annual report and financial statements 2011

annual report
and
financial statements
2011

APS bank

MISSION STATEMENT

To offer personalised financial solutions based on trust and inspired by our social commitment. Customer satisfaction, employee development, quality and innovation are the keys to our success.

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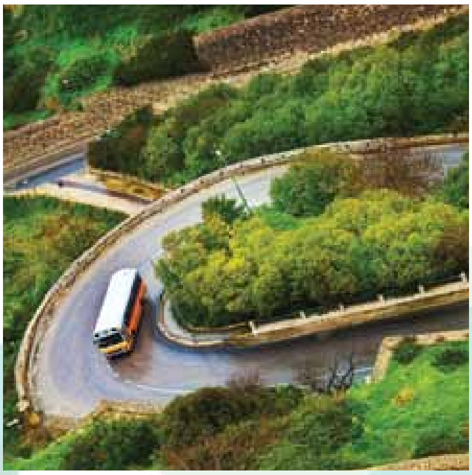
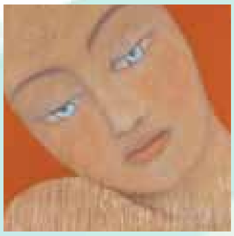






A selection of images from artistic and cultural activities organised by the Bank

BANK INFORMATION

DIRECTORS

Emanuel P. Delia M.A., M.Litt. (Oxon.), Chairman

Franco Azzopardi M.Sc. Finance (Leicester UK), F.I.A., C.P.A.

Joseph C. Caruana A.C.I.B.

Arthur Galea Salomone LL.M. (Toronto), LL.D.

Franco Masini B.A., L.P., M.Q.R.

Frederick F. Micallef M.I.M.I.S., M.B.A.

Joseph Pace Ross A.C.I.B.

COMPANY SECRETARY

Mario Felice LL.D.

CHIEF EXECUTIVE OFFICER

Edward Cachia A.C.I.B.

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Tower Street,
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CHAIRMAN'S STATEMENT

CHAIRMAN'S STATEMENT

Overall Performance

On previous occasions I have always remarked how important it is for the Bank to have the unwavering support of its shareholders if it is to fulfil its mission within the community. 2011 has shown a renewed commitment by the Bank's shareholders towards this institution as they have embarked on a three-year plan to strengthen the Bank's capital base. While part of the necessary funds will come from the Bank's own past retained earnings, our shareholders undertook to provide the Bank with €12 million in fresh funds over three years, starting in 2011.

This year's results show that social commitment is not inconsistent with profitability as in 2011 the Group's profits before tax reached €8.4 million, making this another record year in terms of earnings. Total assets rose to €814.3 million from €786.6 million, with lending increasing by €50.7 million. On the other hand, deposits have fallen slightly, decreasing by €11.9 million, but, quite expectedly, the Bank accounted for this shortfall by availing itself of other sources of funds. A more detailed analysis of the Group's performance is presented in the Directors' Report.

We are now accustomed to hearing that instability has come to characterise the European economies. The Bank believes that cooperation between all those involved is necessary to overcome the obstacles inhibiting a healthy and sustainable economic recovery. In this scenario, the Bank has continued to further its collaboration within the European Federation of Ethical and Alternative Banks (FEBEA) as well as building its bilateral relations with other similarly minded institutions. This networking process enabled the Bank to actively implement in practice its philosophy of solidarity and subsidiarity on a European Union basis, while giving rise to several initiatives in the renewable energy sector.

The other components of the Group have also continued to assist the local economy. APS Consult Limited has further developed its role as a facilitator for economic and social restructuring, bringing agents of change together to meet the objectives of efficiency, competitiveness and sustainability. We are all the time assessing the role of APS Consult Limited seeking to turn this unit into an effective contributor to social and economic development.

APS Funds SICAV plc registered once more a growth in assets under management which by end 2011 had reached €24.8 million. The company should this year further advance the Bank's social vision through the launch of an ethical fund. The choice of investments in this fund will not only be dictated by economic and financial considerations but also by 'ethical' ones. The Group will, therefore, carry out an educational campaign informing the public on the meaning and utility of 'ethical investments'.

Community Involvement

The Bank has continued to stimulate cultural and social development within the local community. The various events organised by the Bank are in themselves a reflection of its belief in social participation. None of these would have been possible without the support of other local and international participants.

Thus, in conjunction with the Malta Photographic Society, the Bank launched its second photographic competition centred on the theme of 'Green'. While the subject was thought-provoking, participation was again very encouraging as entries increased over the previous year. The Bank further sought to promote the visual arts through the organisation of the first 'APS Bank Art Exhibition'. This is a three-year programme which brings together the works of twelve Maltese artists, a mixture of renowned and emerging, in the fields of painting, ceramics and sculpture. The first four artists were presented at an exhibition held at the Bank's main offices between September and December 2011.

This year the Bank also published the 10th volume in its Occasional Papers Series. The said volume comprised a number of papers presented during the FEBEA Annual General Meeting held in Malta in 2010. It is entitled 'Microcredit as a Tool of Ethical Financing for Sustainable Development'.

The highlight of the Bank's commitment to the local cultural scene was its 10th Anniversary Concert featuring the 'Liturgical Works for St John's' written by the Maltese composer Nicolò Isouard and performed for the first time after two hundred years. Besides, to further promote Maltese musical talent, the Bank launched its Second National Music Competition for Maltese Composers. It is encouraging to note that a total of nine entries were submitted, with competitors choosing between a sacred oratorio-type work setting the Latin text of the Stabat Mater Dolorosa and a suite for orchestra on a Maltese theme. An international adjudicating panel will be presenting its results in May 2012.

Concluding Remarks

Strengthened by its corporate vision and commitment the Bank is well positioned to meet the challenges that 2012 is set to present. Once more, greater collaboration and cooperation with the diverse stakeholders, both locally as well as internationally, will prove indispensable to ensure evolution in the Group's development and another year of successful results.

Throughout 2012, we shall be examining the outcome of the Triennial Business Programme for 2010-2012, and prepare the next three-year Business Plan. We shall be seeking new areas of development and novel ways of carrying out existing programmes. Having worked steadily on the accretion of capital base and branch network, we shall continue to strengthen the human resources complement. This is a big challenge which the Group intends meeting with determination.

I take this opportunity to thank, again, our shareholders who have shown concretely their support for the Bank and its vision. My thanks go also to my colleagues on the Board, who gave their expertise and time to chart the Bank's growth strategy and see it through. A heartfelt "thank you" goes to our employees who strived to implement the Bank's plan of action. Last, but not least, I wish to thank all our clients, both those who entrusted the Bank with their savings and those who sought the Bank for funding their projects, of a personal and/or commercial / industrial nature. It was the joint collaboration of the three stakeholders that gave the results we registered in 2011 and enabled us to plan for the years ahead.

E. P. DELIA
Chairman

FINANCIAL STATEMENTS 2011

PRINCIPAL ACTIVITIES

The APS Group (the 'Group') comprises APS Bank Limited (the 'Bank') and APS Consult Limited (the 'Subsidiary'). The Group also has an associated company, APS Funds SICAV plc (the 'Associate').

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

Subsidiary

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

Associate

APS Funds SICAV plc was registered in January 2008 and is licensed as a Collective Investment scheme. Its fund has always had a very positive performance, with net assets attributable to shareholders growing by 21.6% to €24.8 million in 2011 from €20.4 million in 2010.

FINANCIAL PERFORMANCE

In 2011 the Group posted a record profit before tax of €8.4 million, an increase of 3.8% on last year's figure. This was achieved notwithstanding continued economic challenges, certain European sovereign risk concerns and sluggish volumes in many market segments. The scenario was further complicated by historically low interest rates and the prospect of significant regulatory changes.

Operations

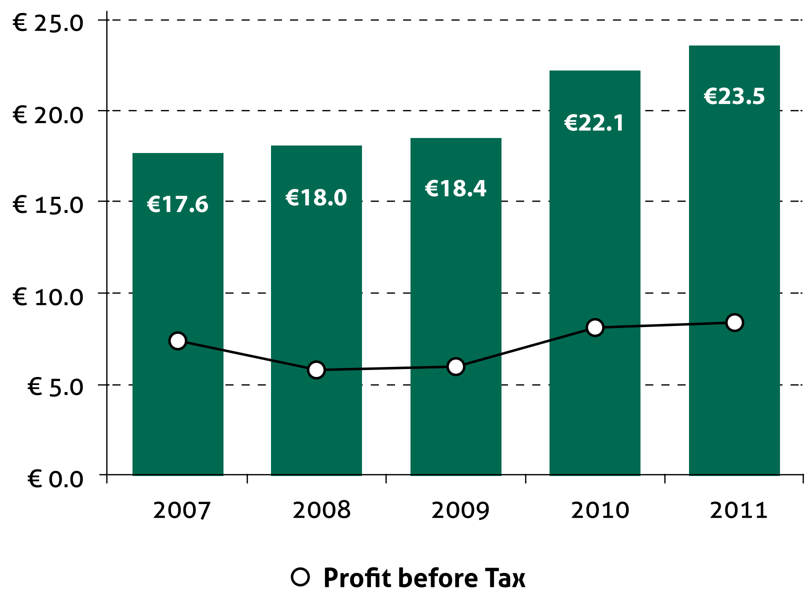
The Group reported a 6.3% increase in operating income as it rose to €23.5 million. This was mainly attributable to an improvement in net interest income which reached €20.6 million up from €19.5 million in 2010. The €1.1 million growth was largely induced by interest receivable from the lending portfolio.

Non-interest income totalled €2.9 million, an 11.5% increase over 2010, primarily due to a higher percentage of fees and commission income generated through advances and investment services. The Group has succeeded to significantly improve the investment services revenue stream, which is the main contributor to this item. Moving forward, the Group will continue to actively seek favourable opportunities to develop this line of business.

Operating expenses fell by 1.5% compared to 2010. This was primarily due to the Group improving its cost-to-income ratio by 4.3 percentage points to 54.8% by ensuring that costs decreased at the same time that income increased.

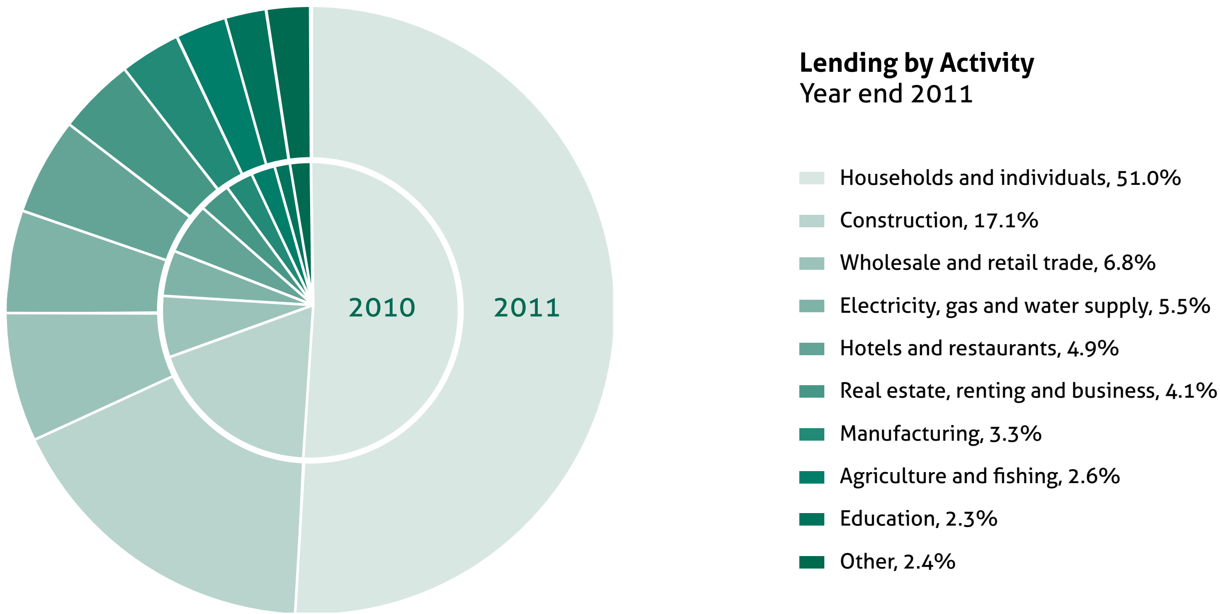
Net impairment losses for the year amounted to €2.6 million, reflecting the economic conditions throughout the year under review. To mitigate the effects of an economic situation expected to persist throughout 2012, the Group has adopted a more cautious approach in expanding its lending and debt securities portfolios.

Group Total Operating Income
(in millions)



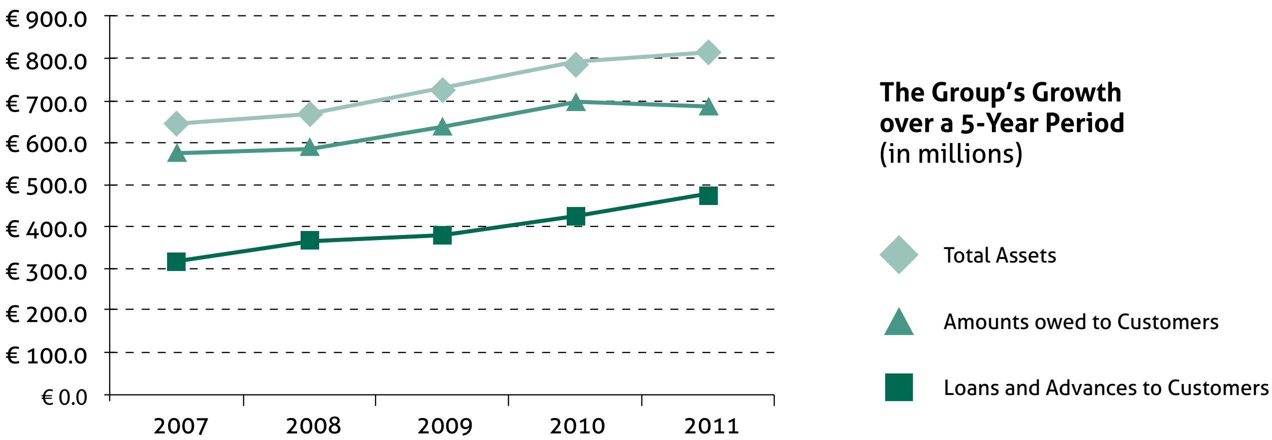
Statement of Financial Position

Total assets as at year end stood at €814.3 million, a 3.5% increase in the Group's portfolio generated mainly through lending. Lending is a fundamental part of what the Group does to support economic growth and its customers. Total lending for 2011 amounted to €473.6 million, exceeding last year's figures by 12% as the Group managed to expand its lending portfolio by €50.7 million. If considered on a sector-by-sector basis, the households and individuals sector registered the largest increase. A positive performance can also be reported as regards co-financing initiatives, notably in the renewable energy sector, with the Group strengthening its collaboration with other credit institutions. The full effect of this increase in lending was in part offset by a €29.7 million contraction in the Group's debt securities portfolio. While the Group adopted a very cautious approach as markets continued to experience instability, the backlash from an unprecedented series of downgrades could not be entirely neutralised.



