-	-	-	4,785	-	4,785
AA+ to AA-	-	-	-	14,389	298	14,687
A+ to A-	-	2,480	1,809	45,174	6,017	55,480
Lower than A-	11,383	-	10,697	256,957	8,665	287,702
Unrated	-	-	396	7,568	491	8,455
	11,383	**2,480**	**12,902**	**328,873**	**15,471**	**371,109**

At 31 December 2012	Balances with CBM and Treasury bills €000	Derivative financial instruments €000	Financial assets at fair value through profit and loss €000	Debt securities €000	Loans and advances to banks €000	Total €000
AAA	-	-	-	6,878	3	6,881
AA+ to AA-	-	-	-	9,753	1,230	10,983
A+ to A-	35,844	-	1,437	209,901	9,877	257,059
Lower than A-	-	-	4,372	70,386	3,816	78,574
Unrated	-	-	77	7,539	-	7,616
	35,844	**-**	**5,886**	**304,457**	**14,926**	**361,113**

THE BANK

At 31 December 2013	Balances with CBM and Treasury bills €000	Derivative financial instruments €000	Financial assets at fair value through profit and loss €000	Debt securities €000	Loans and advances to banks €000	Total €000
AAA	-	-	-	4,785	-	4,785
AA+ to AA-	-	-	-	14,389	298	14,687
A+ to A-	-	2,480	656	45,174	6,017	54,327
Lower than A-	11,383	-	3,428	256,957	8,665	280,433
Unrated	-	-	88	7,568	191	7,847
	11,383	**2,480**	**4,172**	**328,873**	**15,171**	**362,079**

At 31 December 2012	Balances with CBM and Treasury bills €000	Derivative financial instruments €000	Financial assets at fair value through profit and loss €000	Debt securities €000	Loans and advances to banks €000	Total €000
AAA	-	-	-	6,878	3	6,881
AA+ to AA-	-	-	-	9,753	1,230	10,983
A+ to A-	35,844	-	-	209,901	9,877	255,622
Lower than A-	-	-	-	70,386	3,816	74,202
Unrated	-	-	-	7,539	-	7,539
	35,844	**-**	**-**	**304,457**	**14,926**	**355,227**

39. RISK MANAGEMENT – CONTINUED

39.3 Credit risk - continued

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

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

THE GROUP	2013 €000	2012 €000
Neither past due nor impaired	**504,954**	450,200
Past due but not impaired	**38,882**	51,782
Impaired	**19,439**	18,958
	563,275	520,940

THE BANK	2013 €000	2012 €000
Neither past due nor impaired	**504,954**	450,222
Past due but not impaired	**38,882**	51,782
Impaired	**19,439**	18,958
	563,275	520,962

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

THE GROUP	2013 €000	2012 €000
Regular	**489,080**	438,803
Watch List	**524**	924
Sub-Standard	**2,858**	2,167
Doubtful	**12,492**	8,306
	504,954	450,200

THE BANK	2013 €000	2012 €000
Regular	**489,080**	438,825
Watch List	**524**	924
Sub-Standard	**2,858**	2,167
Doubtful	**12,492**	8,306
	504,954	450,222

39. RISK MANAGEMENT – CONTINUED

39.3 Credit risk - continued

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

THE GROUP / BANK	2013 €000	2012 €000
Past due up to 29 days	**5,654**	9,318
Past due 30-59 days	**3,511**	5,960
Past due 60-89 days	**10,835**	10,027
Past due over 90 days	**18,882**	26,477
	38,882	51,782

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

Renegotiated loans and advances to customers that would otherwise be past due totalled €39,964,200 (2012: €26,326,400).

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

39.4 Liquidity risk

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

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

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

The table on page 64 analyses the assets and liabilities into relevant maturity groupings, based on the remaining period at reporting date 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.

