



LOMBARD
Lombard Bank Malta p.l.c.

2015
ANNUAL REPORT



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Lombard Bank Malta p.l.c.

HEAD OFFICE

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ANNUAL REPORT 2015

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Chairman's Statement to the Members

During 2015 the operating environment for banks remained difficult, as further declines in policy and market interest rates combined with the persistence of subdued credit activity and increased regulatory and compliance-related costs inevitably impacted profitability. In these circumstances, the continued achievement of strong balance sheet fundamentals by Lombard Bank Malta p.l.c. (the Bank) evidenced in this report is a satisfactory outcome.

Interest income, typically the largest single revenue source for banks, experienced a marked reduction in 2015 as both the Bank's lending activities and its investment portfolio yielded lower returns. Smaller average loan balances, reflecting both a more cautious lending policy necessitated by the new rules as well as weaker credit activity, together with reduced lending rates explain most of the decline. The Bank's investment portfolio, however, also contributed in spite of a higher volume of investible funds, as the further easing of monetary policy by the ECB during the year resulted in a greater tendency for negative interest rates to be offered on both short-term government securities and money market placements.

Interest payable also fell in 2015 despite continued strong fund inflows. This was the combined outcome of an increased customer preference for deposits repayable on demand and lower average rates. The reduction in interest paid out, however, offset only in part the contraction in interest earned such that the Bank's net interest income fell. Transaction banking activities, however, generated a higher amount of fee and commission-based income and this, together with increased dividends from the Bank's subsidiary, contributed to a gain in total operating income.

The Bank's operating expenses also rose during the year, resulting in a higher cost-to-income ratio. Apart from the cost of retaining qualified staff in the face of stiff competition, this is explained by increased regulation and compliance-related expenditures as well as further investment in information systems and card services infrastructure.

These movements in income and expenditure produced a €0.5 million year-to-year drop in net profit before tax and

impairment, to €9.1 million, compared with a fall of €1 million the previous year. After setting aside €3.1 million in impairment allowances, somewhat less than in 2014 reflecting improvements in the quality of the loan book, the Bank's net profit before tax amounted to €6.0 million in 2015.

During the year the Bank made a third, and final allocation of €0.8 million to the Reserve for General Banking Risks created in compliance with the revised Banking Rule BR/09, which is required to be funded from planned dividends. The cumulative amount thus allocated is €2.6 million. In these circumstances the Board of Directors recommends a gross dividend of 4 cent per share for 2015. It is further proposing that shareholders be given the option of receiving the dividend in the form of shares in lieu of cash.

I am also pleased to report that the Bank's capital position strengthened further in 2015. The total capital ratio stood at 17.4% at year end, up from a year ago and well above the regulatory minimum of 8%. The liquidity ratio was also higher at 76.3%, compared to the required level of 30%. It is significant that at these levels the Bank had already achieved the minimum capital and liquidity buffers due to take effect in 2019 under the EU's CRD IV regulation. A further indicator of the Bank's financial strength is the level of shareholders' funds, which grew by €6.0 million to €87.1 million. A natural consequence of such a large capital base is that the Bank's return on capital employed, at 4.6%, appears relatively low.

Meanwhile, the Bank's subsidiary MaltaPost p.l.c. recorded a higher profit before tax in 2015. This reflected the success of recent investments in new lines of business designed to compensate for the declining importance of letter mail. As a result, the consolidated Group profit before tax for the year rose to €7.8 million.

Developments on two key fronts in 2015 reinforced the view that the traditional retail banking model needs to adapt if banks are to continue to perform their intermediation function while remaining profitable. The first is the seeming inability of the euro area economy to achieve a sustained, job-creating recovery. With projections for global growth



Chairman's Statement to the Members

recently revised downwards in a context of financial and commodity market volatility and rising geopolitical tensions, monetary policy is set to become even more accommodative, presaging an extended period of very low interest rates. There is growing evidence that banks in the euro area are already having difficulty in absorbing the cost of funds placed at negative rates with central banks as the repeated cuts in the ECB's deposit rate are leaving their mark on profit levels. This, in turn, could affect the capacity of banks to add to their capital buffers and to extend credit.

It has also become clear that the regulatory model embodied in the Single Supervisory Mechanism (SSM), which does not seem to allow any measure of discretion to national authorities to take account of different country circumstances, will continue to be applied in its present form, notwithstanding its potential to promote risk aversion in lending operations. A strict application of the new rules on lending may be warranted in a context of economic stagnation, undercapitalized banks and bailouts. Throughout the global financial crisis, however, Malta's core domestic banks displayed financial soundness indicators that demonstrated a high degree of resilience. Indeed, the latest assessment by the Central Bank of Malta speaks of these banks having ample capital and liquidity ratios well above required levels, declining non-performing exposures, strengthened coverage ratios and loan-to-deposit ratios considerably lower than the euro area average. These results of the time-tested model of relationship banking practised in Malta would seem to merit greater recognition from a regulatory standpoint.

The new regime also impinges increasingly on profitability. This is particularly the case of the smaller banks which do not benefit from economies of scale. The cost of regulation and compliance, which rose again in 2015, is set to grow further as measures come into force on capital adequacy, information sharing and anti-money laundering, and contributions made to the Single Resolution Fund and the SSM. In the context of the pressures on the main income streams described above, the demands on the Bank's human and financial resources implied by such measures represent considerable operational constraints.

During 2015 the Board of Directors duly reassessed the Bank's strategic direction to take account of these realities. We will continue to implement the recommendations arising from the 2014 Asset Quality Review designed to strengthen the Bank's capacity to absorb and manage risk. At the same time, and despite the competitive market conditions, we are establishing new customer relationships that should generate additional income while proving consistent with the narrow interpretation being given to the regulations on the grading of loans. Concurrently, existing loan exposures not deemed to be similarly consistent will continue to be reduced. We have also extended the range of products offered in the area of transaction banking and plans are in hand to expand our dedicated asset and portfolio management advisory service. The sovereign component of the Bank's investment portfolio, meanwhile, has been increased and its maturity structure altered so as to benefit from higher yields compatibly with the Bank's prudent risk appetite. At our subsidiary MaltaPost p.l.c. too, investment in new drivers of growth will continue with a focus on financial services and logistics.

In the current environment, reconciling the interests of the Bank's different stakeholders while adjusting our risk appetite to comply with the new regulatory requirements and simultaneously ensuring profitability is a challenge that the Board is determined to face through a further evolution of the Bank's business model and investment in its IT and human resources.

Finally, on behalf of the Board I would like to commend the staff and the management team whose hard work and commitment, under the able leadership of the Chief Executive Officer, Joseph Said, made the past year's results possible. I would also like to thank you, the Bank's shareholders, for your continued support as well as all our customers for their loyalty.



Michael C. Bonello
Chairman



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Chief Executive Officer's Review of Operations

The results for the financial year ended 31 December 2015 of the Lombard Bank Group combine the financial performance of Lombard Bank Malta p.l.c. and Redbox Limited which is the company holding the Bank's shares in MaltaPost p.l.c..

SUMMARY OVERVIEW

The turmoil that most world markets experienced in 2015 and the slowdown in China have sent economies on divergent and unstable paths. The ECB and national central banks in the eurozone embarked on a campaign of quantitative easing by buying sovereign bonds at a monthly rate of 60 billion euros. This caused bond prices to surge and the euro to slump against the dollar. Driven in the main by domestic demand, the local economy experienced robust growth during this period. The labour market continued to expand, with unemployment remaining at historically low levels.

The European banking regulators continued with their one-size-fits-all approach by implementing rules that were in fact designed for sanitising troubled jurisdictions. Nevertheless the Bank remains fully committed to abide by and satisfy all regulatory requirements – even though this may result in giving less weight to traditional and time-tested tenets of good lending that had protected it from those crises which plagued some other jurisdictions.

Against this background, the Bank held diminished enthusiasm in extending facilities for start-up projects. By their very nature such projects invariably entail deviations from their original forecasts. In today's regulatory environment such a situation brings about the need to downgrade the facility and, at times, also to increase provisions.

The highly liquid euro money market together with record low or even negative interest rates placed significant pressure on income earned from our Treasury operations. Nevertheless, transaction banking remained on a strong growth path resulting in improved fee-based income.

The Bank continues to give primary importance to safeguarding depositor funds as well as to the enhancement of shareholder value. Robust financial ratios were maintained throughout the year and assets were prudently invested, shying away from investments promising short-term gain.

At MaltaPost the challenging postal services market continues to see Letter Mail activities shrink year-on-year. Despite this, MaltaPost continued to experience healthy growth in e-commerce parcel business where the company already offers a wide choice of delivery services. Investment in infrastructure and processes continued so as to ensure commercial and operational agility enabling the company meet service level expectations. In its FYE2015 MaltaPost registered a Profit Before Tax of €3.38 million, an increase of 23.6% over the previous year.

REVIEW OF FINANCIAL PERFORMANCE

Group Profit Before Tax and Net Impairment Losses was maintained at €10.92 million for FYE 31 December 2015. This was marginally higher than €10.86 million registered in 2014 even though 2015 was characterised by record low interest rates and subdued lending activity. The Group's postal services benefitted from increased e-commerce thus compensating for the decline in traditional Letter Mail.

Driven by the ECB's highly accommodative monetary policy which keeps lowering interest rates, our Net Interest Income at €13.14 million dipped by 8% over the previous year. The low rates also brought about reduced income from our Treasury activity. Transaction banking revenue however remained on the increase, contributing positively to Net Fees and Commission Income. Postal Sales and Other Revenues increased by 8.4% to €24.56 million.

On the expenditure side, Employee Compensation and Benefits rose by 2.8% to €16.53 million while Other Operating Costs rose by 10.7% to €13.29 million, not least



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Chief Executive Officer's Review of Operations

due to higher costs of compliance and regulation. Further investment was undertaken to improve card services and enhance security in IT systems. Notwithstanding increases in costs the Bank's Cost Efficiency Ratio was held at 50.1% (FY 2014: 47.0%), reflecting effective cost containment measures to offset fast-reducing interest income levels. Overall, the Group Cost Efficiency Ratio stood at 74.0% (FY 2014: 72.9%).

In calculating Impairment Allowances for individually assessed exposures the Bank continued with its conservative approach, with particular attention given to the assessment of 'Non-Performing Exposures', that is, exposures where repayments as originally planned fall in arrears by 90 days or more. The Specific Impairment charge for 2015 amounted to €2.71 million, compared to €4.11 million in 2014. It is to be noted that most of the Specific Impairment Allowance relates to the accumulated interest element of such exposures. The Collective Impairment Allowance charge for the year at €0.37 million was €0.13 million lower than for the previous year.

Customer Deposits increased by €76.57 million to €650.52 million, which reflects the high level of customer confidence that the Bank enjoys.

Loans and Advances to Customers at €305.89 million were marginally lower than the previous year.

LIQUIDITY AND OWN FUNDS

Total assets as at 31 December 2015 stood at €777.54 million (2014: €691.53 million), while Equity Attributable to the Shareholders of the Bank increased by a further 8.0% to €89.40 million. Net Asset Value (NAV) per share stood at €2.03 (2014: €1.99). Group Earnings per Share (EPS) increased by 2.3 cent to 10.0 cent. Return on Assets (ROA) remained stable at 0.6% while post tax Return on Equity (ROE) was 5.1% (2014: 4.1%).

The Bank's prudent approach resulted in a Common Equity Tier 1 (CET1) Ratio of 16.4% on a CRD IV basis, more than 3.6 times the minimum requirement of 4.5%, while Total Capital Ratio stood at 17.4%, more than twice the minimum 8% requirement.

Banking Rule BR/09 became effective on 31 December 2013. This Rule was intended to address the Country Specific Recommendations of the European Commission with regard to Malta, which called for increases in local banks' Coverage Ratios and provisioning. BR/09 obliges the Bank to transfer part of its profits to a Reserve for General Banking Risks. This appropriation is calculated as a percentage of credit facilities termed 'Non-Performing Exposures'. Under the three-year transitory rules, the Bank set aside €1 million in 2013 and another €0.8 million in 2014. The third and final tranche amounting to €0.8 million was transferred to the Reserve in 2015. As a consequence, dividend distributions were adjusted accordingly.

Advances to Deposits Ratio stood at 47.0% reflecting the high level of liquidity of the Bank. Eligible Liquid Assets as defined by Banking Rule BR/05 stood at 76.3% of Short-Term Liabilities and thus well over the statutory minimum of 30%.

TREASURY AND RISK MANAGEMENT

The below-par global economic performance recorded for 2015 was in line with expectations. The pace of growth was dampened most notably by the slowdown in China, the persistent underperformance in the eurozone and Japan, and ongoing weakness in most commodity and manufacturing sectors. Overall, the eurozone as a whole failed to generate momentum over the past year despite the impact of lower energy costs, the fall in the value of the euro, the confidence-building stimulus in the form of quantitative easing and the cut in interest rates from the European Central Bank. When determining the placement of funds our main objective remained capital protection,



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Chief Executive Officer's Review of Operations

thus engaging mostly in short-term interbank transactions with reputable counterparties within the international money market. The persistent low interest rate environment did not justify assuming additional risk. The Bank also used short-term Government of Malta Treasury paper and balances with the Central Bank of Malta to employ its short-term liquidity excesses. At the end of the financial year, the level of Treasury Bills held by the Bank stood at €31 million from €62.47 million in 2014, while balances with the Central Bank of Malta increased from €17.95 million to €81.16 million. The Bank's interbank placements increased substantially to €225.55 million, evidencing the excess liquidity held by financial institutions within the eurozone.

The Bank carried on with the process of assessing its Capital Adequacy relative to its risk profile and operating environment as well as the monitoring of its liquidity buffers. The Internal Capital Adequacy Assessment Process (ICAAP) report showed that the requirements under 'Pillar II' of the Capital Requirements Directive (CRD) were complied with. The Bank's ICAAP was based on a 'Pillar I Plus' approach whereby the 'Pillar I' capital requirements for credit and operational risks were supplemented by the capital allocation for other material risks not fully addressed within 'Pillar I'.

Industry-standard risk management procedures were applied to ensure that an adequate amount of capital was allocated against identified risks. Our conservative approach together with the robustness of our financial position ensured that the Bank had sufficient capital and liquidity buffers to meet any unexpected stressed conditions. We carried out the process of identification, quantification and monitoring of risks inherent in operations, using methodology that was tailored to suit the requirements of the Bank's operational needs as well as its size, nature and complexity. This included the review of any significant credit exposures and the underlying classifications. Stress-testing exercises were also undertaken in anticipation of any adverse scenarios with the objective of putting in place contingencies to minimise the impact

of such events. Detailed preparation with regard to the Capital Requirements Regulation (CRR) and the Capital Requirements Directive (CRD), collectively known as CRD IV package, ensured that the Bank would be in a position to comply with the implementation of the revised framework. It is reassuring to note that the Bank's Total Capital Ratio at 17.4% already exceeds the regulatory requirement that will be phased in by 2019.

HUMAN RESOURCES

A robust and motivated staff team is key to the achievement of realistic objectives and the delivery of healthy results. During the year we continued to place emphasis on promoting expertise and awareness of the need for lifelong learning. We also remained committed to promoting flexibility thereby ensuring optimal staff deployment by balancing on the one hand the diverse needs of the work place, and the resources available on the other. As at the end 2015 the Bank staff complement stood at 150 while that of the Group reached 790. Judicious recruitment, healthy staff relations, a fair remuneration policy as well as a pleasant and positive work environments contributed towards the Group's ability to attract and retain a mix of suitably skilled, experienced and professionally qualified staff, who share our culture and values.

PROJECTS

Plans were at an advanced stage at year-end to reorganise the branch network both at the Bank as well as MaltaPost so as to offer better and enhanced customer service at all times.

The Bank is planning to extend its market presence to further localities while new products will be launched in the first half of the year.

A number of projects were implemented mainly focusing on IT application systems supporting new or revised regulatory and compliance reporting as well as card services.



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Chief Executive Officer's Review of Operations

CORPORATE SOCIAL RESPONSIBILITY


We are aware that shareholders endorse our commitment to actively support the local community and are proud of the emphasis placed on supporting meaningful initiatives such as, among others, the creation of Malta's first postal museum, an antismoking campaign and sponsorship of Volserv, an organisation which aims at patients and relatives in the main general hospital as well as in the community.

OUTLOOK

The year 2016 started off with volatile international markets, brought on by falling oil prices and the economic slowdown in China. Further Quantitative Easing in the eurozone is set to bring further pressure on interest rates, which stand to go only a small way towards reviving sluggish economies in Europe. However, the local economic climate continues to be positive and in 2016 we do not expect any negative changes in this regard.

Focus will continue to be given to what the Bank does best - that is the building of long-term relationships based on prudent, ethical and professional business principles and practices. We shall also venture into new areas as we embark on extending and enhancing our product portfolio. Our brand is sufficiently strong so as to allow us to enter into business lines which hitherto have been the domain of others.

We therefore look ahead with cautious optimism on the prospects for our business, especially in the light of the unfolding international events and geo-political tensions that may yet cause unexpected shocks. With this in mind, we will always err on the side of caution in the best interests of all our stakeholders and within the parameters of an increasingly demanding and challenging regulatory framework.



Joseph Said

Director and Chief Executive Officer



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Directors' Report

THE GROUP

The Lombard Bank Group (the Group) consists of Lombard Bank Malta p.l.c. (the Bank), Redbox Limited and MaltaPost p.l.c., a subsidiary of Redbox Limited.

PRINCIPAL ACTIVITIES

The Bank was registered in Malta in 1969 and listed on the Malta Stock Exchange (MSE) in 1994. It is licensed as a credit institution under the Banking Act, 1994 and is an authorised currency dealer and financial intermediary. It also holds a Category 2 Investment Services licence issued by the Malta Financial Services Authority (MFSA) in terms of the Investment Services Act, 1994. It is a member of the Depositor Compensation Scheme and the Investor Compensation Scheme set up under the Laws of Malta. The Bank is also a member of the MSE for the purpose of the carrying out of stockbroking on the MSE. The Bank has a network of eight branches in Malta and Gozo providing an extensive range of banking and financial services.

Redbox Limited, a company wholly owned by the Bank, was registered in 2006. During the year under review, Redbox Limited continued to serve as the special purpose vehicle holding, as at 31 December 2015, the Bank's 70.1% shareholding in MaltaPost p.l.c., with the remaining 29.9% of the ordinary share capital of MaltaPost p.l.c. being held by the general public. MaltaPost p.l.c. was listed on the MSE on 24 January 2008. MaltaPost p.l.c. is Malta's leading postal services company, being the sole licensed Universal Service Provider of postal services in Malta.

REVIEW OF PERFORMANCE

An overview of the development in the Bank's business and that of its subsidiaries during the year under review together with an indication of likely future developments may be found in the 'Chief Executive Officer's Review of Operations' of this Annual Report.

RESULTS FOR 2015

Profit after taxation of €5.0 million and €3.8 million for the Group and the Bank, respectively were registered for the twelve months ended 31 December 2015.

A gross dividend of 4 cent per nominal 25 cent share (net 2.6 cent) for the twelve months ended 31 December 2015 is being proposed for approval by the shareholders to be distributed either in cash or by the issue of new shares at the option of each individual shareholder. A Resolution to this effect will be proposed to the Annual General Meeting.

In compliance 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', issued by the MFSA, an amount of €0.8 million from profits has been allocated to the Bank's Reserve for General Banking Risks, adding on to the €1.8 million already set aside with respect to the previous two financial years.

BOARD OF DIRECTORS, OFFICERS AND SENIOR MANAGEMENT

The composition of the Bank's Board of Directors, Officers and Senior Management is shown in the section on 'Company Information' and further information is given in the 'Statement of Compliance with the Principles of Good Corporate Governance'.

STATEMENT OF DIRECTORS' RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

The Directors are required by the Companies Act, 1995 to prepare financial statements which give a true and fair view of the state of affairs of the Group and the parent company as at the end of each reporting period and of the profit or loss for that period.



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Directors' Report

In preparing the financial statements, the Directors are responsible for:

- ensuring that the financial statements have been drawn up in accordance with International Financial Reporting Standards as adopted by the EU;
- selecting and applying appropriate accounting policies;
- making accounting estimates that are reasonable in the circumstances; and
- ensuring that the financial statements are prepared on the going concern basis unless it is inappropriate to presume that the Group and the parent company will continue in business as a going concern.

The Directors are also responsible for designing, implementing and maintaining such internal controls as they deem necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and that comply with the Companies Act, 1995 and the Banking Act, 1994. They are also responsible for safeguarding the assets of the Group and the parent company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The financial statements of Lombard Bank Malta p.l.c. for the year ended 31 December 2015 are included in the Annual Report 2015, which is being published in printed form and made available on the Bank's website. The Directors are responsible for the maintenance and integrity of the Annual Report on the website in view of their responsibility for the controls over, and the security of, the website. Access to information published on the Bank's website is available in other countries and jurisdictions, where legislation governing the preparation and dissemination of financial statements may differ from requirements or practice in Malta.

STATEMENT OF THE DIRECTORS PURSUANT TO LISTING RULE 5.68

The Directors confirm that, to the best of their knowledge:

- the financial statements give a true and fair view of the financial position of the Bank as at 31 December 2015, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU; and
- the Annual Report includes a fair review of the development and performance of the business and the position of the Bank, together with a description of the principal risks and uncertainties that they faced.

STANDARD LICENCE CONDITIONS

In accordance with SLC 7.60 of the Investment Services Rules for Investment Service Providers regulated by the MFSA, licence holders are required to disclose any regulatory breaches of standard licence conditions in this Annual Report. Accordingly, the Directors confirm that no breaches of the standard licence conditions and no other breach of regulatory requirements, which were subject to an administrative penalty or regulatory sanction, were reported.

INFORMATION PROVIDED IN ACCORDANCE WITH LISTING RULE 5.70.1

There were no material contracts to which the Bank, or any of its subsidiaries were a party, and in which any one of the Bank's Directors was directly or indirectly interested, except for transactions disclosed in note 37 to the financial statements.

GOING CONCERN

In compliance with Listing Rule 5.62 and after having duly considered the Bank's performance, the Directors declare that they expect the Bank will continue to operate as a going concern for the foreseeable future.



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Directors' Report

LISTING RULES – DISCLOSURES

In terms of Listing Rule 5.64, the Directors are required to disclose the following information:

As at the Annual General Meeting held on the 22 April 2015, the Authorised Share Capital of the Bank was €20,000,000 made up of 80,000,000 Ordinary Shares of a nominal value of 25 cent each. Following the approval of the Bank's shareholders at the above-mentioned 2015 Annual General Meeting, the amount of €521,100 from the Bank's Retained Earnings Account was capitalised for the purpose of a bonus share issue of 2,084,399 fully paid Ordinary Shares of a nominal value of 25 cent per share. Following this allotment, the Issued and fully paid-up Share Capital of the Bank increased to €10,942,893 divided into 43,771,573 Ordinary Shares of a nominal value of 25 cent each, all of one class.

Equity attributable to shareholders as at 31 December 2015 stood at €88.8 million.

Amendments to the Memorandum and Articles of Association of the Bank are effected in conformity with the provisions in the Companies Act, 1995. Furthermore, in terms of the Articles of Association:

- Directors may be authorised by the Bank to issue shares subject to the provisions of the Memorandum and Articles of Association and the Companies Act;
- Directors may decline to register the transfer of a share (not being a fully paid share) to a person of whom they shall not approve;
- Directors may decline to recognise any instrument of transfer, unless accompanied by the certificate of the shares to which it relates, and/or such other evidence;
- no registration of transfers of shares shall be made and no new particulars shall be entered in the register of members when the register is closed for inspection; and
- the Bank may, from time to time, by extraordinary resolution reduce the Share Capital, any Capital Reserve Fund, or any Share Premium Account in any manner.

Currently there are no matters that require disclosures in relation to:

- holders of any securities with special rights;
- employee share schemes;
- restrictions on voting rights or relevant agreements thereto;
- agreements pertaining to the change in control of the Bank; or
- agreements providing for compensations on termination of Board Members or employees.

The rules governing the changes in Board Membership are contained in the 'Statement of Compliance with the Principles of Good Corporate Governance'.

Shareholders holding five per cent (5%) or more of the share capital of the Bank:

	Shares in Lombard Bank Malta p.l.c.	
	at 31 December 2015	at 9 March 2016
Cyprus Popular Bank		
Public Co Ltd	48.9%	48.9%
GlobalCapital life		
Insurance Ltd	5.5%	5.5%
First Gemini p.l.c.	5.3%	5.3%

DIRECTORS' INTEREST IN GROUP COMPANIES

Joseph Said, who is a Director of the Bank, is also a Director of the following companies that have a shareholding in the Group as follows:

	Shares in Lombard Bank Malta p.l.c.	
	at 31 December 2015	at 9 March 2016
Safaco Ltd	41,691	41,691
First Gemini p.l.c.	2,316,506	2,316,506



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Directors' Report

Shares in MaltaPost p.l.c.
at 31 December 2015 at 9 March 2016

Safaco Ltd	42,846	43,798
First Gemini p.l.c.	34,799	35,572

In addition Joseph Said holds preference shares in Safaco Ltd.

AUDIT & RISK COMMITTEE

The Audit & Risk Committee is composed of non-executive Directors and is intended to ensure effective internal

controls, compliance and accountability. The committee also acts to ensure that high ethical standards are maintained, as explained in the 'Statement of Compliance with the Principles of Good Corporate Governance' in another section of this Annual Report.

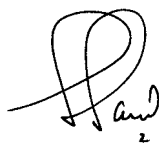
AUDITORS

PricewaterhouseCoopers have expressed their willingness to continue in office as auditors of the Bank and a resolution proposing their reappointment will be put at the forthcoming Annual General Meeting.

Approved by the Board of Directors on 10 March 2016 and signed on its behalf by:



Michael C. Bonello
Chairman



Joseph Said
Director and Chief Executive Officer



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Statement of Compliance with the Principles of Good Corporate Governance

A. INTRODUCTION

In terms of the Malta Financial Services Authority (MFSA) Listing Rules (Listing Rule 5.97), Lombard Bank Malta p.l.c. (the Bank), as a company having its securities admitted to trading on a regulated market, is obliged to report on the extent to which it has adopted the '*Code of Principles of Good Corporate Governance*' (the Principles) embodied in Appendix 5.1 to Chapter 5 of the same Listing Rules, as well as the measures which have been taken by the Bank to ensure compliance with these Principles.

While the Principles are not mandatory, the Board of Directors of the Bank has endeavoured to ensure that they are upheld to the fullest extent possible, and this while acknowledging that Good Corporate Governance is indeed beneficial to all the Bank's stakeholders. The instances in which the Bank has departed from the Principles are explained below under Section C – '*Non-Compliance with the Code*'.

After having carried out a review of the extent to which the Bank has been compliant with the Principles throughout the financial year ended 31 December 2015, the Board of Directors, in terms of Listing Rule 5.94, presents its report as follows:

B. COMPLIANCE WITH THE CODE

PRINCIPLE 1: THE BOARD

The Board of Directors of the Bank consists of six (6) Directors, five (5) of whom are non-executive Directors together with the Chief Executive Officer of the Bank who is also a Director. The Directors, individually and collectively, are considered fit and proper to direct the business of the Bank, having the necessary skills and experience to be able to do so.

In order to assist it in the execution of its duties and responsibilities, the Board of Directors has set up a number

of Board committees and these include the Audit & Risk Committee, the Assets & Liabilities Committee and the Credit Committee, all of which are regulated by their own Terms of Reference as approved and periodically reviewed by the Board. Details regarding the composition of these committees are set out below.

PRINCIPLE 2: CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Different individuals occupy the positions of Chairman and Chief Executive Officer. A clear division of responsibilities *de facto* exists between the Chairman's responsibility for the running of the Board of Directors and the Chief Executive Officer's responsibility for the running and managing of the Bank's business. This separation of roles of the Chairman and Chief Executive Officer avoids concentration of power, authority and unfettered discretion in one individual alone and differentiates leadership of the Board from the running of the Bank's business.

The Chairman's responsibilities include: (i) leading the Board and helping it reach its full potential, particularly by facilitating the effective contribution of Directors and encouraging discussion; (ii) setting of the Agenda for Board meetings; (iii) ensuring that the Directors receive precise, timely and objective information so that they can take sound decisions and effectively monitor the performance of the Bank; (iv) ensuring that all strategic and policy issues are appropriately discussed and formally approved; and (v) maintaining effective communication with the Bank's shareholders at all times.

As stated below, the Chairman meets the independence criteria set out in the Principles.

On the other hand, the Chief Executive Officer is responsible for managing the day-to-day business of the Bank in conformity with the agreed policies and strategies.



Statement of Compliance with the Principles of Good Corporate Governance

PRINCIPLE 3: COMPOSITION OF THE BOARD

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

Michael C. Bonello
Graham A. Fairclough
Kimon Palamidis
Joseph Said
Christos J. Stylianides
Michael Zammit

All of the Board Members are non-executive Directors who are not engaged in the daily management of the Bank, with the exception of Joseph Said who is also Chief Executive Officer of the Bank. Furthermore, the Board considers Michael C. Bonello, Michael Zammit, Christos J. Stylianides and Kimon Palamidis as independent Directors. Mr. Zammit is still considered to be independent despite the fact that he has served on the Board for more than twelve consecutive years. In determining the independence of its members, the Board has taken into consideration the relevant criteria and Principles as well as what are generally considered sound, acceptable standards. All non-executive Directors have declared in writing to the Board that they undertake:

- to maintain in all circumstances their independence of analysis, decision and action;
- not to seek or accept any unreasonable advantages that could be considered as compromising their independence; and
- to clearly express their opposition in the event that they find that a decision of the Board may harm the Bank.

It is considered that the size of the Board is sufficient for the requirements of the business and that the balance of skills and experience therein is appropriate to enable the Board to carry out its duties and responsibilities.

The composition and election of the Board of Directors is determined by the Bank's Articles of Association wherein it

is established that it is the shareholders who must appoint Directors to serve on the Board. In addition, however, the MFSA undertakes due diligence exercises in order to ensure that the fit and proper criteria are observed, pursuant to the Banking Act (CAP 371 of the Laws of Malta) and the Investment Services Act (CAP 370 of the Laws of Malta).

PRINCIPLE 4: THE RESPONSIBILITY OF THE BOARD

In pursuing the execution of the four basic roles of corporate governance, namely, accountability, monitoring, strategy formulation and policy development, the Board of Directors, having the first level of responsibility for such execution:

- regularly reviews and evaluates corporate strategy, major operational and financial plans, risk policy, performance objectives and monitors implementation and corporate performance within the parameters of all relevant laws, regulations and codes of best business practice;
- applies high ethical standards and takes into account the interests of stakeholders and acts responsibly and with integrity and on a fully informed basis, in good faith, with due diligence and in the best interests of the Bank and its shareholders;
- recognises that the Bank's success depends upon its relationship with all groups of its stakeholders, including employees, suppliers, customers and the wider community in which the Bank operates;
- monitors effectively the application and implementation by Management of its policies and strategy;
- recognises and supports enterprise and innovation within Management and examines how best to motivate the Bank's Management;
- seeks to establish an effective decision-making process in order to develop the Bank's business efficiently; and
- ensures that a balance is struck between enterprise and control in the Bank.



