



ANNUAL REPORT
financial statements



BANIF
BANK

CONTENTS

	Pages
Vision, Mission, Values	5
Chairman & CEO’s Statement	7
Board of Directors	9
General Information	12
Directors’ Report	16 - 20
Statement of Compliance with the Principles of Good Corporate Governance	24 - 43
Independent Auditor’s Report	46 - 48
Statement of Financial Position	49
Income Statement	50
Statement of Comprehensive Income	51
Statement of Changes in Equity	52
Statement of Cash Flows	53
Notes to the Financial Statements	54 - 125
Additional Regulatory Disclosures	126 - 157
Five Year Summary	158 - 162
Supplementary Financial Information	163

This publication

Banif Bank has given its product portfolio a new ‘look and feel’. Based on the concepts of aspirational marketing, the visuals featured in this publication are being used as the face of the Bank’s gamut of products. The fresh image for the Bank’s product portfolio draws on the local ambience and centres around people’s life aspirations, passions and desires. The underlying message is that the Bank can be the trustworthy catalyst for these achievements.

Vision Mission Values

OUR VISION

Our Vision lays down what we want to be and what the ambition of Banif is - to be a solid Bank that is recognised as a beacon in the market by being close to its customers and an example to the community.

OUR MISSION

Our Mission expresses who we are, what drives us and what our purpose is as a financial services institution - to be a Bank in constant sustained growth working towards the creation of value, and a business and family partner that strives to value its assets, delight its customers and satisfy its employees, driven by the highest principles of ethical and social responsibility.

OUR VALUES

CONFIDENCE

Establish long lasting relationships, based on rigour, integrity and transparency, with respect for the interests of our shareholders and customers, believing in the continuity of our project, its goals and guiding principles.

HUMANISM

See customers and all those we have relations with as individuals with unique life stories, whom we wish to help achieve their expectations, with an attitude of commitment and social responsibility.

EFFECTIVENESS

Act at the right time, with innovation and quality of service, based on an understanding of the context and anticipating opportunities, always aiming at the common goal of value creation.

INNOVATION

Understand and interpret the new market trends, in order to anticipate differentiating solutions that are in tune with our customers' interests, confirming our capacity to compete and be an agent for change.

AMBITION

Have the 'Power to Believe', to make so-called 'impossible' dreams come true, build new futures, overcome difficulties without giving up or becoming discouraged, doing more and doing better, for everyone's benefit.



Chairman and CEO's Statement



Operational context

The performance of the Maltese economy remained robust, uplifted by positive labour market conditions, and business and consumer confidence – all contributing to the financial stability experienced in Malta.

Internationally, economic conditions were, once again, challenging as the growth prospects of the euro area remained weak, emerging countries showed a slowdown and geopolitical instability remained in the forefront of market news. Amid prevailing global economic malaise and volatile markets, the banking sector in Malta has not budged in its robustness. In this scenario, Banif Bank has remained a key player and contributor to the local economy's stability.

Operational strategy

In our eighth year of business activity, the profits registered for 2015 by Banif Bank are testament to the fine-tuned operations we have maintained while operating in a favourable yet highly competitive market and local economic conditions. These results confirm that Banif Bank is on target with its business and structural plans.

Our positive financial results were made possible by the strengthening of both our retail and our corporate business, with a focus on back-end operational support and an efficient and effective technological platform. Customer service, as always, took pride of place and our relationships with clients are at the forefront of all that we do. And we are confident that 2016 will reap the same successes.

As always, Banif Bank has insisted on the highest levels of good corporate governance that align the interests of all our stakeholders and give a solid contribution to the local economy through the application of cautious banking policies.

The dedication to perfecting our actions and practices also served to steer the Bank towards the Company's shareholding sale. The process to select a strategic partner has proved understandably lengthy but such a thorough exercise has ensured the Bank concludes a sale that gives Banif Bank the best possible business partner. This has now been concluded and the transfer of shares is expected to be completed in the coming months, subject to the required approvals from the relevant authorities.

The sale of this majority stake will consolidate and expedite the Bank's growth strategy through a fresh capital injection and the tapping into the vast experience and worldwide reach of the new strategic partner. It is the Bank's aim to leverage on these new resources and expertise in order to continue building upon and enhancing the services offered to its stakeholders.

We know our people well. We know that the Banif team will embrace this new milestone with enthusiasm and positivity which will enable us to pursue new opportunities. This important development in the Bank's history will shape our future, grow our business, create opportunities and strengthen our position in the market. We have a clear strategy for growth both in terms of profits and portfolios but also in terms of investment in human resources and technology.

Banif keeps registering high levels of public confidence. The Bank's reputation has solidified through transparency, engagement in the community and the delivery of excellence in service to clients and customer experience. Critical success factors for Banif have been the acumen to remain cost effective, agile and relevant to the market, while delivering on our brand promise.

The common thread across our eight years of success is our people. We are ever grateful to those who have been with us from the very beginning, and who have expertly and in the most dedicated manner steered the ship and navigated until we reached where we are today, as well as to our newer additions, those who have come on board with energy, motivation and fresh perspectives, and who are looking forward to the exciting times ahead.

Board of Directors



Michael Frendo
Chairman

Chairman of the Board since May 2013. A former Speaker of the House of Representatives and a former Minister responsible for various portfolios including Foreign Affairs, Information and Communication Technologies, and the Arts, Dr Frendo is a lawyer with a postgraduate specialisation in European Union law who has also worked in the private sector in both Malta and the United Kingdom. Dr Michael Frendo is a Senior Lecturer in the Faculty of Laws at the University of Malta and teaches at the Mediterranean Academy of Diplomacy (Malta) and the London Academy of Diplomacy (University of Stirling). He has published widely on European, diplomatic and legal issues and currently practices as a lawyer and consultant.



Joaquim Francisco Da Silva Pinto
Chief Executive Officer

Director on the Board since March 2007. Mr Silva Pinto started his career at Oporto University before moving into the financial services sector. In 1978 he joined UBP in the Foreign Department for Trade Finance Operations. In 1987 he joined BNP to launch business in northern Portugal, heading operations and leading trade business. In 1991 he joined Banif Group taking responsibility for banking operations, finance, HR and corporate services of the northern region. Mr Silva Pinto went on to become the National Managing Director for Operations and later National Managing Director for Procedures and Quality. He then became General Managing Director of Operations of the commercial banks within the Banif Group and represented the Bank on national committees. He was appointed Chief Executive Officer of Banif Bank (Malta) plc in 2007.



Adrian Coppini
Executive Board Member

Mr Coppini was appointed Director of the Board in July 2014. Mr Coppini joined Banif at its inception and was instrumental in the setting up of the Bank's operations in Malta where he led the Bank's HR and Corporate Services Departments. Today he occupies the post of Chief Officer Corporate Services with responsibilities for people management, properties, administration, marketing and communications. He serves on the Bank's Executive Committee. Mr Coppini held senior management positions in the airline, electronics and investment promotion sectors as Chief Officer HR & Corporate Services at Air Malta plc, Managing Director at Ero Electronic (Malta) Limited and Executive Company Secretary at Malta Enterprise Limited amongst others. He served as Director on the board of Air Malta plc and Société Internationale de Télécommunications Aéronautiques (SITA) and was elected SITA Council Deputy President. Mr Coppini holds a degree in Business Management from the University of Malta.



Luís Carlos Ferreira Avides Moreira
Executive Board Member

Director on the Board since December 2010. Joined Banif Financial Group in 1995 holding several senior management positions within Banif, SA. He headed the Corporate and Business Banking Unit of Banif Group and has vast experience in retail banking. Mr Moreira is a graduate in Economics and has an MBA in Financial Services from the University of Porto.





Paulo E. Machado Fernandes
Executive Board Member

Director of the Board since February 2014. Mr Machado Fernandes began his professional activity in the banking sector in 1985, working in the areas of finance and international financial markets at Bank of Lisbon & South Africa, in Johannesburg. Later on he moved to Banif – Banco Internacional do Funchal, SA in Portugal, and was instrumental in the integration of the Treasury and Financial Markets Departments. In 1997 Mr Machado Fernandes joined the Santander Group, to perform similar functions in the Financial Markets and Asset Management, within the retail banking and investment banking fields. After ten years, Mr Machado Fernandes was invited by Banif Financial Group, to be part of the team responsible in setting up the Banif Bank project in Malta. He was appointed as Head of Treasury with the responsibility of setting up the Bank's Treasury and trading room capitalising on the extensive knowledge and expertise acquired in his career. Today he occupies the post of Chief Financial Markets and Investments Officer with responsibilities for Financial and Management Accounting, Regulatory Reporting as well as Treasury.



Edward Cachia Caruana
Non-Executive Board Member

Director on the Board since March 2008. Mr Cachia Caruana is a fellow of the Association of Chartered Certified Accountants, UK and a member of the Malta Institute of Accountants. In 1976 he was appointed partner at Joseph Tabone & Co, certified public accountants and auditors, and in 1988 became Managing Partner retiring from the firm and from the accountancy profession in 1997. He took an active role in business organisations including that of serving on the councils of the Federation of Industries and the Malta Institute of Accountants. He was also a member of a number of boards including the Malta Stock Exchange.



Maurice Mizzi
Non-Executive Board Member

Director on the Board since April 2008. He read law at the University of Malta where he obtained a Diploma of Legal Procurator. He joined the family business in 1957 and was appointed on the Board of a number of Mizzi Organisation companies. He is currently Managing Director of Continental Cars Limited, Mizzi Limited and Titan International Limited. He has held a number of chairmanships for the government including Mediterranean Film Studios (1984-1990) and the Malta Development Corporation (1997-1998). He has been Honorary Consul of Iceland since 1978. He also served as a Director on the Board of Plaza Centres plc, Allcom Limited, Technical and Management Services Limited, Datatrak Holdings plc, Datatrak Systems Limited, Datastream Limited, and Maltacom plc. He is currently also inter alia Director of Mizzi Associated Enterprises and President of Mizzi Organisation and of the Maltese Chinese Chamber of Commerce.



Kenneth Mizzi
Non-Executive Board Member

Director on the Board since April 2008. A qualified chartered accountant, after working with Touche Ross in London he returned to Malta to join the family business in 1971. He has served as Director on the Board of the Malta Development Corporation (1978-1980) and a number of other parastatal companies. He also served as Director on the Board of Mid-Med Bank Limited and of HSBC Fund Management (Malta) Limited. He is also Managing Director of SAK Limited, franchisee of The Body Shop in Malta, Managing Director of Muscat's Motors Limited and United Acceptances Finance Limited and a Director of a number of other Mizzi Organisation companies.



Mark Portelli
Non-Executive Board Member

Director on the Board since April 2008. A member of the Institute of Chartered Accountants in England and Wales and a graduate from the University of Manchester, he has served as a member of the Board of a number of companies and public entities.



Adrian Cutajar
Company Secretary

Appointed as the Bank's Company Secretary in June 2012. Dr Cutajar graduated Doctor of Laws from the University of Malta in 2003 and holds an MA in Financial Services from the University of Malta. Between 2004 and 2008 he held the position of Head of Legal and Compliance and Company Secretary with a financial services group listed on the Malta Stock Exchange. He is a member of the Chamber of Advocates, Malta and the Institute of Financial Services Practitioners. Dr Cutajar is currently Director of Artio Corporate Services Limited, focusing on the provision of compliance, governance and company secretarial services to licence holders authorised by the Malta Financial Services Authority.



General Information

Directors

The Directors who served throughout the year were as follows:

Michael Frendo	Chairman
Joaquim Francisco Da Silva Pinto	Chief Executive Officer
Luís Carlos Ferreira Avides Moreira	Executive Board Member
Paulo Eduardo Machado Fernandes	Executive Board Member
Adrian Coppini	Executive Board Member
Edward Cachia Caruana	Non-Executive Board Member
Kenneth Mizzi	Non-Executive Board Member
Mark Portelli	Non-Executive Board Member
Maurice Mizzi	Non-Executive Board Member
Jorge Humberto Correia Tomè	Non-Executive Board Member (resigned with effect from 20 December 2015)
Maria Teresa Henriques Silva Moura Roque Dal Fabbro	Non-Executive Board Member (resigned with effect from 18 January 2016)

COMPANY SECRETARY

Adrian Cutajar

REGISTERED OFFICE

Level 2, 203
Rue D'Argens
Gzira GZR 1368
Malta

AUDITORS

PricewaterhouseCoopers
78, Mill Street
Qormi, QRM 3101
Malta





product **Boat Loan**
It's all about the journey

Photoshoot location : Il-Hofriet, Delimara

Directors' report

The Directors present their annual report together with the audited financial statements of the Bank for the year ended 31 December 2015.

The Board of Directors who served during the year are as listed under the General Information section.

Principal activities

Banif Bank (Malta) plc (the "Bank") was incorporated and licenced to operate as a credit institution in terms of the Banking Act, Cap. 371 of the Laws of Malta since 27 March 2007, with an authorised and issued share capital of €50 million and €32.5 million, respectively.

The Bank provides a full range of commercial banking services to both residents and non-residents through a network of twelve branches and a corporate and business banking unit.

In 2015, Banif Bank (Malta) plc concluded its eighth year of business activity in Malta. Within the context of a generally anaemic macroeconomic growth rate across the Eurozone and more favourable economic conditions locally, the Bank has maintained its position in the local market as a reliable financial services provider.

Review of business development and financial position

Business development

In 2015, the Bank was in the best possible position to dedicate additional focus to its stakeholders – its customers, team and shareholders. They are the ones most affected by the Bank's strategies, structures, work ethic and action. Their satisfaction is vital to the success of the Bank.

In today's highly competitive market, customers are increasingly more discerning and assertive. They have clear ideas of what they expect: products that address their financial needs whilst delivering the best value. They put their trust in Banif, which is duly repaid by the forging of strong, lasting relationships, enforcing stricter coordination to excel in customer experiences and improving work practices and response times.

This was the Bank's first full year with a twelve-branch retail network. With an additional Corporate Centre opened in Mosta and an expanded ATM network, Banif boasts a strategically positioned structure of customer touch points across Malta and Gozo, in addition to its robust internet banking facilities and professional customer care team. An emphasis was placed on enhancing the Treasury's commercial relations and carrying out activities that brings the Bank closer to business customers and prospects, with the aim of capitalising on the Bank's position as a key player in the Maltese financial services industry.

This year saw the Bank embark on a project to re-vitalise its products' look and feel. A new visual concept was developed which embraces an aspirational and familiar approach, grounded in local aesthetics. The Bank collaborated with young artists, The New Victorians, with the two-fold purpose of supporting upcoming talent whilst underlining its standing as a Maltese Bank offering a diverse, modern product portfolio. The Bank's team, encompassing

different potentials, talents and needs, is always at the core of the Bank's drive for success. The Bank renewed its commitment towards fostering a positive and sustainable working environment which is conducive to employee development and empowerment. This was achieved by ensuring excellent internal service levels, maintaining a secure workplace environment which favours employee wellbeing and continuing to deliver an array of motivational and enriching initiatives.

Banif continued to invest in its most valuable resource – its team – by implementing Bank-wide training programmes, through both internal and external training, to further hone the skills and experience of both its customer-facing and back-office employees. To this end, an employee attitude and satisfaction survey was carried out to identify training needs, which was followed up by internal efficiency meetings aimed at promoting synergies between different Departments and Units.

Shareholders' expectations are clear – remuneration and return on their capital investment. It is the Bank's duty to align its operations towards increasing added value to its shareholders. This was possible through renewed focus on cost control and work towards higher efficiency, measurement and management of liquidity risk, operational risk and concentration risk, and a CSR strategy that strengthens the Bank's reputation in key social areas.

In light of stricter regulatory requirements, the Bank stepped up its internal control mechanisms to ensure compliance with the latest rules and regulations. Similarly, the Bank's digital infrastructure was enhanced with upgrades to operating systems and core servers. Banif has continued to optimise processes based on internal reviews and employee suggestions.

The Bank has built on the success of previous years through continuing to work as a team, creating synergies between Units, Departments and the Executive Committee. Banif takes pride in its excellent quality of service that shines in all it does, both to its external and internal stakeholders.

Market developments in 2015

The year 2015 saw continued subdued global economic activity. The three key influencers during the past year were gradual slowdown in China, lower energy prices and gradual tightening in US monetary policy. Energy prices have been impacted by the Chinese slowdown, and also by other drivers, like the Organisation of the Petroleum Exporting Countries (OPEC) production levels and other global economic expectations. The price of crude oil has fallen from \$62.58 a barrel to \$33.98 a barrel at the end of the year. This in turn had an effect on global inflation levels, which remained persistently low (particularly in Europe), creating a worry to Central Banks that try to gauge demand through inflation as a benchmark. These Central Bankers, particularly the European Central Bank (ECB) and the Bank of England are debating whether to exclude or include energy prices from their inflation assessments. In 2015, in the US, the Fed felt it opportune to start increasing interest rates. In December, it increased the benchmark interest rate for the first time in 7 years. The Federal Reserve Bank kept assuring and stressing, however, that rate increases are going to be very gradual.



Directors' report (continued)

Review of business development and financial position (continued)

The ECB kept its benchmark rate unchanged at a low of 0.05% throughout the year and kept charging banks negative rates for excess liquidity parked with the Central Bank. The ECB pushed the deposit facility further into negative territory, from -0.2% currently standing at -0.3%, and assured to continue to maintain its pledge to 'do whatever it takes' to save the Euro. This, along with the quantitative easing programme, is helping to maintain yields at extraordinarily low levels. The German 10-year yield stood at 0.63% and that of Malta stood at 1.36% at the end of the year 2015.

The local economy

During 2015, the local economy continued to improve on the positive results of the previous year. Unemployment continued to fall from 5.9% to 5.1%, whereas GDP rose from 5.2% to 5.4%. Malta's credit rating remained unchanged during last year, reflecting stability in both, results obtained, and future outlook. Fitch classified Malta's debt rating as 'A'.

Outlook

The International Monetary Fund (IMF) expects global growth to increase from 3.1% in 2015 to 3.4%; however, it has trimmed down the pace from its October 2015 projections. The slowdown and rebalancing of the Chinese economy, lower commodity prices and strains in some large emerging market economies like Brazil and Russia, are expected to continue to weigh on growth prospects during 2016 and 2017.

The ECB is expected to review its quantitative easing program in March 2016. Market expectations are for further easing to be announced and this anticipation is expected to depress yields even further.

Risks to the global outlook remain tilted to the downside with particular risks arising as the US exits from extraordinarily accommodative monetary conditions.

Financial performance

During 2015, the Bank registered a profit after tax of €0.8 million (2014: €0.9 million). In total, net operating income covered 112.0% of the operating expenses including net impairment provision (2014: 111.2%). The ratio increased from the 2014 level, mainly due to a decrease in the net impairment provision in 2015.

Total assets of the Bank amounted to €516.9 million at the end of 2015. The Bank placed excess liquidity which was not transformed into loans in Sovereign Debt or entered into repurchase agreements with other credit institutions holding Sovereign Debt as security. It also held funds with other related credit institutions and the Central Bank of Malta.

Gross loans and advances to customers have decreased by €16.5 million, reaching €367.5 million by end of 2015, whilst deposits have decreased by €104.9 million, reaching €474.3 million by end of 2015. The deposit transformation ratio as at end of 2015 stood at 76.0%, which is higher than the level of 65.3% as at end of 2014. Due to the decrease in total deposits, decreases were registered both in corporate deposits and deposits held by individuals.

The Bank generated a total operating income of €13.8 million, which is in line with the figure reported last year of €13.9 million. Net interest income from business carried out with banks and non-banks amounted to €10.2 million (2014: €8.7 million). The increase in net interest income is mainly the result of a large decrease in the interest rates paid out on deposits.

Net fee and commission income amounted to €2.2 million (2014: €2.1 million). Net fee and commission income was mainly driven by fees generated from credit processing and related legal services, payments, cards and other banking services.

All this translated into a lower ratio of net fee income and commissions as a percentage of net interest income. As at end of 2015, net fees and commissions stood at 21.3% of net interest income (2014: 24.2%). This was mainly attributable to the significant increase in net interest income when compared to net fee and commission income even though the Bank increased new revenue streams as a result of an increase in the retail banking services offered.

Trading income amounted to €1.4 million (2014: €3.1 million). Foreign exchange income represented 47.4% of total trading income (2014: 17.9%). The Bank decreased the levels of dealing activity in the bond market during 2015, such that by the end of 2015, the Bank had sold its entire portfolio of held for trading financial investments. This resulted in a significant decrease of 71.5% in trading income generated from debt securities.

Total operating expenses excluding impairment increased by 2.8%, from €10.7 million in 2014 to €11.0 million in the year under review. Expenses relating to employee compensation and benefits including Directors represent 49.1% (2014: 49.4%) of the total operating costs. General administrative expenses increased from €4.5 million in 2014 to €4.7 million in the year under review. The overall increase in operating expenses is mainly attributable to the fact that 2015 was the first full year in which the Bank operated with a twelve-branch retail network.

Impairment

Since the start of its operations, the Bank was using market probability of defaults in view of the fact that history of credit losses was practically inexistent. During 2015, the Bank continued to converge its methodology to the use of own data of losses for the purposes of carrying out its collective impairment assessment, using own probability of defaults and loss given defaults analysed by the different segments of loan products offered.

During 2015, the effect of this exercise together with the impairment resulting from the specific assessment in line with the Bank's provisioning policy, resulted in an increase in provisioning for impairment by a net amount of €1.4 million (2014: €1.8 million).

The gross increase in provision amounted to €4.7 million (2014: €4.2 million) whilst reversals of write-downs amounted to €3.3 million (2014: €2.4 million). Total provision for impairment as a percentage of gross loans and advances to customers stood at 2.0% as at end of December 2015 (2014: 1.5%).

Directors' report (continued)

Review of business development and financial position (continued)

Credit facilities that were assessed individually for impairment increased by €5.4 million, from €27.0 million as at 31 December 2014 to €32.4 million at 31 December 2015. The amount of specific provisions as a percentage of the non-performing loans stood at 14.4% as at end of 2015 (2014: 14.3%). Non-performing business credit facilities represented 75.6% of the total non-performing credit facilities (2014: 78.2%).

Tax

The Bank registered a profit before tax of €1.5 million (2014: €1.4 million). This attracted a tax charge of €0.6 million (2014: €0.5 million). As a result of the profit registered and an increase in the fair value of available-for-sale financial investments, the net deferred tax asset reduced by €1.6 million and amounted to €3.0 million by end of December 2015 (2014: €4.6 million), mainly as a consequence of utilisation of tax losses carried forward. The Directors believe that the Bank will be registering further profits in the forthcoming years against which the unused tax losses can be utilised.

Financial and regulatory position

The Bank closed the year under review with a total asset base of €516.9 million (2014: €619.1 million). The Bank managed to improve significantly its deposit into loan transformation ratio, with loans standing at 76.0% of customer deposits as at end of December 2015 (2014: 65.3%). The largest component of assets was still represented by loans and advances to customers, which amounted to €367.5 million (2014: €384.0 million) gross of impairment allowances.

During the year under review, the Bank disposed of its investment portfolio designated at inception as 'held for trading'. The investment portfolio designated at inception as 'available-for-sale' more than doubled from €2.3 million as at end of 2014 to €5.3 million as at the end of the year under review. The latter portfolio is entirely made up of investments which are pledged in favour of the Depositor Compensation Scheme in terms of Legal Notices 109 of 2010, 159 and 340 of 2012 amending the Depositor Compensation Scheme Regulations of 2003 and the investment of shares held in VISA.

In line with its strategies and plans, the Bank maintained the same level of investment in property for the Bank's use and equipment and intangible assets by €0.6 million. As at end of December 2015, the carrying amount of property and equipment amounted to €7.7 million (2014: €8.1 million), whilst that of intangible assets amounted to €0.8 million (2014: €1.1 million).

On 26 June 2013, the European Union published Regulation (EU) 575/2013 and Directive 2013/36/EU, referred to as the Capital Requirements Regulation ('CRR') and Capital Requirements Directive ('CRD') respectively, collectively known as the 'CRD IV package'. Regulations emanating from the CRR came into force as from 1 January 2014, whilst the Directive will be transposed into national legislation between 1 January 2014 and 31 December 2019.

The Bank has carried out various assessments over the past few years to ensure that it is in a position to meet

the requirements emanating from this legislation. The Bank continues to exercise sound asset and liability management with a view to ensure sustainable regulatory ratios in terms of liquidity and capital adequacy and improve such ratios. The Bank is fully focused to raise and employ funds in the local retail and corporate business segments. At the same time, the Bank continues to invest in strengthening the operational capability and consolidating the investments made in previous years.

The Bank reorganised the asset composition such that the total asset base decreased by €102.162 million during 2015 and the risk-weighted assets decreased by €19.701 million, from €264.179 million as at end of 2014 to €244.478 million by end of 2015. This had an impact on profitability, as placing funds in lower risk-weighted assets also entailed lower returns. The total Capital Adequacy Ratio stood at 9.3% as at end of December 2015, whilst Core Equity Tier 1 Capital ratio stood at 7.7%. Throughout the year, the Bank continued to manage its business diligently keeping in view the regulatory capital constraints and placed itself in a position to withstand regulatory constraints by a constant margin.

The Bank's regulatory liquidity ratio stood at 54.8% as at end of December 2015. This represents a decrease when compared to the ratio reported as at end December 2014 of 72.4% but is still well above the required minimum of 30%.

Outlook Moving Forward

The Bank is confident that 2016 will render just the same success and will keep up the practices and processes which have proved so effective during the year under review. There will be increased investment in the team and infrastructure, with maximisation of the potential of its resources in order to deliver the high level of service which differentiates the Bank from its competitors. The main focus will be on the parties who have a stake in the Bank's performance – the customer, the team, the shareholders and the regulators – to ensure that the demands of each are fully satisfied.

The Bank owes its positive results to the customers and to the public for reiterating their trust in Banif Bank, and to the team for a fantastic outcome and is looking forward to another successful year in its history.

Disclosure in terms of the Sixth Schedule to the Companies Act, Cap. 386 of the Laws of Malta.

During the year ended 31 December 2015, no shares in the Bank were:

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

Directors' report (continued)

Review of business development and financial position (continued)

Preparation of financial statements and Directors' responsibilities

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

In preparing such financial statements, the Directors are required to:

- adopt the going concern basis unless it is inappropriate to presume that the Bank will continue in business;
- select suitable accounting policies and apply them consistently from one accounting year to another;
- make judgements and estimates that are reasonable and prudent; and
- account for income and charges relating to the accounting year on the accruals basis.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy, at any time, the financial position of the Bank and to enable them to ensure that the financial statements have been properly prepared in accordance with the provisions of the Companies Act, Cap. 386 of the Laws of Malta and the Banking Act, Cap. 371 of the Laws of Malta.

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

The Directors, through management oversight, are responsible to ensure that the Bank establishes and maintains internal control to provide reasonable assurance with regards to the reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations.

Management is responsible, with oversight from the Directors, to establish a control environment and maintain policies and procedures to assist in achieving the objective of ensuring, as far as possible, the orderly and efficient conduct of the Bank's business. This responsibility includes establishing and maintaining controls pertaining to the Bank's objective of preparing financial statements as required by the Act and managing risks that may give rise to material misstatements in those financial statements. In determining which controls to implement, to prevent and detect fraud, management considers the risks that the financial statements may be materially misstated as a result of fraud.

Auditors

PricewaterhouseCoopers have indicated their willingness to continue in office and a resolution for their re-appointment will be proposed at the Annual General Meeting.

Approved by the Board of Directors and signed on its behalf on 29 April 2016 by:



MICHAEL FREND
Chairman



JOAQUIM F. DA SILVA PINTO
Chief Executive Officer





product **Car Loan**
It's all about the journey

Photoshoot location : Dwejra, Malta

Statement of Compliance with the Principles of Good Corporate Governance



Banif Bank (Malta) plc (the 'Bank') believes that good corporate governance should be the basis of every decision and action taken by the Bank. Despite the fact that *The Code of Principles of Good Corporate Governance* (the 'Code') contained in Appendix 5.1 to Chapter 5 of the Listing Rules, as issued by the Malta Financial Services Authority is not mandatory upon the Bank given that the Bank is not yet listed on the Malta Stock Exchange, the Bank has endorsed the Code and is committed to implement high standards of corporate governance, except where the business circumstances merit a different treatment.

This statement is divided into three sections with the first section indicating the extent to which the Bank has adopted the Code, and the second section providing reasons why the Bank is non-compliant with the same Code. The third section provides details of the Bank's internal control system.

SECTION 1 – COMPLIANCE WITH THE CODE

PRINCIPLE 1 – THE BOARD

Every listed company should be headed by an effective board, which should lead and control the company.
Main Principle – The Code

The affairs of the Bank are managed by the Board of Directors.

The Bank's Directors includes a mix of individuals with a solid academic and professional background who have distinguished themselves in diverse business sectors. All Directors hold or previously held key management positions in various local and international organisations.

The Board delegates certain responsibilities to the Executive Committee, the Audit Committee, the Remuneration Committee and the Properties Committee. Further detail in relation to the mentioned Committees can be found under Principle 4 below.

PRINCIPLE 2 – CHAIRMAN AND CHIEF EXECUTIVE

There should be a clear division of responsibilities at the head of the company between the running of the board and the executive responsibility for the running of the company's business. No one individual or small group of individuals should have unfettered powers of decision.
Main Principle – The Code

The roles of the Chief Executive Officer and the Chairman of the Board are separate and distinct and are held by different individuals.

The Chairman leads and sets the agenda of each of the Board of Directors' meetings. In addition, the Chairman is responsible for ensuring that all the Directors of the Board engage in effective discussions and ultimately take informed decisions. The Chairman also ensures that there is effective communication between the executive and non-executive Directors of the Bank, as well as with the shareholders.

The Chairman meets the independence criteria set out in the Code.

On the other hand, the Chief Executive Officer, who is also a member of the Board of Directors, heads the Executive Committee. He has been entrusted with the execution of the Bank's strategy agreed by the Board and also acts as the link between the Board of Directors, whereby the strategy is set, and the Executive Committee, which is delegated with implementing such strategy.

Statement of Compliance with the Principles of Good Corporate Governance (continued)

SECTION 1 – COMPLIANCE WITH THE CODE (continued)

PRINCIPLE 3 – COMPOSITION OF THE BOARD

The board should not be so large as to be unwieldy. The board should be of sufficient size that the balance of skills and experience is appropriate for the requirements of the business and that changes to the board's composition can be managed without undue disruption. The board should be composed of executive and non-executive Directors, including independent non-executives.

Main Principle – The Code

The Board is composed of a non-executive Chairman, four executive directors (including the Chief Executive Officer) and six non-executive directors.

The shareholders appoint or remove Directors on the Board using a transparent approach after each Annual General Meeting after taking into consideration diversity of knowledge, judgement and experience. Prior to being appointed, each Director undergoes the due diligence process by the Malta Financial Services Authority in order to establish that such Director is a fit and proper person pursuant to the Banking Act.

The Directors who served on the Board during the period under review were the following:

Dr Michael Frendo – Chairman
Mr Joaquim Da Silva Pinto
Mr Edward Cachia Caruana
Mr Jorge Humberto Correia Tomé¹
Mr Luís Carlos Ferreira Avides Moreira
Mr Paulo Eduardo Machado Fernandes
Mr Adrian Coppini
Ms Maria Teresa Henriques Silva Moura Roque Dal Fabbro²
Mr Kenneth Mizzi
Chev. Maurice Mizzi
Mr Mark Portelli

¹ Resigned with effect from 20 December 2015

² Resigned with effect from 18 January 2016

In line with Principle 3 of the Code, the Bank considers that during the period under review the Board had two independent non-executive Directors, Dr Michael Frendo (the Chairman) and Mr Edward Cachia Caruana.

The remuneration paid to the Directors is as established by the Bank's shareholders.

Disclosures in terms of EU Regulation No 575/2013 (Capital Requirements Regulation) of European Parliament and the Council of the 26 June 2013 on the prudential requirements for credit institutions

Recruitment and Selection Policy

As already indicated above, the shareholders appoint or remove Directors on the Board using a transparent approach after each Annual General Meeting after taking into consideration diversity of knowledge, judgement and experience. Therefore a recruitment and selection policy for the members of the Board of Directors is not required.

Policy on Diversity

Given the fact that the Directors are directly appointed by the Bank's shareholders, the Bank does not currently have a policy on diversity with regards to the selection of the members of the Board of Directors.