39. RISK MANAGEMENT – CONTINUED

39.4 Liquidity risk - continued

THE GROUP	Less than Three months €000	Between Three months and One year €000	Between One year and Five years €000	More than Five years €000	Others €000	Total €000
At 31 December 2013						
Assets						
Cash and balances with Central Bank of Malta	16,657	-	-	-	-	16,657
Cheques in course of collection	1,778	-	-	-	-	1,778
Loans and advances to banks	15,171	300	-	-	-	15,471
Loans and advances to customers	83,950	17,074	64,621	383,274	-	548,919
Derivative financial instruments	-	28	1,134	1,318	-	2,480
Debt and other fixed income financial instruments	4,881	17,233	140,611	166,148	-	328,873
Financial assets at fair value through profit and loss	-	-	3,606	9,208	88	12,902
Equity and other non-fixed income instruments	-	-	-	-	2,439	2,439
Investment in associate	-	-	-	-	10,437	10,437
Other assets	803	207	2,666	2,310	19,199	25,185
	123,240	**34,842**	**212,638**	**562,258**	**32,163**	**965,141**
Liabilities and equity						
Amounts owed to banks	771	-	70,000	-	-	70,771
Derivative financial instruments	-	28	1,134	1,318	-	2,480
Amounts owed to customers	396,021	201,074	162,143	22,004	-	781,242
Other liabilities	2,491	1,200	3,131	290	4,978	12,090
Equity	-	-	-	-	98,558	98,558
	399,283	**202,302**	**236,408**	**23,612**	**103,536**	**965,141**
Net	**(276,043)**	**(167,460)**	**(23,770)**	**538,646**	**(71,373)**	**-**
At 31 December 2012						
Assets						
Treasury bills	2,982	-	-	-	-	2,982
Cash and balances with Central Bank of Malta	37,676	-	-	-	-	37,676
Cheques in course of collection	2,650	-	-	-	-	2,650
Loans and advances to banks	14,926	-	-	-	-	14,926
Loans and advances to customers	84,393	18,567	59,519	343,544	-	506,023
Debt and other fixed income financial instruments	4,324	27,678	119,463	152,992	-	304,457
Financial assets at fair value through profit and loss	-	-	1,034	4,852	-	5,886
Equity and other non-fixed income instruments	-	-	-	-	1,402	1,402
Investment in associate	-	-	-		10,206	10,206
Other assets	854	429	1,823	2,959	17,886	23,951
	147,805	**46,674**	**181,839**	**504,347**	**29,494**	**910,159**
Liabilities and equity						
Amounts owed to banks	21	-	70,000	-	-	70,021
Amounts owed to customers	388,368	196,752	148,450	9,536	-	743,106
Other liabilities	3,213	1,331	2,419	34	6,247	13,244
Equity	-	-	-	-	83,788	83,788
	391,602	**198,083**	**220,869**	**9,570**	**90,035**	**910,159**
Net	**(243,797)**	**(151,409)**	**(39,030)**	**494,777**	**(60,541)**	**-**

39. RISK MANAGEMENT – CONTINUED

39.4 Liquidity risk - continued

Analysis of financial liabilities by remaining contractual maturities

The table below summarises the maturity profile of the Group's financial liabilities at 31 December 2013 and 31 December 2012 based on contractual undiscounted repayment obligations:

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

	Less than Three months €000	Between Three months and One year €000	Between One year and Five years €000	More than Five years €000	Total €000
At 31 December 2012					
Liabilities					
Amounts owed to banks	21	-	70,000	-	70,021
Amounts owed to customers	238,459	311,897	181,424	29,946	761,726
	238,480	**311,897**	**251,424**	**29,946**	**831,747**