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Statement of Compliance with the Principles of Good Corporate Governance

Furthermore, the Board of Directors:

- defines in clear and concise terms the Bank's strategy, policies, management performance criteria and business policies and effectively monitors the implementation of such by Management;
- establishes a clear internal and external reporting system so that the Board has continuous access to accurate, relevant and timely information;
- has established an Audit & Risk Committee;
- continuously assesses and monitors the present and future operations' opportunities, threats and risks;
- evaluates the management's implementation of corporate strategy and financial objectives;
- ensures that the Bank has appropriate policies and procedures in place to assure that the Bank and its employees maintain the highest standards of corporate conduct, including compliance with applicable laws, regulations, business and ethical standards;
- ensures that the financial statements of the Bank and the annual audit thereof are completed within the stipulated time periods; and
- requires management to constantly monitor performance and report fully and accurately to the Board.

Furthermore, Directors are informed on an ongoing basis of their statutory and fiduciary duties, the Bank's operations and prospects, the general business environment and skills and competences of senior management. The expectations of the Board are also discussed regularly.

PRINCIPLE 5: BOARD MEETINGS

The Board convened seven (7) times during the period under review with attendance as follows:

Michael C. Bonello	7
Graham A. Fairclough	7
Kimon Palamidis	3 ⁽¹⁾
Joseph Said	7

Christos J. Stylianides

0⁽²⁾

Michael Zammit

7

⁽¹⁾ K. Palamidis appointed an alternate Director when he was unable to attend.

⁽²⁾ Alternate Director appointed for all meetings.

The dates when the Board meetings are scheduled to be held are determined at the beginning of the year. Board Members, at times, participate in meetings by appointing an alternate Director or attend via teleconference.

Ahead of Board meetings an agenda and supporting documentation is sent to all Directors. The agenda balances items of a long-term strategic nature, as well as performance-related issues together with credit applications which fall within the discretionary limits of the Board. During meetings, Directors are encouraged to present their views pertinent to the subject matter and are given every opportunity to contribute to the relevant issues on the agenda. Following each meeting, minutes which record attendance as well as all decisions taken are circulated to all Board Members.

PRINCIPLE 6: INFORMATION AND PROFESSIONAL DEVELOPMENT

The Board of Directors appoints the Chief Executive Officer.

Each newly appointed Member of the Board is briefed by the Chief Executive Officer on all aspects of the Bank's business, while the Company Secretary provides each newly appointed Director with a dossier containing reference to the more important relevant Legislation, Rules and Bye-Laws, the Bank Statute as well as policy documents.

Board Members are reminded that the Company Secretary is at their disposal to provide any advice or service that may be required in the discharge of their duties and responsibilities. The Company Secretary is responsible for advising the Board, through the Chairman, on all governance matters. The Secretary is responsible for ensuring that Board procedures are complied with as well as that effective information



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Statement of Compliance with the Principles of Good Corporate Governance

flows within the Board, its Committees and with senior management. The Secretary also facilitates induction and assists with professional development, as required.

Directors are given the opportunity to update and develop their skills and knowledge, particularly through detailed presentations, briefings and training by senior executives and other relevant Bank officials and are also encouraged to attend externally run seminars throughout their directorship. In addition, all Board Members may obtain independent professional advice at the Bank's expense.

Furthermore, Directors have access to the advice and services of the external auditors who are invited to attend Audit & Risk Committee meetings as well as Board meetings at which the Bank's financial statements are approved.

The Board continues to be mindful of the crucial importance of recruiting, retaining and motivating quality management. The ongoing training and development of staff at all levels is considered of the utmost importance and this also in the light of the need for orderly succession.

PRINCIPLE 7: EVALUATION OF THE BOARD'S PERFORMANCE

An assessment exercise of the Board's performance was carried out through a 'self-evaluation' questionnaire in which Board Members participated. Furthermore, assessment exercises of performance of the Committees were also carried out by virtue of 'self-evaluation' questionnaires completed by the Members of the Audit & Risk Committee, the Assets & Liabilities Committee and the Credit Committee. These exercises also included an evaluation of the Chairman of each respective Committee. These 'self-evaluation' questionnaires were then analysed by the Board and did not reveal the need for any material changes in the Bank's governance structures and organisation.

PRINCIPLE 8: COMMITTEES

The Board has appointed the following committees:

Audit & Risk Committee

The primary purpose of the Audit & Risk Committee is to protect the interests of the Bank's shareholders and to assist the Directors in conducting their role effectively so that the Bank's decision-making capability and the accuracy of its reporting and financial results are maintained at a high level at all times. The Committee assists the Board in fulfilling its supervisory and monitoring responsibility for effective financial reporting, risk management, control and governance and this by, *inter alia*, reviewing any financial information, statements and disclosures to be issued, systems of governance, systems of internal control established by management and the Board, the risk management processes as well as the external and internal audit processes. The Audit & Risk Committee met six (6) times during the period under review.

With respect to Risk Management, the Committee, *inter alia*, reviews risk management reports from management which reports enable the Committee (and the Board) to consider the process of risk identification and management, to assess the risks involved in the Bank's business and to understand how they are controlled and monitored by management. The Committee also advises the Board on the Bank's overall current and future risk appetite and strategy and assists the Board in overseeing the implementation of that strategy by management.

The Audit & Risk Committee is currently composed of the following three (3) non-executive independent Board Members: Michael C. Bonello (Chairman), Graham A. Fairclough and Michael Zammit. In order to ensure continuity, Kimon Palamidis was appointed as the fourth person from among the Board's non-executive Members who will serve on the Audit & Risk Committee should any one of the above appointed members be unavailable, as the



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Statement of Compliance with the Principles of Good Corporate Governance

case may be, and this in accordance with the Audit & Risk Committee's Terms of Reference.

Michael C. Bonello is considered by the Board to be independent and competent in accounting and/or auditing in terms of the Listing Rules, having previously served in various senior positions within other institutions, including as Governor of the Central Bank of Malta for a number of years.

The Bank's Internal Auditor as well as the Bank's External Auditors are invited to attend meetings of the Audit & Risk Committee. Members of Senior Management are also invited to attend meetings as is deemed necessary by the Committee. The Company Secretary acts as Secretary to the Audit & Risk Committee.

Assets & Liabilities Committee (ALCO)

Membership of this committee is made up of a number of chief officers and senior officers, including from the Finance and Treasury departments. The Chief Executive Officer chairs ALCO whose main objective is to manage risks within approved limits at the same time as maximising the Bank's returns by efficient and judicious management of the Bank's assets and liabilities. A Secretary is appointed by the Committee.

Credit Committee

The Credit Committee is responsible for considering and approving credit applications within delegated limits of authority and is composed of a number of chief officers. The Chief Executive Officer chairs this Committee and a Secretary is appointed by the Committee.

Remuneration Committee

The functions of the Remuneration Committee are carried out by the Board of Directors in view of the fact that the remuneration of Directors is not performance-related.

A separate 'Remuneration Report' features on page 21 of this Annual Report in compliance with the Principles.

PRINCIPLE 9 AND 10: RELATIONS WITH SHAREHOLDERS AND MARKETS AND INSTITUTIONAL SHAREHOLDERS

The Bank fully appreciates the importance of maintaining open lines of communication with shareholders, the markets and institutional shareholders. The Board, in this regard, considers that throughout the period under review the Bank has continued to communicate appropriately by means of regular company announcements as well as press releases.

Specifically, the Bank communicates with its shareholders during the Annual General Meetings when Directors and senior officers are also present in order to answer any questions that may arise. The Annual Report and Financial Statements are sent to all shareholders at least twenty-one (21) days prior to the holding of the Annual General Meeting.

The Bank's website (www.lombardmalta.com) contains information about the Bank and its business and is updated regularly.

It is therefore the Bank's policy:

- to publish information that can have a significant effect on the Bank's share price through the MSE and immediately after on the Bank's website;
- to make other published information available to the public on the Bank's website;
- to strive for open, transparent communications;
- to ensure continuity and high quality in the information disclosed; and
- to be accessible to all stakeholders.

Minority shareholders are entitled to call special meetings should a minimum threshold of share ownership be established in accordance with the Bank's Memorandum and Articles of Association.

Furthermore, minority shareholders may formally present an issue to the Board if they own the predefined minimum threshold of shares.



Statement of Compliance with the Principles of Good Corporate Governance

PRINCIPLE 11: CONFLICTS OF INTEREST

The Board of Directors recognises that its Members have a primary responsibility to always act in the interest of the Bank and its shareholders as a whole, irrespective of who appointed them to the Board.

Strict policies are in place to enable the management of conflict of interest, both actual as well as potential, should the occasion arise.

In addition, the ‘*Code of Conduct for Dealing in Securities by Directors, Executives and Employees*’ was adopted and implemented in conformity with the Prevention of Financial Markets Abuse Legislation. Directors and employees are regularly reminded of their obligations when dealing in securities of the Bank.

Joseph Said, who is a Director of the Bank, holds a directorship in two companies that have a shareholding in the Group, as disclosed in the Directors’ Report.

PRINCIPLE 12: CORPORATE SOCIAL RESPONSIBILITY

Directors are fully aware of the need to adhere to accepted principles of corporate social responsibility. The Bank remains fully committed to behaving ethically at all times and to contributing to economic development while at the same time improving the quality of life of the work force and their families, as well as of the local community and society at large. The Bank continues to put into practice the principles of corporate social responsibility through its extensive contributions and initiatives and direct community involvement as well as the support it gives to a number of causes.

C. NON-COMPLIANCE WITH THE CODE

PRINCIPLE 4: (CODE PROVISION 4.2.7)

The above Code Provision states, ‘*The Board should develop a succession policy for the future composition of the Board of Directors and particularly of the executive component thereof, for which the Chairman should hold key responsibility*’.

The appointment of Directors to serve on the Board is a matter which is entirely reserved to the shareholders of the Bank in terms of its Memorandum and Articles of Association (except where the need arises to fill a casual vacancy). Therefore, the Board does not at this stage consider it necessary to develop a succession policy for the future composition of the Board.

PRINCIPLE 7: (CODE PROVISIONS 7.1, 7.2, 7.3)

In carrying out a performance evaluation of its role as well as that of its Committees, the Board did not appoint an *ad hoc* committee, but it involved the Directors and Committee Members in this task so as to obtain an in-depth assessment of its performance as well as that of its Committees.

The above evaluations included an evaluation of the Chairman of the Board and of the Committees.

PRINCIPLE 8A: (REMUNERATION COMMITTEE)

The Board did not establish a Remuneration Committee as specified in Code Provision 8.A.1. In terms of Code Provision 8.A.2 of the Principles, given that the remuneration of Directors is not performance-related, the functions of the Remuneration Committee are carried out by the Board of Directors.



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Statement of Compliance with the Principles of Good Corporate Governance

PRINCIPLE 8B: (NOMINATION COMMITTEE)

The Board does not consider the setting up of a Nomination Committee as necessary since the appointment of Directors to the Board is a matter that is reserved entirely to the Bank's shareholders in terms of the Memorandum and Articles of Association.

In this connection every member of the Bank holding in the aggregate at least fifteen percent (15%) of the Ordinary Issued Share Capital of the Bank shall be entitled to appoint one (1) Director for each and every fifteen percent (15%) of the Ordinary Issued Capital owned by that member. Any fractional shareholding in excess of fifteen percent (15%) not applied in appointing such a Director or Directors, and only that fraction, shall be entitled to vote in the election of the remaining Directors together with the remaining body of shareholders. These are entitled to appoint the remaining Board members in accordance with the provisions of the Bank's statute.

This notwithstanding, the Board shall consider setting up ad hoc committees on a case by case basis, particularly for the purpose of formalising suitability assessments of nominated Directors, Senior Management or any other persons as may be required.

PRINCIPLE 9: (CODE PROVISION 9.3)

There are no procedures disclosed in the Bank's Memorandum or Articles as recommended in Code Provision 9.3 to resolve conflicts between minority shareholders and controlling shareholders.

D. INTERNAL CONTROL (LISTING RULE 5.97.4)

The Board is ultimately responsible for the Bank's internal controls as well as their effectiveness, while

authority to operate the Bank is delegated to the Chief Executive Officer. The Bank's system of internal controls is designed to manage all the risks in the most appropriate manner. Such controls, however, cannot completely eliminate the possibility of material error or fraud. The Board, therefore, assumes responsibility for executing the four basic roles of Corporate Governance, i.e. accountability, monitoring, strategy formulation and policy development.

In summary, the Board is therefore responsible for:

- reviewing the Bank's strategy on an ongoing basis as well as setting the appropriate business objectives in order to enhance value for all stakeholders;
- appointing and monitoring the Chief Executive Officer whose function it is to manage the operations of the Bank; and
- identifying and ensuring that significant risks are managed satisfactorily.

Given the fiduciary responsibility involved, the Board of Directors also sets high business and ethical standards for adoption right across the organisation.

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 together with delegated authority and has vested accountability for the Bank's day-to-day business in the Assets & Liabilities Committee, Credit Committee and in the management team comprising of the:

- Chief Executive Officer; and
- Chief Officers and other Senior Officers.

The Board frequently participates in asset allocation decisions as well as credit proposals above a certain threshold, after the appropriate recommendations have been made.



Statement of Compliance with the Principles of Good Corporate Governance

E. GENERAL MEETINGS (LISTING RULE 5.97.6)

General meetings are called by giving at least twenty-one (21) days' notice and conducted in accordance with the provisions contained in the Bank's Articles of Association.

The 'Ordinary Business' which is dealt with at the Annual General Meeting consists of the adoption of the annual financial statements, declaration of a dividend, appointment of Board Members, appointment of auditors and the fixing of their remuneration together with the voting of remuneration to the Directors for the holding of their office. All other business shall be deemed 'Special Business'.

All shareholders registered in the shareholders' register on record date as defined in the Listing Rules have

the right to attend, participate and vote in the general meeting.


A shareholder or shareholders holding not less than five per cent (5%) of the voting Issued Share Capital of the Bank may: (i) request the Bank to include items on the agenda and; (ii) table draft resolutions for items included in the agenda of a general meeting. Such requests shall be submitted to the Bank at least forty-six (46) days before the date set for the general meeting.

Every shareholder shall be entitled to appoint only one (1) person to act as proxy holder to attend and vote at a general meeting instead of him. The proxy holder shall enjoy the same rights to speak and ask questions in the general meeting as those to which the member thus represented would be entitled.

Approved by the Board of Directors on 10 March 2016 and signed on its behalf by:



Michael C. Bonello
Chairman



Joseph Said
Director and Chief Executive Officer



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Remuneration Report

As indicated in the 'Statement of Compliance with the Principles of Good Corporate Governance', in terms of the Malta Financial Services Authority (MFSA) 'Code of Principles of Good Corporate Governance', the Board of Directors performs the functions of a Remuneration Committee, on the basis that the remuneration of the Bank's Directors is not performance-related and does not include share options, pension benefits, profit-sharing arrangements or any emolument related to the performance of the Bank. Amongst the obligations established in the Listing Rules, the Board, where applicable, carries out the main duties established in the Supporting Principles enshrined in Principle 8A of the 'Code of Principles of Good Corporate Governance'. This Remuneration Report was approved by the Board of Directors at the Board Meeting held on 10 March 2016.

REMUNERATION POLICY

DIRECTORS

There were no material changes effected in the remuneration policy for the Bank's Directors during the financial year under review. In terms of the Bank's Memorandum and Articles of Association, the Bank's shareholders determine the maximum annual aggregate remuneration of the Directors. The maximum amount is established by resolution at each Annual General Meeting of the Bank. The aggregate amount fixed for this purpose during the last Annual General Meeting was seventy thousand euro (€70,000).

No Board committee fees were payable to any of the Directors during the year under review.

It is confirmed that none of the Directors in their capacity as Directors of the Bank are entitled to profit sharing, share options, pension benefits, variable remuneration or any other remuneration or related payments from the Bank. Only one of the Directors has a service contract with the Bank.

The fees paid to Directors for the holding of their office during 2015 amounted to €48,900. This amount is within the limit of €70,000 approved by the Annual General Meeting of 22 April 2015.

Directors' fees attributable to the current financial year are disclosed in note 32 to the financial statements. During the year, Directors received fees as follows:

	€
Michael C. Bonello (Chairman)	20,960
Graham A. Fairclough	6,985
Joseph Said	6,985
Michael Zammit	6,985
Kimon Palamidis	6,985
Total	48,900

Remuneration Report

SENIOR MANAGEMENT

No material changes in the remuneration policy for the Bank's Senior Management during the financial year under review warrant reporting. The Board of Directors is satisfied that the packages offered to senior management continue to ensure that the Bank attracts and retains management staff with the necessary qualities and skills. The Bank's policy remains that of engaging its senior management staff on the basis of indefinite contracts of employment, and this after a period of probation. The terms and conditions of employment of senior management are established in the relative employment contracts. The applicable notice periods, after probation, are those provided for in the relevant legislation.

Share options, share incentive schemes and profit sharing do not feature in the Bank's Remuneration Policy, and the individual contracts of employment of senior management do not contain provisions for termination payments and/or other payments linked to early termination other than as determined by the Law. Currently no pension benefits are payable by the Bank.

Senior management staff are eligible for annual salary increases, which are not directly performance-related. Annual bonuses are paid to senior management staff members according to individual overall performance during the previous financial year. Bonus payments do not exceed 100% of the fixed component of the total remuneration for each individual.

Non-cash benefits include health insurance as well as death-in-service benefits. The Chief Executive Officer is entitled to the use of a company car.

Total emoluments received by senior management during the period under review are as detailed below, in terms of Code Provision 8.A.5.

Fixed Remuneration	Variable Remuneration	Share Options	Others
€633,500	€316,500	None	Non-Cash Benefits referred to above

OTHER

For other employees, fixed pay is determined by a Collective Agreement and annual bonuses are differentiated by individual performance and grade.

The Bank does not plan to effect any changes in its Remuneration Policy in the upcoming financial year, unless required to do so in terms of any regulatory obligations.



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Company Information

Number of shareholders at 31 December 2015 analysed by range:

Range	Shareholders	Shares
1 – 500	148	23,643
501 – 1000	106	76,580
1001 – 5000	506	1,280,313
5001 and over	753	42,391,037
Total	1,513	43,771,573

Number of shareholders at 9 March 2016 analysed by range:

Range	Shareholders	Shares
1 – 500	147	23,748
501 – 1000	108	77,365
1001 – 5000	504	1,276,395
5001 and over	753	42,394,065
Total	1,512	43,771,573

The Bank has one class of shares and each share is entitled to one vote.

Company Information

BOARD OF DIRECTORS

Michael C. Bonello (Chairman)
Graham A. Fairclough
Kimon Palamidis
Joseph Said
Christos J. Stylianides
Michael Zammit

COMPANY SECRETARY

Helena Said

SENIOR MANAGEMENT

Joseph Said
David Attard
Anthony Bezzina
Anthony E. Bezzina
Julius M. Bozzino
Paul Debono
Eugenio Farrugia
Aurelio Theuma
Anthony Zahra

Chief Executive Officer
Chief Officer - Group Corporate Services
Chief Officer - Credit
Chief Officer - Gozo Operations
Chief Officer - Private Banking & Corporate Advisory Services
Chief Officer - Legal Services
Chief Operations Officer
Chief Financial Officer
Chief Information Officer

HEADS OF DEPARTMENTS

Joan Aquilina
Robert Aquilina
Victoria Azzopardi
Moir Balzan
Michael Borg
Anthony Demarco
Philip Depares
Kathleen Flynn
Raymond Formosa
Mark Gauci
Edward Pirotta
Helena Said
Geoffrey Tedesco Triccas
Carmel Vassallo

Internal Audit
Treasury
Human Resources
Finance
Wealth Management
Legal Services
Business Processes
International Business Banking
Branch Operations
Credit
Premises
Credit Support Services
Information Technology
Data Processing Management

AREA MANAGERS

Kevin Galea Souchet
Mark Lauri

Area Manager - Sliema
Area Manager - Balzan



LOMBARD

Company Information

REGISTERED OFFICE

Lombard House
67 Republic Street, Valletta VLT 1117
Tel: 25581 117

BRANCHES

67 Republic Street, Valletta VLT 1117
Tel: 25581 117

Paceville Avenue, St. Julian's STJ 3103
Tel: 25581 400

Balzan Valley Road, Balzan BZN 1409
Tel: 25581 500

82 St. Sebastian Street, Qormi QRM 2335
Tel: 25581 360

4 Main Street, Qormi QRM 1100
Tel: 25581 300

Ninu Cremona Street, Victoria VCT 2561
Tel: 25581 600

225A Tower Road, Sliema SLM 1601
Tel: 25581 260

CREDIT DEPARTMENT

9A Fredrick Street, Valletta VLT 1470
Tel: 25581 115

WEALTH MANAGEMENT

67 Republic Street, Valletta VLT 1117
Tel: 25581 117

LEGAL OFFICE

59 Republic Street, Valletta VLT 1117
Tel: 25581 116

INTERNATIONAL BUSINESS BANKING

Graham Street, Sliema SLM 1711
Tel: 25581 200



LOMBARD



Independent Auditor's Report

to the Members of Lombard Bank Malta p.l.c.

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

We have audited the consolidated and stand-alone parent company financial statements of Lombard Bank Malta p.l.c. (together the 'financial statements') on pages 29 to 127 which comprise the consolidated and parent company statements of financial position as at 31 December 2015, and the consolidated and parent company statements 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 9, the Directors are responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the EU and the requirements of the Banking Act, 1994 and the 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.



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Independent Auditor's Report *(continued)*
to the Members of Lombard Bank Malta p.l.c.

Opinion

In our opinion, the financial statements:

- give a true and fair view of the financial position of the Group and the Bank as at 31 December 2015, and of their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU; and
- have been properly prepared in accordance with the requirements of the Banking Act, 1994 and the Companies Act, 1995.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Opinion on other matters prescribed by the 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 Chairman's Statement to the Members, the Chief Executive Officer's Review of Operations, the Directors' Report, the Remuneration Report and other Company Information and the Additional Regulatory Disclosures. Our responsibilities do not extend to any other information.

We also have responsibilities under:

- The 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.





Independent Auditor's Report *(continued)*
to the Members of Lombard Bank Malta p.l.c.

- The Listing Rules to review the statement made by the Directors that the business is a going concern together with supporting assumptions or qualifications as necessary.

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

Report on the Statement of Compliance with the Principles of Good Corporate Governance

The Listing Rules issued by the Malta Listing Authority require the Directors to prepare and include in their Annual Report a Statement of Compliance providing an explanation of the extent to which they have adopted the Code of Principles of Good Corporate Governance and the effective measures that they have taken to ensure compliance throughout the accounting period with those Principles.

The Listing Rules also require the auditor to include a report on the Statement of Compliance prepared by the Directors.

We read the Statement of Compliance and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements included in the Annual Report. Our responsibilities do not extend to considering whether this statement is consistent with any other information included in the Annual Report.

We are not required to, and we do not, consider whether the Board's statements on internal control included in the Statement of Compliance cover all risks and controls, or form an opinion on the effectiveness of the Company's corporate governance procedures or its risk and control procedures.

In our opinion, the Statement of Compliance set out on pages 13 to 20 has been properly prepared in accordance with the requirements of the Listing Rules issued by the Malta Listing Authority.

PricewaterhouseCoopers

78 Mill Street
Qormi
Malta

Fabio Axisa
Partner

10 March 2016



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FINANCIAL STATEMENTS

For the Year Ended 31 December 2015

2015

Statements of Financial Position

As at 31 December 2015

	Notes	Group 2015 € 000	2014 € 000	Bank 2015 € 000	2014 € 000
Assets					
Balances with Central Bank of Malta,					
treasury bills and cash	5	115,884	84,311	115,377	83,914
Cheques in course of collection		475	1,656	475	1,656
Investments	6	76,246	55,077	72,465	51,795
Loans and advances to banks	7	229,788	185,918	225,546	182,857
Loans and advances to customers	8	305,891	318,742	306,572	319,420
Investment in subsidiaries	9	-	-	12,168	11,184
Investment in associates	10	1,645	-	1,645	-
Intangible assets	11	1,490	1,422	409	202
Property, plant and equipment	12	26,931	24,574	13,833	13,141
Assets classified as held for sale	8	1,023	1,022	1,023	1,022
Current tax assets		533	1,665	533	1,289
Deferred tax assets	13	3,318	4,764	3,784	4,429
Inventories	14	1,106	996	425	343
Trade and other receivables	15	8,170	5,545	2,104	1,447
Accrued income and other assets	16	5,043	5,835	2,790	3,132
Total assets		777,543	691,527	759,149	675,831



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Statements of Financial Position *(continued)*

As at 31 December 2015

	Notes	Group 2015 € 000	2014 € 000	Bank 2015 € 000	2014 € 000
Equity and Liabilities					
Equity					
Share capital	17	10,943	10,422	10,943	10,422
Share premium	18	17,746	17,746	17,746	17,746
Revaluation and other reserves	18	13,152	8,329	12,869	8,187
Retained earnings		47,556	46,291	45,551	44,744
Equity attributable to equity holders of the Bank					
		89,397	82,788	87,109	81,099
Non-controlling interests					
		6,101	5,519	-	-
Total equity		95,498	88,307	87,109	81,099
Liabilities					
Amounts owed to banks	19	1,059	73	1,059	73
Amounts owed to customers	20	650,516	573,946	654,316	577,937
Provisions for liabilities and other charges	21	2,378	2,258	639	565
Current tax liabilities		346	-	-	-
Other liabilities	22	18,404	16,919	11,670	11,205
Accruals and deferred income	23	9,342	10,024	4,356	4,952
Total liabilities		682,045	603,220	672,040	594,732
Total equity and liabilities		777,543	691,527	759,149	675,831
Memorandum items					
Contingent liabilities	24	7,479	8,023	7,479	8,023
Commitments	24	106,925	72,115	106,925	72,115

The notes on pages 39 to 127 are an integral part of these financial statements.

These financial statements on pages 29 to 127 were approved and authorised for issue by the Board of Directors on 10 March 2016 and signed on its behalf by:



Michael C. Bonello
Chairman



Joseph Said
Director and Chief Executive Officer



Income Statements

For the Year Ended 31 December 2015

		Group		Bank	
	Notes	2015 € 000	2014 € 000	2015 € 000	2014 € 000
Interest receivable and similar income					
- on loans and advances, balances with Central Bank of Malta and treasury bills	25	18,919	22,060	18,890	22,049
- on debt and other fixed income instruments	25	1,823	1,548	1,686	1,399
Interest expense	25	(7,603)	(9,302)	(7,619)	(9,334)
Net interest income		13,139	14,306	12,957	14,114
Fee and commission income	26	3,439	2,698	2,415	1,761
Fee and commission expense	26	(232)	(160)	(232)	(160)
Net fee and commission income		3,207	2,538	2,183	1,601
Postal sales and other revenues	27	24,562	22,662	76	124
Dividend income	28	240	159	1,754	1,560
Net trading income	29	969	845	769	760
Other operating income/(expenses)		138	(274)	465	(208)
Operating income		42,255	40,236	18,204	17,951
Employee compensation and benefits	30	(16,526)	(16,072)	(5,272)	(4,922)
Other operating costs	32	(13,290)	(12,010)	(3,366)	(2,994)
Depreciation and amortisation	11,12	(1,450)	(1,240)	(488)	(517)
Provisions for liabilities and other charges	21	(71)	(56)	(22)	-
Net impairment losses	31	(3,081)	(4,618)	(3,083)	(4,609)
Profit before taxation		7,837	6,240	5,973	4,909
Income tax expense	33	(2,800)	(2,333)	(2,137)	(1,850)
Profit for the year		5,037	3,907	3,836	3,059
Attributable to:					
Equity holders of the Bank		4,382	3,362	3,836	3,059
Non-controlling interests		655	545	-	-
Profit for the year		5,037	3,907	3,836	3,059
Earnings per share	34	10c0	7c7		

The notes on pages 39 to 127 are an integral part of these financial statements.



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Statements of Comprehensive Income

For the Year Ended 31 December 2015

Group

	Notes	2015 € 000	2014 € 000
Profit for the year		5,037	3,907
Other comprehensive income			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Fair valuation of available-for-sale financial assets:			
Net changes in fair value arising during the year, before tax	6	4,678	2,294
Reclassification adjustments - net amounts reclassified to profit or loss, before tax		(21)	(56)
Income tax relating to fair valuation of available-for-sale financial assets	33	(1,561)	(731)
<i>Items that will not be reclassified to profit or loss</i>			
Surplus arising on revaluation of land and buildings	12	1,433	-
Deferred tax attributable to revaluation of land and buildings	33	(956)	(68)
Remeasurements of defined benefit obligations		(115)	(133)
Other comprehensive income for the year, net of income tax		3,458	1,306
Total comprehensive income for the year, net of income tax		8,495	5,213
Attributable to:			
Equity holders of the Bank		7,781	4,662
Non-controlling interests		714	551
Total comprehensive income for the year, net of income tax		8,495	5,213

Bank

Profit for the year		3,836	3,059
Other comprehensive income			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Fair valuation of available-for-sale financial assets:			
Net changes in fair value arising during the year, before tax	6	4,482	2,133
Reclassification adjustments - net amounts reclassified to profit or loss, before tax		(23)	(45)
Income tax relating to fair valuation of available-for-sale financial assets	33	(1,561)	(731)
<i>Items that will not be reclassified to profit or loss</i>			
Surplus arising on revaluation of land and buildings	12	539	-
Deferred tax attributable to revaluation of land and buildings	33	(179)	(68)
Other comprehensive income for the year, net of income tax		3,258	1,289
Total comprehensive income for the year, net of income tax		7,094	4,348

The notes on pages 39 to 127 are an integral part of these financial statements.

Statements of Changes in Equity

For the Year Ended 31 December 2015

Group	Attributable to equity holders of the Bank							
	Notes	Share capital € 000	Share premium € 000	Revaluation and other reserves € 000	Retained earnings € 000	Total € 000	Non-controlling interests € 000	Total equity € 000
At 1 January 2014		9,925	17,746	6,231	45,372	79,274	5,127	84,401
Comprehensive income								
Profit for the year		-	-	-	3,362	3,362	545	3,907
Other comprehensive income								
Fair valuation of available-for-sale financial assets:								
Net changes in fair value arising during the year		-	-	1,499	-	1,499	49	1,548
Reclassification adjustments - net amounts reclassified to profit or loss		-	-	(38)	-	(38)	(3)	(41)
Deferred tax relating to revaluation of property		-	-	(68)	-	(68)	-	(68)
Remeasurements of deferred benefit obligations		-	-	(106)	13	(93)	(40)	(133)
Transfers and other movements		-	-	811	(811)	-	-	-
Total other comprehensive income for the year		-	-	2,098	(798)	1,300	6	1,306
Total comprehensive income for the year		-	-	2,098	2,564	4,662	551	5,213
Transactions with owners, recorded directly in equity								
Contributions by and distributions to owners								
Bonus shares issued	17	497	-	-	(497)	-	-	-
Dividends to equity holders	35	-	-	-	(1,032)	(1,032)	(422)	(1,454)
Changes in ownership interests in subsidiaries that do not result in a loss of control								
Change in non-controlling interests in subsidiary		-	-	-	(116)	(116)	263	147
Total transactions with owners		497	-	-	(1,645)	(1,148)	(159)	(1,307)
At 31 December 2014		10,422	17,746	8,329	46,291	82,788	5,519	88,307

The notes on pages 39 to 127 are an integral part of these financial statements.