Statement of Compliance with the Principles of Good Corporate Governance (continued)

SECTION 1 – COMPLIANCE WITH THE CODE (continued)

PRINCIPLE 4 – THE RESPONSIBILITIES OF THE BOARD

The board has the first level responsibility of executing the four basic roles of corporate governance namely; accountability, monitoring, strategy formulation and policy development.

Main Principle – The Code

The Board of Directors determines the strategic goals and formulates the policies of the Bank. It also sets the Bank's values and standards. The Board understands that high ethical standards should be applied in its decision making process. Decisions and strategies formulated by the Board seek to encompass the interests of all stakeholders including the Bank's shareholders and employees.

The Board also regularly reviews the Bank's performance against approved budgets and sets targets. In addition, the Board considers and determines credit proposals falling within the same Board's credit sanctioning limits, as well as any credit decisions where the Directors have a direct or indirect interest. In such instances, such Directors shall inform the same Board, the nature of their interest at the meeting and shall not participate and vote in respect of that decision. As detailed below, the Board of Directors have delegated certain responsibilities to various committees, with specific responsibilities, as follows:-

The Executive Committee

The Executive Committee meets on a weekly basis to oversee the overall management of the Bank. The Executive Committee is composed of four members, the Chief Executive Officer, the Chief Commercial Officer, the Chief Financial Markets and Investments Officer and the Chief Officer Corporate Services. Formulation of risk strategies and risk profiles, including policies conducive to the achievement of organisational goals are the responsibility of the Executive Committee, however implementation is delegated to the Departmental Heads through a formally documented organisational structure with clear and transparent demarcation of functional responsibilities. The Executive Committee is also responsible for assessing credit facilities and taking credit decisions as prescribed in the Bank's credit policy.

The Executive Committee also appointed the following committees within the Bank, namely, the Assets and Liabilities Committee (ALCO), the Budget and Planning Committee, the Credit Committee, the Global Risk Committee and the Products Committee.

The Audit Committee

The Audit Committee monitors and reviews the effectiveness of the Bank's control functions, including internal audit, the compliance and risk functions, and also monitors the financial reporting process and review the Bank's internal financial controls.

The Audit Committee makes recommendations to the Board of Directors regarding the appointment of the Bank's external auditors, their remuneration and terms of engagement.

The Properties Committee

This Committee meets in order to discuss and advise the Executive Committee on any proposals for the acquisition or the rental of properties to be utilised for the Bank's activities. At present, the members of this Committee are the Chief Officer Corporate Services and two non-executive Directors.

The Remuneration Committee

The overarching purpose of the Committee is to review the remuneration policy of the Bank and make any recommendations as it deems appropriate in the light of the general strategic interests of the Bank and the regulations.

In discharging this overarching purpose, the Committee's principal responsibilities are to:

- Review the Bank's Remuneration Policy;
- Monitor the Bank's Remuneration Policy; and
- Report and provide assurance on the Bank's Remuneration Policy.

Statement of Compliance with the Principles of Good Corporate Governance (continued)

SECTION 1 – COMPLIANCE WITH THE CODE (continued)

PRINCIPLE 4 – THE RESPONSIBILITIES OF THE BOARD

Consequently, the Executive Committee appointed the following management committees:

The Assets and Liabilities Committee

The Assets and Liabilities Committee (ALCO) meets on a quarterly basis to analyse financial information and to assess the impact that the various types of risks arising from changes in interest rates, exchange rates and the market, have on the profitability of the Bank and the various other components of the financial statements.

This Committee also drives the commercial activity of the Bank and reviews liquidity risk, and capital adequacy risk. It also sets the framework for the design of policies to address and manage all these types of risks with a view to ensure that adequate mitigating actions are taken to reduce the negative impacts of adverse movements on the operations of the Bank and on the financial statements.

The ALCO is made up of the Members of the Executive Committee, the Head Internal Control Department, the Head Financial Management Department and the Head Commercial Department.

The Budget and Planning Committee

The purpose of the Budget and Planning Committee is to liaise closely with the members of the Executive Committee of the Bank in transposing the vision and strategic objectives adopted by the Board of Directors into detailed plans. The Committee is responsible for coordinating and assisting in the preparation of the budgets of all the commercial departments and all supporting back-office units. Furthermore, the Committee takes care of communicating the budgets, once these are approved by the Board of Directors, and also oversees the actual implementation of the Bank’s financial plans.

This Committee meets regularly and is made up of the Members of the Executive Committee, and the Heads of the Commercial Department, Financial Management Department, Corporate Services Department, Operations & Systems Department and Internal Control Department.

The Credit Committee

This Committee is responsible for assessing credit facilities and taking credit decisions within certain monetary and risk bands. Additionally, it makes recommendations to the Executive Committee on credit facilities which exceed its upper discretionary threshold.

The Committee is also coordinated at its different levels according to the same Credit Policy. It meets regularly and is chaired by the responsible person as indicated in the Bank’s Credit Policy.

The Products Committee

The purpose of the Products Committee is to maintain a structured approach towards assessing and developing new products. New product development is divided into two phases, the Conception Phase and the Implementation Phase.

During the Conception Phase the Products Committee focuses on the concepts and ideas that address the business needs. During such Phase, the Committee is made up of the Chief Financial Markets and Investments Officer, the Chief Commercial Officer, the Head of Commercial Management Department and the Head of Business Development Unit.

Once a product concept is defined, the Products Committee moves to the Implementation Stage, during which the objective is to implement the proposed product in an efficient manner.

During this stage the Committee is made up of representatives from the following units, namely the Marketing & Communications Unit, the Legal and Compliance Unit, the Financial and Management Accounting Unit, the Risk Management Unit, the Information Technology Unit, the Business Analysis Unit, Business Development Unit, the General Operations Unit and the Treasury Unit.



Statement of Compliance with the Principles of Good Corporate Governance (continued)

SECTION 1 – COMPLIANCE WITH THE CODE (continued)

PRINCIPLE 4 – THE RESPONSIBILITIES OF THE BOARD

The Global Risk Committee

The Committee deals with and advises the EC on the Bank’s overall risk appetite, risk tolerance and risk management framework, taking account of the current and prospective macroeconomic and financial environment and drawing on financial stability assessments which may be relevant for the Bank’s risk policies; oversees and advises the Bank on the current risk exposures; keeps under review the Bank’s overall risk assessment processes, ensuring that both qualitative and quantitative metrics are used; discusses all risk strategies on both an aggregated basis and by type of risk; and keeps under review the effectiveness of the Bank’s internal controls and risk management systems.

The Committee is composed of the EC members and the Heads of the Commercial Department, Financial Management Department, Corporate Services Department, Operations & Systems Department, Internal Control Department, and Risk Management Unit. The Committee meets on a quarterly basis.

PRINCIPLE 5 – BOARD MEETINGS

The board should meet regularly to discharge its duties effectively. Board members should be given ample opportunity during meetings to discuss issues set on the board agenda and convey their opinions.

Main Principle – The Code

The Board meets as regularly as deemed possible, at least quarterly, in order to discharge its duties effectively. The Chairman sets and circulates the agenda to all Directors. The Chairman, in collaboration with the Company Secretary, also ensures that all supporting material is circulated to all Directors well in advance, so that they have ample time to consider the information prior to the next scheduled meeting. The Chairman also ensures that the Directors participate actively in all Board meetings.

During 2015 the Board of Directors met 7 times. Directors’ attendance at Board Meetings during 2015 was as follows:

Members	Attended
Dr Michael Frendo – Chairman	7 out of 7
Mr Joaquim Da Silva Pinto	7 out of 7
Mr Edward Cachia Caruana	7 out of 7
Mr Jorge Humberto Correia Tomé	5 out of 7
Mr Luís Carlos Ferreira Avides Moreira	7 out of 7
Mr Paulo Eduardo Machado Fernandes	7 out of 7
Mr Adrian Coppini	7 out of 7
Ms Maria Teresa Henriques Silva Moura Roque Dal Fabbro	2 out of 7
Mr Kenneth Mizzi	7 out of 7
Chev. Maurice Mizzi	5 out of 7
Mr Mark Portelli	7 out of 7

Statement of Compliance with the Principles of Good Corporate Governance (continued)

SECTION 1 – COMPLIANCE WITH THE CODE (continued)

PRINCIPLE 6 – INFORMATION AND PROFESSIONAL DEVELOPMENT

The Board should:

- appoint the Chief Executive Officer;
- actively participate in the appointment of senior management;
- ensure that there is adequate training in the Company for Directors, management and employees;
- establish a succession plan for senior management; and
- ensure that all Directors are supplied with precise, timely and clear information so that they can effectively contribute to board decisions.

Main Principle – The Code

The Board of Directors appoints the Chief Executive Officer as well as the members of senior management.

The Directors have access to the advice and services of the Company Secretary who is responsible for ensuring that the Board procedures and all applicable rules and regulations are followed. Furthermore, the Company Secretary ensures that the minutes faithfully record attendance, matters discussed, and decisions taken. Such minutes are circulated to all Directors in advance of meetings.

The Board and the Executive Committee ensure that the Bank applies schemes in order to recruit, retain, motivate and promote senior management. The Bank also encourages its management to move upwards in their career streams as well as to maintain high levels of morale amongst the Bank’s staff members.

PRINCIPLE 7 – REMUNERATION COMMITTEE

Remuneration Committee

The board should establish a remuneration policy for directors and senior executives. It should also set up formal and transparent procedures for developing such a policy for establishing the remuneration packages of individual directors.

Main Principle – The Code

The Remuneration Committee is responsible for reviewing the remuneration policy of the Bank and to make any recommendations as the Committee deems appropriate in light of the general strategic interests of the Bank and the regulations.

During 2015, the Remuneration Committee met 3 times. The Committee is made up of two non-executive Directors and their attendance at Committee’s meetings during 2015 was as follows:

Members	Attended
Dr Michael Frendo – Chairman	3 out of 3
Mr Edward Cachia Caruana	3 out of 3

Further information on the Bank’s Remuneration Policy can be found in Section 3 of the Statement of Compliance with the Principles of Good Corporate Governance.



Statement of Compliance with the Principles of Good Corporate Governance (continued)

SECTION 1 – COMPLIANCE WITH THE CODE (continued)

PRINCIPLE 9 & 10 – RELATIONS WITH SHAREHOLDERS, THE MARKET AND INSTITUTIONAL SHARHOLDERS

The board shall serve the legitimate interests of the company, account to shareholders fully and ensure that the company communicates with the market effectively. The board should as far as possible be prepared to enter into a satisfactory dialogue with institutional shareholders and market intermediaries based on the mutual understanding of objectives. The board shall use the general meeting to communicate with shareholders.

Main Principle 9 – The Code

The term ‘institutional shareholders’ should be interpreted widely and includes any person who by profession, whether directly or indirectly, takes a position in investments as principal, or Manager or holds funds for or on behalf of others and includes Custodians, banks, financial institutions, fund managers, stockbrokers, investment managers and others.

Main Principle 10 – The Code

The Bank provides regular and timely information to its shareholders in order for such shareholders to make informed decisions. Despite the fact that the Bank is not listed on any recognised investment exchange, the Bank communicates its long-term strategic decisions to the market through press releases, interviews and the Bank’s Annual Report. It is believed that such communication enhances trust and confidence in the Bank and its management.

The Board ensures that the interests of the Bank’s shareholders are protected at all times. In addition, the Chairman ensures that the views of all shareholders are communicated to the Board.

PRINCIPLE 11 – CONFLICTS OF INTEREST

Directors`primary responsibility is always to act in the interest of the company and its shareholders as a whole irrespective of who appointed them to the board.

Main Principle – The Code

The Directors are strongly aware of their responsibility to act in the best interest of the Bank and their obligation to avoid conflicts of interest. Given that certain conflicts of interest arise naturally, the Bank has established a policy whereby any Director experiencing such conflict of interest is to make a frank declaration to the Board of Directors. In such instances, the relative Director does not participate in the discussion and does not vote on the matter. The minutes of the Board reflect the manner in which such situations were handled.

PRINCIPLE 12 – CORPORATE SOCIAL RESPONSIBILITY

Directors should seek to adhere to accepted principles of corporate social responsibility in their day-to-day management practices of their company.

Main Principle – The Code

Banif’s brand values pervade all the Bank’s areas of operations. They are shared by the Members of the Board and passed down, as well as laterally, to the whole team. Ethical business practices are the backbone of the Bank, setting an example to be emulated by employees, in all their day-to-day dealings, be it finance related or otherwise.

The strength of the Banif brand lies in its people. The Bank recognises this and invests heavily in development, training, career paths and opportunity. Efforts are in place to keep fostering a culture of open communication and empowerment, supported by equal opportunities and excellent working conditions.

Always attentive to its carbon footprint, the Bank regularly reviews its purchasing policies, its physical infrastructures and its impact on the environment.

Banif Bank strongly believes in its responsibility to share in the community’s development and values. Leading by example, it undertakes initiatives to contribute towards sections of society that are lacking in education, opportunity and inclusion. The Bank’s Corporate Social Responsibility Policy apportions a fund that is utilised to support projects of different natures including philanthropy, culture, art, heritage, youth, sports and education.

Statement of Compliance with the Principles of Good Corporate Governance (continued)

SECTION 2 – NON-COMPLIANCE WITH THE CODE

PRINCIPLE 4 (Code provision 4.2.7)

Code provision 4.2.7 recommends that the Board “*develops a succession policy for the future composition of the board of directors and particularly the executive component thereof, for which the Chairman should hold key responsibility*”.

Given the fact that the Directors are appointed directly and exclusively by the Bank’s shareholders, the Bank does not consider the necessity to develop a succession policy for the Directors.

PRINCIPLE 7

Principle 7 recommends that, “*The board should undertake an annual evaluation of its own performance and that of its committees*”.

So far the Bank has not undertaken such independent evaluation of the Board and its committees; however any actions undertaken by the Board and its committees are indirectly evaluated through the results obtained by the Bank.

PRINCIPLE 8 (Code provision 8 B)

Code provision 8 B recommends that, “*there should be a formal and transparent procedure for the appointment of new directors to the board. The procedure shall ensure inter alia, adequate information on the personal and professional qualifications of the candidates*”.

Given the fact that the Directors are directly appointed by the Bank’s shareholders, the Bank does not consider the need to develop a Nomination Committee. Notwithstanding this, the Bank is currently reviewing the matter in line with recently published regulations and the Board has already approved the setting up of a Remuneration Committee.

SECTION 3 – REMUNERATION POLICY

Banif Bank (Malta) p.l.c. has a Remuneration Policy in place which is approved by the Board of Directors and is subject to annual review. No significant changes were made in 2015. The setting up of a Remuneration Committee, which was approved by the Bank’s Board of Directors in 2014, became operational during 2015. The Bank’s Remuneration Policy is drawn up in line with The Supervisory Review Process of Credit Institutions Authorised under the Banking Act, Banking Rule 12.

The Policy is intended to create guidelines for the Bank when offering remuneration and benefits to all the employees of the Bank and at the same time to ensure transparency in remuneration matters. It primarily aims to help the Bank attract, retain and motivate high calibre employees within the context of the market in which it operates, keeping in mind the interest of the Bank, the shareholders and all other stakeholders. The Bank also carries a set of rules and procedures for the appraisal of performance, which are updated from time to time in line with operational requirements/realities. Nonetheless, such changes have not impacted the levels of compensation.

Banif Bank(Malta) p.l.c. remunerates employees through a system of:

- **Fixed Pay** for full and part time salaried employees, within a published pay structure and dependant on employee’s skills, experience and level of responsibility;
- **Fees** are payable to non-executive directors in line with the time and effort committed to the institution and industry practice;
- **Benefits in kind** are offered to the employees in the form of reduced fees, interest rates and other benefits in line with industry practice; and
- **Annual Bonuses** as further detailed below.



Statement of Compliance with the Principles of Good Corporate Governance (continued)

SECTION 3 – REMUNERATION POLICY (continued)

The Bank’s performance related reward system does not guarantee levels of variable performance pay-outs to employees. On a yearly basis, the Bank’s Board of Directors will approve a fund for bonuses and salary increases, which reflects the efforts and the results achieved by the Bank on its short and longer term goals. This is then distributed among employees in accordance with the Performance Appraisal Rules and Procedures and the Bank’s Remuneration Policy.

The strategy of the Bank is to offer low levels of variable compensation in comparison to the employee’s fixed pay. This, together with the absence of prior direct correlation between bonuses and achievement of individual targets, is intended to ensure that risks taken are within acceptable parameters and that employees follow the Bank’s values and vision. Individual targets are set out in a way that encourages employees to achieve individual and group targets whilst improving personal skills and competencies.

In view of the low proportion of performance related reward to fixed pay, it has hitherto not been the practice to apply deferred payment of such reward. Malus and clawback have not, to date therefore been considered applicable.

Non-Executive Directors

Non-Executive Directors are not full time employees of the Bank and do not receive a regular salary, allowances, pension rights or other benefits. The compensation for Non-Executive Directors is based solely on a fee for their services together with reimbursement of any expenses made in the course of Bank’s business.

The Bank paid Non-Executive Directors compensation for the year 2015 as follows:

Michael Frendo (Chairman)	€41,300
Edward Cachia Caruana	€12,728
Kenneth Mizzi	€7,500
Maurice Mizzi	€7,690
Mark Portelli	€9,228

Executive Directors

The Bank’s Executive Committee is made up of four Executive Directors. Remuneration payable to these members for the year was:

Fixed Remuneration	€274,887
Variable remuneration	€68,891

Material Risk Takers (MRTs) Remuneration

Fixed and variable remuneration paid to MRTs is detailed in the table below and is aggregated by distinction between senior and non-senior management. The identification of MRTs is based on the framework for prudential supervision established by Directive 2013/36/EU.

	Senior Management	MRTs
Number of employees	4	23
Fixed	€274,887	€954,248
Variable	€68,891	€42,237

All variable remuneration was paid in cash and no shares, share linked instruments or similar instruments were used.

The four members of senior management constituting the Bank’s Executive Committee, together with five Heads of Department enjoy non-cash benefits which include the service of a company vehicle. All Bank employees benefit from life cover, health insurance and personal accident cover.

No sign-on or severance payments were made to MRTs during 2015.

None of the members of senior management or MRTs received remuneration in excess of €1 million.

Statement of Compliance with the Principles of Good Corporate Governance (continued)

SECTION 4 – INTERNAL CONTROL

The Board of Directors is ultimately responsible for internal control within the Bank. The Board is also responsible for ensuring that the basic roles of corporate responsibility, namely accountability, strategy formulation and policy development are implemented throughout the Bank. The Board of Directors delegates to the Executive Committee the authority to operate the Bank within the limits set by the Executive Committee's Terms of Reference.

On a regular basis, the Bank issues procedures to control and/or mitigate material operational risks. Such policies are subject to a periodic review so as to adjust the process in accordance with the current operational risk profile. These Rules and Procedures are circulated and adhered to by staff at all times. In addition such Rules and Procedures are kept permanently on the Bank's intranet so that staff has access to such documents at all times. Any deviance from policy parameters must be sanctioned outside such policy by the applicable sanctioning level.

The institution prides itself on practising high ethical and professional standards and a very serious view of any deviance is taken. A robust internal control mechanism premised on separate Compliance, Audit and Risk functions is followed. The central plank of the organisation's risk activity remains the full independence of the risk function and its segregation into risk management and risk control/oversight activities. Such compartmentalisation is firmly established thereby reinforcing the robust risk governance infrastructure:

- Risk control and oversight activities are performed by Risk Management Unit, which is entrusted with setting the risk-related policies, risk metrics and other risk mitigation procedures. Risk Management Unit identifies, quantifies and reports to top management the degree to which the Bank is exposed to different risks. These include solvency, credit (on a portfolio basis), concentration, market, liquidity, interest rate, operational, reputational and all other "residual" risks.
- On the other hand, the Bank's Credit Analysis Unit performs a risk management role at the micro level. That is to say, as a fully distinct internal entity (independent from the Risk Management Unit), Credit Analysis Unit officials are involved in the credit sanctioning and renewal process. They analyse credit requests and make recommendations which seek to implement the risk policies, procedures and metrics formulated by the Risk Management Unit. Credit Committee sittings at different authorisation levels only approve granting and/or renewal of credit by consensus; each Credit Committee must include one official emanating from Credit Analysis Unit. The Credit Analysis Office official is enabled to withhold consensus by giving risk-based considerations effectively sending the credit decision to a higher sanctioning level than would otherwise be the case.

Risk officials are precluded from interacting directly with customers thereby safeguarding full objectivity and avoiding the incidence of customer-induced bias. Such insularity coupled with functional independence and segregation of risk activity into distinct functions as outlined above, ensure that the risks to which the Bank is exposed are tackled in a holistic manner designed to make the entire organisation aware of the nature, scale and degree of intensity of the risks involved in conducting the Bank's operations. Segregation of risk control/oversight from risk management ensures that those who set risk policy, procedures and metrics (i.e. officials from the Risk Management Unit) do not "go native" by becoming deal makers rather than deal questioners (though being involved in the individual credit decisions).

In addition, the Bank believes in and practises an internal control mechanism founded on the four eyes principle, functional segregation and audit procedures. The Legal and Compliance Unit advises and keeps senior management informed on the implication of compliance laws and regulations that have a bearing on the Bank's operations. The Unit also identifies, documents and assesses the compliance risks associated with the Bank's operational activities, including the development of new products and business practices.

The Internal Audit Unit, on the other hand, monitors the conformity of the Bank's operations with the set policies and standards and reviews key business processes and controls. The work of the Internal Audit Unit focuses on areas of greatest risk as determined by a risk management approach.

The responsibility for the development of financial forecasts of the Bank in line with the strategic plans devised by the Board is delegated to the Budget and Planning Committee. These financial forecasts provide the basis for continuous monitoring and control at various levels within the Bank. The relevant functions are then responsible to report on financial performance against plans to the Board on a monthly basis, identifying reasons for variances and, if necessary, corrective actions that need to be taken to ensure that objectives and targets set by the Board are achieved.





product **Hi-Saver Account**

I believe in making
my savings grow

Photoshoot location : Limiti tal-Qadi, Burmarrad

CORPORATE SOCIAL RESPONSIBILITY



Statement of Compliance with the Principles of Good Corporate Governance (continued)

SECTION 5 – CORPORATE SOCIAL RESPONSIBILITY

Banif Bank's core values – innovation, ambition, effectiveness, confidence and humanism - permeate all its activities. From its inception, the Bank has prioritised its commitment to contribute to key areas in the community in which it operates, through a multi-faceted CSR strategy that is harmonised with its business objectives.

Philanthropy

Like any living thing, a community needs care and maintenance. Banif Bank kept up its long-standing partnerships with influential NGOs and charitable institutions, whilst keeping a finger on the pulse of current societal issues.

The President's Solidarity Fun Run, supported by Banif since its inception, has become a mainstay of the Maltese calendar of events. Once again, thousands of walkers and runners streamed from Paola, Msida, Santa Venera and a new Rabat route, converging at Porte des Bombes to enter St. George's Square in Valletta under the fitting banner of 'One Nation, One Heartbeat'. For the eighth year running, the event was a resounding success. Banif's support to the MCCF, further strengthened by its support of **Rockestra**, is a tangible effort to channel funds to the Organisation's causes, in particular chemotherapy for patients battling cancer.

Keeping up what has now become a company tradition, employees donate a euro a month from their salary in aid of the **Malta Hospice Movement**, a non-profit organisation that gives care and services to over 1,000 individuals. The Bank also supports the organisation's annual Midnight Walk, through sponsorship and team participation.

Initiatives in support of pressing issues

In pursuit of relevance in today's constantly shifting social paradigms, the Bank carried out a number of initiatives with the involvement of its staff and, in some cases, even its customers.

The Banif team got into the spirit of the **EU Mobility Week** whole-heartedly by shaking up their daily commute to and from work, leaving their cars in their garages and walking, taking the bus or carpooling. The EU Mobility Week is a broad initiative aimed at promoting sustainable transport which causes less pollution, uses less energy, is more cost-efficient and is easier on the environment. In the same vein, Banif did its part during Earth Hour by turning off all auxiliary lights, whilst promoting more environmentally-friendly practices through its social media platform.

Banif joined the fight against breast cancer in October by organising a number of staff and customer initiatives

in collaboration with **Europa Donna Malta**. The Banif team wore pink ribbons throughout the month, while the Bank's branches were also decked with pink flowers, ribbons for clients and Europa Donna's publication 'Be Breast Aware'. Female employees in the higher risk age bracket were given a free mammogram screening while Pink Friday saw both male and female staff don pink, and donate to Europa Donna Malta.

Amongst the more targeted and minor initiatives also carried out during the year was **Vitamin C Day**, which saw the Bank distribute fresh oranges to all its employees and to customers in branches which, coupled with a brief social media campaign, was aimed at raising awareness on the importance of nutrition and a healthy diet during the winter months.

Education

Education is always high up on Banif's priority list. Young or old, it is essential to encourage those in whom the desire to learn shines bright.

Banif Bank's collaboration with the **MCAST Institute of Creative Arts** has reaped excellent results throughout the years, by way of several 'Life Case' projects. The aim of these life cases is to simulate real work situations in order to provide students with valuable insight and experience, whilst also opening up avenues for exposure. Students following photography and fine art programmes produced some truly exquisite works, which have been featured across the Bank's marketing collateral including its yearly agenda, a terrace mural and social media platform.

The Bank supported inclusion at **Inspire** by sponsoring two Learning Support Assistants (LSAs) during summer school, which provides educational and recreational activities for children aged 3-12 years. Although nowadays there is more awareness on the difficulties faced by people with disabilities, there is still a sense of separation which is largely built on common misconceptions rather than fact. This kind of programme completely blurs those lines by allowing children to participate in the same activities, paving the way for equal opportunities for all. Naturally, this level of commitment places substantial pressure on Inspire's resources. That is why Banif Bank, whose core values of humanism and ambition are very much in tune with these ideas, was pleased to step in.

Statement of Compliance with the Principles of Good Corporate Governance (continued)

SECTION 5 – CORPORATE SOCIAL RESPONSIBILITY



Statement of Compliance with the Principles of Good Corporate Governance (continued)

SECTION 5 – CORPORATE SOCIAL RESPONSIBILITY

A number of Maltese literature books were donated to [St Margaret's College](#) in Xgħajra. With today's online technology, children are constantly being bombarded with content. That is why the Bank believes that it is important to provide children with quality literature at a level which is adequate and complementary to their education. The books were donated in the hope that they can help children embrace the joy that can be found in immersing oneself in a good story, and to further their interest and literacy in the Maltese language.

Art and culture

Art is a treasure that transcends time. Creative expression is the fire that lights the pathways to discovery, progress and excellence. Banif backs current artists whilst also contributing towards the preservation of Malta's cultural heritage.

An extensive restoration project on a priceless work of art was initiated by [Flimkien għal Ambjent Aħjar](#), with the support of Banif Bank. The four-panel medieval altarpiece, painted on wood in the early 15th century by an unknown Italian or Sicilian master, is thought to rank among Malta's foremost art treasures due to the fine quality of the work, in a country where so few pieces of Medieval art are to be found. The panels are unfortunately in a poor state of conservation and the timely restoration will help ensure that the panels do not deteriorate even further. The panels will eventually be displayed to the public at the Augustinian Priory in Rabat.

For the first time the [Secretariat for Catholic Education](#) brought together teachers of art in Church schools to showcase their work in a collective art exhibition at Palazzo De La Salle, supported by Banif Bank. The public might overlook the fact that teachers of art are themselves artists, and this showcase not only acknowledged such a fact but also motivated the teachers to keep exploring their own artistic universe and share their development with students. Banif Bank has a penchant for supporting initiatives that strike chords on different levels. This event ticked the important boxes of education, culture and the arts, whilst emphasising the importance of art as a taught subject.



Statement of Compliance with the Principles of Good Corporate Governance (continued)

SECTION 5 – CORPORATE SOCIAL RESPONSIBILITY (continued)

The Banif team

Banif Bank owes its success to its team. The Bank is not merely a collection of departments, systems and procedures - but rather, it is driven by the effectiveness, ambition and hard work of the people who deliver their commitment and dedication throughout the year. The Bank acknowledges this by investing in its team, endorsing development whilst promoting a more positive workplace.

Learning and development

An empowered workforce is crucial to any organisation's success. Banif invested in its team with a carefully devised Bank-wide training plan that encompassed both internal and external training. An e-learning programme was rolled out to all employees, which provided highly interactive learning experiences, ranging from soft skills such as time management and leadership to more specialised topics in the fields of IT and Finance, engaging employees by giving them a more flexible and hands-on approach.



All Ideas Matter

Through 'All Ideas Matter' (AIM), employees have a platform for contributing their ideas and suggestions addressing improvements in quality of service, efficiency of processes, cost reduction, increase in revenue, better use of resources and employee wellbeing. The benefits of this scheme are two-fold - employees get that extra motivation and sense of satisfaction from seeing their viable ideas implemented, whilst the Bank benefits from the insight that can only be obtained from the people who are actually doing the job day in day out.

Casual Fridays

Banif employees have donated over €4,700 to various charitable causes throughout the year, through the Bank's monthly Casual Fridays initiative. On the last Friday of every month, Banif staff trade their formal wear for more casual attire and make a small donation in return. A different cause is chosen each month, often through staff involvement or suggestion. This allows employees to take on a more hands-on approach to philanthropy, by making a meaningful difference to the causes involved, no matter how small.



Teambuilding and motivation

Laughter and camaraderie make any workplace more enjoyable. The Bank champions a host of initiatives with the aim of fostering stronger relationships between its employees. The Banif Sports and Social Committee organised a number of events throughout the year, ranging from zip-lining and paintballing thrills to a boggling music quiz. Employees were also treated to a number of internal social dos such as wine tasting and the traditional summer chill events on the Bank's Central Services terrace and St. Julian's Branch rooftop. These little get togethers are a good way for staff who work in different branches and departments to get to know each other in a more informal environment.

Banif football team

The Banif's men's football team brought home the Banka Cup this year, seeing off stiff competition from a number of financial institutions to emerge triumphant. The boys then travelled to Belgrade to participate in the international Champions Bank tournament, where a string of solid performances saw them qualify from the group stage before being edged out in a nail-biting knockout match. As is the case in the office, the team married youthful enthusiasm with veteran experience and this tournament served as an outstanding example of how excellent teamwork between colleagues can reap dividends beyond.



Going concern

Having taken into consideration the Bank's performance and its future strategic goals, the Directors declare that the Bank is able to continue operating as a going concern for the foreseeable future.

Approved by the Board of Directors and signed on its behalf on 29 April 2016 by:

MICHAEL FREND
Chairman

JOAQUIM F. DA SILVA PINTO
Chief Executive Officer



product **Home Loan**
Home is where my heart is

Photoshoot location : Żonqor Point , Marsascala

INDEPENDENT AUDITOR'S REPORT



To the Members of Banif Bank (Malta) p.l.c.

Report on the Financial Statements for the year ended 31 December 2015

We have audited the financial statements of Banif Bank (Malta) p.l.c. on pages 25 to 105 which comprise the statement of financial position as at 31 December 2015, and the statement of income, comprehensive income, changes in equity and 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 explained more comprehensively in the Statement of Directors' responsibilities for the financial statements on page 8, the directors are responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU and the requirements of the Maltese Banking Act, 1994 and the Maltese Companies Act, 1995, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's 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. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about 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 the internal control relevant to the entity's preparation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the 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 financial position of the Bank as at 31 December 2015, and of their financial performance and their cash flows for the year then ended in accordance with IFRSs as adopted by the EU; and
- have been properly prepared in accordance with the requirements of the Maltese Banking Act, 1994 and the Maltese Companies Act, 1995.



Independent auditor's report - continued

To the Members of Banif Bank (Malta) p.l.c.

Report on Other Legal and Regulatory Requirements

Opinion on other matters prescribed by the Maltese Banking Act, 1994

In our opinion:

- i) we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purpose of our audit;
- ii) proper books of account have been kept by the Bank, so far as appears from our examination of those books;
- iii) the Bank's financial statements are in agreement with the books of account; and
- iv) to the best of our knowledge and according to the explanations given to us, the financial statements give the information required by any law in force in the manner so required.

Matters on which we are required to report by exception

We also read other information contained in the Annual Report and considered whether it is consistent with the audited financial statements. The other information comprises the Directors' Report and the Additional Regulatory Disclosures. Our responsibilities do not extend to any other information.