39. RISK MANAGEMENT – CONTINUED

39.4 Liquidity risk - continued

THE BANK	Less than Three months €000	Between Three months and One year €000	Between One year and Five years €000	More than Five years €000	Others €000	Total €000
At 31 December 2013						
Assets						
Cash and balances with Central Bank of Malta	16,657	-	-	-	-	16,657
Cheques in course of collection	1,778	-	-	-	-	1,778
Loans and advances to banks	15,171	-	-	-	-	15,171
Loans and advances to customers	83,950	17,074	64,621	383,274	-	548,919
Derivative financial instruments	-	28	1,134	1,318	-	2,480
Debt and other fixed income financial instruments	4,881	17,233	140,611	166,148	-	328,873
Financial assets at fair value through profit and loss	-	-	1,849	2,235	88	4,172
Equity and other non-fixed income instruments	-	-	-	-	2,439	2,439
Investment in subsidiaries	-	-	-	-	5,055	5,055
Investment in associate	-	-	-	-	9,887	9,887
Other assets	604	210	2,666	2,310	19,317	25,107
	123,041	**34,545**	**210,881**	**555,285**	**36,786**	**960,538**
Liabilities and equity						
Amounts owed to banks	771	-	70,000	-	-	70,771
Derivative financial instruments	-	28	1,134	1,318	-	2,480
Amounts owed to customers	396,358	201,374	162,143	22,004	-	781,879
Other liabilities	2,491	1,202	3,131	290	4,927	12,041
Equity	-	-	-	-	93,367	93,367
	399,620	**202,604**	**236,408**	**23,612**	**98,294**	**960,538**
Net	**(276,579)**	**(168,059)**	**(25,527)**	**531,673**	**(61,508)**	**-**
At 31 December 2012						
Assets						
Treasury bills	2,982	-	-	-	-	2,982
Cash and balances with Central Bank of Malta	37,676	-	-	-	-	37,676
Cheques in course of collection	2,650	-	-	-	-	2,650
Loans and advances to banks	14,926	-	-	-	-	14,926
Loans and advances to customers	84,415	18,567	59,519	343,544	-	506,045
Debt and other fixed income financial instruments	4,324	27,678	119,463	152,992	-	304,457
Equity and other non-fixed income instruments	-	-	-	-	1,402	1,402
Investment in subsidiaries	-	-	-	-	5,250	5,250
Investment in associate	-	-	-	-	9,887	9,887
Other assets	655	429	1,823	2,958	17,997	23,862
	147,628	**46,674**	**180,805**	**499,494**	**34,536**	**909,137**
Liabilities and equity						
Amounts owed to banks	21	-	70,000	-	-	70,021
Amounts owed to customers	390,496	196,752	148,450	9,536	-	745,234
Other liabilities	3,232	1,331	2,420	34	6,214	13,231
Equity	-	-	-	-	80,651	80,651
	393,749	**198,083**	**220,870**	**9,570**	**86,865**	**909,137**
Net	**(246,121)**	**(151,409)**	**(40,065)**	**489,924**	**(52,329)**	**-**

39. RISK MANAGEMENT – CONTINUED

39.4 Liquidity risk - continued

Analysis of financial liabilities by remaining contractual maturities

The table below summarises the maturity profile of the Bank's financial liabilities as at 31 December 2013 and 31 December 2012 based on contractual undiscounted repayment obligations:

	Less than Three months €000	Between Three months and One year €000	Between One year and Five years €000	More than Five years €000	Total €000
At 31 December 2013					
Liabilities					
Amounts owed to banks	771	-	70,000	-	70,771
Amounts owed to customers	396,601	204,117	176,529	25,544	802,791
	397,372	**204,117**	**246,529**	**25,544**	**873,562**

	Less than Three months €000	Between Three months and One year €000	Between One year and Five years €000	More than Five years €000	Total €000
At 31 December 2012					
Liabilities					
Amounts owed to banks	21	-	70,000	-	70,021
Amounts owed to customers	240,606	311,987	181,424	29,946	763,963
	240,627	**311,987**	**251,424**	**29,946**	**833,984**

Off – Balance sheet items

	Not later than One year	
	2013	2012
THE GROUP / BANK	**€000**	€000
Loan commitments	**169,654**	156,314
Guarantees, acceptance and other financial facilities	**5,869**	5,944
	175,523	162,258