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Statements of Changes in Equity

For the Year Ended 31 December 2015

Group	Attributable to equity holders of the Bank							
	Notes	Share capital € 000	Share premium € 000	Revaluation and other reserves € 000	Retained earnings € 000	Total € 000	Non-controlling interests € 000	Total equity € 000
At 1 January 2015		10,422	17,746	8,329	46,291	82,788	5,519	88,307
Comprehensive income								
Profit for the year		-	-	-	4,382	4,382	655	5,037
Other comprehensive income								
Surplus arising on revaluation of land and buildings	12	-	-	1,165	-	1,165	268	1,433
Movement in deferred tax liability on revalued land and buildings determined on the basis applicable to property disposals		-	-	(723)	-	(723)	(233)	(956)
Fair valuation of available-for-sale financial assets:								
Net changes in fair value arising during the year		-	-	3,050	-	3,050	59	3,109
Reclassification adjustments - net amounts reclassified to profit or loss		-	-	(13)	-	(13)	-	(13)
Remeasurements of deferred benefit obligations		-	-	(80)	-	(80)	(35)	(115)
Transfers and other movements		-	-	1,424	(1,424)	-	-	-
Total other comprehensive income for the year		-	-	4,823	(1,424)	3,399	59	3,458
Total comprehensive income for the year		-	-	4,823	2,958	7,781	714	8,495
Transactions with owners, recorded directly in equity								
Contributions by and distributions to owners								
Bonus shares issued	17	521	-	-	(521)	-	-	-
Dividends to equity holders	35	-	-	-	(1,084)	(1,084)	(427)	(1,511)
Changes in ownership interests in subsidiaries that do not result in a loss of control								
Change in non-controlling interests in subsidiary		-	-	-	(88)	(88)	295	207
Total transactions with owners		521	-	-	(1,693)	(1,172)	(132)	(1,304)
At 31 December 2015		10,943	17,746	13,152	47,556	89,397	6,101	95,498

The notes on pages 39 to 127 are an integral part of these financial statements.

Statements of Changes in Equity

For the Year Ended 31 December 2015

Bank

	Notes	Share capital € 000	Share premium € 000	Revaluation and other reserves € 000	Retained earnings € 000	Total € 000
At 1 January 2014		9,925	17,746	6,087	44,025	77,783
Comprehensive income						
Profit for the year		-	-	-	3,059	3,059
Other comprehensive income						
Fair valuation of available-for-sale financial assets:						
Net changes in fair value arising during the year		-	-	1,386	-	1,386
Reclassification adjustments - net amounts reclassified to profit or loss		-	-	(29)	-	(29)
Deferred tax relating to revaluation of property		-	-	(68)	-	(68)
Transfers and other movements		-	-	811	(811)	-
Total other comprehensive income for the year		-	-	2,100	(811)	1,289
Total comprehensive income for the year		-	-	2,100	2,248	4,348
Transactions with owners, recorded directly in equity						
Contributions by and distributions to owners						
Bonus shares issued	17	497	-	-	(497)	-
Dividends to equity holders	35	-	-	-	(1,032)	(1,032)
Total transactions with owners		497	-	-	(1,529)	(1,032)
At 31 December 2014		10,422	17,746	8,187	44,744	81,099

The notes on pages 39 to 127 are an integral part of these financial statements.



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Statements of Changes in Equity

For the Year Ended 31 December 2015

Bank

	Notes	Share capital € 000	Share premium € 000	Revaluation and other reserves € 000	Retained earnings € 000	Total € 000
At 1 January 2015		10,422	17,746	8,187	44,744	81,099
Comprehensive income						
Profit for the year		-	-	-	3,836	3,836
Other comprehensive income						
Surplus arising on revaluation of land and buildings	12	-	-	539	-	539
Movement in deferred tax liability on revalued land and buildings determined on the basis applicable to property disposals	33	-	-	(179)	-	(179)
Fair valuation of available-for-sale financial assets:						
Net changes in fair value arising during the year		-	-	2,913	-	2,913
Reclassification adjustments						
- net amounts reclassified to profit or loss		-	-	(15)	-	(15)
Transfers and other movements		-	-	1,424	(1,424)	-
Total other comprehensive income for the year		-	-	4,682	(1,424)	3,258
Total comprehensive income for the year		-	-	4,682	2,412	7,094
Transactions with owners, recorded directly in equity						
Contributions by and distributions to owners						
Bonus shares issued	17	521	-	-	(521)	-
Dividends to equity holders	35	-	-	-	(1,084)	(1,084)
Total transactions with owners		521	-	-	(1,605)	(1,084)
At 31 December 2015		10,943	17,746	12,869	45,551	87,109

The notes on pages 39 to 127 are an integral part of these financial statements.

Statements of Cash Flows

For the Year Ended 31 December 2015

	Notes	Group 2015 € 000	2014 € 000	Bank 2015 € 000	2014 € 000
Cash flows from operating activities					
Interest and commission receipts		22,651	23,834	23,670	23,866
Receipts from customers relating to postal sales and other revenue		25,645	22,316	76	123
Interest and commission payments		(8,472)	(9,855)	(8,487)	(9,887)
Payments to employees and suppliers		(29,934)	(29,977)	(8,583)	(7,693)
Cash flows from operating profit before changes in operating assets and liabilities		9,890	6,318	6,676	6,409
<i>Decrease/(increase) in operating assets:</i>					
Treasury bills		(28)	21,835	(28)	21,835
Deposits with Central Bank of Malta		(686)	(1,073)	(686)	(1,073)
Loans and advances to banks and customers		8,205	(8,682)	8,108	(8,582)
Other receivables		368	(271)	440	(261)
<i>Increase in operating liabilities:</i>					
Amounts owed to banks and to customers		76,570	80,045	76,379	79,213
Other payables		537	1,562	465	1,552
Net cash from operations		94,856	99,734	91,354	99,093
Income tax paid		(2,392)	(3,637)	(1,944)	(2,894)
Net cash flows from operating activities		92,464	96,097	89,410	96,199
Cash flows from investing activities					
Dividends received		240	159	240	159
Interest received from investments		2,274	2,359	2,097	2,147
Purchase of investments		(19,353)	(11,982)	(19,050)	(11,344)
Proceeds on maturity/disposal of investments		2,687	2,414	2,687	1,836
Purchase of property, plant and equipment		(3,174)	(2,210)	(849)	(344)
Proceeds from disposal of property, plant and equipment		-	4	-	4
Acquisition of non-controlling interests		-	(44)	-	-
Net cash flows used in investing activities		(17,326)	(9,300)	(14,875)	(7,542)
Cash flows from financing activities					
Dividends paid to equity holders of the Bank	35	(1,084)	(1,032)	(1,084)	(1,032)
Dividends paid to non-controlling interests		(218)	(217)	-	-
Net cash flows used in financing activities		(1,302)	(1,249)	(1,084)	(1,032)
Net increase in cash and cash equivalents		73,836	85,548	73,451	87,625
Cash and cash equivalents at beginning of year		233,894	148,346	230,580	142,955
Cash and cash equivalents at end of year	36	307,730	233,894	304,031	230,580

The notes on pages 39 to 127 are an integral part of these financial statements.



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Notes to the Financial Statements

For the Year Ended 31 December 2015

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Notes to the Financial Statements

For the Year Ended 31 December 2015

1 Summary of significant accounting policies

The principal accounting policies adopted in the preparation of these financial statements are set out below. Unless otherwise stated, these policies have been consistently applied to all the years presented and relate to both the Group and the Bank.

1.1 *Basis of preparation*

The consolidated financial statements include the financial statements of Lombard Bank Malta p.l.c. (the Bank) and its subsidiary undertakings (together referred to as 'the Group' and individually as 'Group entities'). The Bank's financial statements have been prepared in accordance with the requirements of International Financial Reporting Standards (IFRSs) as adopted by the EU and with the requirements of the Banking Act (Chapter 371 of the Laws of Malta), 1994 and the Companies Act, 1995 (Chapter 386 of the Laws of Malta). These consolidated financial statements are prepared under the historical cost convention, as modified by the fair valuation of available-for-sale financial assets, financial assets and financial liabilities at fair value through profit or loss (including all derivative financial instruments) and the revaluation of the land and buildings class of property, plant and equipment.

The preparation of financial statements in conformity with IFRSs as adopted by the EU requires the use of certain accounting estimates. It also requires the Directors to exercise their judgment in the process of applying the Group's accounting policies (see note 3.1 – Critical accounting estimates, and judgments in applying the Group's accounting policies).

1.2 *Standards, interpretations and amendments to published standards effective in 2015*

In 2015, the Group adopted new standards, amendments and interpretations to existing standards that are mandatory for the Group'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 Group's accounting policies impacting the Group's financial performance and position.

1.3 *Standards, interpretations and amendments to published standards that are not yet effective*

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 Group. 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 Group'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, for certain 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.



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Notes to the Financial Statements

For the Year Ended 31 December 2015

1 Summary of significant accounting policies *(continued)*

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 Group is yet to assess IFRS 9's full impact.

1.4 Consolidation

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The Group manages and administers investment vehicles on behalf of investors. The financial statements of these entities are not included in these financial statements, except when the Group controls the entity.



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Notes to the Financial Statements

For the Year Ended 31 December 2015

1 Summary of significant accounting policies *(continued)*

The Group uses the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair value of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If this aggregate is less than the fair value of the identifiable net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in profit or loss.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. The accounting policies of the subsidiaries are consistent with the policies adopted by the Group. In the Bank's separate financial statements, investments in subsidiaries are accounted for by the cost method of accounting, i.e. at cost less impairment. Provisions are recorded where, in the opinion of the Directors, there is an impairment in value. Where there has been an impairment in the value of an investment, it is recognised as an expense in the period in which the diminution is identified. The results of subsidiaries are reflected in the Bank's separate financial statements only to the extent of dividends receivable. On disposal of an investment, the difference between the net disposal proceeds and the carrying amount is charged or credited to profit or loss.

1.5 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the Board of Directors which is the Group'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.

1.6 Foreign currency translation

The financial statements are presented in euro (€), which is the Group's presentation currency.

1.6.1 Functional and presentation currency

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

1.6.2 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.



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Notes to the Financial Statements

For the Year Ended 31 December 2015

1 Summary of significant accounting policies (*continued*)

1.7 Financial assets

The Group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, held-to-maturity financial assets 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.

1.7.1 Initial recognition and derecognition

The Group 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 Group commits to purchase or sell the asset. Accordingly, the Group 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 Group has transferred substantially all risks and rewards of ownership or the Group has not retained control of the asset.

1.7.2 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 Group 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. Assets in this category are classified as current assets if expected to be settled within twelve months; otherwise, they are classified as non-current.

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 'net gains/(losses)' on financial instruments classified as held for trading'. Interest income and dividend income on financial assets held for trading are included in 'net interest income' or 'dividend income', respectively.

The Group 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. The Group has not designated any financial assets as at fair value through profit or loss upon initial recognition.



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Notes to the Financial Statements

For the Year Ended 31 December 2015

1 Summary of significant accounting policies *(continued)*

1.7.3 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 Group 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 Group 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 Group provides money, goods or services directly to a debtor with no intention of trading the asset. They are included in current assets except for maturities greater than twelve months after the end of the reporting period. The latter are classified as non-current assets. Loans and receivables mainly consist of balances with Central Bank of Malta, loans and advances to banks and customers, trade and other receivables together with accrued income and 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 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’.

1.7.4 Held-to-maturity financial assets

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group’s management has the positive intention and ability to hold to maturity, other than:

- those that the Group upon initial recognition designates as at fair value through profit or loss;
- those that the Group designates as available-for-sale; and
- those that meet the definition of loans and receivables.

These are initially recognised at fair value, including direct and incremental transaction costs, and measured subsequently at amortised cost using the effective interest method.

Interest on held-to-maturity investments is included in profit or loss and reported as ‘interest and similar income’. In the case of an impairment, the impairment loss is being reported as a deduction from the carrying value of the investment and recognised in profit or loss as ‘net gains/(losses) on investment securities’. The Group did not hold any held-to-maturity investments as at the end of the reporting period.



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Notes to the Financial Statements

For the Year Ended 31 December 2015

1 Summary of significant accounting policies (*continued*)

1.7.5 Available-for-sale financial assets

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. They are included in non-current assets unless the asset matures or management intends to dispose of it within twelve months of the end of the reporting period.

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 Group'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 Group 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. The investments and the Malta Government treasury bills of the Group were all classified as available-for-sale as at the end of the reporting period.

1.8 Impairment of financial assets

1.8.1 Assets carried at amortised cost

The Group assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or 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 Group 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;



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Notes to the Financial Statements

For the Year Ended 31 December 2015

1 Summary of significant accounting policies *(continued)*

- 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 Group 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 Group 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.

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 Group 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 Group'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 Group. 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.



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Notes to the Financial Statements

For the Year Ended 31 December 2015

1 Summary of significant accounting policies *(continued)*

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 Group 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.

1.8.1.1 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.

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 loans 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.

Notes to the Financial Statements

For the Year Ended 31 December 2015

1 Summary of significant accounting policies (continued)

The forbore 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 forbore loans also include previously impaired forbore 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 forbore 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.

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 forbore.

1.8.2 Assets classified as available-for-sale

The Group 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 1.8.1.

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.



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Notes to the Financial Statements

For the Year Ended 31 December 2015

1 Summary of significant accounting policies (*continued*)

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.

1.9 *Offsetting financial instruments*

Financial assets and liabilities are offset and the net amount reported in the consolidated 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.

1.10 *Investments in subsidiaries*

The Group classifies investments in entities which it controls as subsidiaries.

The Bank's investments in subsidiaries are stated at cost less impairment losses in the Bank's stand-alone financial statements. Impairment losses recognised in prior periods are reversed through profit or loss if there has been a change in the estimates used to determine the investment's recoverable amount since the last impairment loss was recognised.

1.11 *Investment in associate*

Associates are all entities over which the Group has significant influence but not control or joint control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting in the consolidated financial statements, after initially being recognised at cost. Under the equity method of accounting, the investment is initially recognised at cost, and the carrying amount is adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses of the investee in profit or loss, and the Group's share of movements in other comprehensive income of the investee in other comprehensive income. The Group's investment in associates includes goodwill identified on acquisition. Dividends received or receivable from associates are recognised as a reduction in the carrying amount of the investment.

When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount adjacent to 'share of profit/(loss) of associates' in the income statement.

Profits and losses resulting from upstream and downstream transactions between the Group and its associate are recognised in the Group's financial statements only to the extent of unrelated investor's interests in the associates. Unrealised losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income is reclassified to profit or loss where appropriate.



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Notes to the Financial Statements

For the Year Ended 31 December 2015

1 Summary of significant accounting policies (*continued*)

Dilution gains and losses arising in investments in associates are recognised in the income statement.

In the Company's separate financial statements, investments in associates are accounted for by the cost method of accounting, i.e. at cost less impairment. Provisions are recorded where, in the opinion of the Directors, there is impairment in value. Where there has been impairment in the value of an investment, it is recognised as an expense in the period in which the diminution is identified. The results of the associate are reflected in the Company's separate financial statements only to the extent of dividends receivable. On disposal of an investment, the difference between the net disposal proceeds and the carrying amount is charged or credited to profit or loss.

1.12 *Intangible assets*

1.12.1 Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the identifiable net assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in 'intangible assets'.

Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose, identified according to operating segment. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired by comparing the carrying amount of the unit, including the goodwill, with the recoverable amount of the unit. The recoverable amount is the higher of fair value less costs to sell and value in use.

1.12.2 Computer software

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised on the basis of the expected useful lives. Software has a maximum expected useful life of four years.



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Notes to the Financial Statements

For the Year Ended 31 December 2015

1 Summary of significant accounting policies (continued)

1.13 Property, plant and equipment

All property, plant and equipment used by the Group 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.

Land and buildings comprise mainly branches and offices. Land and buildings are shown at fair value based on periodic valuations by external independent valuers, less subsequent depreciation for buildings. Valuations are carried out on a regular basis such that the carrying amount of property does not differ materially from that which would be determined using fair values at the end of the reporting period. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset, and the net amount is restated to the revalued amount of the asset.

All other property, plant and equipment is stated at historical cost less accumulated depreciation.

Borrowing costs which are incurred for the purpose of acquiring or constructing a qualifying asset are capitalised as part of its cost. Borrowing costs are capitalised while acquisition or construction is actively underway. Capitalisation of borrowing costs is ceased once the asset is substantially complete, and is suspended if the development of the asset is suspended.

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 Group 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.

Increases in the carrying amount arising on revaluation of land and buildings are credited to other comprehensive income and shown as a revaluation reserve in shareholders' equity. Decreases that offset previous increases of the same asset are charged to other comprehensive income and debited against the revaluation reserve directly in equity; all other decreases are charged to profit or loss.

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 or revalued amounts to their residual values over their estimated useful lives, as follows:

	Years
Buildings	100 or over period of lease/arrangement
Leasehold property	Over period of lease/arrangement
Computer equipment	4
Other	4 – 8

Notes to the Financial Statements

For the Year Ended 31 December 2015

1 Summary of significant accounting policies (continued)

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

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 1.14).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in profit or loss. When revalued assets are sold, the amounts included in the revaluation reserve relating to that asset are transferred to retained earnings.

1.14 *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.

1.15 *Repossessed property*

In certain circumstances, property is repossessed following the foreclosure on loans that are in default. Repossessed properties are measured at the lower of carrying amount and fair value less costs to sell.

1.16 *Non-current assets held for sale*

Non-current assets are classified as assets held for sale and are stated at the lower of carrying amount and fair value less costs to sell when their carrying amount is to be recovered principally through a sale transaction rather than through continuing use and a sale is considered highly probable.

1.17 *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 consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill; deferred income tax is not accounted



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Notes to the Financial Statements

For the Year Ended 31 December 2015

1 Summary of significant accounting policies *(continued)*

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 Group 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.

1.18 *Inventories*

Inventories are stated at the lower of cost and net realisable value. The cost of postal stationery and inventories held for resale is determined on a weighted average cost basis. The cost of inventories is determined on a first-in first-out basis. The cost of inventories comprise the invoiced value of goods sold and in general includes transport and handling costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

1.19 *Trade and other receivables*

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provisions for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the 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. When a receivable is uncollectible, it is written off against the allowance account for trade and other receivables. Subsequent recoveries of amounts previously written off are credited in profit or loss.

1.20 *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.



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Notes to the Financial Statements

For the Year Ended 31 December 2015

1 Summary of significant accounting policies (*continued*)

1.21 *Financial liabilities*

The Group recognises a financial liability on its statement of financial position when it becomes a party to the contractual provisions of the instrument. The Group'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 Group 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, trade and other payables (note 1.23) together with other liabilities.

1.22 *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.

1.23 *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. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities. Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

1.24 *Provisions*

Provisions for legal and other claims are recognised when: the Group 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.



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Notes to the Financial Statements

For the Year Ended 31 December 2015

1 Summary of significant accounting policies *(continued)*

1.24.1 Provision for pension obligations

A subsidiary of the Bank provides for the obligation arising in terms of Article 8A of the Pensions Ordinance, (Chapter 93 of the Laws of Malta), covering those former Government employees who opted to become full-time employees of the subsidiary of the Bank, and who continued to be entitled to pension benefits which go beyond the National Insurance Scheme.

The pension related accounting costs are assessed using the projected unit credit method. Under this method, the cost of the subsidiary's obligation is charged to profit or loss so as to spread the cost over the years of service giving rise to entitlement to benefits in accordance with actuarial techniques. The obligation is measured as the present value of the estimated future cash outflows using interest rates of long-term Government bonds which have terms to maturity approximating the terms of the related liability. Subsequent to the adoption of IAS 19 (revised 2011), all actuarial gains and losses are charged or credited to equity in OCI in the period in which they arise.

1.25 *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 Group 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.

1.26 *Fees and commissions*

Fee and commission income and expense 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.



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Notes to the Financial Statements

For the Year Ended 31 December 2015

1 Summary of significant accounting policies (*continued*)

1.27 *Postal sales and service income*

Postal sales and service revenue comprises the fair value of the consideration received or receivable for the sale of services in the ordinary course of the subsidiary's activities. Revenue is shown net of sales taxes and discounts. It comprises revenue directly received from customers, commissions earned on postal and non-postal transactions and income from foreign outbound mail receivable from overseas postal administrators.

Income from sale of stamps, commission earned on postal and non-postal transactions and revenue from foreign outbound mail from overseas postal administrators is recognised when the service is rendered. Allowance is made for the assessed amount of revenue from prepaid product sales at the end of the reporting period for which the service has not yet been provided. In the case of services rendered to postal administrators in countries subject to severe exchange control restrictions and undue delays in settlement, revenue is not recognised until the subsidiary is in a position to ensure that the economic benefits associated with the transaction will flow to it, which is often upon or shortly before actual receipt.

1.28 *Dividend income*

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

1.29 *Leases*

1.29.1 A group company 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.

1.30 *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.

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 fee income earned is recognised in profit or loss over the life of the guarantee. Any increase in the liability relating to guarantees is recognised in profit or loss.

1.31 *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.



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Notes to the Financial Statements

For the Year Ended 31 December 2015

1 Summary of significant accounting policies *(continued)*

1.32 Dividend distribution

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

2 Financial risk management

2.1 Introduction

2.1.1 Preamble

The Group's business involves taking on risks in a targeted manner and managing them professionally. The core functions of the Group's risk management are to identify all key risks for the Group, measure these risks, manage the risk positions and determine capital allocations. The Group regularly reviews its risk management policies and systems to reflect changes in markets, products and best market practice. The Group's aim is to achieve an appropriate balance between risk and return and minimise potential adverse effects on the Group's financial performance. The Group defines risk as the possibility of losses or profits foregone, which may be caused by internal or external factors.

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

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. The Bank has adopted the Standardised Approach and the Basic Method with respect to the calculation of capital requirements in relation to, and management of, credit and market risks, and the Basic Indicator Approach with respect to operational risk. The Bank regularly updates its Internal Capital Adequacy Assessment Process (ICAAP), that is approved by the Board of Directors.

2.1.2 Organisation

The Bank's Board of Directors is responsible for ensuring that adequate processes and procedures exist to ensure effective internal control systems for the Group. 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. The Board assumes responsibility for:

- setting business objectives, goals and the general strategic direction for Management with a view to maximise value;
- selecting and appointing the Chief Executive Officer who is entrusted with the day-to-day operations of the Group;
- management of the Group's operations;
- ensuring that significant business risks are identified and appropriately managed; and
- setting the highest business standards and code for ethical behaviour, and monitoring adherence with these.



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Notes to the Financial Statements

For the Year Ended 31 December 2015

2 Financial risk management *(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 in the Assets & Liabilities Committee and Credit Committee, and, for the Group's day-to-day operations, in an Executive Team comprising the Chief Executive Officer and Chief Officers. The Audit & Risk Committee reviews the processes and procedures to ensure the effectiveness of the Group's system of internal control, as well as the implementation of the Board's risk strategy by management. The Audit & Risk Committee is supported by the Internal Audit and the Bank's risk management functions.

Authority to operate the Bank and its subsidiaries is delegated to the Chief Executive Officer within the limits set by the Board. The Board is ultimately responsible for the Group'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 Group is committed to the highest standards of business conduct and seeks to maintain these standards across all operations. Group policies and procedures are in place for the reporting and addressing of fraudulent activities.

The Group has an appropriate organisational structure for planning, executing, controlling and monitoring business operations in order to achieve Group objectives.

2.1.3 Risk policies

The Bank's Board of Directors is empowered to set out the overall risk policies and limits for all material risk types. The Board also decides on the general principles for managing and monitoring risks. The Board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments.

Internal controls, procedures and processes are managed within the following areas:

- Finance
- Treasury
- Credit/Advances
- Internal Audit
- Risk Management
- Compliance
- Anti-Money Laundering

2.1.4 Risk appetite

The risk appetite determines the maximum risk that the Group is willing to assume to meet business targets. To ensure coherence between the Group's strategic considerations regarding risk-taking and day-to-day decisions, from time to time, the Group formulates and updates its risk appetite for the purposes of strategic direction. The Group's risk appetite is set in a process based on a thorough analysis of its current risk profile. The Group identifies a number of key risk components and for each, determines a target that represents the Group's view of the component in question. The following are the key risk components:

- Financial strength
- Earnings robustness



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Notes to the Financial Statements

For the Year Ended 31 December 2015

2 Financial risk management (continued)

- Core markets
- Credit risk
- Concentration risk
- Market risk
- Liquidity risk
- Operational risk
- Compliance

2.1.5 Reporting

The Group 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 Team, are kept informed on an ongoing basis of developments in the asset portfolio, such matters as non-performing loans and other relevant information.

2.2 Risk exposures

In terms of the CRR, 'an exposure' is the amount at risk arising from the reporting credit institution's assets and off-balance sheet items. Consistent with this, an exposure would include the amount at risk arising from the Bank's:

- claims on a customer including actual and potential claims which would arise from the drawing down in full of undrawn advised facilities, which the Bank has committed itself to provide;
- contingent liabilities arising in the normal course of business, and those contingent liabilities which would arise from the drawing down in full of undrawn advised facilities which the Bank has committed itself to provide; and
- other on and off-balance sheet financial assets and commitments.

The Group 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 Group'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*: Risk of losses arising from unfavourable changes in the level and volatility of interest rates, foreign exchange rates or investment prices.
- *Liquidity risk*: Liquidity risk may be divided into two sub-categories:
 - Market (product) liquidity risk: Risk of losses arising from difficulty in accessing a product or market at the required time, price and amount.
 - 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.



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Notes to the Financial Statements

For the Year Ended 31 December 2015

2 Financial risk management (continued)

- *Operational risk*: Risk of damage resulting from the lack of skilful management or good governance within the Group 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 Bank's approach to management of the above risks is addressed in this note.

2.3 Credit risk

2.3.1 Introduction

Credit risk is the risk of suffering financial loss, should any of the Group's customers, clients or market counterparties fail to fulfil their contractual obligations to the Group. Credit risk arises mainly from consumer loans and advances and loan commitments arising from such lending activities, but can also arise from credit enhancement provided, such as financial guarantees and letters of credit.

The Group is also exposed to other credit risks arising from investments in debt securities and other exposures arising from its investing activities.

Credit risk constitutes the Bank's largest risk in view of its significant lending and securities portfolios, which is monitored in a structured and formal manner through several mechanisms and procedures. The credit risk management and control functions are centralised.

2.3.2 Credit risk management

The granting of a credit facility (including loans and advances, loan commitments and guarantees) is based on the Bank's insight into the customer's financial position, which is reviewed regularly to assess whether the basis for the granting of credit has changed. Furthermore, the customer must be able to demonstrate, in all probability, the ability to repay the debt. Internal approval limits are in place starting from Bank operational managers leading up to the Credit Committee and the Board of Directors depending on the magnitude and the particular risks attached to the facility. Facilities are generally adequately secured either by property and/or guarantees and are reviewed periodically by management in terms of the exposure to the Bank and to ensure that collateral still covers the facility.

In order to minimise the credit risk undertaken, counterparty credit limits are defined with respect to investment activities, which limits consider a counterparty's creditworthiness, the value of collateral and guarantees pledged, which can reduce the overall credit risk exposure, as well as the type and the duration of the asset. In order to examine a counterparty's creditworthiness, the following are considered: country risk, quantitative and qualitative characteristics, as well as the industry sector in which the counterparty operates.

The Group has set limits of authority and has segregation of duties so as to maintain impartiality and independence during the approval process and control new and existing assets or credit facilities.

The Group manages, limits and controls concentrations of credit risk wherever they are identified – in particular, to individual counterparties and groups, and to industries and countries. The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical and industry segments. Such risks are monitored on a revolving basis and subject to an annual or more frequent review, when considered necessary. Limits on the level of credit risk by product, industry sector and



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Notes to the Financial Statements

For the Year Ended 31 December 2015

2 Financial risk management (continued)

country are approved regularly by the Board of Directors. The exposure to any one borrower including banks and brokers is further restricted by sublimits covering on and off-balance sheet exposures. Actual exposures against limits are monitored at end of day on a daily basis and on a real-time basis too.

2.3.3 Maximum exposure to credit risk

The Group's main exposures to credit risk with respect to on and off-balance sheet financial instruments can be classified in the following categories:

- Financial assets recognised on balance sheet comprising principally balances with Central Bank of Malta, Malta Government treasury bills, available-for-sale financial assets, trade and other receivables, and loans and advances to banks and customers. The maximum exposure to credit risk of these financial assets equals their carrying amount.
- Guarantee obligations incurred on behalf of third parties. The maximum exposure to credit risk is the full amount that the Group would have to pay as disclosed in note 24 if the guarantees are called upon.
- 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.

The Group'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, are analysed as follows:

	Group		Bank	
	2015 € 000	2014 € 000	2015 € 000	2014 € 000
Credit risk exposures relating to on-balance sheet assets				
<i>Loans and receivables</i>				
Balances with Central Bank of Malta	81,157	17,948	81,157	17,948
Cheques in course of collection	475	1,656	475	1,656
Loans and advances to banks	229,788	185,918	225,546	182,857
Loans and advances to customers	305,891	318,742	306,572	319,420
Trade and other receivables	8,170	5,545	2,104	1,447
Accrued income and other assets	2,607	2,922	2,540	2,867
<i>Available-for-sale financial assets</i>				
Debt securities	66,469	49,512	62,688	46,230
Malta Government treasury bills	31,000	62,466	31,000	62,466
	725,557	644,709	712,082	634,891
Credit risk exposures relating to off-balance sheet instruments				
Contingent liabilities	7,479	8,023	7,479	8,023
Commitments	106,925	72,115	106,925	72,115



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Notes to the Financial Statements

For the Year Ended 31 December 2015

2 Financial risk management (continued)

The exposures set out in this note are based on carrying amounts as reported in the statement of financial position. The table represents a worst case scenario of credit risk exposure to the Group and Bank at 31 December 2015 and 2014.

2.3.4 Investment debt securities by industry sector

	2015 € 000	Group 2014 € 000	2015 € 000	Bank 2014 € 000
Government	60,356	43,894	58,226	42,215
Corporate				
Tourism	1,345	1,105	1,002	782
Trade	1,088	1,282	679	646
Property and construction	811	562	325	333
Financial institutions	1,189	1,040	774	626
Other sectors	1,680	1,629	1,682	1,628
	66,469	49,512	62,688	46,230

2.3.5 Loans and advances to customers by industry sector

The following industry concentrations relate to loans and advances to customers before deducting impairment allowances (Gross advances to customers):

	2015 € 000	Group 2014 € 000	2015 € 000	Bank 2014 € 000
Manufacturing	11,787	12,045	11,787	12,045
Tourism	10,621	10,687	10,621	10,687
Trade	48,538	34,306	48,538	34,306
Property and construction	175,892	180,331	175,892	180,331
Personal, professional and home loans	35,435	43,373	35,435	43,373
Financial institutions	2,190	6,269	2,190	6,269
Other sectors	41,619	48,853	42,300	49,531
Gross advances to customers	326,082	335,864	326,763	336,542



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Notes to the Financial Statements

For the Year Ended 31 December 2015

2 Financial risk management *(continued)*

The majority of the Bank's loans and advances to customers comprise exposures to corporates.