Liabilities increased by €32.8 million to stand at €748.6 million. While customer deposits declined to €687.6 million, a 2% drop attributable to a more competitive market, amounts owed to credit institutions rose by €44.1 million to total €50.7 million. The Group did not take any particular action to remedy the slight decrease in customer deposit uptake, preferring instead to concentrate on a better management of its cost of funds as reflected in the Group's net interest receivable.

Financial strength remains of central importance to the Group as evidenced by a capital adequacy ratio of 16.21%. In order to support its growth strategy and in anticipation of forthcoming regulatory changes, the Group has embarked on a 3-year capital increase programme. During 2011 alone, the Group strengthened its capital base by €13.6 million: €10 million through the capitalisation of retained earnings and €3.6 million through an injection of fresh funds. It is projected that, by the end of 2013, the Group will have augmented its share capital by a further €28.4 million reaching a total of €57.6 million.



OUTLOOK

2012 is set to be one of the most challenging years faced by the Group so far as the global economy has failed to make a full recovery. The situation within Europe, and in particular the Eurozone, does not augur well. Governments are implementing public sector austerity measures to contain national deficits but risk pushing European economies into recession. The sovereign debt crisis is far from over and may yet widen itself to countries other than Greece. Regulatory requirements, particularly as regards capital held by financial institutions, will likely cause credit to contract further. Moreover, the situation within the Mediterranean region has still to normalise itself.

In this scenario the Group is set to maintain a conservative and prudent approach so as to sustain its levels of profitability and position itself to further enhance its market share. In particular, the expansion of the Group's distribution network is set to lead to a deeper market penetration.

CORPORATE GOVERNANCE

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

Board of Directors

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

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

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

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

A Statement of Directors' Responsibilities in respect of the Financial Statements is set out on Page 6.

Committees established by the board

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

The Audit Committee

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

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

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

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

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

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

Senior Executive Committee

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

Principles of business conduct

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

INTERNAL CONTROL

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

The key elements of the system are as follows:

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

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

RELATIONS WITH SHAREHOLDERS AND THE ANNUAL GENERAL MEETING

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

The Annual General Meeting is to be held on 27 April 2012.

DIRECTORS

The Directors of the Bank are listed on page VI.

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

The Companies Act, Cap. 386 of the Laws of Malta requires the Directors to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the Bank at the end of each financial year and of its profit or loss for the financial year.

The Directors are responsible for ensuring that:

- Appropriate accounting policies have been consistently applied and supported by reasonable and prudent judgments and estimates.
- Financial statements have been drawn up in accordance with International Financial Reporting Standards as adopted by the EU.
- The financial statements are prepared on the basis that the Bank must be presumed to be carrying on its business as a going concern.
- Account has been taken of income and charges relating to the accounting period, irrespective of the date of receipt or payment.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Bank and which enable them to ensure that the financial statements comply with the Companies Act, Cap. 386 and the Banking Act, Cap. 371 of the Laws of Malta. They are also responsible for safeguarding the assets of the Bank and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

During the year ended 31 December 2011, no shares in the Bank were:

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

STANDARD LICENCE CONDITIONS

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

AUDITORS

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

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

E. P. DELIA
Chairman

J. C. CARUANA
Director

5 April 2012

1. INTRODUCTION

The objective of this report is to provide information on the Group's implementation of the Basel II framework and risk assessment processes in accordance with the Pillar III requirements, as governed by Banking Rule BR/07/2011 - Publication of Annual Report and Audited Financial Statements of Credit Institutions Authorised Under the Banking Act 1994.

In line with the Banking Rules, this report is not subject to external audit, with the exception of any disclosures which are equivalent to those made in the Annual Report 2011 which adhere to International Financial Reporting Standards (IFRSs) as adopted by the EU. However, this report has been subject to comprehensive internal review and approval by the Group's Risk Management Committee (RMC) and the Board of Directors (hereafter referred to as 'the Board'). This information is published annually. The Group is satisfied that internal verification procedures to ensure that these Additional Regulatory Disclosures are presented fairly.

2. THE RISK MANAGEMENT FUNCTION

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

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

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

The following sections provide an overview of each material risk to which the Group is exposed, including the risk mitigation and capital allocation techniques adopted. The Group considers the risk of its subsidiaries to the extent that these constitute a material effect on its risk profile.

3. CREDIT RISK

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

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

3.1 Executive Committees

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

3.2 Advances Credit Criteria

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

3.3 Credit Administration and Monitoring Processes

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

3.4 Credit Limits

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

3.5 Credit Approval, Extension and Retention

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

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

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

3.6 Provisioning

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

3.7 Collateral

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

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

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

December 2011	% of gross loans & advances
Residential property	59.14
Commercial property	16.49
Cash and shares	8.42
Government guarantees	2.50

3.8 Sensitivity Testing

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

3.9 Capital Requirement

The Group adopts the Standardised Approach (as per Banking Rule BR/04/2011 - Capital Requirements of Credit Institutions Authorised Under the Banking Act 1994) for the purposes of calculating the risk-weighted exposures to credit risk. It adopts credit ratings by Standard and Poor's to establish the credit quality of all exposure classes, that is, institutions, government and corporate debt securities. The Standardised Approach is based on the assumption that the Group's portfolio is infinitely granular, as this methodology has been calibrated for internationally active banks. For this reason, the Group also allocates additional capital to cover concentration risk separately.

3.10 Concentration Risk

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

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

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

4. MARKET RISK

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchange rates and equity prices. The Group's exposure to market risk is limited since it does not trade instruments in the trading book. The Group's market risk is therefore only triggered by foreign exchange risk. This is the risk of the exposure of the Group's financial position and cash flow to adverse movements in foreign exchange rates. The Group's financial assets and liabilities are substantially held in Euro. The Board has set limits on the level of exposure by currency and in total, which are monitored regularly. The Group also ensures division of responsibilities and performs regular sensitivity testing.

5. OPERATIONAL RISK

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

6. NON-TRADING BOOK EXPOSURES IN EQUITIES

The Group has an investment of €1.9 mio in equities. The risk associated with this exposure is not considered to be material.

7. INTEREST RATE RISK IN THE BANKING BOOK

Interest rate risk is the risk of the exposure of the Group's financial condition to adverse movements in interest rates. The Group is only exposed to Interest Rate Risk in the Banking Book (IRRBB), which arises from the Group's non-trading activities. Interest duration of foreign currency deposits is hedged by assets with the same duration and in the same currencies. The net IRRBB exposure in foreign currencies is therefore immaterial.

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

The Group uses simulation modelling on a quarterly basis to monitor the sensitivity of projected net interest income for the next twelve months. The model simulates a 25 basis points parallel shift in interest rates and the impact on cash flows and the resulting income streams. The estimated impact of a decrease in interest rates by 25 basis points on all yield curves on the first day of the following month, based on the financial position as at 31 December 2011, is an increase in net interest income of €21K. On the other hand, a parallel increase in interest rates of 25 basis points is expected to result in an increase of €503K in net interest income. The parallel shift is assumed to take place on the first day of the following month, or following maturity in the case of debt securities, fixed rate loans and term deposits. The impact of interest rate movements on future income is low, as the gap between interest-sensitive assets and liabilities is narrowing.

7. INTEREST RATE RISK IN THE BANKING BOOK (continued)

The Group also monitors the impact of interest rate movements on its economic value on a quarterly basis using duration gap analysis. As at 31 December 2011, the Group assumed an extreme scenario of a 100 basis points parallel shift downwards. As a result of the Group's asset-sensitive gap, a decline in market interests by 100 basis points would result in a decline of €516K in its economic value, and vice versa.

8. LIQUIDITY RISK

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

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

The Group funds advances primarily from deposits, and has a liquidity ratio which is comfortably in excess of the minimum regulatory requirement. Moreover, the Group has a level of stable deposits which acts as a permanent source of liquidity. The Group also has a portfolio of highly marketable assets that can be easily liquidated in the event of an unforeseen requirement of cash flow.

9. REPUTATION RISK

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

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

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

10. OTHER RISKS

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

11. CAPITAL

11.1 Capital Planning

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

The Group is closely following and preparing for the new regime introduced by the Basel Committee on Banking Supervision (BCBS), Basel III, aimed at strengthening capital and liquidity requirements. This regime was adopted by the European Commission in the Capital Requirements Directive IV legislative proposals replacing the current Capital Requirements Directive.

11.2 Capital Adequacy

The Group adopts the Standardised Approach (Banking Rule BR/04/2011 – Capital Requirements of Credit Institutions Authorised Under Banking Act 1994) for the purposes of calculating its risk-weighted exposure to credit risk. The minimum regulatory capital allocation to credit risk is therefore equal to 8% of the risk-weighted exposures as at 31 December 2011.

For the purposes of allocating capital to cover foreign exchange risk, the Group adopts the Basic Method (Banking Rule BR/08/2011 – Capital Adequacy of Credit Institutions Authorised Under the Banking Act 1994). The capital allocation for foreign exchange risk is therefore equal to 8% of the higher of the sum of the Group's net short or the net long positions as at 31 December 2011.

The Group adopts the Basic Indicator Approach (Banking Rule BR/04/2011 – Capital Requirements of Credit Institutions Authorised Under Banking Act 1994) for the purposes of allocating a capital charge to cover operational risk under the Basel II framework. Under this approach a 15% charge is applied on average revenue for the previous three financial years.

31 December 2011

	Book Value €000	Risk Weighted Exposure €000	Capital Allocation €000
Standardised approach - credit risk			
Government	192,238	5,746	460
Home loans	293,411	90,970	7,278
Institutions	35,328	11,741	939
Short term claims on institutions	22,603	10,359	829
Corporate	336,336	173,806	13,904
Collective investment undertakings	10,103	5,318	425
Retail	60,402	26,616	2,129
Other	25,752	25,013	2,001
	976,173	349,569	27,965
Basic indicator approach			
Operational Risk		39,354	5,903
Basic method			
Foreign Exchange Risk		205	16
Total		**389,128**	**33,884**

Own funds analysis	
Share capital (note 29)	29,202
Share premium	1,770
Regulatory reserve	1
Retained earnings (note 32)	26,755
Deductions:	
Intangible assets (other than goodwill)	(963)
Original own funds	**56,765**
Revaluation reserves (note 31)	2,976
Collective provisions (note 3.6 of this Capital Adequacy and Risk Disclosures Report)	3,343
Additional own funds	**6,319**
Total own funds	**63,084**
Capital Adequacy Ratio	**16.21%**

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

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

11.3 Internal Capital Adequacy Assessment Process

During 2011 the Bank performed the Internal Capital Adequacy Assessment Process (ICAAP) for the third time, in compliance with the Pillar II requirements of Banking Rule BR/12/2010 – The Supervisory Review Process of Credit Institutions Authorised Under the Banking Act 1994. This process continues to be of utmost importance for keeping the Board of Directors informed on the Bank's ongoing risk assessment, the mitigation measures adopted and their impact on the capital requirements.

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

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

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

The ICAAP has once again concluded that the Bank is well capitalised. The document was reviewed in detail by the RMC and presented to the Board of Directors for approval. The Board approved the ICAAP document on 26 May 2011 which was subsequently submitted to the MFSA.

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF APS BANK LIMITED

We have audited the accompanying financial statements of APS Bank Limited ('the Bank') and its subsidiary ('the Group'), set on pages 16 to 64 which comprise the statements of financial position as at 31 December 2011 and the income statements, the statements of comprehensive income, statements of changes in equity and the statements of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements:

- give a true and fair view of the Bank's and the Group's financial position as at 31 December 2011, and of their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union; and
- have been properly prepared in accordance with the requirements of the Companies Act, Cap. 386 and the Banking Act, Cap. 371 of the Laws of Malta.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Auditors' Responsibility

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

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

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

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

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

This copy of the audit report has been signed by
Mario P. Galea for and on behalf of

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

5 April 2012

INCOME STATEMENTS
for the year ended 31 December 2011

		The Group		The Bank	
		2011	2010	**2011**	2010
	Notes	**€000**	€000	**€000**	€000
Interest receivable and similar income:					
On loans and advances, balances with the Central Bank of Malta and treasury bills	(3)	**19,689**	17,870	**19,689**	17,813
On debt securities	(3)	**15,110**	15,859	**15,110**	15,220
		34,799	33,729	**34,799**	33,033
Interest payable	(4)	**(14,158)**	(14,182)	**(14,158)**	(14,206)
Net interest income		**20,641**	19,547	**20,641**	18,827
Dividend income	(5)	**159**	287	**520**	623
Fees and commission income		**2,108**	1,712	**2,108**	1,819
Trading income	(6)	**215**	305	**215**	303
Net gains on disposal of non-trading financial instruments	(7)	**39**	59	**39**	141
Other operating income		**348**	210	**170**	149
Total operating income		**23,510**	22,120	**23,693**	21,862
Personnel expenses	(8)	**(5,796)**	(5,703)	**(5,630)**	(5,539)
Other administrative expenses	(9)	**(5,207)**	(5,349)	**(5,148)**	(5,206)
Amortisation of intangible assets	(21)	**(624)**	(763)	**(624)**	(763)
Depreciation of property and equipment	(22)	**(1,248)**	(1,260)	**(1,241)**	(1,253)
Operating profit		**10,635**	9,045	**11,050**	9,101
Share of results of associate, net of tax	(20)	**114**	-	**-**	-
Revaluation release on loss of control of subsidiary	(19)	**242**	-	**-**	-
Operating profit before impairment, reversals and provisions		**10,991**	9,045	**11,050**	9,101
Net impairment losses	(10)	**(2,633)**	(990)	**(2,625)**	(953)
Profit before tax		**8,358**	8,055	**8,425**	8,148
Income tax expense	(11)	**(2,762)**	(2,716)	**(2,762)**	(2,611)
Profit for the year		**5,596**	5,339	**5,663**	5,537