We also have responsibilities under the Maltese Companies Act, 1995 to report to you if, in our opinion:

- the information given in the Directors' Report is not consistent with the financial statements;
- proper returns adequate for our audit have not been received from branches not visited by us; and
- 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.

PricewaterhouseCoopers

78 Mill Street
Oormi
Malta



Fabio Axisa
Partner

29 April 2016

Statement of Financial Position As at 31 December 2015

	Notes	2015 €000	2014 €000
ASSETS			
Balances with Central Bank of Malta and cash	6	81,650	29,008
Cheques in course of collection		737	2,097
Financial investments held-for-trading	7	-	21,464
Financial investments available-for-sale	8	5,291	2,254
Loans and advances to banks	9	50,185	166,745
Loans and advances to customers	10	360,254	378,154
Property and equipment	11	7,740	8,062
Intangible assets	12	820	1,071
Deferred tax assets	13	3,003	4,561
Derivative financial instruments	14	23	899
Prepayments and accrued income	15	1,704	2,091
Other assets	16	5,500	2,663
TOTAL ASSETS		516,907	619,069
EQUITY			
Share capital	17	32,500	32,500
Retained earnings	18	(10,008)	(10,457)
Revaluation reserve	18	2,026	317
Reserve for General Banking Risks	18	844	446
TOTAL EQUITY		25,362	22,806
LIABILITIES			
Amounts owed to banks	19	3,577	214
Amounts owed to customers	20	474,294	579,203
Derivative financial instruments	14	448	840
Debt securities in issue	21	5,000	5,000
Other liabilities	22	3,952	4,722
Accruals and deferred income	23	4,274	6,284
TOTAL LIABILITIES		491,545	596,263
TOTAL EQUITY AND LIABILITIES		516,907	619,069
Memorandum items			
Contingent liabilities	24	10,842	11,536
Commitments	24	61,953	62,279

The accounting policies and explanatory notes on pages 30 to 105 form an integral part of the financial statements.

The financial statements on pages 25 to 105 were approved and authorised for issue by the Board of Directors and signed on its behalf on 29 April 2016 by:



MICHAEL FREND
Chairman



JOAQUIM F. DA SILVA PINTO
Chief Executive Officer

Income Statement
For the year ended 31 December 2015

	Note	2015 €000	2014 €000
Interest receivable and similar income			
- on loans and advances and balances with the Central Bank of Malta	25	19,693	22,899
- on debt and other fixed income instruments	25	93	102
Interest payable and similar expense	26	(9,499)	(14,260)
Net interest income		10,287	8,741
Fees and commission income	27	2,886	2,704
Fees and commission expense	27	(690)	(588)
Net fees and commission income		2,196	2,116
Net trading income	28	1,363	3,071
Net operating income		13,846	13,928
Employee compensation and benefits	29	(5,395)	(5,287)
Other administrative expenses	30	(4,721)	(4,538)
Depreciation of property and equipment	11	(569)	(540)
Amortisation of intangible assets	12	(305)	(341)
Net impairment losses	31	(1,369)	(1,820)
Profit before tax		1,487	1,402
Income tax expense	32	(640)	(544)
Profit for the year		847	858
Earnings per share	33	2c6	2c6

The accounting policies and explanatory notes on pages 54 to 125 form an integral part of the financial statements.

Statement of Comprehensive Income
For the year ended 31 December 2015

	Note	2015 €000	2014 €000
Profit for the year		847	858
Other comprehensive income			
<i>Other comprehensive income that may be reclassified subsequently to profit and loss</i>			
- Fair valuation of financial investments available-for-sale, gross of tax	8	2,628	354
- Income tax relating to fair valuation of financial investments available-for-sale		(919)	(124)
Other comprehensive income for the year, net of tax		1,709	230
Total comprehensive income for the year, net of tax		2,556	1,088

The accounting policies and explanatory notes on pages 54 to 125 form an integral part of the financial statements.

Statement of Changes in Equity
For the year ended 31 December 2015

	Note	Share capital €000	Retained earnings €000	Revaluation reserve €000	Reserve for General Banking Risks €000	Total €000
At 1 January 2014		32,500	(11,059)	87	190	21,718
Comprehensive income						
Profit for the year		-	858	-	-	858
Other comprehensive income						
Fair valuation of financial investments available-for-sale, net of tax	8	-	-	230	-	230
Transfers and other movements		-	(256)	-	256	-
Total other comprehensive income for the year		-	(256)	230	256	230
Total comprehensive income for the year		-	602	230	256	1,088
At 31 December 2014		32,500	(10,457)	317	446	22,806
At 1 January 2015		32,500	(10,457)	317	446	22,806
Comprehensive income						
Profit for the year		-	847	-	-	847
Other comprehensive income						
Fair valuation of financial investments available-for-sale, net of tax	8	-	-	1,709	-	1,709
Transfers and other movements		-	(398)	-	398	-
Total other comprehensive income for the year		-	(398)	1,709	398	1,709
Total comprehensive income for the year		-	449	1,709	398	2,556
At 31 December 2015		32,500	(10,008)	2,026	844	25,362

The accounting policies and explanatory notes on pages 54 to 125 form an integral part of the financial statements.


Statement of Cash Flows
For the year ended 31 December 2015

Note	2015 €000	2014 €000
Cash flows from operating activities		
Interest, fees and commission received	22,682	25,548
Interest, fees and commission paid	(11,936)	(15,494)
Proceeds from trading activities	1,668	1,824
Payments to employees and suppliers	(10,315)	(9,836)
Cash flows from operating profit before changes in operating assets and liabilities	2,099	2,042
<i>(Increase)/decrease in operating assets:</i>		
Reserve deposit with Central Bank of Malta	520	(356)
Loans and advances to banks	-	80,000
Loans and advances to customers	16,534	(40,965)
Other loans and receivables	-	3,333
Other assets	(1,621)	(1,145)
<i>(Decrease)/increase in operating liabilities:</i>		
Amounts owed to banks	-	(5,000)
Amounts owed to customers	(104,909)	25,196
Other liabilities	(583)	2,210
Net cash flows (used in)/ generated from operating activities	(87,960)	65,315
Cash flows from investing activities		
Purchase of property, equipment and intangible assets	(421)	(1,447)
Purchase of available-for-sale investments	(409)	-
Purchase of held-for-trading investments	(8,116)	(14,732)
Proceeds from sale of held-for-trading investments	30,053	11,093
Interest received on available-for-sale investments	91	104
Net cash flows generated from/ (used in) investing activities	21,198	(4,982)
Net increase in cash and cash equivalents	(66,762)	60,333
Cash and cash equivalents at beginning of year	190,222	129,889
Cash and cash equivalents at end of year	123,460	190,222

The accounting policies and explanatory notes on pages 54 to 125 form an integral part of the financial statements.

1. Statutory information

Banif Bank (Malta) p.l.c ('the Bank') is a public limited liability company domiciled and incorporated in Malta. The Bank was incorporated on 27 March 2007 and started operating as a fully-fledged retail bank during January 2008.

On 20 December 2015, the Bank's majority shareholder, Banif – Banco Internacional do Funchal, S.A., (Banif S.A.) was subject to resolution measures in Portugal. The said procedure was pursuant to the Portuguese General Banking Law and the Directive 2001/24/EC on the re-organisation and winding up of credit institutions as amended by Article 117 of the Directive 2014/59/EU which published the framework for the recovery and resolution of credit institutions and investment firms. Such resolution measures applied in one European Member State shall be duly effective in accordance with the legislation of that Member State throughout the European Union without future formalities. As part of this regulatory re-structuring process, shares previously held by Banif S.A. were taken over by Oitante S.A.

The Bank as a standalone financial services institution – as from December 2015 – complies with the disclosure requirements laid down in Part Eight of the Capital Requirements Regulation ('CRR'). These Additional Regulatory Disclosures ('ARDs') are aimed at providing the Bank's stakeholders further insight to the Bank's capital structure and adequacy. The Bank publishes these disclosures on an annual basis as part of the Annual Report.

The disclosures have been prepared by the Bank in accordance with the Pillar III quantitative and qualitative disclosure requirements as governed by Banking Rule BR/07: Publication of Annual Report and Audited Financial Statements of Credit Institutions authorised under the Banking Act, 1994, issued by the Malta Financial Services Authority ('MFSA'). Banking Rule BR/07 follows the disclosure requirements of Directive 2013/36/EU (Capital Requirements Directive) and EU Regulation No 575/2013 (Capital Requirements Regulation) of the European Parliament and of the Council of 26 June 2013.

As outlined in the requirements of banking regulations, these disclosures are not subject to an external audit, except to the extent that any disclosures are equivalent to those made in the Financial Statements, which have been prepared in accordance with the International Financial Reporting Standards ('IFRS') as adopted by the EU. The Bank, through its internal verification procedures, is satisfied that these ARDs are presented fairly.

2. Summary of significant accounting policies

2.1 Basis of Preparation

2.1.1 Assessment of going concern assumption

During the financial year ended 31 December 2015, the Bank continued to manage its business diligently placing itself in a position to withstand regulatory constraints by a constant margin, with the key objective of ensuring that the Bank's Total Capital ratio constantly exceeds the 8% mark. Based on the amounts presented within these financial statements, the Bank's Total Capital ratio was 9.3% as at 31 December 2015, whilst the Core Equity Tier 1 ratio stood at 7.7% at the same date. These ratios principally reflect the net profits registered by the Bank during the financial year which amounted to €847,000, and the fair value gains registered on available-for-sale investments.

Throughout 2015, the Bank's Total Capital ratio consistently exceeded the 8% mark.

Until the date of authorisation for issuance of these financial statements, post 31 December 2015 the Bank has continued to register positive results and it is expecting to continue to trade profitably throughout the financial year ending 31 December 2016. Although the level of the Bank's capital is sufficient to permit the Bank to operate, the Bank continues to work on its strategy to move away from achieving regulatory ratios with tight margins, in order to achieve comfortable capital adequacy ratios which would enable the Bank to move to a financial position which is beyond minimum set regulatory requirements and to enhance its financial profitability thus consolidating its position in the market. In this respect, the primary focus of the Bank is increasing its Core Equity Tier 1 capital through a new controlling shareholder that is committed to inject capital into the Bank to achieve the objectives referred to above.

For this reason, Banif S.A., the major shareholder, with the assistance of its investment banking arm in Portugal had embarked on a competitive bidding process to invite all prospective investors that have expressed interest in investing in the Bank to put forward their offers. The ultimate objective of this process led to a preferred bidder being selected as the new controlling shareholder. In this respect, subsequent to the end of the reporting period, a Share Purchase Agreement has actually been entered into between the Bank's current parent and a third party, in respect of the transfer of the shareholding held by the Bank's current major shareholder to the third party. The agreement regulates the banking business model and strategy to be pursued by the Bank subsequent to the change in the controlling shareholder. It also binds the incoming controlling shareholder to effect capital injections which would allow the Bank to execute the strategy mentioned previously, enhancing the business model currently undertaken by the Bank, with satisfactory buffers over and above the minimum regulatory capital requirements.



2. Summary of significant accounting policies (continued)

2.1 Basis of Preparation (continued)

2.1.1 Assessment of going concern assumption (continued)

The arrangement is subject to securing regulatory approvals by the Malta Financial Services Authority and the European Central Bank. The process to secure regulatory approval has commenced with the incoming controlling shareholder making submissions to the regulators in respect of operational and capitalisation plans for the Bank subsequent to acquisition. The process of securing approval is ongoing at the date of authorisation for issue of these financial statements.

On the basis of information available to the Directors, there appear to be no substantive reasons to doubt whether the third party and the plans proposed by this party would meet all conditions necessary for obtaining the necessary regulatory approvals. This process, including regulatory approval of the new controlling shareholder and actual capitalisation of the Bank, is expected to be concluded during 2016 in view of the significance of the highlighted developments in the context of the milestones expected towards the finalisation of this process.

In the meantime and until the capitalisation process is concluded, the Bank's Management will continue focused on defined actions to manage the key components of its balance sheet, to ensure that the Bank's ability to realise its assets and to discharge its liabilities is not put in doubt during this period.

The main objective is to utilise the existing amount of capital in the most efficient manner without compromising the intended risk return relationship that the Bank has set. The Bank's Management will continue managing the aggregate level, composition and credit quality of its financial assets, with impact on the level of risk weighted assets utilised for regulatory purposes. The Bank's Management will also continue to monitor closely the liquidity management process taking into account the level and nature of the Bank's liquid assets, the terms of its time deposit liabilities and the extent of the maturity mismatches for the Bank's financial assets and liabilities reflected within the maturity ladder. These actions will be complemented with reducing the cost of the Bank's funding and strengthening the monitoring of risks; with all measures intended to ensure sustainable improvement in the Bank's operating income.

As far as operating costs are concerned, the Bank's Management will continue to exercise a disciplined control on costs, and a number of initiatives are being undertaken to generate synergies and optimise the use of resources without compromising the quality level of service offered to clients.

The Bank's Management and Directors are confident that throughout the year ending 31 December 2016 these actions should ensure that the Bank continues operating within the regulatory parameters, by margins with respect to capital adequacy ratios, until the capitalisation process is finalised.

The ability of the Bank to continue operating as a going concern utilising the envisaged business model and to move away from achieving required regulatory ratios within slight margins, is dependent on the successful implementation of the plan to have a new controlling shareholder in place and the subsequent capitalisation of the Bank, on a timely basis. The Bank's Board of Directors is fully confident that this plan will be fully implemented during 2016 on the basis of information available on the status of implementation to date and taking cognisance of the developments mentioned above.

Notwithstanding, the Bank has also projected an alternative scenario wherein its scale of operations and balance sheet size, in the form of aggregate financial assets and risk weighted assets, are modified rendering the current unadjusted level of equity commensurate with the level of risks undertaken. Under the alternative scenario, the Bank would secure a stronger Total Capital ratio and would remain in a healthy liquidity position, securing satisfactory financial results in the process. The Bank's Management and Board of Directors consider the implementation of this alternative scenario plausible from market, operational and regulatory perspectives. Accordingly the Board of Directors firmly believes that these matters indicate that no material uncertainty exists that may cast significant doubt about the Bank's ability to continue as a going concern.

The Bank's Management continues to be strongly committed to the implementation of actions referred to above, and believes its implementation will enable the Bank to meet all regulatory requirements throughout the year ending 31 December 2016 and enhance the Bank's profitability.

In assessing the appropriateness of the going concern assumption in the preparation of the Bank's financial statements, the Board of Directors has taken into account the nature of planned actions, the plans actually realised to date and the likelihood of occurrence of those not yet realised. The Board has taken cognisance of the high probability that the plan to have a new controlling shareholder in place and the subsequent capitalisation of the Bank will be successfully implemented on a timely basis. In the unlikely event that the capitalisation plan is not completed, the Bank's management is very confident that the alternative scenario for the Bank is feasible and tenable. On the basis of these considerations, it is the view of the Board of Directors that there is a reasonable expectation that the Bank is able to continue in business for a period of at least 12 months from the end of the reporting period. Accordingly, the directors continue to adopt the going concern basis in preparing the financial statements.

2. Summary of significant accounting policies (continued)

2.2 Standards, interpretations and amendments to published standards effective in 2015

In 2015, the Bank adopted new standards, amendments and interpretations to existing standards that are mandatory for the Bank's accounting period beginning on 1 January 2015. The adoption of these revisions to the requirements of IFRSs as adopted by the EU did not result in significant changes to the Bank's accounting policies impacting the Bank's financial performance and position.

2.3 Standards, interpretations and amendments to published standards that are not yet adopted

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2015 reporting periods and have not been early adopted by the Bank. These principally comprise IFRS 9 'Financial Instruments', which is the comprehensive standard to replace IAS 39 'Financial Instruments: Recognition and Measurement', and includes requirements for classification and measurement of financial assets and liabilities, impairment of financial assets and hedge accounting.

The classification and measurement of financial assets will depend on the Bank's business model for their management and their contractual cash flow characteristics and result in financial assets being measured at amortised cost, fair value through other comprehensive income (FVOCI) or fair value through profit or loss. In many instances, the classification and measurement outcomes will be similar to IAS 39, although differences will arise, for example, since IFRS 9 does not apply embedded derivative accounting to financial assets and equity securities will be measured at fair value through profit or loss or, in limited circumstances, at fair value through other comprehensive income. The combined effect of the application of the business model and the contractual cash flow characteristics tests may result in some differences in the population of financial assets measured at amortised cost or fair value compared with IAS 39. The classification of financial liabilities is essentially unchanged, except that, liabilities measured at fair value, gains or losses relating to changes in an entity's own credit risk are to be included in other comprehensive income.

The impairment requirements apply to financial assets measured at amortised cost and FVOCI, and lease receivables and certain loan commitments and financial guarantee contracts. At initial recognition, allowance (or provision in the case of commitments and guarantees) is required for expected credit losses (ECL) resulting from default events that are possible within the next 12 months (12 month ECL). In the event of a significant increase in credit risk, allowance (or provision) is required for ECL resulting from all possible default events over the expected life of the financial instrument (lifetime ECL). The assessment of whether credit risk has increased significantly since initial recognition is performed for each reporting period by considering the change in the risk of default occurring over the remaining life of the financial instrument, rather than by considering an increase in ECL. The assessment of credit risk, and the estimation of ECL, are required to be unbiased and probability-weighted and should incorporate all available information which is relevant to the assessment, including information about past events, current conditions and reasonable and supportable forecasts of future events and economic conditions at the reporting date. In addition, the estimation of ECL should take into account the time value of money. As a result, the recognition and measurement of impairment is intended to be more forward-looking than under IAS 39 and the resulting impairment charge will tend to be more volatile. It will also tend to result in an increase in the total level of impairment allowances, since all financial assets will be assessed for at least 12 month ECL and the population of financial assets to which lifetime ECL applies is likely to be larger than the population for which there is objective evidence of impairment in accordance with IAS 39. The general hedge accounting requirements aim to simplify hedge accounting, creating a stronger link with risk management strategy and permitting hedge accounting to be applied to a greater variety of hedging instruments and risks. The standard does not explicitly address macro hedge accounting strategies, which are being considered in a separate project. To remove the risk of any conflict between existing macro hedge accounting practice and the new general hedge accounting requirements, IFRS 9 includes an accounting policy choice to remain with IAS 39 hedge accounting. The classification and measurement and impairment requirements are applied retrospectively by adjusting the opening balance sheet at the date of initial application, with no requirement to restate comparative periods. Hedge accounting is generally applied prospectively from that date. The mandatory application date for the standard as a whole is 1 January 2018, but it is possible to apply the revised presentation for certain liabilities measured at fair value from an earlier date. The Bank is yet to assess IFRS 9's full impact.

2.4 Segment Reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the Board of Directors which is the Bank's chief operating decision-maker.

An operating segment's operating results are reviewed regularly by the Board of Directors to make decisions about resources to be allocated to the segment and to assess its performance executing the function of the chief operating decision-maker.



2. Summary of significant accounting policies (continued)

2.5 Foreign currency translation

2.5.1 Functional and presentation currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the entity operates (the 'functional currency'). The financial statements are presented in euro (€), which is the Bank's functional and presentation currency.

2.5.2 Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

2.6 Financial assets

The Bank classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, and available-for-sale investments. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

2.6.1 Initial recognition and derecognition

The Bank recognises a financial asset in its statement of financial position when it becomes a party to the contractual provisions of the instrument. Regular way purchases and sales of financial assets are recognised on the trade date, which is the date on which the Bank commits to purchase or sell the asset. Accordingly, the Bank uses trade date accounting for regular way contracts when recording financial asset transactions.

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Bank has transferred substantially all risks and rewards of ownership or the Bank has not retained control of the asset.

2.6.2 Financial assets at fair value through profit or loss

This category comprises two sub-categories: financial assets classified as held for trading, and financial assets designated by the Bank as at fair value through profit or loss upon initial recognition.

A financial instrument is classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking.

Derivatives are also categorised as held for trading unless they are designated and effective as hedging instruments.

Financial instruments included in this category are recognised initially at fair value; transaction costs are taken directly to profit or loss. Gains and losses arising from changes in fair value are included directly in profit or loss and are reported as part of 'net trading income'. Interest income and dividend income on financial assets held for trading are also included in 'net trading income'.

The Bank may designate certain financial assets upon initial recognition as at fair value through profit or loss (fair value option). This designation cannot subsequently be changed. According to IAS 39, the fair value option is only applied when the following conditions are met:

- the application of the fair value option reduces or eliminates an accounting mismatch that would otherwise arise; or
- the financial assets are part of a portfolio of financial instruments which is risk managed and reported to senior management on a fair value basis; or
- the financial assets consist of debt hosts and embedded derivatives that must be separated.

The Bank's held for trading financial instruments consist of derivative contracts and investments in government debt securities.

2. Summary of significant accounting policies (continued)

2.6 Financial assets (continued)

2.6.3 Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than:

- those that the Bank intends to sell immediately or in the short term, which are classified as held for trading, and those that the entity upon initial recognition designates as at fair value through profit or loss;
- those that the Bank upon initial recognition designates as available-for-sale; or
- those for which the holder may not recover substantially all of their initial investment, other than because of credit deterioration.

Loans and receivables arise when the Bank provides money, goods or services directly to a debtor with no intention of trading the asset. Loans and receivables mainly consist of balances with Central Bank of Malta, loans and advances to banks and customers, other debt securities classified as loans and receivables together with other assets.

Loans and receivables are initially recognised at fair value – which is the cash consideration to originate or purchase the loan including any transaction costs – and measured subsequently at amortised cost using the effective interest rate method. Amortised cost is the initial measurement amount adjusted for the amortisation of any difference between the initial and maturity amounts using the effective interest method. Interest on loans and receivables is included in profit or loss and is reported as ‘Interest receivable and similar income’. In the case of an impairment, the impairment loss is reported as a deduction from the carrying value of the loan and receivable and recognised in profit or loss as ‘net impairment losses’.

2.6.4 Available-for-sale investments

Available-for-sale investments are financial assets that are intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices, or that are not classified as loans and receivables, held-to-maturity investments or financial assets at fair value through profit or loss.

Available-for-sale financial assets are initially recognised at fair value, which is the cash consideration including any transaction costs, and measured subsequently at fair value with gains and losses being recognised in other comprehensive income, except for impairment losses and foreign exchange gains and losses (in case of monetary assets), until the financial asset is derecognised. If an available-for-sale financial asset is determined to be impaired, the cumulative gain or loss previously recognised in other comprehensive income is reclassified to profit or loss.

Interest income is calculated using the effective interest method, and is recognised in profit or loss as are foreign currency gains and losses on monetary assets classified as available-for-sale. Changes in the fair value of monetary securities denominated in foreign currency classified as available-for-sale are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security.

Translation differences related to changes in amortised cost are recognised in profit or loss, and other changes in carrying amount are recognised in other comprehensive income. Dividends on available-for-sale equity instruments are recognised in profit or loss in ‘dividend income’ when the Bank’s right to receive payment is established.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Bank establishes fair value by using valuation techniques. These include the use of recent arm’s length transactions, reference to other instruments that are substantially the same, discounted cash flow analyses, and option pricing models making maximum use of market inputs and relying as little as possible on entity-specific inputs.



2. Summary of significant accounting policies (continued)

2.7 Reclassification of financial assets

As from 1 July 2008, the Bank 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 effective interest rate. Any difference between the new amortised cost and the expected cash flows is also amortised over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired then the amount recorded in equity is recycled to the income statement.

The Bank 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 Bank 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 Bank 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 effective interest rate from the date of the change in estimate.

Reclassification is at the election of management, and is determined on an instrument by instrument basis. The Bank does not reclassify any financial instrument into the fair value through profit or loss category after initial recognition.

2.8 Impairment of financial assets

2.8.1 Assets carried at amortised cost

The Bank 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 a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a ‘loss event’) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The criteria that the Bank uses to determine that there is objective evidence of an impairment loss include:

- significant financial difficulty of the issuer or obligor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- the lender, for economic or legal reasons relating to the borrower’s financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
- it becomes probable that the borrower will enter bankruptcy or other financial reorganisation;
- the disappearance of an active market for that financial asset because of financial difficulties; or
- observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including:
 - adverse changes in the payment status of borrowers in the portfolio; and
 - national or local economic conditions that correlate with defaults on the assets in the portfolio.

The estimated period between a loss occurring and its identification is determined by management for each identified portfolio. In general, the periods used vary between three months and twelve months; in exceptional cases, longer periods are warranted.

The Bank first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them 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.

2. Summary of significant accounting policies (continued)

2.8 Impairment of financial assets (continued)

2.8.1 Assets carried at amortised cost (continued)

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 effective interest rate. 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. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Bank may measure impairment on the basis of an instrument's fair value using an observable market price.

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (i.e., on the basis of the Bank's grading process that considers asset type, collateral type, past-due status and other relevant factors). Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the group and historical loss experience for assets with credit risk characteristics similar to those in the Bank. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not currently exist.

Estimates of changes in future cash flows for groups of assets should reflect and be directionally consistent with changes in related observable data from period to period (for example, changes in unemployment rates, property prices, payment status, or other factors indicative of changes in the probability of losses in the group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Bank to reduce any differences between loss estimates and actual loss experience.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in profit or loss.

2.8.1.1 Forborne loans

Granting a concession to a customer that the Bank would not otherwise consider, as a result of their financial difficulty, is objective evidence of impairment and impairment losses are measured accordingly.

A forborne loan is categorised as impaired when:

- there has been a change in contractual cash flows as a result of a concession which the Bank would otherwise not consider; and
- it is probable that without the concession, the borrower would be unable to meet contractual payment obligations in full.



2. Summary of significant accounting policies (continued)

2.8 Impairment of financial assets (continued)

2.8.1 Assets carried at amortised cost (continued)

2.8.1.1 Forborne loans (continued)

Forbearance activity is undertaken selectively where it has been identified that repayment difficulties against the original terms already have, or are very likely to materialise. Accordingly, taking cognisance of the principles highlighted above, forborne loans are treated as impaired and where the customer is experiencing, or is very likely to experience, difficulty in meeting a payment obligation to the Bank (i.e. due to current credit distress); and the Bank is offering to the customer revised payment arrangements which constitute a concession (i.e. it is offering terms it would not normally be prepared to offer).

Forborne loans are typically assessed for impairment individually. The individual impairment assessment takes into account the higher risk of the non-payment of future cash flows inherent in forborne loans. Loans subject to individual impairment assessment, which have been subject to a forbearance measure, are subject to ongoing review to determine whether they remain impaired.

Loans subject to collective impairment assessment which have been subject to a forbearance measure are segregated from other parts of the loan portfolio for the purposes of collective impairment assessment, to reflect their risk profile and the higher rates of losses often encountered in these cases. Evidence indicates an increased propensity to default and higher losses on such accounts; these factors are taken into account when calculating impairment allowances. A basic formulaic approach based on historical loss rate experience is used by the Bank. When the Bank considers that there are additional risk factors inherent in the portfolio that may not be fully reflected in the historical experience, these risk factors are taken into account by adjusting the impairment allowances derived solely from historical experience.

The forborne loan will continue to be disclosed as impaired until there is sufficient evidence to demonstrate a significant reduction in the risk of non-payment of future cash flows, and there are no other indicators of impairment. For loans that are assessed for impairment on a collective basis, the evidence typically comprises a history of payment performance against the original or revised terms, as appropriate to the circumstances. For loans that are assessed for impairment on an individual basis, all available evidence is assessed on a case-by-case basis. The minimum period of payment performance required depends on the nature of the loan in the portfolio, but is not less than twelve months. The period of performance will vary depending on the frequency of payments to be made by the customer under the amended agreement and the extent to which the customer's financial position is considered to have improved. Forborne loans cannot be returned to a non-impaired grade when a specific impairment allowance remains against any of the customer's credit facilities.

Forborne loans are not classified as impaired where the forbearance has resulted from significant concern about a borrower's ability to meet their contractual payment terms but the modified terms are based on current market rates and contractual cash flows are expected to be collected in full following the renegotiation. Non-impaired forborne loans also include previously impaired forborne loans that have demonstrated satisfactory performance over a period of time or have been assessed based on all available evidence as having no remaining indicators of impairment.

Loans that have been identified as forborne retain this designation until payment performance has been observed for an extended period of time. When principal payments are modified resulting in permanent forgiveness, or when it is otherwise considered that there is no longer a realistic prospect of recovery of outstanding principal, the affected balances are written off.

2. Summary of significant accounting policies (continued)

2.8 Impairment of financial assets (continued)

2.8.1 Assets carried at amortised cost (continued)

2.8.1.1 Forborne loans (continued)

A loan that is subject to forbearance measures is derecognised if the existing agreement is cancelled and a new agreement made on substantially different terms, or if the terms of an existing agreement are modified, such that the renegotiated loan is substantially a different financial instrument. When determining whether a loan that is restructured should be derecognised and a new loan recognised, the Bank considers the extent to which the changes to the original contractual terms result in the renegotiated loan, considered as a whole, being a substantially different financial instrument. Circumstances that are likely to result in this test being met and derecognition accounting being applied comprise modified terms under the new or modified contract that are substantially different from those under the original contract.

When a loan is restructured as part of a forbearance strategy and the restructuring results in derecognition of the existing loan, the new loan is disclosed as forborne.

2.8.2 Assets classified as available-for-sale

The Bank assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired taking cognisance of the criteria referred to in 2.8.1.

In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is objective evidence of impairment resulting in the recognition of an impairment loss. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost (or amortised cost as applicable) and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in profit or loss. Impairment losses recognised in profit or loss on equity instruments are not reversed through profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through profit or loss.

In devising its accounting policy in relation to the impairment of available-for-sale financial assets, more specifically the significant or prolonged decline in fair value below cost, the Bank has considered the fact that its available-for-sale equity instruments comprise a limited number of investments.

2.9 Derivative financial instruments

Derivative financial instruments, including currency forwards, are initially recognised at fair value on the date on which a derivative contract is entered into, and are subsequently remeasured at their fair value. Fair values are obtained from valuation techniques for over-the-counter derivatives, including discounted cash flow models. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative. Fair values for currency forwards are determined using forward exchange market rates at the end of the reporting period. Discounting techniques, reflecting the fact that the respective exchange or settlement will not occur until a future date, are used when the time value of money has a significant effect on the fair valuation of these instruments.

Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognised immediately in profit or loss.

The Bank uses derivatives such as cross currency swaps and forward foreign exchange contracts.



2. Summary of significant accounting policies (continued)

2.10 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

2.11 Property and equipment

All property and equipment used by the Bank is initially recorded at historical cost, including transaction costs and borrowing costs. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

Land is not depreciated as it is deemed to have an indefinite life. Depreciation on other assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

Land and buildings:	
Freehold	20 years
Leasehold	10 years
Computer equipment	4 years
Other equipment	6 - 10 years

The asset's residual value, useful life and method is reviewed, and adjusted if appropriate, at each financial period end. Changes in the expected useful life are accounted for by changing the depreciation period or method, as appropriate, and treated as changes in accounting estimates.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (see Note 2.13).

Property and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. 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 profit and loss in the period the asset is derecognised.

2.12 Intangible assets

Intangible assets consist of computer software and other intangibles which include licenses. Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. The useful lives of intangible assets are assessed to be either finite or indefinite.

Intangible assets with finite lives 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 with a finite useful life is reviewed at least at each financial period 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 with finite lives 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 intangible assets to their residual values over their estimated useful lives. Computer software is amortised over 4 years.

Intangible assets with indefinite useful lives are not amortised, but are tested for impairment annually either individually or at the cash generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis. Other intangibles are assessed as having an indefinite useful life.

2. Summary of significant accounting policies (continued)

2.13 Impairment of non-financial assets

Assets that have an indefinite useful life, for example goodwill or certain intangible assets, are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows (cash-generating units). The impairment test also can be performed on a single asset when the fair value less costs to sell or the value in use can be determined reliably. Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

2.14 Property acquired through judicial action

In certain circumstances, property is acquired by the Bank in satisfaction of debt following judicial action. Such properties are measured at the lower of carrying amount and fair value less costs to sell.

2.15 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period.

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill; deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Bank and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2.16 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new ordinary shares are shown in equity as a deduction, net of tax, from the proceeds.



2. Summary of significant accounting policies (continued)

2.17 Financial liabilities

The Bank recognises a financial liability on its statement of financial position when it becomes a party to the contractual provisions of the instrument. The Bank's financial liabilities are classified as financial liabilities which are not at fair value through profit or loss (classified as 'Other liabilities') under IAS 39. Financial liabilities not at fair value through profit or loss are recognised initially at fair value, being the fair value of consideration received, net of transaction costs that are directly attributable to the acquisition or the issue of the financial liability. These liabilities are subsequently measured at amortised cost. The Bank derecognises a financial liability from its statement of financial position when the obligation specified in the contract or arrangement is discharged, is cancelled or expires.