As at 31 December 2015, no loans and advances to customers were deemed to be prohibited large exposures, prior to any eligible exemptions, in accordance with the requirements of Part Four: Large Exposures, of the CRR. A limited number of customers account for a certain percentage of the Bank's loans and advances. Whilst no individual customer or group of dependent customers is considered by management as a significant concentration of credit risk in the context of the CRR, these exposures are monitored and reported more frequently and rigorously.

2.3.6 Information on credit quality of balances with banks, debt securities and treasury bills

The Group holds debt instruments that are issued by local government, local banks and other local corporate entities. All such counterparties are listed on the Malta Stock Exchange, which is currently the only locally-based Recognised Investment Exchange (RIE) in Malta. The Bank acquires debt securities and similar instruments issued by counterparties having strong financial background. These issuers are approved and regularly reviewed considering the process previously highlighted, focusing on market developments. The Group's investments include a significant amount of treasury bills and other debt securities issued by the Government of Malta.

Within its daily operations the Bank transacts with banks and other financial institutions. The Bank primarily places short-term funds with pre-approved banks subject to limits in place and subject to the respective institution's credit rating being within controlled parameters. By conducting these transactions the Bank is running the risk of losing funds due to the possible delays in the repayment to the Bank of the existing and future obligations of the counterparty banks. Actual exposures are monitored against the limits on a daily basis and in a real-time manner. The credit status of the pre-authorised banks is monitored on an ongoing basis. At 31 December 2015, loans and advances to banks consisted primarily of term placements maturing within one month.

The Bank runs the risk of loss of funds due to the possible political, economic and other events in a particular country where funds have been placed or invested with several counterparties domiciled in the same country or region. Countries are assessed according to their size, economic data and prospects together with credit ratings issued by international rating agencies. Existing country credit risk exposures, based on groupings of individual counterparties, are monitored and reviewed periodically. The Bank's assets are predominantly in Malta. The Group's exposures to other countries are mainly limited to bank balances and money market placements with a total carrying amount of €220,555,000 (2014: €166,916,000) at the end of the reporting period.

At the end of the reporting period, the Group had no past due or impaired financial assets within these asset categories.

Notes to the Financial Statements

For the Year Ended 31 December 2015

2 Financial risk management (continued)

The tables below analyse the credit quality of these financial assets as determined by credit ratings applicable to issuers or counterparties based on Fitch's ratings:

Group	AA- to A- € 000	Lower than A- € 000	Unrated € 000	Total € 000
At 31 December 2015				
<i>Loans and receivables</i>				
Balances with Central Bank of Malta	81,157	-	-	81,157
Loans and advances to banks	107,019	113,823	8,946	229,788
<i>Available-for-sale financial assets</i>				
Debt securities	60,365	895	5,209	66,469
Malta Government treasury bills	31,000	-	-	31,000
	279,541	114,718	14,155	408,414

Group	AA- to A- € 000	Lower than A- € 000	Unrated € 000	Total € 000
At 31 December 2014				
<i>Loans and receivables</i>				
Balances with Central Bank of Malta	17,948	-	-	17,948
Loans and advances to banks	155,647	10,354	19,917	185,918
<i>Available-for-sale financial assets</i>				
Debt securities	43,894	744	4,874	49,512
Malta Government treasury bills	62,466	-	-	62,466
	279,955	11,098	24,791	315,844

Bank	AA- to A- € 000	Lower than A- € 000	Unrated € 000	Total € 000
At 31 December 2015				
<i>Loans and receivables</i>				
Balances with Central Bank of Malta	81,157	-	-	81,157
Loans and advances to banks	107,019	113,520	5,007	225,546
<i>Available-for-sale financial assets</i>				
Debt securities	58,226	774	3,688	62,688
Malta Government treasury bills	31,000	-	-	31,000
	277,402	114,294	8,695	400,391



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Notes to the Financial Statements

For the Year Ended 31 December 2015

2 Financial risk management (continued)

Bank	AA- to A- € 000	Lower than A- € 000	Unrated € 000	Total € 000
At 31 December 2014				
<i>Loans and receivables</i>				
Balances with Central Bank of Malta	17,948	-	-	17,948
Loans and advances to banks	155,647	10,204	17,006	182,857
<i>Available-for-sale financial assets</i>				
Debt securities	42,215	626	3,389	46,230
Malta Government treasury bills	62,466	-	-	62,466
	278,276	10,830	20,395	309,501

The exposures at 31 December 2015 reflected within the above tables, categorised as Lower than A-, are predominantly rated as BBB.

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.

2.3.7 Information on credit quality of loans and advances to customers

The Bank reviews and grades advances to customers using the following internal risk grades:

- Performing
 - Regular
 - Watch
 - Substandard
- Non-performing
 - Doubtful

Regular

The Bank's loans and advances to customers which are categorised as 'Regular' are principally debts in respect of which the payment of interest and/or capital is not overdue by 30 days and no recent history of customer default exists. Management does not expect any losses from non-performance by these customers.

Watch

Loans and advances which attract a 'Watch' grading are those which are receiving the close attention of the Bank's management and are being reviewed periodically in order to determine whether such advances should be reclassified to either the 'Regular' or the 'Substandard' classification. Credit facilities that attract this category include those where the payment of interest and/or capital becomes overdue by 30 days and over but not exceeding 60 days.

Notes to the Financial Statements

For the Year Ended 31 December 2015

2 Financial risk management (continued)

Substandard

Loans and advances which attract a 'Substandard' grading are those having the weaknesses inherent in those loans and advances classified as 'Watch' with the added characteristics that repayment is inadequately protected by the current sound worth and paying capacity of the borrower. Loans and advances so graded have a well-defined weakness or weaknesses that could jeopardise the repayment of the debt. They are characterised by the distinct possibility that the Bank will sustain some loss if the deficiencies are not corrected. Credit facilities that attract this category include those where the payment of interest and/or capital becomes overdue by 60 days and over but not exceeding 90 days.

Doubtful

Loans and advances which attract a 'Doubtful' grading are those facilities where the Bank deems the recoverability of principal to be remote as a result of worsening conditions of loans and advances classified as 'Substandard'. Credit facilities that attract this category include those where the payment of interest and/or capital becomes overdue by 90 days and over. This category comprises loans and advances which are deemed specifically impaired in accordance with the requirements of IFRSs as adopted by the EU. The Bank's non-performing forborne loans (refer to note 2.3.8) are also classified within this category.

Impaired loans and advances

Impaired loans and advances are advances in respect of which the Bank determines that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the loans and receivables. The Bank establishes an allowance for impairment losses that represents its estimate of incurred losses on its loans and advances portfolio. The main components of this allowance are specific impairment allowances, that relate to individually significant exposures and other individual exposures in respect of which impairment losses have been identified, and a collective impairment allowance established to cover losses which have been incurred but they have not yet been identified as loans subject to individual assessment or for groups of loans that are not considered individually significant. The Bank writes off loan or advance balances (and writes back 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.

The individually impaired loans and advances mainly relate to a number of independent customers which are in unexpectedly difficult economic situations and which are accordingly not meeting repayment obligations. These exposures mainly arose in the Construction and Households sectors and relate to advances which are past due by more than ninety days and/or graded as 'Doubtful'. Provisions for impairment in respect of balances with corporate customers relate to entities which are in adverse trading and operational circumstances. It was assessed that a significant portion of these advances is expected to be recovered. Provisions for impairment as at the end of the reporting period and movements in such provisions arising during the year are disclosed in notes 8 and 31 to the financial statements. Reversals of provisions for impairment arise in those situations where customers recover from unfavourable circumstances and accordingly start meeting repayment obligations including accrued interest.



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Notes to the Financial Statements

For the Year Ended 31 December 2015

2 Financial risk management (continued)

The amounts attributable to the Bank's loans and advances differ from the figures for Group's loans and advances in view of the Bank's exposure to its subsidiary, which exposure is deemed fully performing. Accordingly the amounts presented in the tables within this note and note 2.3.9 reflects the Bank's figures in respect of loans and advances.

Impaired loans and advances, gross of specific impairment allowances, are analysed by industry sector as follows:

	2015 € 000	2014 € 000
Manufacturing	2,971	2,759
Tourism	3,382	3,212
Trade	3,807	4,265
Property and construction	32,980	26,084
Personal, professional and home loans	4,417	2,808
Financial institutions	66	61
Other sectors	3,722	3,433
	51,345	42,622



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Notes to the Financial Statements

For the Year Ended 31 December 2015

2 Financial risk management (continued)

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

	Non-forborne exposures 2015 € 000	Forborne exposures 2015 € 000	Total 2015 € 000	Non-forborne exposures 2014 € 000	Forborne exposures 2014 € 000	Total 2014 € 000
Performing						
Neither past due nor impaired						
Regular	162,362	12,538	174,900	153,676	356	154,032
Watch	15,609	15,043	30,652	4,362	839	5,201
Substandard	6,337	330	6,667	13,632	4,375	18,007
	184,308	27,911	212,219	171,670	5,570	177,240
Past due by less than 90 days but not impaired						
Regular	1,642	-	1,642	5,008	500	5,508
Watch	5,699	-	5,699	8,389	-	8,389
Substandard	3,483	676	4,159	8,613	592	9,205
	10,824	676	11,500	22,010	1,092	23,102
Non-performing						
Impaired, gross of specific impairment allowances	35,916	15,429	51,345	32,708	9,914	42,622
Forborne (excluding impaired exposures)	-	24,779	24,779	-	51,944	51,944
Non-forborne past due by 90 days or more but not impaired	26,920	-	26,920	41,634	-	41,634
	62,836	40,208	103,044	74,342	61,858	136,200
Gross loans and advances	257,968	68,795	326,763	268,022	68,520	336,542
Specific impairment allowances applied to impaired exposures reflected above	(12,423)	(3,769)	(16,192)	(10,540)	(2,953)	(13,493)
Collective impairment allowances	(3,687)	(312)	(3,999)	(2,799)	(830)	(3,629)
Net loans and advances	241,858	64,714	306,572	254,683	64,737	319,420

Interest income recognised during the financial year ended 31 December 2015 in respect of forborne exposures amounted to €4,488,000 (2014: €5,080,000).



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Notes to the Financial Statements

For the Year Ended 31 December 2015

2 Financial risk management (continued)

2.3.8 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 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 borrowers' 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. 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 debtor is currently in default on any of its debt;
- the debtor has declared or is in the process of declaring bankruptcy or entering into a similar process;
- there is significant doubt as to whether the debtor will continue to be a going concern; and
- the Bank forecasts that the debtor'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 is employed 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 showed a willingness to repay the loan and is expected to be able to meet the revised obligations. The Bank's credit risk management policy sets 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 such as transfer to an interest-only arrangement or interest rate changes occur less often.



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Notes to the Financial Statements

For the Year Ended 31 December 2015

2 Financial risk management (continued)

In assessing whether forbearance is a sustainable strategy, the customer's entire exposures and facilities will be reviewed and the customer's ability to meet the terms in relation to the revised obligation 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.

2.3.9 Required disclosures in relation to loans and advances to customers

Past due but not impaired loans

Past due but not impaired loans comprise loans and advances where interest or principal payments are past due, but the Bank believes that impairment is not appropriate on the basis of the level of security available and/or the stage of collection of amounts owed to the Bank. The past due ageing analysis is shown in the following table. Related credit losses which have been incurred but are not yet identified are partly covered by collective impairment allowances.

Bank	Non-forborne exposures 2015 € 000	Forborne exposures 2015 € 000	Non-forborne exposures 2014 € 000	Forborne exposures 2014 € 000
Past due up to 30 days	5,024	-	12,252	500
Past due between 31 and 60 days	2,282	-	5,775	-
Past due between 61 and 90 days	3,518	676	3,983	592
Past due over 90 days	26,920	24,779	41,634	51,944
	37,744	25,455	63,644	53,036



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Notes to the Financial Statements

For the Year Ended 31 December 2015

2 Financial risk management (continued)

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

Bank	Forborne exposures 2015 € 000	Forborne exposures 2014 € 000
At 1 January	68,520	73,487
Loans to which forbearance measures have been extended during the year	24,910	32,136
Repayments	(2,835)	(358)
Retired from forborne	(21,800)	(36,745)
At 31 December	68,795	68,520

During the current financial year, specific impairment allowances on forborne loans have increased from €2,953,000 at 1 January 2015 to €3,769,000 at 31 December 2015. The movement reflects solely increases in allowances in respect of specific exposures.

Forborne loans, before specific impairment allowances, are analysed by industry sector as follows:

Bank	Neither past due nor impaired € 000	Past due but not impaired € 000	Impaired € 000	Total € 000
At 31 December 2015				
Manufacturing	-	109	-	109
Tourism	-	-	200	200
Trade	786	9,369	2,055	12,210
Property and construction	27,064	15,452	10,049	52,565
Personal, professional and home loans	-	128	3,125	3,253
Other sectors	61	397	-	458
	27,911	25,455	15,429	68,795



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For the Year Ended 31 December 2015

2 Financial risk management (continued)

Bank	Neither past due nor impaired € 000	Past due but not impaired € 000	Impaired € 000	Total € 000
At 31 December 2014				
Manufacturing	4	142	-	146
Tourism	323	-	283	606
Trade	988	1,551	2,177	4,716
Property and construction	3,228	49,437	5,989	58,654
Personal, professional and home loans	314	1,576	1,465	3,355
Other sectors	713	330	-	1,043
	5,570	53,036	9,914	68,520

Forborne loans mainly comprise exposures to corporate customers based in Malta.

2.3.10 Collateral

Collateral is an important mitigant of credit risk. Nevertheless, it is Bank's policy to establish that facilities are within the customer's capacity to repay rather than to place excess reliance on security. In certain cases, depending on the customer's standing and the type of product, facilities may be unsecured. The Bank applies various measures to reduce the risk on individual transactions, including collateral in the form of physical assets and guarantees. The most important instruments utilised to reduce risk are charges against real property.

The tables below show loans and advances to customers by level of collateral. The collateral measured in the tables below consists of fixed first charges on real estate and charges over cash and marketable financial instruments. The values in the tables represent the expected market value on an open market basis; no adjustment has been made to the collateral for any expected costs of recovery. Cash is valued at its nominal value and marketable securities at their fair value.

The LTV ratios presented are calculated by directly associating loans and advances with the collateral that individually and uniquely supports each facility.

Where collateral assets are shared by multiple loans and advances, the collateral value is pro-rated across the loans and advances protected by the collateral. Other types of collateral which are commonly taken for the business of lending such as unsupported guarantees and floating charges over the assets of a customer's business are not measured in the tables below. While such mitigants have value, often providing rights in insolvency, their assignable value is not sufficiently certain and they are therefore assigned no value for disclosure purposes.

The value of real estate collateral is determined by using a combination of professional and internal valuations and physical inspections. Revaluations are sought with greater frequency as concerns over the performance of the collateral or the direct obligor increase.



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Notes to the Financial Statements

For the Year Ended 31 December 2015

2 Financial risk management (continued)

	Non-forborne exposures 2015 € 000	Forborne exposures 2015 € 000	Total 2015 € 000	Non-forborne exposures 2014 € 000	Forborne exposures 2014 € 000	Total 2014 € 000
Performing						
Not collateralised	31,951	470	32,421	12,003	-	12,003
Fully collateralised						
Less than 50% LTV	102,145	11,144	113,289	99,415	1,892	101,307
51% to 75% LTV	29,656	16,973	46,629	30,467	3,260	33,727
76% to 90% LTV	5,523	-	5,523	9,385	204	9,589
91% to 100% LTV	5,027	-	5,027	31,686	-	31,686
	142,351	28,117	170,468	170,953	5,356	176,309
Partially collateralised						
Greater than 100% LTV	20,830	-	20,830	10,724	1,306	12,030
Total performing	195,132	28,587	223,719	193,680	6,662	200,342
Non-performing						
Not collateralised	2,919	400	3,319	3,876	168	4,044
Fully collateralised						
Less than 50% LTV	11,785	18,907	30,692	26,842	30,155	56,997
51% to 75% LTV	22,758	2,836	25,594	15,422	19,247	34,669
76% to 90% LTV	5,530	4,897	10,427	5,536	5,760	11,296
91% to 100% LTV	1,070	7,162	8,232	5,526	2,078	7,604
	41,143	33,802	74,945	53,326	57,240	110,566
Partially collateralised						
Greater than 100% LTV	18,774	6,006	24,780	17,140	4,450	21,590
Total non-performing	62,836	40,208	103,044	74,342	61,858	136,200
At 31 December	257,968	68,795	326,763	268,022	68,520	336,542



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Notes to the Financial Statements

For the Year Ended 31 December 2015

2 Financial risk management *(continued)*

2.3.11 Trade and other receivables

The Bank's subsidiary assesses the credit quality of its customers taking into account financial position, past experience and other factors. It has policies in place to ensure that sales of products and services are effected to customers with an appropriate credit history in the case of credit sales. The subsidiary monitors the performance of these financial assets on a regular basis to identify incurred collection losses which are inherent in the subsidiary's receivables taking into account historical experience in collection of accounts receivable.

Standard credit terms are in place for individual clients, however, wherever possible, new corporate customers are analysed individually for creditworthiness before the subsidiary's standard payment and service delivery terms and conditions are offered. The entity's review includes external creditworthiness databases when available. The subsidiary establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables. This allowance represents specific provisions against individual exposures. The movement in provisions for impairment in respect of trade receivables is disclosed in note 15. Other overdue trade receivables amounted to €1,252,000 (2014: €461,000), principally overdue by nine months, but were not impaired.

The subsidiary's receivables, which are not impaired financial assets, are principally in respect of transactions with customers for whom there is no recent history of default. Management does not expect any material losses from non-performance by these customers.

2.3.12 Contingencies and commitments

Guarantees and standby letters of credit carry the same credit risk as loans. Documentary and commercial letters of credit – which are written undertakings by the Bank on behalf of a customer authorising a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions – are collateralised by the underlying shipments of goods to which they relate and therefore carry less risk than a direct loan. Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to loss in an amount equal to the total unused commitments. 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 outlined above in respect of loans and advances.

2.4 Market risk

The Group takes on exposure to market risk, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices such as interest rates, credit spreads, foreign exchange rates and equity prices.



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Notes to the Financial Statements

For the Year Ended 31 December 2015

2 Financial risk management (continued)

Accordingly, market risk for the Group consists of three elements:

- Interest rate risk, which is the risk of losses because of changes in interest rates;
- Exchange rate risk, which is the risk of losses on the Group's positions in foreign currency because of changes in exchange rates; and
- Equity price risk, which is the risk of losses because of changes in investment prices.

2.4.1 Interest rate risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. 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 Group, through its banking operations, takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flow risks. Interest margins may increase as a result of such changes but losses may occur in the event that unexpected movements arise.

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 accepts deposits from customers at both fixed and floating rates and for varying terms. This poses a risk to the Bank, which risk is managed by monitoring on a continuous basis the level of mismatch of interest rate re-pricing 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 also invests in highly liquid quality assets and other short-term instruments 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 Group seeks to manage its net interest spread, considering the cost of capital, by investing funds in a portfolio of assets with a longer term than the liabilities funding them (therefore normally giving rise to a negative maturity gap position) but with shorter re-pricing periods or terms. The Bank manages the shorter term nature of the liabilities funding the assets for the purposes of ensuring a steady base of deposits with differing terms over the medium to longer term. The Bank's Assets & Liabilities Committee 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.



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Notes to the Financial Statements

For the Year Ended 31 December 2015

2 Financial risk management (continued)

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

Group	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
At 31 December 2015	€ 000	%	€ 000	€ 000	€ 000	€ 000	€ 000
Financial assets							
Balances with Central Bank of Malta, treasury bills and cash	115,884	0.34	88,157	24,000	-	-	3,727
Debt and other fixed income instruments classified as available-for-sale investments	66,469	4.00	826	1,720	31,858	32,065	-
Loans and advances to banks	229,788	0.06	204,563	24,550	-	-	675
Loans and advances to customers	305,891	5.77	304,987	-	-	-	904
Total financial assets	718,032		598,533	50,270	31,858	32,065	5,306
Financial liabilities							
Amounts owed to banks	1,059	0.90	859	-	-	-	200
Amounts owed to customers	650,516	1.22	379,413	88,378	110,986	23,378	48,361
Total financial liabilities	651,575		380,272	88,378	110,986	23,378	48,561
Interest re-pricing gap			218,261	(38,108)	(79,128)	8,687	(43,255)
Cumulative gap			218,261	180,153	101,025	109,712	



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Notes to the Financial Statements

For the Year Ended 31 December 2015

2 Financial risk management (continued)

Group							
	Carrying amount € 000	Effective interest rate %	Less than 3 months € 000	Between 3 months and 1 year € 000	Between 1 year and 5 years € 000	More than 5 years € 000	Non- interest bearing € 000
At 31 December 2014							
Financial assets							
Balances with Central Bank of Malta, treasury bills and cash	84,311	0.14	60,427	19,988	-	-	3,896
Debt and other fixed income instruments classified as available-for-sale investments	49,512	4.78	467	-	19,323	29,722	-
Loans and advances to banks	185,918	0.21	95,160	145	-	-	90,613
Loans and advances to customers	318,742	6.37	317,011	-	-	-	1,731
Total financial assets	638,483		473,065	20,133	19,323	29,722	96,240
Financial liabilities							
Amounts owed to banks	73	-	-	-	-	-	73
Amounts owed to customers	573,946	1.52	319,755	99,412	96,298	29,606	28,875
Total financial liabilities	574,019		319,755	99,412	96,298	29,606	28,948
Interest re-pricing gap			153,310	(79,279)	(76,975)	116	67,292
Cumulative gap			153,310	74,031	(2,944)	(2,828)	



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For the Year Ended 31 December 2015

2 Financial risk management (continued)

Bank	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
At 31 December 2015	€ 000	%	€ 000	€ 000	€ 000	€ 000	€ 000
Financial assets							
Balances with Central Bank of Malta, treasury bills and cash	115,377	0.34	88,157	24,000	-	-	3,220
Debt and other fixed income instruments classified as available-for-sale investments	62,688	3.90	587	1,314	30,926	29,861	-
Loans and advances to banks	225,546	0.06	200,146	25,400	-	-	-
Loans and advances to customers	306,572	5.77	304,987	-	-	-	1,585
Total financial assets	710,183		593,877	50,714	30,926	29,861	4,805
Financial liabilities							
Amounts owed to banks	1,059	0.90	859	-	-	-	200
Amounts owed to customers	654,316	1.22	381,708	89,378	110,986	23,378	48,866
Total financial liabilities	655,375		382,567	89,378	110,986	23,378	49,066
Interest re-pricing gap			211,310	(38,664)	(80,060)	6,483	(44,261)
Cumulative gap			211,310	172,646	92,586	99,069	



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Notes to the Financial Statements

For the Year Ended 31 December 2015

2 Financial risk management (continued)

Bank	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
At 31 December 2014	€ 000	%	€ 000	€ 000	€ 000	€ 000	€ 000
Financial assets							
Balances with Central Bank of Malta, treasury bills and cash	83,914	0.14	60,427	19,988	-	-	3,499
Debt and other fixed income instruments classified as available-for-sale investments	46,230	4.76	-	-	18,246	27,984	-
Loans and advances to banks	182,857	0.21	92,052	-	-	-	90,805
Loans and advances to customers	319,420	6.37	317,011	-	-	-	2,409
Total financial assets	632,421		469,490	19,988	18,246	27,984	96,713
Financial liabilities							
Amounts owed to banks	73	-	-	-	-	-	73
Amounts owed to customers	577,937	1.53	322,209	99,912	96,298	29,606	29,912
Total financial liabilities	578,010		322,209	99,912	96,298	29,606	29,985
Interest re-pricing gap			147,281	(79,924)	(78,052)	(1,622)	66,728
Cumulative gap			147,281	67,357	(10,695)	(12,317)	



Notes to the Financial Statements

For the Year Ended 31 December 2015

2 Financial risk management (continued)

2.4.2 Interest rate profile

At the end of the reporting periods the interest rate profile of the Group's interest-bearing financial instruments was:

Group	Fixed rate		Variable rate	
	2015 € 000	2014 € 000	2015 € 000	2014 € 000
Interest-earning assets				
Balances with Central Bank of Malta and treasury bills	106,324	75,268	5,833	5,147
Debt and other fixed income instruments classified as available-for-sale investments	64,469	47,512	2,000	2,000
Loans and advances to banks	83,288	91,272	145,825	4,033
Loans and advances to customers	-	-	304,987	317,011
	254,081	214,052	458,645	328,191
Interest-bearing liabilities				
Amounts owed to banks	859	-	-	-
Amounts owed to customers	277,328	286,332	324,827	258,739
	278,187	286,332	324,827	258,739

At the end of the reporting periods the interest rate profile of the Bank's interest-bearing financial instruments was:

Bank	Fixed rate		Variable rate	
	2015 € 000	2014 € 000	2015 € 000	2014 € 000
Interest-earning assets				
Balances with Central Bank of Malta and treasury bills	106,324	75,268	5,833	5,147
Debt and other fixed income instruments classified as available-for-sale investments	60,688	44,230	2,000	2,000
Loans and advances to banks	83,238	91,127	142,308	925
Loans and advances to customers	-	-	304,987	317,011
	250,250	210,625	455,128	325,083
Interest-bearing liabilities				
Amounts owed to banks	859	-	-	-
Amounts owed to customers	279,328	288,332	326,122	259,693
	280,187	288,332	326,122	259,693



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Notes to the Financial Statements

For the Year Ended 31 December 2015

2 Financial risk management (continued)

2.4.3 Fair value sensitivity analysis for fixed rate instruments

The Group's instruments exposing the Bank to fair value interest rate risk consist of available-for-sale quoted debt securities (also refer to note 6) since these are fair valued with fair value changes recognised in other comprehensive income. Considering the nature and carrying amount of the investments, with the majority of investments comprising securities issued by the Government of Malta, 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.

2.4.4 Cash flow sensitivity analysis for variable rate instruments

At the end of the reporting periods, if interest rates had increased/decreased by 100 basis points (assuming a parallel shift of 100 basis points in yields) with all other variables held constant, the pre-tax result for the year would change by the following amounts determined by applying the shift to the net variable interest exposure of the Group/Bank at the end of the reporting periods:

Group	2015 € 000	2014 € 000
(+) 100bp	1,338	695
(-) 100bp	(1,338)	(695)
Bank	2015 € 000	2014 € 000
(+) 100bp	1,290	654
(-) 100bp	(1,290)	(654)

2.4.5 Currency risk

The Group takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows particularly within the Bank's operations. Foreign exchange risk to the Bank is the risk that earnings and values fluctuate as a result of changes in foreign exchange rates. The Bank's foreign exchange risk arises when financial assets or liabilities are denominated in currencies which are different from the Bank's functional currency.

The Bank essentially manages this 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 much as is practicable. This mechanism is reflected in the figures reported in the tables below which present this matching process.

The Bank maintains its exposure to foreign currencies within prescribed limits set by the Bank's ALCO. ALCO sets limits on the level of exposure by currency and in aggregate for both overnight and intra-day positions which are monitored on a real-time basis.



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Notes to the Financial Statements

For the Year Ended 31 December 2015

2 Financial risk management (continued)

The Bank enters into forward foreign exchange contracts with customers in the normal course of its business. Generally, it is the Bank's policy to cover the exposure arising from forward contracts. As a result, the Group is not exposed to any significant exchange risk in respect of outstanding derivative financial instruments at the end of the reporting periods. The Bank also retains a deposit margin covering a portion of the notional amount of the respective contract from the customer thereby reducing the extent of credit risk should the derivative client default. The Bank did not have any derivative financial instruments as at 31 December 2015 and 2014.

The following tables summarise the Group's exposures to foreign currency risk. Included in the tables are the entity's financial instruments which are subject to foreign exchange risk at carrying amounts, categorised by currency.

Group

	Total € 000	EUR € 000	GBP € 000	USD € 000	Other € 000
At 31 December 2015					
Financial assets					
Balances with Central Bank of Malta, treasury bills and cash	115,884	39,971	28,757	47,116	40
Investments classified as available-for-sale	76,246	76,215	-	31	-
Loans and advances to banks	229,788	183,923	40,882	3,083	1,900
Loans and advances to customers	305,891	298,448	1,565	4,224	1,654
Other assets	11,253	8,882	510	1,575	286
Total financial assets	739,062	607,439	71,714	56,029	3,880
Financial liabilities					
Amounts owed to banks	1,059	200	-	-	859
Amounts owed to customers	650,516	524,399	70,008	53,381	2,728
Other liabilities	27,746	25,169	1,384	1,043	150
Total financial liabilities	679,321	549,768	71,392	54,424	3,737
Net currency exposure in financial assets/liabilities		57,671	322	1,605	143
Commitments and contingent liabilities	114,404	114,161	11	232	-



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Notes to the Financial Statements

For the Year Ended 31 December 2015

2 Financial risk management (continued)

Group

	Total € 000	EUR € 000	GBP € 000	USD € 000	Other € 000
At 31 December 2014					
Financial assets					
Balances with Central Bank of Malta, treasury bills and cash	84,311	70,442	13,265	572	32
Investments classified as available-for-sale	55,077	55,051	-	26	-
Loans and advances to banks	185,918	99,149	46,662	38,396	1,711
Loans and advances to customers	318,742	309,618	1,733	5,075	2,316
Other assets	12,770	10,687	393	1,387	303
Total financial assets	656,818	544,947	62,053	45,456	4,362
Financial liabilities					
Amounts owed to banks	73	67	-	-	6
Amounts owed to customers	573,946	471,990	57,528	41,829	2,599
Other liabilities	26,943	20,491	4,373	1,864	215
Total financial liabilities	600,962	492,548	61,901	43,693	2,820
Net currency exposure in financial assets/liabilities		52,399	152	1,763	1,542
Commitments and contingent liabilities	80,138	79,814	145	179	-

Under the scenario that the euro appreciates by 20% against all currencies the effect would be a decrease of €413,000 (2014: €691,000) 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 €413,000 (2014: €691,000) in the carrying amount of financial instruments and the favourable impact would be recognised in profit or loss.



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Notes to the Financial Statements

For the Year Ended 31 December 2015

2 Financial risk management (continued)

The following tables summarise the Bank's exposures to foreign currency risk. Included in the tables are the entity's financial instruments which are subject to foreign exchange risk at carrying amounts, categorised by currency.