STATEMENTS OF COMPREHENSIVE INCOME
for the year ended 31 December 2011

	The Group		The Bank	
	2011	2010	**2011**	2010
	€000	€000	**€000**	€000
Profit for the year	**5,596**	5,339	**5,663**	5,537
Other comprehensive income:				
Net (loss) / gain on available-for-sale financial assets	**(4,441)**	(1,444)	**(4,441)**	(1,932)
Write-back of impairment of available-for-sale financial assets	**1,706**	-	**1,706**	-
Net (gain) / loss released on disposal of available-for-sale financial assets	**(1,315)**	(65)	**(1,315)**	(65)
Income tax relating to the components of other comprehensive income	**1,111**	710	**1,111**	710
Revaluation release on loss of control of subsidiary	**(242)**	-	**-**	-
Other comprehensive income for the year, net of tax	**(3,181)**	(799)	**(2,939)**	(1,287)
Total comprehensive income for the year, net of tax	**2,415**	4,540	**2,724**	4,250
Profit attributable to:				
Equity holders of the parent	**5,596**	5,205	**5,663**	5,537
Non-controlling interest	**-**	134	**-**	-
	5,596	5,339	**5,663**	5,537
Total comprehensive income attributable to:				
Equity holders of the parent	**2,415**	4,155	**2,724**	4,250
Non-controlling interest	**-**	385	**-**	-
	2,415	4,540	**2,724**	4,250

STATEMENTS OF FINANCIAL POSITION
as at 31 December 2011

	Notes	The Group 2011 €000	The Group 2010 €000	The Bank 2011 €000	The Bank 2010 €000
ASSETS					
Balances with Central Bank of Malta, treasury bills and cash	(13)	**6,367**	17,469	**6,367**	17,469
Cheques in course of collection		**923**	2,537	**923**	2,537
Loans and advances to banks	(14)	**22,603**	11,432	**22,603**	9,732
Loans and advances to customers	(15)	**473,649**	422,984	**473,649**	422,984
Debt and other fixed income instruments	(17)	**273,109**	302,777	**273,109**	287,548
Equity and other non-fixed income instruments	(18)	**1,940**	2,690	**1,940**	1,820
Investment in subsidiaries	(19)	**-**	-	**500**	10,387
Investment in associate	(20)	**9,894**	-	**9,887**	-
Intangible assets	(21)	**963**	1,262	**963**	1,262
Investment property		**330**	330	**330**	330
Property and equipment	(22)	**14,171**	14,765	**14,162**	14,749
Deferred tax assets	(23)	**4,271**	2,588	**4,271**	2,588
Other receivables	(24)	**6,120**	7,786	**6,052**	7,428
TOTAL ASSETS		**814,340**	786,620	**814,756**	778,834
LIABILITIES					
Amounts owed to banks	(25)	**50,677**	6,569	**50,677**	6,569
Amounts owed to customers	(26)	**687,625**	699,546	**687,646**	701,929
Other liabilities	(27)	**3,763**	2,675	**3,755**	2,672
Accruals	(28)	**6,576**	7,016	**6,565**	7,015
TOTAL LIABILITIES		**748,641**	715,806	**748,643**	718,185
EQUITY					
Share capital	(29)	**29,202**	15,600	**29,202**	15,600
Share premium	(30)	**1,770**	1,770	**1,770**	1,770
Revaluation reserve	(31)	**2,976**	6,157	**2,976**	5,915
Retained earnings	(32)	**30,690**	36,155	**31,104**	36,502
Dividend reserve		**1,061**	862	**1,061**	862
		65,699	60,544	**66,113**	60,649
Non-controlling interest		**-**	10,270	**-**	-
TOTAL EQUITY		**65,699**	70,814	**66,113**	60,649
TOTAL LIABILITIES AND EQUITY		**814,340**	786,620	**814,756**	778,834
MEMORANDUM ITEMS					
Contingent liabilities	(33)	**6,850**	5,842	**6,850**	5,842
Commitments	(34)	**152,843**	122,506	**152,843**	122,506

The financial statements on pages 16 to 64 were authorised for issue by the Board of Directors on 5 April 2012 and were signed by:

E. P. DELIA
Chairman

J. C. CARUANA
Director

E. CACHIA
Chief Executive Officer

STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2011

The Group	Issued capital €000	Share premium €000	Revaluation reserve €000	Dividend reserve €000	Retained earnings €000	Total €000	Non - Controlling interest €000	Total equity €000
	Attributable to the equity holders of the parent							
FINANCIAL YEAR ENDED 31 DECEMBER 2011								
Balance at 1 January 2011	**15,600**	**1,770**	**6,157**	**862**	**36,155**	**60,544**	**10,270**	**70,814**
Profit for the year		-	-	-	5,596	5,596	-	5,596
Other comprehensive income	-	-	(3,181)	-	-	(3,181)	-	(3,181)
Total comprehensive income	-	-	(3,181)	-	5,596	2,415	-	2,415
Increase in share capital	3,602	-	-	-	-	3,602	-	3,602
Capitalisation of retained earnings	10,000	-	-	-	(10,000)	-	-	-
Dividends paid (note 12)	-	-	-	(862)	-	(862)	-	(862)
Dividends proposed (note 12)	-	-	-	1,061	(1,061)	-	-	-
Release of non-controlling interest on loss of control of subsidiary	-	-	-	-	-	-	(10,270)	(10,270)
Balance at 31 December 2011	**29,202**	**1,770**	**2,976**	**1,061**	**30,690**	**65,699**	**-**	**65,699**
FINANCIAL YEAR ENDED 31 DECEMBER 2010								
Balance at 1 January 2010	**15,600**	**1,770**	**7,207**	**787**	**31,812**	**57,176**	**3,754**	**60,930**
Profit for the year	-	-	-	-	5,205	5,205	134	5,339
Other comprehensive income	-	-	(1,050)	-	-	(1,050)	251	(799)
Total comprehensive income	-	-	(1,050)	-	5,205	4,155	385	4,540
Dividends paid (note 12)	-	-	-	(787)	-	(787)	-	(787)
Dividends proposed (note 12)	-	-	-	862	(862)	-	-	-
Dividends of subsidiaries	-	-	-	-	-	-	(175)	(175)
Net share capital issued in subsidiary company	-	-	-	-	-	-	6,306	6,306
Balance at 31 December 2010	**15,600**	**1,770**	**6,157**	**862**	**36,155**	**60,544**	**10,270**	**70,814**

STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2011

The Bank	Issued capital €000	Share premium €000	Revaluation reserve €000	Dividend reserve €000	Retained earnings €000	Total €000
FINANCIAL YEAR ENDED 31 DECEMBER 2011						
Balance at 1 January 2011	**15,600**	**1,770**	**5,915**	**862**	**36,502**	**60,649**
Profit for the year	-	-	-	-	5,663	5,663
Other comprehensive income	-	-	(2,939)	-	-	(2,939)
Total comprehensive income	-	-	(2,939)	-	5,663	2,724
Increase in share capital	3,602	-	-	-	-	3,602
Capitalisation of retained earnings	10,000	-	-	-	(10,000)	-
Dividends paid (note 12)	-	-	-	(862)	-	(862)
Dividends proposed (note 12)	-	-	-	1,061	(1,061)	-
Balance at 31 December 2011	**29,202**	**1,770**	**2,976**	**1,061**	**31,104**	**66,113**
FINANCIAL YEAR ENDED 31 DECEMBER 2010						
Balance at 1 January 2010	**15,600**	**1,770**	**7,202**	**787**	**31,827**	**57,186**
Profit for the year	-	-	-	-	5,537	5,537
Other comprehensive income	-	-	(1,287)	-	-	(1,287)
Total comprehensive income	-	-	(1,287)	-	5,537	4,250
Dividends paid (note 12)	-	-	-	(787)	-	(787)
Dividends proposed (note 12)	-	-	-	862	(862)	-
Balance at 31 December 2010	**15,600**	**1,770**	**5,915**	**862**	**36,502**	**60,649**

STATEMENTS OF CASH FLOWS
for the year ended 31 December 2011

	Note	The Group 2011	The Group 2010	The Bank 2011	The Bank 2010
		€000	€000	**€000**	€000
OPERATING ACTIVITIES					
Interest and commission receipts		**21,340**	17,252	**21,162**	16,650
Interest and commission payments		**(14,239)**	(14,428)	**(14,239)**	(14,430)
Cash paid to employees and suppliers		**(11,712)**	(11,611)	**(11,488)**	(11,314)
Operating loss before changes in operating assets and liabilities		**(4,611)**	(8,787)	**(4,565)**	(9,094)
(Increase) / decrease in operating assets					
Loans and advances to customers		**(52,730)**	(43,033)	**(52,730)**	(43,033)
Reserve deposit with Central Bank of Malta		**9,637**	(5,447)	**9,637**	(5,447)
Cheques in course of collection		**1,614**	(700)	**1,614**	(700)
Other assets		**(39)**	(110)	**-**	(192)
(Decrease) / increase in operating liabilities					
Amounts owed to customers		**(14,215)**	60,311	**(14,283)**	62,479
Other liabilities		**(344)**	806	**(361)**	856
Cash (used in) / from operating activities before tax		**(60,688)**	3,040	**(60,688)**	4,869
Income tax paid		**(1,198)**	(1,958)	**(1,198)**	(1,866)
Net cash flows (used in) / from operating activities		**(61,886)**	1,082	**(61,886)**	3,003
INVESTING ACTIVITIES					
Dividends received		**458**	206	**458**	542
Interest income from debt securities		**16,652**	16,184	**16,652**	16,184
Purchase of held-to-maturity debt security instruments		**(4,112)**	(200)	**(4,112)**	(200)
Proceeds on maturity of held-to-maturity debt security instruments		**6,977**	3,870	**6,977**	3,870
Purchase of available-for-sale debt security instruments		**(79,756)**	(90,996)	**(79,756)**	(81,977)
Proceeds on disposal of available-for-sale debt security instruments		**87,715**	55,374	**87,715**	50,273
Purchase of equity and other non-fixed income instruments		**(735)**	-	**(735)**	-
Proceeds on disposal of equity and other non-fixed income instruments		**233**	337	**233**	337
Purchase of property and equipment		**(996)**	(1,600)	**(996)**	(1,600)
Proceeds on disposal of property and equipment		**8**	-	**8**	-
Net cash flows from / (used in) investing activities		**26,444**	(16,825)	**26,444**	(12,571)
FINANCING ACTIVITIES					
Dividends paid		**(862)**	(961)	**(862)**	(787)
Proceeds from issue of shares		**3,602**	-	**3,602**	-
Net proceeds from non-controlling interest for shares in subsidiary		**-**	6,349	**-**	-
Net cash flows from / (used in) financing activities		**2,740**	5,388	**2,740**	(787)
Net decrease in cash and cash equivalents		**(32,702)**	(10,355)	**(32,702)**	(10,355)
Cash and cash equivalents at 1 January		**8,660**	19,015	**8,660**	19,015
Cash and cash equivalents at 31 December	(35)	**(24,042)**	8,660	**(24,042)**	8,660

1. CORPORATE INFORMATION

APS Bank Group comprises APS Bank Limited and APS Consult Limited. During the year the Bank has lost control over APS Funds SICAV plc. This has been recognised as an Investment in Associate (note 20).

APS Bank Limited is registered in Malta as a limited liability company under the Companies Act, Cap. 386 of the Laws of Malta. APS Consult Limited was incorporated in June 2006. APS Funds SICAV plc was registered in January 2008.

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

2.1 BASIS OF PREPARATION

The financial statements have been prepared under the historical cost basis, except for available-for-sale investments which have been measured at fair value. The financial statements are presented in Euro (€), and all values are rounded to the nearest thousand (€1,000), except when otherwise indicated.

Statement of compliance

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

Presentation of Financial Statements

Basis of consolidation

The consolidated financial statements comprise the financial statements of APS Bank Limited and its subsidiary as at 31 December 2011, which together are referred to as the 'Group'. Intra-group balances, transactions, income and expenses between the Bank and the subsidiaries have been eliminated on consolidation. Subsidiaries are fully consolidated from the date on which the Group achieves control and continue to be consolidated until the date that such control ceases. Control is achieved where the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

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

Non-controlling interest represents the portion of profit or loss and net assets that is not held by the Group and are presented separately in the consolidated statement of comprehensive income and within equity in the consolidated statement of financial position, separately from parent shareholders' equity.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

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

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

The Group has adopted the following new and amended IFRS and IFRIC interpretations:

- IAS 24 (Amendment) Related Party Disclosures, effective 1 January 2011.
- IAS 32 (Amendment) Classification of Rights Issue, effective 1 February 2010.
- Improvements to IFRSs issued May 2010 (various effective dates).
- IFRIC 14 (Amendments) Prepayments of a Minimum Funding Requirement, effective 1 January 2011.
- IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments, effective 1 July 2010.

The adoption of the standards or interpretations above did not have an impact on the financial statements or performance of the Group.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

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

Up to the date of approval of these financial statements, certain new standards, amendments and interpretations to existing standards have been published but are not yet effective for the current reporting period and which have not been adopted early. None of these standards, interpretations and amendments are expected to have an impact on the financial position or performance of the Group. These are as follows:

IFRS 7 (Amendment) Transfer of financial assets disclosures, effective for financial years beginning on or after 1 July 2011.

This standard did not have an impact on the financial statements or performance of the Bank.

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

- IFRS 7 (Amendments) Offsetting of financial assets and financial liabilities, effective for financial years beginning on or after 1 January 2013 and IFRS 7 (Amendment) Disclosure for initial application of IFRS 9, effective for financial years beginning on or after 1 January 2015.
- IFRS 9 Financial Instruments, effective for financial years beginning on or after 1 January 2015.
- IFRS 10 Consolidated Financial Statements, effective for financial years beginning on or after 1 January 2013.
- IFRS 11 Joint Arrangements, effective for financial years beginning on or after 1 January 2013.
- IFRS 12 Disclosures of interests in other entities, effective for financial years beginning on or after 1 January 2013.
- IFRS 13 Fair Value Measurement, effective for financial years beginning on or after 1 January 2013.
- IAS 1 (Amendments) Presentation of items of other comprehensive income, effective for financial years beginning on or after 1 July 2012.
- IAS 12 (Amendments) Recovery of underlying assets, effective for financial years beginning on or after 1 January 2012.
- IAS 19 (Amendments) Employee Benefits, effective for financial years beginning on or after 1 January 2013.
- IAS 27 (Revised) Separate financial statements, effective for financial years beginning on or after 1 January 2013.
- IAS 28 (Revised) Investments in associates and joint ventures, effective for financial years beginning on or after 1 January 2013.
- IAS 32 (Amendments) Offsetting of financial assets and financial liabilities presentation, effective for financial years beginning on or after 1 January 2014.
- IFRIC 20 Stripping costs in the production phase of a surface mine, effective for financial years beginning on or after 1 January 2013.