Financial liabilities measured at amortised cost comprise principally amounts owed to banks, amounts owed to customers, debt securities in issue together with other liabilities.

2.18 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 Bank retains substantially all of the risks and rewards of ownership. The corresponding cash received is recognised in the statement of financial position as an asset with a corresponding obligation to return it, including accrued interest as a liability, reflecting the transaction's economic substance as a loan to the Bank. The difference between the sale and repurchase prices is treated as interest expense and is accrued over the life of agreement using the effective interest rate. When the counterparty has the right to sell or repledge the securities, the Bank reclassifies those securities in its statement of financial position to financial assets held for trading pledged as collateral or to financial investments available-for-sale pledged as collateral, as appropriate.

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, reflecting the transaction's economic substance as a loan by the Bank. 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 effective interest rate.

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 trading income.

2.19 Trade and other payables

Trade payables comprise obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.20 Provisions

Provisions for legal and other claims are recognised when: the Bank has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

2.20.1 Provision for pension obligations

The Bank 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 Bank does not contribute towards any other retirement benefit plans.

2. Summary of significant accounting policies (continued)

2.21 Interest income and expense

Interest income and expense for all interest-bearing financial instruments are recognised within 'interest income' and 'interest expense' in the profit or loss using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

2.22 Fees and commissions

Fee and commission income and expenses that are an integral part of the effective interest rate on a financial asset or liability are included in the calculation of the effective interest rate and treated as part of effective interest. Other fees and commissions are generally recognised on an accrual basis when the service has been provided.

Fee and commission income, comprising account servicing fees, investment management fees, placement fees and other similar fees, are recognised as the related services are performed.

Loan commitment fees for loans that are likely to be drawn down are deferred (together with related direct costs) and recognised as an adjustment to the effective interest rate on the loan. When a loan commitment is not expected to result in the drawdown of a loan, the related loan commitment fees are recognised on a straight-line basis over the commitment period. Fee and commission expense, relating mainly to transaction and service fees, are expensed as the services are received.

2.23 Dividend income

Dividends are recognised in profit or loss in 'dividend income' when the entity's right to receive payment is established.

2.24 Net trading income

Results arising from trading activities include all gains and losses from changes in fair value and related interest income or expense and dividends for financial assets and financial liabilities 'held for trading'.

2.25 Leases

The determination of whether an arrangement is a lease, or it contains a lease, is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

2.25.1 Bank is the lessee

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight-line basis over the period of the lease.



2. Summary of significant accounting policies (continued)

2.26 Financial guarantee contracts

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

In the ordinary course of business, the Bank gives financial guarantees, consisting of letters of credit, guarantees and acceptances.

Financial guarantees are initially recognised in the financial statements at fair value on the date the guarantee was given. The fair value of a financial guarantee at the time of signature is zero because all guarantees are agreed on arm's length terms and the value of the premium agreed corresponds to the value of the guarantee obligation. No receivable for the future premiums is recognised. Subsequent to initial recognition, the Bank's liabilities under such guarantees are measured at the higher of the initial amount, less amortisation of fees recognised in accordance with IAS 18, and the best estimate of the amount required to settle the guarantee. These estimates are determined based on experience of similar transactions and history of past losses, supplemented by the judgement of management. 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. Any increase in the liability relating to guarantees is recognised in profit or loss.

2.27 Cash and cash equivalents

Cash and cash equivalents are carried in the statement of financial position at face value. Cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition, including cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less.

2.28 Dividend distribution

Dividend distribution to the Bank's shareholders is recognised as a liability in the Bank's financial statements in the period in which the dividends are approved by the Bank's shareholders.

3. Financial risk management

3.1 Introduction

3.1.1 Preamble

The Bank's business involves taking on risks in a targeted manner and managing them professionally. The Bank is exposed to a number of risks, which it manages at different organisational levels. The main categories of risk are:

- **Credit risk:** Credit risk stems from the possible non-prompt repayment or non-payment of existing and contingent obligations by the Bank's counterparties, resulting in the loss of equity and profit. It is the risk that deterioration in the financial condition of a borrower will cause the asset value to decrease or be extinguished. Country risk and settlement risk are included in this category. Country risk refers to the risk of losses arising from economic or political changes that affect the country from which the asset originates. Settlement risk refers to the risk of losses through failure of the counterparty to settle outstanding dues on the settlement date owing to bankruptcy or other causes.
- **Market risk:** The risk of losses arising from unfavourable changes in the level and volatility of interest rates, foreign exchange rates or investment prices (to which the Bank is not exposed).
- **Liquidity risk:** Liquidity risk arises from:
 - Market (product) liquidity risk: risk of losses arising from the inability to easily offset or eliminate a position without significantly affecting the market price because of inadequate market depth or market disruption; and
 - Funding liquidity risk: risk of losses arising from a timing mismatch between investing, placements and fund raising activities resulting in obligations missing the settlement date or satisfied at higher than normal rates.
- **Operational risk:** Risk of damage resulting from the lack of skilful management or good governance and the inadequacy of proper control, which might involve internal operations, personnel, systems or external occurrences that in turn affect the income and capital funds of financial institutions. The Bank has adopted an operational risk management framework and procedures, which provide for the identification, assessment, management, monitoring and reporting of the Bank's operational risks.

The core functions of the Bank's Risk Management Unit are to identify all key risks for the Bank, measure these risks, manage the risk positions and determine capital allocations. The Bank regularly reviews its risk management policies and systems to reflect changes in markets, products and best risk practices. The Bank's aim is to achieve an appropriate balance between risk and return and minimise potential adverse effects on the Bank's financial performance. The Bank defines risk as the possibility of losses or profits foregone, which may be caused by internal or external factors.

The Bank considers risk management a core competency that helps produce high returns for its various stakeholders. It aims to manage all major types of risk by applying methods that meet best practice, and considers it important to have a clear distribution of responsibilities within the area of risk management. One of the main tasks of the Bank's Board is to set the framework for this area. An understanding of risk-taking and transparency in risk-taking are key elements in the Bank's business strategy and thus in its ambition to be a strong financial entity. The Bank's internal risk management processes support this objective.



3. Financial risk management (continued)

3.1 Introduction (continued)

3.1.1 Preamble (continued)

Risk management within the Bank is mainly carried out on a unified basis, using an integrated and entity-wide framework. This framework is based on local and international guidelines, such as the Basel III Accord, corresponding Directives and Regulations of the European Union, including technical standards, as well as contemporary international banking practices.

3.1.2 Organisation

The Bank has an appropriate organisational structure for planning, executing, controlling and monitoring business operations in order to achieve Bank objectives. The Board of Directors assumes responsibility for ensuring that significant business risks are identified and appropriately managed.

The Board is responsible for setting out the overall risk policies and limits for all material risk types of the Bank. It provides written principles for overall risk management, approves policies covering specific areas, such as foreign exchange risk, interest rate risk and credit risk.

Accordingly, the Board is responsible for calibrating the Bank's risk appetite. The risk appetite represents the level of risk that the Bank is prepared to accept while pursuing its business strategy, recognising a range of possible outcomes as business plans are implemented. Thus, risk appetite sets the 'tone from the top' and provides a basis for ongoing dialogue between the Bank's Management and Board with respect to the Bank's current and evolving risk profile, allowing strategic and financial decisions to be made on an informed basis. In deciding the level of risk the Bank is willing to accept, the Bank takes into consideration the following:

- **Risk Culture:** risk management principles which should be followed in line with internal governance responsibilities and processes;
- **Risk Appetite and Tolerance:** the risk profile and the risk level the Bank will be considering as acceptable;
- **Risk Methodology:** risk taxonomy for the Bank, as well as quantitative and qualitative approaches used for each risk; and
- **Capital Planning:** capital requirements with respect to the level of risk the Bank has considered as acceptable.

The Bank allocates considerable resources to ensure the ongoing compliance with approved limits and to monitor its asset portfolio. In particular, the Bank has a fixed reporting cycle to ensure that the relevant management bodies, including the Board of Directors and the Executive Committee, are kept informed on an ongoing basis of developments in the asset portfolio, such matters as non-performing loans and other relevant information.

The Bank's Board of Directors is also responsible for ensuring that adequate processes and procedures exist to ensure effective internal control systems. These internal control systems ensure that decision-making capability and the accuracy of the reporting and financial results are maintained at a high level at all times.

3. Financial risk management (continued)

3.1 Introduction (continued)

3.1.2 Organisation (continued)

In deciding how best to discharge its responsibilities, the Board upholds a policy of clear demarcation between its role and responsibilities and those of Management. It has defined the level of authority that it retains over strategy formulation and policy determination, and delegated authority and vested accountability for the Bank's day-to-day business and operations in the Executive Committee, which is made up of the Chief Executive Officer and the other Executive Directors. The Board has also delegated its responsibilities of reviewing processes and procedures on the effectiveness of the Bank's system of internal control to the Audit Committee. The latter also ensures the implementation of the Board's risk strategy by management.

The Board is ultimately responsible for the Bank's system of internal control and for reviewing its effectiveness. Such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can provide only reasonable, and not absolute, assurance against material misstatement or loss.

The Executive Committee also established a Global Risk Committee, whose role is to advise the Executive Committee on the Bank's overall risk appetite, risk tolerance and risk management framework, taking into consideration current and prospective macroeconomic and financial environment and drawing on financial stability assessments such as those published by local regulatory authorities or other authoritative sources that may be relevant for the Bank's risk policies. This Committee is composed of chief officers, all Departmental Heads and the Head of the Risk Management Unit.

The Global Risk Committee is supported by all Bank Units but especially, from an internal control and risk governance perspective, the Internal Control Department, which serves as a risk control and oversight function, with its main objective being to identify, quantify and report the various risks to which the Bank is exposed, and to put forward appropriate risk mitigation options for top management consideration.

3.2 Credit risk

3.2.1 Introduction to credit risk

Credit risk is the risk that a counterparty will be unable to fulfil the terms of his/her obligations when due. In view of the nature of its business, the Bank'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 investment and loan portfolios.

The Bank's credit risk arises from various components of the statement of financial position, namely amounts due from banks, loans and advances to customers, investments in debt securities, accrued income and commitments. However, the largest credit risk arises from the Bank's lending and investment operations, which arises from the risk of default of the counterparty, with a maximum exposure being equal to the carrying amount of the instrument.

3.2.2 Credit risk management

Lending decisions should achieve a reasonable balance between risks and returns of extending credit to a customer. A credit authorisation structure, made up of four physical credit committee levels; ranging from Level 1, which includes authorisation by a Branch Manager, an Area Manager and an officer from the Credit Analysis Unit to the highest level, being Level 4, at which the Executive Committee is in place. Each credit committee level is assigned a sanctioning limit, under which it can operate within specific guidelines. Within its discretionary limit, a credit committee can approve new credit, increase, reduce or otherwise amend the terms and conditions of existing facilities and simply renew existing facilities without altering the terms and conditions of sanction. A credit committee has the onus to make sure that the facility carries acceptable credit risk and meets credit rating requirements. Lending is not based on the existence of collateral but on the customer's perceived ability to repay the exposure from the primary repayment source. At the same time, the existence of security acts as a fall back option available in case of need. The Bank makes sure that the security held is perfected. Facilities are generally adequately secured either by cash, financial assets, property and/or guarantees and generally reviewed periodically. In a facility review, the Bank makes an analysis of a number of factors such as: the customer profile, the credit quality, non-financial considerations, adherence to internal policies and procedures and the present and future profitability of the relationship.



3. Financial risk management (continued)

3.2 Credit risk (continued)

3.2.2 Credit risk management (continued)

The Bank manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and for industry concentrations, and by monitoring exposures in relation to such limits.

During 2015, the Bank had in place three credit policies relating to personal credit, business credit and credit risk mitigation, which further enhanced the sound internal control mechanism.

The Bank rigorously applies a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular revisions to collateral.

In addition, exposures which are still technically performing but exhibit early signs of deterioration (i.e. past due below 90 days and/or other early warning signals), are separately analysed on a monthly basis by the Risk Management Unit within the Internal Control Department in liaison with the business units. This results in prompt revision of individual risk rating, more up-to-date expected loss quantification (provisioning process) and further instigates early corrective action (because the financial assets transit to Doubtful status).

Notes to Financial Statements
For the year ended 31 December 2015

3. Financial risk management (continued)

3.2 Credit risk (continued)

3.2.3 Maximum exposure to credit risk

An 'exposure' is defined as the amount at risk arising from the Bank's assets and off-balance sheet items. The Bank's maximum credit risk with respect to on- and off-balance sheet items can be classified into the following categories:

- Financial assets recognised on-balance sheet comprising principally balances with Central Bank of Malta, derivative financial instruments, financial investments and loans and advances to banks and customers. The maximum exposure to credit risk of these financial assets equals their carrying amounts.
- Documentary credits and guarantee obligations incurred on behalf of third parties. The latter carry the same credit risk as loans, whilst documentary credits are collateralised by the underlying shipments of goods to which they relate, and therefore carry less risk than a loan to a customer. The maximum exposure to credit risk is the full amount that the Bank would have to pay as disclosed in Note 24 if the guarantees are called upon or if documentary credits are exercised.
- Loan commitments and other credit related commitments that are irrevocable over the life of the respective facilities. The maximum exposure to credit risk is the full amount of the committed facilities as disclosed in Note 24. However, the likely amount of loss is less than the total unused commitments as most commitments to extend credit are contingent upon customers maintaining specific credit standards. These exposures are monitored in the same manner in respect of loans and advances.

The following table analyses the Bank's credit risk exposures relating to on-balance sheet assets by IAS 39 categorisation and off-balance sheet instruments, reflecting the maximum exposure to credit risk before collateral held or other credit enhancements.

	2015	2014
	€000	€000
Credit risk exposures relating to on-balance sheet assets:		
<i>Loans and receivables</i>		
Balances with Central Bank of Malta	78,372	26,087
Cheques in course of collection	737	2,097
Loans and advances to banks	50,185	166,745
Loans and advances to customers	360,254	378,154
Accrued income	1,119	1,514
<i>Financial investments held for trading</i>	-	21,464
<i>Financial investments available-for-sale</i>	5,291	2,254
<i>Derivative financial instruments</i>	23	899
	495,981	599,214
Credit risk exposures relating to off-balance sheet instruments:		
Contingent liabilities	10,842	11,536
Undrawn commitments to lend	60,526	59,594

The exposures set out above are based on carrying amounts as reported in the statement of financial position.

Notes to Financial Statements
For the year ended 31 December 2015



3. Financial risk management (continued)

3.2 Credit risk (continued)

3.2.4 Credit concentration risk

Within the Bank, concentration risk of losses results from inadequate diversification of the credit exposures. This risk is managed by actively measuring, reporting and monitoring on a regular and ongoing basis risk concentration levels against reasonable thresholds for industry sectors, counterparties, products, and collateral types.

Credit concentration risk by industry sector

The Bank's financial investments are composed of government debt securities and shares in Visa Inc. as shown in the following table:

	2015	2014
	€000	€000
Government debt securities	2,830	23,718
Shares in Visa Inc.	2,461	-
Financial investments	5,291	23,718

An industry sector analysis of the Bank's loans and advances to customers before deducting impairment allowances (Gross loans and advances to customers) is shown in the following table:

	2015	2014
	€000	€000
Manufacturing	7,467	6,359
Financial services	16,553	22,335
Households and individuals	248,404	246,082
Construction	15,287	18,855
Wholesale and retail	33,667	35,389
Other sectors	46,128	55,021
Gross loans and advances to customers	367,506	384,041

Credit concentration risk for counterparties

In terms of Part Four of the CRR 'Large Exposures', the total amount of exposures which exceeded 10% of eligible capital represented 12.4% of the total loan portfolio as at end of 2015 (2014: 18.1%). These exposures are strictly monitored by management and every reasonable step is taken to reduce this concentration and spread risk over a wider customer base with further growth in the loan portfolio.

The maximum on-balance sheet credit exposure to any client, group of connected clients or counterparty as at 31 December 2015 amounted to €5,385,000 (2014: €5,655,000) before taking account of collateral or other credit enhancements. Within its daily operations, the Bank transacts with counterparty banks and other financial institutions.

Notes to Financial Statements
For the year ended 31 December 2015

3. Financial risk management (continued)

3.2 Credit risk (continued)

3.2.4 Credit concentration risk (continued)

By conducting these transactions, the Bank is running the risk of losing funds due to the possible delays in the repayment of existing and future obligations by counterparty banks. To mitigate this risk, the Bank places short-term funds solely with pre-approved counterparties subject to pre-established limits determined on the basis of the respective institution's credit rating as well as with its parent. The positions are checked against the limits on a daily basis and in real time.

Credit concentration risk by geographical region

The Bank also monitors credit concentration risk by geographical region. This concentration is not considered material given that the majority of the Bank's exposures are in Malta in view of the Bank's operations being conducted in Malta. Moreover, the Bank also holds balances with correspondent banks in foreign jurisdictions.

3.2.5 Information on credit quality of balances with banks and debt securities

The Bank holds debt securities that are issued by local government having a BBB+ and BB rating respectively, based on Standard & Poor's (S&P) ratings. The debt securities held by the Bank are listed on the Malta Stock Exchange, a recognised investment exchange in Malta.

During the year, the Bank disposed of securities issued by the Portuguese government and reflected an equity instrument in VISA Europe. Through its daily operations, the Bank also transacts with various counterparty banks, with which the Bank places short-term funds and enters into foreign exchange derivative transactions subject to limits in place and subject to the respective institution's credit rating being within controlled parameters. In this light, the Bank runs the risk of losing funds due to possible delays in the repayment to the Bank of the existing and future obligations of the counterparty banks. Management monitors its exposures with counterparty banks on a daily basis and intervenes, if deemed necessary, to adjust exposures within the controlled parameters. At 31 December 2015, loans and advances to banks mainly consisted of money market placements maturing within one month.

The counterparty banks with which funds are held are credit rated BB or above based on S&P ratings. At the end of the reporting period, none of the financial assets mentioned above were past due or impaired. The following tables analyse the credit quality of the financial assets mentioned above as determined by credit ratings applicable to issuers or counterparties based on S&P's ratings:

	AAA to A-	BBB+ to BB	Unrated	Total
	€000	€000	€000	€000
At 31 December 2015				
<i>Loans and receivables</i>				
Balances with the Central Bank of Malta	78,372	-	-	78,372
Loans and advances to banks	20,405	29,775	5	50,185
<i>Available-for-sale financial assets</i>				
	5,291	-	-	5,291
	104,068	29,775	5	133,848

Notes to Financial Statements
For the year ended 31 December 2015



3. Financial risk management (continued)

3.2 Credit risk (continued)

3.2.5 Information on credit quality of balances with banks and debt securities (continued)

	AAA to A-	BBB+ to BB	Unrated	Total
	€000	€000	€000	€000
At 31 December 2014				
<i>Loans and receivables</i>				
Balances with the Central Bank of Malta	26,087	-	-	26,087
Loans and advances to banks	553	166,187	5	166,745
<i>Available-for-sale financial assets</i>				
	2,254	-	-	2,254
<i>Held for trading financial assets</i>				
	12,125	9,339	-	21,464
	41,019	175,526	5	216,550

After the end of the reporting period there were no significant changes in credit ratings reflected in the tables above which have a material impact on the credit quality of the financial assets.

3.2.6 Information on credit quality of loans and advances to customers

The credit quality of loans and advances is managed by the Bank using internal credit ratings. The Bank applies a 12-step internal rating system ('IRS') which encapsulates the risk profile associated with each and every lending relationship on its banking book.

The IRS comprises 12 credit rating levels which constitute a continuum of progressively increasing risk profiles ranging from A1 (best rating, least risky) to E (loss, worst case representing full risk materialisation). The rating of every lending relationship (including groups of connected customers), is an important tool that helps management to identify both non-performing exposures and the better-performing borrowing customers.

The Bank's IRS is split as follows:

- Performing
 - High Grade (Internal rating of A1 to A3)
 - Standard (Internal rating of B)
 - Substandard (Internal rating of C)
- Non-performing
 - Doubtful (Internal rating of D1 to D6 and E)

High Grade

A customer having an internal risk rating between A1 to A3 generally would not have any interest and/or capital payments overdue by more than 30 days. Also, no recent history of default would exist. Moreover, the Bank does not foresee any losses or non-performance of these customers.

Standard

Loans and advances classified within this category, and thus having an internal risk rating of B, relate to those customers for which the Bank starts to pay more attention to, generally having interest and/or capital payments past due by more than 30 days but less than 60 days.

Notes to Financial Statements
For the year ended 31 December 2015

3. Financial risk management (continued)

3.2 Credit risk (continued)

3.2.6 Information on credit quality of loans and advances to customers (continued)

Substandard

Customers having an internal risk rating of C, thus classified within the 'Substandard' category, generally have interest and/or capital payments overdue by more than 60 days but not overdue by more than 90 days. In this light, such loans and advances would have inherent weaknesses that could risk the repayment of the debt, and thus a greater probability of losses for the Bank.

Doubtful

Loans and advances with this category relate to those facilities which the Bank considers the repayment of the principal as improbable as a result of deteriorating conditions. These loans and advances are generally past due by more than 90 days and those customers which are deemed by the Bank as specifically impaired, in accordance with the requirements of IFRSs as adopted by the EU.

Impaired loans and advances

The Bank reviews all credit exposures on a case by case basis and also on a collective basis, if the exposure is not deemed individually impaired, in order to consider the likelihood that the Bank may be exposed to losses on loans and advances and with a view to taking early recovery action.

Impaired loans and advances are advances which the Bank has determined as probable that it will be unable to collect all principal and interest due according to the contractual terms of the loans and advances agreement(s).

The individually impaired loans and advances mainly relate to a number of independent customers which are not meeting repayment obligations or deemed by the Bank as unlikely to pay their obligations to the Bank without recourse by the Bank to realising the collateral.

Each year, the Bank estimates an impairment allowance for any possible incurred losses within its lending portfolio.

The Bank performs an assessment for the calculation of specific provisions when a review of credit facilities reveals that the creditworthiness of a borrower has undergone a significant deterioration and that, as a result, recovery of a credit facility is in serious doubt. The Bank makes an assessment for specific impairment for those credit facilities being overdue by 90 days and provides if there is a shortfall. The shortfall or surplus is calculated as the difference between the individual loans' carrying amounts and the present value of future cashflows, discounted at the loans' original effective interest rate. The calculation of the present value of estimated future cashflows takes into account the estimated time value to liquidation of the collateral, the costs involved in obtaining and selling the collateral, as well as an appropriate haircut on the market value of the collateral.

Notes to Financial Statements
For the year ended 31 December 2015



3. Financial risk management (continued)

3.2 Credit risk (continued)

3.2.6 Information on credit quality of loans and advances to customers (continued)

The Bank assumes that all its exposures are individually significant. Accordingly, allowances are assessed collectively for individually significant loans and advances where there is not yet objective evidence of individual impairment.

Financial guarantees and letters of credit are assessed and provision is made in a similar manner as for loans.

The following table analyses the impaired loans and advances, gross of specific impairment allowances, by industry sector:

	2015	2014
	€000	€000
Manufacturing	382	68
Households and individuals	6,149	4,891
Construction	120	114
Wholesale and retail	6,357	3,000
Other	2,144	3,314
	15,152	11,387

Past due but not impaired

Past due but not impaired loans include loans and advances where contractual interest or principal payments are past due, but the Bank believes that impairment is not appropriate based on the level of collateral available and/or the stage of collection of amounts owed to the Bank. Related credit losses, which may arise, are partly covered through collective impairment allowances.

Forbearance measures and forborne loans

The contractual terms of a loan may be revised for a number of reasons, including changes in market conditions, customer retention and other factors that are not related to the credit quality of a customer. Forbearance measures comprise concessions made on the contractual terms of a loan in response to a customer's financial difficulties. The Bank categorises loans on which concessions have been granted under conditions of financial difficulties as 'forborne loans' when their contractual payment terms have been revised, because of significant concerns about the customer's ability to meet contractual payments when due.

When considering whether there is significant concern regarding a customer's ability to meet contractual loan repayments when due, the Bank assesses the customer's delinquency status, account behaviour, repayment history, current financial situation and continued ability to repay.

Notes to Financial Statements
For the year ended 31 December 2015

3. Financial risk management (continued)

3.2 Credit risk (continued)

3.2.6 Information on credit quality of loans and advances to customers (continued)

If the customer is not meeting contractual repayments or it is evident that the client will be unable to do so without the renegotiation, there will be a significant concern regarding the ability to meet contractual payments. Indicators of significant concerns regarding a borrower's ability to pay include:

- the customer is currently in default on any of its debt;
- the customer has declared or is in the process of declaring bankruptcy or entering into a similar process;
- there is significant doubt as to whether the customer will continue to be a going concern; and
- the Bank forecasts that the customer's entity-specific cash flows will be insufficient to service the debt (both interest and principal) in accordance with the contractual terms of the existing agreement through maturity.

A range of forbearance measures are employed by the Bank in order to improve the management of customer relationships, maximise collection opportunities and, if possible, avoid default or call-in of facilities. They include extended payment terms, a reduction in principal repayments, the deferral of call-in of facilities and other forms of loan modifications. The Bank's policies and practices in this area allow the Bank to provide a customer with terms and conditions that are more favourable than those provided initially. Loan forbearance is only granted in situations where the customer has shown a willingness to repay the loan and is expected to be able to meet the revised obligations. The Bank's credit risk management policies set out restrictions on the number and frequency of forbearance measures and the minimum period an account must have been opened before any forbearance measure can be considered.

For the purposes of determining whether changes to a customer's agreement should be treated as forbearance, the following types of modification are regarded as concessionary:

- reduction of the stated interest rate for the remaining original life of the debt;
- extension of the maturity date or dates at a stated interest rate lower than the current market rate for new debt with similar risk;
- reduction of the face amount or maturity amount of the debt; and
- reduction of accrued interest.

Term extension is the most common type of modification granted by the Bank. Other types of concession, namely transfer to an interest-only arrangement or interest rate changes, occur less often.

In assessing whether forbearance is a sustainable strategy, the customer's entire exposures are reviewed and the customer's ability to meet the terms in relation to the revised obligations and other unchanged credit facilities is considered. In all cases, forbearance is only granted when the customer is expected to be able to meet the revised terms. When considering acceptable modified terms the Bank considers the ability of the customer to be able to service the revised interest payments as a necessity. When principal payment modifications are utilised, the Bank requires the customer to be able to comply with the revised terms as a necessary pre-condition for the restructuring to proceed.

There were no material changes to the Bank's policies and procedures regarding forbearance or forborne loans in 2015.

Notes to Financial Statements
For the year ended 31 December 2015



3. Financial risk management (continued)

3.2 Credit risk (continued)

3.2.6 Information on credit quality of loans and advances to customers (continued)

The movement in the carrying amount of forborne loans and advances, before specific impairment allowances, is analysed below:

	Forborne exposures	Forborne exposures
	2015	2014
	€000	€000
At 1 January	16,954	12,532
Loans to which forbearance measures have been extended during the year	9,366	6,810
Repayments	(1,227)	(2,371)
Retired from forborne	(2,507)	(17)
At 31 December	22,586	16,954
Forborne loans, before specific impairment allowances, are analysed by industry sector as follows:		
	2015	2014
	€000	€000
Manufacturing	36	22
Financial services	2,990	794
Household and individuals	5,704	5,355
Construction	2,263	2,495
Wholesale and retail	6,051	4,761
Other sectors	5,542	3,527
	22,586	16,954

As at the end of 31 December 2015 and 2014, forborne loans mainly comprise exposures to customers based in Malta.

Write-off policy

The Bank writes off loan or advance balances (and any related allowances for impairment losses) when it determines that these are uncollectible. This decision is reached after considering information such as the occurrence of significant changes in the borrower's financial position such that the borrower can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure.

Notes to Financial Statements
For the year ended 31 December 2015

3. Financial risk management (continued)

3.2 Credit risk (continued)

3.2.6 Information on credit quality of loans and advances to customers (continued)

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

	Non-forborne exposures	Forborne exposures	Total	Non-forborne exposures	Forborne exposures	Total
	2015	2015	2015	2014	2014	2014
	€000	€000	€000	€000	€000	€000
Performing						
<i>Neither past due nor impaired</i>						
High Grade	310,913	4,219	315,132	327,504	4,816	332,320
Standard	7,293	530	7,823	11,593	1,909	13,502
Substandard	1,459	801	2,260	1,660	9	1,669
	319,665	5,550	325,215	340,757	6,734	347,491
<i>Past due loans by less than 90 days but not impaired</i>						
Past due by less than 30 days	6,550	632	7,182	7,809	246	8,055
Past due by less than 60 days	2,430	-	2,430	1,212	13	1,225
Past due by less than 90 days	305	13	318	139	38	177
	9,285	645	9,930	9,160	297	9,457
Non-performing						
<i>Past due loans by more than 90 days</i>						
Specifically impaired, gross of specific impairment allowances	9,307	5,845	15,152	9,489	1,898	11,387
Past due by more 90 days but not specifically impaired	4,440	4,612	9,052	3,671	8,025	11,696
	13,747	10,457	24,204	13,160	9,923	23,083
<i>Other non-performing loans, but not specifically impaired</i>	2,223	5,934	8,157	4,010	-	4,010
Gross loans and advances	344,920	22,586	367,506	367,087	16,954	384,041
Specific impairment allowances applied to specifically impaired exposures reflected above	(3,163)	(1,489)	(4,652)	(2,943)	(640)	(3,583)
Collective impairment allowances	(2,435)	(165)	(2,600)	(2,133)	(171)	(2,304)
Net loans and advances	339,322	20,932	360,254	362,011	16,143	378,154

Interest income recognised during the financial year ended 31 December 2015 in respect of forborne exposures amounted to €1,316,639 (2014: €905,785).

Notes to Financial Statements
For the year ended 31 December 2015



3. Financial risk management (continued)

3.2 Credit risk (continued)

3.2.6 Information on credit quality of loans and advances to customers (continued)

The following tables represent a reconciliation of changes in the specific and collective impairment allowances of the Bank.

Specific impairment allowance	Non-forborne €000	Forborne €000	Total €000
At 1 January 2014	1,838	395	2,233
Additions	1,581	384	1,965
Reversals	(476)	(139)	(615)
At 31 December 2014	2,943	640	3,583
At 1 January 2015	2,943	640	3,583
Additions	1,263	859	2,122
Reversals	(698)	(355)	(1,053)
At 31 December 2015	3,508	1,144	4,652
Collective impairment allowance	Non-forborne €000	Forborne €000	Total €000
At 1 January 2014	1,784	50	1,834
Additions	804	181	985
Reversals	(455)	(60)	(515)
At 31 December 2014	2,133	171	2,304
At 1 January 2015	2,133	171	2,304
Additions	1,670	72	1,742
Reversals	(1,283)	(163)	(1,446)
At 31 December 2015	2,520	80	2,600

Write-offs during the period under review were €4,000 (2014: nil).

Notes to Financial Statements
For the year ended 31 December 2015

3. Financial risk management (continued)

3.2 Credit risk (continued)

3.2.7 Collateral

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. The Bank's Board establishes a policy regarding the acceptability of types of collateral and valuation parameters.

The main types of collateral obtained are as follows:

- For corporate lending, charges over real estate properties, cash or securities;
- For retail lending (including home loans and consumer credit), mortgages over residential properties, cash or securities; and
- For exposures arising from reverse repurchase transactions, a pledge on liquid sovereign debt securities.

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

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

With respect to reverse repurchase transactions with counterparty banks amounting to €28,100,000 (2014: €165,000,000), the Bank held a pledge on sovereign debt securities with a market value of €35,125,000 at 31 December 2015 (2014: €180,081,000).

The extendible value of the collateral is the net fair value of a pledged asset for lending purposes, after applying a precautionary margin to its market value.

Notes to Financial Statements
For the year ended 31 December 2015



3. Financial risk management (continued)

3.2 Credit risk (continued)

3.2.7 Collateral (continued)

The following is an analysis of the value of the extendible collateral and other credit enhancements held by the Bank against exposures of loans and advances to customers. The amounts disclosed in the table represent the lower of the value of the extendible collateral and the carrying amount of the respective secured loans.