Bank

	Total	EUR	GBP	USD	Other
At 31 December 2015	€ 000	€ 000	€ 000	€ 000	€ 000

Financial assets

Balances with Central Bank of Malta, treasury bills and cash	115,377	39,639	28,725	46,973	40
Investments classified as available-for-sale	72,465	72,434	-	31	-
Loans and advances to banks	225,546	179,677	40,882	3,087	1,900
Loans and advances to customers	306,572	299,129	1,565	4,224	1,654
Other assets	5,120	5,071	27	22	-
Total financial assets	725,080	595,950	71,199	54,337	3,594

Financial liabilities

Amounts owed to banks	1,059	200	-	-	859
Amounts owed to customers	654,316	528,195	70,008	53,386	2,727
Other liabilities	16,026	14,375	1,188	441	22
Total financial liabilities	671,401	542,770	71,196	53,827	3,608

Net currency exposure in financial assets/liabilities	53,180	3	510	(14)
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Commitments and contingent liabilities	114,404	114,161	11	232	-
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Notes to the Financial Statements

For the Year Ended 31 December 2015

2 Financial risk management (continued)

Bank

	Total	EUR	GBP	USD	Other
At 31 December 2014	€ 000	€ 000	€ 000	€ 000	€ 000
Financial assets					
Balances with Central Bank of Malta, treasury bills and cash	83,914	70,429	13,244	209	32
Investments classified as available-for-sale	51,795	51,769	-	26	-
Loans and advances to banks	182,857	96,400	46,635	38,111	1,711
Loans and advances to customers	319,420	310,296	1,733	5,075	2,316
Other assets	5,968	5,920	25	23	-
Total financial assets	643,954	534,814	61,637	43,444	4,059
Financial liabilities					
Amounts owed to banks	73	67	-	-	6
Amounts owed to customers	577,937	475,977	57,528	41,833	2,599
Other liabilities	16,158	10,852	4,072	1,174	60
Total financial liabilities	594,168	486,896	61,600	43,007	2,665
Net currency exposure in financial assets/liabilities		47,918	37	437	1,394
Commitments and contingent liabilities	80,138	79,814	145	179	-

Under the scenario that the euro appreciates by 20% against all currencies the effect would be a decrease of €99,000 (2014: €373,000) 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 €99,000 (2014: €373,000) in the carrying amount of financial instruments and the favourable impact would be recognised in profit or loss.



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Notes to the Financial Statements

For the Year Ended 31 December 2015

2 Financial risk management (continued)

2.4.6 Equity price risk

The exposure of the Group to this risk is not significant in view of the extent of the Group's holdings of available-for-sale equity investments (refer to note 6) which are not deemed material in the context of the Group's statement of financial position. These investments are principally locally quoted equity instruments issued by local well known corporates. Frequent management reviews are carried out to ensure continued high quality of the portfolio.

2.5 Liquidity risk

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

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

In relation to the Bank's operations, liquidity risk is the risk that the Bank is unable 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. The Group is exposed to daily calls on its available cash resources from overnight deposits, current and call deposits, maturing term deposits, loan draw-downs and guarantees together with other related off-balance sheet instruments. Such outflows would deplete available cash resources for client lending and investments. In extreme circumstances, lack of liquidity could result in sales of assets, or potentially an inability to fulfil lending commitments. The risk that the Group will be unable to do so is inherent in all banking operations and can be 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 Group'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 it to respond quickly and smoothly to unforeseen liquidity requirements.

The Group manages this risk by ensuring that its assets and liabilities are matched in terms of maturities as much as is practicable. However, the Bank ought to manage its net interest spread by investing funds in a portfolio of assets with a longer term than the liabilities funding them (therefore giving rise a negative maturity gap position). To mitigate exposures arising in this respect, the Bank holds significant liquid assets in the form of Malta Government treasury bills, 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 47.0% (2014: 55.5%) at the end of the reporting period reflects management's prudent stance in the context of liquidity management. Also, the proportion of liquid-assets to short-term liabilities at 31 December 2015 is 76.3% (2014: 71.2%), which is significantly higher than the prudential parameters set by the MFSA.

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



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Notes to the Financial Statements

For the Year Ended 31 December 2015

2 Financial risk management (continued)

The Group's liquidity management process, focusing on the liquidity of the Bank and that of its principal subsidiary, 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.

As at 31 December 2015, the Bank had outstanding guarantees on behalf of third parties amounting to €6,508,000 (2014: €7,121,000), which are cancellable upon the request of the third parties. The Group's liquidity exposures arising from these commitments and contingencies are expected to expire principally within a period of twelve months from the end of the reporting period.

The following tables analyse the Group's principal financial assets and liabilities into relevant maturity groupings based on the remaining period at the end of the reporting period to the contractual maturity date.

Notes to the Financial Statements

For the Year Ended 31 December 2015

2 Financial risk management (continued)

Group

	Less than 3 months	Between 3 months and 1 year	Between 1 year and 5 years	More than 5 years	No maturity date	Total
At 31 December 2015	€ 000	€ 000	€ 000	€ 000	€ 000	€ 000
Financial assets						
Balances with Central Bank of Malta, treasury bills and cash	88,157	24,000	-	-	3,727	115,884
Available-for-sale investments	239	1,720	31,755	32,755	9,777	76,246
Loans and advances to banks	204,338	25,450	-	-	-	229,788
Loans and advances to customers	123,523	35,984	60,029	86,355	-	305,891
Other assets	10,893	352	-	-	8	11,253
Total financial assets	427,150	87,506	91,784	119,110	13,512	739,062
Financial liabilities						
Amounts owed to banks	1,059	-	-	-	-	1,059
Amounts owed to customers	427,566	88,586	110,908	23,456	-	650,516
Other liabilities	23,137	609	969	1,452	1,579	27,746
Total financial liabilities	451,762	89,195	111,877	24,908	1,579	679,321
Maturity gap	(24,612)	(1,689)	(20,093)	94,202		
Cumulative gap	(24,612)	(26,301)	(46,394)	47,808		

At 31 December 2014

Financial assets

Balances with Central Bank of Malta, treasury bills and cash	60,427	19,988	-	-	3,896	84,311
Available-for-sale investments	467	-	19,323	29,722	5,565	55,077
Loans and advances to banks	185,773	145	-	-	-	185,918
Loans and advances to customers	142,682	23,759	68,420	83,881	-	318,742
Other assets	12,292	470	-	-	8	12,770
Total financial assets	401,641	44,362	87,743	113,603	9,469	656,818

Financial liabilities

Amounts owed to banks	73	-	-	-	-	73
Amounts owed to customers	348,630	99,412	96,298	29,606	-	573,946
Other liabilities	21,933	1,973	16	1,442	1,579	26,943
Total financial liabilities	370,636	101,385	96,314	31,048	1,579	600,962
Maturity gap	31,005	(57,023)	(8,571)	82,555		
Cumulative gap	31,005	(26,018)	(34,589)	47,966		



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Notes to the Financial Statements

For the Year Ended 31 December 2015

2 Financial risk management (continued)

Bank

	Less than 3 months	Between 3 months and 1 year	Between 1 year and 5 years	More than 5 years	No maturity date	Total
At 31 December 2015	€ 000	€ 000	€ 000	€ 000	€ 000	€ 000
Financial assets						
Balances with Central Bank of Malta, treasury bills and cash	88,157	24,000	-	-	3,220	115,377
Available-for-sale investments	-	1,314	30,822	30,552	9,777	72,465
Loans and advances to banks	200,146	25,400	-	-	-	225,546
Loans and advances to customers	124,204	35,985	60,029	86,354	-	306,572
Other assets	4,760	352	-	-	8	5,120
Total financial assets	417,267	87,051	90,851	116,906	13,005	725,080
Financial liabilities						
Amounts owed to banks	1,059	-	-	-	-	1,059
Amounts owed to customers	430,366	89,586	110,908	23,456	-	654,316
Other liabilities	11,417	609	969	1,452	1,579	16,026
Total financial liabilities	442,842	90,195	111,877	24,908	1,579	671,401
Maturity gap	(25,575)	(3,144)	(21,026)	91,998		
Cumulative gap	(25,575)	(28,719)	(49,745)	42,253		

At 31 December 2014

Financial assets

Balances with Central Bank of Malta, treasury bills and cash	60,427	19,988	-	-	3,499	83,914
Available-for-sale investments	-	-	18,246	27,984	5,565	51,795
Loans and advances to banks	182,857	-	-	-	-	182,857
Loans and advances to customers	143,332	24,895	68,052	83,141	-	319,420
Other assets	5,490	470	-	-	8	5,968
Total financial assets	392,106	45,353	86,298	111,125	9,072	643,954

Financial liabilities

Amounts owed to banks	73	-	-	-	-	73
Amounts owed to customers	352,122	99,912	96,298	29,605	-	577,937
Other liabilities	11,148	1,973	16	1,442	1,579	16,158
Total financial liabilities	363,343	101,885	96,314	31,047	1,579	594,168
Maturity gap	28,763	(56,532)	(10,016)	80,078		
Cumulative gap	28,763	(27,769)	(37,785)	42,293		



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Notes to the Financial Statements

For the Year Ended 31 December 2015

2 Financial risk management (continued)

The tables below analyse the Group'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.

Group

At 31 December 2015	Less than 3 months € 000	Between 3 months and 1 year € 000	Between 1 year and 5 years € 000	More than 5 years € 000	Total € 000
Financial liabilities					
Amounts owed to banks	1,059	-	-	-	1,059
Amounts owed to customers	428,169	90,357	121,554	29,426	669,506
Total financial liabilities	429,228	90,357	121,554	29,426	670,565

At 31 December 2014

Financial liabilities

Amounts owed to banks	73	-	-	-	73
Amounts owed to customers	349,959	103,924	106,315	37,835	598,033
Total financial liabilities	350,032	103,924	106,315	37,835	598,106

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.

Bank

At 31 December 2015	Less than 3 months € 000	Between 3 months and 1 year € 000	Between 1 year and 5 years € 000	More than 5 years € 000	Total € 000
Financial liabilities					
Amounts owed to banks	1,059	-	-	-	1,059
Amounts owed to customers	430,969	91,359	121,554	29,426	673,308
Total financial liabilities	432,028	91,359	121,554	29,426	674,367

At 31 December 2014

Financial liabilities

Amounts owed to banks	73	-	-	-	73
Amounts owed to customers	353,456	104,426	106,315	37,835	602,032
Total financial liabilities	353,529	104,426	106,315	37,835	602,105



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Notes to the Financial Statements

For the Year Ended 31 December 2015

2 Financial risk management (continued)

2.6 Operational risk

Operational risk is the risk of losses due to:

- deficient or erroneous internal procedures;
- human or system errors;
- external events, including legal events;
- internal and external fraud;
- employment practices and workplace safety;
- clients, products and business practices;
- damage to physical assets;
- business disruption and system failures; and
- execution, delivery and process management.

Operational risk is thus often associated with specific and one-off events, such as failure to observe business or working procedures, defects or breakdowns of the technical infrastructure, criminal acts, fire and storm damage or litigation. Operational risks are, thus, non-financial risks. Operational risk management relies on a framework of policies implemented by the different operational functions and which implementation is overseen by the Risk Management function.

A financial measurement of this risk is arrived at by the Group for the purpose of allocating risk capital using the Basic Indicator Approach under the European Union Directive on Capital Requirements (CRD) rules. The capital requirement for operational risk under this method was calculated at €2,717,000 (2014: €2,656,000).

2.7 Capital risk management

The Group's objectives when managing capital, which is a broader concept than the 'equity' on the consolidated statement of financial position, are:

- to comply with the capital requirements set by the MFSA with respect to the Bank's operations;
- to safeguard the Group's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- to maintain a strong capital base to support the development of its business.

Accordingly, the purpose of the Group's capital management is essentially that of ensuring efficient use of capital taking cognisance of the Group's risk appetite and profile as well as its objectives for business development. The Group is subject to externally imposed capital requirements only in respect of the Bank's activities as a credit institution. The Bank is a licensed financial services provider and must therefore comply with the capital requirements under the relevant laws and regulations.

The Bank's Executive team and ALCO are predominately responsible for the Bank's capital risk management process. Capital adequacy and the use of regulatory capital are monitored regularly by the Bank's management, employing techniques based on the guidelines developed by the Basel Committee and the European Union Directives, as implemented by the MFSA for supervisory purposes. The Bank's capital management is based on the regulatory requirements established by local laws and regulations which are modelled on the requisites of the CRD rules. The CRD consists of three pillars: Pillar I contains a set of rules for a mathematical calculation of the capital requirement; Pillar II describes the supervisory review process and contains requirements for the internal calculation of the capital requirement whilst Pillar III deals with market discipline and sets forth disclosure requirements for risk and capital management.



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Notes to the Financial Statements

For the Year Ended 31 December 2015

2 Financial 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 CRD.

The following is an analysis of the Bank's Capital Base in accordance with the CRD's requirements:

	2015 € 000	2014 € 000
Common Equity Tier 1 (CET1) capital	77,505	71,950
Tier 2 capital:		
Property revaluation reserve	1,403	1,582
Investment revaluation reserve	3,217	2,469
Total own funds	82,125	76,001

Minimum capital requirements are computed for credit, market and operational risks. The MFSA requires a bank to maintain a ratio of total regulatory capital to risk-weighted assets and instruments (the Capital requirements ratio) at or above the prescribed minimum of 8%. The Capital requirements ratio expresses Own funds as a proportion of risk-weighted assets and off-balance sheet instruments in relation to Credit Risk together with notional risk-weighted assets in respect of Operational Risk and Market Risk.

The risk-weighted assets are measured by means of a hierarchy of risk weights classified according to the nature of – and reflecting an estimate of credit, market and other risks associated with – each asset and counterparty, taking into account any eligible collateral or guarantees. A similar treatment is adopted for off-balance sheet instruments, with some adjustments to reflect the more contingent nature of the potential losses. Risk-weighted assets are measured using the 'Standardised Approach' for credit risk with risk weights being assigned to assets and off-balance sheet instruments according to their asset class and credit risk mitigation. For the determination of credit assessments, independent rating agencies are nominated as required.

Total risk-weighted assets are determined by multiplying the capital requirements for market risk and operational risk by 12.5 (i.e. the reciprocal of the minimum capital ratio of 8%) and adding the resulting figures to the sum of risk-weighted assets for credit risk.



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For the Year Ended 31 December 2015

2 Financial risk management (continued)

The tables below summarise the regulatory capital requirements and the Total capital ratio computations of the Bank as at the end of the reporting periods. During the 2015 and 2014 financial years, the Bank complied with all of the externally imposed capital requirements to which it is subject.

Bank

	Carrying amount € 000	Weighted amount € 000	Capital requirement € 000
At 31 December 2015			
On-balance sheet assets			
Balances with Central Bank of Malta and cash	84,377	-	-
Malta Government treasury bills	31,000	-	-
Cheques in course of collection	475	95	8
Equity shares	9,777	11,663	933
Debt securities	62,688	4,088	327
Loans and advances to banks	225,546	46,313	3,705
Loans and advances to customers	306,572	328,328	26,266
Investment in subsidiaries	12,168	12,168	973
Investment in associates	1,645	1,645	132
Intangible assets	409	-	-
Property, plant and equipment	13,833	13,833	1,107
Current tax assets	533	-	-
Accrued income	2,790	2,790	223
Other assets	7,336	13,013	1,041
	759,149	433,936	34,715
Off-balance sheet instruments			
Contingent liabilities and commitments	114,404	4,198	336
Credit risk		438,134	35,051
Foreign exchange risk		64	5
Operational risk		33,960	2,717
		472,158	37,773
Own funds			
Common Equity Tier 1 (CET1) capital			77,505
Tier 2 capital			4,620
Gross own funds			82,125
Deductions			-
Total own funds			82,125
Total capital ratio			17.4%



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Notes to the Financial Statements

For the Year Ended 31 December 2015

2 Financial risk management (continued)

Bank

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	21,448	-	-
Malta Government treasury bills	62,466	-	-
Cheques in course of collection	1,656	331	26
Equity shares	5,565	6,805	544
Debt securities	46,230	3,716	297
Loans and advances to banks	182,857	36,571	2,926
Loans and advances to customers	319,420	326,465	26,117
Investment in subsidiaries	11,184	11,184	895
Intangible assets	202	-	-
Property, plant and equipment	13,141	13,141	1,051
Current tax assets	1,289	-	-
Accrued income	3,132	3,132	251
Other assets	7,241	13,884	1,111
	675,831	415,229	33,218
Off-balance sheet instruments			
Contingent liabilities and commitments	80,138	4,188	335
Credit risk		419,417	33,553
Foreign exchange risk		55	4
Operational risk		33,204	2,656
		452,676	36,213
Own funds			
Common Equity Tier 1 (CET1) capital			71,950
Tier 2 capital			4,051
Gross own funds			76,001
Deductions			-
Total own funds			76,001
Total capital ratio			16.8%



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Notes to the Financial Statements

For the Year Ended 31 December 2015

2 Financial risk management (continued)

2.8 Fair values of financial assets and liabilities

2.8.1 Financial instruments measured at fair value

The Group's financial instruments which are carried at fair value include the Group's available-for-sale financial assets (note 6). The Group 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 7 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.

The Bank considers only relevant and observable market prices in its valuations. Fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations.

The fair value of the Bank's available-for-sale financial assets, which are principally traded in active markets, is based on quoted market prices.

As at 31 December 2015 and 2014, the principal financial instruments that are measured at fair value, consisted of the available-for-sale investments, that were valued using Level 1 inputs. No transfers of financial instruments between different levels of the fair value hierarchy have occurred during the financial years ended 31 December 2015 and 2014.

2.8.2 Financial instruments not measured at fair value

Loans and advances to banks and customers

These categories of assets are presented net of impairment allowances to reflect the estimated recoverable amounts. As at 31 December 2015, the Group's aggregate carrying amount in this respect was €535,679,000 (2014: €504,660,000). The loans and advances to customers, which are principally subject to floating interest rates, are measured at the amount of €305,891,000 (2014: €318,742,000). This carrying value approximates to fair value in view of the fact that these loans and advances are reprisable at the Group's discretion. The loans and advances to banks, comprising mainly term placements maturing within one month from the end of the reporting period, are carried at the amount of €30,344,000 (2014: €89,795,000). Rates on advances reflect current market rates, and the Directors consider the carrying amounts to be a reasonable estimate of their fair value principally in view of the relatively short periods to re-pricing or maturity from the end of the reporting periods. The current market interest rates utilised for fair value estimation, which reflect essentially the respective instruments' contractual interest rates, are deemed observable and accordingly these fair value estimates have been categorised as Level 2.

Notes to the Financial Statements

For the Year Ended 31 December 2015

2 Financial risk management (continued)

Trade and other receivables

This category principally represents short-term trade receivables arising from postal operations in respect of which the carrying amount is a reasonable approximation of its fair value.

Amounts owed to banks and customers

These categories of financial liabilities are carried at amortised cost and amount to €651,575,000 as at 31 December 2015 (2014: €574,019,000). 7.5% (2014: 5.0%) of this liability is non-interest bearing, 58.4% (2014: 55.7%) of the liability has a contractual re-pricing term of three months or less, 13.6% (2014: 17.3%) reprices between three months and one year, 17.0% (2014: 16.8%) reprices between one year and five years whilst 3.6% (2014: 5.2%) is repriceable after more than five years. Accordingly, in view of their profile, the fair value of these financial liabilities is not deemed to be significantly different from their carrying amounts. This applies to variable rate deposits in view of the short periods to re-pricing, but also applies to liabilities subject to fixed interest rates, based on discounting future contractual cash flows at current market interest rates, taking into account the short periods to maturity. The current market interest rates utilised for discounting purposes, which were almost equivalent to the respective instruments' contractual interest rates, are deemed observable and accordingly these fair value estimates have been categorised as Level 2.

Other financial instruments

The fair values of certain other financial assets, including balances with the Central Bank of Malta and accrued income, are considered to approximate their respective carrying values due to their short-term nature.

3 Accounting estimates and judgements

3.1 Critical accounting estimates and judgements in applying the Group'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 Group 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 Group'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.



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For the Year Ended 31 December 2015

3 Accounting estimates and judgements *(continued)*

3.2 *Impairment losses on loans and advances*

The Group 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 consolidated income statement, the Group 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.

3.3 *Assessment of estimates and judgements*

In the opinion of the Directors, the accounting estimates and judgements made in the course of preparing these consolidated 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 2.3, 8 and 31).

4 Segmental information

The Group has two reporting segments, as described below, which are the Group's strategic business units and cash-generating units. The strategic business units offer different services and are managed separately because they require different technology and marketing strategies. For each of the strategic business units, the Board of Directors reviews internal management reports. The following summary describes the operations in each of the Group's reportable segments:

- Banking services comprise the Group's banking services and other activities carried out as a licensed credit institution, an authorised currency dealer and financial intermediary. Stockbroking activities may also be carried out since the Bank is a member of the Malta Stock Exchange; and
- Postal services comprise the Group's postal services activities, being the sole licensed Universal Service Provider of postal services in Malta.



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Notes to the Financial Statements

For the Year Ended 31 December 2015

4 Segmental information (continued)

The Group's internal reporting to the Board of Directors and senior executives is analysed according to the below segments.

Information about reportable segments:

	Banking services		Postal services		Total	
	2015	2014	2015	2014	2015	2014
	€ 000	€ 000	€ 000	€ 000	€ 000	€ 000
Interest receivable	20,561	23,416	181	192	20,742	23,608
Interest expense	(7,603)	(9,302)	-	-	(7,603)	(9,302)
Postal sales and other revenue	-	-	24,562	22,662	24,562	22,662
Net fee and commission income	2,179	1,597	1,028	941	3,207	2,538
Other	1,208	631	139	99	1,347	730
Segment operating income	16,345	16,342	25,910	23,894	42,255	40,236
Depreciation and amortisation	(489)	(517)	(961)	(723)	(1,450)	(1,240)
Impairment allowances	(3,083)	(4,609)	2	(9)	(3,081)	(4,618)
Employee compensation and benefits	(5,139)	(4,852)	(11,387)	(11,220)	(16,526)	(16,072)
Other costs	(3,179)	(2,860)	(10,182)	(9,206)	(13,361)	(12,066)
Profit before taxation	4,455	3,504	3,382	2,736	7,837	6,240
Income tax expense	(1,607)	(1,395)	(1,193)	(938)	(2,800)	(2,333)
Profit for the year	2,848	2,109	2,189	1,798	5,037	3,907
Segment total assets	743,194	660,744	34,349	30,783	777,543	691,527
Capital expenditure during the year	849	344	1,770	2,198	2,619	2,542
Segment total liabilities	668,081	590,655	13,964	12,565	682,045	603,220

There are no material inter-segment transactions.

The Group mainly provides banking and postal services within the local market and economic sectors. From a customers' perspective, MaltaPost p.l.c. generated 15.6% (2014: 14.6%) of its revenue for 2015 internationally.

The Group's reliance on any single customer is not considered significant for disclosure purposes.



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Notes to the Financial Statements

For the Year Ended 31 December 2015

5 Balances with Central Bank of Malta, treasury bills and cash

	Group		Bank	
	2015 € 000	2014 € 000	2015 € 000	2014 € 000
Balances with Central Bank of Malta	81,157	17,948	81,157	17,948
Malta Government treasury bills	31,000	62,466	31,000	62,466
Cash in hand	3,727	3,897	3,220	3,500
	115,884	84,311	115,377	83,914

The balances with the Central Bank of Malta include a reserve deposit amounting to €4,598,000 (2014: €3,911,000) held in terms of Regulation (EC) No. 1745/2003 of the European Central Bank. The average reserve deposit balance held for the relevant maintenance period amounted to €4,752,000 (2014: €3,917,000).

At 31 December 2015, the Bank had pledged a deposit with the Central Bank of Malta amounting to €1,235,000 (2014: €1,235,000) in favour of the Depositor Compensation Scheme to comply with local regulatory requirements.

6 Investments

	Group		Bank	
	2015 € 000	2014 € 000	2015 € 000	2014 € 000
Debt and other fixed income instruments				
- available-for-sale	66,469	49,512	62,688	46,230
Equity instruments				
- available-for-sale	9,777	5,565	9,777	5,565
	76,246	55,077	72,465	51,795

Debt and other fixed income instruments classified as available-for-sale investments which are listed on the Malta Stock Exchange comprise:

	Group		Bank	
	2015 € 000	2014 € 000	2015 € 000	2014 € 000
Issued by public bodies:				
- local government	60,360	43,894	58,226	42,215
Issued by public issuers:				
- local banks	1,188	1,040	774	625
- local corporates	4,921	4,578	3,688	3,390
	66,469	49,512	62,688	46,230



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For the Year Ended 31 December 2015

6 Investments (continued)

At 31 December 2015, the Bank held Malta Government Stocks classified as available-for-sale investments amounting to €1,654,000 (2014: €1,712,000) that were pledged in favour of the Depositor Compensation Scheme to comply with local regulatory requirements.

At 31 December 2015, the Bank had pledged Malta Government Stocks with Central Bank of Malta amounting to €9,657,000 (2014: €9,832,000) held in terms of Directive No.8 (Chapter 204 of the Central Bank of Malta Act) as security for a facility that was not utilised during the reporting period.

The Bank's holdings of equity instruments classified as available-for-sale investments as at 31 December 2015 include a carrying amount of €3,772,000 (2014: €2,480,000) in relation to investments in shares of MIDI p.l.c.. The original cost of these investments amounted to €4,717,000. At 31 December 2015 the Bank carried a negative investment revaluation reserve amounting to €945,000 (2014: €2,237,000), gross of deferred tax impacts, in respect of these investments in view of the decline in the equity's quoted market price. The Bank's management has carried out an impairment review in relation to these investments to determine whether there is objective evidence that impairment exists. Based on the information available, the Bank's Directors are of the view that at 31 December 2015 no impairment indicators existed as the decline in the fair value of the investments in MIDI p.l.c.'s equity below cost was not deemed by the Directors to be significant or prolonged by reference to the requirements of IFRSs as adopted by the EU.

Equity instruments classified as available-for-sale investments principally comprise equities listed on the Malta Stock Exchange. Investments with a carrying amount of €250,000 (2014: €264,000) are measured at cost in view of the absence of a reliable fair valuation of these investments.

The movement in available-for-sale investments is summarised as follows:

	Group		Bank	
	2015	2014	2015	2014
	€ 000	€ 000	€ 000	€ 000
At 1 January	55,077	43,554	51,795	40,491
Exchange differences	2	4	2	4
Amortisation	(463)	(298)	(463)	(295)
Acquisitions	19,353	14,482	19,050	11,344
Redemptions/disposals	(2,401)	(4,959)	(2,401)	(1,882)
Fair value movement	4,678	2,294	4,482	2,133
At 31 December	76,246	55,077	72,465	51,795

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 €985,000 to reflect the value emanating from the



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Notes to the Financial Statements

For the Year Ended 31 December 2015

6 Investments (continued)

proposed transaction. The fair value of the local group'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 local group recognised the membership share at its nominal value.

7 Loans and advances to banks

	Group		Bank	
	2015	2014	2015	2014
	€ 000	€ 000	€ 000	€ 000
Repayable on call and at short notice	169,828	135,706	165,586	132,790
Term loans and advances	59,960	50,212	59,960	50,067
	229,788	185,918	225,546	182,857

8 Loans and advances to customers

	Group		Bank	
	2015	2014	2015	2014
	€ 000	€ 000	€ 000	€ 000
Repayable on call and at short notice	67,702	84,094	68,383	84,772
Term loans and advances	258,380	251,770	258,380	251,770
Gross loans and advances to customers	326,082	335,864	326,763	336,542
Impairment allowances	(20,191)	(17,122)	(20,191)	(17,122)
Net loans and advances to customers	305,891	318,742	306,572	319,420
Impairment allowances				
Specific impairment allowances	16,192	13,493	16,192	13,493
Collective impairment allowances	3,999	3,629	3,999	3,629
	20,191	17,122	20,191	17,122

The aggregate gross amount of impaired loans and advances to customers amounted to €51,345,000 (2014: €42,622,000). The balance of individually assessed allowances at the end of the reporting period includes €711,000 (2014: €699,000), reflected in the table above, in respect of interest in suspense.

Assets acquired in settlement of debt amounting to €1,023,000 (2014: €1,022,000) are presented as assets classified as held for sale.



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For the Year Ended 31 December 2015

9 Investment in subsidiaries

Name of company	Country of incorporation	Nature of business	Equity interest		Carrying amount	
			2015	2014	2015	2014
			%	%	€ 000	€ 000
Redbox Limited	Malta	Holding Company	100	100	12,168	11,184

At 31 December 2015, Redbox Limited held 70.1% (2014: 69.7%) of the equity share capital and voting rights of MaltaPost p.l.c., a listed company incorporated and operating in Malta, comprising the Group's postal services reportable segment (see note 4). The remaining 29.9% (2014: 30.3%) is held by the general public. The increase in the carrying amount of the investment in Redbox Limited is attributable to investments effected by the Bank as a result of a scrip issue in lieu of dividends by MaltaPost p.l.c..

The profit or loss allocated to non-controlling interests of MaltaPost p.l.c. during the financial year under review, accumulated non-controlling interests of the subsidiary at the end of the reporting period and dividends paid to non-controlling interests are presented within the Group's statement of changes in equity. The effects of the change in the Group's ownership interest in MaltaPost p.l.c. during the year on the equity attributable to the owners of the Bank are also presented within the Group's statement of changes in equity. Financial information about the assets, liabilities, revenues, profit or loss, total comprehensive income and cash flows of the subsidiary are disclosed within the annual report and financial statements of MaltaPost p.l.c., which are publicly available in view of the company's listed status. Financial information about the subsidiary is also disclosed within note 4 to these financial statements dealing with segmental information.

The end of the reporting period of the audited financial statements of MaltaPost p.l.c. that have been utilised in the preparation of these consolidated financial statements is 30 September 2015, since the financial statements prepared as of this date constitute the most recent audited financial statements of MaltaPost p.l.c..



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Notes to the Financial Statements

For the Year Ended 31 December 2015

10 Investment in associates

Name of company	Country of incorporation	Nature of business	Equity interest		Carrying amount	
			2015	2014	2015	2014
			%	%	€ 000	€ 000
Gozo Hotels Company Limited	Malta	Accommodation	33.3	-	1,645	-

At 31 December 2014, loans and advances to customers amounting to €1,645,000 represented an asset in respect of which unquoted equities were transferred to the Bank subject to a call option arrangement whereby a third party had the option to purchase back these shares from the Bank subject to the terms and conditions, including pre-determined exercise prices, specified in the agreement. The asset was presented within loans and advances to customers on the basis that the customer had retained substantially all risks and rewards of these unquoted equities and accordingly at the end of the said reporting period, management was not in a position to determine whether this option would be exercised.

The option agreement expired on 31 December 2015 without being exercised. Accordingly with effect from 31 December 2015, the Group became substantially exposed to substantially all risks and rewards of these unquoted entities. The financial asset with a carrying amount of €1,645,000 has been recognised as an investment in associate as at 31 December 2015 on the basis that the Bank now controls 33.3% of the shares (and holds an equivalent amount of voting rights) of the investee. The Group is deemed to have significant influence over the investee in accordance with the requirements of IAS 28 'Investments in Associates'.

Gozo Hotels Company Limited is an unlisted company incorporated and operating in Malta. Its principal activity is the operation of the Hotel Calypso in Marsalforn, Gozo, and its registered address is 'Calypso', Ghar Qawqla Street, Żebbuġ, Gozo.

The Group's associate is not deemed material to Lombard Bank Malta p.l.c. as a reporting entity in terms of the requirements of IFRS 12 'Disclosure of interest in other entities' and the disclosure of summarised financial information of the associate is accordingly not deemed necessary. The investment in associate is measured using the equity method of accounting. Taking cognisance of the date of initial recognition of the associate, the effects of applying the equity method of accounting as at 31 December 2015 were insignificant.