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

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Interest income and expense

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

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

Non-interest income

Fees and commission income

Fees and commission income is accounted for in the period when receivable, except where such income is charged to cover the cost of a continuing service to, or risk borne for, the customer, or is interest in nature. In these cases, such income is recognised on an appropriate basis over the relevant period.

Dividend income

Revenue is recognised when the right to receive payment is established.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currency translation

These financial statements are presented in Euro, which is the Group's functional and presentation currency. Transactions in foreign currencies are initially recorded in the functional currency rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date, whereas non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Gains and losses arising from such foreign exchange translations are taken to profit or loss, except for gains and losses resulting from the translation of available-for-sale non-monetary assets that are recognised in equity.

Initial recognition and subsequent measurement of financial instruments

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

The classification of financial instruments depends on the purpose and the management's intention for which the financial instruments were acquired and their characteristics. All financial instruments are measured initially at their fair value plus transaction costs, except for financial assets recorded at fair value through profit or loss, where transaction costs are expensed.

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

Financial assets and financial liabilities at fair value through profit or loss are recorded in the statement of financial position at fair value. Financial assets are classified as held for trading if acquired for the purpose of selling in the near term. Changes in fair value are recognised in income.

The Group did not include any assets in this category during 2011.

Held-to-maturity financial investments

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

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

Loans and advances to banks and customers

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

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

After initial measurement, loans and receivables are subsequently measured at amortised cost using the effective interest rate method, less allowance for impairment. Gains and losses are recognised in the income statement when the financial asset is either derecognised or impaired or through the amortisation process.

Available-for-sale financial investments

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

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Initial recognition and subsequent measurement of Financial Instruments (continued)

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

After initial measurement, available-for-sale financial investments are subsequently measured at fair value. Unrealised gains and losses are recognised directly in equity in the 'Revaluation Reserve'. When the investment is disposed of, the cumulative gain or loss previously recognised in equity is recognised in the Income Statement in 'Net gains on disposal of non-trading financial instruments'. Where the Group holds more than one investment in the same security they are deemed to be disposed of on a first-in first-out basis. Interest earned whilst holding available-for-sale financial investments are recognised in the Income Statement when the 'right of the payment has been established'. The losses arising from impairment of such investments are recognised in the Income Statement in 'Impairment losses' and removed from 'Revaluation Reserve'.

Derecognition of financial assets and financial liabilities

Financial assets

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

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

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

Financial liabilities

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

Impairment of financial assets

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

Financial assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables and held-to-maturity investments carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset shall be reduced either directly or through use of an allowance account. The amount of the loss shall be recognised in profit or loss. 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 it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

Financial assets carried at amortised cost (continued)

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. Loans, together with the associated allowances, are written off when there is no realistic prospect of future recovery and all collateral has been realised or transferred to the Group.

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, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date. If a future write-off is recovered, the recovery is credited to the income statement.

Available-for-sale financial investments

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

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

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

Renegotiated loans

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

Amounts owed to banks

Financial liabilities are classified according to the substance of the contractual arrangements entered into. These are initially measured at fair value and subsequently measured at amortised cost using the effective interest rate method.

Property and equipment

All property and equipment is stated at cost less accumulated depreciation and accumulated impairment. Depreciation is calculated on the straight line basis so as to write off the cost of each asset to its residual value over its estimated useful economic life. The annual rates used for this purpose are:

	%
Building	1
Computer equipment	25
Other	5-20

Leasehold properties are amortised over the period of leases, and works of art are not depreciated.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property and equipment (continued)

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

Intangible assets

Intangible assets include the value of computer software. Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

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

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

Investment property

Investment property is stated initially at cost, including transaction costs less accumulated depreciation and accumulated impairment. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met; and excludes the costs of day to day servicing of an investment property.

Investment property is derecognised when either it has been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognised in the income statement in the period of derecognition.

The investment property value, being mainly land, is not depreciated.

Impairment of non-financial assets

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

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

Investment in subsidiaries

The investment in subsidiaries is accounted for at cost less any accumulated impairment losses.

Investment in associate

The Group

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

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment in associate (continued)

The Group (continued)

Under the equity method, the investment in the associate is carried on the statement of financial position at cost plus post acquisition changes in the Group's share of net assets of the associate. Goodwill relating to the associate is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment.

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

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

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

After application of the equity method, the Group determines whether it is necessary to recognise an additional impairment loss on its investment in its associate. The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If 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 in the 'share of results of an associate', in the income statement.

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

The Company

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

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

Dividends payable on ordinary shares

Dividends payable on ordinary shares are recognised as a liability and deducted from equity when they are approved by the Group's shareholders.

Taxation

Current income tax

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

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Deferred income tax

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

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

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

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

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

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date. Deferred income tax relating to items recognised directly in equity is recognised in equity and not in income statement. Deferred income tax assets and deferred income tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

Retirement benefit costs

The Group contributes towards the government pension defined contribution plan in accordance with local legislation and to which it has no commitment beyond the payment of fixed contributions. These obligations are recognised as an expense in the income statement as they accrue. The Group does not contribute towards any retirement benefit plans.

Financial guarantees

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

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

Cash and cash equivalents

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

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

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Other liabilities

Liabilities for other amounts payable are carried at cost which is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the Group.

Significant accounting judgments, estimates and assumptions

In the process of applying the Group's accounting policies and preparing the financial statements, management is required to make judgements, estimates and assumptions in determining the amounts recognised in the financial statements.

The most significant use of judgements and estimates is as follows:

Going Concern

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

Impairment losses on loans and advances

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

Loans and advances that have been assessed individually and found not to be impaired and all individually insignificant loans and advances, are then assessed collectively, in groups of assets with similar risk characteristics, to determine whether provision should be made due to incurred loss events for which there is objective evidence but whose effects are not yet evident. The collective assessment takes account of data from the loan portfolio (such as levels of arrears, credit utilisation, loan to collateral ratios), and judgments to the effect of concentrations of risks and economic data (including levels of unemployment, real estate price indices, country risk and the performance of different individual groups).

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

Impairment of available-for-sale investments and held to maturity investments

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

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

Deferred tax assets

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

3. INTEREST RECEIVABLE AND SIMILAR INCOME

	The Group		The Bank	
	2011	2010	**2011**	2010
	€000	€000	**€000**	€000
On loans and advances to banks	**30**	103	**30**	46
On loans and advances to customers	**19,496**	17,584	**19,496**	17,584
On balances with Central Bank of Malta	**162**	118	**162**	118
On treasury bills	**1**	65	**1**	65
	19,689	17,870	**19,689**	17,813
On debt securities	**15,969**	16,918	**15,969**	16,188
Amortisation of premium	**(859)**	(1,059)	**(859)**	(968)
	15,110	15,859	**15,110**	15,220
	34,799	33,729	**34,799**	33,033

Interest receivable on loans and advances to customers is netted off with €139,676 (2010: €111,000) in respect of interest accrued on impaired loans and advances to customers (note 15).

4. INTEREST PAYABLE

	The Group		The Bank	
	2011	2010	**2011**	2010
	€000	€000	**€000**	€000
On deposits by banks	**411**	191	**411**	191
On customer accounts	**13,747**	13,991	**13,747**	14,015
	14,158	14,182	**14,158**	14,206

5. DIVIDEND INCOME

	The Group		The Bank	
	2011	2010	**2011**	2010
	€000	€000	**€000**	€000
From equity shares	**159**	287	**520**	623

6. TRADING INCOME

	The Group		The Bank	
	2011	2010	**2011**	2010
	€000	€000	**€000**	€000
Profit on foreign exchange activities	**215**	305	**215**	303

7. NET GAINS ON DISPOSAL OF NON-TRADING FINANCIAL INSTRUMENTS

	The Group		The Bank	
	2011	2010	**2011**	2010
	€000	€000	**€000**	€000
Realised gains on disposal of available-for-sale investments	**39**	59	**39**	141

8. PERSONNEL EXPENSES

	The Group		The Bank	
	2011	2010	**2011**	2010
	€000	€000	**€000**	€000
Wages and salaries:				
- key management personnel	**347**	356	**274**	300
- other staff	**5,071**	5,001	**5,054**	4,986
- wages recharged to subsidiary at cost	**-**	-	**(70)**	(83)
Social security costs	**378**	346	**372**	336
	5,796	5,703	**5,630**	5,539

Wages and salaries in respect of key management personnel do not include long-term employment benefits, since there are none.

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

	The Group		The Bank	
	2011	2010	**2011**	2010
	Number of Employees	Number of Employees	**Number of Employees**	Number of Employees
Managerial	**41**	40	**38**	36
Supervisory and clerical	**168**	167	**169**	165
Others	**10**	10	**10**	10
	219	217	**217**	211

9. OTHER ADMINISTRATIVE EXPENSES

	The Group		The Bank	
	2011	2010	**2011**	2010
	€000	€000	**€000**	€000
Remuneration payable to the auditors for:				
- the audit of financial statements	**38**	32	**37**	30
- tax compliance services	**2**	2	**2**	2
Directors' emoluments	**123**	97	**118**	87
Insurance	**189**	140	**185**	137
Professional fees	**388**	405	**372**	384
Repairs and maintenance	**1,194**	1,110	**1,194**	1,110
Telecommunications	**344**	276	**341**	276
Office operating expenses	**1,524**	1,285	**1,524**	1,285
Others	**1,405**	2,002	**1,375**	1,895
	5,207	5,349	**5,148**	5,206

10. NET IMPAIRMENT LOSSES

	The Group		The Bank	
	2011	2010	**2011**	2010
	€000	€000	**€000**	€000
Charge for the year:				
Loans and advances to customers:				
- collective impairment (note 15)	**318**	299	**318**	299
- individual impairment	**2,243**	1,086	**2,243**	1,049
- bad debts written off	**11**	77	**3**	77
On investments:				
- provision on debt and other fixed income instruments	**(547)**	-	**(547)**	-
- write off of bonds	**1,107**	-	**1,107**	-
	3,132	1,462	**3,124**	1,425
Reversal of write-downs:				
Loans and advances to customers:				
- individual impairment	**(499)**	(472)	**(499)**	(472)
Net impairment losses	**2,633**	990	**2,625**	953

11. INCOME TAX EXPENSE

The major components of income tax expense for the years ended 31 December 2011 and 2010 are:

	The Group		The Bank	
	2011	2010	**2011**	2010
	€000	€000	**€000**	€000
Current income tax	**3,335**	3,008	**3,335**	2,903
Deferred income tax (note 23)	**(573)**	(292)	**(573)**	(292)
Income tax expense reported in the income statement	**2,762**	2,716	**2,762**	2,611

A reconciliation between tax expense and the product of accounting profit multiplied by the applicable tax rate in Malta of 35% (2010: 35%) for the years ended 31 December 2011 and 2010 is as follows:

	The Group		The Bank	
	2011	2010	**2011**	2010
	€000	€000	**€000**	€000
Profit before tax	**8,358**	8,055	**8,425**	8,148
Theoretical tax expense at 35%	**2,925**	2,819	**2,948**	2,852
Tax effect of:				
- Differences between depreciation and capital allowances	**39**	(62)	**39**	(62)
- Non-taxable income	**(82)**	40	**(105)**	(46)
- Non-deductible expenses	**3**	116	**3**	64
- Income subject to reduced rates of tax	**(119)**	(130)	**(119)**	(130)
- Over provision of prior year tax	**-**	(20)	**-**	(20)
- Current year tax losses surrendered by a group company	**(16)**	(56)	**(16)**	(56)
- Others	**12**	9	**12**	9
Income tax expense	**2,762**	2,716	**2,762**	2,611

12. DIVIDENDS

Disclosed and paid during the year:

	The Group		The Bank	
	2011	2010	**2011**	2010
	€000	€000	**€000**	€000
Dividends on ordinary shares:				
Final gross of income tax for 2010: 4.75 cents per share (2009: 3.31 cents per share)	**1,235**	861	**1,235**	861
Final net of income tax for 2010: 3.32 cents per share (2009: 3.03 cents per share)	**862**	787	**862**	787

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

	The Group		The Bank	
	2011	2010	**2011**	2010
	€000	€000	**€000**	€000
Proposed final gross of income tax for 2011: 3.73 cents per share (2010: 4.75 cents per share)	**1,195**	1,235	**1,195**	1,235
Final net of income tax for 2011: 3.32 cents per share (2010: 3.32 cents per share)	**1,061**	862	**1,061**	862

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

	The Group		The Bank	
	2011	2010	**2011**	2010
	€000	€000	**€000**	€000
Cash in hand (note 35)	**4,032**	4,420	**4,032**	4,420
Balances with Central Bank of Malta (note 35)	**-**	1,077	**-**	1,077
Reserve deposit with Central Bank of Malta (note 35)	**2,335**	11,972	**2,335**	11,972
	6,367	17,469	**6,367**	17,469

Reserve deposit with the Central Bank of Malta is held in terms of article 32 of the Central Bank of Malta Act, Cap. 204 of the Laws of Malta. Included in this balance is an amount of €935,000 (2010: €925,000) pledged in favour of the MFSA's Depositors' Compensation Scheme (note 17).

During the year and as at year end the Bank has been compliant with the reserve deposit requirement.

14. LOANS AND ADVANCES TO BANKS

	The Group		The Bank	
	2011	2010	**2011**	2010
	€000	€000	**€000**	€000
Repayable on call and at short notice (note 35)	**22,603**	9,732	**22,603**	9,732
Term loans and advances (note 35)	**-**	1,700	**-**	-
	22,603	11,432	**22,603**	9,732
Analysed by currency:				
- Euro	**18,250**	6,056	**18,250**	4,356
- Foreign	**4,353**	5,376	**4,353**	5,376
	22,603	11,432	**22,603**	9,732

15. LOANS AND ADVANCES TO CUSTOMERS

	The Group		The Bank	
	2011	2010	**2011**	2010
	€000	€000	**€000**	€000
Repayable on call and at short notice	**69,014**	66,765	**69,014**	66,765
Term loans and advances	**413,658**	363,040	**413,658**	363,040
Gross loans and advances	**482,672**	429,805	**482,672**	429,805
Less allowance for impairment losses	**(9,023)**	(6,821)	**(9,023)**	(6,821)
	473,649	422,984	**473,649**	422,984

Impairment allowance for loans and advances to customers

A reconciliation of the allowance for impairment losses for loans and advances is as follows:

	The Group		The Bank	
	2011	2010	**2011**	2010
	€000	€000	**€000**	€000
At 1 January	**6,821**	5,834	**6,821**	5,834
Charge for the year:				
- Collective (note 10)	**318**	299	**318**	299
- Individual	**1,884**	688	**1,884**	688
At 31 December	**9,023**	6,821	**9,023**	6,821

Included in the movement of the individual impairment allowance is an amount of €139,676 (2010: €111,000) in respect of accrued interest on impaired loans and advances to customers.