	Non-forborne exposures 2015 €000	Forborne exposures 2015 €000	Non-forborne exposures 2014 €000	Forborne exposures 2014 €000
Performing				
<i>Neither past due nor impaired</i>				
Total maximum exposure	319,665	5,549	340,757	6,734
Extendible value of collateral:				
Secured by cash	(14,161)	(196)	(11,360)	(75)
Residential immovable property	(214,172)	(1,618)	(207,753)	(1,922)
Commercial immovable property	(46,926)	(2,156)	(72,595)	(2,492)
Other collateral	(117)	(1,053)	(1,134)	(1,262)
Total extendible value of collateral	(275,376)	(5,023)	(292,842)	(5,751)
Residual exposure	44,289	526	47,915	983
<i>Past due by less than 90 days but not impaired</i>				
Total maximum exposure	9,285	645	9,160	297
Extendible value of collateral:				
Secured by cash	(355)	(15)	(286)	(11)
Residential immovable property	(3,307)	-	(5,744)	-
Commercial immovable property	(1,222)	(508)	(2,469)	(58)
Other collateral	(6)	-	(27)	-
Total extendible value of collateral	(4,890)	(523)	(8,526)	(69)
Residual exposure	4,395	122	634	228
Non-performing				
Total maximum exposure	15,970	16,392	17,170	9,923
Extendible value of collateral:				
Secured by cash	(184)	(8)	(49)	(6)
Residential immovable property	(11,729)	(5,804)	(6,108)	(2,709)
Commercial immovable property	(1,340)	(8,599)	(3,001)	(6,187)
Other collateral	-	-	(9)	(5)
Total extendible value of collateral	(13,253)	(14,411)	(9,167)	(8,902)
Residual exposure	2,717	1,981	8,003	1,021

Notes to Financial Statements
For the year ended 31 December 2015

3. Financial risk management (continued)

3.3 Market risk

Market risk is the risk that the fair value of future cash flows of financial instruments will fluctuate due to changes in market variables such as prices and interest rates, the correlations between them and their levels of volatility.

Market risk for the Bank comprises two types of risks, namely:

- Interest rate risk, which results from fluctuations in the future cash flows of financial assets and liabilities and fair value of financial instruments due to interest rate repricing gaps, changes in the yield curves and volatilities in the market interest rates; and
- Foreign exchange risk, which results from exposure to changes in prices, spot or forwards, and volatility of currency rates.

3.3.1 Management of market risk

The primary objective of market risk management is to ensure that the risk-reward relationship entrenched in managing the Bank's resources is optimised in a manner that does not expose the Bank to losses over and above its risk appetite. To achieve this objective, the Bank establishes limits and controls positions rigorously. The Bank carries out accurate and regular assessments of how the outcome of multiple risk metrics impacts results.

The Bank's market risk appetite is defined by the Board of Directors and implemented by the Treasury Unit, which coordinates the setup of risk limits and controls the Bank's market exposures in the financial markets. The exposures and limits are reviewed on a regular basis by senior management in the Executive Committee and in the ALCO (Asset & Liability Committee).

3.3.2 Interest rate risk

Interest rate risk arises in the Bank's operations due to interest rate fluctuations resulting from interest-earning assets and interest-bearing liabilities, which mature or are repriced at different times or in different amounts. Floating rate assets and liabilities are also exposed to basis risk, which is the difference in repricing characteristics of the various floating rate indices. Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. The Bank's operations are subject to the risk of interest rate fluctuations to the extent that interest-earning assets and interest-bearing liabilities mature or reprice within different time periods or on different terms. The Bank adopts a policy to match the currency and maturity of individual transactions through treasury operations to minimise the risk of adverse fluctuations in interest rates affecting financial assets and financial liabilities. The Bank accepts deposits from customers at both fixed and floating rates and for varying terms. This poses a risk to the Bank, which is managed by monitoring on a continuous basis the level of mismatch of interest rate repricing taking cognisance of the terms of the Bank's principal assets, loans and advances to customers, that are repriceable at the Bank's discretion.

The Bank, through its Treasury function, also invests in highly liquid quality assets, namely government debt securities, for the purposes of mitigating exposures to fluctuations in interest rates. The Bank is accordingly in a position to manage the interest rate terms of its financial assets and simultaneously to effect changes to interest terms of liabilities reflecting the Bank's strategy together with market developments. The Bank's Assets and Liabilities Committee (ALCO) is primarily responsible for oversight over the Bank's interest rate risk management process and monitors actively the interest rate risk measures utilised by the Bank. Credit facilities and commitments to lend funds to customers are granted at prevailing market interest rates at drawdown date.

Notes to Financial Statements
For the year ended 31 December 2015



3. Financial risk management (continued)

3.3 Market risk (continued)

3.3.2 Interest rate risk (continued)

The following tables summarise the Bank's exposures to interest rate risks. These analyse the Bank's financial instruments, which were interest-bearing at their carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

	Carrying amount	Effective interest Rate	Less than 3 months	Between 3 months and 1 year	Between 1 year and 5 years	More than 5 years	Non-interest bearing
As at 31 December 2015	€000	%	€000	€ 000	€000	€000	€000
Financial assets							
Balances with Central Bank of Malta and cash	81,650	(0.03)%	78,372	-	-	-	3,278
Financial investments available-for-sale	5,291	3.75%	-	-	-	2,830	2,461
Loans and advances to banks	50,185	0.01%	50,180	-	-	-	5
Loans and advances to customers	360,254	4.82%	359,993	261	-	-	-
Total financial assets	497,380		488,545	261	-	2,830	5,744
Financial liabilities							
Amounts owed to banks	3,577	0.10%	3,577	-	-	-	-
Amounts owed to customers	474,294	1.67%	249,489	96,594	128,211	-	-
Debt securities in issue	5,000	10.25%	-	-	5,000	-	-
Total financial liabilities	482,871		253,066	96,594	133,211	-	-
Interest repricing gap			235,479	(96,333)	(133,211)	2,830	5,744
Cumulative gap			235,479	139,146	5,935	8,765	

Notes to Financial Statements
For the year ended 31 December 2015

3. Financial risk management (continued)

3.3 Market risk (continued)

3.3.2 Interest rate risk (continued)

	Carrying amount	Effective interest Rate	Less than 3 months	Between 3 months and 1 year	Between 1 year and 5 years	More than 5 years	Non- interest bearing
As at 31 December 2014	€000	%	€000	€000	€000	€000	€000
Financial assets							
Balances with Central Bank of Malta and cash	29,008	(0.03)%	26,087	-	-	-	2,921
Financial investments held for trading	21,464	4.82%	-	-	1,093	20,371	-
Financial investments available-for-sale	2,254	5.32%	-	-	-	2,254	-
Loans and advances to banks	166,745	2.90%	166,740	-	-	-	5
Loans and advances to customers	378,154	4.90%	371,513	3,470	2,722	12	437
Total financial assets	597,625		564,340	3,470	3,815	22,637	3,363
Financial liabilities							
Amounts owed to banks	214	0.75%	214	-	-	-	-
Amounts owed to customers	579,203	2.36%	293,117	151,744	134,342	-	-
Debt securities in issue	5,000	10.25%	-	-	5,000	-	-
Total financial liabilities	584,417		293,331	151,744	139,342	-	-
Interest repricing gap			271,009	(148,274)	(135,527)	22,637	3,363
Cumulative gap			271,009	122,735	(12,792)	9,845	

Notes to Financial Statements
For the year ended 31 December 2015



3. Financial risk management (continued)

3.3 Market risk (continued)

3.3.2 Interest rate risk (continued)

Interest rate profile

The table below analyses interest-earning assets and interest-bearing liabilities between those that have a fixed rate and a variable rate.

	2015		2014	
	Fixed	Variable	Fixed	Variable
	€000	€000	€000	€000
Interest-earning assets				
Financial investments held for trading	-	-	21,464	-
Financial investments available-for-sale	2,830	-	2,254	-
Reserve deposit with Central Bank of Malta	-	78,372	-	26,087
Loans and advances to banks	46,970	3,210	165,000	1,745
Loans and advances to customers	648	359,606	346	377,371
	50,448	441,188	189,064	405,203
Interest-bearing liabilities				
Amounts owed to banks	2,746	831	149	65
Amounts owed to customers	268,373	205,921	391,086	188,117
Debt securities in issue	5,000	-	5,000	-
	276,119	206,752	396,235	188,182

Fair value sensitivity for fixed rate instruments

Financial instruments issued at fixed rates potentially expose the Bank to fair value interest rate risk. Loans and advances to customers and to banks, amounts owed to customers and to banks and debt securities in issue are measured at amortised cost and are not expected to be disposed of, and are therefore not subject to fair value interest rate risk.

The Bank's instruments exposing the Bank to fair value interest rate risk consist of held for trading and available-for-sale quoted debt securities (also refer to Notes 7 and 8) since these are fair valued with fair value changes recognised in other comprehensive income. Considering the nature and carrying amount of the investments, a sensitivity analysis disclosing how equity would have been affected by changes in interest rates that were reasonably possible at the end of the reporting period is not deemed necessary.

Notes to Financial Statements
For the year ended 31 December 2015

3. Financial risk management (continued)

3.3 Market risk (continued)

3.3.2 Interest rate risk (continued)

Cash flow sensitivity for variable rate instruments

The Bank is exposed to cash flow interest rate risk principally in respect of the financial assets and liabilities which are subject to floating interest rates. Financial assets and liabilities issued at variable rates expose the Bank to cash flow interest rate risk.

Taking cognisance of the nature of the Bank's financial assets and liabilities as described above, under the requirements of IFRS 7, a sensitivity analysis in respect of interest rate changes is required in relation to the Bank's net floating rate liabilities.

At the end of the reporting period, if interest rates had increased by 100 basis points (assuming a parallel shift of 100 basis points in yields) with all other variables held constant, in particular foreign currency rates, the post-tax result for the year would increase by €1,477,000 (2014: €1,372,000). Likewise, if interest rates had decreased by 100 basis points (assuming a parallel shift of 100 basis points in yields) with all other variables held constant, in particular foreign currency rates, the post-tax result for the year would decrease by €1,477,000 (2014: €1,372,000).

3.3.3 Currency risk

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

The Bank manages currency risk by ensuring that foreign currency liabilities are utilised to fund assets denominated in the same foreign currency thereby matching asset and liability positions as is practicable. This mechanism is reflected in the figures reported in the tables on the following page which present this matching process.

The Directors have set limits on the level of exposure by currency and in total, which are monitored daily, and hedging strategies are used to ensure that positions are maintained within established limits.

The Bank also enters into forward exchange contracts with customers in the normal course of its business. It is the Bank's policy to cover the exposure arising from forward contracts.

Notes to Financial Statements
For the year ended 31 December 2015



3. Financial risk management (continued)

3.3 Market risk (continued)

3.3.3 Currency risk (continued)

The table below summaries the Bank's exposures to foreign currency risk at 31 December. Included in the tables are the Bank's financial instruments at carrying amounts, categorised by currency.

	Total	EUR	GBP	USD	Other
	€000	€000	€000	€000	€000
As at 31 December 2015					
Financial assets					
Balances with Central Bank of Malta and cash	81,650	81,485	83	58	24
Financial investments available-for-sale	5,291	5,291	-	-	-
Loans and advances to banks	50,185	28,007	10,840	9,877	1,461
Loans and advances to customers	360,254	357,979	-	2,275	-
Other assets	7,038	5,303	2	1,683	50
Total financial assets	504,418	478,065	10,925	13,893	1,535
Financial liabilities					
Amounts owed to banks	3,577	2,090	-	1,486	1
Amounts owed to customers	474,294	439,558	9,946	23,307	1,483
Subordinated debt	5,000	5,000	-	-	-
Other liabilities	8,226	7,720	443	60	3
Total financial liabilities	491,097	454,368	10,389	24,853	1,487
Net on-balance sheet position			536	(10,960)	48
Off-balance sheet net notional position			532	10,821	-
Net currency exposure			4	(139)	48

Notes to Financial Statements
For the year ended 31 December 2015

3. Financial risk management (continued)

3.3 Market risk (continued)

3.3.3 Currency risk (continued)

	Total	EUR	GBP	USD	Other
	€000	€000	€000	€000	€000
As at 31 December 2014					
Financial assets					
Balances with Central Bank of Malta and cash	29,008	28,761	150	57	40
Financial investments held for trading	21,464	21,464	-	-	-
Financial investments available-for-sale	2,254	2,254	-	-	-
Loans and advances to banks	166,745	165,380	665	98	602
Loans and advances to customers	378,154	376,310	-	1,844	-
Other assets	6,274	6,217	24	31	2
Total financial assets	603,899	600,386	839	2,030	644
Financial liabilities					
Amounts owed to banks	214	65	-	-	149
Amounts owed to customers	579,203	510,638	8,774	57,804	1,987
Subordinated debt	5,000	5,000	-	-	-
Other liabilities	11,006	10,448	78	454	26
Total financial liabilities	595,423	526,151	8,852	58,258	2,162
Net on-balance sheet position			(8,013)	(56,228)	(1,518)
Off-balance sheet net notional position			8,323	56,887	1,618
Net currency exposure			310	659	100

The notional amounts of the derivative contracts at the end of the reporting periods substantially match the carrying amount of the net foreign currency exposure. Accordingly, a sensitivity analysis for foreign exchange risk disclosing how profit or loss and equity would have been affected by changes in foreign exchange rates were reasonably possible at the end of the reporting periods is not deemed necessary since the directors are of the opinion that the net impact (after hedging transactions) would be insignificant.

Notes to Financial Statements
For the year ended 31 December 2015



3. Financial risk management (continued)

3.3 Market risk (continued)

3.3.3 Currency risk (continued)

Under the scenario that the euro appreciates by 20% against all currencies, the effect would be a loss of €226,000 (2014: a loss of €214,000) in the carrying amount of financial instruments with the adverse impact recognised in profit or loss. Should the euro depreciate against all currencies by 20%, the effect would be a gain of €226,000 (2014: a gain of €214,000) in the carrying amount of financial instruments and the favourable impact would be recognised in profit or loss.

3.4 Liquidity Risk

Liquidity risk is defined as the risk of losses due to:

- the Bank's funding costs increasing disproportionately;
- lack of funding preventing the Bank from establishing new business; and
- lack of funding which will ultimately prevent the Bank from meeting its obligations.

Liquidity risk may result from the Bank's inability to meet its obligations when they fall due as a result of customer deposits being withdrawn, cash requirements from contractual commitments, or other cash outflows, as well as the inability to sell a financial asset quickly at close to its fair value. The Bank is exposed to daily calls on its available cash resources from overnight deposits, current and call deposits, maturing term deposits, loan drawdowns and guarantees. Such risk is inherent in all banking operations, which is generally affected by a range of institution-specific and market-wide events including, but not limited to, credit events, systemic shocks and natural disasters.

The objective of the Bank's liquidity and funding management is to ensure that all foreseeable funding commitments and deposit withdrawals can be met when due. It is the Bank's objective to maintain a diversified and stable funding base with the objective of enabling the Bank to respond quickly and smoothly to unforeseen liquidity requirements.

The Bank manages this risk by ensuring that its assets and liabilities are matched in terms of maturities as much as is practicable. However, the Bank manages its net interest spread by advancing credit to customers with longer terms to maturity than the liabilities funding such loans. To mitigate exposures arising in this respect, the Bank holds significant liquid assets in the form of money market placements and other short-term instruments for managing liquidity risk to support payment obligations and contingent funding in a stressed market environment.

The Bank's advances-to-deposit ratio of 76.0% (2014: 65.3%) at the end of the period under review reflects the Bank's prudent position in the context of liquidity management. Also, the proportion of liquid assets to short-term liabilities at 31 December 2015 is 54.18% (2014: 72.42%), which is significantly higher than the prudential parameters set by the MFSA.

The Bank's ALC0 focuses on the Bank's management process with respect to market and funding liquidity risks.

Notes to Financial Statements
For the year ended 31 December 2015

3. Financial risk management (continued)

3.4 Liquidity risk (continued)

The Bank's liquidity management process includes:

- management of day-to-day funding, by monitoring future cash flows to ensure that requirements can be met. This includes replenishment of funds as they mature or are borrowed by customers. The starting point for those projections is an analysis of the contractual maturity of the financial liabilities and the expected collection date of the financial assets;
- maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any unforeseen interruption to cash flow;
- monitoring the liquidity ratios of the Bank against internal and regulatory requirements; and
- managing the concentration and profile of debt maturities.

The Bank also monitors the level and type of undrawn lending commitments and the impact of contingent liabilities such as guarantees as part of the liquidity management process previously referred to.

The following table discloses financial assets and liabilities at the end of the reporting period by remaining period to maturity:

At 31 December 2015	Total	Less than 1 year	Over 1 but less than 5 years	Over 5 years	No maturity date
	€000	€000	€000	€000	€000
Financial assets					
Balances with Central Bank of Malta and cash	81,650	-	-	-	81,650
Financial investments available-for-sale	5,291	-	-	2,830	2,461
Loans and advances to banks	50,185	50,185	-	-	-
Loans and advances to customers	360,254	53,143	43,565	263,546	-
Other assets	7,038	1,704	-	-	5,334
Total financial assets	504,418	105,032	43,565	266,376	89,445
Financial liabilities					
Amounts owed to banks	3,577	3,577	-	-	-
Amounts owed to customers	474,294	346,083	128,211	-	-
Debt securities in issue	5,000	-	5,000	-	-
Other liabilities	8,226	169	-	-	8,057
Total financial liabilities	491,097	349,829	133,211	-	8,057
Maturity gap		(244,797)	(89,646)	266,376	
Cumulative gap		(244,797)	(334,443)	(68,067)	

Notes to Financial Statements
For the year ended 31 December 2015



3. Financial risk management (continued)

3.4 Liquidity risk (continued)

At 31 December 2014	Total	Less than 1 year	Over 1 but less than 5 years	Over 5 years	No maturity date
	€000	€000	€000	€000	€000
Financial assets					
Balances with Central Bank of Malta and cash	29,008	-	-	-	29,008
Financial investments held for trading	21,464	-	1,093	20,371	-
Financial investments available-for-sale	2,254	-	-	2,254	-
Loans and advances to banks	166,745	166,745	-	-	-
Loans and advances to customers	378,154	68,184	44,437	265,533	-
Other assets	6,274	3,433	-	-	2,841
Total financial assets	603,899	238,362	45,530	288,158	31,849
Financial liabilities					
Amounts owed to banks	214	214	-	-	-
Amounts owed to customers	579,203	444,897	134,306	-	-
Debt securities in issue	5,000	-	5,000	-	-
Other liabilities	11,006	169	-	-	10,837
Total financial liabilities	595,423	445,280	139,306	-	10,837
Maturity gap		(206,918)	(93,776)	288,158	
Cumulative gap		(206,918)	(300,694)	(12,536)	

Included in Balances with Central Bank of Malta is an amount of €1,404,000 (2014: €1,404,000) which is pledged in favour of the Depositor Compensation Scheme in compliance with the Depositor Scheme Regulations of 2003 as amended by Legal Notices, 109 2010, 159 and 340 of 2012. Moreover, €2,830,000 (2014: €2,254,000) Financial investments available-for-sale have been pledged in favour of the said Depositor Compensation Scheme, no part of Financial investments held for trading has been pledged as at 31 December 2015 (2014: nil).

Notes to Financial Statements
For the year ended 31 December 2015

3. Financial risk management (continued)

3.4 Liquidity risk (continued)

The tables below analyse the Bank's principal non-derivative financial liabilities into relevant maturity groupings based on the remaining period at the end of the reporting period to the contractual maturity date. The amounts disclosed in the tables are the contractual undiscounted cash flows.

	Total	Less than 1 year	Over 1 but less than 5 years	Over 5 years
	€000	€000	€000	€000
At 31 December 2015				
Financial liabilities				
Amounts owed to banks	3,577	3,577	-	-
Amounts owed to customers	474,294	346,083	128,211	-
Total financial liabilities	477,871	349,660	128,211	-
At 31 December 2014				
Financial liabilities				
Amounts owed to banks	214	214	-	-
Amounts owed to customers	584,344	447,592	136,752	-
Total financial liabilities	584,558	447,806	136,752	-

The Bank's currency derivatives are all settled on a gross basis. The following tables analyse the Bank's derivative financial instruments into relevant maturity groupings based on the remaining period at the end of the reporting period to the contractual maturity date. The amounts disclosed in the tables are the contractual undiscounted cash flows.

	Contracted undiscounted cash flows			
	Total	Within one month	Within three months but over one month	Over three months
	€000	€000	€000	€000
At 31 December 2015				
Inflows	14,842	13,877	965	-
Outflows	(15,266)	(14,318)	(948)	-
	(424)	(441)	17	-
At 31 December 2014				
Inflows	82,633	74,731	6,496	1,406
Outflows	(82,574)	(73,947)	(7,112)	(1,515)
	59	784	(616)	(109)

As from 2015, the Bank reinforced the control of liquidity risk by conducting, for the first time, an Internal Liquidity Adequacy Assessment Process (ILAAP) in line with the authoritative methodology.

Notes to Financial Statements
For the year ended 31 December 2015



3. Financial risk management (continued)

3.4 Liquidity risk (continued)

Through the ILAAP, the level of liquidity and funding risks sustained by the institution were methodically analysed using various tools and metrics essentially over three different time horizons: intraday, one month, one year. The final outcome revealed a very tenable and sound liquidity and funding risk profile and the full Report was duly submitted to the Regulator.

3.5 Operational risk

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

The Bank maintains an Operational Risk Management Framework (ORMF). Each department is directly involved in the management of operational risk to the extent that an Operational Risk Manager must be appointed by each respective Unit within the Bank. The Risk Management Unit within the Internal Control Department is responsible for the coordination of all operational risk activities within the Bank as well as their control and oversight. In terms of ORMF, every effort is made to ensure that operational risks are curtailed, minimised and/or mitigated to inhibit, or at least significantly reduce, the incidence of operational risks materialising into operational losses. The Framework comprises:

- Risk identification.* Relevant operational risks are identified through various execution tools. The latter include detailed questionnaires, ongoing reporting of operational risk events, near misses and losses. At internal-entity level, each entity's operational risk manager must gather, filter and report the data to the Risk Management Unit in a standardised format.
- Operational risk reporting threshold.* All operational risks are reported i.e. the reporting threshold is officially €0. Aggregation is carried out centrally by the Risk Management Unit to ensure that low-value, high frequency operational risk events are identified and properly managed.
- Operational loss database.* The aforementioned reporting provides the basis for the compilation of an operational loss database. Regular updating of the database with newly emerging internal losses and/or near-misses keeps it up-to-date and enriches it over time.
- Operational risk measurement.* Operational risk events are quantified on two dimensions in terms of monetary value, which denotes "severity", and quantity, signifying "frequency of occurrence", the product of these two dimensions yields the risk level which is then reported to top management, with mitigating action proposed and prioritised by risk level magnitude.
- Operational risk assessment.* The operational risk events are evaluated. Interactions with the internal stakeholders involved are held. Proposals are formulated for action intended to eliminate, reduce, and/or mitigate the impact and likelihood of recurrence. Decisions are then taken at the appropriate level.
- Operational risk management tools.* Operational risk events are batched and placed in a heat map. Any operational risk event batches with medium to high frequency, severity or both are identified and focused upon in order to practise active and ongoing risk mitigation. The toolkit includes use of Key Performance Indicator (KPI) and Key Risk Indicator (KRI) metrics.
- Monitoring and controlling.* This is an ongoing process involving, inter alia, the reviewing of KRIs, loss and near-miss levels, and self-assessment procedures in place.
- Reporting.* This involves the disclosure of losses and indicators of operational risks. A specific software application is used to ensure a methodical approach which generates consistent and standardised reporting.

Notes to Financial Statements
For the year ended 31 December 2015

3. Financial risk management (continued)

3.5 Operational risk (continued)

The Bank presently applies the Basic Indicator Approach ('BIA') under the CRR in order to arrive at the capital charge. Accordingly, the Bank allocates 15% of the average of gross income over the last three years as regulatory capital in respect of operational risk. The capital requirement for operational risk under this method was calculated at €1,840,000 (2014: €1,583,000).

In the 2015 Internal Capital Adequacy Assessment Process (ICAAP), the actual level of operational risk materialisation recorded on the Bank's database was compared to the regulatory and economic capital quantification under the abovementioned BIA. This included all of the following event types: Settled, Near-Miss, Estimate and Potential. Only "Settled" events result in an income statement hit but nonetheless all were considered. Their summation resulted in a lower level of operational risk than calculated under the BIA (Pillar 1); however the latter figure was retained by way of capital allocation taking a prudent and conservative approach and in full compliance with applicable regulation.

A major plank in the Bank's efforts to properly manage and control operational risk, remains the Business Continuity Plan (BCP) which is formalised and in place and covers the whole organisation.

3.6 Capital risk management

It is the Bank's policy to actively manage its capital base to cover risks inherent in the business and at the same time to support the development of the business, to maximise shareholders' value and to meet all the regulatory requirements. Capital management policy is monitored by the Executive Committee, ALCO and the Bank's Global Risk Committee.

Accordingly, the purpose of the Bank's capital management is essentially to ensure an efficient use of capital, taking cognisance of the Bank's risk appetite and profile as well as its objectives for business development. The Bank is a licensed credit institution and must therefore comply with the capital requirements under the relevant laws and regulations.

Capital adequacy and the use of regulatory capital are monitored regularly by the Bank's management, employing techniques from the Capital Requirements Directive ('CRD') and Capital Requirements Regulations ('CRR'), as implemented by the MFSA for supervisory purposes, as well as guidelines developed by the Basel Committee. The Bank manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. The Bank is required to maintain a ratio of total regulatory capital to risk-weighted assets (Total Capital ratio) above the prescribed minimum level of 8%.

The minimum capital requirements are calculated for credit, market and operational risks. During the year, the Bank utilised the Standardised Approach for credit risk, the Basic Indicator Approach for operational risk and the Basic Method for foreign exchange risk in order to calculate the Pillar 1 minimum capital requirements. For credit risk, under the Standardised Approach, risk weights are determined according to credit ratings provided by internationally recognised credit agencies such as Fitch or their equivalents and by using the applicable regulatory risk weights for unrated exposures. The Basic Indicator Approach requires that the Bank allocates capital for operational risk by taking 15% of the average gross income, while the Basic Method requires the Bank to allocate 8% of its overall net foreign exchange position to calculate the capital requirement for foreign exchange risk.

Notes to Financial Statements
For the year ended 31 December 2015



3. Financial risk management (continued)

3.6 Capital risk management (continued)

The sum of the capital requirement calculated under Pillar I and the additional requirement identified under Pillar II represents the total capital actually required under the CRR.

The following is an analysis of the Bank's capital base in accordance with the CRR's requirements applicable until 31 December 2015:

	2015	2014
	€000	€000
Common Equity Tier 1 (CET1) capital		
Share capital	32,500	32,500
Retained earnings	(10,008)	(10,457)
Reserve for general banking risks	844	446
Revaluation reserve	2,026	-
<i>Adjustments:</i>		
Depositor Compensation Scheme	(3,783)	(3,509)
Intangible assets	(820)	(1,071)
Removal of Unrealised gains to Tier 2	(1,216)	-
Deferred tax assets	(698)	(575)
	18,845	17,334
Tier 2 capital		
Subordinated loan capital	1,667	2,667
Transitional adjustments	1,103	1,843
Revaluation reserve (unrealised gains)	1,216	254
	3,986	4,764
Total own funds	22,831	22,098

Notes to Financial Statements
For the year ended 31 December 2015

3. Financial risk management (continued)

3.6 Capital risk management (continued)

The tables below summarise the regulatory capital requirements and ratios of the Bank as at the end of the reporting periods.

As at 31 December 2015	Carrying amount €000	Weighted amount €000	Capital requirement €000
On-balance sheet assets			
Balances with Central Bank of Malta and cash	81,650	-	-
Cheques in course of collection	737	147	12
Financial investments held for trading	-	-	-
Financial investments available-for sale	5,291	2,461	197
Loans and advances to banks	50,185	564	45
Loans and advances to customers	360,254	194,230	15,538
Property, plant and equipment	7,740	7,740	619
Intangible assets	820	-	-
Deferred tax asset	3,003	2,998	240
Derivative financial instruments	23	18	1
Prepayments and accrued income	1,704	1,704	136
Other assets	5,500	5,492	439
	516,907	215,354	17,227
Off-balance sheet instruments			
Contingent liabilities and commitments	71,368	6,108	1,179
Credit risk	588,275	221,462	18,406
Foreign exchange risk		21	3
Operational risk		22,995	2,874
		244,478	21,283
Own funds			
Common Equity Tier 1 ('CET1') capital			18,845
Tier 2 Capital			3,986
Total own funds			22,831
Total capital ratio			9.3%

Notes to Financial Statements
For the year ended 31 December 2015



3. Financial risk management (continued)

3.6 Capital risk management (continued)

As at 31 December 2014	Carrying amount €000	Weighted amount €000	Capital requirement €000
On-balance sheet assets			
Balances with Central Bank of Malta and cash	29,008	-	-
Cheques in course of collection	2,097	502	40
Financial investments held for trading	21,464	-	-
Financial investments available-for sale	2,254	-	-
Loans and advances to banks	166,745	1,730	138
Loans and advances to customers	378,154	209,186	16,735
Property, plant and equipment	8,062	8,062	645
Intangible assets	1,071	-	-
Deferred tax asset	4,561	4,220	338
Derivative financial instruments	899	899	72
Prepayments and accrued income	2,091	2,091	167
Other assets	2,663	2,663	213
	619,069	229,353	18,348
Off-balance sheet instruments			
Contingent liabilities and commitments	71,130	14,733	1,179
Credit risk	690,199	244,086	19,527
Foreign exchange risk		305	24
Operational risk		19,788	1,583
		264,179	21,134
Own funds			
Common Equity Tier 1 ('CET1') capital			17,334
Tier 2 Capital			4,764
Total own funds			22,098
Total capital ratio			8.4%

During the period under review, the Bank continued to manage its business and capital base diligently, withstanding the regulatory minimum requirement of 8% by a narrow margin.

Notes to Financial Statements
For the year ended 31 December 2015

3. Financial risk management (continued)

3.6 Capital risk management (continued)

The Bank aims to, over the near and medium terms, avoid a situation of regulatory marginality inter alia by consolidating its capital adequacy ratios position with a reasonable cushion in excess of the regulatory floors and also, enhanced profitability and return on capital employed. Such endeavour will be beneficially affected by the impending entry of the new majority shareholder in 2016, as already announced publicly by the institution.

In the meantime, the Bank's Management will continue to undertake initiatives and actions to ensure that the Bank's ability to realise its assets and to discharge its liabilities is not put in doubt until the capitalisation process is concluded.

3.7 Fair values of financial assets and liabilities

3.7.1 Financial instruments measured at fair value

The Bank's financial instruments which are carried at fair value include the Bank's financial investments held for trading, financial investments available-for-sale and derivative financial instruments (Notes 7, 8 and 14). The Bank is required to disclose fair value measurements by level of the following fair value measurement hierarchy for financial instruments that are measured in the statement of financial position at fair value:

- Quoted prices (unadjusted) in active markets for identical assets (Level 1).
- Inputs other than quoted prices included within Level 1 that are observable for the asset either directly i.e. as prices, or indirectly i.e. derived from prices (Level 2).
- Inputs for the asset that are not based on observable market data i.e. unobservable inputs (Level 3).

The IFRS 13 hierarchy of valuation techniques is based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Bank's market assumptions.

Notes to Financial Statements
For the year ended 31 December 2015



3. Financial risk management (continued)

3.7 Fair values of financial assets and liabilities (continued)

3.7.1 Financial instruments measured at fair value (continued)

The following tables reflect an analysis of financial instruments recorded at fair value by level of the fair value hierarchy:

	Level 1	Level 2	Total
At 31 December 2015	€000	€000	€000
Financial assets			
<i>Held for trading instruments</i>			
Derivative financial instruments	-	23	23
	-	23	23
<i>Financial investments available-for-sale</i>			
Government debt, fixed income instruments	2,830	-	2,830
Other equities	-	2,461	2,461
	2,830	2,461	5,291
Total financial assets	2,830	2,484	5,314
Financial liabilities			
<i>Held for trading instruments</i>			
Derivative financial instruments	-	448	448
Total financial liabilities	-	448	448
	Level 1	Level 2	Total
At 31 December 2014	€000	€000	€000
Financial assets			
<i>Held for trading instruments</i>			
Derivative financial instruments	-	899	899
Government debt, fixed income instruments	21,464	-	21,464
	21,464	899	22,363
<i>Financial investments available-for-sale</i>			
Government debt, fixed income instruments	2,254	-	2,254
Total financial assets	23,718	899	24,617
Financial liabilities			
<i>Held for trading instruments</i>			
Derivative financial instruments	-	840	840
Total financial liabilities	-	840	840

There were no transfers between levels 1 and 2 during the year.

