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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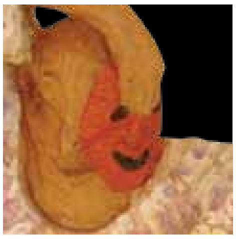











A selection of images from artistic and cultural activities organised by the Bank

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. (i)

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

Joseph Pace Ross A.C.I.B. (ii)

Victor Gusman (iii)

(i) Resigned on 27 April 2012
(ii) Resigned on 25 September 2012
(iii) Appointed on 27 April 2012

COMPANY SECRETARY

Mario Felice LL.D.

CHIEF EXECUTIVE OFFICER

Edward Cachia A.C.I.B.

REGISTERED OFFICE

APS Centre,
Tower Street,
Birkirkara, BKR 4012,
Malta

WEBSITE

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CHAIRMAN'S STATEMENT

CHAIRMAN'S STATEMENT

Overall Performance

The year 2012 was envisaged to be challenging on several fronts. This expectation materialised under various forms. Thus, aggregate economic activity in the Maltese Islands was less than expected, raising the issue of how strong economic growth can be projected for the next few years. The same considerations refer to the euro-area in general, and to the Mediterranean basin. In particular, the overall framework within which financial institutions have to operate in the years ahead remains unclear, although it is gradually being charted, especially in terms of the introduction of new mandatory commitments and supervision. Besides, the recurrence of threats to the very existence of the euro, as is, that keep emerging from different member states, and the series of ad hoc solutions proposed to contain the issues as these arise, are making life even more demanding.

But, notwithstanding all this, APS Bank Limited stuck to both its long-term objectives and also to its short-term performance targets. Indeed, while the Bank kept strengthening its capital and network bases throughout 2012, it worked on its three-year (2013-2015) business programme, especially focusing on the examination of its vision for the next decade and assessing critically the roles of its respective units. At the same time, it adopted measures that were meant to enhance its performance in the short-term while ensuring that its longer-term commitments to shareholders and clients are fully met. We are pleased that the results for 2012 are positive in several ways. Pre-tax profits rose to €9.9 million, up from €8.4 million in 2011. This result reflects the rate of steady expansion on different fronts, while exercising prudence all along, and committing resources throughout the year to directly support educational, cultural and other social activities.

Total assets at end of year were €910.2 million, up from €814.3 million in 2011. And both customers' deposits and loans registered increases. Total deposits rose to €743.1 million, representing a net gain of €55.5 million, while lending expanded by an additional €38.3 million reaching €520.9 million. Movements in these areas of activities are on-going; they reflect not only what the Bank does but also what is happening in the milieu in which the Bank operates. This environment is made of several financial 'markets' that cater for different categories of savers and investors in Malta and elsewhere, but that may compete for the same volume of funds and fund-owners. Hence, being competitive in such a structure is not an easy task indeed.

APS Funds SICAV plc and APS Consult Limited also contributed to the implementation of the Bank's underlying philosophy of being socially conscious while striving all the time to be efficient in the delivery of services. Assets under management of APS Funds SICAV plc increased by €15.5 million and reached €40.3 million; at the same time it launched the first local retail investment product that sought to combine financial goals with concerns for social, environmental and ethical values. This is the APS Regular Income Ethical Fund. Similarly, APS Consult supported several projects undertaken by its clients, successfully. But it is now timely to assess the role this unit will assume in the future in community building, in the light of past experience in the various sectors of operation and in terms of the evolving sectoral social and economic infrastructure.

What was started in 2012 will continue over the next three years. The Bank will not only invest in new initiatives to support better customers' needs, but will also be revisiting its internal organisational structure to instil even-more flexibility and, thereby, a more efficient use of human and capital resources in the decision-making process. All the time, we shall be loyal to our roots of solidarity and mutual assistance, and therefore we plan to strengthen our efforts towards collaboration both within Malta and on a regional level. While our membership of FEBEA (the European Federation of Ethical and Alternative Banks) remained the preferred forum, the Bank in 2012 extended its bilateral relations with a number of institutions in the Eurozone.

Such relatively wide-ranging initiatives are bound to put considerable pressure on the Bank's resources and infrastructure. So the Bank plans to undertake a number of supporting exercises which will enhance its systems, in particular its information technology ones, and also those related to the development of its personnel. There is a lot to be done in these areas, especially in a fast-moving globalised trade environment, geo-political repositioning, and substantive demographic transformations. But we are confident that these challenges can be met, while being loyal to our underlying beliefs.

Collective Memory, Holistic Development

We do not stand alone; we belong to a wider community which encompasses more than the Maltese. Therefore, the Bank strives to support the human development of this greater reality. While the banking and related services aim primarily at wealth and income creation – seen as a means to support long-term personal and community development and welfare – the Bank's involvement in the cultural and other areas aims at enhancing a wider appreciation of human creativity. Hence, the Bank continued taking initiatives that facilitated the identification of talent in several artistic areas.

On the musical scene, the Bank held its 11th Annual Concert in November, presenting works scored by three nineteenth century Maltese composers for the Liturgy of Holy Week. It was entitled Tenebrae, and produced in collaboration with the Malta Philharmonic Orchestra. Besides, the Bank organised the Second APS Bank Music Competition for Maltese composers, which gave rise to nine new works, four of which were selected by an international panel of adjudicators to be performed during the annual concerts for 2013-2015. In addition, the Bank sponsored three other concerts, including the premiere performance of a new oratorio; these concerts presented works by modern Maltese composers.

The Bank continued with its three-year projects in photography and art. It held the third photographic exhibition at its Head Office in Malta and at the Banca Giuratale in Gozo, which presented works that participated in a competition entitled 'Movement'. This activity was jointly organised with the Malta Photographic Society. Twelve of the exhibits were reproduced in the Bank's calendar for 2013. And the Bank held its Second Art Exhibition in October; four Maltese artists were given the opportunity to be better known by the Maltese public and foreign visitors.

The Bank's sponsorship for publications continued throughout 2012. Of particular mention, there are three publications. The first is a workbook on the history and role in society of Parliament in Malta, and marks the 90th Anniversary of the Maltese Parliament. Entitled 'Il-Parlament Malti – Kif Beda, X'inhu u X'Jagħmel', this publication was distributed to upper classes in the secondary schools in Malta and Gozo to instil in the upcoming generations the value of an active participation by all in the democratic running of the Maltese society. This work was presented in collaboration with the Office of the Speaker of the Maltese Parliament. A second work, produced in collaboration with the Cooperatives Board, outlines the history of cooperatives in the Maltese Islands. 'L-Istorja tal-Koperattivi f'Malta' was published as part of activities carried out for 2012 by the co-operative movement during the United Nations International Year of Cooperatives. A third publication is the eleventh volume in the Bank's Occasional Papers Series and brings together a number of presentations made by several speakers during a seminar on ethical investments held to coincide with the launch of the APS Regular Income Ethical Fund. The book is 'Introducing Ethical Investment in a Dynamic Society'.

In addition, the Bank sponsored the setting up of the Malta Migration Museum, with library and archives, a project led by the Migrants' Commission of the Archdiocese of Malta. The documents preserved are a fount of knowledge on Maltese migratory movements both throughout the Mediterranean basin and the United Kingdom and to far-off destinations in America and Australia. The large-scale organised emigration of the post-war years contributed in a big way to the development of today's Maltese society and economy.

The Bank plans to continue supporting a diversified array of cultural activities, being selective in the projects it undertakes and guided by the principle of complementing the range of initiatives which are undertaken by other organisations. In this way, the enrichment of Maltese society would be correspondingly greater.

Concluding Remarks

The Bank is aware of the many challenges that lie ahead. Foremost among these are the developments of the financial and economic sectors in the euro zone, as well as the pressures emanating from the demographic transformation and economic restructuring taking place in the Maltese Islands. These are creating new experiences which expect quick responses and sound judgement. The Bank continues to be prepared to move ahead with determination to attain the objectives it set for itself and guided, at all times, by its basic principles of efficiency and fair rewards.

It is with this commitment in mind that I wish to thank our shareholders, whose trust in this institution has never wavered. I thank my colleagues on the Board of Directors whose counsel makes the Bank's objectives realisable and provides adequate responses to the many issues at hand. A word of praise goes to the Bank's staff who, irrespective of the many problems that they have to face on a personal level like every one in a modern community, commit themselves to the Bank's objectives and to the success recorded in 2012. And a sincere appreciation goes to our clients who seek the Bank's services as fund owners or as borrowers. In a sense, they are our partners in the operations to which the Bank and its two subsidiaries are committed.

A special consideration goes to former fellow directors, Mr Franco Masini and Mr Joseph Pace Ross who retired in 2012. They have contributed in no small way to the development of APS Bank over the years. Deservedly, they share in the Bank's contribution to the Maltese community and beyond.

E. P. DELIA
Chairman

FINANCIAL STATEMENTS 2012

PRINCIPAL ACTIVITIES

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

APS Bank Limited is incorporated 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.

Subsidiaries and Associate

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

APS Funds SICAV plc was incorporated in January 2008 and is licensed as a collective investment scheme. Its APS Income Fund has been supplemented by the recent launch of the APS Regular Income Ethical Fund. Assets attributable to shareholders for each fund continued to increase even this year, reaching €32.1 million and €8.2 million respectively, for a total of €40.3 million up from €24.8 million in 2011.

FINANCIAL PERFORMANCE

In 2012 the Group reported a profit before tax of €9.9 million, exceeding last year's results by 18.3%. These particularly positive figures show that the Group has managed to maintain its good momentum notwithstanding that the period under review was once more a difficult year for the economy.

Operations

Net interest income in 2012 was €21.8 million, an increase of €1.2 million, or 5.6%, when compared with 2011. The modest upward shift was primarily the result of an additional €1.8 million interest receivable from the lending portfolio. This was partly offset by a slight decrease of 2.2% in interest from debt securities and an increase of 1.8% in interest payable on customer deposits.

Non-interest income increased to €5.3 million in 2012, up from €2.9 million in 2011. This was in part achieved due to a one-off €2.1 million gain realised from the sale of some of the investments which were downgraded in the midst of the sovereign debt crisis. Fees and commission, another key contributor to non-interest income, accounted for a further €2.5 million. The 19.0% increase in this revenue stream was largely attributable to an expansion in investment services activity as well as to income generated from portfolio management and advances related services.

Cost management has become increasingly important for the Group as evidenced by an improved cost-to-income ratio. This decreased by 6.3 percentage points to 48.5% as income increased at a much higher rate than costs. New initiatives entailing investment in human resources, systems and infrastructure are on-going and are deemed necessary to continue expanding the Bank's operations. In this respect, operating expenses rose modestly by 1.8% when compared to 2011.