15. LOANS AND ADVANCES TO CUSTOMERS (continued)

Impairment allowance for loans and advances to customers (continued)

Impairment losses:

	The Group		The Bank	
	2011	2010	**2011**	2010
	€000	€000	**€000**	€000
- Individual	**5,680**	3,796	**5,680**	3,796
- Collective	**3,343**	3,025	**3,343**	3,025
	9,023	6,821	**9,023**	6,821

Gross loans and advances analysed by currency:

	The Group		The Bank	
	2011	2010	**2011**	2010
	€000	€000	**€000**	€000
- Euro	**481,361**	428,444	**481,361**	428,444
- Foreign	**1,311**	1,361	**1,311**	1,361
	482,672	429,805	**482,672**	429,805

Included with the individually assessed allowance at the reporting date is an amount of €1,315,281 (2010: €1,175,605) which has been netted-off against interest receivable.

The aggregate amount of impaired loans and advances at the reporting date amounted to €5,437,503 (2010: €5,020,077).

The collateral that the Bank holds relating to loans individually determined to be impaired consists of cash, securities, letters of guarantee and properties. For a more detailed description see 'Collateral' in note 37.3.

Collateral repossessed

During 2009 the Bank took possession of property with a carrying value of €330,000 at year end. As at 31 December 2011 and 2010 the fair value of the property which is disclosed within investment property is not significantly different to its carrying value.

16. CONCENTRATION OF LOANS AND ADVANCES TO CUSTOMERS

The following industry concentrations, gross of provisions, are considered significant:

The Group / Bank

	2011	2010
	€000	€000
Agriculture	**8,813**	8,226
Fishing	**3,879**	2,934
Mining and quarrying	**299**	1,168
Manufacturing	**16,166**	13,268
Electricity, gas and water supply	**26,698**	20,591
Construction	**82,633**	83,504
Wholesale and retail trade	**32,940**	28,044
Hotels and restaurants, excluding related construction activities	**23,554**	23,889
Transport, storage and communication	**2,143**	3,222
Financial intermediation	**603**	537
Real estate, renting and business	**19,584**	14,668
Public administration	**1,005**	2,264
Education	**11,060**	6,025
Health and social work	**1,142**	521
Community, recreational and personal service activities	**5,814**	3,492
Households and individuals	**246,339**	217,452
	482,672	429,805

17. DEBT AND OTHER FIXED INCOME INSTRUMENTS

	The Group		The Bank	
	2011	2010	2011	2010
	€000	€000	€000	€000
Held-to-maturity	**87,147**	89,438	**87,147**	89,438
Available-for-sale	**185,962**	213,339	**185,962**	198,110
	273,109	302,777	**273,109**	287,548

Held-to-maturity

Issued by public bodies:				
- Local government	**85,832**	88,935	**85,832**	88,935
Issued by other issuers:				
- Foreign others	**1,312**	500	**1,312**	500
- Local other	**3**	3	**3**	3
	1,315	503	**1,315**	503
Total	**87,147**	89,438	**87,147**	89,438

17. DEBT AND OTHER FIXED INCOME INSTRUMENTS (continued)

	The Group		The Bank	
	2011	2010	**2011**	2010
	€000	€000	**€000**	€000
Available-for-sale				
Issued by public bodies:				
- Local government	**50,380**	60,088	**50,380**	55,583
- Foreign government	**19,657**	11,533	**19,657**	12,223
	70,037	71,621	**70,037**	67,806
Issued by other issuers:				
- Local banks	**2,153**	2,941	**2,153**	1,023
- Foreign banks	**28,271**	29,037	**28,271**	27,524
- Foreign others	**79,921**	97,205	**79,921**	96,074
- Local others	**5,580**	12,535	**5,580**	5,683
	115,925	141,718	**115,925**	130,304
Total	**185,962**	213,339	**185,962**	198,110
Total debt and other fixed income instruments	**273,109**	302,777	**273,109**	287,548
Analysed by currency:				
- Euro	**223,978**	255,969	**223,978**	240,740
- Foreign	**49,131**	46,808	**49,131**	46,808
	273,109	302,777	**273,109**	287,548
Unamortised premiums on debt and other fixed income instruments	**2,807**	4,086	**2,807**	4,086
Listing status:				
- Listed on Malta Stock Exchange	**144,869**	164,502	**144,869**	151,227
- Listed elsewhere	**128,240**	138,275	**128,240**	136,321
	273,109	302,777	**273,109**	287,548

All available-for-sale debt securities are recorded at fair value except for the Bank's investment of €800,000 in Coopest SA and Merkur Bank, which are unquoted and thus recorded at cost since their fair value cannot be reliably estimated (2010: the same). There is no market for this investment and the Bank intends to hold it for the long term.

As at 31 December 2011, the Bank had Portuguese and Irish debt instruments classified as available-for-sale amounting to €3,337,353 (2010: €2,661,180) and €3,090,354 (2010: €3,011,494) respectively.

During 2011, the Bank had available-for-sale investments with a carrying amount of €912,248 which were reclassified to held-to-maturity. This equalled the expected amount to be recovered on the investment at the date of reclassification. At year-end, the carrying amount of these investments amounted to €812,500 which is also the fair value of these investments.

Debt instruments issued by the local government with a nominal value of €108,721,556 (2010: €74,539,952) have been pledged against the provision of credit lines by the Central Bank of Malta.

17. DEBT AND OTHER FIXED INCOME INSTRUMENTS (continued)

Financial assets with a nominal value of €3,935,000 (2010: €4,000,000) have been pledged in favour of the MFSA's Depositors' Compensation Scheme, as follows:

The Group / Bank

	2011	2010
	€000	€000
Deposit with Central Bank of Malta (note 13)	**935**	925
Debt instruments with local government	**3,000**	3,075
	3,935	4,000

18. EQUITY AND OTHER NON-FIXED INCOME INSTRUMENTS

Available-for-sale

	The Group		The Bank	
	2011	2010	2011	2010
	€000	€000	€000	€000
Listed on Malta Stock Exchange	**1,117**	2,588	**1,117**	1,718
Listed elsewhere	**823**	102	**823**	102
	1,940	2,690	**1,940**	1,820

All available-for-sale equities are recorded at fair value except for the Bank's investment of NOK 800,000 equivalent to €102,931 (2010: €102,344) in Cultura Sparebank, which is unquoted and thus recorded at cost since its fair value cannot be reliably estimated (2010: the same). There is no market for this investment and the Bank intends to hold it for the long term.

19. INVESTMENT IN SUBSIDIARIES

Name	Country of Incorporation	% equity interest		Cost	
		2011	2010	2011 €000	2010 €000
APS Consult Limited	**Malta**				
199,999 ordinary shares at €2.50		**99.99**	99.99	**500**	500
APS Funds SICAV plc	**Malta**				
1,199 founder shares at €1.00		**-**	99.99	**-**	1
98,853.14 units at €100.01 (2010: 98,853.14 units at €100.01)		**-**	50.05	**-**	9,886
				500	10,387

The market value of the Bank's shareholding in APS Funds SICAV plc as at 31 December 2010 amounted to €10,169,220. During the year the Bank has lost control over APS Funds SICAV plc and has been recognised as Investment in Associate (note 20).

20. INVESTMENT IN ASSOCIATE

The Bank

Name	Country of Incorporation	% equity interest 2011	% equity interest 2010	Cost 2011 €000	Cost 2010 €000
APS Funds SICAV plc	**Malta**				
1,199 founder shares at €1.00		**99.99**	-	**1**	-
98,853.14 units at €100.01		**40.36**	-	**9,886**	-
				9,887	-

The following table illustrates summarised financial information of the Group's investment in APS Funds SICAV plc:

The Group	**2011 €000**
Share of associate's statement of financial position:	
Current assets	**245**
Non-current assets	**9,803**
Current liabilities	**(32)**
Equity	**10,016**
Share of associate's revenue and profits:	
Revenue	**292**
Investment at cost	**10,140**
Share of results of associate, net of tax	**114**
Dividend distribution	**(360)**
Carrying amount of the investment	**9,894**

21. INTANGIBLE ASSETS

The Group / Bank

	Computer software €000
Cost	
At 1 January 2010	6,120
Additions	674
Disposals	-
At 31 December 2010	6,794
Additions	325
At 31 December 2011	**7,119**
Amortisation	
At 1 January 2010	4,769
Amortisation charge for the year	763
At 31 December 2010	5,532
Amortisation charge for the year	624
At 31 December 2011	**6,156**
Net book value	
At 31 December 2011	**963**
At 31 December 2010	1,262
At 1 January 2010	1,351

22. PROPERTY AND EQUIPMENT

The Group

	Land and Buildings €000	Computer Equipment €000	Other €000	Total €000
Cost				
At 1 January 2010	10,234	3,156	10,203	23,593
Additions	103	232	630	965
Disposals	-	-	(58)	(58)
At 31 December 2010	10,337	3,388	10,775	24,500
Additions	135	274	263	672
Disposals	-	(1)	(47)	(48)
At 31 December 2011	**10,472**	**3,661**	**10,991**	**25,124**
Depreciation				
At 1 January 2010	1,055	2,647	4,826	8,528
Depreciation charge for the year	139	224	897	1,260
Disposals	-	-	(53)	(53)
At 31 December 2010	1,194	2,871	5,670	9,735
Depreciation charge for the year	97	248	903	1,248
Disposals	-	-	(30)	(30)
At 31 December 2011	**1,291**	**3,119**	**6,543**	**10,953**
Net book value				
At 31 December 2011	**9,181**	**542**	**4,448**	**14,171**
At 31 December 2010	9,143	517	5,105	14,765
At 1 January 2010	9,179	509	5,377	15,065

	2011 €000	2010 €000
Future capital expenditure:		
- Authorised by the Directors but not contracted	**2,468**	3,343

22. PROPERTY AND EQUIPMENT (continued)

The Bank

	Land and Buildings €000	Computer Equipment €000	Other €000	Total €000
Cost				
At 1 January 2010	10,234	3,149	10,173	23,556
Additions	103	232	630	965
Disposals	-	-	(58)	(58)
At 31 December 2010	10,337	3,381	10,745	24,463
Additions	135	274	263	672
Disposals	-	(1)	(47)	(48)
At 31 December 2011	**10,472**	**3,654**	**10,961**	**25,087**
Depreciation				
At 1 January 2010	1,055	2,644	4,815	8,514
Depreciation charge for the year	139	222	892	1,253
Disposals	-	-	(53)	(53)
At 31 December 2010	1,194	2,866	5,654	9,714
Depreciation charge for the year	97	246	898	1,241
Disposals	-	-	(30)	(30)
At 31 December 2011	**1,291**	**3,112**	**6,522**	**10,925**
Net book value				
At 31 December 2011	**9,181**	**542**	**4,439**	**14,162**
At 31 December 2010	9,143	515	5,091	14,749
At 1 January 2010	9,179	505	5,358	15,042

	2011	2010
	€000	€000
Future capital expenditure:		
- Authorised by the Directors but not contracted	**2,468**	3,343

23. DEFERRED TAX ASSETS

Deferred income tax at 31 December relates to the following:

	The Group		The Bank	
	2011	2010	**2011**	2010
	€000	€000	**€000**	€000
Deferred income tax assets / liabilities:				
Fair value movements in investment securities	**623**	(470)	**623**	(470)
Impairment allowance for loans and advances to customers and financial assets	**3,652**	3,075	**3,652**	3,075
Excess of capital allowances over depreciation	**(4)**	(17)	**(4)**	(17)
Deferred tax assets net	**4,271**	2,588	**4,271**	2,588

Deferred tax arising on the fair value movements on investment securities, amounting to €1,111,159 was debited directly in equity (2010: €709,501); other movements, amounting to €572,604 (2010: by €291,914) were debited in the income statement (note 11).

24. OTHER RECEIVABLES

	The Group		The Bank	
	2011	2010	**2011**	2010
	€000	€000	**€000**	€000
Accrued income	**5,674**	6,819	**5,640**	6,503
Prepayments and other receivables	**446**	452	**402**	367
Amounts due from subsidiaries	**-**	-	**10**	43
Taxation	**-**	515	**-**	515
	6,120	7,786	**6,052**	7,428

25. AMOUNTS OWED TO BANKS

	The Group		The Bank	
	2011	2010	**2011**	2010
	€000	€000	**€000**	€000
With agreed maturity dates or periods of notice, by remaining maturity:				
- 3 months or less but not repayable on demand (note 35)	**50,677**	6,569	**50,677**	6,569
Analysed by currency:				
- Euro	**50,011**	6,009	**50,011**	6,009
- Foreign	**666**	560	**666**	560
	50,677	6,569	**50,677**	6,569

26. AMOUNTS OWED TO CUSTOMERS

	The Group		The Bank	
	2011	2010	**2011**	2010
	€000	€000	**€000**	€000
Term deposits	**472,318**	494,038	**472,318**	496,138
Repayable on demand	**215,307**	205,508	**215,328**	205,791
	687,625	699,546	**687,646**	701,929
Analysed by currency:				
- Euro	**632,015**	645,170	**632,036**	647,548
- Foreign	**55,610**	54,376	**55,610**	54,381
	687,625	699,546	**687,646**	701,929

27. OTHER LIABILITIES

	The Group		The Bank	
	2011	2010	**2011**	2010
	€000	€000	**€000**	€000
Other liabilities	**1,970**	2,675	**1,960**	2,640
Taxation	**1,793**	-	**1,793**	-
Amounts due to subsidiaries	**-**	-	**2**	32
	3,763	2,675	**3,755**	2,672

28. ACCRUALS

	The Group		The Bank	
	2011	2010	**2011**	2010
	€000	€000	**€000**	€000
Accrued interest payable	**4,607**	4,667	**4,607**	4,688
Other accruals	**1,969**	2,349	**1,958**	2,327
	6,576	7,016	**6,565**	7,015

29. SHARE CAPITAL

	The Group		The Bank	
	2011	2010	**2011**	2010
	€000	€000	**€000**	€000
Authorised				
125,000,000 ordinary shares of €0.60 each	**75,000**	30,000	**75,000**	30,000
(2010: 50,000,000 ordinary shares of €0.60 each)				
Issued and fully paid				
42,667,000 ordinary shares of €0.60 each	**25,600**	15,600	**25,600**	15,600
(2010: 26,000,000 ordinary shares of €0.60 each)				
Issued and 30% paid up				
20,008,000 ordinary shares of €0.60 each	**3,602**	-	**3,602**	-
	29,202	15,600	**29,202**	15,600

29. SHARE CAPITAL (continued)

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

In accordance with the Bank's Memorandum and Articles of Association, each ordinary share gives the right to one voting right, participates equally in profits distributed by the Bank and carries equal rights upon the distribution of assets by the Bank in the event of a winding up.