Notes to Financial Statements
For the year ended 31 December 2015

3. Financial risk management (continued)

3.7 Fair values of financial assets and liabilities (continued)

3.7.1 Financial instruments measured at fair value (continued)

Financial instruments in Level 1

The fair value of instruments traded in active markets is based on quoted market prices at the end of the reporting period. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial instruments held by the Bank is the current bid price at 31 December of the respective year.

Instruments included in Level 1 comprise both financial investments held for trading and financial investments available-for-sale, composed of government debt issued by the Governments of Malta and Portugal, which are listed on the Malta Stock Exchange and Lisbon Stock Exchange respectively.

Financial instruments in Level 2

Fair values for the Bank's derivative contracts are determined utilising valuation techniques, involving primarily the use of discounted cash flow techniques. The fair values referred to are determined by reference to market prices or rates (forward foreign exchange rates) quoted at the end of the reporting period. The valuation techniques used are supported by observable market prices or rates since their variables include only data from observable markets. The Bank's derivative financial instruments are accordingly categorised as Level 2 instruments.

Financial instruments not measured at fair value

Loans and advances to banks and customers and amounts owed to banks and customers are carried at amortised cost in the statement of financial position. The Board considers the carrying amounts of loans and advances to banks and customers to be a reasonable estimate of their fair value principally in view of the relatively short periods to repricing or maturity from the end of the reporting periods. The fair values of fixed interest deposits and amounts owed to banks are not deemed to be significantly different from their carrying amounts, based on discounted cash flows at current market interest rates, particularly due to the relatively short periods to maturity.

Notes to Financial Statements
For the year ended 31 December 2015



4. Accounting estimates and judgements

4.1 Critical accounting estimates and judgements in applying the Bank's accounting policies

Estimates and judgements are continually evaluated and based on historical experience and other factors including expectations of future events that are believed to be reasonable under the circumstances.

The Bank makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. These estimates and assumptions present a risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year. The Bank's management also makes judgements, apart from those involving estimations, in the process of applying the entity's accounting policies that may have a significant effect on the amounts recognised in the financial statements.

4.2 Impairment losses on loans and advances

The Bank reviews its loan portfolios to assess impairment on an ongoing basis as relevant generic data is observed concerning risks associated with groups of loans with similar risk characteristics. In determining whether an impairment loss should be recorded in the income statement, the Bank makes judgements as to whether there is any observable data indicating an impairment trigger followed by a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

4.3 Assessment of estimates and judgements

In the opinion of the directors, the accounting estimates and judgements made in the course of preparing these financial statements, which have been highlighted above, are not difficult, subjective or complex to a degree which would warrant their description as critical in terms of the requirements of IAS 1.

However, the directors would like to draw attention to these accounting judgements, that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year. In this respect, these primarily comprise assumptions and estimates relating to the calculation of impairment allowances in respect of loans and advances to customers (see Notes 2.8, 10 and 31).

5. Segmental information

The segment reporting of the Bank is made in terms of the business segments which it conducts its business in, as the risks and rates of return are affected predominantly by differences in the products and services produced. The Bank is currently organised into three main business segments:

Retail banking	- Principally handling customers' deposits, providing consumer loans, overdrafts and funds transfer facilities.
Corporate banking	- Principally handling loans and other credit facilities and deposit and current accounts for corporate and institutional customers.
Other	- Principally treasury and other central functions.

Notes to Financial Statements
For the year ended 31 December 2015

5. Segmental information (continued)

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss. Income taxes are managed on a group basis and are not allocated to operating segments.

Interest income is reported net as management primarily relies on net interest revenue as a performance measure, not the gross income or expense.

Other than revenue generated from business carried out with the Banif S.A., up until it ceased to be the parent company, (Note 35) no revenue from transactions with a single external customer or counterparty amounted to 10% or more of the Bank's total revenue in 2015 or 2014. This is included with the 'Other' business segment in the tables below and a detailed analysis of all the balances held and income earned is included in Note 35 dealing with related party disclosures.

No reconciliation is required since there are no differences between the measurements of the reportable segments' profits or losses, assets and liabilities and the entity's profit or loss, assets and liabilities.

The following tables present income, profit and certain asset and liability information regarding the Bank's business segments for the years ended 31 December 2015 and 2014:

	2015			
	Retail banking €000	Corporate banking €000	Other €000	Total €000
Net operating income				
Net interest income	4,669	7,306	(1,688)	10,287
Net fees and commission income	1,070	1,163	(37)	2,196
Net trading income	-	-	1,363	1,363
Total operating income	5,739	8,469	(362)	13,846
Net impairment losses	(428)	(941)	-	(1,369)
Net operating income	5,311	7,528	(362)	12,477
Employee compensation and benefits	(1,867)	(454)	(3,074)	(5,395)
Other administrative expenses	(1,514)	(1,147)	(2,060)	(4,721)
Depreciation of property and equipment and amortisation of intangible assets	(378)	(21)	(475)	(874)
Profit before tax	1,552	5,906	(5,971)	1,487
Income tax expense				(640)
Profit for the year				847
Assets and liabilities				
Segment assets	265,453	108,821	74,270	448,544
Unallocated assets				68,363
Total assets				516,907
Segment liabilities	113,114	84,911	16,921	214,946
Unallocated liabilities				276,599
Total liabilities				491,545

Notes to Financial Statements
For the year ended 31 December 2015



5. Segmental information (continued)

	2014			
	Retail banking €000	Corporate banking €000	Other €000	Total €000
Net operating income				
Net interest income	2,533	6,099	109	8,741
Net fees and commission income	856	1,231	29	2,116
Net trading income	-	-	3,071	3,071
Total operating income	3,389	7,330	3,209	13,928
Net impairment losses	(864)	(956)	-	(1,820)
Net operating income	2,525	6,374	3,209	12,108
Employee compensation and benefits	(1,861)	(546)	(2,880)	(5,287)
Other administrative expenses	(471)	(57)	(4,010)	(4,538)
Depreciation of property and equipment and amortisation of intangible assets	(341)	(46)	(494)	(881)
Profit before tax	(148)	5,725	(4,175)	1,402
Income tax expense				(544)
Profit for the year				858
Assets and liabilities				
Segment assets	249,189	128,966	172,912	551,067
Unallocated assets				68,002
Total assets				619,069
Segment liabilities	426,505	152,698	5,214	584,417
Unallocated liabilities				11,846
Total liabilities				596,263

Notes to Financial Statements
For the year ended 31 December 2015

6. Balances with Central Bank of Malta and cash

	2015	2014
	€000	€000
Current		
Balances with Central Bank of Malta	78,372	26,087
Cash	3,278	2,921
	81,650	29,008

The average balance of the reserve deposit required at year end in terms of Article 32 of the Central Bank of Malta Act, Cap. 204 of the Laws of Malta held with the Central Bank of Malta was €3,394,000 (2014: €3,914,000).

The balances with Central Bank of Malta at 31 December 2015 also include an amount of €1,404,000 (2014: €1,404,000) which is pledged in favour of the Depositor Compensation Scheme in compliance with the Depositor Compensation Scheme Regulations.

7. Financial investments held for trading

Financial investments designated as 'held for trading' include the following:

	2015	2014
	€000	€000
Current:		
Debt and other fixed income instruments	-	21,464

Debt and other fixed income instruments comprise the following:

	2015	2014
	€000	€000
Government debt securities		
Local and listed on the Malta Stock Exchange	-	12,125
Foreign and listed on other exchanges	-	9,339
	-	21,464

The movement in debt and other fixed income investments is summarised as follows:

	2015	2014
	€000	€000
At 1 January	21,464	16,254
Acquisitions	8,116	14,732
Disposals	(30,053)	(10,943)
Redemptions	-	(150)
Fair value movements	473	1,571
At 31 December	-	21,464

Notes to Financial Statements
For the year ended 31 December 2015



7. Financial investments held for trading (continued)

At 31 December 2014, financial assets with a carrying amount of €394,530 have been pledged in favour of the Depositors Compensation Scheme in compliance with the Depositor Compensation Scheme Regulations. No financial investments held-for-trading have been pledged as at 31 December 2015.

8. Financial investments available-for-sale

Financial investments classified as 'available-for-sale' include the following:

	2015	2014
	€000	€000
Non-current		
Debt and other fixed income instruments	2,830	2,254

Debt and other fixed income instruments comprise the following:

	2015	2014
	€000	€000
Equities	2,461	-
Government debt securities		
Local and listed on the Malta Stock Exchange	2,830	2,254
At 31 December	5,291	2,254

The movement in debt and other fixed income investments is summarised as follows:

	2015	2014
	€000	€000
At 1 January	2,254	1,900
Acquisitions	409	-
Fair value movements	2,628	354
At 31 December	5,291	2,254

These financial assets, with a carrying amount of €2,830,000 (2014: €2,254,000), have been pledged in favour of the Depositor Compensation Scheme in compliance with the Depositor Compensation Scheme Regulations.

During the current financial year, Visa Inc. announced its proposed acquisition of Visa Europe Limited, subject to regulatory approval. The bank is a member of Visa Europe Limited and holds one ordinary share of €10, although only limited value was attached to the share. Voting and any economic rights relating to the shares are broadly based on the sales volumes of the particular member. As set out in the announcement by Visa Inc., there is an up-front consideration receivable on completion of the transaction which comprises cash and preferred stock convertible into Visa Inc. class 'A' common stock. Additional deferred cash consideration may also be receivable following the fourth anniversary of closing of the transaction subject to an earn-out mechanism. The preferred stock and earn-out elements of the consideration are contingent upon certain factors. As at 31 December 2015, the Bank increased the carrying amount of its €10 share in Visa Europe Limited by €2,461,000 to reflect the value emanating from the proposed transaction. The fair value of the Bank's interest in Visa Europe Limited has been assessed on the basis of the expected consideration to be received from the proposed sale to Visa Inc. which transaction is expected to be completed during 2016.

Notes to Financial Statements
For the year ended 31 December 2015

8. Financial investments available-for-sale (continued)

Prior to the announcement of the proposed transaction, the Directors believe that there was no value to assign to the membership because there were no rights to consideration and accordingly the fair value attributable for the membership was not evident. Accordingly, prior to 31 December 2015, the Bank recognised the membership share at its nominal value.

9. Loans and advances to banks

	2015	2014
	€000	€000
Current		
Repayable on call and at short notice	3,215	1,745
Term placements	46,970	165,000
	50,185	166,745

Term placements of €28,100,000 at 31 December 2015 are attributable to reverse repurchase agreements with Oitante S.A. which are secured by a pledge on sovereign debt securities. These securities had a market value of €35,125,000 as at year end. The Bank may sell or re-pledge such securities, but has an obligation to return the securities and the counterparty retains substantially all the risks and rewards of ownership.

10. Loans and advances to customers

	2015	2014
	€000	€000
Repayable on call and at short notice	66,013	74,248
Term loans and advances	301,493	309,793
	367,506	384,041
Gross loans and advances to customers		
Less allowances for impairment losses	(7,252)	(5,887)
	360,254	378,154
Net loans and advances to customers		
Impairment allowances		
Specific impairment allowances	4,652	3,583
Collective impairment allowances	2,600	2,304
	7,252	5,887
Current	84,960	74,916
Non-current	282,546	309,125
	367,506	384,041

The aggregate gross amount of impaired loans and advances to customers at at 31 December 2015 amounted to €15,152,000 (2014: €11,387,000). Specific impairment allowances at the end of the reporting period include €464,000 (2014: €481,000), reflected in the table above, in respect of interest in suspense.

Notes to Financial Statements
For the year ended 31 December 2015



11. Property and equipment

	Land and buildings	Computer equipment	Other equipment	Total
	€000	€000	€000	€000
At 1 January 2014				
Cost	7,610	1,512	1,288	10,410
Accumulated depreciation	(1,137)	(1,005)	(681)	(2,823)
Net book amount	6,473	507	607	7,587
Year ended 31 December 2014				
At 1 January 2014	6,473	507	607	7,587
Acquisitions	842	104	71	1,017
Disposals	-	(2)	-	(2)
Depreciation charge for the year	(269)	(137)	(134)	(540)
At 31 December 2014	7,046	472	544	8,062
At 31 December 2014				
Cost	8,452	1,614	1,359	11,425
Accumulated depreciation	(1,406)	(1,142)	(815)	(3,363)
Net book amount	7,046	472	544	8,062
Year ended 31 December 2015				
At 1 January 2015	7,046	472	544	8,062
Acquisitions	75	140	79	294
Disposals	(37)	-	(10)	(47)
Depreciation charge for the year	(281)	(73)	(215)	(569)
At 31 December 2015	6,803	539	398	7,740
At 31 December 2015				
Cost	8,490	1,754	1,428	11,672
Accumulated depreciation	(1,687)	(1,215)	(1,030)	(3,932)
Net book amount	6,803	539	398	7,740

Future capital expenditure which was authorised by the Board, but has to date not yet been contracted for, amounted to €1,410,000 (2014: €2,601,000). Additionally, in 2015, an amount of €17,000 (2014: €84,000) had been contracted for but not provided for in the financial statements (Note 24). Property and equipment includes assets amounting to €152,337 (2014: Nil) which are still not put to use at year end.

Notes to Financial Statements
For the year ended 31 December 2015

12. Intangible assets

	Computer software & royalties	Other intangibles	Total
	€000	€000	€000
At 1 January 2014			
Cost	1,767	109	1,876
Accumulated amortisation	(977)	-	(977)
Net book amount	790	109	899
Year ended 31 December 2014			
At 1 January 2014	790	109	899
Acquisitions	476	37	513
Amortisation for the year	(341)	-	(341)
At 31 December 2014	925	146	1,071
At 31 December 2014			
Cost	2,243	146	2,389
Accumulated amortisation	(1,318)	-	(1,318)
Net book amount	925	146	1,071
Year ended 31 December 2015			
At 1 January 2015	925	146	1,071
Acquisitions	66	-	66
Disposals	(12)	-	(12)
Amortisation for the year	(305)	-	(305)
At 31 December 2015	674	146	820
At 31 December 2015			
Cost	2,297	146	2,443
Accumulated amortisation	(1,623)	-	(1,623)
Net book amount	674	146	820

In 2014, computer software included assets amounting to €131,458 which were still not put to use at year end. The remaining average amortisation period is of 2 years, in line with the Bank's accounting policy. In 2015, there were no such intangible assets.

Notes to Financial Statements
For the year ended 31 December 2015



13. Deferred tax assets

Deferred tax assets and liabilities are attributable to the following:

	Assets	Liabilities	Net	Assets	Liabilities	Net
	2015	2015	2015	2014	2014	2014
	€000	€000	€000	€000	€000	€000
Differences between depreciation and capital allowances	-	(186)	(186)	-	(209)	(209)
Loan impairment allowances	2,538	-	2,538	2,060	-	2,060
Fair value movements on investments	-	(1,085)	(1,085)	-	(166)	(166)
Unused tax losses	1,736	-	1,736	2,876	-	2,876
	4,274	(1,271)	3,003	4,936	(375)	4,561

Movement in temporary differences related to:

	At 1 January 2014	Recognised in profit or loss	Recognised in other comprehensive income	At 31 December 2014	Recognised in profit or loss	Recognised in other comprehensive income	At 31 December 2015
	€000	€000	€000	€000	€000	€000	€000
Differences between depreciation and capital allowances	(237)	28	-	(209)	23	-	(186)
Loan impairment allowances	1,424	636	-	2,060	478	-	2,538
Fair value movements on investments	(42)	-	(124)	(166)	-	(919)	(1,085)
Unused tax losses	4,085	(1,209)	-	2,876	(1,140)	-	1,736
	5,230	(545)	(124)	4,561	(639)	(919)	3,003

The recognised deferred tax assets and liabilities are expected to be recovered or settled principally after more than twelve months from the end of the reporting period. The deferred tax liabilities reflected in other comprehensive income relate to the fair valuation of financial investments classified as available-for-sale.

Unused tax losses do not expire. Based on the Bank's operating trends and forecasts, this deferred tax asset is expected to be utilised from available taxable profits in the foreseeable future.

Notes to Financial Statements
For the year ended 31 December 2015

14. Derivative financial instruments

During the year, the Bank entered into a number of forward foreign exchange contracts with clients and an equivalent number of back-to-back arrangements with Banif S.A.

The forward contracts entered into are contractual agreements to buy or sell a currency at a specified rate and date in the future. On the other hand, under the cross-currency swaps entered into, the Bank carries out a spot transaction exchanging a specified amount in one currency with a specific amount in another currency and agrees to re-exchange at a specified rate and date in the future.

The table below shows the fair values of derivative financial instruments.

	Assets	Liabilities	Assets	Liabilities
	2015	2015	2014	2014
	€000	€000	€000	€000
Current				
Derivatives held for trading				
Forward foreign exchange	23	-	-	840
Cross-currency swaps	-	448	899	-
	23	448	899	840

The derivative financial instruments at 31 December 2015 principally relate to the forward purchase of US\$13,660,000 (2014: US\$80,128,000) against euro maturing within one year from the end of the reporting period at an average contractual rate of 1.05812 (2014: 1.2224), and the forward purchase of £658,000 (2014: £4,683,000) against euro maturing within one year from the end of the reporting period at the average contractual rates of 0.705035 (2014: 0.7858).

15. Prepayments and accrued income

	2015	2014
	€000	€000
Prepayments	585	577
Accrued income	1,119	1,514
	1,704	2,091
Current	1,704	493
Non-current	-	1,598

Notes to Financial Statements
For the year ended 31 December 2015



16. Other assets

	2015	2014
	€000	€000
Other financial assets	4,881	2,242
Other assets	619	421
	5,500	2,663
Current	5,334	2,526
Non-current	166	137

'Other financial assets' include amounts pledged in favour of a card scheme.

17. Share capital

	2015		2014	
	No. of shares		No. of shares	
	000s	€000	000s	€000
Authorised				
Ordinary shares of €1 each	50,000	50,000	50,000	50,000
Issued and fully paid up				
Ordinary shares of €1 each	32,500	32,500	32,500	32,500

The issued ordinary shares rank *pari passu* for all purposes and, in the event that a poll is demanded, each share entitles the holder thereof to one vote.

18. Reserves

18.1 Retained earnings

Retained earnings represent accumulated losses registered since the incorporation of the Bank. The majority of these losses are attributable to costs incurred in the setting up of the banking operations.

Retained earnings include an amount of €3,783,000 (2014: €3,509,000) allocated to the Depositor Compensation Scheme Reserve. This Reserve is excluded for the purposes of the Own Funds calculation (refer to Note 3.6).

18.2 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.

Notes to Financial Statements
For the year ended 31 December 2015

18. Reserves (continued)

18.3 Reserve for General Banking Risks

The Reserve for General Banking Risks refers to the amount allocated by the Bank from its retained earnings, to a non-distributable reserve against potential risks linked to the Bank's non-performing loans and advances. The allocation to this reserve shall occur over a three year period, of which the Bank already allocated 30% during the financial year ended 2014 and 70% during the period under review (representing 100% of the total estimated amount).

19. Amounts owed to banks

	2015	2014
	€000	€000
Current		
Term loans and advances	2,745	149
Repayable on demand	832	65
	3,577	214
Amounts include:		
Due to banks	2,745	149
Other	832	65
	3,577	214

20. Amounts owed to customers

	2015	2014
	€000	€000
Term deposits	268,373	391,086
Repayable on demand	205,921	188,117
	474,294	579,203
Current	346,083	444,897
Non-current	128,211	134,306

Included in 'Amounts owed to customers' are deposits of €31,000,000 (2014: €24,000,000) held as collateral for loan commitments and irrevocable commitments under guarantees and import letters of credit.

Notes to Financial Statements
For the year ended 31 December 2015



21. Debt securities in issue

	2015	2014
	€000	€000
10% subordinated unsecured debt	5,000	5,000

In 2012, the Bank issued €5,000,000 subordinated unsecured debt which was fully subscribed by Banif S.A. The debt is unlisted, bears interest at 10% per annum and is repayable on 30 August 2017.

22. Other liabilities

	2015	2014
	€000	€000
Bills payable	2,170	2,958
Accounts payable and sundry creditors	890	678
Obligations under financial guarantees	892	1,086
	3,952	4,722

The movement in 'Obligations under financial guarantees' is as follows:

	2015	2014
	€000	€000
At 1 January	1,086	372
Arising during the year	2,456	1,505
Utilised	(36)	(108)
Unused amounts reversed	(2,614)	(683)
	892	1,086

23. Accruals and deferred income

	2015	2014
	€000	€000
Accrued interest	3,375	5,122
Accrued operating expenditure	662	806
Accrued capital expenditure	237	356
	4,274	6,284

Accrued operating expenditure mainly relates to amounts in relation to the provision of day-to-day services and specific non-recurring expenditure.

Notes to Financial Statements
For the year ended 31 December 2015

24. Contingent liabilities and commitments

As part of its business activities, the Bank enters into various irrevocable commitments and contingent liabilities. Letters of credit and guarantees (including standby letters of credit) commit the Bank to make payments on behalf of customers in the event of a specific act, generally related to the import or export of goods.

Commitments to extend credit represent contractual commitments to make loans and revolving credits. Commitments generally have fixed expiry dates, or other termination clauses. Since commitments may expire without being drawn upon, the total contract amounts do not necessarily represent future cash requirements.

However, the potential credit loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers meeting specific conditions. The Bank monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

Even though these obligations are not recognised on the statement of financial position, they do contain credit risk and are therefore part of the overall risk of the Bank.

The total outstanding commitments and contingent liabilities are as follows:

	2015	2014
	€000	€000
Contingent liabilities		
Guarantees	10,357	11,204
Documentary credits	485	332
	10,842	11,536
Commitments		
Undrawn commitments to lend	60,526	59,594
Capital commitments (Note 11)		
Authorised but not contracted for	1,410	2,601
Contracted for	17	84
	1,427	2,685
Total commitments	61,953	62,279

Notes to Financial Statements
For the year ended 31 December 2015



24. Contingent liabilities and commitments (continued)

24.1 Operating lease commitments – Bank as lessee

In 2015, the Bank did not enter into any new contracts of commercial lease for immovable property.

Details of all the other contracts entered into to date are as follows:

- 10 year commercial lease for immovable property which is cancellable by giving one year's notice (starting 2008);
- 20-year term contract which is cancellable after the first 10 years of the contract by giving one year's notice (starting 2008);
- 5-year term contract with the option to extend the term for further periods of 12 months each (starting 2008);
- 15-year term contract, with the right to terminate the lease after 5 years to be used for retail purposes (starting 2010); and
- 6-year term contract to be used as an extension to the current Head Office premises.

Future minimum lease payments under non-cancellable operating leases as at 31 December are as follows:

	2015	2014
	€000	€000
Within one year	329	308
After one year but not more than five years	171	434
	500	742

24.2 Legal claims

Litigation is a common occurrence in the banking industry due to the nature of the business. The Bank has an established protocol for dealing with such legal claims. Once professional advice has been obtained and the amount of damages reasonably estimated, the Bank makes adjustments to account for any adverse effects which the claims may have on its financial standing. At year end, there were no significant unresolved legal claims.

Notes to Financial Statements
For the year ended 31 December 2015

25. Interest receivable and similar income

	2015	2014
	€000	€000
On loans and advances to banks	1,669	4,835
On loans and advances to customers	18,021	18,057
On balances with Central Bank of Malta	3	7
	19,693	22,899
On debt and other fixed income instruments	97	106
Net amortisation of discounts and premiums	(4)	(4)
	93	102
Total interest and similar income	19,786	23,001

The income earned from loans and advances to banks is almost entirely made up of interest earned on balances and placements held with banks which until 19 December 2015 formed part of Banif Group.

Interest income on loans and advances to customers includes income generated from impaired financial assets which amounted to €2,202,000 (2014: €1,658,000).

26. Interest payable and similar expense

	2015	2014
	€000	€000
On amounts owed to banks	25	68
On amounts owed to customers	8,967	13,681
On debt securities in issue	507	511
	9,499	14,260

27. Net fees and commission income

	2015	2014
	€000	€000
Fees and commission income		
Credit related fees and commissions	823	866
Other fees	2,063	1,838
	2,886	2,704
Fees and commission expense		
Other fees	(690)	(588)
Net fees and commission income	2,196	2,116

Notes to Financial Statements
For the year ended 31 December 2015

28. Net trading income

	2015	2014
	€000	€000
Debt securities		
Net interest income	245	949
Realised gains on sale	473	567
Unrealised fair value gains/(losses)	-	1,004
	718	2,520
Foreign exchange activities		
From derivatives	(483)	(375)
From commercial business activities	1,128	926
	645	551
Net trading income	1,363	3,071

29. Employee compensation and benefits

	2015	2014
	€000	€000
Directors' remuneration	370	448
Wages and salaries		
Executive officers and senior managerial	1,930	1,994
Other managerial, supervisory and clerical	2,734	2,502
Others	34	33
Social security costs		
Executive officers and senior managerial	94	97
Other managerial, supervisory and clerical	230	210
Others	3	3
	5,025	4,839
Total employee compensation and benefits	5,395	5,287

The average number of persons employed by the Bank during the years 2015 and 2014 was as follows:

	2015	2014
Executive officers and senior managerial	45	48
Other managerial, supervisory and clerical	111	100
Others	2	2
	158	150

Notes to Financial Statements
For the year ended 31 December 2015

30. Other administrative expenses

	2015	2014
	€000	€000
Auditors' remuneration	45	74
Information system and communications	982	984
Business development	623	751
Corporate services	1,251	1,409
Regulatory expenses	344	175
Other	1,476	1,145
	4,721	4,538

Other remuneration payable to the auditors include assurance related services of €101,000 (2014: €5,900), payable to the Bank's auditors. Non-audit services provided during 2015 amounted to €1,000 (2014: €1,000).

Corporate services include operating lease payments amounting to €313,000 (2014: €292,000).

In total, from incorporation up to 31 December 2015, the Bank has contributed €946,000 in variable contributions to the Depositor Compensation Scheme. This represents 0.2% of eligible deposits as at end of December 2014. The cash contribution paid in 2015 amounted to €218,000. This is included under Regulatory expenses.

31. Net impairment losses

	2015	2014
	€000	€000
Write-downs		
Loans and advances to customers		
- specific allowances	1,879	3,084
- collective allowances	2,827	1,114
- bad debts written off	4	-
	4,710	4,198
Reversals of write-downs		
Loans and advances to customers		
- specific allowances	(1,583)	(1,734)
- collective allowances	(1,758)	(644)
	(3,341)	(2,378)
Net impairment losses	1,369	1,820

Notes to Financial Statements
For the year ended 31 December 2015



32. Income tax expense

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

	2015	2014
	€000	€000
<i>Income statement:</i>		
Current income tax	(1)	(1)
Deferred income tax	(639)	(543)
	(640)	(544)

The tax on profit and the result of accounting profit multiplied by the applicable tax rate in Malta of 35% are reconciled as follows:

	2015	2014
	€000	€000
Profit before tax	1,487	1,402
Tax at the applicable rate of 35%	520	491
Tax effect of:		
Non-recoverable foreign withholding tax	-	1
Non-deductible expenses	73	73
Other differences	47	(21)
	640	544

33. Earnings per share

Earnings per share is calculated by dividing net profit attributable to the shareholders of the Bank as shown in the income statement divided by the weighted average number of ordinary shares outstanding during the year.

	2015	2014
Net profit attributable to shareholders (€000)	847	858
Weighted average number of ordinary shares in issue	32,500,000	32,500,000
Earnings per share (€ cents)	2c6	2c6

Notes to Financial Statements
For the year ended 31 December 2015

34. Cash and cash equivalents

Analysis of balances of cash and cash equivalents as shown in the statement of cash flows:

	2015	2014
	€000	€000
Cash (Note 6)	3,278	2,921
Balances with Central Bank of Malta (excluding reserve deposit and Depositor Compensation Scheme pledged deposits) (Note 6)	73,574	20,770
Loans and advances to banks (Note 9)	50,185	166,745
Amounts owed to banks (Note 19)	(3,577)	(214)
Cash and cash equivalents	123,460	190,222
Adjustment to reflect balances with contractual maturity of more than three months	4,798	5,317
	128,258	195,539
<i>As per statement of financial position:</i>		
Balances with Central Bank of Malta and cash	81,650	29,008
Loans and advances to banks	50,185	166,745
Amounts owed to banks	(3,577)	(214)
	128,258	195,539
Balances with contractual maturity of more than 3 months	(4,798)	(5,317)
Cash and cash equivalents	123,460	190,222

35. Related parties

35.1 Identification of related parties

On 20 December 2015, the Bank's majority shareholder, Banif – Banco Internacional do Funchal, S.A., (Banif S.A.) was subject to resolution measures in Portugal. The said procedure was pursuant to the Portuguese General Banking Law and the Directive 2001/24/EC on the re-organisation and winding up of credit institutions as amended by Article 117 of the Directive 2014/59/EU which published the framework for the recovery and resolution of credit institutions and investment firms. Such resolution measures applied in one European Member State shall be duly effective in accordance with the legislation of that Member State throughout the European Union without future formalities.

As part of this regulatory re-structuring process, shares previously held by Banif S.A. were taken over by Oitante S.A. Consequently, the Bank has a related party relationship with Oitante S.A. Between 20 December and 31 December 2015, the Bank did not transact with its new parent.

Prior to the resolution measures described above, Banif S.A. was the immediate and ultimate controlling parent. Entities forming part of the Banif Group, the Bank's directors ('key management personnel') and with other related parties, primarily entities controlled by key management personnel were considered to be related parties. No material specific provisions for impairment were made in respect of amounts due by related parties during the financial years ending 2015 and 2014 and no amounts were written off during both years.

Notes to Financial Statements
For the year ended 31 December 2015



35. Related parties (continued)

35.2 Transaction arrangements and agreements involving key management personnel

During the year under review, the following banking transactions were carried out with key management personnel:

	2015	2014
	€000	€000
Income statement		
Interest and similar income	-	33
Interest and similar expense	6	21
	2015	2014
	€000	€000
Statement of financial position		
Loans and advances to customers	14	1,026
Prepayments and accrued income	-	1
Amounts owed to customers	859	1,355
Accruals and deferred income	1	23

The above mentioned outstanding balances arose from the ordinary course of business on substantially the same terms as for comparable transactions with persons of a similar standing, or where applicable, other employees.

35.3 Compensation to key management personnel

Directors' remuneration and salaries to executive officers are separately disclosed in Note 29.

35.4 Transaction with other related parties

35.4.1 Parent company up until 19 December 2015

During the year, the following transactions were undertaken by the Bank with its parent company:

	2015	2014
	€000	€000
Income statement for the period ended 19 December 2015		
Interest and similar income	1,669	4,835
Interest and similar expense	1,530	547
Net trading losses	(1,346)	-

Year-end balances with the former parent company (up until 19 December 2015), arising principally from the transactions referred to previously, are disclosed below:

	19 December 2015	31 December 2014
	€000	€000
Statement of financial position		
Loans and advances to banks	29,033	166,063
Prepayments and accrued income	32	-
Amounts owed to banks	1,231	-
Derivative financial instruments - liabilities	448	-
Debt securities in issue	5,000	5,000
Accruals and deferred income	169	169

Notes to Financial Statements
For the year ended 31 December 2015

35. Related parties (continued)

35.4 Transaction with other related parties (continued)

35.4.2 Entities ultimately controlled by the former parent company

During the year, the following transactions were undertaken by the Bank with related banks and companies forming part of the Banif Group:

	2015 €000	2014 €000
Income statement		
Interest and similar income	102	116
Interest and similar expense	-	31
Net fees and commissions	159	134
Net trading gains	-	1,090

Year end balances arising principally from the transactions referred to previously, are disclosed below:

	2015 €000	2014 €000
Statement of financial position		
Loans and advances to banks	-	-
Loans and advances to customers	2,315	2,321
Derivative financial instruments - assets	-	899
Prepayments and accrued income	73	337
Amounts owed to customers	49	49
Derivative financial instruments – liabilities	-	72

35.4.3 Entities controlled by non-executive directors

During the year, the following transactions were undertaken by the Bank with entities controlled by non-executive directors:

	2015 €000	2014 €000
Income statement		
Interest and similar income	25	27
Interest and similar expense	4	10
Other administrative expenses	185	218

Year end balances arising principally from the transactions referred to previously, are disclosed below:

	2015 €000	2014 €000
Statement of financial position		
Loans and advances to customers	532	690
Prepayments and accrued income	53	15
Amounts owed to customers	2,816	4,064
Accruals and deferred income	11	31

The Bank also issued demand and bank guarantees on behalf of entities controlled by non-executive directors amounting to €1,361,879 that were all fully secured (2014: €1,361,879).