Net impairment losses for the year stood at €4.7 million. These were mainly associated with higher provisioning to better reflect the prevailing economic conditions. The Group has, in fact, maintained its unrelenting focus on risk management, more stringent lending policies and a cautious approach to provisioning.

Statement of Financial Position

The net loans and advances to customers as at the end of the year were €506.0 million, up from €473.6 million. The net growth in the portfolio was mainly registered in the households and individuals sector, which experienced an increase of €37.8 million. This in spite of the balanced stance adopted by the Group in the present testing environment. While the Group has continued to support its customers by maintaining the availability of lending, it has taken extra care in balancing risk against return and restricting its exposure in volatile sectors.

On the investments front, debt and other fixed income instruments amounted to €304.5 million, with the portfolio expanding by a further €31.3 million. Nevertheless, this increase was not reflected in higher interest income as the headwinds of euro-area yields declined.

The stability and resilience offered by the Group in these turbulent times was evidenced by an expansion in the deposits portfolio. Notwithstanding the tougher competition for deposits, the Group managed to increase amounts owed to customers by 8.1%, totalling €743.1 million as at end of year. This was achieved in tandem with a marked improvement in the cost of funds. The series of innovative Kapital Plus products launched during the year contributed meaningfully to this growth.

Capital Management

During the year, the Group continued to adopt an active and prudent approach towards the management of capital in order to maintain strong liquidity and capital adequacy ratios while meeting its obligations towards its shareholders. The Group's equity base has been further strengthened through the capitalisation of retained earnings and an injection of fresh capital, with issued capital increasing by another €13.6 million in 2012. A further increase of €14.8 million is planned for 2013. Thus, by the end of the year, the issued and paid up share capital will reach €57.6 million. High levels of capital and liquidity are maintained in preparation for the application of tighter regulatory requirements. This strong capital base also ensures that the Group is favourably positioned for future growth.

Outlook

The economic outlook for the foreseeable future remains challenging. As a result, the journey into 2013 will not be easy. Greater fiscal integration among European member states and a comprehensive reform of banking regulations instigated by the financial turmoil are likely to impact banking procedures, operations and revenues.

The Group has kept the above considerations within view throughout the development of the business plan for the next three years. It has undertaken a comprehensive review of its operations, examined closely the external environment – past developments as well as potential future scenarios – and, in the light of this, strategically prioritised its focus and investments. The Group is set to maintain a conservative and prudent approach, while strengthening its position in the market. This will not be possible without robust corporate governance and a suitable risk management framework. Furthermore, efforts will be directed to continue developing a professional workforce, a strong IT infrastructure and more diversified distribution channels, thereby reinforcing the Group's capabilities to meet the needs of the community.

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 six 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 5.

Committees established by the Board

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

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

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

The Advances Executive Committee
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 controls is also subject to regulatory oversight by the Malta Financial Services Authority.

RELATIONS WITH SHAREHOLDERS AND THE ANNUAL GENERAL MEETING

The Bank maintains good communications 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 26 April 2013.

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 2012, 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

28 March 2013

Remuneration Committee

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

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

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

Remuneration Policy

The Bank's Remuneration Policy is in line with the provisions of Banking Rule BR/12- *The Supervisory Review Process of Credit Institutions Authorised Under the Banking Act* and fulfils established recommendations on corporate governance.

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

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

Senior Executive Management

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

Directors

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

Total fees received by Directors during the financial year 2012 are reported below:

	€
Chairman	35,200
Other Directors	68,190
	103,390

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

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/07/2012 - 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 2012 which adhere to International Financial Reporting Standards (IFRSs). However, this report has been subject to comprehensive internal review and approval by the Group's Risk Management and Compliance Committee (RMCC) and the Board of Directors (hereafter referred to as 'the Board'). This information is published annually. The Group is satisfied that internal verification procedures ensure that these Additional Regulatory Disclosures are presented fairly.

2. THE RISK MANAGEMENT FUNCTION

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

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

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

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

3. CREDIT RISK

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

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

3.1 Executive Committees

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

3.2 Advances Credit Criteria

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

3.3 Credit Administration and Monitoring Processes

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

3.4 Credit Limits

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

3.5 Credit Approval, Extension and Retention

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

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

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

3.6 Provisioning

The Group provides 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 2012	% of gross loans & advances
Residential property	61.02
Commercial property	15.47
Cash and shares	8.55
Government guarantees	1.12

3.8 Sensitivity Testing

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

3.9 Capital Requirement

The Group adopts the Standardised Approach (as per Banking Rule BR/04/2012 - Capital Requirements of Credit Institutions Authorised Under the Banking Act 1994) for the purposes of calculating the risk-weighted exposures to credit risk. It adopts credit ratings by Standard and Poor's (if not available, Moody's or Fitch, applicable in that order) to establish the credit quality of all exposure classes, that is, institutions, government and corporate debt securities. The Standardised Approach is based on the assumption that the Group's portfolio is infinitely granular, as this methodology has been calibrated for internationally active banks. For this reason, the Group also allocates additional capital to cover concentration risk separately.

3.10 Concentration Risk

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

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

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

4. MARKET RISK

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

5. OPERATIONAL RISK

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

6. NON-TRADING BOOK EXPOSURES IN EQUITIES

The Group has an investment of €1.4 million in equities. The risk associated with this exposure is not considered to be material.

7. INTEREST RATE RISK IN THE BANKING BOOK

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

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

The Group uses simulation modelling on a quarterly basis to monitor the sensitivity of projected net interest income for the next twelve months. The model simulates a 25 basis points parallel shift in interest rates and the impact on cash flows and the resulting income streams. The estimated impact of a decrease in interest rates by 25 basis points on all yield curves on the first day of the following month, based on the financial position as at 31 December 2012, is a decrease in net interest income of €177K. On the other hand, a parallel increase in interest rates of 25 basis points is expected to result in an increase of €177K in net interest income. The parallel shift is assumed to take place on the first day of the following month, or following maturity in the case of debt securities, fixed rate loans and term deposits. The impact of interest rate movements on future income is low, as the gap between interest-sensitive assets and liabilities is narrowing.

The Group also monitors the impact of interest rate movements on its economic value on a quarterly basis using duration gap analysis. As at 31 December 2012, the Group assumed an extreme scenario of a 100 basis points parallel shift downwards. As a result of the Group's asset-sensitive gap, a decline in market interests by 100 basis points would result in a decline of €1,267K in its economic value, and vice versa.

8. LIQUIDITY RISK

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

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

The Group funds advances primarily from deposits. As at 31 December 2012 the Group's advances to deposits ratio was equal to 68%. The Group also has a liquidity ratio which is comfortably in excess of the 30% minimum regulatory requirement. Moreover, the Group has a level of stable deposits which acts as a permanent source of liquidity. The Group also has a portfolio of highly marketable assets that can be easily liquidated in the event of an unforeseen requirement of cash flow.

9. REPUTATION RISK

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

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

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

10. OTHER RISKS

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

11. CAPITAL

11.1 Capital Planning

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

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. The Group is also voluntarily participating in the Basel III Quantitative Impact Study (QIS) exercise, which is repeated semi-annually using end-December and end-June reporting dates, and which seeks to monitor the impact of the new regulations on the banking industry.

11.2 Capital Adequacy

The Group adopts the Standardised Approach (Banking Rule BR/04/2012 – 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 2012.

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

The Group adopts the Basic Indicator Approach (Banking Rule BR/04/2012 – 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 2012

	Book Value €000	Risk Weighted Exposure €000	Capital Allocation €000
Standardised approach - credit risk			
Government	245,148	8,569	685
Home loans	335,366	107,144	8,572
Institutions	31,266	14,372	1,150
Short term claims on institutions	14,926	7,222	578
Corporate	348,870	200,754	16,060
Collective investment undertakings	16,068	11,591	927
Retail	57,263	28,121	2,250
Other	25,965	23,846	1,908
	1,074,872	401,619	32,130
Basic indicator approach			
Operational Risk		43,803	3,504
Basic method			
Foreign Exchange Risk		781	62
Total		**446,203**	**35,696**

Own funds analysis	
Issued capital (note 30)	42,803
Share premium (note 31)	1,770
Regulatory reserve	1
Retained earnings (note 33)	16,690
Non-controlling interest	2,944
Deductions:	
Intangible assets (other than goodwill) (note 22)	(636)
Original own funds	**63,572**
Revaluation reserve (note 32)	8,693
Collective provisions (note 15)	3,576
Additional own funds	**12,269**
Total own funds	**75,841**
Capital Adequacy Ratio	**17.00%**

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

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

11.3 Internal Capital Adequacy Assessment Process

The Bank performs the Internal Capital Adequacy Assessment Process (ICAAP) on an annual basis in compliance with the Pillar II requirements of Banking Rule BR/12/2012 – The Supervisory Review Process of Credit Institutions Authorised Under the Banking Act 1994. This process continues to be of utmost importance for keeping the Board of Directors informed of the Bank's ongoing risk assessment, the mitigation measures adopted and their impact on the capital requirements.

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

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

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

The ICAAP has once again concluded that the Bank is well capitalised. The document was reviewed in detail by the Bank's Internal Audit Unit and by the RMCC and subsequently presented to the Board of Directors for approval. The Board approved the ICAAP document on 28th June 2012 which was 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 subsidiaries ('the Group'), set on pages 15 to 71 which comprise the statements of financial position as at 31 December 2012 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 5, 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 auditors' 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 2012, 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.