39. RISK MANAGEMENT – CONTINUED

39.5 Market risk

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

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

Currency risk

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

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

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

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

	2012			
	USD	GBP	Other	Total
	€000	€000	€000	€000
Assets	4,731	42,617	9,922	57,270
Liabilities	4,763	42,492	9,268	56,523

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

Interest rate risk

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

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

Projected net interest income

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

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

	Increase/ decrease in basis points	Effect on profit before tax €000
2013	**+25**	**87**
	-25	**(87)**
2012	+25	177
	-25	(177)

39. RISK MANAGEMENT – CONTINUED

39.5 Market risk – continued

Capital approach

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

	2013	2012
	€000	€000
Net effect for a twelve month period	**1,015**	1,267

39.6 Operational risk

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

39.7 Capital management

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

During the current financial year, the Group continued to perform the Internal Capital Adequacy Assessment Process (ICAAP), in compliance with the Pillar II requirements of Banking Rule BR/12/2013 - The Supervisory Review Process of Credit Institutions Authorised Under the Banking Act, Cap. 371 of the Laws of Malta. The objective of the ICAAP is to inform the Board of Directors of the ongoing assessment of the Group's risks, how the Group mitigates those risks and how much capital is necessary having considered other mitigating factors. The ICAAP demonstrated that the Group is well capitalised. This document was approved by the Board of Directors in June 2013.

In the current financial year the Group also updated the Capital Adequacy and Risk Disclosures Report to provide detailed information on the Group's implementation of the Basel II framework and risk assessment process in accordance with the Pillar III requirements of Banking Rule BR/07/2013 – Publication of Annual Report and Audited Financial Statements of Credit Institutions Authorised Under the Banking Act, Cap. 371 of the Laws of Malta.

The capital adequacy ratio measures the Group 's own funds as a percentage of the total risk-weighted assets and off-balance sheet items. The ratio for the year under review has been prepared in compliance with the Pillar I requirements of Banking Rule BR/04/2013 – Capital Requirements of Credit Institutions Authorised under Banking Act, Cap. 371 of the Laws of Malta. During the year under review, the Group has complied with the externally imposed capital requirements. The table overleaf summarises the composition of regulatory capital and the ratios of the Group as at the reporting date.

39. RISK MANAGEMENT – CONTINUED

39.7 Capital management - continued

THE GROUP	2013 €000	2012 €000
Adjusted book value	**1,140,816**	1,074,872
Weighted amounts:		
Credit risk calculation - standardised approach		
Total assets and off-balance sheet items	**443,515**	401,619
Operational risk - basic indicator approach		
15% of the three year adjusted average operating income	**46,338**	43,803
Foreign exchange risk		
8% of the capital requirement of the net short or long position, whichever is the higher	**809**	781
Total credit, operational and foreign exchange risk	**490,662**	446,203
Own funds analysis		
Share capital (note 31)	**57,605**	42,803
Share premium (note 32)	**1,770**	1,770
Regulatory reserve	**1**	1
Retained earnings (note 34)*	**12,337**	16,690
Non-controlling interest	**4,583**	2,944
Deductions:		
Intangible assets (other than goodwill) (note 23)	**(929)**	(636)
Original own funds	**75,367**	63,572
Revaluation reserve (note 33)	**9,147**	8,693
Collective provisions (note 15)	**2,341**	3,576
Additional own funds	**11,488**	12,269
Total own funds	**86,855**	75,841
Capital Adequacy	**17.70%**	17.00%