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Notes to the Financial Statements

For the Year Ended 31 December 2015

11 Intangible assets

	Group			Bank
	Goodwill € 000	Computer software € 000	Total € 000	Computer software € 000
At 1 January 2014				
Cost	857	3,426	4,283	1,939
Accumulated amortisation	-	(2,817)	(2,817)	(1,725)
Net book amount	857	609	1,466	214
Year ended 31 December 2014				
At 1 January 2014	857	609	1,466	214
Acquisitions	-	241	241	117
Amortisation for the year	-	(285)	(285)	(129)
At 31 December 2014	857	565	1,422	202
At 31 December 2014				
Cost	857	3,667	4,524	2,056
Accumulated amortisation	-	(3,102)	(3,102)	(1,854)
Net book amount	857	565	1,422	202
Year ended 31 December 2015				
At 1 January 2015	857	565	1,422	202
Acquisitions	-	426	426	345
Amortisation for the year	-	(358)	(358)	(138)
At 31 December 2015	857	633	1,490	409
At 31 December 2015				
Cost	857	4,093	4,950	2,401
Accumulated amortisation	-	(3,460)	(3,460)	(1,992)
Net book amount	857	633	1,490	409



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Notes to the Financial Statements

For the Year Ended 31 December 2015

11 Intangible assets *(continued)*

11.1 *Impairment test for the cash-generating unit to which goodwill has been allocated*

The recognised goodwill represents payments made by the Group in anticipation of future economic benefits from assets that are not capable of being individually identified and separately recognised. As at 31 December 2015 and 2014 the recognised goodwill amounted to €857,000 and related to the acquisition of MaltaPost p.l.c..

In applying the requirements of IAS 36, 'Impairment of assets', in relation to goodwill arising in business combinations, the Directors carried out an impairment test at the end of the reporting period to obtain comfort that the recoverable amount of the cash-generating unit to which goodwill has been allocated is at least equal to its carrying amount.

The recoverable amount of the cash-generating unit is based on fair value less costs to sell.

This calculation takes into account the market capitalisation of MaltaPost p.l.c. based on the quoted price of its equity on the Malta Stock Exchange at a price per share of €1.81 as at 31 December 2015 (2014: €1.20). On this basis, the recoverable amount of the cash-generating unit is higher than its carrying amount.



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Notes to the Financial Statements

For the Year Ended 31 December 2015

12 Property, plant and equipment

Group	Land and buildings € 000	Computer equipment € 000	Other € 000	Total € 000
At 1 January 2014				
Cost or valuation	25,621	3,308	6,280	35,209
Accumulated depreciation	(4,394)	(2,790)	(4,796)	(11,980)
Net book amount	21,227	518	1,484	23,229
Year ended 31 December 2014				
At 1 January 2014	21,227	518	1,484	23,229
Acquisitions	1,566	97	639	2,302
Disposals	-	(52)	(103)	(155)
Charge for the year	(321)	(291)	(343)	(955)
Depreciation released on disposals	-	52	101	153
At 31 December 2014	22,472	324	1,778	24,574
At 31 December 2014				
Cost or valuation	27,187	3,353	6,816	37,356
Accumulated depreciation	(4,715)	(3,029)	(5,038)	(12,782)
Net book amount	22,472	324	1,778	24,574
Year ended 31 December 2015				
At 1 January 2015	22,472	324	1,778	24,574
Revaluation surplus arising during the year:				
- Effect on cost	1,013	-	-	1,013
- Effect on accumulated depreciation	420	-	-	420
Acquisitions	1,559	86	546	2,191
Disposals	(1,678)	-	(89)	(1,767)
Charge for the year	(519)	(124)	(449)	(1,092)
Depreciation released on disposals	1,503	-	89	1,592
At 31 December 2015	24,770	286	1,875	26,931
At 31 December 2015				
Cost or valuation	28,081	3,439	7,273	38,793
Accumulated depreciation	(3,311)	(3,153)	(5,398)	(11,862)
Net book amount	24,770	286	1,875	26,931



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Notes to the Financial Statements

For the Year Ended 31 December 2015

12 Property, plant and equipment *(continued)*

Bank	Land and buildings € 000	Computer equipment € 000	Other € 000	Total € 000
At 1 January 2014				
Cost or valuation	13,401	1,741	2,322	17,464
Accumulated depreciation	(774)	(1,500)	(1,886)	(4,160)
Net book amount	12,627	241	436	13,304
Year ended 31 December 2014				
At 1 January 2014	12,627	241	436	13,304
Acquisitions	41	66	120	227
Disposals	-	(52)	(103)	(155)
Charge for the year	(115)	(143)	(130)	(388)
Depreciation released on disposals	-	52	101	153
At 31 December 2014	12,553	164	424	13,141
At 31 December 2014				
Cost or valuation	13,442	1,755	2,339	17,536
Accumulated depreciation	(889)	(1,591)	(1,915)	(4,395)
Net book amount	12,553	164	424	13,141
Year ended 31 December 2015				
At 1 January 2015	12,553	164	424	13,141
Revaluation surplus arising during the year:				
- Effect on cost	221	-	-	221
- Effect on accumulated depreciation	318	-	-	318
Acquisitions	196	70	237	503
Disposals	-	(65)	(24)	(89)
Charge for the year	(116)	(96)	(138)	(350)
Depreciation released on disposals	-	65	24	89
At 31 December 2015	13,172	138	523	13,833
At 31 December 2015				
Cost or valuation	13,859	1,760	2,552	18,171
Accumulated depreciation	(687)	(1,622)	(2,029)	(4,338)
Net book amount	13,172	138	523	13,833



Notes to the Financial Statements

For the Year Ended 31 December 2015

12 **Property, plant and equipment** *(continued)*

12.1 *Fair valuation of land and buildings*

The Bank's land and buildings were revalued on 31 December 2015 by management on the basis of advice from independent property valuers having appropriate recognised professional qualifications and experience in the location and category of the property being valued. The subsidiary's land and buildings were revalued on 30 September 2015 by an independent firm of property valuers having appropriate recognised professional qualifications and experience in the location and category of the property being valued. The Directors have reviewed the carrying amounts of the Group's properties, on the basis of the valuations carried out by the independent property valuers. Adjustments to the carrying amounts were deemed necessary and accordingly recognised during the current financial year.

Valuations were made on the basis of open market value taking cognisance of the specific location of the properties, the size of the sites, the availability of similar properties in the area, and whenever possible, having regard to recent market transactions for similar properties in the same location. As at 31 December 2015, the carrying values of the properties, classified within property, plant and equipment, have been adjusted to the valuations and the net resultant adjustment comprised an increase of €1,433,000 in the carrying values for the Group's to reflect the property's estimated open market value on an individual asset level. This increase was recognised in other comprehensive income as a property revaluation reserve.

The revaluation surplus net of applicable deferred income taxes is accordingly shown in 'other reserves' in shareholders' equity (note 18).

The Group is required to analyse non-financial assets carried at fair value by level of the fair value hierarchy within which the recurring fair value measurements are categorised in their entirety (Level 1, 2 or 3). The different levels of the fair value hierarchy have been defined as fair value measurements using:

- 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 Bank's land and buildings comprise various offices and operational premises, including the Bank's head office. The subsidiary's land and buildings, within property, plant and equipment, comprises the head office, mail delivery hubs and retail outlets. All the Group's recurring property fair value measurements use significant unobservable inputs and are accordingly categorised within Level 3 of the fair valuation hierarchy.

The Group's policy is to recognise transfers into and out of fair value hierarchy levels as of the beginning of the reporting period. There were no transfers between different levels of the fair value hierarchy during the years ended 31 December 2015 and 2014.

A reconciliation from the opening balance to the closing balance of land and buildings for recurring fair value measurements categorised within Level 3 of the value hierarchy, is reflected in the table above. The principal movements reflect changes in fair value, additions and depreciation charge for the years ended 31 December 2015 and 2014.

For all Group properties, their current use equates to the highest and best use.



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Notes to the Financial Statements

For the Year Ended 31 December 2015

12 Property, plant and equipment *(continued)*

12.2 Valuation processes

The valuations of the properties are performed on a periodic basis taking into consideration the valuation reports prepared by independent and qualified valuers. These reports are based on both:

- information provided by the Bank such as current terms and conditions of lease agreements. This information is derived from the Bank's systems and is subject to the Bank's overall control environment; and
- assumptions and valuation models used by the valuers – the assumptions are typically market related, such as rental yields, discount rates and sales prices. These are based on professional judgement and market observation.

The information provided to the valuers – and the assumptions and the valuation models used by the valuers – are reviewed by management.

When management considers that the valuation report is appropriate, the valuation report is recommended to the audit committee. The audit committee considers the valuation report as part of its overall responsibilities.

12.3 Valuation techniques

The Level 3 fair valuation of the Bank's property was determined using discounted cash flow (DCF) projections based on significant unobservable inputs. These inputs include estimated rental values per square metre, estimated growth rate in rental values and the discount rate applied.

The external valuations of the subsidiary's Level 3 property have been performed using an adjusted sales comparison approach for the land component and the replacement cost approach for the buildings component.

In view of a limited number of similar sales in the local market, the valuations have predominately been performed using unobservable inputs. The significant input to the adjusted sales comparison approach is generally a sales price per square metre related to transactions in comparable properties located in proximity to the subsidiary's property, with significant adjustments for differences in size, age, exact location and condition of the property. The significant input to the replacement cost approach is the estimated development costs per square metre.

12.4 Information about fair value measurements using significant unobservable inputs (Level 3)

Description by class based on highest and best use	Fair value € 000	Valuation technique	Range of significant unobservable inputs		
			Rental value €/sqm	Growth rate %	Discount rate %
Current use as Bank's offices and operational premises	11,660	Discounted cash flows	100 - 300	2	5



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Notes to the Financial Statements

For the Year Ended 31 December 2015

12 Property, plant and equipment *(continued)*

	Fair value	Valuation technique	Significant unobservable input	Range of unobservable inputs (weighted average) €
Description by class based on highest and best use				
Current use as subsidiary's office premises, retail outlets and mail delivery hubs	9,715	Adjusted sales comparison approach	Sales price per square metre	300 – 12,600 (750)
		Replacement cost approach	Development costs per square metre	200 – 600 (250)

The higher the rental value or the growth rate, the higher the resultant fair value. Conversely, the lower the discount rate, the higher the resultant fair value.

The higher the sales price per square metre or the development costs per square metre, the higher the resultant fair valuation.

12.5 *Historical cost of land and buildings*

If the land and buildings were stated on the historical cost basis, the carrying amounts would be as follows:

	Group		Bank	
	2015 € 000	2014 € 000	2015 € 000	2014 € 000
Cost	20,337	20,951	11,157	10,961
Accumulated depreciation	(2,187)	(3,440)	(1,406)	(1,190)
Net book amount at 31 December	18,150	17,511	9,751	9,771



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13 Deferred tax assets

Deferred tax assets and liabilities are attributable to the following:

Group

	Assets 2015 € 000	Liabilities 2015 € 000	Net 2015 € 000	Assets 2014 € 000	Liabilities 2014 € 000	Net 2014 € 000
Differences between depreciation and capital allowances	307	(57)	250	296	(51)	245
Provisions for liabilities and charges	259	-	259	229	-	229
Loan impairment allowances	7,129	-	7,129	6,057	-	6,057
Revaluation of property	-	(1,798)	(1,798)	-	(843)	(843)
Fair value movements on investments	-	(2,429)	(2,429)	-	(868)	(868)
Other temporary differences	-	(93)	(93)	-	(56)	(56)
	7,695	(4,377)	3,318	6,582	(1,818)	4,764

Bank

	Assets 2015 € 000	Liabilities 2015 € 000	Net 2015 € 000	Assets 2014 € 000	Liabilities 2014 € 000	Net 2014 € 000
Differences between depreciation and capital allowances	-	(57)	(57)	-	(52)	(52)
Provisions for liabilities and charges	224	-	224	196	-	196
Loan impairment allowances	7,067	-	7,067	5,996	-	5,996
Revaluation of property	-	(1,021)	(1,021)	-	(843)	(843)
Fair value movements on investments	-	(2,429)	(2,429)	-	(868)	(868)
	7,291	(3,507)	3,784	6,192	(1,763)	4,429



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For the Year Ended 31 December 2015

13 Deferred tax assets (continued)

Movement in temporary differences relate to:

Group

	At 1 January 2014 € 000	Recognised in profit or loss € 000	Recognised in other comprehensive income € 000	At 31 December 2014 € 000	Recognised in profit or loss € 000	Recognised in other comprehensive income € 000	At 31 December 2015 € 000
Differences between depreciation and capital allowances	277	(32)	-	245	5	-	250
Provisions for liabilities and charges	258	(29)	-	229	30	-	259
Loan impairment allowances	4,497	1,560	-	6,057	1,072	-	7,129
Revaluation of property	(823)	48	(68)	(843)	-	(955)	(1,798)
Fair value movements on investments	(137)	-	(731)	(868)	-	(1,561)	(2,429)
Other temporary differences	(56)	-	-	(56)	(37)	-	(93)
	4,016	1,547	(799)	4,764	1,070	(2,516)	3,318

Bank

	At 1 January 2014 € 000	Recognised in profit or loss € 000	Recognised in other comprehensive income € 000	At 31 December 2014 € 000	Recognised in profit or loss € 000	Recognised in other comprehensive income € 000	At 31 December 2015 € 000
Differences between depreciation and capital allowances	(79)	27	-	(52)	(5)	-	(57)
Provisions for liabilities and charges	225	(29)	-	196	28	-	224
Loan impairment allowances	4,436	1,560	-	5,996	1,071	-	7,067
Revaluation of property	(823)	48	(68)	(843)	-	(178)	(1,021)
Fair value movements on investments	(137)	-	(731)	(868)	-	(1,561)	(2,429)
	3,622	1,606	(799)	4,429	1,094	(1,739)	3,784

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 revaluation of property, plant and equipment and the fair valuation of available-for-sale investments.



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For the Year Ended 31 December 2015

14 Inventories

	Group		Bank	
	2015	2014	2015	2014
	€ 000	€ 000	€ 000	€ 000
Postal supplies and materials	163	146	-	-
Merchandise	518	507	-	-
Stocks for resale	404	314	404	314
Other stock items	21	29	21	29
	1,106	996	425	343

15 Trade and other receivables

	Group		Bank	
	2015	2014	2015	2014
	€ 000	€ 000	€ 000	€ 000
Trade receivables - net of impairment allowances	6,220	4,180	-	-
Others	1,950	1,365	2,104	1,447
	8,170	5,545	2,104	1,447

The impairment allowances in respect of trade receivables are analysed as follows:

	Group		Bank	
	2015	2014	2015	2014
	€ 000	€ 000	€ 000	€ 000
At 1 January	180	171	-	-
Impairment (reversals)/losses recognised	(2)	9	-	-
At 31 December	178	180	-	-

16 Accrued income and other assets

	Group		Bank	
	2015	2014	2015	2014
	€ 000	€ 000	€ 000	€ 000
Accrued income	2,607	2,922	2,540	2,867
Other assets	2,436	2,913	250	265
	5,043	5,835	2,790	3,132



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17 Share capital

Bank	2015		2014	
	No. of shares 000s	€ 000	No. of shares 000s	€ 000
Authorised				
Ordinary shares of 25 cent each	80,000	20,000	80,000	20,000
Issued				
Ordinary shares of 25 cent each	43,772	10,943	41,687	10,422

By virtue of a resolution dated 22 April 2015, the shareholders of the Bank approved the allotment of 2,084,359 ordinary shares of 25 cent each as a bonus issue of one (1) share for every twenty (20) shares held by shareholders on the Company's Register of Shareholders as at close of business on 27 May 2015, the last trading date being 25 May 2015. This bonus issue was allotted to shareholders on 28 May 2015, and thereby increased the issued and fully paid share capital to 43,771,573 shares of 25 cent each, resulting in a paid up share capital of €10,942,893.

18 Reserves

These reserves are non-distributable.

18.1 Share premium

There was no increase in the share premium account during the reporting period. Utilisation of the share premium account is governed by the requirements of Article 114 within the Companies Act, Chapter 386 of the Laws of Malta.

18.2 Revaluation and other reserves

The Group and the Bank had the following reserves as at end of the reporting period:

	Group		Bank	
	2015 € 000	2014 € 000	2015 € 000	2014 € 000
Property revaluation reserve	2,420	1,978	2,338	1,978
Investment revaluation reserve	4,865	1,827	4,474	1,576
Reserve for General Banking Risks	2,620	1,834	2,620	1,834
Other reserve	3,247	2,690	3,437	2,799
	13,152	8,329	12,869	8,187

The property revaluation reserve relates to the fair valuation of the land and buildings component of property, plant and equipment, and the balance represents the cumulative net increase in fair value of such property, net of related deferred tax.



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Notes to the Financial Statements

For the Year Ended 31 December 2015

18 Reserves (continued)

The investment revaluation reserve represents the cumulative net change in fair values of available-for-sale financial assets held by the Group and by the Bank, net of related deferred tax impacts.

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', issued by the MFSA, requires banks in Malta to hold additional reserves for general banking risks in respect of non-performing loans. This reserve is required to be funded from planned dividends. As at the reporting date, this reserve amounted to €2,620,000 (representing 100% of the total estimated amount). The increase during the year under review amounted to €786,000.

The other reserve represents amounts set aside by the Bank from its retained earnings in relation to the Depositor Compensation Scheme reflecting the carrying amount of assets pledged in favour of the Scheme to comply with local regulatory requirements.

19 Amounts owed to banks

	Group		Bank	
	2015	2014	2015	2014
	€ 000	€ 000	€ 000	€ 000
Term deposits with agreed maturity dates or periods of notice	859	-	859	-
Repayable on demand	200	73	200	73
	1,059	73	1,059	73

20 Amounts owed to customers

	Group		Bank	
	2015	2014	2015	2014
	€ 000	€ 000	€ 000	€ 000
Term deposits with agreed maturity dates	277,327	286,332	279,327	288,332
Repayable on demand	373,189	287,614	374,989	289,605
	650,516	573,946	654,316	577,937



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Notes to the Financial Statements

For the Year Ended 31 December 2015

21 Provisions for liabilities and other charges

	Group		Bank	
	2015	2014	2015	2014
	€ 000	€ 000	€ 000	€ 000
Obligation to Government	1,637	1,592	-	-
Legal	741	666	639	565
	2,378	2,258	639	565

These provisions are predominantly non-current in nature.

Group	2015			2014		
	Obligation to Government € 000	Legal € 000	Total € 000	Obligation to Government € 000	Legal € 000	Total € 000
At 1 January	1,592	666	2,258	1,547	737	2,284
Exchange differences						
recognised in profit or loss	-	53	53	-	56	56
Charge - recognised in other comprehensive income	117	-	117	133	-	133
Charge - recognised in profit or loss	49	22	71	49	7	56
Crystallised obligations	(121)	-	(121)	(137)	(134)	(271)
At 31 December	1,637	741	2,378	1,592	666	2,258

The obligation to Government arises in terms of Article 8A of the Pensions Ordinance (Chapter 93 of the Laws of Malta), covering former Government employees who opted to become full-time employees of MaltaPost p.l.c., and who continued to be entitled to pension benefits which go beyond the National Insurance Scheme. The pension benefits scheme is a final salary defined benefit plan and is unfunded.

Obligation to Government recognised in the statement of financial position is arrived at as follows:

	2015 € 000	2014 € 000
Present value of unfunded obligations	3,070	2,904
Crystallised obligations	(734)	(613)
Fair value of obligations to be reimbursed by Government	(699)	(699)
	1,637	1,592



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Notes to the Financial Statements

For the Year Ended 31 December 2015

21 Provisions for liabilities and other charges (continued)

The movement for the year is made up of:

	2015 € 000	2014 € 000
Charge to profit or loss	49	49
Charge to other comprehensive income	117	133
Crystallised obligations	(121)	(137)
	45	45

The amount recognised in profit or loss is as follows:

	2015 € 000	2014 € 000
Interest cost	49	49

The amount recognised in other comprehensive income is as follows:

	2015 € 000	2014 € 000
Net actuarial loss - attributable to financial assumptions	117	133

In computing the Obligation to Government, the Group used a discount rate of 2.12% (2014: 3.03%), whereas the future salary increases were based on inflation rates and past salary increases.

Assumptions regarding future mortality experience are based on published mortality tables in Malta, which translate into an average life expectancy of 80 depending on age and gender of the beneficiaries. These factors are deemed to be the key assumptions used in the computation of the liability. The sensitivity of the obligation to changes in the key assumptions is considered immaterial for disclosure purposes.

Bank

	2015 Legal € 000	2014 Legal € 000
At 1 January	564	642
Exchange differences recognised in profit or loss	53	56
Crystallised obligations	22	(134)
At 31 December	639	564

In addition, the Bank is also a defendant in legal actions by other customers as a result of which the Directors are of the opinion that no liability will be incurred.

Notes to the Financial Statements

For the Year Ended 31 December 2015

22 Other liabilities

	Group		Bank	
	2015 € 000	2014 € 000	2015 € 000	2014 € 000
Trade payables	4,151	3,477	-	-
Bills payable	2,669	1,893	2,669	1,893
Cash collateral	80	170	80	170
Other payables	11,504	11,379	8,921	9,142
	18,404	16,919	11,670	11,205

23 Accruals and deferred income

	Group		Bank	
	2015 € 000	2014 € 000	2015 € 000	2014 € 000
Accrued interest	3,397	4,027	3,399	4,035
Other	5,945	5,997	957	917
	9,342	10,024	4,356	4,952

24 Commitments and contingent liabilities

Group/Bank	2015 € 000	2014 € 000
Contingent liabilities		
Guarantee obligations incurred on behalf of third parties	6,508	7,121
Documentary credits	971	902
	7,479	8,023
Commitments		
Credit facilities and other commitments to lend	106,925	72,115

Credit facilities and commitments to lend funds to customers are granted at prevailing market interest rates at drawdown date.



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Notes to the Financial Statements

For the Year Ended 31 December 2015

24 Commitments and contingent liabilities (continued)

At 31 December 2015, the Group was party to non-cancellable operating lease agreements of properties, in respect of which the future minimum lease payments extend over a number of years. The leases run for an initial period of up to one hundred and fifty years. Specific lease arrangements include an option to renew the lease after the original term but the amounts presented to the tables above do not reflect lease charges applicable to the renewal period.

Total future minimum lease net payments under non-cancellable property operating leases:

	2015 € 000	2014 € 000
Current		
Within 1 year	167	138
Non-current		
Between 1 and 2 years	124	136
Between 2 and 5 years	159	252
	450	526

The Group is also committed to pay a licence fee of 0.75% (2014: 0.75%) of its total gross revenue from postal services within the scope of the universal services.

25 Net interest income

	Group		Bank	
	2015 € 000	2014 € 000	2015 € 000	2014 € 000
Interest income				
On loans and advances to banks	312	184	283	173
On loans and advances to customers	18,536	21,332	18,536	21,332
On balances with Central Bank of Malta	40	43	40	43
On Malta Government treasury bills	31	501	31	501
	18,919	22,060	18,890	22,049
On debt and other fixed income instruments	2,289	1,846	2,149	1,694
Net amortisation of premiums and discounts	(466)	(298)	(463)	(295)
	1,823	1,548	1,686	1,399
Total interest income	20,742	23,608	20,576	23,448
Interest expense				
On amounts owed to banks	(3)	(1)	(3)	(1)
On amounts owed to customers	(7,600)	(9,301)	(7,616)	(9,333)
Total interest expense	(7,603)	(9,302)	(7,619)	(9,334)
Net interest income	13,139	14,306	12,957	14,114



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Notes to the Financial Statements

For the Year Ended 31 December 2015

26 Net fee and commission income

	Group		Bank	
	2015	2014	2015	2014
	€ 000	€ 000	€ 000	€ 000
Fee and commission income				
Retail banking customer fees	2,000	1,475	2,000	1,475
Brokerage	27	12	27	12
Other	1,412	1,211	388	274
Total fee and commission income	3,439	2,698	2,415	1,761
Fee and commission expense				
Inter bank transaction fees	(227)	(157)	(227)	(157)
Other	(5)	(3)	(5)	(3)
Total fee and commission expense	(232)	(160)	(232)	(160)
Net fee and commission income	3,207	2,538	2,183	1,601

27 Postal sales and other revenues

	Group		Bank	
	2015	2014	2015	2014
	€ 000	€ 000	€ 000	€ 000
Stamps, parcel post and postal stationery including income from foreign inbound mail	24,004	22,278	-	-
Collectibles and philatelic sales	488	384	76	124
Other	70	-	-	-
	24,562	22,662	76	124

28 Dividend income

	Group		Bank	
	2015	2014	2015	2014
	€ 000	€ 000	€ 000	€ 000
Subsidiary company	-	-	1,514	1,401
Available-for-sale equity shares	240	159	240	159
	240	159	1,754	1,560



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Notes to the Financial Statements

For the Year Ended 31 December 2015

29 Net trading income

	Group		Bank	
	2015	2014	2015	2014
	€ 000	€ 000	€ 000	€ 000
Gains on foreign exchange activities	969	845	769	760

30 Employee compensation and benefits

	Group		Bank	
	2015	2014	2015	2014
	€ 000	€ 000	€ 000	€ 000
Staff costs				
Wages, salaries and allowances	15,390	14,961	4,999	4,652
Social security costs	1,136	1,111	273	270
	16,526	16,072	5,272	4,922

	Group		Bank	
	2015	2014	2015	2014
Average number of employees				
Managerial	72	71	49	46
Others	685	689	107	111
	757	760	156	157

31 Net impairment losses

	Group		Bank	
	2015	2014	2015	2014
	€ 000	€ 000	€ 000	€ 000
Write-downs				
Loans and advances to customers				
- specific allowances	(3,342)	(4,965)	(3,342)	(4,965)
- collective allowances	(370)	(499)	(370)	(499)
- bad debts written off	(68)	(139)	(68)	(139)
Trade receivables – specific allowances	-	(9)	-	-
	(3,780)	(5,612)	(3,780)	(5,603)
Reversals of write-downs				
Loans and advances to customers				
- specific allowances	655	977	655	977
- bad debts recovered	42	17	42	17
Trade receivables – specific allowances	2	-	-	-
	699	994	697	994
Net impairment losses	(3,081)	(4,618)	(3,083)	(4,609)



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Notes to the Financial Statements

For the Year Ended 31 December 2015

32 Profit before taxation

Profit before taxation is stated after charging and crediting the following:

	Group		Bank	
	2015	2014	2015	2014
	€ 000	€ 000	€ 000	€ 000
After charging				
Directors' emoluments				
- fees	69	72	56	58
- other emoluments	335	331	335	331
After crediting				
Rental income from investment property	-	25	-	25
Net income from investment services	86	164	86	164

Other operating costs are analysed as follows:

	Group		Bank	
	2015	2014	2015	2014
	€ 000	€ 000	€ 000	€ 000
Foreign outbound mail	4,811	3,992	-	-
Utilities and insurance	852	705	533	406
IT support and telecommunication costs	302	302	187	195
Repairs and maintenance	1,211	1,187	311	320
Operating lease rental charges	1,103	1,088	388	350
Other administrative expenses	5,011	4,736	1,947	1,723
Total other operating costs	13,290	12,010	3,366	2,994

Other administrative expenses mainly comprise professional expenses, subcontracted services and other services or expense items which are incurred in the course of the operations of the Group and the Bank.

Fees charged by the auditors for services rendered during the financial year related to the following:

	Audit	Other assurance services	Tax advisory services
	€ 000	€ 000	€ 000
Auditors of the parent			
2015	48	1	6
2014	47	85	4
Auditors of subsidiary companies			
2015	19	14	1
2014	25	14	8



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Notes to the Financial Statements

For the Year Ended 31 December 2015

33 Income tax expense

Recognised in profit or loss:

	Group		Bank	
	2015	2014	2015	2014
	€ 000	€ 000	€ 000	€ 000
Current taxation				
Current tax expense	3,878	3,904	3,239	3,480
Adjustment to prior years' current tax expense	(8)	(24)	(8)	(24)
	3,870	3,880	3,231	3,456
Deferred taxation				
Deferred tax income (note 13)	(1,070)	(1,547)	(1,094)	(1,606)
	2,800	2,333	2,137	1,850

The tax on the profit before income tax differs from the theoretical amount that would arise using the tax rate applicable as follows:

	Group		Bank	
	2015	2014	2015	2014
	€ 000	€ 000	€ 000	€ 000
Profit before income tax	7,837	6,240	5,973	4,909
Tax on profit at 35%	2,743	2,184	2,091	1,718
Tax effect of:				
Non-taxable income	(1)	(37)	(1)	(37)
Expenses non-deductible for tax purposes	12	23	4	23
Income taxed at different tax rates	(37)	130	-	130
Depreciation expense not deductible by way of capital allowances	68	60	47	43
Adjustment to prior years' current tax expense	(8)	(24)	(8)	(24)
Other differences	23	(3)	4	(3)
	2,800	2,333	2,137	1,850



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Notes to the Financial Statements

For the Year Ended 31 December 2015

33 Income tax expense (continued)

The tax impacts, which are entirely attributable to deferred taxation, relating to components of other comprehensive income and accordingly presented directly in equity are as follows:

Group	2015			2014		
	Before tax € 000	Tax (charge) /credit € 000	Net of tax € 000	Before tax € 000	Tax (charge) /credit € 000	Net of tax € 000
Fair valuation of available- for-sale financial assets:						
- Net changes in fair value	4,678	(1,569)	3,109	2,294	(747)	1,547
- Reclassification adjustments to profit or loss	(21)	8	(13)	(56)	16	(40)
Revaluation of property	1,433	(956)	477	-	(68)	(68)
Remeasurements of defined benefit obligations	(115)	-	(115)	(133)	-	(133)
	5,975	(2,517)	3,458	2,105	(799)	1,306
Bank						
Fair valuation of available- for-sale financial assets:						
- Net changes in fair value	4,482	(1,569)	2,913	2,133	(747)	1,386
- Reclassification adjustments to profit or loss	(23)	8	(15)	(45)	16	(29)
Revaluation of property	539	(179)	360	-	(68)	(68)
	4,998	(1,740)	3,258	2,088	(799)	1,289



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Notes to the Financial Statements

For the Year Ended 31 December 2015

34 Earnings per share

Earnings per share is based on the net profit for the year divided by the weighted average number of ordinary shares in issue during the year.

	2015	Group 2014
Net profit attributable to equity holders of the Bank (€ 000)	4,383	3,362
Number of ordinary shares in issue	43,771,573	43,771,573
Earnings per share (€ cent)	10c0	7c7

The comparative information has been restated to reflect the bonus share issue effected during the current financial year and the impact on the number of shares in issue, referred to in note 17, retrospectively.

The Bank has no instruments or arrangements which give rise to dilutive potential ordinary shares, and accordingly diluted earnings per share is equivalent to basic earnings per share.

35 Dividends

	2015	2014
Dividends declared and paid by the Bank (€ 000)	1,084	1,032
€ cent per share – gross	4c0	4c0

Subsequent to the end of the reporting period, a gross dividend of 4 cent per nominal 25 cent share (net dividend of 2.6 cent for a total amount of €1,138,000) for the twelve months ended 31 December 2015 is being proposed for approval by the shareholders to be distributed either in cash or by the issue of new shares at the option of each individual shareholder. A resolution to this effect will be proposed to the Annual General Meeting.



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Notes to the Financial Statements

For the Year Ended 31 December 2015

36 Cash and cash equivalents

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.