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
Emanuel Azzopardi for and on behalf of

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

28 March 2013

INCOME STATEMENTS
for the year ended 31 December 2012

		The Group		The Bank	
		2012	2011	**2012**	2011
	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)	**21,440**	19,689	**21,439**	19,689
On debt securities	(3)	**14,771**	15,110	**14,685**	15,110
		36,211	34,799	**36,124**	34,799
Interest payable	(4)	**(14,417)**	(14,158)	**(14,466)**	(14,158)
Net interest income		**21,794**	20,641	**21,658**	20,641
Dividend income	(5)	**141**	159	**518**	520
Fees and commission income		**2,508**	2,108	**2,534**	2,108
Trading income	(6)	**55**	215	**55**	215
Net gains on disposal of financial instruments	(7)	**2,345**	39	**2,062**	39
Other operating income		**216**	348	**158**	170
Total operating income		**27,059**	23,510	**26,985**	23,693
Personnel expenses	(8)	**(6,146)**	(5,796)	**(6,038)**	(5,630)
Other administrative expenses	(9)	**(5,109)**	(5,207)	**(5,029)**	(5,148)
Amortisation of intangible assets	(22)	**(606)**	(624)	**(606)**	(624)
Depreciation of property and equipment	(23)	**(1,250)**	(1,248)	**(1,244)**	(1,241)
Operating profit		**13,948**	10,635	**14,068**	11,050
Share of results of associate, net of tax	(21)	**689**	114	**-**	-
Revaluation release on loss of control of subsidiary	(20)	**-**	242	**-**	-
Operating profit before impairment, reversals and provisions		**14,637**	10,991	**14,068**	11,050
Net impairment losses	(10)	**(4,748)**	(2,633)	**(4,998)**	(2,625)
Profit before tax		**9,889**	8,358	**9,070**	8,425
Income tax expense	(11)	**(2,876)**	(2,762)	**(2,789)**	(2,762)
Profit for the year		**7,013**	5,596	**6,281**	5,663

STATEMENTS OF COMPREHENSIVE INCOME
for the year ended 31 December 2012

	The Group		The Bank	
	2012	2011	**2012**	2011
	€000	€000	**€000**	€000
Profit for the year	**7,013**	5,596	**6,281**	5,663
Other comprehensive income:				
Net gain / (loss) available for sale financial assets	**9,053**	(4,441)	**9,053**	(4,441)
Write-back of impairment of available-for-sale financial assets	**-**	1,706	**-**	1,706
Net gain released on disposal of available-for-sale financial assets	**(779)**	(1,315)	**(779)**	(1,315)
Income tax relating to the components of other comprehensive income	**(2,557)**	1,111	**(2,557)**	1,111
Revaluation release on loss of control of subsidiary	**-**	(242)	**-**	-
Other comprehensive income for the year, net of tax	**5,717**	(3,181)	**5,717**	(2,939)
Total comprehensive income for the year, net of tax	**12,730**	2,415	**11,998**	2,724
Profit attributable to:				
Equity holders of the parent	**6,888**	5,596	**6,281**	5,663
Non-controlling interest	**125**	-	**-**	-
	7,013	5,596	**6,281**	5,663
Total comprehensive income attributable to:				
Equity holders of the parent	**12,605**	2,415	**11,998**	2,724
Non-controlling interest	**125**	-	**-**	-
	12,730	2,415	**11,998**	2,724

STATEMENTS OF FINANCIAL POSITION
as at 31 December 2012

	Notes	The Group 2012 €000	The Group 2011 €000	The Bank 2012 €000	The Bank 2011 €000
ASSETS					
Balances with Central Bank of Malta, treasury bills and cash	(13)	**40,658**	6,367	**40,658**	6,367
Cheques in course of collection		**2,650**	923	**2,650**	923
Loans and advances to banks	(14)	**14,926**	22,603	**14,926**	22,603
Loans and advances to customers	(15)	**506,023**	473,649	**506,045**	473,649
Debt and other fixed income instruments	(17)	**304,457**	273,109	**304,457**	273,109
Financial assets at fair value through profit or loss	(18)	**5,886**	-	**-**	-
Equity and other non-fixed income instruments	(19)	**1,402**	1,940	**1,402**	1,940
Investment in subsidiaries	(20)	**-**	-	**5,250**	500
Investment in associate	(21)	**10,206**	9,894	**9,887**	9,887
Intangible assets	(22)	**636**	963	**636**	963
Investment property		**330**	330	**330**	330
Property and equipment	(23)	**13,636**	14,171	**13,633**	14,162
Deferred tax assets	(24)	**3,284**	4,271	**3,371**	4,271
Other receivables	(25)	**6,065**	6,120	**5,892**	6,052
TOTAL ASSETS		**910,159**	814,340	**909,137**	814,756
LIABILITIES					
Amounts owed to banks	(26)	**70,021**	50,677	**70,021**	50,677
Amounts owed to customers	(27)	**743,106**	687,625	**745,234**	687,646
Other liabilities	(28)	**4,951**	1,970	**4,947**	1,962
Taxation		**1,920**	1,793	**1,920**	1,793
Accruals	(29)	**6,373**	6,576	**6,364**	6,565
TOTAL LIABILITIES		**826,371**	748,641	**828,486**	748,643
EQUITY					
Share capital	(30)	**42,803**	29,202	**42,803**	29,202
Share premium	(31)	**1,770**	1,770	**1,770**	1,770
Revaluation reserve	(32)	**8,693**	2,976	**8,693**	2,976
Retained earnings	(33)	**26,315**	30,690	**26,122**	31,104
Dividend reserve		**1,263**	1,061	**1,263**	1,061
		80,844	65,699	**80,651**	66,113
Non-controlling interest		**2,944**	-	**-**	-
TOTAL EQUITY		**83,788**	65,699	**80,651**	66,113
TOTAL LIABILITIES AND EQUITY		**910,159**	814,340	**909,137**	814,756
MEMORANDUM ITEMS					
Contingent liabilities	(34)	**5,944**	6,850	**5,944**	6,850
Commitments	(35)	**156,314**	152,843	**156,314**	152,843

The financial statements on pages 15 to 71 were authorised for issue by the Board of Directors on 28 March 2013 and were signed by:

E. P. DELIA	**J. C. CARUANA**	**E. CACHIA**
Chairman	Director	Chief Executive Officer

STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2012

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 2012								
Balance at 1 January 2012	**29,202**	**1,770**	**2,976**	**1,061**	**30,690**	**65,699**	**-**	**65,699**
Profit for the year	-	-	-	-	6,888	6,888	125	7,013
Other comprehensive income	-	-	5,717	-	-	5,717	-	5,717
Total comprehensive income	-	-	5,717	-	6,888	12,605	125	12,730
Increase in share capital (note 30)	3,601	-	-	-	-	3,601	-	3,601
Capitalisation of retained earnings (note 30)	10,000	-	-	-	(10,000)	-	-	-
Dividends paid (note 12)	-	-	-	(1,061)	-	(1,061)	-	(1,061)
Dividends proposed (note 12)	-	-	-	1,263	(1,263)	-	-	-
Net share capital issued in subsidiary company	-	-	-	-	-	-	2,819	2,819
Balance at 31 December 2012	**42,803**	**1,770**	**8,693**	**1,263**	**26,315**	**80,844**	**2,944**	**83,788**
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 (note 30)	3,602	-	-	-	-	3,602	-	3,602
Capitalisation of retained earnings (note 30)	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**

STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2012

	Issued capital €000	Share premium €000	Revaluation reserve €000	Dividend reserve €000	Retained earnings €000	Total €000
The Bank						
FINANCIAL YEAR ENDED 31 DECEMBER 2012						
Balance at 1 January 2012	**29,202**	**1,770**	**2,976**	**1,061**	**31,104**	**66,113**
Profit for the year	-	-	-	-	6,281	6,281
Other comprehensive income	-	-	5,717	-	-	5,717
Total comprehensive income	-	-	5,717	-	6,281	11,998
Increase in share capital (note 30)	3,601	-	-	-	-	3,601
Capitalisation of retained earnings (note 30)	10,000	-	-	-	(10,000)	-
Dividends paid (note 12)	-	-	-	(1,061)	-	(1,061)
Dividends proposed (note 12)	-	-	-	1,263	(1,263)	-
Balance at 31 December 2012	**42,803**	**1,770**	**8,693**	**1,263**	**26,122**	**80,651**
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 (note 30)	3,602	-	-	-	-	3,602
Capitalisation of retained earnings (note 30)	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**

STATEMENTS OF CASH FLOWS
for the year ended 31 December 2012

	Note	The Group		The Bank	
		2012	2011	**2012**	2011
		€000	€000	**€000**	€000
OPERATING ACTIVITIES					
Interest and commission receipts		**24,511**	21,340	**24,554**	21,162
Interest and commission payments		**(13,946)**	(14,239)	**(13,976)**	(14,239)
Cash paid to employees and suppliers		**(11,967)**	(11,712)	**(11,806)**	(11,488)
Operating loss before changes in operating assets and liabilities		**(1,402)**	(4,611)	**(1,228)**	(4,565)
(Increase) / decrease in operating assets					
Loans and advances to customers		**(38,270)**	(52,730)	**(38,292)**	(52,730)
Reserve deposit with Central Bank of Malta		**(4,871)**	9,637	**(4,871)**	9,637
Cheques in course of collection		**(1,727)**	1,614	**(1,727)**	1,614
Other assets		**60**	(39)	**-**	-
Increase / (decrease) in operating liabilities					
Amounts owed to customers		**55,481**	(14,215)	**57,588**	(14,283)
Other liabilities		**2,919**	(344)	**2,936**	(361)
Cash from / (used in) operating activities before tax		**12,190**	(60,688)	**14,406**	(60,688)
Income tax paid		**(4,341)**	(1,198)	**(4,341)**	(1,198)
Net cash flows from / (used in) operating activities		**7,849**	(61,886)	**10,065**	(61,886)
INVESTING ACTIVITIES					
Dividends received		**484**	458	**484**	458
Interest income from debt securities		**16,094**	16,652	**16,094**	16,652
Purchase of held-to-maturity debt security instruments		**(12,421)**	(4,112)	**(12,421)**	(4,112)
Proceeds on maturity of held-to-maturity debt security instruments		**3,345**	6,977	**3,345**	6,977
Purchase of available-for-sale debt security instruments		**(112,225)**	(79,756)	**(112,225)**	(79,756)
Proceeds on disposal of available-for-sale debt security instruments		**99,835**	87,715	**99,834**	87,715
Purchase of financial assets at fair value through profit or loss		**(5,828)**	-	**-**	-
Proceeds on disposal of financial assets at fair value through profit or loss		**225**	-	**-**	-
Purchase of equity and other non-fixed income instruments		**(141)**	(735)	**(141)**	(735)
Investment in subsidiaries		**-**	-	**(5,000)**	-
Proceeds on disposal of equity and other non-fixed income instruments		**826**	233	**826**	233
Purchase of property and equipment		**(1,002)**	(996)	**(1,002)**	(996)
Proceeds on disposal of property and equipment		**-**	8	**-**	8
Net cash flows (used in) / from investing activities		**(10,808)**	26,444	**(10,206)**	26,444
FINANCING ACTIVITIES					
Dividends paid		**(1,061)**	(862)	**(1,061)**	(862)
Proceeds from issue of share capital		**3,601**	3,602	**3,601**	3,602
Net proceeds from non-controlling interest for shares in subsidiary		**2,818**	-	**-**	-
Net cash flows from financing activities		**5,358**	2,740	**2,540**	2,740
Net increase / (decrease) in cash and cash equivalents		**2,399**	(32,702)	**2,399**	(32,702)
Cash and cash equivalents at 1 January		**(24,042)**	8,660	**(24,042)**	8,660
Cash and cash equivalents at 31 December	(36)	**(21,643)**	(24,042)	**(21,643)**	(24,042)

1. CORPORATE INFORMATION

APS Bank Group comprises APS Bank Limited, APS Consult Limited and APS Regular Income Ethical Fund, a sub-fund of APS Funds Sicav plc.