At an Extraordinary General Meeting held on 17 June 2011, the Bank's shareholders approved a capital increase over the period 2011 to 2013. The increase in share capital for the year 2011 was through capitalisation of retained earnings of €10,000,200 and an injection of fresh funds of €3,602,000.

30. SHARE PREMIUM

	The Group		The Bank	
	2011	2010	**2011**	2010
	€000	€000	**€000**	€000
Balance at beginning and end of year	**1,770**	1,770	**1,770**	1,770

The share premium is not available for distribution.

31. REVALUATION RESERVE

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

32. RETAINED EARNINGS

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

33. CONTINGENT LIABILITIES

	The Group		The Bank	
	2011	2010	**2011**	2010
	€000	€000	**€000**	€000
Guarantees	**6,325**	5,462	**6,325**	5,462
Other contingent liabilities	**525**	380	**525**	380
	6,850	5,842	**6,850**	5,842

The majority of contingent liabilities are backed by corresponding obligations from third parties. There were no significant law suits against the Group and the Bank as at 31 December 2011 and 31 December 2010.

34. COMMITMENTS

	The Group		The Bank	
	2011	2010	2011	**2010**
	€000	€000	€000	**€000**
Undrawn formal standby facilities, credit facilities and other commitments to lend	**152,843**	**122,506**	**152,843**	**122,506**

35. NOTE TO THE STATEMENTS OF CASH FLOWS

	The Group		The Bank	
	2011	2010	**2011**	2010
	€000	€000	**€000**	€000
Cash in hand (note 13)	**4,032**	4,420	**4,032**	4,420
Balances with Central Bank of Malta (excluding reserve deposit) (note 13)	**-**	1,077	**-**	1,077
Loans and advances to banks (repayable within 3 months) (note 14)	**22,603**	9,732	**22,603**	9,732
Amounts owed to banks (note 25)	**(50,677)**	(6,569)	**(50,677)**	(6,569)
Cash and cash equivalents included in the statements of cash flows	**(24,042)**	8,660	**(24,042)**	8,660
Balances with contractual maturity of more than three months (note 14)	**-**	1,700	**-**	-
Central Bank of Malta (reserve deposit) (note 13)	**2,335**	11,972	**2,335**	11,972
	(21,707)	22,332	**(21,707)**	20,632
Equivalent items reported in the statement of financial position:				
Balances with Central Bank of Malta, Treasury bills and cash (note 13)	**6,367**	17,469	**6,367**	17,469
Loans and advances to banks (note 14)	**22,603**	11,432	**22,603**	9,732
Amounts owed to banks (note 25)	**(50,677)**	(6,569)	**(50,677)**	(6,569)
	(21,707)	22,332	**(21,707)**	20,632

36. RELATED PARTY DISCLOSURES

The Group

Consolidated subsidiaries and associate

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

Name	Country of incorporation	% equity interest 2011	2010
APS Consult Limited	Malta	**99.99**	99.99
APS Funds SICAV plc	Malta	**40.36**	50.05

The registered office of APS Consult Limited is APS House, 20, St. Anne Square, Floriana, FRN 9020 while the registered office of APS Funds SICAV plc is APS Centre, Tower Street, Birkirkara, BKR 4012.

During the course of its normal banking business, the Bank conducts business on commercial terms with its associates, subsidiary, shareholders and key management personnel.

36. RELATED PARTY DISCLOSURES (continued)

Transactions with subsidiaries and associate

APS Bank Limited is the parent company of APS Consult Limited and has significant influence over APS Funds SICAV plc.

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

Related parties	**Year**	**Income from related parties**	**Expenses charged to / (by)related parties**	**Amounts owed by related parties**	**Amounts owed to related parties**
		€000	**€000**	**€000**	**€000**
APS Consult Limited	**2011**	**14**	**(6)**	**10**	**2**
APS Consult Limited	2010	14	(8)	6	11
APS Funds SICAV plc	**2011**	**531**	**-**	**46**	**47**
APS Funds SICAV plc	2010	510	-	37	21

Transactions with key management personnel of the Bank

(a) Transactions with directors:

The Bank enters into transactions, arrangements and agreements involving directors in the ordinary course of business at commercial interest and commission rates.

	2011	2010
	€000	€000
Loans and advances	**70**	5
Commitments	**98**	18

(b) Transactions with executives and other staff:

	2011	2010
	€000	€000
Loans and advances	**3,128**	3,171
Commitments	**226**	228

36. RELATED PARTY DISCLOSURES (continued)

Transactions with other related parties

	Balances as at 31.12.2011	**Interest receivable 2011**	Balances as at 31.12.2010	Interest receivable 2010
	€000	**€000**	€000	€000
Amounts due from other related parties:				
Individuals related to directors	**170**	**8**	244	7
Entities with common directorship	**18,346**	**572**	13,227	438
	18,516	**580**	13,471	445

The above mentioned outstanding balances represent amounts for loans and advances which arose from the ordinary course of business. The interest charged to related parties are at normal commercial rates.

	Balances as at 31.12.2011	**Interest receivable 2011**	Balances as at 31.12.2010	Interest receivable 2010
	€000	**€000**	€000	€000
Amounts due to other related parties:				
Shareholders	**19,179**	**642**	24,762	739

Included in the amounts due to the shareholders is an amount of €250,000 (2010: €250,000) which is pledged against overdraft facilities granted to third parties.

For the year ended 31 December 2011, the Bank has not made any provision for impairment of receivables relating to amounts due from related parties (2010: Nil).

37. RISK MANAGEMENT

37.1 Introduction

Risk is inherent in the Group's activities but is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Group's continuing profitability and each individual within the Group is accountable for the risk exposures relating to his or her responsibilities. The Group is exposed to credit risk, liquidity risk and market risk, the latter being subdivided into trading and non-trading risks. It is also subject to various operational risks.

The independent risk control process does not address business risks such as changes in the environment, technology and industry. The Group's policy is to monitor these business risks through its strategic planning process.

The Group did not deal with any material derivative financial instruments during the year, including forward foreign exchange contracts, currency swaps and cross-currency interest rate swaps.

37.2 Fair values

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

37. RISK MANAGEMENT (continued)

37.2 Fair values (continued)

All the Group's listed equities are carried in the statement of financial position at market value. Debt securities which are classified as available-for-sale investments are also carried in the statement of financial position at market value. However, debt securities classified as held-to-maturity investments are carried in the statement of financial position at amortised cost.

At the reporting date the amortised cost of these assets amounted to €87.1 million (2010: €89.4 million). Their market value amounted to €98.6 million (2010: €102.1 million), whilst their nominal value amounted to €88.0 million (2010: €87.7 million).

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

Amounts owed to banks and customers are mainly deposit liabilities. Of this category of liability, 81% (2010: 84%) have contractual re-pricing within one year, whilst 19% (2010: 16%) re-prices between one year and over. For demand deposits and deposits within one year, fair value is taken to be the amount payable on demand at the reporting date.

Fair value hierarchy

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

Level 1: quoted prices in active markets for identical financial instruments;

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

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

All available-for-sale financial assets held by the Group as at 31 December 2011 and 31 December 2010 are classified under level 1 in the above hierarchy except for the unquoted available-for-sale financial assets of €0.9 million (2010: the same) which are classified under level 2.

37.3 Credit risk

Credit risk is the risk that a counterparty will be unable to fulfil the terms of its obligations when due.

In view of the nature of its business, the Group's financial assets are inherently and predominately subject to credit risk. Thus, management has put in place internal control systems to evaluate, approve and monitor credit risks relating to both investments and loan portfolios.

Decisions on loans and advances to customers are subject to approval limits involving various levels of management of the Group. It is the Group's policy to establish that loans are within the customer's capacity to repay rather than to over rely on security. Nevertheless, loans and advances to customers are generally backed by security usually in the form of tangible property, personal or bank guarantees. The security held is subject to periodic review to ensure that it remains adequate and valid.

37. RISK MANAGEMENT (continued)

37.3 Credit risk (continued)

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

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

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

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

	The Group Gross Maximum Exposure		The Bank Gross Maximum Exposure	
	2011	2010	**2011**	2010
	€000	€000	**€000**	€000
Cash and balances with Central Bank of Malta (excluding cash in hand)	**2,335**	13,049	**2,335**	13,049
Cheques in course of collection	**923**	2,537	**923**	2,537
Loans and advances to banks	**22,603**	11,432	**22,603**	9,732
Loans and advances to customers	**274,682**	245,102	**274,682**	245,102
Loans and advances to corporate entities	**198,967**	177,882	**198,967**	177,882
Debt and other fixed income instruments	**273,109**	302,777	**273,109**	287,548
Equity and other non-fixed income instruments	**1,940**	2,690	**1,940**	1,820
Other receivables	**6,120**	7,786	**6,052**	7,428
Total	**780,679**	763,255	**780,611**	745,098
Credit risk exposures relating to off-balance sheet items are as follows:				
Financial guarantees	**6,850**	5,842	**6,850**	5,842
Commitments	**152,843**	122,506	**152,843**	122,506
	159,693	128,348	**159,693**	128,348

37. RISK MANAGEMENT (continued)

37.3 Credit risk (continued)

Collateral

Of the total loans and advances to customers, 87.92% (2010: 90.36%) were collateralised. The amount and type of collateral required depends on an assessment of the credit risk of the counter party. The main types of collateral obtained are as follows:

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

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

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

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

The Group

Concentration of risks

	Financial Institutions	Manu-facturing	Real Estate	Wholesale and Retail Trade	Public Sector	Other Industries	Individuals	Total
	€000	€000	€000	€000	€000	€000	€000	€000
Cash and balances with Central Bank of Malta (excluding cash in hand)	2,335	-	-	-	-	-	-	2,335
Cheques in course of collection	923	-	-	-	-	-	-	923
Loans and advances to banks	22,603	-	-	-	-	-	-	22,603
Loans and advances to customers	606	15,579	90,402	31,808	15,769	62,883	256,602	473,649
Debt and other fixed income instruments	73,013	7,744	3,100	13,388	157,437	18,427	-	273,109
Equity and other non-fixed income instruments	1,253	-	-	-	-	687	-	1,940
Other receivables	-	-	-	-	-	6,120	-	6,120
At 31 December 2011	**100,733**	**23,323**	**93,502**	**45,196**	**173,206**	**88,117**	**256,602**	**780,679**
At 31 December 2010	98,204	22,102	96,584	56,829	167,569	100,410	221,557	763,255
Financial guarantees	-	48	1,031	1,672	7	3,226	866	6,850
Commitments	-	2,613	31,657	12,342	4,091	31,123	71,017	152,843
At 31 December 2011	**-**	**2,661**	**32,688**	**14,014**	**4,098**	**34,349**	**71,883**	**159,693**
At 31 December 2010	2,029	1,484	31,958	12,803	3,123	10,736	66,215	128,348

37. RISK MANAGEMENT (continued)

37.3 Credit risk (continued)

The Bank

Concentration of risks

	Financial Institutions	Manu-faturing	Real Estate	Wholesale and Retail Trade	Public Sector	Other Industries	Individuals	Total
	€000	€000	€000	€000	€000	€000	€000	€000
Cash and balances with Central Bank of Malta (excluding cash in hand)	2,335	-	-	-	-	-	-	2,335
Cheques in course of collection	923	-	-	-	-	-	-	923
Loans and advances to banks	22,603	-	-	-	-	-	-	22,603
Loans and advances to customers	606	15,579	90,402	31,808	15,769	62,883	256,602	473,649
Debt and other fixed income instruments	73,013	7,744	3,100	13,388	157,437	18,427	-	273,109
Equity and other non-fixed income instruments	1,253	-	-	-	-	687	-	1,940
Other receivables	-	-	-	-	-	6,052	-	6,052
At 31 December 2011	**100,733**	**23,323**	**93,502**	**45,196**	**173,206**	**88,049**	**256,602**	**780,611**
At 31 December 2010	92,523	21,707	95,497	53,202	161,441	99,171	221,557	745,098
Financial guarantees	-	48	1,031	1,672	7	3,226	866	6,850
Commitments	-	2,613	31,657	12,342	4,091	31,123	71,017	152,843
As at 31 December 2011	**-**	**2,661**	**32,688**	**14,014**	**4,098**	**34,349**	**71,883**	**159,693**
At 31 December 2010	2,029	1,484	31,958	12,803	3,123	10,736	66,215	128,348

Credit quality

Debt securities and other bills by rating agencies Standard & Poor's, Moody's and Fitch, applicable in that order:

The Group

As at 31 December 2011

	Balance with CBM and Treasury bills	Debt securities	Loans and advances to banks	Total
	€000	€000	€000	€000
AAA	-	16,519	-	16,519
AA+ to AA-	-	26,386	3,141	29,527
A+ to A-	2,335	169,719	17,589	189,643
Lower than A-	-	52,981	165	53,146
Unrated	-	7,504	1,708	9,212
	2,335	**273,109**	**22,603**	**298,047**

37. RISK MANAGEMENT (continued)

37.3 Credit risk (continued)

Credit quality (continued)

	Balance with CBM and Treasury bills	Debt securities	Loans and advances to banks	Total
	€000	€000	€000	€000
As at 31 December 2010				
AAA	-	12,584	10	12,594
AA+ to AA-	-	18,156	3,510	21,666
A+ to A-	13,049	196,408	4,795	214,252
Lower than A-	-	62,561	-	62,561
Unrated	-	13,068	3,117	16,185
	13,049	**302,777**	**11,432**	**327,258**

The Bank

As at 31 December 2011

	Balance with CBM and Treasury bills	Debt securities	Loans and advances to banks	Total
	€000	€000	€000	€000
AAA	-	16,519	-	16,519
AA+ to AA-	-	26,386	3,141	29,527
A+ to A-	2,335	169,719	17,589	189,643
Lower than A-	-	52,981	165	53,146
Unrated	-	7,504	1,708	9,212
	2,335	**273,109**	**22,603**	**298,047**

As at 31 December 2010

AAA	-	12,508	10	12,518
AA+ to AA-	-	17,563	3,510	21,073
A+ to A-	13,049	189,400	4,795	207,244
Lower than A-	-	61,884	-	61,884
Unrated	-	6,193	1,417	7,610
	13,049	**287,548**	**9,732**	**310,329**

37. RISK MANAGEMENT (continued)

37.3 Credit risk (continued)

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

The following tables provide a detailed analysis of the credit quality of the Group's lending portfolio:

The Group / Bank

	2011	2010
	€000	€000
Neither past due nor impaired	430,109	377,029
Past due but not impaired	45,810	46,580
Impaired	6,753	6,196
	482,672	429,805

Analysis of loans and advances by internal credit rating

The Group / Bank

	2011	2010
	€000	€000
Regular	415,392	367,380
Watch List	10,617	15,101
Sub-Standard	16,594	12,093
Doubtful	40,069	35,231
	482,672	429,805

Analysis of financial assets that are past due but not impaired

The Group / Bank

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

	2011	2010
	€000	€000
Past due up to 29 days	2,413	4,756
Past due 30-59 days	5,730	13,864
Past due 60-89 days	11,917	11,801
Past due over 90 days	25,750	16,159
	45,810	46,580

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

Renegotiated loans and advances to customers that would otherwise be past due totalled €14,705,000 (2010: €5,079,000).