39. RISK MANAGEMENT – CONTINUED

39.7 Capital management - continued

THE BANK	2013 €000	2012 €000
Adjusted book value	**1,136,213**	1,073,849
Weighted amounts:		
Credit risk calculation - standardised approach		
Total assets and off-balance sheet items	**440,135**	400,809
Operational risk - basic indicator approach		
15% of the three year adjusted average operating income	**47,653**	44,217
Foreign exchange risk		
8% of the capital requirement of the net short or long position, whichever is the higher	**809**	781
Total credit, operational and foreign exchange risk	**488,597**	445,807
Own funds analysis		
Share capital (note 31)	**57,605**	42,803
Share premium (note 32)	**1,770**	1,770
Regulatory reserve	**1**	1
Retained earnings (note 34)*	**11,722**	17,104
Deductions:		
Intangible assets (other than goodwill) (note 23)	**(929)**	(636)
Original own funds	**70,169**	61,042
Revaluation reserve (note 33)	**9,147**	8,693
Collective provisions (note 15)	**2,341**	3,576
Additional own funds	**11,488**	12,269
Total own funds	**81,657**	73,311
Capital Adequacy	**16.71%**	16.44%

* 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 18).

THE GROUP	2013 €000	2012 €000	2011 €000	2010 €000	2009 €000
Interest receivable and similar income	**36,829**	36,211	34,799	33,729	31,796
Interest payable	**(15,004)**	(14,417)	(14,158)	(14,182)	(15,703)
Net interest income	**21,825**	21,794	20,641	19,547	16,093
Other operating income	**4,933**	5,265	2,869	2,573	2,353
Total operating income	**26,758**	27,059	23,510	22,120	18,446
Other operating charges	**(15,142)**	(13,111)	(12,875)	(13,075)	(11,961)
Share of results of associate, net of tax	**624**	689	114	-	-
Revaluation release on loss of control of subsidiary	**-**	-	242	-	-
Net impairment reversals/(losses)	**1,584**	(4,748)	(2,633)	(990)	(483)
Profit before tax	**13,824**	9,889	8,358	8,055	6,002
Income tax expense	**(4,648)**	(2,876)	(2,762)	(2,716)	(2,022)
Profit for the year	**9,176**	7,013	5,596	5,339	3,980

THE BANK	2013 €000	2012 €000	2011 €000	2010 €000	2009 €000
Interest receivable and similar income	**36,409**	36,124	34,799	33,033	31,172
Interest payable	**(15,050)**	(14,466)	(14,158)	(14,206)	(15,703)
Net interest income	**21,359**	21,658	20,641	18,827	15,469
Other operating income	**5,564**	5,327	3,052	3,035	2,416
Total operating income	**26,923**	26,985	23,693	21,862	17,885
Other operating charges	**(14,928)**	(12,917)	(12,643)	(12,761)	(11,666)
Net impairment reversals/(losses)	**1,254**	(4,998)	(2,625)	(953)	(483)
Profit before tax	**13,249**	9,070	8,425	8,148	5,736
Income tax expense	**(4,526)**	(2,789)	(2,762)	(2,611)	(1,947)
Profit for the year	**8,723**	6,281	5,663	5,537	3,789