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

The Bank lost control over APS Income Fund in 2011, therefore, this sub-fund continued to be recognised as an Investment in associate as at 31 December 2012 (note 21). APS Regular Income Ethical Fund which was launched on 24 May 2012 is also a sub-fund of APS Funds Sicav plc.

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 investments which have been classified as fair value through profit or loss and available-for-sale investments and investment property 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 subsidiaries as at 31 December 2012, 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 is 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 investments retained.
- Recognises any surplus or deficit in profit and loss.
- Reclassifies the parent's share of components previously recognised in other comprehensive income to profit and loss or retained earnings, as appropriate.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

Amendments to IFRS effective as of 1 January 2012

The accounting policies adopted are consistent with those of the previous financial year, except for the following amendments to IFRS effective as of 1 January 2012:

- IFRS 7 Financial Instruments: Disclosures (Amendments)
  The IASB issued an amendment to IFRS 7 on 7 October 2010. The amendment provides enhanced disclosures for 'transferred financial assets that are derecognised in their entirety' and 'transferred assets that are not derecognised in their entirety'.

Other amendments resulting from Improvements to IFRSs to the following standards did not have any impact on the accounting policies, financial position or performance of the Group:

- IAS 12 Income Taxes (Amendment) Deferred Taxes: Recovery of Underlying Assets

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

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

Up to 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 the Group has not adopted yearly, but plans to adopt upon their effective date. The changes resulting from these standards are not expected to have a material effect on the financial statements of the Group. The new and amended standards are as follows:

• IAS 1 (Amendments) Presentation of Items of Other Comprehensive Income
The amendments to IAS 1 change the grouping of items presented in other comprehensive income (OCI). Items that could be reclassified (or recycled) to profit or loss at a future point in time (for example, net gains on hedges of net investments, exchange differences on translation of foreign operations, net movements on cash flow hedges and net losses or gains on available-for-sale financial assets) would be presented separately from items that will never be reclassified (for example, actuarial gains and losses on defined benefit plans). The amendment affects presentation only and has no impact on the Group's financial position or performance. The amendment becomes effective for annual periods beginning on or after 1 July 2012.

• IAS 19 (Amendments) Employee Benefits, effective for financial years beginning on or after 1 January 2013.

• IAS 27 (Revised) Separate Financial Statements
As a consequence of the new IFRS 10 and IFRS 12, what remains in IAS 27 is limited to accounting for subsidiaries, jointly controlled entities and associates in separate financial statements. The amendment becomes effective for annual periods beginning on or after 1 January 2014.

• IAS 28 (Revised) Investments in Associates and Joint Ventures, effective for financial years beginning on or after 1 January 2014.

• IAS 32 (Amendments) Offsetting of Financial Assets and Financial Liabilities presentation.
These amendments clarify the meaning of "currently has a legally enforceable right to set-off". It will be necessary to assess the impact to the Group by reviewing settlement procedures and legal documentation to ensure that offsetting is still possible in cases where it has been achieved in the past. In certain cases, offsetting may no longer be achieved. In other cases, contracts may have to be renegotiated. The requirement that the right of set-off be available for all counterparties to the netting agreement may prove to be a challenge for contracts where only one party has the right to offset in the event of default. The amendments also clarify the application of the IAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. Offsetting on the grounds of simultaneous settlement is particularly relevant for the Group as to where it engages in large numbers of sale and repurchase transactions.

Currently, transactions settled through clearing systems are, in most cases, deemed to achieve simultaneous settlement. While many settlement systems are expected to meet the new criteria, some may not. Any changes in offsetting are expected to impact leverage ratios, regulatory capital requirements, etc. As the impact of the adoption depends on the Group's examination of the operational procedures applied by the central clearing houses and settlement systems it deals with to determine if they meet the new criteria, it is not practical to quantify the effects. These amendments become effective for annual periods beginning on or after 1 January 2014.

• IFRS 7 (Amendments) Financial instruments: Disclosure for Offsetting of Financial Assets and Financial Liabilities.
These amendments require an entity to disclose information about rights to set-off and related arrangements (e.g., collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognised financial instruments that are set off in accordance with IAS 32 Financial Instruments: Presentation. The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are set off in accordance with IAS 32. These amendments will not impact the Group's financial position or performance and will become effective for annual periods beginning on or after 1 January 2013.

• IFRS 10 Consolidated Financial Statements
The standard replaces the requirements of IAS 27 Consolidated and Separate Financial Statements that address the accounting for consolidated financial statements and SIC 12 Consolidation – Special Purpose Entities. What remains in IAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements. The Group is currently assessing the impact of adopting IFRS 10. The impact of the new standard will be affected by the financial position and performance of the entity to be consolidated until the effective date of the new standard and by any possible change in the standard until such date. The standard becomes effective for annual periods beginning on or after 1 January 2014.

• IFRS 11 Joint Arrangements, effective for financial years beginning on or after 1 January 2014.

• IFRS 12 Disclosures of Interests in Other Entities
The standard includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 Interests in Joint Ventures and IAS 28 Investment in Associates. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required. One of the most significant changes introduced by IFRS 12 is that an entity is now required to disclose the judgements made to determine whether it controls another entity. Many of these changes were introduced by the IASB in response to the financial crisis. Now, even if the Group concludes that it does not control an entity, the information used to make that judgement will be transparent to users of the financial statements to make their own assessment of the financial impact were the Group to reach a different conclusion regarding consolidation. The standard becomes effective for annual periods beginning on or after 1 January 2014.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

Standards, interpretations and amendments to published standards as endorsed by the European Union that are not yet effective (continued)

- IFRS 12 Disclosures of Interests in Other Entities (continued)
  The Group will need to disclose more information about the consolidated and unconsolidated structure entities with which it is involved in. However, the standard will not have any impact on the financial position or performance of the Group.

- IFRS 13 Fair Value Measurement
  The standard does not change when an entity is required to use fair value, but rather, provides guidance on how to measure the fair value of financial and non-financial assets and liabilities when required or permitted by IFRS. There are also additional disclosure requirements. The standard becomes effective for annual periods beginning on or after 1 January 2013. Adoption of the standard is not expected to have a material impact on the financial position or performance of the Group.

- IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine, effective for financial years beginning on or after 1 January 2013.

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

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

- IFRS 9 Financial Instruments
  IFRS 9, as issued, reflects the first phase of the IASB's work though the adoption date is subject to the recently issued Exposure Draft on the replacement of IAS 39 and applies to classification and measurement of financial assets and liabilities as defined in IAS 39. The standard was initially effective for annual periods beginning on or after 1 January 2013, but amendments to IFRS 9 Mandatory Effective Date of IFRS 9 and Transition Disclosures, issued in December 2011, moved the mandatory effective date to 1 January 2015. In subsequent phases, the Board will address impairment and hedge accounting. The Group will quantify the effect of the adoption of the first phase of IFRS 9 in conjunction with the other phases, when issued, to present a comprehensive picture.

- IFRS 7 (Amendments) Disclosure for initial application of IFRS 9, effective for financial years on or after 1 January 2015.

- Transition Guidance Amendments to IFRS 10, IFRS 11 and IFRS 12, effective for financial years beginning on or after 1 January 2013.

- Investment Entities Amendments to IFRS 10, IFRS 12 and IAS 27, effective for financial years beginning on or after 1 January 2014.

- Improvements to IFRSs issued May 2012 (various effective dates).

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

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Recognition of income and expenses

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

Interest 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.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Non-interest income (continued)

Dividend income

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

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

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

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

The Group did not include any loans and receivables in this category during 2012.

Held-to-maturity financial investments

Held-to-maturity financial investments are non-derivative financial assets with fixed or determinable payments and fixed maturities, which the Group has the intention and ability to hold to maturity. After initial measurement, held-to-maturity financial investments are subsequently measured at amortised cost using the 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 receivable and similar income' in the income statement. The losses arising from impairment of such investments are recognised in the income statement line 'Net impairment losses'.

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

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Initial recognition and subsequent measurement of financial instruments (continued)

Loans and advances to banks and customers

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

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

After initial measurement, loans and receivables are subsequently measured at amortised cost using the 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 or 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.

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 is 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.

Reclassification of financial assets

Effective from 1 July 2008, the Group was permitted to reclassify, in certain circumstances, non-derivative financial assets out of the held-for-trading category and into the available-for-sale, loans and receivables, or held-to-maturity categories. From this date, it was also permitted to reclassify, in certain circumstances, financial instruments out of the available-for-sale category and into the loans and receivables category.

Reclassifications are recorded at fair value at the date of reclassification, which becomes the new amortised cost.

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

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

Reclassification is at the election of management, and is determined on an instrument by instrument basis.

The Group does not reclassify any financial instrument into the fair value through profit or loss category after initial recognition.

During 2012 the Group had no reclassified financial assets (note 17).

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 objective evidence that a financial asset or group of financial assets is impaired. A financial asset or group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that 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.

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.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

Available-for-sale financial investments (continued)

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

In the case of debt instruments classified as available-for-sale, impairment is assessed based on the same criteria as financial assets carried at amortised cost. Future interest income is based on the reduced carrying amount of the asset and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Interest income is recorded as part of 'Interest receivable and similar income'. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to 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 arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, the loan is no longer considered past due. Management continuously reviews renegotiated loans to ensure that all criteria are met and the future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loans' original effective interest rate.

Offsetting financial instruments

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

Repurchase and reverse repurchase agreements

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

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

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

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. Changes in the expected useful life are accounted for by changing the amortisation period or method, as appropriate, and treated as changes in accounting estimates. The annual rates used for this purpose are:

	%
Building	1
Computer equipment	25
Other	5-20

Leasehold properties are amortised over the period of leases. Works of art and land 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. An intangible asset is recognised only when its cost can be measured reliably and it is probable that the expected future economic benefits that are attributable to it will flow to the Group. Intangible assets 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 properties

Investment properties are stated initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the reporting date. Gains or losses arising from changes in the fair values of investment properties are included in the income statement in the period in which they arise, including the corresponding tax effect. Fair values are determined based on an annual evaluation performed by an accredited external, independent valuer.

Investment properties are derecognised when either they have been disposed of or when they are permanently withdrawn from use and no future economic benefit is expected from their disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognised in the income statement in the period of derecognition.

Impairment of non-financial assets

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

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used.

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

Investment in subsidiaries

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

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

Under the equity method, the investment in 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 associate' in the income statement.