37. RISK MANAGEMENT (continued)

37.4 Liquidity risk

Liquidity risk is the risk of the exposure of the Group's mismatches of maturities in its portfolio of assets, liabilities and commitments. The Group manages this risk by matching the maturities of assets and liabilities.

To limit liquidity risk, management has arranged diversified funding sources in addition to its core deposit base, and adopted a policy of managing assets with liquidity in mind through the monitoring of future cash flows on a daily basis. The Group has also developed internal control processes and contingency plans to manage liquidity risk. This incorporates an assessment of expected cash flows and the availability of high grade collateral which could be used to secure additional funding if required. Investments are mostly quoted on local or foreign stock exchanges and therefore enjoy a high degree of marketability and liquidity.

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

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

The table below analyses the assets and liabilities into relevant maturity groupings, based on the remaining period at reporting date to the contractual maturity date:

The Group

	Less Than Three Months	Between Three Months and One Year	Between One and Five Years	More Than Five Years	Others	Total
	€000	€000	€000	€000	€000	€000
At 31 December 2011						
Assets						
Cash and balances with Central Bank of Malta	6,367	-	-	-	-	6,367
Cheques in course of collection	923	-	-	-	-	923
Loans and advances to banks	22,603	-	-	-	-	22,603
Loans and advances to customers	78,808	32,071	56,615	306,155	-	473,649
Debt and other fixed income financial instruments	3,884	9,684	161,620	97,921	-	273,109
Equity and other non-fixed income instruments	-	-	-	-	1,940	1,940
Investment in associate	-	-	-	-	9,894	9,894
Other assets	583	296	2,762	2,479	19,735	25,855
	113,168	**42,051**	**220,997**	**406,555**	**31,569**	**814,340**
Liabilities and equity						
Amounts owed to banks	50,677	-	-	-	-	50,677
Amounts owed to customers	230,612	293,868	144,566	18,579	-	687,625
Other liabilities	560	3,781	266	-	5,732	10,339
Equity	-	-	-	-	65,699	65,699
	281,849	**297,649**	**144,832**	**18,579**	**71,431**	**814,340**
Net	**(168,681)**	**(255,598)**	**76,165**	**387,976**	**(39,862)**	**-**

37. RISK MANAGEMENT (continued)

37.4 Liquidity risk (continued)

	Less Than Three Months	Between Three Months and One Year	Between One and Five Years	More Than Five Years	Others	Total
	€000	€000	€000	€000	€000	€000
At 31 December 2010						
Assets						
Cash and balances with Central Bank of Malta	17,469	-	-	-	-	17,469
Cheques in course of collection	2,537	-	-	-	-	2,537
Loans and advances to banks	11,432	-	-	-	-	11,432
Loans and advances to customers	73,601	14,770	78,265	256,348	-	422,984
Debt and other fixed income financial instruments	21,287	17,163	154,870	109,457	-	302,777
Equity and other non-fixed income instruments	-	-	-	-	2,690	2,690
Other assets	1,503	838	2,968	2,477	18,945	26,731
	127,829	**32,771**	**236,103**	**368,282**	**21,635**	**786,620**
Liabilities and equity						
Amounts owed to banks	6,569	-	-	-	-	6,569
Amounts owed to customers	394,560	194,456	108,289	2,241	-	699,546
Other liabilities	1,878	1,565	1,244	5	4,999	9,691
Equity	-	-	-	-	70,814	70,814
	403,007	**196,021**	**109,533**	**2,246**	**75,813**	**786,620**
Net	**(275,178)**	**(163,250)**	**126,570**	**366,036**	**(54,178)**	**-**

Analysis of financial liabilities by remaining contractual maturities

The table below summarises the maturity profile of the Group's financial liabilities at 31 December 2011 and 31 December 2010 based on contractual undiscounted repayment obligations:

	Less Than Three Months	Between Three Months and One Year	Between One and Five Years	More Than Five Years	Total
	€000	€000	€000	€000	€000
At 31 December 2011					
Liabilities					
Amounts owed to banks	50,677	-	-	-	50,677
Amounts owed to customers	230,639	294,248	146,950	18,579	690,416
	281,316	**294,248**	**146,950**	**18,579**	**741,093**

37. RISK MANAGEMENT (continued)

37.4 Liquidity risk (continued)

	Less Than Three Months €000	Between Three Months and One Year €000	Between One and Five Years €000	More Than Five Years €000	Total €000
At 31 December 2010					
Liabilities					
Amounts owed to banks	6,569	-	-	-	6,569
Amounts owed to customers	218,537	335,453	129,059	32,823	715,872
	225,106	**335,453**	**129,059**	**32,823**	**722,441**

The Bank

	Less Than Three Months €000	Between Three Months and One Year €000	Between One and Five Years €000	More Than Five Years €000	Others €000	Total €000
At 31 December 2011						
Assets						
Cash and balances with						
Central Bank of Malta	6,367	-	-	-	-	6,367
Cheques in course of collection	923	-	-	-	-	923
Loans and advances to banks	22,603	-	-	-	-	22,603
Loans and advances to customers	78,808	32,071	56,615	306,155	-	473,649
Debt and other fixed income						
financial instruments	3,884	9,684	161,620	97,921	-	273,109
Equity and other non-fixed income						
instruments	-	-	-	-	1,940	1,940
Investment in subsidiary	-	-	-	-	500	500
Investment in associate	-	-	-	-	9,887	9,887
Other assets	515	296	2,762	2,479	19,726	25,778
	113,100	**42,051**	**220,997**	**406,555**	**32,053**	**814,756**
Liabilities and equity						
Amounts owed to banks	50,677	-	-	-	-	50,677
Amounts owed to customers	230,633	293,868	144,566	18,579	-	687,646
Other liabilities	560	3,781	266	-	5,713	10,320
Equity	-	-	-	-	66,113	66,113
	281,870	**297,649**	**144,832**	**18,579**	**71,826**	**814,756**
Net	**(168,770)**	**(255,598)**	**76,165**	**387,976**	**(39,773)**	**-**

37. RISK MANAGEMENT (continued)

37.4 Liquidity risk (continued)

	Less Than Three Months	Between Three Months and One Year	Between One and Five Years	More Than Five Years	Others	Total
	€000	€000	€000	€000	€000	€000
At 31 December 2010						
Assets						
Cash and balances with Central Bank of Malta	17,469	-	-	-	-	17,469
Cheques in course of collection	2,537	-	-	-	-	2,537
Loans and advances to banks	9,732	-	-	-	-	9,732
Loans and advances to customers	73,601	14,770	78,265	256,348	-	422,984
Debt and other fixed income financial instruments	21,187	16,856	147,088	102,417	-	287,548
Equity and other non-fixed income instruments	-	-	-	-	1,820	1,820
Investment in subsidiaries	-	-	-	-	10,387	10,387
Other assets	1,145	838	2,968	2,477	18,929	26,357
	125,671	**32,464**	**228,321**	**361,242**	**31,136**	**778,834**
Liabilities and equity						
Amounts owed to banks	6,569	-	-	-	-	6,569
Amounts owed to customers	396,943	194,456	108,289	2,241	-	701,929
Other liabilities	1,874	1,565	1,244	5	4,999	9,687
Equity	-	-	-	-	60,649	60,649
	405,386	**196,021**	**109,533**	**2,246**	**65,648**	**778,834**
Net	**(279,715)**	**(163,557)**	**118,788**	**358,996**	**(34,512)**	**-**

Analysis of financial liabilities by remaining contractual maturities

The table below summarises the maturity profile of the Bank's financial liabilities at 31 December 2011 and 31 December 2010 based on contractual undiscounted repayment obligations:

	Less Than Three Months	Between Three Months and One Year	Between One and Five Years	More Than Five Years	Total
	€000	€000	€000	€000	€000
At 31 December 2011					
Liabilities					
Amounts owed to banks	50,677	-	-	-	50,677
Amounts owed to customers	230,660	294,248	146,950	18,579	690,437
	281,337	**294,248**	**146,950**	**18,579**	**741,114**

37. RISK MANAGEMENT (continued)

37.4 Liquidity risk (continued)

	Less Than Three Months	Between Three Months and One Year	Between One and Five Years	More Than Five Years	Total
	€000	€000	€000	€000	€000
At 31 December 2010					
Liabilities					
Amounts owed to banks	6,569	-	-	-	6,569
Amounts owed to customers	218,537	337,836	129,059	32,823	718,255
	225,106	**337,836**	**129,059**	**32,823**	**724,824**

Off – Balance sheet items

The Group / Bank

	Not Later Than One Year	
	2011	2010
	€000	€000
Loan commitments	**152,843**	122,506
Guarantees, acceptance and other financial facilities	**6,850**	5,842
	159,693	128,348

37.5 Market risk

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

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

Currency risk

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

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

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

	2011			
	USD	GBP	Other	Total
	€000	€000	€000	€000
Assets	**5,417**	**42,685**	**8,978**	**57,080**
Liabilities	**5,392**	**42,717**	**8,802**	**56,911**

37. RISK MANAGEMENT (continued)

37.5 Market risk (continued)

	2010			
	USD	GBP	Other	Total
	€000	€000	€000	€000
Assets	7,573	42,451	6,561	56,585
Liabilities	7,232	42,463	6,361	56,056

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

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or fair value of financial instruments.

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

Projected net interest income

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

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

	Increase / decrease in basis points	Effect on profit before tax €'000
2011	**+25**	**503**
	-25	**21**
2010	+25	(14)
	-25	5

Capital approach

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

	2011	2010
	€000	€000
Net effect for a twelve-month period	**516**	413

37. RISK MANAGEMENT (continued)

37.6 Operational risk

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

37.7 Capital management

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

During the current financial year, the Group continued to perform the Internal Capital Adequacy Assessment Process (ICAAP), in compliance with the Pillar II requirements of Banking Rule BR/12/2010 - The Supervisory Review Process of Credit Institutions Authorised Under the Banking Act, Cap. 371 of the Laws of Malta. The objective of the ICAAP is to inform the Board of Directors of the ongoing assessment of the Group's risks, how the Group mitigates these risks and how much capital is necessary after having considered other mitigating factors. The ICAAP demonstrated that the Group is well capitalised. This document was approved by the Board of Directors in June 2011.

In the current financial year the Group also updated the Capital Adequacy and Disclosures Report to provide detailed information on the Group's implementation of the Basel II framework and risk assessment process in accordance with the Pillar III requirements of Banking Rule BR/07/2010 – Publication of Annual Report and Audited Financial Statements of Credit Institutions Authorised Under the Banking Act, Cap. 371 of the Laws of Malta.

At an Extraordinary General Meeting held on 17 June 2011, the Bank's shareholders approved a capital increase over the period 2011 to 2013, through capitalisation of retained earnings and an injection of fresh funds. This capital increase follows a capital review exercise performed in 2010 in order to assess the adequacy of the Bank's capital base. The approved capital increase will allow the Bank to achieve its objectives of supporting its growth strategy, ensuring adequate regulatory requirements and providing fair returns to its shareholders.

The capital adequacy ratio measures the Group's own funds as a percentage of the total risk-weighted assets and off-balance sheet items. The ratio for the year under review has been prepared in compliance with the Pillar I requirements of Banking Rule BR/04/2010 – Capital Requirements of Credit Institutions Authorised Under Banking Act, Cap. 371 of the Laws of Malta. During the year under review, the Group has complied with the externally imposed capital requirements. The table below summarises the composition of regulatory capital and the ratios of the Group as at the reporting date:

37. RISK MANAGEMENT (continued)

37.7 Capital management (continued)

The Group

	2011	2010
	€000	€000
Adjusted book value:	**976,173**	917,770
Weighted amounts:		
Credit risk calculation - standardised approach		
Total assets and off-balance sheet items	**349,569**	344,008
Operational risk - basic indicator approach		
15% of the three year adjusted average operating income	**39,354**	35,141
Foreign exchange risk		
8% of the capital requirement of the net short or long position, whichever is the higher	**205**	540
Total credit, operational and foreign exchange risk	**389,128**	379,689
Own funds analysis		
Share capital	**29,202**	15,600
Share premium	**1,770**	1,770
Regulatory reserve	**1**	1
Retained earnings	**26,755**	32,155
Non-controlling interest	**-**	10,270
Deductions:		
Intangible assets (other than goodwill)	**(963)**	-
Original own funds	**56,765**	59,796
Revaluation reserve	**2,976**	6,157
Collective provisions	**3,343**	3,025
Additional own funds	**6,319**	9,182
Total own funds	**63,084**	68,978
Capital Adequacy	**16.21%**	18.17%

37. RISK MANAGEMENT (continued)

37.7 Capital management (continued)

The Bank

	2011	2010
	€000	€000
Adjusted book value:	**976,588**	909,981
Weighted amounts:		
Credit risk calculation - standardised approach		
Total assets and off-balance sheet items	**349,985**	340,268
Operational risk - basic indicator approach		
15% of the three year adjusted average operating income	**38,463**	34,510
Foreign exchange risk		
8% of the capital requirement of the net short or long position, whichever is the higher	**205**	540
Total credit, operational and foreign exchange risk	**388,653**	375,318
Own funds analysis		
Share capital	**29,202**	15,600
Share premium	**1,770**	1,770
Regulatory reserve	**1**	1
Retained earnings	**27,169**	32,502
Deductions:		
Intangible assets (other than goodwill)	**(963)**	-
Original own funds	**57,179**	49,873
Revaluation reserve	**2,976**	5,915
Collective provisions	**3,343**	3,025
Additional own funds	**6,319**	8,940
Total own funds	**63,498**	58,813
Capital Adequacy	**16.34%**	15.67%

The original own funds calculation comprises retained earnings which are adjusted to exclude the amount specified in favour of the Depositors' Compensation Scheme Reserve in line with the legislation (note 17).