	2013 €000	2012 €000	2011 €000	2010 €000	2009 €000
ASSETS					
Cash, treasury bills and balances with Central Bank of Malta	**10,368**	7,796	4,032	4,420	13,684
Reserve deposit with Central Bank of Malta	**6,289**	32,862	2,335	13,049	6,525
Cheques in course of collection	**1,778**	2,650	923	2,537	1,837
Loans and advances to banks	**15,471**	14,926	22,603	11,432	28,967
Loans and advances to customers	**548,919**	506,023	473,649	422,984	380,904
Derivative financial instruments	**2,480**	-	-	-	-
Debt and other fixed income instruments	**328,873**	304,457	273,109	302,777	262,707
Financial assets at fair value through profit or loss	**12,902**	5,886	-	-	-
Equity and other non-fixed income instruments	**2,439**	1,402	1,940	2,690	2,556
Investment in associate	**10,437**	10,206	9,894	-	-
Intangible assets	**929**	636	963	1,262	1,351
Investment property	**330**	330	330	330	330
Property and equipment	**14,058**	13,636	14,171	14,765	15,065
Deferred tax assets	**3,881**	3,284	4,271	2,588	1,586
Other receivables	**5,987**	6,065	6,120	7,271	6,797
Taxation	**-**	-	-	515	1,155
TOTAL ASSETS	**965,141**	910,159	814,340	786,620	723,464
LIABILITIES					
Amounts owed to banks	**70,771**	70,021	50,677	6,569	13,683
Derivative financial instruments	**2,480**	-	-	-	-
Amounts owed to customers	**781,242**	743,106	687,625	699,546	639,162
Other liabilities	**3,080**	4,951	1,970	2,675	3,268
Taxation	**1,288**	1,920	1,793	-	-
Accruals and deferred income	**7,722**	6,373	6,576	7,016	6,421
TOTAL LIABILITIES	**866,583**	826,371	748,641	715,806	662,534
EQUITY					
Share capital	**57,605**	42,803	29,202	15,600	15,600
Share premium	**1,770**	1,770	1,770	1,770	1,770
Revaluation reserve	**9,147**	8,693	2,976	6,157	7,207
Retained earnings	**23,928**	26,315	30,690	36,155	31,812
Dividend reserve	**1,525**	1,263	1,061	862	787
Non-controlling interest	**4,583**	2,944	-	10,270	3,754
	98,558	83,788	65,699	70,814	60,930
TOTAL LIABILITIES AND EQUITY	**965,141**	910,159	814,340	786,620	723,464
MEMORANDUM ITEMS					
Contingent liabilities	**5,869**	5,944	6,850	5,842	4,528
Commitments	**169,654**	156,314	152,843	122,506	114,454

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

	2013 €000	2012 €000	2011 €000	2010 €000	2009 €000
ASSETS					
Cash, treasury bills and balances with Central Bank of Malta	**5,274**	7,796	4,032	4,420	13,684
Reserve deposit with Central Bank of Malta	**11,383**	32,862	2,335	13,049	6,525
Cheques in course of collection	**1,778**	2,650	923	2,537	1,837
Loans and advances to banks	**15,171**	14,926	22,603	9,732	26,917
Loans and advances to customers	**548,919**	506,045	473,649	422,984	380,904
Derivative financial instruments	**2,480**	-	-	-	-
Debt and other fixed income instruments	**328,873**	304,457	273,109	287,548	251,885
Financial assets at fair value through profit or loss	**4,172**	-	-	-	-
Equity and other non-fixed income instruments	**2,439**	1,402	1,940	1,820	1,851
Investment in subsidiaries	**5,055**	5,250	500	10,387	10,387
Investment in associate	**9,887**	9,887	9,887	-	-
Intangible assets	**929**	636	963	1,262	1,351
Investment property	**330**	330	330	330	330
Property and equipment	**14,056**	13,633	14,162	14,749	15,042
Deferred tax assets	**4,002**	3,371	4,271	2,588	1,586
Other receivables	**5,790**	5,892	6,052	6,913	6,298
Taxation	**-**	-	-	515	1,355
TOTAL ASSETS	**960,538**	909,137	814,756	778,834	719,952
LIABILITIES					
Amounts owed to banks	**70,771**	70,021	50,677	6,569	13,683
Derivative financial instruments	**2,480**	-	-	-	-
Amounts owed to customers	**781,879**	745,234	687,646	701,929	639,450
Other liabilities	**3,060**	4,947	1,962	2,672	3,241
Taxation	**1,288**	1,920	1,793	-	-
Accruals and deferred income	**7,693**	6,364	6,565	7,015	6,392
TOTAL LIABILITIES	**867,171**	828,486	748,643	718,185	662,766
EQUITY					
Share capital	**57,605**	42,803	29,202	15,600	15,600
Share premium	**1,770**	1,770	1,770	1,770	1,770
Revaluation reserve	**9,147**	8,693	2,976	5,915	7,202
Retained earnings	**23,320**	26,122	31,104	36,502	31,827
Dividend reserve	**1,525**	1,263	1,061	862	787
	93,367	80,651	66,113	60,649	57,186
TOTAL LIABILITIES AND EQUITY	**960,538**	909,137	814,756	778,834	719,952
MEMORANDUM ITEMS					
Contingent liabilities	**5,869**	5,944	6,850	5,842	4,528
Commitments	**169,654**	156,314	152,843	122,506	114,454