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

The 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 in the period in which they are approved by the Group's shareholders.

Taxation

Current income tax

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

Deferred income tax

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

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

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Taxation (continued)

Deferred income tax (continued)

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.

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 or disclosed in the financial statements. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Significant accounting judgments, estimates and assumptions (continued)

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, managements' 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 and judgments to the effect of concentrations of risks and economic data.

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

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

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

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

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

Deferred tax assets

Deferred tax assets are recognised in respect of tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits, together with future tax planning strategies (note 24).

3. INTEREST RECEIVABLE AND SIMILAR INCOME

	The Group		The Bank	
	2012	2011	**2012**	2011
	€000	€000	**€000**	€000
On loans and advances to banks	**17**	30	**17**	30
On loans and advances to customers	**21,250**	19,496	**21,249**	19,496
On balances with Central Bank of Malta	**86**	162	**86**	162
On treasury bills	**87**	1	**87**	1
	21,440	19,689	**21,439**	19,689
On debt securities	**15,928**	15,969	**15,842**	15,969
Amortisation of premium	**(1,157)**	(859)	**(1,157)**	(859)
	14,771	15,110	**14,685**	15,110
	36,211	34,799	**36,124**	34,799

Interest receivable on loans and advances to customers is netted off with €485,884 (2011: €139,676) in respect of interest accrued on impaired loans and advances to customers (note 15).

4. INTEREST PAYABLE

	The Group		The Bank	
	2012	2011	**2012**	2011
	€000	€000	**€000**	€000
On deposits by banks	**614**	411	**614**	411
On customer accounts	**13,803**	13,747	**13,852**	13,747
	14,417	14,158	**14,466**	14,158

5. DIVIDEND INCOME

	The Group		The Bank	
	2012	2011	**2012**	2011
	€000	€000	**€000**	€000
From equity shares	**141**	159	**518**	520

6. TRADING INCOME

	The Group		The Bank	
	2012	2011	**2012**	2011
	€000	€000	**€000**	€000
Profit on foreign exchange activities	**55**	215	**55**	215

7. NET GAINS ON DISPOSAL OF FINANCIAL INSTRUMENTS

	The Group		The Bank	
	2012	2011	**2012**	2011
	€000	€000	**€000**	€000
Realised gains on disposal of available-for-sale investments	**2,062**	39	**2,062**	39
Unrealised net fair value movements on financial assets at fair value through profit or loss	**276**	-	**-**	-
Realised gains on disposal of fair value through profit or loss investments	**7**	-	**-**	-
	2,345	39	**2,062**	39

8. PERSONNEL EXPENSES

	The Group		The Bank	
	2012	2011	**2012**	2011
	€000	€000	**€000**	€000
Wages and salaries:				
- key management personnel	**391**	347	**315**	274
- other staff	**5,335**	5,071	**5,378**	5,054
- wages recharged to subsidiary at cost	**-**	-	**(71)**	(70)
Social security costs	**420**	378	**416**	372
	6,146	5,796	**6,038**	5,630

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	
	2012	2011	**2012**	2011
	Number of Employees	Number of Employees	**Number of Employees**	Number of Employees
Managerial	**41**	41	**39**	38
Supervisory and clerical	**177**	168	**176**	169
Others	**12**	10	**12**	10
	230	219	**227**	217

9. OTHER ADMINISTRATIVE EXPENSES

	The Group		The Bank	
	2012	2011	**2012**	2011
	€000	€000	**€000**	€000
Remuneration payable to the auditors for:				
- the audit of financial statements	**31**	38	**28**	37
- tax compliance services	**2**	2	**2**	2
Directors' emoluments	**108**	110	**103**	105
Insurance	**337**	189	**333**	185
Professional fees	**415**	388	**405**	372
Repairs and maintenance	**1,098**	1,194	**1,090**	1,194
Telecommunications	**270**	344	**267**	341
Office operating expenses	**1,148**	1,524	**1,119**	1,524
Others	**1,700**	1,418	**1,682**	1,388
	5,109	5,207	**5,029**	5,148

10. NET IMPAIRMENT LOSSES

	The Group		The Bank	
	2012	2011	**2012**	2011
	€000	€000	**€000**	€000
Charge for the year:				
Loans and advances to customers:				
- collective impairment (note 15)	**232**	318	**232**	318
- individual impairment	**6,162**	2,243	**6,162**	2,243
- bad debts written off	**2**	11	**2**	3
On investments:				
- provision on debt and other fixed income instruments	**(1,361)**	(547)	**(1,361)**	(547)
- write off of bonds	**699**	1,107	**699**	1,107
On investment in subsidiary (note 20)	**-**	-	**250**	-
	5,734	3,132	**5,984**	3,124
Reversal of write-downs:				
Loans and advances to customers:				
- individual impairment	**(986)**	(499)	**(986)**	(499)
Net impairment losses	**4,748**	2,633	**4,998**	2,625

11. INCOME TAX EXPENSE

The major components of income tax expense for the years ended 31 December 2012 and 2011 are:

	The Group		The Bank	
	2012	2011	**2012**	2011
	€000	€000	**€000**	€000
Current income tax	**4,467**	3,335	**4,467**	3,335
Deferred income tax (note 24)	**(1,591)**	(573)	**(1,678)**	(573)
Income tax expense reported in the income statement	**2,876**	2,762	**2,789**	2,762

A reconciliation between tax expense and the product of accounting profit multiplied by the applicable tax rate in Malta of 35% (2011: 35%) for the years ended 31 December 2012 and 2011 is as follows:

	The Group		The Bank	
	2012	2011	**2012**	2011
	€000	€000	**€000**	€000
Profit before tax	**9,889**	8,358	**9,070**	8,425
Theoretical tax expense at 35%	**3,461**	2,925	**3,175**	2,948
Tax effect of:				
- Differences between depreciation and capital allowances	**37**	39	**37**	39
- Non-taxable income	**(445)**	(103)	**(214)**	(105)
- Non-deductible expenses	**2**	8	**-**	3
- Income subject to reduced rates of tax	**(122)**	(119)	**(122)**	(119)
- Current year tax losses surrendered by a group company	**-**	-	**(46)**	(16)
- Others	**(57)**	12	**(41)**	12
Income tax expense	**2,876**	2,762	**2,789**	2,762

12. DIVIDENDS

Disclosed and paid during the year:

	The Group		The Bank	
	2012	2011	**2012**	2011
	€000	€000	**€000**	€000
Dividends on ordinary shares:				
Final gross of income tax for 2011: 2.46 cents per share (2010: 4.75 cents per share)	**1,195**	1,235	**1,195**	1,235
Final net of income tax for 2011: 2.18 cents per share (2010: 3.32 cents per share)	**1,061**	862	**1,061**	862

12. DIVIDENDS (continued)

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

	The Group		The Bank	
	2012	2011	**2012**	2011
	€000	€000	**€000**	€000
Proposed final gross of income tax for 2012: 2.72 cents per share (2011: 2.46 cents per share)	**1,943**	1,195	**1,943**	1,195
Final net of income tax for 2012: 1.77 cents per share (2011: 2.18 cents per share)	**1,263**	1,061	**1,263**	1,061

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

	The Group		The Bank	
	2012	2011	**2012**	2011
	€000	€000	**€000**	€000
Cash in hand (note 36)	**4,814**	4,032	**4,814**	4,032
Balances with Central Bank of Malta (excluding reserve deposit) (note 36)	**25,656**	-	**25,656**	-
Reserve deposit with Central Bank of Malta (note 36)	**7,206**	2,335	**7,206**	2,335
Treasury bills (note 36)	**2,982**	-	**2,982**	-
	40,658	6,367	**40,658**	6,367

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 €1,150,000 (2011: €935,000) 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	
	2012	2011	**2012**	2011
	€000	€000	**€000**	€000
Repayable on call and at short notice (note 36)	**14,926**	22,603	**14,926**	22,603
Analysed by currency:				
- Euro	**5,721**	18,250	**5,721**	18,250
- Foreign	**9,205**	4,353	**9,205**	4,353
	14,926	22,603	**14,926**	22,603

15. LOANS AND ADVANCES TO CUSTOMERS

	The Group		The Bank	
	2012	2011	**2012**	2011
	€000	€000	**€000**	€000
Repayable on call and at short notice	**60,829**	69,014	**60,851**	69,014
Term loans and advances	**460,111**	413,658	**460,111**	413,658
Gross loans and advances	**520,940**	482,672	**520,962**	482,672
Less allowance for impairment losses	**(14,917)**	(9,023)	**(14,917)**	(9,023)
	506,023	473,649	**506,045**	473,649

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	
	2012	2011	**2012**	2011
	€000	€000	**€000**	€000
At 1 January	**9,023**	6,821	**9,023**	6,821
Charge for the year:				
- Collective (note 10)	**232**	318	**232**	318
- Individual	**5,662**	1,884	**5,662**	1,884
At 31 December	**14,917**	9,023	**14,917**	9,023

Included in the movement of the individual impairment allowance is an amount of €485,883 (2011: €139,676) in respect of accrued interest on impaired loans and advances to customers.

Impairment losses:

	The Group		The Bank	
	2012	2011	**2012**	2011
	€000	€000	**€000**	€000
- Individual	**11,341**	5,680	**11,341**	5,680
- Collective	**3,576**	3,343	**3,576**	3,343
	14,917	9,023	**14,917**	9,023

15. LOANS AND ADVANCES TO CUSTOMERS (continued)

Gross loans and advances analysed by currency:

	The Group		The Bank	
	2012	2011	**2012**	2011
	€000	€000	**€000**	€000
- Euro	**519,871**	481,361	**519,893**	481,361
- Foreign	**1,069**	1,311	**1,069**	1,311
	520,940	482,672	**520,962**	482,672

Included with the individually assessed allowance at the reporting date is an amount of €1,801,164 (2011: €1,315,281) which has been netted-off against interest receivable.

The aggregate amount of impaired loans and advances at the reporting date amounted to €17,156,832 (2011: €5,437,503).

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 38.3.