INCOME STATEMENTS - FIVE YEAR SUMMARIES

The Group

	2011 €000	2010 €000	2009 €000	2008 €000	2007 €000
Interest receivable and similar income	**34,799**	33,729	31,796	36,211	33,421
Interest payable	**(14,158)**	(14,182)	(15,703)	(20,254)	(18,552)
Net interest income	**20,641**	19,547	16,093	15,957	14,869
Other operating income	**2,869**	2,573	2,353	2,054	2,721
Total operating income	**23,510**	22,120	18,446	18,011	17,590
Other operating charges	**(12,875)**	(13,075)	(11,961)	(10,543)	(9,961)
Share of results of associate, net of tax	**114**	-	-	-	-
Revaluation release on loss of control of subsidiary	**242**	-	-	-	-
Net impairment (losses) / reversals	**(2,633)**	(990)	(483)	(1,664)	(163)
Profit before tax	**8,358**	8,055	6,002	5,804	7,466
Income tax expense	**(2,762)**	(2,716)	(2,022)	(1,742)	(2,341)
Profit for the year	**5,596**	5,339	3,980	4,062	5,125

The Bank

	2011 €000	2010 €000	2009 €000	2008 €000	2007 €000
Interest receivable and similar income	**34,799**	33,033	31,172	35,801	33,421
Interest payable	**(14,158)**	(14,206)	(15,703)	(20,254)	(18,552)
Net interest income	**20,641**	18,827	15,469	15,547	14,869
Other operating income	**3,052**	3,035	2,416	2,346	2,705
Total operating income	**23,693**	21,862	17,885	17,893	17,574
Other operating charges	**(12,643)**	(12,761)	(11,666)	(10,398)	(9,930)
Net impairment (losses) / reversals	**(2,625)**	(953)	(483)	(1,664)	(163)
Profit before tax	**8,425**	8,148	5,736	5,831	7,481
Income tax expense	**(2,762)**	(2,611)	(1,947)	(1,675)	(2,341)
Profit for the year	**5,663**	5,537	3,789	4,156	5,140

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

	2011	2010	2009	2008	2007
	€000	€000	€000	€000	€000
ASSETS					
Cash, treasury bills and balances with Central Bank of Malta	**4,032**	4,420	13,684	6,688	15,759
Reserve deposit with Central Bank of Malta	**2,335**	13,049	6,525	10,387	20,801
Cheques in course of collection	**923**	2,537	1,837	1,411	1,759
Loans and advances to banks	**22,603**	11,432	28,967	8,543	21,186
Loans and advances to customers	**473,649**	422,984	380,904	368,198	315,518
Debt and other fixed income instruments	**273,109**	302,777	262,707	247,295	248,106
Equity and other non-fixed income instruments	**1,940**	2,690	2,556	1,472	2,516
Investment in associate	**9,894**	-	-	-	-
Investment property	**330**	330	330	-	-
Intangible assets	**963**	1,262	1,351	1,630	1,484
Property and equipment	**14,171**	14,765	15,065	13,303	9,028
Deferred tax assets	**4,271**	2,588	1,586	3,442	2,325
Other receivables	**6,120**	7,786	7,952	6,358	6,438
TOTAL ASSETS	**814,340**	786,620	723,464	668,727	644,920
LIABILITIES					
Amounts owed to banks	**50,677**	6,569	13,683	14,312	1,281
Amounts owed to customers	**687,625**	699,546	639,162	590,717	579,157
Subordinated liabilities	**-**	-	-	-	3,261
Other liabilities	**3,763**	2,675	3,268	2,389	4,855
Accruals and deferred income	**6,576**	7,016	6,421	9,431	7,827
TOTAL LIABILITIES	**748,641**	715,806	662,534	616,849	596,381
EQUITY					
Share capital	**29,202**	15,600	15,600	15,600	15,141
Share premium	**1,770**	1,770	1,770	1,770	1,770
Revaluation reserve	**2,976**	6,157	7,207	4,138	4,941
Retained earnings	**30,690**	36,155	31,812	28,695	25,900
Dividend reserve	**1,061**	862	787	787	787
Non-controlling interest	**-**	10,270	3,754	888	-
	65,699	70,814	60,930	51,878	48,539
TOTAL LIABILITIES AND EQUITY	**814,340**	786,620	723,464	668,727	644,920
MEMORANDUM ITEMS					
Contingent liabilities	**6,850**	5,842	4,528	5,262	54,696
Commitments	**152,843**	122,506	114,454	131,812	120,543

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

	2011	2010	2009	2008	2007
	€000	€000	€000	€000	€000
ASSETS					
Cash, treasury bills and balances with Central Bank of Malta	**4,032**	4,420	13,684	6,682	15,752
Reserve deposit with Central Bank of Malta	**2,335**	13,049	6,525	10,387	20,801
Cheques in course of collection	**923**	2,537	1,837	1,411	1,759
Loans and advances to banks	**22,603**	9,732	26,917	8,543	21,186
Loans and advances to customers	**473,649**	422,984	380,904	368,198	315,518
Debt and other fixed income instruments	**273,109**	287,548	251,885	236,529	248,106
Equity and other non-fixed income instruments	**1,940**	1,820	1,851	1,472	2,516
Investment in subsidiaries	**500**	10,387	10,387	10,387	58
Investment in associate	**9,887**	-	-	-	-
Intangible assets	**963**	1,262	1,351	1,630	1,484
Investment property	**330**	330	330	-	-
Property and equipment	**14,162**	14,749	15,042	13,278	9,028
Deferred tax assets	**4,271**	2,588	1,586	3,442	2,325
Other receivables	**6,052**	7,428	7,653	6,618	6,473
TOTAL ASSETS	**814,756**	778,834	719,952	668,577	645,006
LIABILITIES					
Amounts owed to banks	**50,677**	6,569	13,683	14,312	1,281
Amounts owed to customers	**687,646**	701,929	639,450	591,128	579,157
Subordinated liabilities	**-**	-	-	-	3,261
Other liabilities	**3,755**	2,672	3,241	2,471	4,936
Accruals and deferred income	**6,565**	7,015	6,392	9,415	7,817
TOTAL LIABILITIES	**748,643**	718,185	662,766	617,326	596,452
EQUITY					
Share capital	**29,202**	15,600	15,600	15,600	15,141
Share premium	**1,770**	1,770	1,770	1,770	1,770
Revaluation reserve	**2,976**	5,915	7,202	4,269	4,941
Retained earnings	**31,104**	36,502	31,827	28,825	25,915
Dividend reserve	**1,061**	862	787	787	787
	66,113	60,649	57,186	51,251	48,554
TOTAL LIABILITIES AND EQUITY	**814,756**	778,834	719,952	668,577	645,006
MEMORANDUM ITEMS					
Contingent liabilities	**6,850**	5,842	4,528	5,262	54,696
Commitments	**152,843**	122,506	114,454	131,812	120,543

THE GROUP'S FIVE YEAR SUMMARY - STATEMENTS OF CASH FLOWS

	2011	2010	2009	2008	2007
	€000	€000	€000	€000	€000
Net cash flows (used in) / from operating activities	**(61,886)**	1,082	13,886	(25,250)	(20,417)
Investing activities					
Dividends received	**458**	206	214	184	128
Interest income from debt securities	**16,652**	16,184	14,981	15,360	15,747
Purchase of debt and other fixed income instruments	**(83,868)**	(91,196)	(58,473)	(62,561)	(31,712)
Proceeds on maturity and disposal of debt and other fixed income instruments	**94,692**	59,244	50,297	50,809	36,401
Purchase of equity and other non-fixed income instruments	**(735)**	-	(199)	(686)	(100)
Proceeds on disposal of equity and other non-fixed income instruments	**233**	337	-	359	1,239
Purchase of property and equipment	**(996)**	(1,600)	(4,587)	(4,434)	(1,505)
Proceeds on disposal of property and equipment	**8**	-	14	13	14
Net cash flows from / (used in) investing activities	**26,444**	(16,825)	2,247	(956)	20,212
Financing activities					
Dividends paid	**(862)**	(961)	(831)	(787)	(738)
Net proceeds from non-controlling interest for shares in subsidiaries	**-**	6,349	2,794	879	-
Proceeds from issue of share capital	**3,602**	-	-	-	-
Net cash flows from / (used in) financing activities	**2,740**	5,388	1,963	92	(738)
Net decrease / (increase) in cash and cash equivalents	**(32,702)**	(10,355)	18,096	(26,114)	(943)
Cash and cash equivalents at 1 January	**8,660**	19,015	919	27,033	27,976
Cash and cash equivalents at 31 December	**(24,042)**	8,660	19,015	919	27,033

THE BANK'S FIVE YEAR SUMMARY – STATEMENTS OF CASH FLOWS

	2011 €000	2010 €000	2009 €000	2008 €000	2007 €000
Net cash flows (used in) / from operating activities	**(61,886)**	3,003	15,961	(25,243)	(20,365)
Investing activities					
Dividends received	**458**	542	357	450	128
Interest income from debt securities	**16,652**	16,184	14,981	15,360	15,747
Purchase of debt and other fixed income instruments	**(83,868)**	(82,177)	(54,889)	(49,747)	(31,712)
Proceeds on maturity and disposal of debt and other fixed income instruments	**94,692**	54,143	47,047	48,899	36,401
Purchase of equity and other non-fixed income instruments	**(735)**	-	-	(686)	(100)
Proceeds on disposal of equity and other non-fixed income instruments	**233**	337	-	359	1,239
Purchase of property and equipment	**(996)**	(1,600)	(4,582)	(4,403)	(1,505)
Proceeds on disposal of property and equipment	**8**	-	14	13	14
Investment in subsidiaries	**-**	-	-	(10,328)	-
Net cash flows from / (used in) investing activities	**26,444**	(12,571)	2,928	(83)	20,212
Financing activities					
Dividends paid	**(862)**	(787)	(787)	(787)	(738)
Proceeds from issue of shares	**3,602**	-	-	-	-
Net cash flows from / (used in) financing activities	**2,740**	(787)	(787)	(787)	(738)
Net (decrease) / increase in cash and cash equivalents	**(32,702)**	(10,355)	18,102	(26,113)	(891)
Cash and cash equivalents at 1 January	**8,660**	19,015	913	27,026	27,917
Cash and cash equivalents at 31 December	**(24,042)**	8,660	19,015	913	27,026

THE GROUP'S FIVE YEAR SUMMARY - ACCOUNTING RATIOS

	2011	2010	2009	2008	2007
	%	%	%	%	%
Net interest income and other operating income to total assets	**2.9**	2.8	2.6	2.4	2.7
Operating expenses to total assets	**1.6**	1.7	1.7	1.6	1.5
Profit before tax to total assets	**1.0**	1.0	0.8	0.9	1.2
Return on capital employed before tax *	**13.3**	12.5	11.2	12.2	17.1
Profit after tax to equity *	**8.9**	8.3	7.4	8.5	11.8

	2011	2010	2009	2008	2007
Shares in issue (thousands)	**32,002**	26,000	26,000	26,000	26,000
Net assets per share *	**196c**	249c	207c	184c	168c
Net dividends per share	**3c**	3c	3c	3c	3c
Dividend cover	**5.3**	6.2	5.1	5.2	6.5

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

THE BANK'S FIVE YEAR SUMMARY - ACCOUNTING RATIOS

	2011	2010	2009	2008	2007
	%	**%**	**%**	**%**	**%**
Net interest income and other operating income to total assets	**2.9**	2.8	2.5	2.7	2.7
Operating expenses to total assets	**1.6**	1.6	1.6	1.6	1.5
Profit before tax to total assets	**1.0**	1.05	0.8	0.9	1.2
Return on capital employed before tax *	**13.3**	14.9	11.5	12.4	17.2
Profit after tax to equity *	**9.0**	10.1	7.6	8.8	11.8

	2011	2010	2009	2008	2007
Shares in issue (thousands)	**32,002**	26,000	26,000	26,000	26,000
Net assets per share *	**197c**	211c	192c	181c	168c
Net dividends per share	**3c**	3c	3c	3c	3c
Dividend cover	**5.3**	6.4	4.8	5.3	6.5

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

THE GROUP'S FINANCIAL HIGHLIGHTS IN US DOLLARS

Year ended 31 December 2011

The following figures were converted from Euro to US Dollars using the rate of exchange ruling on 31 December 2011. The rate used was €1: $1.2944. Comparative results have also been translated using this rate.

These highlights do not reflect the effect of the change in the rates of exchange since 31 December 2011.

	2011	2010
	$000	$000
Net interest income	**26,718**	25,302
Operating income	**30,431**	28,632
Operating profit before impairment reversals and provisions	**14,227**	11,708
Profit before tax	**10,819**	10,426
Profit for the year	**7,243**	6,911
Total assets	**1,054,082**	1,018,201
Liquid funds	**38,693**	40,693
Debt and other fixed income instruments	**353,512**	391,915
Loans and advances to customers	**613,091**	547,510
Equity	**85,041**	91,662

THE BANK'S FINANCIAL HIGHLIGHTS IN US DOLLARS

Year ended 31 December 2011

The following figures were converted from Euro to US Dollars using the rate of exchange ruling on 31 December 2011. The rate used was €1: $1.2944. Comparative results have also been translated using this rate.

These highlights do not reflect the effect of the change in the rates of exchange since 31 December 2011.

	2011	2010
	$000	$000
Net interest income	**26,718**	24,370
Operating income	**30,668**	28,298
Operating profit before impairment reversals and provisions	**14,303**	11,780
Profit before tax	**10,905**	10,547
Profit for the year	**7,330**	7,167
Total assets	**1,054,620**	1,008,123
Liquid funds	**38,693**	38,493
Debt and other fixed income instruments	**353,512**	372,202
Loans and advances to customers	**613,091**	547,510
Equity	**85,577**	78,504

NOTES

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