	Group		Bank	
	2015	2014	2015	2014
	€ 000	€ 000	€ 000	€ 000
Malta Government treasury bills (note 5)	-	31,494	-	31,494
Loans and advances to banks (notes 5 and 7)	305,062	198,576	301,870	195,659
Cash (note 5)	3,727	3,897	3,220	3,500
Amounts owed to banks (note 19)	(1,059)	(73)	(1,059)	(73)
Cash and cash equivalents	307,730	233,894	304,031	230,580

37 Related parties

37.1 Identity of related parties

The Bank has a related party relationship with its subsidiaries, its major shareholder Cyprus Popular Bank Public Co Ltd, the Bank's Directors (key management personnel) and other related parties, primarily entities controlled by key management personnel.

37.2 Transaction arrangements and agreements involving key management personnel

Information on transactions, arrangements and agreements entered into by the Bank with key management personnel, being the Directors, and entities controlled by such individuals as highlighted below:

	Loans and advances	Commitments	Loans and advances	Commitments
	2015	2015	2014	2014
	€ 000	€ 000	€ 000	€ 000
At 1 January	773	-	1,352	-
Additions	622	-	365	-
Repayments	(378)	-	(944)	-
At 31 December	1,017	-	773	-

The above banking facilities are part of long-term commercial relationships and were made in the ordinary course of business on substantially the same terms, including rates and security, as for comparable transactions with persons of a similar standing or, where applicable, with other employees. The transactions did not involve more than the normal risk of repayment or present other unfavourable features.



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Notes to the Financial Statements

For the Year Ended 31 December 2015

37 Related parties (continued)

37.3 Compensation to key management personnel

Details of Directors' fees and emoluments are stated in note 32.

37.4 Transactions with other related parties

37.4.1 Subsidiaries

Information relating to transactions undertaken by the Bank with its subsidiary companies during the year:

	2015 € 000	2014 € 000
Income statement		
Other income	228	164
Interest payable	15	32
Administrative expenses	118	164
Statement of financial position		
Loans and advances to customers	681	678
Trade and other receivables	153	81
Amounts owed to customers	3,800	3,991
Other liabilities	9	9

During the year, the Bank made payments in settlement of transactions carried out by MaltaPost p.l.c. amounting to €12,000 (2014: €7,000).

During the year, Redbox Limited received gross dividends from MaltaPost p.l.c. amounting to €1,514,000 (2014: €1,401,000), which dividends were ultimately received by the Bank (note 28).

37.4.2 Major shareholder

The Bank entered into no material transactions with its major shareholder during the financial year.

38 Investor Compensation Scheme

In accordance with the requirements of the Investor Compensation Scheme Regulations, 2003 issued under the Investment Services Act, 1994 (Chapter 370 of the Laws of Malta) licence holders are required to transfer a variable contribution to an Investor Compensation Scheme Reserve and place the equivalent amount with a bank, pledged in favour of the Scheme. Alternatively licence holders can elect to pay the amount of variable contribution directly to the Scheme. Lombard Bank Malta p.l.c. has elected to pay the amount of the variable contribution directly to the Scheme.

39 Statutory information

Lombard Bank Malta p.l.c. is a limited liability company domiciled and incorporated in Malta.

Additional Regulatory Disclosures

For the year ended 31 December 2015

1 Risk management

1.1 *Overview of risk disclosures*

The Additional Regulatory Disclosures seek to increase public disclosure with respect to a bank's capital structure and adequacy as well as its risk management policies and practices. These 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. These disclosures are published by the Bank on an annual basis as part of the Annual Report. The rule 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.

Consistent with 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 requirements of International Financial Reporting Standards (IFRSs) as adopted by the EU. The Bank is satisfied that internal verification procedures ensure that these Additional Regulatory Disclosures are presented fairly.

1.2 *Risk management framework*

The Board of Directors has overall responsibility for the establishment and oversight of the Bank's risk management framework. The Bank has the Assets & Liabilities Committee (ALCO) and the Credit Committee that are responsible for developing the Bank's risk management policies in their specific areas. The Bank also has an independent Risk Management function. The aim of risk management is to create value for stakeholders by supporting the Bank in achieving its goals and objectives, and ultimately ensuring that the risks are commensurate with the rewards.

To enhance its risk oversight efforts, the Board of Directors established a Risk Committee with a mandate to monitor the Bank's compliance with its risk management policies and procedures, and to review the adequacy of the Bank's risk management framework, including its risk appetite and strategy. This committee has been combined with the current Audit Committee, which committee has been renamed as the Audit & Risk Committee.

The Bank considers risk management a core competency that helps produce consistently high returns for its various stakeholders. The Bank's business involves taking on risks in a targeted manner and managing them professionally. The Bank aims to manage all major types of risk by applying methods that meet best practice. The Bank considers it important to have a clear distribution of responsibilities within risk management. One of the main tasks of the Bank's executive management is to set the framework for this area. The core functions of the Bank's risk management 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 market practice.

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 institution. The Bank's internal risk management processes support this objective.



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Additional Regulatory Disclosures

For the year ended 31 December 2015

1 Risk management *(continued)*

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

The Bank has adopted the Standardised Approach and the Basic Method with respect to the calculation of capital requirements and management of credit and foreign exchange risk respectively, as well as the Basic Indicator Approach with respect to operational risk.

The Bank's risk management policies are established to identify and analyse the risks faced by the Bank, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Bank, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

The Board deems the risk management framework adopted by the Bank to be adequate and gives assurance to the Bank's stakeholders that the risk management systems are appropriate in relation to the Bank's risk profile and strategy.

The Bank's different operational functions, on an entity-wide basis, are primarily responsible for risk management procedures and activities in their respective areas. All the operational functions have a primary role in risk management at Bank wide level. The risk management function provides oversight, independently from operations, that the Bank's risk management is implemented and handled properly by the operational functions. The Bank's internal audit function, through verification, ensures that effective risk management procedures and activities are adequately designed and operating as prescribed.

1.3 *Board and Senior Management Committees*

The Bank's Board of Directors is responsible for ensuring that adequate processes and procedures exist to ensure effective internal control systems for the Bank. 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. The Board assumes responsibility for:

- setting business objectives, goals and the general strategic direction for Management with a view to maximise value;
- selecting and appointing the Chief Executive Officer who is entrusted with the day-to-day operations of the Bank;
- management of the Bank's operations, as well as appointment of members of Management;
- ensuring that significant business risks are identified and appropriately managed; and
- setting the highest business standards and code for ethical behaviour, and monitoring performance in this respect.



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Additional Regulatory Disclosures

For the year ended 31 December 2015

1 Risk management (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 in the Assets & Liabilities Committee and Credit Committee and, for the Bank's day-to-day operations, in an Executive Team comprising the Chief Executive Officer and Chief Officers. The Audit & Risk Committee reviews the processes and procedures to ensure the effectiveness of the Bank's system of internal control, as well as the implementation of the Board's risk strategy by management. The Audit & Risk Committee is supported by the Internal Audit and the Bank's Risk management functions. Internal Audit is one of the principal internal control mechanisms within the Bank.

The ALCO monitors the Bank's financial performance, considers investment policy and overseas counterparty limits. Membership of this Committee is made up of a number of Chief Officers and Senior Managers including managers from Finance and Treasury departments. The Chief Executive Officer is Chairman of ALCO and retains primary responsibility for asset and liability management. The ALCO oversees risk management practices in relation to asset and liability management.

The Credit Committee considers the development of general lending principles and oversees risk management practices in lending operations. The Credit Committee is chaired by the Chief Executive Officer and is composed of other Chief Officers as well as other Senior Officers engaged in lending.

The Audit & Risk Committee assists the Board in fulfilling its supervisory and monitoring responsibility by reviewing the financial statements and disclosures, the system of internal control established by management as well as the external and internal audit processes. The Audit & Risk Committee is also responsible for monitoring compliance with the Bank's risk management policies and procedures, and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Bank. The Audit & Risk Committee is assisted by the Internal Audit function and the Bank's independent risk management function.

The Bank's independent Internal Audit department reviews the adequacy and proper operation of internal controls in individual areas of operation and reports its findings to the Audit Committee. The internal audit function carries out both regular and ad-hoc reviews of risk management controls and procedures, in both cases reporting its findings.

The Bank's independent risk management function was composed of senior officers during the year under review, with reporting lines to the Audit & Risk Committee. This function focuses on overseeing the manner in which the different operational functions and activities of the Bank implement and monitor risk policies and limits in their respective areas. The overall objective is ensuring that the Bank's intended risk management framework has been structured effectively and is proving to be effective at operational level in mitigating exposures to the Bank. Frequent reviews are carried out by this function and regular reporting to the Audit & Risk Committee is in place.

The Bank has an appropriate organisational structure for planning, executing, controlling and monitoring business operations in order to achieve the Bank's objectives.

Authority to operate the Bank and its subsidiaries is delegated to the Chief Executive Officer within the limits set by the Board. 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 Bank is committed to the highest standards of business conduct and seeks to maintain these standards across all of its operations. Bank policies and procedures are in place for the reporting and resolution of fraudulent activities.



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Additional Regulatory Disclosures

For the year ended 31 December 2015

1 Risk management (continued)

1.4 Key risk components

The Bank's Board of Directors is empowered to set out the overall risk policies and limits for all material risk types. The Board also decides on the general principles for managing and monitoring risks.

To ensure coherence between the Bank's strategic considerations regarding risk-taking and day-to-day decisions, from time to time, the Bank establishes risk appetite as a strategic tool. Risk appetite is the maximum risk that the Bank is willing to assume to meet business targets. The Bank's risk appetite is set in a process based on a thorough analysis of its current risk profile. The Bank identifies a number of key risk components and for each determines a target that represents the Bank's views on the component in question.

In terms of the Capital Requirements Regulation (CRR), an 'exposure' is the amount at risk arising from the reporting credit institution's assets and off-balance sheet instruments. Consistent with this, an exposure would include the amount at risk arising from the Bank's:

- claims on a customer including actual and potential claims which would arise from the drawing down in full of undrawn advised facilities, which the Bank has committed itself to provide;
- contingent liabilities arising in the normal course of business, and those contingent liabilities which would arise from the drawing down in full of undrawn advised facilities which the Bank has committed itself to provide; and
- other on and off-balance sheet financial assets and commitments.

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 comprises 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*: Risk of losses arising from unfavourable changes in the level and volatility of interest rates, foreign exchange rates or investment prices.
- *Liquidity risk*: Liquidity risk may be divided into two sub-categories:
 - Market (product) liquidity risk: risk of losses arising from difficulty in accessing a product or market at the required time, price and volume.
 - 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 within the Bank and the inadequacy of internal 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.



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1 **Risk management** *(continued)*

1.5 *Risk statement by the Board of Directors*

The Bank's business model throughout the years has been that of retaining a stable deposit base and granting credit principally to the commercial real estate sector, particularly because the Board strongly believes that despite the increased capital requirements introduced by the CRR, an active commercial real estate market is a fundamental source of employment and economic growth in Malta. Nonetheless, the Bank is conscious of the risks involved in commercial real estate lending, and thus ensures it prices loans by reference to underlying risks. In this respect, the Bank's return on assets, expressed as a percentage of profit after tax to average total assets, for the reporting period ended 31 December 2015 amounts to 0.53%.

The Bank manages its credit risk in this respect by selecting its customers and the projects it finances with prudence and caution, and by actively monitoring the value of collateral in relation to its exposure amounts such that in the event of default, the Bank would have sufficient collateral to secure recoverability.

In this respect, the loan loss coverage ratio, calculated as total provisions for impairment to total non-performing exposures, which as at 31 December 2015, amounted to 19.6% differs from that experienced within the sector, which generally tends to fluctuate between 50% to 55%. This clearly illustrates the robustness of the Bank's risk management practices particularly in respect of credit risk.

2 **Credit risk**

2.1 *Introduction to Credit risk*

Credit risk is the risk of suffering financial loss, should any of the Bank's customers, clients or market counterparties fail to fulfil their contractual obligations to the Bank. Credit risk arises mainly from commercial and consumer loans and advances and loan commitments arising from such lending activities, but can also arise from credit enhancement provided, such as financial guarantees, letters of credit, endorsements and acceptances.

Credit risk constitutes the Bank's largest risk in view of its significant lending and securities portfolios, which are monitored in several ways. The Bank is fully aware of such risk and places great importance on its effective management.

The Bank allocates considerable resources in ensuring the ongoing compliance with approved credit limits and to monitor its credit 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 Team, are kept informed on an ongoing basis of developments in the credit portfolio, non-performing loans and other relevant information.



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For the year ended 31 December 2015

2 **Credit risk** *(continued)*

2.2 *Credit risk management*

The Board of Directors has delegated the responsibility for the monitoring of management of credit risk to the Credit Committee. The granting of a credit facility is based on the Bank's insight into the customer's financial position, which is reviewed regularly to assess whether the basis for the granting of credit has changed. Furthermore, the customer must be able to demonstrate a reasonable ability to repay the debt. Approval limits are graded starting from managers and leading up to the Credit Committee and the Board of Directors depending on the size and the particular risk attached to the loan. Facilities are generally adequately secured either by property and/or guarantees and are reviewed periodically by management both in terms of the exposure to the Bank and to ensure that security is still valid.

The Bank's Credit/Advances department is responsible for undertaking and managing credit risk in relation to the entity's lending activities; covering all the stages in the lending cycle comprising credit proposal, loan approval, effecting advances, credit and collateral monitoring, processing repayments and credit recovery procedures. The Bank manages, limits and controls concentrations of credit risk arising from loans and advances wherever they are identified – in particular, to individual customers and groups, and to industry sectors. Hence, the Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to industry segments. Such risks are monitored on a revolving basis and subject to frequent review, as considered necessary. Limits on the level of credit risk by product and industry sector are approved by the Board of Directors. The exposure to any one borrower is further restricted by sublimits covering on and off-balance sheet exposures. Actual exposures against limits are monitored at end of day on a daily basis and on a real-time basis too. As highlighted previously, the Bank's reporting framework with respect to lending credit risk is comprehensive with regular reporting by the Credit/Advances function to the Board, Credit Committee and Executive Team on adherence to limits, activity levels, performance measures and specific credit risk events.

In order to minimise the credit risk undertaken, counterparty credit limits may be defined, which consider a counterparty's creditworthiness, the value of collateral and guarantees which can reduce the overall credit risk exposure, as well as the type and the duration of the credit facility. In order to examine a counterparty's creditworthiness, the following are considered: country risk, quantitative and qualitative characteristics, as well as the industry sector in which the counterparty operates. The Bank has set limits of authority and has segregated duties so as to maintain impartiality and independence during the approval process and control for new and existing credit facilities.

The Bank's maximum exposure amount to credit risk before taking account of any collateral held or other credit enhancements can be classified in the following categories:

- Financial assets recognised on-balance sheet comprising principally balances with Central Bank of Malta, Malta Government treasury bills, cheques in course of collection, available-for-sale financial assets as well as loans and advances to banks and customers. The maximum exposure of these financial assets to credit risk equals their carrying amount.
- Guarantee obligations incurred on behalf of third parties. The maximum exposure to credit risk is the full amount that the Bank would have to pay if the guarantees are called upon.
- 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.



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For the year ended 31 December 2015

2 Credit risk (continued)

The Bank's credit risk exposure amounts reflect the maximum exposure to credit risk before collateral held or other credit enhancements in accordance with the regulatory information submitted to the MFSA and are as follows:

	2015 Average value € 000	2015 Year end Exposure value € 000
Central governments or central banks	193,026	170,916
Public sector entities	4,319	98
Institutions	192,165	226,343
Corporates	31,743	22,227
Retail	20,504	37,454
Secured by mortgages on immovable property	99,074	127,515
Exposures in default	39,289	28,773
Items associated with particularly high risk	105,142	103,293
Equity	17,545	19,818
Other items	27,131	27,654
	729,938	764,091

The exposures set out in the table above are based on the sum of on-balance sheet exposures and off-balance sheet exposures adjusted for the credit conversion factors stipulated in Article 166(10) of the CRR.

The following is an analysis of the Bank's exposure to credit risk split by on-balance sheet assets and off-balance sheet instruments:

	2015 € 000
On-balance sheet assets	759,149
Deduction for intangible assets	(409)
Off-balance sheet instruments	5,351
	764,091

2.3 Concentration risk

Concentration risk arises as a result of the concentration of exposures within the same category, whether the category relates to geographical location, industry sector or counterparty type. These risks are managed through adherence to Board approved lending criteria and limits.

As at 31 December 2015, no loans and advances to customers were deemed to be prohibited large exposures, prior to any eligible exemptions, in accordance with the requirements of Part Four of the CRR, Large Exposures. A limited number of customers account for a certain per centage of the Bank's loans and advances.



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2 Credit risk (continued)

Credit risk attributable to concentration of investments is not considered by the Directors to be significant in view of the credit standing of the issuers.

The following tables analyse the concentration of credit risk by geographical region, industry sector and residual maturity at the end of the reporting period.

2.3.1 Credit risk exposures analysed by geographical region

The Bank monitors concentration of credit risk by geographical region. The following table summarises the country of risk by exposure class:

At 31 December 2015	Total € 000	Malta € 000	Eurozone € 000	Other European countries € 000	Other € 000
Central governments or central banks	170,916	170,916	-	-	-
Public sector entities	98	98	-	-	-
Institutions	226,343	5,798	174,612	42,205	3,728
Corporates	22,227	20,755	1,436	2	34
Retail	37,454	36,132	129	1,178	15
Secured by mortgages on immovable property	127,515	119,397	4,621	2,955	542
Exposures in default	28,773	28,659	-	24	90
Items associated with particularly high risk	103,293	103,293	-	-	-
Equity	19,818	18,833	-	-	985
Other items	27,654	27,606	17	22	9
	764,091	531,487	180,815	46,386	5,403



Additional Regulatory Disclosures

For the year ended 31 December 2015

2 Credit risk (continued)

2.3.2 Credit risk exposures analysed by industry sector

The following are the exposure amounts split by exposure class according to the respective industry concentration:

At 31 December 2015	Total € 000	Manufacturing € 000	Tourism € 000	Trade € 000	Property and construction € 000	Personal, professional and home loans € 000	Financial institutions € 000	Other sectors € 000
Central governments or central banks	170,916	-	-	-	-	-	170,916	-
Public sector entities	98	-	-	-	-	-	-	98
Institutions	226,343	-	-	-	-	-	226,343	-
Corporates	22,227	8	1,246	10,274	2,479	130	28	8,062
Retail	37,454	1,860	521	9,484	2,512	6,185	915	15,977
<i>of which: SME</i>	<i>26,617</i>	<i>1,537</i>	<i>476</i>	<i>7,792</i>	<i>918</i>	<i>175</i>	<i>889</i>	<i>14,830</i>
Secured by mortgages on immovable property	127,515	5,765	4,553	24,692	54,921	22,410	1,159	14,015
<i>of which: SME</i>	<i>47,138</i>	<i>3,902</i>	<i>2,753</i>	<i>15,056</i>	<i>12,942</i>	-	<i>1,130</i>	<i>11,355</i>
Exposures in default	28,773	3,645	3,523	4,829	6,397	4,115	-	6,264
<i>of which: SME</i>	<i>18,765</i>	<i>3,581</i>	<i>2,384</i>	<i>3,211</i>	<i>3,982</i>	-	-	<i>5,607</i>
Items associated with particularly high risk	103,293	-	-	-	103,293	-	-	-
<i>of which: SME</i>	<i>69,533</i>	-	-	-	<i>69,533</i>	-	-	-
Equity	19,818	-	1,645	161	2,187	-	14,639	1,186
Other items	27,654	72	144	317	15,322	109	8,441	3,249
	764,091	11,350	11,632	49,757	187,111	32,949	422,441	48,851



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For the year ended 31 December 2015

2 Credit risk (continued)

2.3.3 Credit risk exposures analysed by residual maturity

The residual maturity breakdown by exposure class at the end of the reporting period was as follows:

	Total	Less than 1 year	Over 1 but less than 5 years	Over 5 years
At 31 December 2015	€ 000	€ 000	€ 000	€ 000
Central governments or central banks	170,916	113,962	29,151	27,803
Public sector entities	98	98	-	-
Institutions	226,343	225,568	623	152
Corporates	22,227	4,714	7,693	9,820
Retail	37,454	24,867	10,131	2,456
Secured by mortgages on immovable property	127,515	66,331	30,489	30,695
Exposures in default	28,773	22,019	1,568	5,186
Items associated with particularly high risk	103,293	79,204	20,772	3,317
Equity	19,818	19,818	-	-
Other items	27,654	27,654	-	-
	764,091	584,235	100,427	79,429

2.3.4 Counterparty banks' risk

The Bank runs the risk of loss of funds due to the possible delay in the repayment of existing and future obligations by counterparty banks.

Within its daily operations, the Bank transacts with 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 to the Bank of the existing and future obligations of the counterparty banks. The Bank primarily places short-term funds with pre-approved banks subject to the limits in place and subject to the respective institutions' credit rating being within controlled parameters. The positions are checked against the limits in real time and at end of day on a daily basis.

2.3.5 Country risk

The Bank runs the risk of loss of funds due to the possible political, economic and other events in a particular country where funds have been placed or invested with several counterparties. Countries are assessed according to their size, economic data and prospects and their credit ratings from international rating agencies. Existing country credit risk exposures are monitored and reviewed periodically. The Bank's exposures are predominantly in Malta as reflected within the table in section 2.3.1 which discloses country risk by exposure class. Other country risks are mainly to bank balances and money market placements with a total carrying amount of €220,555,000.



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2 Credit risk (continued)

2.4 Use of External Credit Assessment Institutions

In calculating its risk-weighted exposure amounts, the Bank uses an External Credit Assessment Institution (ECAI) for Central governments, Institutions, Corporates and Items associated with particularly high risk for which a credit assessment is available. The credit quality of such exposures is determined by reference to credit ratings applicable to issuers published by Fitch Ratings. The Bank maps the external ratings to the credit quality steps prescribed in the CRR as required by CEBS publication 'Standardised approach: Mapping of ECAIs' credit assessments to credit quality steps'.

The following are the exposure values for which an ECAI is used:

At 31 December 2015	Credit quality step € 000	Central governments or central banks € 000	Institutions € 000	Total € 000
AAA to AA-	1	-	37,158	37,158
A+ to A-	2	170,383	69,869	240,252
BBB+ to BBB-	3	-	104,756	104,756
BB+ to BB-	4	-	10,797	10,797
B+ to B-	5	-	9	9
CCC+ and below	6	-	5,002	5,002
		170,383	227,591	397,974

2.5 Credit quality of the Bank's lending portfolio

The Bank reviews and grades its advances to customers using the following internal risk grades:

- Performing
 - Regular
 - Watch
 - Substandard
- Non-performing
 - Doubtful

Regular

The Bank's loans and advances to customers which are categorised as 'Regular' are principally debts in respect of which the payment of interest and/or capital is not overdue by 30 days and with no recent history of customer default. Management does not expect any losses from non-performance by these customers.

Watch

Loans and advances which attract a 'Watch' grading are those which are receiving the close attention of the Bank's management and are being reviewed periodically in order to determine whether such advances should be reclassified to either 'Regular' or 'Substandard' classification. Credit facilities that attract this category include those where the payment of interest and/or capital becomes overdue by 30 days and over but not exceeding 60 days.



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2 Credit risk (continued)

Substandard

Loans and advances which attract a 'Substandard' grading are those having the weaknesses inherent in those loans and advances classified as 'Watch' with the added characteristics that repayment is inadequately protected by the current sound worth and paying capacity of the borrower. Loans and advances so graded have a well-defined weakness or weaknesses that could jeopardise the repayment of the debt. They are characterised by the distinct possibility that the Bank will sustain some loss if the deficiencies are not corrected. Credit facilities that attract this category include those where the payment of interest and/or capital becomes overdue by 60 days and over but not exceeding 90 days.

Doubtful

Loans and advances which attract a 'Doubtful' grading are those facilities where the Bank deems the recoverability of principal to be remote as a result of worsening conditions of loans and advances classified as 'Substandard'. Credit facilities that attract this category include those where the payment of interest and/or capital becomes overdue by 90 days and over. This category comprises loans and advances which are deemed specifically impaired in accordance with the requirements of IFRSs as adopted by the EU. The Bank's forborne loans (refer to note 2.3.8) are also classified within this category.

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

	2015 € 000
Gross loans and advances to customers	
Regular	176,542
Watch	36,350
Substandard	10,827
Doubtful	103,044
	326,763

2.5.1 Impaired loans and advances to customers

Impaired loans and advances are advances which are either more than 90 days past due, or for which the Bank determines that it is 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 Bank reviews all material credit exposures on a case by case basis and also on a collective basis, if 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.

The individually impaired loans and advances mainly relate to a number of independent customers which are accordingly not meeting repayment obligations.

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For the year ended 31 December 2015

2 Credit risk (continued)

2.5.2 Past due but not impaired loans

Past due but not impaired loans comprise loans and advances where contractual interest or principal payments are past due, but the Bank believes that impairment is not appropriate on the basis of the level of security available and/or the stage of collection of amounts owed to the Bank. Related credit losses, which may arise, are partly covered by 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	51,345
Past due but not impaired	63,199
Neither past due nor impaired	212,219
	326,763

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

	Impaired	Past due but
	€ 000	not impaired
At 31 December 2015		€ 000
Manufacturing	2,971	1,472
Tourism	3,382	106
Trade	3,807	12,974
Property and construction	32,980	34,006
Personal, professional and home loans	4,417	7,089
Financial institutions	66	15
Other sectors	3,722	7,537
	51,345	63,199

The majority of the impaired and past due but not impaired loans and advances to customers were concentrated within Malta.



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2 **Credit risk** *(continued)*

2.5.3 Collateral

The Bank holds collateral against exposures in the form of hypothecs over property, other registered securities over assets and guarantees. The nature and level of collateral required depends on a number of factors, including, but not limited to, the amount of the exposure, the type of facility provided, the term of the facility, the amount of the counterparty's contribution and an evaluation of the level of the credit risk or probability of default involved. Collateral is an important mitigant of credit risk. Nevertheless, it is the Bank's policy to establish that facilities are within the customer's capacity to repay rather than to over rely on security. In certain cases, depending on the customer's standing and the type of product, facilities may be unsecured. The Bank applies various measures to reduce the risk on individual transactions, including collateral in the form of physical assets and guarantees.

The principal collateral types used as credit risk mitigants are mortgages on residential properties and commercial real estate. For regulatory purposes, none of the Bank's collateral in the form of commercial real estate qualifies as eligible collateral, as these properties fail to meet the conditions of article 126(2) of the CRR.

Out of €306.6 million exposures arising from the Bank's lending, €127.5 million are secured by mortgages on immovable property, whilst €99.5 million are secured by mortgages on immovable property but are classified within the €103.3 million high risk exposures since these are associated with speculative immovable property financing. From the €127.5 million exposures secured by mortgages on immovable property, €11.6 million qualify as fully and completely secured by mortgages on residential immovable property, and accordingly attract a risk-weight of 35%.



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2 Credit risk (continued)

2.5.4 Allowances for impairment

The Bank establishes an allowance for impairment losses that represents its estimate of incurred losses on its loans and advances portfolio. The main components of this allowance are specific impairment allowances that relate to individually significant exposures and other individual exposures in respect of which impairment losses have been identified, and a collective impairment allowance established to cover losses which have been incurred but they have not yet been identified as loans subject to individual assessment or for groups of loans that are not considered individually significant.

Specific impairment allowances	Total € 000	Manufacturing € 000	Tourism € 000	Trade € 000	Property and construction € 000	Personal, professional and home loans € 000	Financial institutions € 000	Other sectors € 000
At 1 January 2015	13,493	569	874	1,442	9,152	1,195	5	256
Additions	3,631	185	76	215	2,453	409	63	230
Reversals	(932)	(40)	-	(242)	(432)	(161)	-	(57)
At 31 December 2015	16,192	714	950	1,415	11,173	1,443	68	429

Collective impairment allowances	Total € 000	Manufacturing € 000	Tourism € 000	Trade € 000	Property and construction € 000	Personal, professional and home loans € 000	Financial institutions € 000	Other sectors € 000
At 1 January 2015	3,629	30	143	727	1,170	1,260	58	241
Additions	1,317	21	671	-	-	368	-	257
Reversals	(947)	-	-	(268)	(636)	-	(43)	-
At 31 December 2015	3,999	51	814	459	534	1,628	15	498

2.5.5 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.

3 Market risk

The Bank takes on exposure to market risk, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices such as interest rates, credit spreads, foreign exchange rates and equity prices.



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For the year ended 31 December 2015

3 **Market risk** *(continued)*

Accordingly, market risk for the Bank consists of three elements:

- Interest rate risk, which is the risk of losses because of changes in interest rates;
- Exchange rate risk, which is the risk of losses on the Bank's positions in foreign currency because of changes in exchange rates; and
- Equity price risk, which is the risk of losses because of changes in investment prices.

3.1 *Interest rate risk*

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to 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 re-price at different times or at different amounts. The Bank accepts deposits from customers at both fixed and floating rates and for varying maturity periods. This risk is managed through the matching of the interest resetting on re-pricing dates on assets and liabilities as much as it is practicable. The Bank monitors on a continuous basis the level of mismatch of interest rate re-pricing taking cognisance of the terms of the Bank's principal assets, comprising loans and advances to customers, that are repriceable at the Bank's discretion. Accordingly the Bank is in a position to manage the interest rate terms of its financial assets and simultaneously modify the interest terms of its liabilities. The Bank seeks to manage its net interest spread, taking cognisance of the cost of capital, by investing funds in a portfolio of loans and advances and securities with a longer tenure than the funding liabilities (therefore normally giving risk to a negative maturity gap position) through the effective management of shorter term deposit liabilities with a view to securing steady base deposits with differing terms over the medium to longer term.

Interest rate risk is managed principally through monitoring interest rate gaps and by having pre-approved limits for re-pricing bands which are set by ALCO. ALCO is the monitoring body for compliance with these limits and is assisted by Treasury through its day-to-day operational activities. The management of interest rate risk against interest rate gap limits is supplemented by monitoring the sensitivity of the Bank's financial assets and liabilities to interest rate movements.

Accordingly, the Bank's ALCO is primarily responsible for the interest rate risk management process and for monitoring actively the interest rate risk measures utilised by the Bank. Reporting of interest rate risk measures exposures vis-à-vis limits flows to the ALCO and Board on a regular systematic basis. The Bank's independent risk management function provides oversight in respect of the interest rate risk management process ensuring that it is designed in an appropriate manner and is functioning properly.

The Bank's re-pricing gaps at 31 December 2015 are disclosed in the tables within note 2.4.1 to the financial statements. The measures applied for the monitoring of the fair value sensitivity of the fixed rate instruments and the cash flow sensitivity for variable rate instruments are disclosed within notes 2.4.3 and 2.4.4 to the financial statements.

3.2 *Currency risk*

The Bank takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. Foreign exchange risk is the risk to earnings and value caused by a change in foreign exchange rates. Foreign exchange risk arises when financial assets or liabilities are denominated in currencies which are different from the Bank's functional currency.

The Bank manages this risk principally by ensuring that its foreign currency denominated liabilities are matched with corresponding assets in the same currency.