Collateral repossessed

During 2009 the Bank took possession of property with a carrying value of €330,000 at year end. As at 31 December 2012 and 2011 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		The Bank	
	2012	2011	**2012**	2011
	€000	€000	**€000**	€000
Agriculture	**8,403**	8,813	**8,403**	8,813
Fishing	**4,342**	3,879	**4,342**	3,879
Mining and quarrying	**122**	299	**122**	299
Manufacturing	**20,837**	16,166	**20,837**	16,166
Electricity, gas and water supply	**16,987**	26,698	**16,987**	26,698
Construction	**79,006**	82,633	**79,006**	82,633
Wholesale and retail trade	**35,640**	32,940	**35,640**	32,940
Hotels and restaurants, excluding related construction activities	**25,479**	23,554	**25,479**	23,554
Transport, storage and communication	**2,172**	2,143	**2,172**	2,143
Financial intermediation	**2,292**	603	**2,314**	603
Real estate, renting and business	**19,214**	19,584	**19,214**	19,584
Public administration	**1,229**	1,005	**1,229**	1,005
Education	**12,734**	11,060	**12,734**	11,060
Health and social work	**1,296**	1,142	**1,296**	1,142
Community, recreational and personal service activities	**7,033**	5,814	**7,033**	5,814
Households and individuals	**284,154**	246,339	**284,154**	246,339
	520,940	482,672	**520,962**	482,672

17. DEBT AND OTHER FIXED INCOME INSTRUMENTS

	The Group		The Bank	
	2012	2011	**2012**	2011
	€000	€000	**€000**	€000
Held-to-maturity	**95,985**	87,147	**95,985**	87,147
Available-for-sale	**208,472**	185,962	**208,472**	185,962
	304,457	273,109	**304,457**	273,109

Held-to-maturity

Issued by public bodies:				
- Local government	**94,661**	85,832	**94,661**	85,832
Issued by other issuers:				
- Foreign others	**1,324**	1,312	**1,324**	1,312
- Local other	**-**	3	**-**	3
	1,324	1,315	**1,324**	1,315
Total	**95,985**	87,147	**95,985**	87,147

17. DEBT AND OTHER FIXED INCOME INSTRUMENTS (continued)

	The Group		The Bank	
	2012	2011	**2012**	2011
	€000	€000	**€000**	€000
Available-for-sale				
Issued by public bodies:				
- Local government	**70,156**	50,380	**70,156**	50,380
- Foreign government	**18,406**	19,657	**18,406**	19,657
	88,562	70,037	**88,562**	70,037
Issued by other issuers:				
- Local banks	**2,153**	2,153	**2,153**	2,153
- Foreign banks	**27,535**	28,271	**27,535**	28,271
- Foreign others	**84,517**	79,921	**84,517**	79,921
- Local others	**5,705**	5,580	**5,705**	5,580
	119,910	115,925	**119,910**	115,925
Total	**208,472**	185,962	**208,472**	185,962
Total debt and other fixed income instruments	**304,457**	273,109	**304,457**	273,109
Analysed by currency:				
- Euro	**258,967**	223,978	**258,967**	223,978
- Foreign	**45,490**	49,131	**45,490**	49,131
	304,457	273,109	**304,457**	273,109
Unamortised premiums on debt and other fixed income instruments	**5,082**	2,807	**5,082**	2,807
Listing status:				
- Listed on Malta Stock Exchange	**172,676**	144,869	**172,676**	144,869
- Listed elsewhere	**131,781**	128,240	**131,781**	128,240
	304,457	273,109	**304,457**	273,109

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 (2011: the same). There is no market for this investment and the Bank intends to hold it for the long term.

As at 31 December 2012, the Bank had Portuguese and Irish debt instruments classified as available-for-sale amounting to €2,478,073 (2011: €3,337,353) and €598,512 (2011: €3,090,354) respectively. Also, the Bank had available-for-sale instruments in Italy amounting €12,232,466 (2011: €10,555,747), in Spain amounting to €6,423,567 (2011: €9,272,026) and in Greece amounting to €221,533 (2011: €1,057,600).

As at 31 December 2012, the Bank had Greek debt instruments classified as held-to-maturity amounting to €335,558. 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.

17. DEBT AND OTHER FIXED INCOME INSTRUMENTS (continued)

Debt instruments issued by local government with a nominal value of €98,289,970 (2011: €108,721,556) have been pledged against the provision of credit lines by the Central Bank of Malta, under the usual terms and conditions applying to such agreements.

Financial assets with a nominal value of €4,331,000 (2011: €3,935,000) have been pledged in favour of the MFSA's Depositors' Compensation Scheme, as follows:

The Group / Bank

	2012	2011
	€000	€000
Deposit with Central Bank of Malta (note 13)	1,150	935
Debt instruments with local government	3,181	3,000
	4,331	3,935

18. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

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

	The Group		The Bank	
	2012	2011	2012	2011
	€000	€000	€000	€000
Quoted foreign debt instruments	5,886	-	-	-

19. EQUITY AND OTHER NON-FIXED INCOME INSTRUMENTS

Available-for-sale

	The Group		The Bank	
	2012	2011	2012	2011
	€000	€000	€000	€000
Listed on Malta Stock Exchange	1,213	1,117	1,213	1,117
Listed elsewhere	189	823	189	823
	1,402	1,940	1,402	1,940

All available-for-sale equities are recorded at fair value except for the Bank's investment of NOK 800,000 equivalent to €108,528 (2011: €102,931) in Cultura Sparebank, which is unquoted and thus recorded at cost since its fair value cannot be reliably estimated (2011: the same). There is no market for this investment and the Bank intends to hold it for the long term.

20. INVESTMENT IN SUBSIDIARIES

	2012	2011
	€000	€000
Cost		
At 31 December	**5,500**	500
Provision for diminution in value		
At 1 January	**-**	-
Impairment allowance (note 10)	**250**	-
At 31 December	**250**	-
Carrying amount		
At 31 December	**5,250**	500

The shares in the subsidiaries are made up as follows:

Name	Country of incorporation	% equity interest 2012	% equity interest 2011	Cost 2012 €000	Cost 2011 €000
APS Consult Limited	**Malta**				
199,999 ordinary shares at €2.50		**99.99**	99.99	**500**	500
APS Regular Income Ethical Fund	**Malta**				
5,000,000 units at €1.00		**63.97**	-	**5,000**	-
				5,500	500

The market value of the Bank's shareholding in APS Regular Income Ethical Fund as at 31 December 2012 amounted to €5,224,000. During 2011, the Bank lost control over APS Income Fund and, therefore, this sub-fund continued to be recognised as an Investment in associate as at 31 December 2012 (note 21).

The investment of €500,000 in APS Consult Limited has been partially impaired due to the losses incurred by the subsidiary. An impairment allowance of €250,000 was recognised in the income statement for the year ended 31 December 2012 (note 10).

21. INVESTMENT IN ASSOCIATE

The Bank

Name	Country of incorporation	% equity interest 2012	% equity interest 2011	Cost 2012 €000	Cost 2011 €000
APS Income Fund	**Malta**				
1,199 founder shares at €1.00		**99.99**	99.99	**1**	1
98,853.14 units at €100.01 (2011: 98,853.14 units at €100.01)		**31.76**	40.36	**9,886**	9,886
				9,887	9,887

21. INVESTMENT IN ASSOCIATE (continued)

The following table illustrates summarised financial information of the Group's investment in APS Income Fund:

The Group	**2012**	2011
	€000	€000
Share of associate's statement of financial position:		
Current assets	**285**	245
Non-Current assets	**9,977**	9,803
Current liabilities	**(56)**	(32)
Equity	**10,206**	10,016
Share of associate's revenue and profits:		
Revenue	**711**	292
Share of results of associate, net of tax	**689**	114
Investment at cost	**9,894**	10,140
Share of results of associate, net of tax	**689**	114
Dividend distribution	**(377)**	(360)
Carrying amount of the investment	**10,206**	9,894

22. INTANGIBLE ASSETS

The Group / Bank

	Computer software €000
Cost	
At 1 January 2011	6,794
Additions	325
At 31 December 2011	7,119
Additions	280
Disposals	(2)
At 31 December 2012	**7,397**
Amortisation	
At 1 January 2011	5,532
Amortisation charge for the year	624
At 31 December 2011	6,156
Amortisation charge for the year	606
Disposals	(1)
At 31 December 2012	**6,761**
Carrying amount	
At 31 December 2012	**636**
At 31 December 2011	963
At 1 January 2011	1,262

23. PROPERTY AND EQUIPMENT

The Group

	Land and Buildings €000	Computer Equipment €000	Other €000	Total €000
Cost				
At 1 January 2011	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
Additions	239	272	206	717
Disposals	-	(30)	(9)	(39)
At 31 December 2012	**10,711**	**3,903**	**11,188**	**25,802**
Depreciation				
At 1 January 2011	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
Depreciation charge for the year	99	272	879	1,250
Disposals	-	(30)	(7)	(37)
At 31 December 2012	**1,390**	**3,361**	**7,415**	**12,166**
Carrying amount				
At 31 December 2012	**9,321**	**542**	**3,773**	**13,636**
At 31 December 2011	9,181	542	4,448	14,171
At 1 January 2011	9,143	517	5,105	14,765

	2012 €000	2011 €000
Future capital expenditure:		
- Authorised by the Directors and contracted	**1,199**	-
- Authorised by the Directors but not yet contracted	**1,922**	2,468
	3,121	2,468

23. PROPERTY AND EQUIPMENT (continued)

The Bank

	Land and Buildings €000	Computer Equipment €000	Other €000	Total €000
Cost				
At 1 January 2011	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
Additions	239	272	206	717
Disposals	-	(30)	(9)	(39)
At 31 December 2012	**10,711**	**3,896**	**11,158**	**25,765**
Depreciation				
At 1 January 2011	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
Depreciation charge for the year	99	271	874	1,244
Disposals	-	(30)	(7)	(37)
At 31 December 2012	**1,390**	**3,353**	**7,389**	**12,132**
Carrying amount				
At 31 December 2012	**9,321**	**543**	**3,769**	**13,633**
At 31 December 2011	9,181	542	4,439	14,162
At 1 January 2011	9,143	515	5,091	14,749

	2012 €000	2011 €000
Future capital expenditure:		
- Authorised by the Directors and contracted	**1,199**	-
- Authorised by the Directors but not yet contracted	**1,922**	2,468
	3,121	2,468

24. DEFERRED TAX ASSETS

Deferred income tax at 31 December relates to the following:

	The Group		The Bank	
	2012	2011	**2012**	2011
	€000	€000	**€000**	€000
Deferred income tax assets / liabilities:				
Fair value movements in investment securities	**(1,956)**	623	**(1,956)**	623
Impairment allowance for loans and advances to customers	**5,221**	3,652	**5,221**	3,652
Impairment allowance for investment in subsidiary	**-**	-	**87**	-
Excess of capital allowances over depreciation	**19**	(4)	**19**	(4)
Deferred tax assets net	**3,284**	4,271	**3,371**	4,271

Deferred tax arising on the fair value movements on investment securities, amounting to €2,556,573 was debited directly in equity (2011: credited €1,111,159); other movements of €1,591,420 (2011: credited by €572,604) and €1,678,920 (2011: credited by €572,604) were credited in the income statement of the Group and Bank respectively (note 11).