	2013 €000	2012 €000	2011 €000	2010 €000	2009 €000
Net cash flows (used in) / from operating activities	**(11,651)**	7,849	(61,886)	1,082	13,886
Investing activities					
Dividends received	**570**	484	458	206	214
Interest income from debt securities	**16,287**	16,094	16,652	16,184	14,981
Purchase of debt and other fixed income instruments	**(107,425)**	(124,646)	(83,868)	(91,196)	(58,473)
Proceeds on maturity and disposal of debt and other fixed income instruments	**82,283**	103,180	94,692	59,244	50,297
Purchase of financial assets at fair value through profit or loss	**(15,499)**	(5,828)	-	-	-
Proceeds on disposal of financial assets at fair value through profit or loss	**10,294**	225	-	-	-
Purchase of equity and other non-fixed income instruments	**(789)**	(141)	(735)	-	(199)
Proceeds on disposal of equity and other non-fixed income instruments	**-**	826	233	337	-
Purchase of property and equipment	**(2,737)**	(1,002)	(996)	(1,600)	(4,587)
Proceeds on disposal of property and equipment	**-**	-	8	-	14
Net cash flows (used in) / from investing activities	**(17,016)**	(10,808)	26,444	(16,825)	2,247
Financing activities					
Dividends paid	**(1,325)**	(1,061)	(862)	(961)	(831)
Net proceeds from non-controlling interest for shares in subsidiaries	**1,601**	2,818	-	6,349	2,794
Proceeds from issue of share capital	**4,802**	3,601	3,602	-	-
Net cash flows from financing activities	**5,078**	5,358	2,740	5,388	1,963
Net (decrease) / increase in cash and cash equivalents	**(23,589)**	2,399	(32,702)	(10,355)	18,096
Cash and cash equivalents at 1 January	**(21,643)**	(24,042)	8,660	19,015	919
Cash and cash equivalents at 31 December	**(45,232)**	(21,643)	(24,042)	8,660	19,015

	2013 €000	2012 €000	2011 €000	2010 €000	2009 €000
Net cash flows (used in) / from operating activities	**(11,359)**	10,065	(61,886)	3,003	15,961
Investing activities					
Dividends received	**793**	484	458	542	357
Interest income from debt securities	**16,287**	16,094	16,652	16,184	14,981
Purchase of debt and other fixed income instruments	**(107,425)**	(124,646)	(83,868)	(82,177)	(54,889)
Proceeds on maturity and disposal of debt and other fixed income instruments	**82,283**	103,179	94,692	54,143	47,047
Purchase of equity and other non-fixed income instruments	**(939)**	(141)	(735)	-	-
Proceeds on disposal of equity and other non-fixed income instruments	**-**	826	233	337	-
Purchase of financial assets at fair value through profit or loss	**(6,351)**	-	-	-	-
Proceeds on disposal of financial assets at fair value through profit or loss	**2,320**	-	-	-	-
Purchase of property and equipment	**(2,737)**	(1,002)	(996)	(1,600)	(4,582)
Proceeds on disposal of property and equipment	**-**	-	8	-	14
Investment in subsidiaries	**-**	(5,000)	-	-	-
Net cash flows (used in) / from investing activities	**(15,769)**	(10,206)	26,444	(12,571)	2,928
Financing activities					
Dividends paid	**(1,263)**	(1,061)	(862)	(787)	(787)
Proceeds from issue of share capital	**4,802**	3,601	3,602	-	-
Net cash flows from / (used in) financing activities	**3,539**	2,540	2,740	(787)	(787)
Net (decrease) / increase in cash and cash equivalents	**(23,589)**	2,399	(32,702)	(10,355)	18,102
Cash and cash equivalents at 1 January	**(21,643)**	(24,042)	8,660	19,015	913
Cash and cash equivalents at 31 December	**(45,232)**	(21,643)	(24,042)	8,660	19,015