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3 Market risk (continued)

Accordingly, foreign currency liabilities are utilised to fund assets denominated in the same foreign currency thereby matching asset and liability positions as much as is practicable. This mechanism is reflected in the figures reported in the table below which presents this matching process.

The Bank's foreign exchange risks are managed actively and monitored by the Treasury function, which process ensures that the Bank maintains its exposure to foreign currencies within prescribed limits set by the Bank's ALCO. ALCO sets limits on the level of exposure by currency and in aggregate for both overnight and intra-day positions which are monitored on a real-time basis. Reporting of exposures vis-à-vis limits flows to the ALCO and Board on a regular systematic basis. The Bank's independent risk management function is responsible for assuring that the foreign exchange risk management process is designed in an appropriate manner and is functioning effectively.

The Bank enters into forward foreign currency exchange contracts with customers in the normal course of its business. Generally, it is the Bank's policy to cover these contracts by other forward positions. As a result, the Bank is not open to any significant exchange risk in respect of derivative contracts. The Bank also takes a deposit margin of the nominal value from the customer thereby reducing its credit risk should the client default. The Bank had no open forward foreign currency contracts at the end of the reporting period.

The following table summarises the Bank's net exchange position by currency taking into account the Bank's financial assets and liabilities as well as off-balance sheet instruments exposing the Bank to foreign exchange risk.

Bank

	Total € 000	EUR € 000	GBP € 000	USD € 000	Other € 000
At 31 December 2015					
Financial assets					
Balances with Central Bank of Malta, treasury bills and cash	115,377	39,639	28,725	46,973	40
Investments classified as available-for-sale	72,465	72,434	-	31	-
Loans and advances to banks	225,546	179,677	40,882	3,087	1,900
Loans and advances to customers	306,572	299,129	1,565	4,224	1,654
Other assets	5,120	5,071	27	22	-
Total financial assets	725,080	595,950	71,199	54,337	3,594
Financial liabilities					
Amounts owed to banks	1,059	200	-	-	859
Amounts owed to customers	654,316	528,195	70,008	53,386	2,727
Other liabilities	16,026	14,375	1,188	441	22
Total financial liabilities	671,401	542,770	71,196	53,827	3,608
Net currency exposure in financial assets/liabilities		53,180	3	510	(14)
Commitments and contingent liabilities	114,404	114,161	11	232	-



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Additional Regulatory Disclosures

For the year ended 31 December 2015

3 **Market risk** *(continued)*

3.3 *Equity price risk*

The exposure of the Bank to this risk is not significant given the low holdings of equity instruments by the Bank, which are not deemed material in the context of the Bank's statement of financial position. Such holdings are limited to locally quoted equity instruments issued by local well known corporate issuers. Frequent management reviews are carried out to obtain comfort on the high quality of the portfolio.

4 **Liquidity risk**

4.1 *Management of 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 ultimately preventing the Bank from meeting its obligations.

Liquidity risk may result from an 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.

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 ought to manage its net interest spread by investing funds in a portfolio of assets with a longer term than the liabilities funding them. To mitigate exposures arising in this respect, the Bank holds significant liquid assets in the form of Malta Government treasury bills, 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 maintains internal liquidity buffers established by ALCO made up of cash and financial assets which are also eligible for collateral against borrowing from the European Central Bank. In order to ensure that maturing funds are always available to meet unexpected demand for cash, the Board sets parameters within which maturities of assets and liabilities may be mismatched in line with the stance referred to previously. Unmatched positions potentially enhance profitability, but also increase risks. The Bank's ALCO focuses on the entity's management process with respect to market and funding liquidity risks. ALCO maintains ongoing oversight of forecast and actual cash flows, by monitoring the availability of funds to meet commitments associated with financial instruments. ALCO is supported by the Bank's Executive Team and Treasury function in this respect, at operational level. ALCO monitors the Bank's Liquidity Gap analysis on a monthly basis. The Bank's liquidity management process comprises management of day-to-day funding, by monitoring future cash flows to ensure that requirements can be met and that funds are replenished as they mature or are borrowed by customers. This implies a structured ongoing analysis of the contractual maturity of the financial liabilities and the expected collection date of the financial assets. The Bank's liquidity management focuses on maintaining a portfolio of highly marketable assets, subject to pre-established limits, that can easily be liquidated in case of any unforeseen interruption to cash flow; and monitoring the liquidity ratios of the Bank against internal and regulatory requirements.



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Additional Regulatory Disclosures

For the year ended 31 December 2015

4 **Liquidity risk** *(continued)*

In this respect, the Bank's advances-to-deposit ratio of 47.0% at the end of the reporting period reflects management's prudent stance in the context of liquidity management. Also, the proportion of liquid-assets to short-term liabilities at 31 December 2015 is 76.3%, which is significantly higher than the prudential parameters set by the MFSA.

Reporting of measures of liquidity risk and liquidity ratios vis-à-vis internal limits flows to the ALCO and Board on a regular basis. The Bank's risk management function provides oversight in respect of the liquidity risk management process ensuring that it is functioning effectively.

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.

As at 31 December 2015, the Bank had outstanding guarantees on behalf of third parties amounting to €6,508,000, which are cancellable upon the request of the third parties. The Bank's liquidity exposures arising from these commitments and contingencies are expected to expire principally within a period of twelve months from the end of the reporting period.

5 **Operational risk**

Operational risk is the risk of damage resulting from the lack of skilful management or good governance within the Bank and the inadequacy of internal 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. Operational risk is also addressed through proper insurance cover.

Operational risk management relies on a framework of policies and procedures implemented by the different operational functions within the Bank through transaction processing and business execution. Regular reporting of operational risk events to the Board of Directors is carried out as required. The implementation of such policies and procedures by the Bank's operational functions is overseen by the Risk Management function.

The Bank currently uses the Basic Indicator Approach to assess the operational risk capital requirements and accordingly allocates 15% of average gross income for a three year period in accordance with regulatory requirements. The operational risk capital regulatory requirement as at December 2015 amounted to €2,717,000.

6 **Capital risk management**

The Bank is a licensed credit institution and must therefore comply with the capital requirements under the relevant capital requirements within laws and regulations. Maltese law and regulations on capital adequacy are naturally based on EU capital requirements.

The prudent and efficient management of capital remains one of the Bank's top priorities. The Bank must have sufficient capital to comply with regulatory capital requirements. The purpose of the Bank's capital management is to ensure an efficient use of capital in relation to risk appetite as well as business development. Capital management is managed primarily through the capital planning process that determines the optimal amount and mix of capital that should be held by the Bank, subject to regulatory limits.



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Additional Regulatory Disclosures

For the year ended 31 December 2015

6 Capital risk management *(continued)*

Capital adequacy and the use of regulatory capital are monitored regularly by the Bank's management, employing techniques based on the guidelines developed by the Basel Committee, European Union Regulations and Directives, as implemented by the MFSA for supervisory purposes. The Bank's capital management is based on the regulatory requirements established within the CRR and by local regulations which are modelled on the requisites of the CRD rules.

The Bank's Executive Team and ALCO are predominately responsible for the Bank's capital risk management process. Capital adequacy ratios together with the level and quality of Own funds are reported on a regular basis to the Board and the ALCO by the Finance function.

6.1 *Own funds*

Own funds represent the Bank's available capital and reserves for the purposes of capital adequacy. Capital adequacy is a measure of the financial strength of a bank, expressed as a ratio of its capital to its assets. The Bank adopts processes to ensure that the minimum regulatory requirements are met at all times, through the assessment of its capital resources and requirements given current financial projections. During the year ended 31 December 2015, the Bank complied with all of the externally imposed capital requirements to which it was subject.

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;
- share premium;
- retained earnings;
- reserve for general banking risks;
- other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy purposes including deductions relating to amounts pledged in favour of the Depositor Compensation Scheme and any losses in the fair valuation of available-for-sale financial assets, net of deferred taxation.

The Bank's Tier 2 capital consists of a property revaluation reserve and an investment revaluation reserve, which represent gains in the fair valuation of property and available-for-sale financial assets respectively, net of deferred taxation.



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Additional Regulatory Disclosures

For the year ended 31 December 2015

6 Capital risk management (continued)

(a) Share capital

The Bank's share capital as at 31 December 2015 is analysed as follows:

	No. of shares 000s	2015 € 000
Authorised		
Ordinary shares of 25 cent each	80,000	20,000
Issued		
Ordinary shares of 25 cent each	43,772	10,943

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.

The following table describes the terms and conditions of the ordinary share capital issued by the Bank.

Capital Instruments	Ordinary share capital and share premium
Unique Identifier	MT0000040106
Governing law(s) of the instrument	Maltese Law
<i>Regulatory treatment</i>	
Transitional CRR rules	Common Equity Tier 1
Post-transitional CRR rules	Common Equity Tier 1
Eligible at solo/(sub)-consolidated/ solo&(sub-) consolidated	Solo
Amount recognised in regulatory capital	€10,942,893
Nominal amount of instrument	€10,942,893
Nominal amounts of each share	€0.25
Accounting classification	Share capital
Issuer call subject to prior supervisory approval	No
Position in subordination hierarchy in liquidation	Subordinated to creditors and depositors
Non-compliant transitioned features	No

(b) Share premium

The share premium represents the amounts at which ordinary shares were issued in excess of their nominal value, normally arising as a result of rights issues approved by the shareholders during the Annual General Meetings. The amount is not distributable by way of dividend to shareholders.



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Additional Regulatory Disclosures

For the year ended 31 December 2015

6 Capital risk management *(continued)*

(c) Retained earnings

The retained earnings represent earnings not paid out as dividends.

Retained earnings form part of Own funds only if those profits have been verified by the Bank's independent external auditor. The Bank has demonstrated to the satisfaction of the competent authority that any foreseeable charge or dividend has been deducted from the amount of those profits.

Subsequent to the end of the reporting period, a gross dividend of 4 cents per nominal 25 cents share (net dividend of 2.6 cents for a total amount of €1,138,000) for the twelve months ended 31 December 2015 is being proposed for approval by the shareholders to be distributed either in cash or by the issue of new shares at the option of each individual shareholder. A resolution to this effect will be proposed to the Annual General Meeting. The additional shares that shareholders will subscribe to shall be eligible to be included as part of the Bank's CET1.

(d) Reserve for General Banking Risks

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', issued by the MFSA, requires banks in Malta to hold additional reserves for general banking risks in respect of non-performing loans. This reserve is required to be funded from planned dividends. As at the reporting date, this reserve amounted to €2,620,000 (representing 100% of the total estimated amount). The increase during the year under review amounted to €786,000.

(e) Property revaluation reserve

This represents the surplus arising on the revaluation of the Bank's freehold property net of related deferred tax effects. The revaluation reserve is not available for distribution.

(f) Investment revaluation reserve

This represents the cumulative net change in fair values of available-for-sale assets held by the Bank, net of related deferred tax effects.



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Additional Regulatory Disclosures

For the year ended 31 December 2015

6 Capital risk management (continued)

As described in the CRR published by the European Commission, banks are required to present 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.

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	28,689
Retained earnings	44,413
Accumulated other comprehensive income (and other reserves)	6,812
Reserve for General Banking Risks	2,620
CET1 capital before regulatory adjustments	82,534
<i>Common Equity Tier 1 (CET1) capital: regulatory adjustments</i>	
Intangible assets	(409)
Regulatory adjustments relating to unrealised gains and losses pursuant to Articles 467 and 468	(4,620)
Total regulatory adjustments to CET1	(5,029)
CET1 capital	77,505
Tier 2 capital	
Tier 2 capital before regulatory adjustments	-
<i>Tier 2 capital: regulatory adjustments</i>	
Amount to be deducted from or added to Tier 2 capital with regard to additional filters and deductions required pre CRR	4,620
Total Tier 2 capital	4,620
Total risk-weighted assets	472,158
Capital ratios	
CET1 capital	16.4%
Tier 1 capital	16.4%
Total capital	17.4%



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Additional Regulatory Disclosures

For the year ended 31 December 2015

6 Capital risk management (continued)

6.2 Capital requirements

The allocation of capital between specific operations and activities is, to a large extent, driven by optimisation of the return achieved on the capital allocated. The amount of capital allocated to each operation or activity is based primarily upon the regulatory capital, though in some cases the regulatory requirements do not reflect differing risk profiles, subject to the overall level of capital to support a particular operation or activity not falling below the minimum required for regulatory purposes. The process of allocating capital to specific operations and activities is undertaken independently of those responsible for the operation.

Although maximisation of the return on risk-adjusted capital is the principal basis used in determining how capital is allocated within the Bank to particular operations or activities, it is not the sole basis used for decision-making. Account is also taken of synergies with other operations and activities, the availability of management and other resources, and the fit of the activity with the Bank's long-term strategic objectives. The Bank's policies in respect of capital management and allocation are reviewed regularly by the Board of Directors.

The Pillar I minimum capital requirements are calculated for credit, market and operational risks. During the year, the Bank continued to use the Standardised Approach for credit risk, the Basic Method for foreign exchange risk and the Basic Indicator Approach for operational risk in order to calculate the Pillar I minimum capital requirements. For credit risk, under the Standardised Approach, risk weights are determined according to the asset class, credit risk mitigation and credit ratings provided by Fitch or by using the applicable regulatory risk weights for unrated exposures. 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 of the preceding three years.

The Total capital ratio is calculated using the definition of regulatory capital and risk-weighted assets. As required by the CRR, the minimum level of the Capital Requirements Ratio stands at 8%. The Capital Requirements Ratio expresses Own funds as a proportion of risk-weighted assets and off-balance sheet instruments for credit risk purposes, together with notional risk weighted assets in respect of operational risk and market risk. Total risk-weighted assets are determined by multiplying the capital requirements for market risk and operational risk by 12.5 (i.e. the reciprocal of the minimum capital ratio of 8%) and adding the resulting figures to the sum of risk-weighted assets for credit risk.

The Bank's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholders' return is also recognised and the Bank recognises the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position.

The Bank will be fully implementing the CRD IV capital requirements with effect from January 2019. Although it is not yet certain whether the Bank will be required to maintain an additional countercyclical capital buffer as required by the CRR, 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.

Additionally, 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.



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Additional Regulatory Disclosures

For the year ended 31 December 2015

6 Capital risk management (continued)

The Bank's capital requirements and Total capital ratio computation are as follows:

	Exposure value € 000	Risk- weighted assets € 000	Capital required € 000
At 31 December 2015			
Central governments or Central banks	170,916	-	-
Public sector entities	98	-	-
Institutions	226,343	46,704	3,736
Corporates	22,227	22,227	1,778
Retail	37,454	28,091	2,247
Secured by mortgage on immovable property	127,515	105,894	8,472
Exposures in default	28,773	30,730	2,458
Items associated with high risk	103,293	154,940	12,395
Equity exposures	19,818	19,818	1,585
Other	27,654	29,730	2,378
Credit risk	764,091	438,134	35,049
Foreign exchange risk		64	5
Operational risk		33,960	2,717
Total capital required		472,158	37,771
Own funds			
Common Equity Tier 1 capital			77,505
Tier 2 capital			4,620
Total own funds			82,125
Total capital ratio			17.4%

6.3 Internal Capital Adequacy Assessment Process (ICAAP)

The Bank considers the Internal Capital Adequacy Assessment Process (ICAAP) embedded in Pillar II as a tool that ensures the proper measurement of material risks and capital and allows for better capital management and improvements in risk management. Therefore, it facilitates a better alignment between material risks and regulatory capital in order to have better capital deployment and improvements in the risk management and mitigation techniques adopted by the Bank. The ICAAP as required by the MFSA Banking Rule BR/12: The Supervisory Review Process of Credit Institutions authorised under the Banking Act, 1994, is performed on an annual basis.

Therefore, ICAAP is a process that the Bank utilises to ensure that:

- there is adequate identification, measurement, aggregation and monitoring of the Bank's risks;
- adequate internal capital is held by the institution in relation to its risk profile; and
- the Bank uses sound risk management systems and there is the intention to develop them further.



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Additional Regulatory Disclosures

For the year ended 31 December 2015

6 Capital risk management *(continued)*

The Board and the Bank's Executive Team take overall responsibility for the conceptual design and technical details of the ICAAP document. Apart from the responsibility for the conceptual design, the Board discussed, approved, endorsed and delivered the yearly ICAAP submission. The Bank's independent risk management function is involved in the ICAAP with a view to ensuring that the process reflects and takes cognisance of the Bank's risk management activities and processes.

The ICAAP is an ongoing process which starts with defining risk strategy followed by identifying, quantifying and aggregating risks, determining risk-bearing ability, allocating capital, establishing limits and ongoing risk monitoring. The individual elements of the process are performed with varying regularity. All the activities described are examined at least once a year to ensure that they are up-to-date, adequate and also adjusted to current underlying conditions when necessary.

The process involves a quantitative assessment of individual types of risk and an assessment of the existing methods and systems for monitoring and managing risk (qualitative assessment). The risk assessment concept is based on a scoring procedure, thus providing a comprehensive overview of the risk situation of the Bank.

The basis for the quantitative implementation of the ICAAP is the risk bearing capacity calculation which demonstrates that adequate capital is in place at all times to provide sufficient cover for risks that have been entered into and which also ensures such cover is available for the future. The Bank's ICAAP is based upon a 'Pillar I Plus' approach whereby the Pillar I capital requirement for credit, market and operational requirements are supplemented by the capital allocation for other material risks not fully addressed within Pillar I. The risks considered for ICAAP include concentration, liquidity, reputational and strategic risks, interest rate risk in the banking book, and risks arising from the macroeconomic environment.

The Bank's ICAAP contains three year projections as well as the capital plan, and the Board monitors that there are adequate capital resources to support the corporate goals contained within the Bank's plan and the associated risks.

The Bank also covers Pillar II capital requirements through stress testing processes to forecast the Bank's projected capital requirements and resources in a range of stress scenarios. This enables the Bank to guarantee that it can meet its minimum regulatory capital requirements in a stressed environment. The results of the ICAAP once again show that the Bank maintains a comfortable level of excess capital and substantial liquidity that ensured the flexibility and resources needed to achieve the long-term strategic objectives of the Bank, even in situations of market stress.

7 Leverage

The CRR introduced a new regulatory supervisory tool which requires credit institutions to calculate a non-risk based leverage ratio, supplementing the risk-based capital requirements discussed above. This tool has been introduced to deter any possible build-up of excessive leverage, a main factor during the banking crisis in 2008. The leverage ratio measures the relationship between the Bank's capital resources and its total assets.

The leverage ratio is calculated on a three-month average of capital as a proportion of total exposures. 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 the deductions applied to Tier 1 capital.

The current leverage ratio regime considers initial implementation as a Pillar II measure. In this light, the Commission is expected to submit by 31 December 2016 a report on the impact and effectiveness of the leverage ratio to the European Parliament and the Council, with a view to introduce the leverage ratio as a binding measure as of 2018. In the meantime, the Bank is abiding by the minimum 3% Tier 1 leverage ratio, based on fully-transitioned Basel III standards.



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Additional Regulatory Disclosures

For the year ended 31 December 2015

7 Leverage (continued)

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

	2015 € 000
On-balance sheet exposures (excluding derivatives and SFTs)	
On-balance sheet items (excluding derivatives and SFTs, but including collateral)	759,149
Asset amounts deducted in determining Tier 1 capital	(409)
On-balance sheet exposures (excluding derivatives and SFTs)	758,740
Off-balance sheet exposures	
Off-balance sheet exposures at gross notional amount	114,404
Adjustments for conversion to credit equivalent amounts	(109,053)
Off-balance sheet exposures	5,351
Capital and Total Exposures	
Tier 1 capital	77,505
Total exposures	764,091
Leverage ratios	10.1%
Choice on transitional arrangements and amount derecognised fiduciary items	
Choice on transitional arrangements for the definition of the capital measure	Fully phased-in

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

	2015 €000
Total assets as per published financial statements	759,149
Adjustment for off-balance sheet items	5,351
Other adjustments:	
Deduction for intangible assets	(409)
Leverage ratio exposure	764,091



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Additional Regulatory Disclosures

For the year ended 31 December 2015

7 **Leverage** *(continued)*

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 and SFTs), of which:	758,740
Exposures treated as sovereigns	171,015
Institutions	226,344
Secured by mortgages on immovable property	127,515
Retail	32,846
Corporate	21,484
Exposures in default	28,772
Other exposures	150,764

8 **Remuneration policy**

Information on the Bank's remuneration policy and practices is disclosed in the Remuneration Report within the Annual Report located on page 21.

9 **Other Directorships**

In terms of Article 91 of Directive 2013/36/EU (CRD IV), directors of an institution that is significant in terms of its size, internal organisation and the nature, scope and complexity of its activities shall not hold more than one of the following combinations of directorships at the same time:

- (a) one executive directorship with two non-executive directorships;
- (b) four non-executive directorships.

According to the 'Guide to banking supervision' issued by the European Central Bank in November 2014, a credit institution will be considered significant if any one of the following conditions is met:

- the total value of its assets exceeds €30 billion or – unless the total value of its assets is below €5 billion – exceeds 20% of national GDP;
- it is one of the three most significant credit institutions established in a Member State;
- it is a recipient of direct assistance from the European Stability Mechanism; or
- the total value of its assets exceeds €5 billion and the ratio of its cross-border assets/liabilities in more than one other participating Member State to its total assets/liabilities is above 20%.

Lombard Bank Malta p.l.c. does not meet any of the above criteria, and therefore is currently not considered significant by banking supervisors. Accordingly, the Bank is exempt from the requirements of Article 91 of CRD IV.

The Bank is not disclosing the number of directorships held by the Members of the Bank's Board of Directors on the basis of materiality in terms of Article 432 of the CRR.



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Additional Regulatory Disclosures

For the year ended 31 December 2015

10 Recruitment and Diversity policy

The Bank is aware that a vigorous and professional approach to recruitment and selection of prospective members of the Board of Directors and management or other employees within the Bank helps it to attract and appoint those individuals having the necessary skills and attributes compatible with achieving the Bank's overall objectives. Thus, the Bank ensures that appointments at all levels made within the Bank are based on each individual's knowledge, skills, expertise and merit, as required by Maltese legislation and in line with policy.

The Bank undertakes a rigorous selection process for all prospective members of the Board and management together with other employees, bearing in mind the key activities, tasks and skills required for the vacant position. As part of the selection process, multiple interviews are conducted, during which the individual's knowledge, experience, skills and competency are evaluated against those of other individuals.

Bearing its objectives in mind, the Bank endeavours to appoint directors with diverse skills and expertise that allow the Board to create value for shareholders by ensuring that the specific risks pursued by the Bank as well as risks that are intrinsic to banking business are appropriately managed and mitigated within the Board's appetite. The Bank will continue to promote this diversity by recruiting the ideal individual for the vacant position, regardless of the individual's gender, race, family, disability, sexual orientation, identity or preference.



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Five Year Summary

Statements of Financial Position

As at 31 December

Group

	2015 € 000	2014 € 000	2013 € 000	2012 € 000	2011 € 000
Assets					
Balances with Central Bank of Malta, treasury bills and cash	115,884	84,311	134,596	133,641	164,175
Cheques in course of collection	475	1,656	739	1,063	456
Investments	76,246	55,077	43,554	32,669	16,328
Loans and advances to banks	229,788	185,918	73,193	46,911	35,570
Loans and advances to customers	305,891	318,742	314,773	319,864	310,354
Investment in associate	1,645	-	-	-	-
Intangible assets	1,490	1,422	1,466	1,548	1,518
Property, plant and equipment	26,931	24,574	23,229	22,915	21,373
Investment property	-	-	745	745	745
Assets classified as held for sale	1,023	1,022	417	584	111
Current tax assets	533	1,665	1,907	1,454	760
Deferred tax assets	3,318	4,764	4,016	2,998	2,572
Inventories	1,106	996	862	810	784
Trade and other receivables	8,170	5,545	6,085	5,474	8,361
Accrued income and other assets	5,043	5,835	4,259	4,568	4,847
Total assets	777,543	691,527	609,841	575,244	567,954
Equity and liabilities					
Equity					
Share capital	10,943	10,422	9,925	9,023	9,023
Share premium	17,746	17,746	17,746	17,746	17,746
Property revaluation reserve	2,420	1,978	2,045	2,043	2,043
Investment revaluation reserve	4,865	1,827	363	(301)	(36)
Reserve for General Banking Risks	2,620	1,834	1,048	-	-
Other reserves	3,247	2,690	2,775	2,721	2,556
Retained earnings	47,556	46,291	45,372	46,307	43,553
Equity attributable to equity holders of the Bank	89,397	82,788	79,274	77,539	74,885
Non-controlling interests	6,101	5,519	5,127	5,027	4,774
Total equity	95,498	88,307	84,401	82,566	79,659
Liabilities					
Derivative financial instruments	-	-	-	-	9
Amounts owed to banks	1,059	73	2,563	3,256	6,942
Amounts owed to customers	650,516	573,946	493,901	462,116	462,322
Provisions for liabilities and other charges	2,378	2,258	2,284	2,264	2,426
Current tax liabilities	346	-	-	-	-
Other liabilities	18,404	16,919	16,995	14,800	6,245
Accruals and deferred income	9,342	10,024	9,697	10,242	10,351
Total liabilities	682,045	603,220	525,440	492,678	488,295
Total equity and liabilities	777,543	691,527	609,841	575,244	567,954
Memorandum items					
Contingent liabilities	7,479	8,023	6,107	4,916	6,314
Commitments	106,925	72,115	62,887	81,232	79,470



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Five Year Summary

Income Statements

For the Year Ended 31 December

Group	2015	2014	2013	2012	2011
	€ 000	€ 000	€ 000	€ 000	€ 000
Interest receivable and similar income	20,742	23,608	24,173	23,843	24,917
Interest expense	(7,603)	(9,302)	(9,106)	(10,040)	(10,734)
Net interest income	13,139	14,306	15,067	13,803	14,183
Other operating income	29,348	26,364	23,490	23,201	22,903
Other operating charges	(31,569)	(29,812)	(27,344)	(26,582)	(23,530)
Net impairment (losses)/reversals	(3,081)	(4,618)	(4,181)	(985)	(2,231)
Profit before taxation	7,837	6,240	7,032	9,437	11,325
Income tax expense	(2,800)	(2,333)	(2,550)	(3,289)	(4,098)
Profit for the year	5,037	3,907	4,482	6,148	7,227
Attributable to:					
Equity holders of the Bank	4,382	3,362	4,094	5,719	6,593
Non-controlling interests	655	545	388	429	634
Profit for the year	5,037	3,907	4,482	6,148	7,227



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Five Year Summary

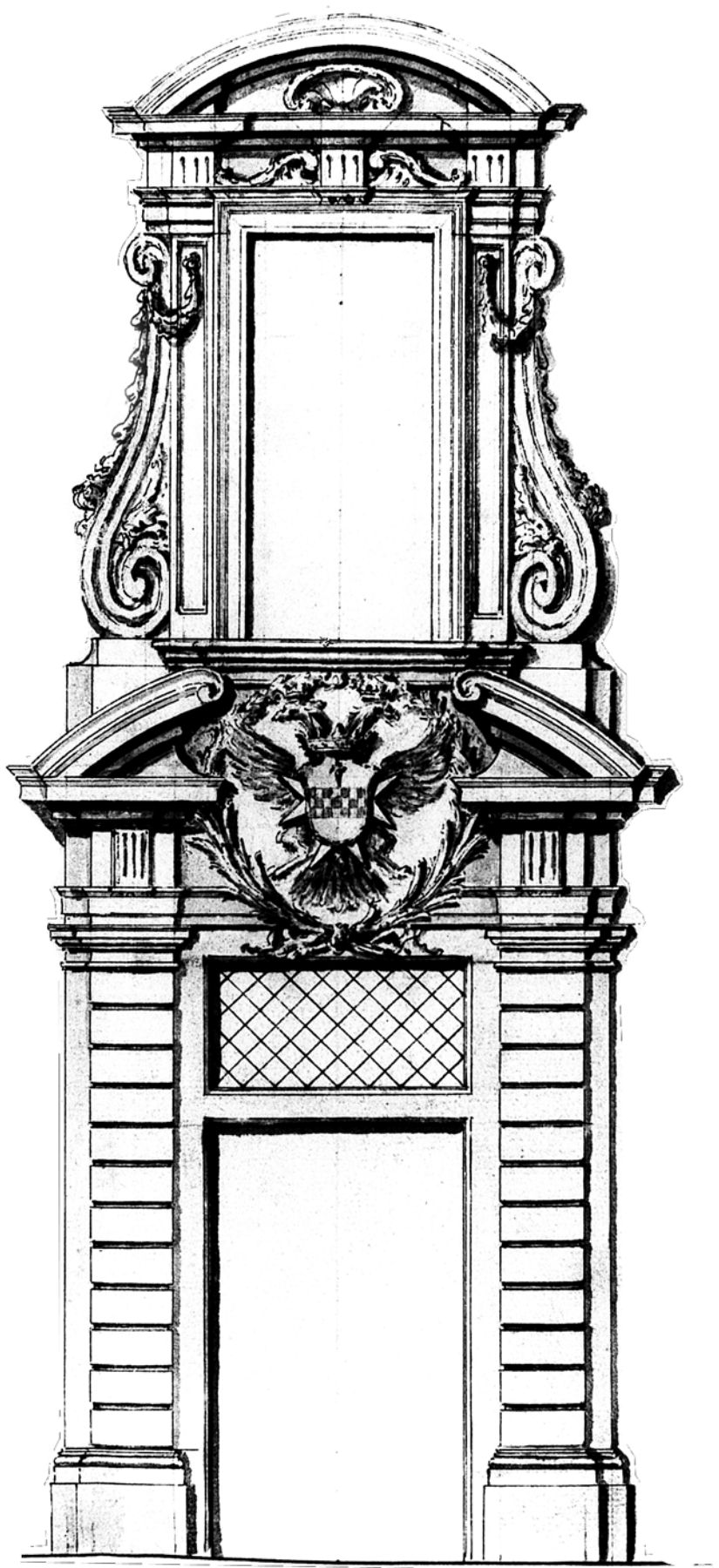
Statements of Cash Flows

For the Year Ended 31 December

Group	2015 € 000	2014 € 000	2013 € 000	2012 € 000	2011 € 000
Net cash flows from/(used in) operating activities	92,464	96,097	37,515	21,159	4,345
Cash flows from investing activities					
Dividends received	240	159	185	159	136
Interest received from investments	2,274	2,359	2,315	2,123	2,975
Proceeds on maturity/disposal of investments	2,687	2,414	1,227	1,040	31,025
Purchase of investments	(19,353)	(11,982)	(11,323)	(17,952)	-
Purchase of property, plant and equipment	(3,174)	(2,210)	(1,684)	(2,653)	(8,495)
Proceeds from disposal of property, plant and equipment	-	4	-	-	-
Acquisition of non-controlling interests	-	(44)	(270)	-	(72)
Net cash flows (used in)/from investing activities	(17,326)	(9,300)	(9,550)	(17,283)	25,569
Cash flows from financing activities					
Dividends paid to equity holders of the Bank	(1,084)	(1,032)	(2,815)	(2,698)	(2,698)
Dividends paid to non-controlling interests	(218)	(217)	(236)	(275)	(202)
Net cash flows used in financing activities	(1,302)	(1,249)	(3,051)	(2,973)	(2,900)



LOMBARD





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