25. OTHER RECEIVABLES

	The Group		The Bank	
	2012	2011	**2012**	2011
	€000	€000	**€000**	€000
Accrued income	**5,523**	5,674	**5,374**	5,640
Prepayments and other receivables	**542**	446	**490**	402
Amounts due from subsidiaries	**-**	-	**28**	10
	6,065	6,120	**5,892**	6,052

26. AMOUNTS OWED TO BANKS

	The Group		The Bank	
	2012	2011	**2012**	2011
	€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 36)	**70,021**	50,677	**70,021**	50,677
Analysed by currency:				
- Euro	**70,020**	50,011	**70,020**	50,011
- Foreign	**1**	666	**1**	666
	70,021	50,677	**70,021**	50,677

27. AMOUNTS OWED TO CUSTOMERS

	The Group		The Bank	
	2012	2011	**2012**	2011
	€000	€000	**€000**	€000
Term deposits	**512,187**	472,318	**514,187**	472,318
Repayable on demand	**230,919**	215,307	**231,047**	215,328
	743,106	687,625	**745,234**	687,646
Analysed by currency:				
- Euro	**691,626**	632,015	**693,754**	632,036
- Foreign	**51,480**	55,610	**51,480**	55,610
	743,106	687,625	**745,234**	687,646

28. OTHER LIABILITIES

	The Group		The Bank	
	2012	2011	**2012**	2011
	€000	€000	**€000**	€000
Other liabilities	**4,951**	1,970	**4,926**	1,960
Amounts due to subsidiaries	**-**	-	**21**	2
	4,951	1,970	**4,947**	1,962

29. ACCRUALS

	The Group		The Bank	
	2012	2011	**2012**	2011
	€000	€000	**€000**	€000
Accrued interest payable	**5,077**	4,607	**5,097**	4,607
Other accruals	**1,296**	1,969	**1,267**	1,958
	6,373	6,576	**6,364**	6,565

30. SHARE CAPITAL

	The Group		The Bank	
	2012	2011	**2012**	2011
	€000	€000	**€000**	€000
Authorised				
125,000,000 ordinary shares of €0.60 each	**75,000**	75,000	**75,000**	75,000

30. SHARE CAPITAL (continued)

	The Group		The Bank	
	2012	2011	**2012**	2011
	€000	€000	**€000**	€000
Issued and fully paid				
59,333,000 ordinary shares of €0.60 each (2011: 42,667,000 ordinary shares of €0.60 each)	**35,600**	25,600	**35,600**	25,600
Issued				
20,008,000 ordinary shares of €0.60 each (60% paid up) (2011: 30% paid up)	**7,203**	3,602	**7,203**	3,602
	42,803	29,202	**42,803**	29,202

The Group/Bank

	2012	2011
	Number of shares	Number of shares
At 1 January	**62,675**	26,000
Capitalisation of retained earnings	**16,666**	16,667
Fresh injection of share capital	**-**	20,008
At 31 December	**79,341**	62,675

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. In 2011, the increase was made through a fresh issue of 20,008,000 ordinary shares of €0.60 each which were 30% paid up, and the capitalisation of retained earnings of 16,667,000 ordinary shares of €0.60 each. In 2012, the paid up portion of the 20,008,000 shares issued in 2011, was increased to 60%, resulting in an increase in share capital of €3,601,440. The ordinary share capital was further increased through a capitalisation of retained earnings of €10,000,200.

31. SHARE PREMIUM

	The Group		The Bank	
	2012	2011	**2012**	2011
	€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

32. 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.

33. 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.

34. CONTINGENT LIABILITIES

	The Group		The Bank	
	2012	2011	**2012**	2011
	€000	€000	**€000**	€000
Guarantees	**5,805**	6,325	**5,805**	6,325
Other contingent liabilities	**139**	525	**139**	525
	5,944	6,850	**5,944**	6,850

Contingent liabilities are mainly letters of credit and special guarantees that commit the Bank to make payments on behalf of customers in the event of a claim. The majority of contingent liabilities is backed by corresponding obligations from third parties. There were no significant law suits against the Group and the Bank as at 31 December 2012 and 31 December 2011.

35. COMMITMENTS

	The Group		The Bank	
	2012	2011	**2012**	2011
	€000	€000	**€000**	€000
Undrawn formal standby facilities, credit facilities and other commitments to lend	**156,314**	152,843	**156,314**	152,843

36. NOTES TO THE STATEMENTS OF CASH FLOWS

	The Group		The Bank	
	2012	2011	**2012**	2011
	€000	€000	**€000**	€000
Cash in hand (note 13)	**4,814**	4,032	**4,814**	4,032
Balances with Central Bank of Malta (excluding reserve deposit) (note 13)	**25,656**	-	**25,656**	-
Treasury bills (with original maturity of less than 3 months) (note 13)	**2,982**	-	**2,982**	-
Loans and advances to banks (repayable within 3 months) (note 14)	**14,926**	22,603	**14,926**	22,603
Amounts owed to banks (note 26)	**(70,021)**	(50,677)	**(70,021)**	(50,677)
Cash and cash equivalents included in the statements of cash flows	**(21,643)**	(24,042)	**(21,643)**	(24,042)
Reserve deposit with Central Bank of Malta (note 13)	**7,206**	2,335	**7,206**	2,335
	(14,437)	(21,707)	**(14,437)**	(21,707)
Equivalent items reported in the statement of financial position:				
Balances with Central Bank of Malta, Treasury bills and cash (note 13)	**40,658**	6,367	**40,658**	6,367
Loans and advances to banks (note 14)	**14,926**	22,603	**14,926**	22,603
Amounts owed to banks (note 26)	**(70,021)**	(50,677)	**(70,021)**	(50,677)
	(14,437)	(21,707)	**(14,437)**	(21,707)

37. RELATED PARTY DISCLOSURES

The Group

Consolidated subsidiaries and associate

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

Name	Country of incorporation	% equity interest 2012	2011
APS Consult Limited	Malta	**99.99**	99.99
APS Income Fund	Malta	**31.76**	40.36
APS Regular Income Ethical Fund	Malta	**63.97**	-

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, BKR4012.

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

Transactions with subsidiaries

APS Bank Limited is the parent company of APS Consult Limited and APS Regular Income Ethical Fund, a sub-fund of APS Funds Sicav plc.

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

Related parties	Year	Income from related parties	Expenses charged to / (by) related parties	Amounts owed by related parties	Amounts owed to related parties
		€000	€000	€000	€000
APS Consult Limited	**2012**	**14**	**-**	**14**	**2**
APS Consult Limited	2011	14	(6)	10	2
APS Income Fund	**2012**	**570**	**-**	**54**	**34**
APS Income Fund	2011	531	-	46	47
APS Regular Income Ethical Fund	**2012**	**26**	**-**	**14**	**19**
APS Regular Income Ethical Fund	2011	-	-	-	-

37. RELATED PARTY DISCLOSURES (continued)

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.

	2012	2011
	€000	€000
Loans and advances	132	70
Commitments	11	98

(b) Transactions with executives and other staff:

	2011	2010
	€000	€000
Loans and advances	2,990	3,128
Commitments	101	226

Transactions with other related parties

	Balances at at 31.12.2012	Interest receivable 2012	Balances at at 31.12.2011	Interest receivable 2011
	€000	€000	€000	€000
Amounts due from other related parties:				
Individuals related to directors	-	6	170	8
Entities with common directorship	19,458	718	18,346	572
	19,458	724	18,516	580

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 is at normal commercial rates.

	Balances at at 31.12.2012	Interest receivable 2012	Balances at at 31.12.2012	Interest receivable 2012
	€000	€000	€000	€000
Amounts due from other related parties:				
Shareholders	29,006	543	19,179	642

Included in the amounts due to shareholders, are deposits of €5,300,000 (2011: €5,300,000) held as collateral for loan commitments and overdraft facilities granted to related parties.

For the year ended 31 December 2012, the Bank has not made any provision for impairment of receivables relating to amounts due from related parties (2011: Nil).

No guarantees were received by related parties as at end of December 2012.

38. RISK MANAGEMENT

38.1 Introduction

The Group's main activities are subject to a combination of financial risks which are inherent in the business of banking. Financial risks are managed by the Group within statutory limits and within internal parameters established by the Board of Directors. There have been no changes in the management of risks during the year.

The Group 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.

38.2 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.

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 €96.0 million (2011: €87.1 million). Their market value amounted to €108.9 million (2011: €98.6 million), whilst their nominal value amounted to €95.9 million (2011: €88.0 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, 72% (2011: 81%) have contractual re-pricing within one year, whilst 28% (2011: 19%) 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 assets;

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

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

All available-for-sale instruments and financial assets at fair value through profit or loss held by the Group as at 31 December 2012 and 31 December 2011 are classified under level 1 in the above hierarchy except for the unquoted available-for-sale financial instruments of €0.9 million (2011: the same) which are classified under level 2 and stated at cost (2011: the same).

38. RISK MANAGEMENT (continued)

38.3 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 property, personal or bank guarantees. The security held is subject to periodic review to ensure that it remains adequate and valid.