Notes to Financial Statements
For the year ended 31 December 2015



36. Comparative information

Comparative figures disclosed in the main components of these financial statements have been reclassified to conform to the current year's presentation format for the purpose of fairer presentation.

Additional Regulatory Disclosures

For the year ended 31 December 2015

Additional Regulatory Disclosures For the year ended 31 December 2015

127



1. Overview

These Additional Regulatory Disclosures ('ARDs') are aimed at providing the Bank's stakeholders further insight to the Bank's capital structure and adequacy. The disclosures outlined below have been prepared by the Bank in accordance with the Pillar III quantitative and qualitative disclosure requirements as governed by Banking Rule BR/07: Publication of Annual Report and Audited Financial Statements of Credit Institutions authorised under the Banking Act, 1994, issued by the Malta Financial Services Authority ('MFSA'). Banking Rule BR/07 follows the disclosure requirements of Directive 2013/36/EU (Capital Requirements Directive) and EU Regulation No 575/2013 (Capital Requirements Regulation) of the European Parliament and of the Council of 26 June 2013.

In addition as a standalone financial services institution – as from December 2015 – the Bank hereby complies with the disclosure requirements laid down in Part Eight of the Capital Requirements Regulation ('CRR').

The Bank publishes these disclosures on an annual basis as part of the Annual Report. As outlined in the requirements of banking regulations, these disclosures are not subject to an external audit, except to the extent that any disclosures are equivalent to those made in the Financial Statements, which have been prepared in accordance with the International Financial Reporting Standards ('IFRS') as adopted by the EU. The Bank, through its internal verification procedures, is satisfied that these ARDs are presented fairly.

2. Risk Management Framework

These Additional Regulatory Disclosures on the Bank's Risk Management Framework should also be read in conjunction with Note 3.1 in the Notes to the Financial Statements.

The different institutional activities involve, to different degrees, the assumption of calculated risks in order to reap reasonable returns. On the other hand, a number of risks are not actively sought but are an inescapable side effect of banking activity; this applies in particular to operational and reputational risks.

The Bank fully implements the Three Lines of Defence Principle whereby all internal entities/ stakeholders are involved in the risk **Capital** management framework viz.:

- First line: **"The Frontline"** – this involves the internal entities which own, and manage risk and control activities i.e. front line operating units. Such is composed mainly of the Commercial Department, Operations and Systems Department and the Treasury Unit.
- Second line: **"Oversight"** – internal entities which monitor risk and control in support of management. This relates to risk, control, and compliance functions put in place by management, mainly the Risk Management Unit, and the Legal and Compliance Unit and the specialized function tasked with objectively analysing credit requests and participating actively in Credit Committees, mainly the Credit Analysis Unit.
- Third line: **"Independent assurance"** to the board and senior management concerning the effectiveness of management of risk and control; effectively this involves the internal audit function vested to the Internal Audit Unit.

The Internal Control Department (ICD) plays a pivotal role in the risk management framework. The Head, ICD is an independent first-level official and who also interacts directly on an ongoing basis with the Bank's Audit Committee. The ICD comprises three constituent units viz. the Risk Management Unit, the Legal and Compliance Unit and the Internal Audit Unit.

2. Risk Management Framework (continued)

As implied by its name, Risk Management Unit discharges a very important role in the risk management framework. It identifies, measures, reports, and suggests mitigating action on the different risks to which the Bank is currently exposed or, taking a forward-looking perspective, reasonably expected to be exposed in the near and medium terms. Amongst its very wide area of activity, it is responsible for setting and updating most risk-related policies, operating manuals and circulars such as credit, operational risk, concentration, customer complaints policies and solvency risk operating manual and various other risk-related internal documents.

The Bank is still in a relatively early stage of its organisational lifecycle and, for the time being, it was not deemed expedient to augment the risk function structure by branching out in additional formally-delineated internal entities. As such, at the present time, Risk Management Unit is hierarchically a unified internal entity within the Bank's macrostructure and this ensures maximum flexibility in the deployment, allocation and focus of the risk-tasked headcount. Nevertheless, officials within the risk function do specialise in different risk fields in line with the Unit's main responsibilities as briefly listed hereunder:

- Credit risk: various risk metrics are defined and regularly updated. These include, inter alia, probability of default (PD) values, stress testing exercises on the loan portfolio within the banking book. The institution, and regular updating of, risk-related models such as credit scoring systems for unsecured personal lending and home loans;
- Concentration risk: concentration is analysed from different dimensions viz. single-name risk, sectoral risk, product concentration and collateral;
- Operational risk: spearheads the Operational Risk Management Framework within the Bank whereby operational risk events are generated and reported from different sources viz. internal reporting, customer complaints and – where relevant and scalable – external events. The Unit is the owner of the Key Performance Indicators and Key Risk Indicator metrics used in the operational risk management toolkit;
- Solvency risk: Pillar II economic capital quantification through the regular updating of the Bank Internal Capital Adequacy Assessment Process (ICAAP);
- Liquidity risk: regular updating of the Bank's Internal Liquidity Adequacy Assessment Process (ILAAP);
- Interest rate risk: covered through ICAAP and ILAAP and as part of the activities of the Bank's Asset and Liability Management Committee (ALCO); and
- Residual risks: various other risks not mentioned separately above also fall within the Unit's remit. For instance reputational risk, customer complaints investigation, enterprise risk management, market risk oversight etc.

The Bank's position on the different risks is regularly reported to, and discussed by, top management. This includes the Board of Directors and the Executive Committee as well as more risk focused committees viz.:

- The Global Risk Committee; and
- The Assets and Liabilities Committee

In addition, the Bank is proactively considering further boosting its internal governance architecture through extending the remit of the existing Audit Committee to cover additional risks thus elevating the said Committee to an Audit and Risk Committee.



2. Risk Management Framework (continued)

Reporting relating to risks takes various forms depending on the intended audience and the level of detail required, ranging from quantitative metrics such as key risk indicators, qualitative reporting, dashboard-style reporting for top management and full-text reports for regulatory purposes such as the ICAAP and ILAAP Reviews.

A conservative and risk-averse overall institutional risk profile is pursued on an ongoing basis. Briefly, a traditional retail banking model is followed whereby the main asset – lending to customers – is covered by the main liability – deposits from customers. Furthermore, beyond analysing the deposit transformation ratio, the term structure of the deposit base is regularly scrutinized and monitored to ensure a reasonable level of funding risk. Specifically, the on-demand and up-to-three-months buckets within the deposit base, are continually gauged to avoid an undue level of reliance on very short-term funding. Where deemed necessary, timely corrective action is instigated by the Assets and Liabilities Committee and/or the Global Risk Committee.

The balance between return and risk level drives the institutional risk profile. A prudent and risk-averse bias is enforced through various policies, internal guidelines and other directive forms of control (e.g. operating manuals). Other documents define risk tolerance levels e.g. formally defined trading limits for the Treasury Unit within the Financial Management Department and others. Any exceedance of the threshold must be authorised at senior or top management level and triggers defined mitigating actions. Moreover, forward-looking analysis are used to avert exceeding the tolerance limits in the first place; one example relates to stress testing exercises by the Risk Management Unit on the level of provisioning on the loan book should a downgrade in sectoral risk rating take place due to (say) exogenous factors such as economic downturn in one or more macroeconomic sectors.

Succinctly, the broad strategies used to manage risks are:

- Risk decomposition: different risks are treated separately for analytical and risk mitigation purposes (although a silo-based approach is ultimately avoided through the enterprise risk management concept). The above list of risks, controlled and overseen by the Risk Management Unit, provides a simple guide as to how this is practised in the Bank; to this might be added other risks such as legal risk (tackled by the Legal and Compliance Unit), and avoiding open positions on derivatives entered into on behalf of customers (and which is normally mitigated through hedging operations conducted by the Treasury Unit);
- Risk aggregation: this involves reducing overall institutional risk through diversification. For instance, the Risk Management Unit monitors and reports to top management in respect of the level of single-name risk on the loan portfolio; the more contained the level of lending to individual customers (or groups of connected customers), the more diversified is the level of default and recovery risks in case of non-performing exposures especially by the higher-magnitude obligors. This also applies to sectoral risk; ensuring a broadly diversified loan book across different economic sectors helps avoid taking big hits (in terms of provisions and bad debts) should one or more sectors experience a downturn. Similarly, the Risk Management Unit monitors on an ongoing basis the level of single-name risk on the deposit base as well as the term structure of same, to contain liquidity and funding risks at all times.

Additional Regulatory Disclosures
For the year ended 31 December 2015

3. Capital management

Given that the Bank is licensed to undertake the business of banking, it is obliged to comply with the relevant capital requirements emanating from the CRR and local regulations modelled on the requirements of the Capital Requirements Directive ('CRD').

In conjunction with the Bank's objectives, the Board maintains the efficient management of the Bank's capital as one of its top priorities, by striving to take on risk commensurate with its risk appetite which should be sufficient to comply with regulatory capital requirements.

3.1 Own funds

The Bank's available capital and reserves for the purposes of capital adequacy is represented by the Bank's own funds. In July 2013, the European Banking Authority ('EBA') issued its final draft Implementing Technical Standards ('ITS') on own funds disclosures. The disclosure requirements of these technical standards have been integrated within the Bank's disclosures set out below.

For regulatory purposes, the Bank's capital base is divided into Common Equity Tier 1 ('CET1') capital and Tier 2 capital.

The Bank's CET1 capital includes the following items:

- ordinary share capital;
- retained earnings;
- reserve for general banking risks; and
- other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy purposes, including the treatment of deferred tax assets, deductions relating to amounts pledged in favour of the Depositor Compensation Scheme and deductions relating to intangible assets.

The Bank's Tier 2 capital consists of:

- subordinated loan capital;
- other regulatory adjustments under Article 484 relating to grandfathering items; and
- a revaluation reserve made up of gains on the fair valuation of available-for-sale financial assets, net of deferred taxation.

(a) Share capital

The Bank's share capital as at 31 December is analysed as follows:

	2015	
	No. of shares	€000
Authorised		
Ordinary shares of €1 each	50,000	50,000
Issued		
Ordinary shares of €1 each	32,500	32,500

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Bank. All shares rank equally with regard to the Bank's residual assets.

Additional Regulatory Disclosures
For the year ended 31 December 2015



3. Capital management (continued)

3.1 Own funds (continued)

(b) Retained earnings

The retained earnings represent earnings not paid out as dividends. Interim profits form part of own funds only if those profits have been verified by the Bank's independent external auditor. The Bank may only make distributions out of profits available for this purpose. Since the Bank has accumulated losses, any interim profits recognised during the year are considered undistributable. Accordingly, while accumulated losses are deducted in full from the Bank's own funds, interim profits for part of own funds only if those profits have been verified by the Bank's independent external auditor.

Retained earnings include an amount of €3,783,000 (2014: €3,509,000) pledged in favour of the Depositor Compensation Scheme as at 31 December 2015, that are not available to the Bank for unrestricted and immediate use to cover risk of losses as soon as they occur. The Depositor Compensation Scheme Reserve is excluded for the purposes of the Own Funds calculation.

(c) Reserve for general banking risks

The Bank is required to allocate funds to this reserve in accordance with the revised Banking Rule BR/09: 'Measures Addressing Credit Risks arising from the Assessment of the Quality of Asset Portfolios of Credit Institutions authorised under the Banking Act, 1994'.

The reserve for general banking risks refers to the amount allocated by the Bank from its retained earnings, to a non-distributable reserve against potential risks linked to the Bank's non-performing loans and advances. The allocation to this reserve shall occur over a three year period, of which the Bank already allocated 40% during the financial year ended 2013 and 30% during 2014. The Bank has allocated a further 30% during the financial year ending 31 December 2015. In terms of the revised Banking Rule BR/09 published by the MFSA, during the year ended 31 December 2014 the Bank allocated an amount of €446,000 to the reserve for general banking risks as a Pillar 2 measure.

(d) Revaluation reserve

This represents the cumulative net change in fair values of available-for-sale financial assets held by the Bank, net of related deferred tax effects. The revaluation reserve is not available for distribution.

(e) Subordinated loan capital

On 30 August 2012, the Bank had issued €5,000,000 10% unlisted subordinated unsecured bonds, which had been fully subscribed by Banif S.A. They are included as part of Tier 2 capital as they fully qualify for the provisions of Article 63 of the CRR. This loan capital is governed by Portuguese law, ranks after all other creditors and is redeemable at par on 30 August 2017. Thus, the amortised amount is included as part of the Bank's own funds.

Additional Regulatory Disclosures
For the year ended 31 December 2015

3. Capital management (continued)

3.1 Own funds (continued)

As described in the new regulations published by the European Commission, banks are required to complete a transitional disclosure template during the phasing in of regulatory adjustments from 1 January 2014 to 31 December 2017. The transitional disclosure template is set out below.

	As at 31 December 2015 €000
Common Equity Tier 1 (CET1) capital	
<i>Common Equity Tier 1 (CET1) capital: instruments and reserves</i>	
Capital instruments and the related share premium accounts	32,500
Retained earnings	(13,791)
Funds for general banking risk	844
Revaluation reserve	811
<i>CET1 capital before regulatory adjustments</i>	<u>20,364</u>
<i>Common Equity Tier 1 (CET1) capital: regulatory adjustments</i>	
Intangible assets	(820)
Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability where the conditions in Article 38 (3) are met)	(699)
<i>Total regulatory adjustments to CET1</i>	<u>(1,519)</u>
CET1 capital	<u>18,845</u>
Tier 2 capital	
<i>Tier 2 capital before regulatory adjustments</i>	
Capital instruments and subordinated loans	1,667
Transitional adjustments to Tier 2 capital	1,103
<i>Tier 2 capital: regulatory adjustments</i>	
Regulatory adjustments relating to unrealised gains pursuant to Article 481	1,216
Total Tier 2 capital	<u>3,986</u>
Total risk-weighted assets	<u>244,478</u>
Capital ratios	
CET1 capital	7.7%
Tier 1 capital	7.7%
Total capital	9.3%

Additional Regulatory Disclosures
For the year ended 31 December 2015



3. Capital management (continued)

3.2 Capital requirements

The Bank's policy is to actively manage its capital base to cover risks inherent in the business and at the same time to support the development of the business, to maximise shareholders' value and to meet all the regulatory requirements. Capital management is monitored by the Assets and Liabilities Committee (ALCO). The Bank manages its capital structure and adjusts it in the light of changes in economic conditions and the risk characteristics of its activities.

The Bank is required to maintain a ratio of total regulatory capital to Risk-Weighted Assets (Total Capital ratio) above the prescribed minimum level of 8%.

Pillar 1 capital requirements are based on standard rules and set the minimum own funds requirements to cover credit risk, market risk and operational risk of credit institutions. The Bank uses the Standardised Approach for credit risk, the Basic Indicator Approach for operational risk and the Basic Method with respect to market risk, in relation to the Bank's foreign exchange risk. Under the Standardised Approach, the Bank utilises risk weights determined by exposure class, credit risk mitigation and credit ratings as outlined in the CRR. Capital charge for foreign exchange risk using the Basic Method is calculated at 8% of the higher of the sum of all the net short positions and the sum of all the net long positions in each foreign currency. The Basic Indicator Approach requires that the Bank allocates capital for operational risk by taking 15% of the average gross income.

The Bank will be fully implementing the CRD IV capital requirements with effect from January 2019. In fact, the new Banking Rule BR/15: 'Capital Buffers of Credit Institutions authorised under the Banking Act, 1994', will require two additional buffers, known as the 'capital conservation buffer' and the 'countercyclical buffer'. With respect to the former, the Bank will be required to maintain a capital conservation buffer of 2.5%, made up of CET1 capital, on the risk weighted exposures of the Bank as from 1 January 2019. This buffer will be phased in over the period from 1 January 2016 to 31 December 2018.

Additionally, the Bank may be required to maintain a 'countercyclical buffer'. This is expected to be set in the range of 0-2.5%, whereby the rate shall consist of the weighted average of the 'countercyclical buffer' rates that apply in the jurisdiction where the relevant exposures are located. However, given that the Bank's exposures are mainly contained within Malta, this buffer is expected to be marginal, since the deviation of Malta's credit-to-GDP ratio is not expected to be significant taking cognisance of its long-term trend.

Additional Regulatory Disclosures
For the year ended 31 December 2015

3. Capital management (continued)

3.2 Capital requirements (continued)

The Bank's capital requirements and capital adequacy ratio computation is as follows:

At 31 December 2015	Exposure value €000	Risk-weighted assets €000	Capital required €000
Central governments or Central banks	81,202	-	-
Institutions	50,296	622	50
Corporates	12,283	8,754	700
Retail	98,082	60,322	4,826
Secured by mortgages on immovable property	221,930	83,907	6,713
Items associated with particularly high risk	13,729	20,593	1,647
Exposures in default	25,797	26,722	2,138
Equity	2,461	2,461	197
Other items	20,163	18,081	1,446
Credit risk	525,943	221,462	17,717
Operational risk		22,995	2,874
Foreign exchange risk		21	3
Total capital required		244,478	20,594
Own funds			
Common Equity Tier 1			18,845
Tier 2			3,986
Total own funds			22,831
Total Capital ratio			9.3%

The Bank's parent, with the assistance of its investment-banking arm in Portugal, has embarked on a competitive bidding process to invite all prospective investors that have expressed interest in investing in the Bank to put forward their formal offers. This process should lead to the identification of a new controlling shareholder that stands ready to inject capital into the Bank to enable it to exceed regulatory requirements comfortably.

In the meantime, the Bank's Management will continue to undertake initiatives and actions to ensure that the Bank's ability to realise its assets and to discharge its liabilities is not put in doubt until the capitalisation process is concluded.

Additional Regulatory Disclosures
For the year ended 31 December 2015



3. Capital management (continued)

3.2 Capital requirements (continued)

3.2.1 Internal Capital Adequacy Assessment Process ('ICAAP')

In order to comply with Pillar 2 requirements emanating from MFSA Banking Rule BR/12 as well as to better manage its overall risk-taking activities, the Bank has continued to monitor other risks not adequately covered under Pillar 1 with a view to determine the necessary economic capital allocation through the ICAAP.

The ICAAP review exercise is supported through formal documentation, complete with the detailed description of all calculations performed, as well as assumptions and methodologies used in the process. This documentation is subject to internal validation by the different areas involved in ICAAP formulation and endorsed by the Chief Executive Officer.

The Bank formally reviews its ICAAP Report annually or more frequently from time to time in abridged format intended for internal use relating to solvency risk monitoring.

Throughout the year, the Bank continued to fine-tune procedures to ensure the adequacy of existing processes, the definition of control mechanisms and the development of new risk management practices.

For the material risk types identified in the ICAAP process, the risk quantification methodologies that were chosen took into consideration their adequacy in light of the risk management techniques in place and the availability of relevant information. The following risk types were considered material:

- i. credit risk;
- ii. liquidity risk;
- iii. interest rate risk;
- iv. position risk on the Bank's trading book;
- v. operational risk;
- vi. IT risk;
- vii. strategy risk;
- viii. compliance risk;
- ix. reputational risk;
- x. concentration risk; and
- xi. business risk.

The economic capital calculation was carried out taking into consideration a 99.0% confidence level, in line with prevailing industry levels. The Bank maintained the same general methodology as in previous ICAAP exercises, whilst making appropriate refinements and fine-tuning.

From the risk quantification exercise in the 2015 ICAAP, the top three of the eleven risk types identified above were credit risk, interest rate risk and liquidity risk; in aggregate these three risks constituted 68.3% (2014: 71.8%) of the overall economic capital allocation of the Bank. In line with expectations, credit risk consumed the highest share of economic capital given that since January 2008, the Bank has strived to develop a sound loan book through organic growth. As in 2013 and 2014, interest rate risk remained the second largest risk, attributable largely to term structure risk, i.e. the possibility of a re-calibration of general interest rates in Malta relative to rates prevailing in Europe (mainly the Euribor), hypothetically resulting in a downward pressure on local base rates against interest paid on time deposits which can only be revised once such deposits mature in accordance with time buckets defined by residual term to maturity across the deposit portfolio.

Additional Regulatory Disclosures
For the year ended 31 December 2015

3. Capital management (continued)

3.2 Capital requirements (continued)

3.2.1 Internal Capital Adequacy Assessment Process ('ICAAP') (continued)

Liquidity risk was the third most capital intensive risk, which is largely attributable to an assumed higher adverse scenario for the Bank's cost of funding spread in its latest ICAAP.

The Bank's Board of Directors sustains that the ICAAP exercise carried out covered all material risks in order to determine the capital requirement over a three-year time horizon.

The following actively participate in the Bank's ICAAP review exercise:

- Board of Directors through its executive arm - the Executive Committee;
- Internal Control Department - Risk Management Unit.

The ICAAP process and the final document has been independently followed and evaluated by the Internal Control Department – Internal Audit Unit of the Bank.

4. Leverage

With the introduction of the CRR, a new supervisory tool was introduced requiring credit institutions to calculate a non-risk based leverage ratio, in addition to the risk-based capital requirements discussed above. The leverage ratio measures the relationship between the Bank's capital resources and its total assets. The introduction of this supervisory tool is aimed at preventing build-up of excessive leverage, one of the causes of the banking crisis in 2008.

Capital is defined as Tier 1 capital in line with Article 25 of the CRR, whilst total exposure relates to the total on and off-balance sheet exposures, less deductions applied to Tier 1 capital.

The initial implementation of the current leverage ratio regime is to be effected as a Pillar 2 measure. The Commission is expected to present a report by 31 December 2016 on the impact and effectiveness of the leverage ratio to the European Parliament and the Council, which would eventually lead to the introduction of the leverage ratio as a binding measure as of 2018.

However, as described under section 2.1.1, the Bank is currently undertaking a competitive bidding process to identify a new controlling shareholder, which is expected to increase the Bank's Core Equity Tier 1 capital by injecting new capital into the Bank, thus enhancing the Bank's leverage ratio. Until the capitalisation process is finalised, the Bank is focusing on achieving financial projections for the year ending 31 December 2015 which reflect defined actions to manage the key components in the Bank's balance sheet. The main objective is to utilise the existing amount of capital in the most efficient manner without compromising the intended risk return relationship that the Bank has set.

Additional Regulatory Disclosures
For the year ended 31 December 2015



4. Leverage (continued)

The table shown below represents the amounts making up the leverage ratio exposures.

	2015 €000
On-balance sheet exposures (excluding derivatives, SFTs and intangible assets)	
On-balance sheet items (excluding derivatives, SFTs and intangible assets)	499,788
Asset amounts deducted in determining Tier 1 capital	(820)
On-balance sheet exposures (excluding derivatives and intangible assets)	498,968
Derivative exposures	
Exposure determined under Original Exposure Method	297
Securities financing transaction exposures	
SFT exposure according to Article 222 of Regulation (EU) No. 575/2013	28,100
Off-balance sheet exposures	
Off-balance sheet exposures at gross notional amount	71,367
Adjustments for conversion to credit equivalent amounts	-
Off-balance sheet exposures	71,367
Capital and Total Exposures	
Tier 1 capital	18,845
Total exposures	598,732
Leverage ratios	
End of quarter leverage ratio	3.2%
Choice on transitional arrangements and amount derecognised fiduciary items	
Choice on transitional arrangements for the definition of the capital measure	Transitional definition

Additional Regulatory Disclosures
For the year ended 31 December 2015

4. Leverage (continued)

The following table provides a reconciliation of accounting assets and leverage ratio exposures:

	2015 €000
Total assets as per published financial statements	516,907
Adjustment for off-balance sheet items	71,367
Other adjustments	
Deduction for intangible assets	(820)
Other	11,278
Leverage ratio exposure	598,732

The table below shows the different on-balance sheet exposures in relation to the calculation of the leverage ratio.

	2015 €000
Total on-balance sheet exposures (excluding derivatives, SFTs and intangible assets), of which:	498,968
Exposures treated as sovereigns	81,202
Institutions	22,080
Secured by mortgages of immovable property	220,107
Retail exposures	93,119
Corporate	11,325
Exposures in default	30,449
Other exposures	40,686

Additional Regulatory Disclosures
For the year ended 31 December 2015



5. Credit Risk

5.1 Introduction to credit risk

Credit risk is the risk that a counterparty will be unable to fulfil the terms of his/her obligations when due. In view of the nature of its business, the Bank'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 investment and loan portfolios.

The Bank's credit risk arises from various components of the statement of financial position, namely amounts due from banks, loans and advances to customers and investment in debt securities.

5.2 Credit risk management

Lending decisions should achieve a reasonable balance between risks and returns of extending credit to a customer. A credit authorisation structure, made up of four physical credit committee levels; ranging from Level 1, which includes authorisation by a Branch Manager, an Area Manager and an officer from the Credit Analysis Unit, to the highest level, being Level 4, at which the Executive Committee is in place. Each credit committee level is assigned a sanctioning limit, under which it can operate within specific guidelines. Within its discretionary limit, a credit committee can approve new credit, increase, reduce or otherwise amend the terms and conditions of existing facilities and simply renew existing facilities without altering the terms and conditions of sanction. A credit committee has the onus to make sure that the facility carries acceptable credit risk and meets credit rating requirements. Lending is not based on the existence of collateral but on the customer's perceived ability to repay the exposure from the primary repayment source. At the same time, the existence of security acts as a fall back option available in case of need. The Bank makes sure that the security held is perfected. Facilities are generally adequately secured either by cash, financial assets, property and/or guarantees and generally reviewed periodically. In a facility review, the Bank makes an analysis of a number of factors such as: the customer profile, the credit quality, non-financial considerations, adherence to internal policies and procedures and the present and future profitability of the relationship.

The Bank manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and for industry concentrations, and by monitoring exposures in relation to such limits.

During 2015, the Bank maintained its three credit policies relating to personal credit, business credit and credit risk mitigation, a central plank in the sound institutional internal control architecture.

The Bank's Credit Risk Mitigation Policy inter alia contains a detailed chapter relating to the taking, perfection and maintenance of collateral as an important tool of attaining credit risk mitigation. Briefly, it includes the main attributes of good security, the main types of acceptable collateral (e.g. cash and value cover, hypothecary charges, guarantees etc.), determination of haircuts on assets held as collateral and other matters of good practice such as, for example, taking independent Bank's architect's valuations on properties subjected to a hypothec at credit on-boarding stage, and periodically updating same at defined intervals during the life of the lending operation.

The Bank rigorously applies a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular revisions to collateral.

Additional Regulatory Disclosures
For the year ended 31 December 2015

5. Credit risk (continued)

5.2 Credit risk management (continued)

The table below reflects the Bank's maximum exposure to credit risk before collateral held or other credit enhancements in accordance with the regulatory information submitted to the MFSA, as follows:

	2015	2015
	Average exposure	Year end exposure value
	€000	€000
Central Government or central banks	31,190	81,202
Public sector entities	178	-
Institutions	140,989	50,296
Corporates	17,824	12,283
Retail exposures	64,202	98,082
Secured by mortgages on immovable property	284,922	221,930
Items associated with particular high risk	10,557	13,729
Exposures in default	14,523	25,797
Equity	615	2,461
Other items	19,364	20,163
Total	584,364	525,943
As at 31 December 2015		Year end exposure value
		€000
On-Balance Sheet exposures		516,907
Less deductions for assets that are not risk-weighted		23
On Balance Sheet exposures after deductions		516,884
Off-Balance Sheet exposures before credit conversion factor (CCF)		71,367
Less deductions through CCF		62,307
On Balance Sheet exposures after deductions		9,060

Additional Regulatory Disclosures
For the year ended 31 December 2015



5. Credit risk (continued)

5.2 Credit risk management (continued)

The residual maturity breakdown by exposure class at year-end was as follows:

At 31 December 2015	Total	Less than 1 year	Over 1 but less than 5 years	Over 5 years	No maturity
	€000	€000	€000	€000	€000
Central Government or central banks	81,202	-	-	2,830	78,372
Institutions	50,296	50,296	-	-	-
Corporates	12,283	7,913	1,539	2,831	-
Retail exposures	98,082	27,248	25,223	45,612	-
Secured by mortgages on immovable property	221,930	11,413	9,070	201,447	-
Items associated with particular high risk	13,729	7,532	4,934	1,262	-
Exposures in default	25,797	3,934	5,332	16,531	-
Equity exposures	2,461	-	-	-	2,461
Other items	20,163	7,946	1,199	7,740	3,278
Total	525,943	116,282	47,297	278,253	84,111

Within the Bank, concentration risk is the risk of losses resulting from inadequate diversification of the credit exposures. This risk is managed by setting risk concentration limits for counterparties and industry sectors, mainly in relation to loans and advances to customers. The Bank's geographical concentration risk is not deemed to be significant in view of the fact that the Bank's exposures are mainly in Malta, the country in which the Bank's operations are conducted, as well as in Portugal due to the Bank's relationship with Banif S.A.

Additional Regulatory Disclosures
For the year ended 31 December 2015

5. Credit risk (continued)

5.3 Credit concentration risk

5.3.1 Credit concentration risk analysed by counterparty

In terms of Part Four of the CRR 'Large Exposures', the total amount of exposures which exceeded 10% of eligible capital represented 12.4% of the total loan portfolio as at end of 2015 (2014: 18.1%). These exposures are strictly monitored by management and every reasonable step is taken to reduce this concentration and spread risk over a wider customer base with further growth in the loan portfolio.

The maximum on-balance sheet credit exposure to any client, group of connected clients or counterparty as at 31 December 2015 amounted to €5,385,000 (2014: €5,655,000) before taking account of collateral or other credit enhancements.

Within its daily operations, the Bank transacts with counterparty banks and other financial institutions. By conducting these transactions, the Bank is running the risk of losing funds due to the possible delays in the repayment of existing and future obligations by counterparty banks. To mitigate this risk, the Bank places short-term funds solely with pre-approved counterparties subject to pre-established limits determined on the basis of the respective institution's credit rating as well as with its parent. The positions are checked against the limits on a daily basis and in real time.

As prescribed in Article 400(2)(c), in light of the fact that both the parent and the Bank are subject to prudential supervision on a consolidated basis, the Bank's exposure arising from placements with its parent is exempt from limits to large exposures outlined in Article 395(1) of the CRR. Similarly, the Bank invests in debt securities issued by Maltese and Portuguese government. Given that these exposures attract a 0% risk weight, they are also exempt from large exposure limits.

Additional Regulatory Disclosures
For the year ended 31 December 2015



5. Credit Risk (continued)

5.3 Credit concentration risk (continued)

5.3.2 Credit concentration risk analysed by industry sector

An industry sector analysis of the Bank's exposure amounts split by exposure class is shown in the following table:

At 31 December 2015

	Total	Manufacturing	Financial services	Households and individuals	Construction	Wholesale and retail	Other sectors
	€000	€000	€000	€000	€000	€000	€000
Central Government or central banks	81,202	-	-	-	-	-	81,202
Institutions	50,296	-	50,296	-	-	-	-
Corporates	12,283	-	380	-	-	4,201	7,702
Retail exposures	98,082	2,679	9,756	41,648	4,510	16,822	22,667
<i>of which: SME</i>	55,364	2,517	9,202	-	4,506	16,776	22,363
Secured by mortgages on immovable property	221,930	4,390	4,601	198,720	3,597	4,362	6,260
<i>of which: SME</i>	22,452	4,390	4,023	-	3,597	4,258	6,184
Items associated with particular high risk	13,729	-	672	140	9,125	772	3,020
<i>of which: SME</i>	11,268	-	672	-	9,125	772	699
Exposures in default	25,797	199	2,161	9,354	195	7,565	6,323
Equity	2,461	-	-	-	-	-	2,461
Other items	20,163	-	20,163	-	-	-	-
Total	525,943	7,268	88,029	249,862	17,427	33,722	129,635

Additional Regulatory Disclosures
For the year ended 31 December 2015

5. Credit Risk (continued)

5.3 Credit concentration risk (continued)

5.3.3 Credit concentration risk analysed by geographical region

The geographical concentration of the Bank's exposure classes as at the end of the reporting period are analysed in the following table.