THE GROUP'S FIVE YEAR SUMMARY – ACCOUNTING RATIOS

	2013 %	2012 %	2011 %	2010 %	2009 %
Net interest income and other operating income to total assets	**2.8**	3.0	2.9	2.8	2.6
Operating expenses to total assets	**1.6**	1.4	1.6	1.7	1.7
Profit before tax to total assets	**1.4**	1.1	1.0	1.0	0.8
Return on capital employed before tax *	**15.5**	13.2	13.3	12.5	11.2
Profit after tax to equity *	**10.3**	9.3	8.9	8.3	7.4

	2013	2012	2011	2010	2009
Shares in issue (thousands)	**46,084**	71,338	48,669	26,000	26,000
Net assets per share *	**194c**	105c	129c	249c	207c
Net dividends per share	**3c**	2c	2c	3c	3c
Dividend cover	**6.0**	5.6	5.3	6.2	5.1

THE BANK'S FIVE YEAR SUMMARY – ACCOUNTING RATIOS

	2013 %	2012 %	2011 %	2010 %	2009 %
Net interest income and other operating income to total assets	**2.8**	3.0	2.9	2.8	2.5
Operating expenses to total assets	**1.6**	1.4	1.6	1.6	1.6
Profit before tax to total assets	**1.4**	1.0	1.0	1.05	0.8
Return on capital employed before tax *	**15.7**	12.6	13.3	14.9	11.5
Profit after tax to equity *	**10.4**	8.7	9.0	10.1	7.6

	2013	2012	2011	2010	2009
Shares in issue (thousands)	**46,084**	71,338	48,669	26,000	26,000
Net assets per share *	**183c**	101c	130c	211c	192c
Net dividends per share	**3c**	2c	2c	3c	3c
Dividend cover	**5.7**	5.0	5.3	6.4	4.8

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

THE GROUP'S FINANCIAL HIGHLIGHTS IN US DOLLARS

The following figures were converted from Euro to US Dollars using the rate of exchange ruling on 31 December 2013. The rate used was €1:$1.3788. Comparative results have also been translated at this rate.

These highlights do not reflect the effect of the change in the rates of exchange since 31 December 2013.

	2013	2012
	$000	$000
Net interest income	30,092	30,050
Operating income	36,894	37,309
Operating profit before impairment reversals and provisions	16,877	20,181
Profit before tax	19,061	13,635
Profit for the year	12,652	9,670
Total assets	1,330,736	1,254,927
Liquid funds	46,750	80,293
Debt and other fixed income instruments	453,450	419,785
Financial assets at fair value through profit or loss	17,789	8,116
Loans and advances to customers	756,850	697,705
Equity	135,892	115,527

THE BANK'S FINANCIAL HIGHLIGHTS IN US DOLLARS

The following figures were converted from Euro to US Dollars using the rate of exchange ruling on 31 December 2013. The rate used was €1:$1.3788. Comparative results have also been translated at this rate.

These highlights do not reflect the effect of the change in the rates of exchange since 31 December 2013.

	2013	2012
	$000	$000
Net interest income	29,450	29,862
Operating income	37,121	37,207
Operating profit before impairment reversals and provisions	16,539	19,397
Profit before tax	18,268	12,506
Profit for the year	12,027	8,660
Total assets	1,324,390	1,253,518
Liquid funds	46,336	80,293
Debt and other fixed income instruments	453,450	419,785
Financial assets at fair value through profit or loss	5,752	-
Loans and advances to customers	756,850	697,735
Equity	128,734	111,202