At 31 December 2015	Total	Malta	Portugal	Other
	€000	€000	€000	€000
Central Government or central banks	81,202	81,202	-	-
Institutions	50,296	19,614	29,033	1,649
Corporates	12,283	12,283	-	-
Retail exposures	98,082	98,012	-	70
Secured by mortgages on immovable property	221,930	219,601	-	2,329
Items associated with particular high risk	13,729	8,069	5,660	-
Exposures in default	25,797	25,616	-	181
Equity	2,461	-	-	2,461
Other items	20,163	20,163	-	-
Total	525,943	484,560	34,693	6,690

5.4 Credit quality

5.4.1 Balances with banks and debt securities

The Bank holds debt securities that are issued by local government, having a debt rating A, based on Fitch ratings. The debt securities held by the Bank are listed on the Malta Stock Exchange, which is the only recognised investment exchange in Malta.

Through its daily operations, the Bank also transacts with various counterparty banks, with which the Bank places short-term funds and enters into foreign exchange derivative transactions subject to limits in place and subject to the respective institution's credit rating being within controlled parameters. In this light, the Bank runs the risk of losing funds due to possible delays in the repayment to the Bank of the existing and future obligations of the counterparty banks. Management monitors its exposures with counterparty banks on a daily basis and intervenes, if deemed necessary, to adjust exposures within the controlled parameters. At 31 December 2015, loans and advances to banks mainly consisted of money market placements maturing within one month.

The counterparty banks with which funds are held are credit rated A or above based on Fitch ratings.

At the end of the reporting period, none of the financial assets mentioned above were past due or impaired.

Additional Regulatory Disclosures
For the year ended 31 December 2015



5. Credit Risk (continued)

5.4 Credit quality (continued)

5.4.2 Loans and advances to customers

The credit quality of loans and advances is managed by the Bank using internal credit ratings. The Bank applies a 12-step internal rating system ('IRS') which encapsulates the risk profile associated with each and every lending relationship on its banking book.

The IRS comprises 12 credit rating levels which constitute a continuum of progressively increasing risk profiles ranging from A1 (best rating, least risky) to E (loss, worst case representing full risk materialisation). The rating of every lending relationship (including groups of connected customers), is an important tool that helps management to identify both non-performing exposures and the better-performing borrowing customers.

The Bank's IRS categorises exposures as follows:

- Performing
 - High Grade (Internal rating of A1 to A3)
 - Standard (Internal rating of B)
 - Substandard (Internal rating of C)
- Non-performing
 - Doubtful (Internal rating of D1 to D6 and E)

High Grade

A customer having an internal risk rating between A1 to A3 generally would not have any interest and/or capital payments overdue by more than 30 days. Also, no recent history of default would exist. Moreover, the Bank does not foresee any losses or non-performance of these customers.

Standard

Loans and advances classified within this category, and thus having an internal risk rating of B, relate to those customers for which the Bank starts to pay more attention to, generally having interest and/or capital payments past due by more than 30 days but less than 60 days.

Substandard

Customers having an internal risk rating of C, thus classified within the 'Substandard' category, generally have interest and/or capital payments overdue by more than 60 days but not overdue by more than 90 days. In this light, such loans and advances would have inherent weaknesses that could risk the repayment of the debt, and thus a greater probability of losses for the Bank.

Doubtful

Loans and advances within this category relate to those facilities which the Bank considers the repayment of the principal as improbable as a result of deteriorating conditions. These loans and advances generally are past due by more than 90 days and include those customers which are assessed specifically for impairment by the Bank, in accordance with the requirements of IFRSs as adopted by the EU.

Additional Regulatory Disclosures
For the year ended 31 December 2015

5. Credit Risk (continued)

5.4 Credit quality (continued)

5.4.2 Loans and advances to customers (continued)

The table below analyses the credit quality of the Bank's loans and advances to customers according to its IRS:

	2015
	€000
Gross loans and advances	
High Grade	322,313
Standard	10,253
Substandard	2,578
Doubtful	32,362
	367,506

The Bank reviews all credit exposures on a case by case basis and also on a collective basis, if the exposure is not deemed individually impaired, in order to consider the likelihood that the Bank may be exposed to losses on loans and advances and with a view to taking early recovery action.

Impaired loans and advances are advances which the Bank has determined as probable that it will be unable to collect all principal and interest due according to the contractual terms of the loans and advances agreement(s).

The individually impaired loans and advances mainly relate to a number of independent customers which are not meeting repayment obligations or deemed by the Bank as unlikely to pay their obligations to the Bank without recourse by the Bank to realising the collateral.

Each year, the Bank estimates an impairment allowance for any possible incurred losses within its lending portfolio.

The Bank performs an assessment for the calculation of specific provisions when a review of credit facilities reveals that the creditworthiness of a borrower has undergone a significant deterioration and that, as a result, recovery of a credit facility is in serious doubt. The Bank makes an assessment for specific impairment for those credit facilities being overdue by 90 days and provides if there is a shortfall. The shortfall or surplus is calculated as the difference between the individual loans' carrying amounts and the present value of future cashflows, discounted at the loans' original effective interest rate. The calculation of the present value of estimated future cashflows takes into account the estimated time to liquidation of the collateral, the costs involved in obtaining and selling the collateral, as well as an appropriate haircut on the market value of the collateral.

The Bank assumes that all its exposures are individually significant. Accordingly, allowances are assessed collectively for individually significant loans and advances where there is not yet objective evidence of individual impairment.

Financial guarantees and letters of credit are assessed and provision is made in a similar manner as for loans.

Additional Regulatory Disclosures
For the year ended 31 December 2015



5. Credit Risk (continued)

5.4 Credit quality (continued)

5.4.2 Loans and advances to customers (continued)

The following table presents a reconciliation of changes in the specific and collective impairment allowances of the Bank:

Specific impairment allowances	Total	Manufacturing	Households and individuals	Construction	Wholesale and retail	Other
	€000	€000	€000	€000	€000	€000
At 1 January 2015						
At beginning of year	3,583	280	1,607	130	863	703
Additions	2,122	-	857	14	1,029	222
Reversals	(1,053)	(78)	(686)	(7)	(117)	(165)
At 31 December 2015	4,652	202	1,778	137	1,775	760

Collective impairment allowances	Total	Manufacturing	Households and individuals	Construction	Wholesale and retail	Other
	€000	€000	€000	€000	€000	€000
At 1 January 2015						
At beginning of year	2,304	36	1,087	182	380	619
Additions	1,742	79	655	87	262	659
Reversals	(1,446)	(15)	(894)	(90)	(95)	(352)
At 31 December 2015	2,600	100	848	179	547	926

Additional Regulatory Disclosures
For the year ended 31 December 2015

5. Credit Risk (continued)

5.4 Credit quality (continued)

5.4.2 Loans and advances to customers (continued)

Past due but not impaired loans include loans and advances where contractual interest or principal payments are past due, but the Bank believes that impairment is not appropriate based on the stage of collection of amounts owed to the Bank. Related credit losses, which may arise, are partly covered through the Bank's assessment for collective impairment allowances.

Loans and advances to customers are analysed into impaired, past due and other exposures as follows:

	2015
	€000
Gross loans and advances to customers	
Impaired	15,152
Past due but not impaired	18,982
Neither past due nor impaired	333,372
	367,506

The following table analyses the impaired and the past due but not impaired gross loans and advances to customers by industry sector:

	Impaired	Past due but not impaired
	€000	€000
Gross loans and advances by industry		
Manufacturing	382	786
Households and individuals	6,149	6,641
Construction	120	2,934
Wholesale and retail	6,357	2,757
Other sectors	2,144	5,864
	15,152	18,982

The Bank's impaired and past due but not impaired loans and advances to customers were primarily concentrated in Malta.

The Bank writes off loan or advance balances (and any related allowances for impairment losses) when it determines that these are uncollectible. This decision is reached after considering information such as the occurrence of significant changes in the borrower's financial position such that the borrower can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure.

5.4.3 Use of External Credit Assessment Institutions (ECAIs)

The Bank applies the Standardized Approach for credit risk to calculate Pillar 1 minimum capital requirements in line with the CRR.

Additional Regulatory Disclosures
For the year ended 31 December 2015



5. Credit Risk (continued)

5.4 Credit quality (continued)

5.4.3 Use of External Credit Assessment Institutions (ECAIs) (continued)

For credit risk, risk weights for the securities held as part of the trading book or pledged as collateral against banking facilities are determined by taking the worst credit rating by widely accepted and recognized ECAIs viz.: Fitch Ratings; Moody's Investors Service; and Standard & Poor's Financial Services LLC. Regulatory risk weights are used for unrated exposures and in respect of the part of loan book which is not collateralized by pledged ECAI-rated financial assets.

Ratings	Credit quality steps	Loans and advances to banks
		€000
AAA to AA-	1	544
A+ to A-	2	19,862
BBB+ to BBB-	3	29,775
Total		50,180

5.5 Counterparty credit risk on derivatives

In respect of derivative transactions, specific guidelines that are reviewed on an on-going basis, have been formalised. These guidelines prescribe the following parameters: the list of acceptable currencies, the maximum transaction size, the list of acceptable counterparties, counterparty creditworthiness, and the type of derivative contract that may be entered into.

Specifically, either forward contracts or swaps, may be dealt in. Forward contracts are traded against a pre-defined collateral to mitigate against counterparty credit risk. Forward foreign exchange risk exposures are precluded. Counterparties with whom swaps are traded are pre-approved credit institutions with whom the Bank holds a mutual long term relationship. Derivative transactions are governed by the European Market Infrastructure Regulation (EMIR).

The Bank's exposure from derivative contracts as at 31 December 2015 was as follows:

	2015
	€000
Forwards	1,446
Swaps	13,843
	15,289

Additional Regulatory Disclosures
For the year ended 31 December 2015

5. Credit Risk (continued)

5.6 Collateral and other credit enhancements

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. The Bank's Board establishes a policy regarding the acceptability of types of collateral and valuation parameters.

The main types of collateral obtained are as follows:

- For corporate lending, charges over real estate properties, cash or securities;
- For retail lending (including home loans and consumer credit), mortgages over residential properties, cash or securities; and
- For exposures arising from reverse repurchase transactions, a pledge on liquid sovereign debt securities.

The Bank's exposures arising from derivative transactions are considered marginal by the Bank. Accordingly, the Bank does not obtain credit risk mitigants and hence does not make use of netting agreements.

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

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

The table below represents for each exposure class, the total exposure value that is covered by eligible collateral, analysed into Residential immovable property, Commercial immovable property and Other eligible collateral. In the case of exposure secured by mortgage on immovable property, the value is limited to 70% of the market value of the property or the mortgage lending value of the property in the case of residential property, and 50% of the market value of the property or 60% of the mortgage lending value of the property in the case of commercial property. The Bank also holds other eligible collateral classified as funded credit protection, such as cash and life insurance policies, as well as liquid sovereign debt securities held as pledge on reverse repurchase transactions, for which the Bank assigns a 0% risk weight when calculating its risk-weighted assets in accordance with Article 222(4). Before application of the 0% risk weight, the mark-to-market value of the sovereign paper collateralizing the reverse repos, is topped up by 20%. Effectively, in transferring the risk on the sovereign through the collateral, a 20% haircut is applied on the sovereign issuer.

Additional Regulatory Disclosures
For the year ended 31 December 2015



5. Credit Risk (continued)

5.6 Collateral and other credit enhancements (continued)

At 31 December 2015	Total exposure value €000	Immovable property		Other eligible collateral €000	Residual value €000
		Residential immovable property €000	Commercial immovable property €000		
Central governments or Central banks	81,202	-	-	-	81,202
Institutions	50,296	-	-	(28,100)	22,196
Corporates	12,283	(639)	(1,425)	(3,227)	6,992
Retail exposures	98,082	-	(46,994)	(13,334)	37,754
Secured by mortgages on immovable property	221,930	(220,009)	(1,921)	-	-
Items associated with particularly high risk	13,729	(3,943)	(7,442)	(23)	2,321
Exposures in default	25,797	(15,596)	(10,007)	(131)	63
Equity exposures	2,461	-	-	-	2,461
Other items	20,163	-	-	-	20,163
Total	525,943	(240,187)	(67,789)	(44,815)	173,152

Additional Regulatory Disclosures
For the year ended 31 December 2015

6. Liquidity Risk – Asset Encumbrance

Further to Sec. 3.4 entitled “Liquidity Risk”, the following disclosures are made in respect of asset encumbrance in compliance with Banking Rule BR/07 which transposes the EBA Guidelines on Disclosure of Encumbered and Unencumbered Assets (EBA/GL/2014/03).

The disclosure is intended to highlight the available and unrestricted assets that could, in extremis, be used to sustain potential funding needs at a future time, and/or collateral requirements. An asset is deemed to be encumbered when it is pledged as collateral in respect of an existing liability and in consequence is therefore rendered out of reach to the institution towards the purpose of raising funds, meeting collateral requirements or being sold to contain the need for funding.

At 31 December 2015	Carrying amount of encumbered assets €000	Carrying amount of unencumbered assets €000	Total carrying amount €000	Risk weighted encumbered assets €000	Risk weighted unencumbered assets €000	Total risk weighted amount €000
Central governments or Central banks made up of:	7,628	73,574	81,202			
<i>Cash pledged for DCS</i>	1,404	-	1,404	-	-	-
<i>Reserve deposit</i>	3,394	-	3,394	-	-	-
<i>Securities pledged for DCS</i>	2,830	73,574	76,404	-	-	-
Public sector entities	-	500	500	-	-	-
Institutions	-	50,413	50,413	-	622	622
Corporates	-	14,312	14,312	-	8,754	8,754
Retail	-	135,479	135,479	-	60,322	60,322
Secured by mortgages on immovable property	-	243,190	243,190	-	83,907	83,907
Items associated with particularly high risk	-	14,459	14,459	-	20,593	20,593
Exposures in default	-	26,072	26,072	-	26,722	26,722
Equity	-	2,461	2,461	-	2,461	2,461
Other items made up of:	4,880	15,283	20,163	4,880	13,201	18,081
<i>Visa collateral</i>	2,880	-	2,880	2,880	-	2,880
<i>Collateral pledged for SEPA payments</i>	2,000	15,283	17,283	2,000	13,201	15,201
Total credit risk	12,508	575,743	588,251	4,880	216,582	221,462

Additional Regulatory Disclosures
For the year ended 31 December 2015



7. Market Risk

7.1 Trading book

The Bank does not, at the present time, hold a significant trading book.

As at balance sheet date, the Bank had a very small trading book which amounted to €2,830,290 on a marked-to-market basis. On this basis, in terms of CRR Article 94, the Bank enjoyed a derogation from the requirement to set aside Pillar I capital in respect of position risk on the trading book.

In terms of CRR Article 92 (3) (c), the Bank has allocated Pillar I regulatory capital in respect of foreign-exchange risk amounting to €21,643.

In the eventuality that a greater level of trading book activity is resorted to at some future date, the Bank has established clearly defined Treasury Unit thresholds and limits beyond which top management authorisation to proceed would be required.

7.2 Exposure in equities not included in trading book

As already referred in Note 8 entitled “Financial investments available-for-sale”, in 2015 the Bank has ensured a gain of €2.461m as part of the process of acquisition by Visa Inc. of Visa Europe Ltd. During the current financial year, Visa Inc. announced its proposed acquisition of Visa Europe Limited, subject to regulatory approval. The Bank is a member of Visa Europe Limited and holds one ordinary share of €10, although only limited value was attached to the share. Voting and any economic rights relating to the shares are broadly based on the sales volumes of the particular member. As set out in the announcement by Visa Inc., there is an up-front consideration receivable on completion of the transaction which comprises cash and preferred stock convertible into Visa Inc. class ‘A’ common stock. Additional deferred cash consideration may also be receivable following the fourth anniversary of closing of the transaction subject to an earn-out mechanism. The preferred stock and earn-out elements of the consideration are contingent upon certain factors. As at 31 December 2015, the Bank increased the carrying amount of its €10 share in Visa Europe Limited by €2,461,000 to reflect the value emanating from the proposed transaction. The fair value of the Bank’s interest in Visa Europe Limited has been assessed on the basis of the expected consideration to be received from the proposed sale to Visa Inc. which transaction is expected to be completed during 2016. Prior to the announcement of the proposed transaction, the Directors believe that there was no value to assign to the membership because there were no rights to consideration and accordingly the fair value attributable for the membership was not evident. Accordingly, prior to 31 December 2015, the Bank recognised the membership share at its nominal value.

7.3 Securitization position

As at balance sheet date, the Bank did not hold any securitization positions and accordingly, no own funds requirement for specific interest rate risk of securitization positions arose.

7.4 Interest rate risk (IRR)

IRR reporting is regularly made to the MFSA as part of the “Other BRs” return.

The Bank’s exposure to IRR was duly considered in the Internal Capital Adequacy Assessment Process (ICAAP). The following considerations were made:

- That the local banking scenario is effectively not tied to the prevailing Euribor rates applicable on the European mainland;
- Instead, local credit interest rates are set at a higher level of interest and lending base rates hover around 2.5% p.a.; and
- That market pressure to reduce interest rates could be experienced at banking industry level.

Additional Regulatory Disclosures
For the year ended 31 December 2015

7. Market Risk (continued)

7.4 Interest rate risk (IRR) (continued)

Accordingly, the following interest rate falls were simulated:

- Base: reduction of 1.00%;
- Stress testing magnitude 1: reduction of 1.25%; and
- Stress testing magnitude 2: reduction of 1.50%.

Additionally, an interest rate rise of 1.00% was also considered but was not stressed in view that any such increase (as unlikely as it might be within the prevailing local context), would have a beneficial, not detrimental effect on earnings.

The effect on IRR of an adverse variation in earnings was also considered in the ICAAP exercise by delving into the correlation between gross income and total costs over a 24-month historical time series.

The resultant unexpected losses from such scenarios were quantified as additional IRR economic capital requirement and duly included in the ICAAP.

7.5 Non-maturity deposits

The Bank regularly monitors the actual level of withdrawal of its on-demand deposits (mainly customer credit balances on current and savings accounts). Whilst the theoretical level is 100%, in practice only a limited portion is actually drawn out by depositors. Weekly readings on on-demand deposits are gathered in a statistical database spanning a long historical “look-back” period. Such data is then used to calculate a value-at-risk (VaR) metric relating to the actual level of withdrawals under the historical simulation approach. An even more stringent metric viz. the Expected Shortfall (ES) is then calculated. Both metrics are deduced at a stringent confidence level of 99.0%. The ES is then stressed by a further 30% to construct a stressed metric which represents the “on-demand” deposits runoff rate.

Such rate was disclosed to the Regulator in the Internal Liquidity Adequacy Assessment Process (ILAAP) and was a low level of actual withdrawal. The said runoff rate is regularly monitored, reported and considered by top-level committees viz. the Assets and Liabilities Committee and the Global Risk Committee in order to take timely corrective action, if warranted, in respect of both IRR and Liquidity Risk.

7.6 Currency risk

The Bank manages currency risk by ensuring that foreign currency liabilities are utilised to fund assets denominated in the same foreign currency thereby matching asset and liability positions as is practicable. This mechanism is reflected in the figures reported in the tables on the following page which present this matching process.

The Bank also enters into forward exchange contracts with customers in the normal course of its business. It is the Bank’s policy to cover the exposure arising from forward contracts.

Additional Regulatory Disclosures
For the year ended 31 December 2015



7. Market Risk (continued)

7.6 Currency risk (continued)

	Total €000	EUR €000	GBP €000	USD €000	Other €000
As at 31 December 2015					
Total financial assets	504,418	478,065	10,925	13,893	1,535
Total financial liabilities	491,097	454,368	10,389	24,853	1,487
Net on-balance sheet position			536	(10,960)	48
Off-balance sheet net notional position			532	10,821	-
Net currency exposure			4	(139)	48

8. Operational Risk

Whilst the Bank uses the Basic Indicator Approach (BIA) to estimate unexpected losses relating to operational risk, as a matter of good practice, it also simulates the capital charge under a hypothetical, more sophisticated, Standardized Approach (SA).

As at balance sheet date, the following comparative figures applied:

	Operational Risk Capital Charge €000
Standardised Approach (simulation)	1,705
Basic Indicator Approach (actual)	1,840
Difference	135

The more taxing approach, viz. BIA was applied.

Operational risk events are identified internally through regularly trained operational risk managers, positioned in all Bank units and also from validated customer complaints received. Additionally, scanning of major and relevant external events is carried out in order to consider for inclusion in the operational risk database.

The level of sophistication of operational risk activity is being enhanced on an ongoing basis; in 2015 the Key Performance Indicator and Key Risk Indicator tools were introduced.

Additional Regulatory Disclosures
For the year ended 31 December 2015

9. Remuneration policy

During 2015 the Bank has established a Remuneration Committee, responsible for reviewing the remuneration policy of the Bank and to make any recommendations as the Committee deems appropriate in the light of the general strategic interests of the Bank and the regulations. It also determines and reviews the Remuneration Policy applicable to the Bank's 'Identified Staff' in terms of Commission Delegated Regulation 604/2014.

9.1 Board of Directors

The Bank's Chairman and non-executive Directors are not eligible to receive a performance incentive. Accordingly, none of these directors were entitled to profit sharing, share options, pension benefits, variable remuneration or any other remuneration or related payments in their capacity as directors of the Bank. The fees paid to non-executive Board members during 2015 amounted to €78,446, which are analysed as follows:

	€
Michael Frendo - Chairman	41,300
Edward Cachia Caruana	12,728
Kenneth Mizzi	7,500
Maurice Mizzi	7,690
Mark Portelli	9,228
Total Directors' fees	78,446

9.2 Executive Committee

The Board feels that the current Executive Committee has the necessary skills and qualities to manage the affairs of the Bank and considers the packages offered to its members sufficient to ensure that the Bank attracts and retains senior staff capable of fulfilling their duties. The Bank's policy remains to engage these officials on an indefinite contract of employment, following a period of probation. All contracts are in line with the relevant legislation, with all terms and conditions being specified in the said contracts of employment.

Annual salary increases, which are not performance related, are considered every year for the Executive Committee members, together with annual bonuses, which are generally based on the individual performance during the previous financial year. Any bonus payments made to Executive Committee members do not exceed 100% of their fixed component of total remuneration for each individual.

Share options, share incentive schemes and profit sharing do not feature in the Bank's remuneration policy, and the Executive Committee members' contracts of employment do not contain provisions for termination payments and/or other payments linked to early termination, other than those determined by the Law. Moreover, no pension benefits are currently payable by the Bank.

Non-cash benefits include health insurance as well as death-in-service benefits.

Total emoluments received by Executive Committee members during the period ended 31 December 2015 amounted to €343,778, split as follows:

Fixed remuneration	Variable remuneration
€274,887	€68,891

Additional Regulatory Disclosures
For the year ended 31 December 2015



10. Number of directorships held by the members of the Board of Directors

Further to article 91 of the CRD IV, the Bank is listing the number of directorships held by the members of the Board of Directors. The number of directorships, both for the Executive Directorship (ED) and Non-Executive Directorship (NED) forming part of the same group are considered as one directorship.

Dr Michael Frendo	2 ED + 1 NED
Mr Joaquim Silva Pinto	1 ED
Mr Edward Cachia Caruana	1 ED + 1 NED
Mr Jorge Humberto Correia Tomé	1 ED
Mr Luís Carlos Ferreira Avides Moreira	1 ED
Mr Paulo Eduardo Machado Fernandes	1 ED
Mr Adrian Coppini	2 ED
Ms Maria Teresa Henriques Silva Moura Roque Dal Fabbro	1 ED + 1 NED
Mr Kenneth Mizzi	3 ED + 3 NED
Chev. Maurice Mizzi	4 ED + 3 NED
Mr Mark Portelli	2 ED + 4 NED

FIVE YEAR SUMMARY

Statements of Financial Position
As at 31 December



Five year summary

Statements of Financial Position As at 31 December

	2015 €000	2014 €000	2013 €000	2012 €000	2011 €000
ASSETS					
Balances with Central Bank of Malta and cash	81,650	29,008	93,898	7,119	7,771
Cheques in course of collection	737	2,097	1,642	3,386	4,323
Financial investments held-for-trading	-	21,464	16,254	22,405	32,617
Financial assets at fair value through profit or loss	-	-	-	500	-
Financial investments available-for-sale	5,291	2,254	1,900	1,132	22,290
Loans and advances to banks	50,185	166,745	121,645	107,622	127,780
Loans and advances to customers	360,254	378,154	342,341	320,048	259,179
Property and equipment	7,740	8,062	7,587	6,369	6,441
Intangible assets	820	1,071	899	664	728
Deferred tax asset	3,003	4,561	5,230	5,386	5,461
Derivative financial instruments	23	899	625	3	109
Prepayments and accrued income	1,704	2,091	1,954	1,934	3,533
Other assets	5,500	2,663	2,305	2,128	122
TOTAL ASSETS	516,907	619,069	596,280	478,696	470,354
EQUITY					
Share capital	32,500	32,500	32,500	32,500	32,500
Retained earnings	(10,008)	(10,457)	(11,059)	(10,993)	(11,166)
Revaluation reserve	2,026	317	87	38	(4)
Reserve for General Banking Risks	844	446	190	-	-
TOTAL EQUITY	25,362	22,806	21,718	21,545	21,330
LIABILITIES					
Amounts owed to banks	3,577	214	5,999	13,844	181,518
Amounts owed to customers	474,294	579,203	554,007	430,996	261,873
Derivative financial instruments	448	840	192	51	34
Debt securities in issue	5,000	5,000	5,000	5,000	-
Other liabilities	3,952	4,722	2,686	2,388	2,787
Accruals and deferred income	4,274	6,284	6,678	4,872	2,812
TOTAL LIABILITIES	491,545	596,263	574,562	457,151	449,024
TOTAL EQUITY AND LIABILITIES	516,907	619,069	596,280	478,696	470,354
Memorandum items					
Contingent liabilities	10,842	11,536	8,101	8,101	7,311
Commitments	61,953	62,279	72,958	63,647	67,060

Five year summary (continued)

Income Statements

For the year ended 31 December

	2015 €000	2014 €000	2013 €000	2012 €000	2011 €000
Interest receivable and similar income					
- on loans and advances and balances with the Central Bank of Malta	19,693	22,899	20,291	16,384	10,823
- on debt securities classified as loans and receivables	-	-	256	328	789
- on debt and other fixed income instruments	93	102	3,060	283	567
Interest payable and similar expense	(9,499)	(14,260)	(15,480)	(10,196)	(5,996)
Net interest income	10,287	8,741	8,127	6,799	6,183
Fees and commission income	2,886	2,704	2,204	1,781	1,597
Fees and commission expense	(690)	(588)	(510)	(433)	(342)
Net fees and commission income	2,196	2,116	1,694	1,348	1,255
Net trading income and other income	1,363	3,071	2,102	2,604	1,359
Net gain on sale of investment securities	-	-	161	-	-
Other operating income	-	-	29	-	-
Net operating income	13,846	13,928	12,113	10,751	8,797
Employee compensation and benefits	(5,395)	(5,287)	(5,162)	(4,735)	(4,349)
Other administrative expenses	(4,721)	(4,538)	(4,650)	(4,197)	(3,690)
Depreciation of property and equipment	(569)	(540)	(471)	(461)	(467)
Amortisation of intangible assets	(305)	(341)	(258)	(206)	(224)
Net impairment losses	(1,369)	(1,820)	(1,319)	(902)	(820)
Profit before tax	1,487	1,402	253	250	(753)
Income tax (expense)/credit	(640)	(544)	(129)	(77)	175
Profit/(loss) for the year	847	858	124	173	(578)
Earnings per share	2c6	2c6	0c4	0c6	(2c1)



Five year summary (continued)

Statements of cash flows

For the year ended 31 December

	2015 €000	2014 €000	2013 €000	2012 €000	2011 €000
Cash flows from operating activities	22,682	25,548	22,586	18,289	13,152
Interest, fees and commission received	(11,936)	(15,494)	(14,277)	(8,722)	(5,741)
Interest, fees and commission paid	1,668	1,824	1,776	3,791	(332)
Proceeds/cash losses from trading activities	(10,315)	(9,836)	(9,812)	(8,855)	(7,817)
Payments to employees and suppliers					
Cash flows from operating profit before changes in operating assets and liabilities	2,099	2,042	273	4,503	(738)
<i>(Increase)/decrease in operating assets:</i>					
Reserve deposit with Central Bank of Malta	520	(356)	(836)	417	1,809
Loans and advances to banks	-	80,000	(80,000)	1	282
Loans and advances to customers	16,534	(40,965)	(26,584)	(65,578)	(93,964)
Other loans and receivables	-	3,333	3,123	3,808	(9,962)
Other assets	(1,621)	(1,145)	1,069	995	(4,611)
<i>(Decrease)/increase in operating liabilities:</i>					
Amounts owed to banks	-	(5,000)	(7,800)	(26,467)	39,267
Amounts owed to customers	(104,909)	25,196	123,011	169,123	(171,806)
Other liabilities	(583)	2,210	366	(650)	447
	(87,960)	65,315	12,622	86,152	(239,276)
Income tax paid	-	-	-	(2)	(3)
Net cash flows from operating activities	(87,960)	65,315	12,622	86,150	(239,279)
Cash flows from investing activities					
Property, plant and equipment and intangible assets	(421)	(1,447)	(2,122)	(388)	(1,711)
Financial investments available-for-sale	(409)	-	(528)	21,240	(22,294)
Financial investments held for trading	21,937	(14,732)	6,061	9,552	(27,742)
Financial assets at fair value through profit or loss	-	-	500	(500)	-
Proceeds from sale of held for trading investments	-	11,093	-	-	-
Interest received on available-for-sale investments	91	104	3,067	355	486
Net cash flows used in investing activities	21,198	(4,982)	6,978	30,259	(51,261)
Cash flows from investing activities					
Proceeds from issue of preference shares	-	-	-	-	7,500
Proceeds from issue of debt securities	-	-	-	5,000	-
Net cash flows used in financing activities	-	-	-	5,000	7,500
Net increase in cash and cash equivalents	(66,762)	60,333	19,600	121,409	(283,040)
Cash and cash equivalents at beginning of year	190,222	129,889	110,289	(11,120)	271,920
Cash and cash equivalents at end of year	123,460	190,222	129,889	110,289	(11,120)

Five year summary (continued)

Accounting Ratios

	2015 %	2014 %	2013 %	2012 %	2011 %
Net interest income and other operating income to total assets	2.68	2.25	2.03	2.25	1.87
Operating expenses to total assets	2.13	1.73	1.77	2.01	1.86
Cost to income ratio	79.37	76.87	87.02	89.28	99.24
Profit/(loss) before tax to total assets	0.29	0.22	0.04	0.05	(0.16)
Profit/(loss) before tax to equity	5.86	6.14	1.16	1.16	(3.53)
Profit/(loss) after tax to equity	3.34	3.76	0.57	0.80	(2.71)
	2015	2014	2013	2012	2011
Shares in issue (millions)	32.5	32.5	32.5	32.5	32.5
Net assets per share (€0 cents)	78	70	66	66	66
Profit/(loss) per share (€0 cents)	2.61	2.64	0.38	0.63	(2.10)



Supplementary financial information

Shareholding information

The issued share capital stood at €32,500,000 as at 31 December 2015, made up of 32,500,000 (2014: 32,500,000) fully paid up ordinary shares of €1 each.

The ordinary shares are held as follows:

	No. of shares
Oitante, S.A. (511 029 730)	25,500,000
PG Holdings Ltd (C 8569)	1,750,000
Virtu Investments Ltd (C 42860)	1,750,000
Mizzi Capital Projects Ltd (C 42406)	1,750,000
SAK Ltd (C 3240)	1,750,000
	32,500,000

The percentage holdings stand as follows:

	%
Oitante, S.A. (511 029 730)	78.48
PG Holdings Ltd (C 8569)	5.38
Virtu Investments Ltd (C 42860)	5.38
Mizzi Capital Projects Ltd (C 42406)	5.38
SAK Ltd (C 3240)	5.38
	100.00

Each of the shareholders owning five point thirty-eight per centum (5.38%) of the ordinary issued share capital, are entitled to appoint one Director in line with the Bank's Articles of Association. Each ordinary share entitles the shareholder to one voting right.