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

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

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		The Bank	
	Gross Maximum exposure		Gross Maximum exposure	
	2012	2011	**2012**	2011
	€000	€000	**€000**	€000
Treasury bills	**2,982**	-	**2,982**	-
Cash and balances with Central Bank of Malta (excluding cash in hand)	**32,862**	2,335	**32,862**	2,335
Cheques in course of collection	**2,650**	923	**2,650**	923
Loans and advances to banks	**14,926**	22,603	**14,926**	22,603
Loans and advances to customers	**294,527**	274,682	**294,527**	274,682
Loans and advances to corporate entities	**211,496**	198,967	**211,518**	198,967
Debt and other fixed income instruments	**304,457**	273,109	**304,457**	273,109
Financial assets at fair value through profit and loss	**5,886**	-	**-**	-
Equity and other non-fixed income instruments	**1,402**	1,940	**1,402**	1,940
Investment in subsidiaries	**-**	-	**5,250**	500
Investment in associate	**10,206**	9,894	**9,887**	9,887
Other receivables	**6,065**	6,120	**5,892**	6,052
Total	**887,459**	790,573	**886,353**	790,998

Credit risk exposures relating to off-balance sheet items are as follows:

Financial guarantees	**5,944**	6,850	**5,944**	6,850
Commitments	**156,314**	152,843	**156,314**	152,843
	162,258	159,693	**162,258**	159,693

38. RISK MANAGEMENT (continued)

38.3 Credit risk (continued)

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

The Group

	Govern-ment	Real Estate	Instit-utions	Short Term Claims on Instit-utions	Corpo-rate	CIU	Retail	Other	Total
	€000	€000	€000	€000	€000	€000	€000	€000	€000
Treasury bills	2,982	-	-	-	-	-	-	-	2,982
Cash and balances with Central Bank of Malta (excluding cash in hand)	32,862	-	-	-	-	-	-	-	32,862
Cheques in course of collection	-	-	-	-	-	-	-	2,650	2,650
Loans and advances to banks	-	-	-	14,926	-	-	-	-	14,926
Loans and advances to customers	5,397	261,509	-	-	192,714	-	49,491	-	509,111
Debt and other fixed income instruments	183,433	-	30,302	-	90,722	-	-	-	304,457
Financial assets at fair value through profit or loss	-	-	-	-	-	5,886	-	-	5,886
Equity and other non-fixed income instruments	-	-	963	-	214	225	-	-	1,402
Investment in Associate	-	-	-	-	-	10,206	-	-	10,206
Other receivables	-	-	-	-	-	-	-	6,065	6,065
At 31 December 2012	**224,674**	**261,509**	**31,265**	**14,926**	**283,650**	**16,317**	**49,491**	**8,715**	**890,547**
At 31 December 2011	171,509	226,156	35,327	22,603	270,688	10,103	50,310	7,041	793,737
Financial guarantees	-	8	-	-	4,163	-	1,773	-	5,944
Commitments	15,659	73,849	-	-	60,807	-	5,999	-	156,314
At 31 December 2012	**15,659**	**73,857**	**-**	**-**	**64,970**	**-**	**7,772**	**-**	**162,258**
At 31 December 2011	16,697	67,254	-	-	65,650	-	10,092	-	159,693

38. RISK MANAGEMENT (continued)

38.3 Credit risk (continued)

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

The Bank

	Government	Real Estate	Institutions	Short Term Claims on Institutions	Corporate	CIU	Retail	Other	Total
	€000	€000	€000	€000	€000	€000	€000	€000	€000
Treasury bills	2,982	-	-	-	-	-	-	-	2,982
Cash and balances with Central Bank of Malta (excluding cash in hand)	32,862	-	-	-	-	-	-		32,862
Cheques in course of collection	-	-	-	-	-	-	-	2,650	2,650
Loans and advances to banks	-	-	-	14,926	-	-	-	-	14,926
Loans and advances to customers	5,397	261,509	-	-	192,736	-	49,491	-	509,133
Debt and other fixed income instruments	183,433	-	30,302	-	90,722	-	-	-	304,457
Equity and other non- fixed income instruments	-	-	963	-	214	225	-	-	1,402
Investment in subsidiaries	-	-	-	-	250	5,000	-	-	5,250
Investment in associate	-	-	-	-	-	9,887	-	-	9,887
Other receivables	-	-	-	-	-	-	-	5,892	5,892
At 31 December 2012	**224,674**	**261,509**	**31,265**	**14,926**	**283,922**	**15,112**	**49,491**	**8,542**	**889,441**
At 31 December 2011	171,509	226,156	35,327	22,603	271,188	10,096	50,310	6,974	794,163
Financial guarantees	-	8	-	-	4,163	-	1,773	-	5,944
Commitments	15,659	73,849	-	-	60,807	-	5,999	-	156,314
At 31 December 2012	**15,659**	**73,857**	**-**	**-**	**64,970**	**-**	**7,772**	**-**	**162,258**
At 31 December 2011	16,697	67,254	-	-	65,650	-	10,092	-	159,693

38. RISK MANAGEMENT (continued)

38.3 Credit risk (continued)

Collateral

The Bank holds collateral for its loans and advances portfolio. Of the total loans and advances to customers, 86.49% (2011: 87.92%) 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
Treasury bills	-	-	-	-	2,982	-	-	2,982
Cash and balances with Central Bank of Malta (excluding cash in hand)	32,862	-	-	-	-	-	-	32,862
Cheques in course of collection	2,650	-	-	-	-	-	-	2,650
Loans and advances to banks	14,926	-	-	-	-	-	-	14,926
Loans and advances to customers	2,314	20,241	82,359	33,788	1,229	71,565	294,527	506,023
Debt and other fixed income instruments	67,074	9,923	5,768	16,309	184,253	21,130	-	304,457
Financial assets at fair value through profit or loss	3,418	405	214	223	203	1,423	-	5,886
Equity and other non-fixed income instruments	1,155	-	-	-	-	247	-	1,402
Investment in Associate	-	-	-	-	-	10,206	-	10,206
Other receivables	-	-	-	-	-	6,065	-	6,065
At 31 December 2012	**124,399**	**30,569**	**88,341**	**50,320**	**188,667**	**110,636**	**294,527**	**887,459**
At 31 December 2011	100,733	23,323	93,502	45,196	173,206	98,011	256,602	790,573
Financial guarantees	503	28	760	1,508	-	2,109	1,036	5,944
Commitments	2,419	6,119	30,519	11,090	4,617	25,770	75,780	156,314
As at 31 December 2012	**2,922**	**6,147**	**31,279**	**12,598**	**4,617**	**27,879**	**76,816**	**162,258**
At 31 December 2011	-	2,661	32,688	14,014	4,098	34,349	71,883	159,693

38. RISK MANAGEMENT (continued)

38.3 Credit risk (continued)

The Bank

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
Treasury bills	-	-	-	-	2,982	-	-	2,982
Cash and balances with Central Bank of Malta (excluding cash in hand)	32,862	-	-	-	-	-	-	32,862
Cheques in course of collection	2,650	-	-	-	-	-	-	2,650
Loans and advances to banks	14,926	-	-	-	-	-	-	14,926
Loans and advances to customers	2,314	20,241	82,359	33,788	1,229	71,587	294,527	506,045
Debt and other fixed income instruments	67,074	9,923	5,768	16,309	184,253	21,130	-	304,457
Equity and other non-fixed income instruments	1,155	-	-	-	-	247	-	1,402
Investment in subsidiaries	-	-	-	-	-	5,250	-	5,250
Investment in associate	-	-	-	-	-	9,887	-	9,887
Other receivables	-	-	-	-	-	5,892	-	5,892
At 31 December 2012	**120,981**	**30,164**	**88,127**	**50,097**	**188,464**	**113,993**	**294,527**	**886,353**
At 31 December 2011	100,733	23,323	93,502	45,196	173,206	98,436	256,602	790,998
Financial guarantees	503	28	760	1,508	-	2,109	1,036	5,944
Commitments	2,419	6,119	30,519	11,090	4,617	25,770	75,780	156,314
As at 31 December 2012	**2,922**	**6,147**	**31,279**	**12,598**	**4,617**	**27,879**	**76,816**	**162,258**
At 31 December 2011	-	2,661	32,688	14,014	4,098	34,349	71,883	159,693

Credit quality

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

The Group

As at 31 December 2012

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

38. RISK MANAGEMENT (continued)

38.3 Credit risk (continued)

Credit quality (continued)

As at 31 December 2011

	Balances with CBM and Treasury bills	Financial assets at fair value through profit and loss	Debt securities	Loans and advances to banks	Total
	€000	€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**

The Bank

As at 31 December 2012

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

As at 31 December 2011

	Balances with CBM and Treasury bills	Financial assets at fair value through profit and loss	Debt securities	Loans and advances to banks	Total
	€000	€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**

38. RISK MANAGEMENT (continued)

38.3 Credit risk (continued)

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

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

The Group

	2012	2011
	€000	€000
Neither past due nor impaired	450,200	430,109
Past due but not impaired	51,782	45,810
Impaired	18,958	6,753
	520,940	482,672

The Bank

	2012	2011
	€000	€000
Neither past due nor impaired	450,222	430,109
Past due but not impaired	51,782	45,810
Impaired	18,958	6,753
	520,962	482,672

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

The Group

	2012	2011
	€000	€000
Regular	438,803	415,392
Watch List	924	4,887
Sub-Standard	2,167	4,677
Doubtful	8,306	5,153
	450,200	430,109

The Bank

	2012	2011
	€000	€000
Regular	438,825	415,392
Watch List	924	4,887
Sub-Standard	2,167	4,677
Doubtful	8,306	5,153
	450,222	430,109

38. RISK MANAGEMENT (continued)

38.3 Credit risk (continued)

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:

	2012	2011
	€000	€000
Past due up to 29 days	**9,318**	2,413
Past due 30-59 days	**5,960**	5,730
Past due 60-89 days	**10,027**	11,917
Past due over 90 days	**26,477**	25,750
	51,782	45,810

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 €26,326,400 (2011: €14,705,000).

Information on impaired and past due facilities by significant industry and by significant geographical area, as required by BR/07/2012 – Publication of Annual Report and Audited Financial Statements of Credit Institutions Authorised under the Banking Act 1994, is not being disclosed because given the Bank's small loan portfolio, the identity of clients may be easily inferred from such information.

38.4 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. 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. It also maintains a strong liquidity buffer with a liquidity ratio of 63%, which is comfortably in excess of the minimum regulatory requirement of 30%.

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

The table below analyses the assets and liabilities into relevant maturity groupings, based on the remaining period at reporting date to the contractual maturity date. Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Bank expects that many customers will not request repayment on the earliest date it could be required to pay and the table below does not reflect the expected cash flows indicated by its deposit retention history.

38. RISK MANAGEMENT (continued)

38.4 Liquidity risk continued

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 2012						
Assets						
Treasury bills	2,982	-	-	-	-	2,982
Cash and balances with Central Bank of Malta	37,676	-	-	-	-	37,676
Cheques in course of collection	2,650	-	-	-	-	2,650
Loans and advances to banks	14,926	-	-	-	-	14,926
Loans and advances to customers	84,393	18,567	59,519	343,544	-	506,023
Debt and other fixed income financial instruments	4,324	27,678	119,463	152,992	-	304,457
Financial assets at fair value through profit and loss	-	-	1,034	4,852	-	5,886
Equity and other non-fixed income instruments	-	-	-	-	1,402	1,402
Investment in associate	-	-	-	-	10,206	10,206
Other assets	854	429	1,823	2,959	17,886	23,951
	147,805	**46,674**	**181,839**	**504,347**	**29,494**	**910,159**
Liabilities and equity						
Amounts owed to banks	21	-	70,000	-	-	70,021
Amounts owed to customers	388,368	196,752	148,450	9,536	-	743,106
Other liabilities	3,213	1,331	2,419	34	6,247	13,244
Equity	-	-	-	-	83,788	83,788
	391,602	**198,083**	**220,869**	**9,570**	**90,035**	**910,159**
Net	**(243,797)**	**(151,409)**	**(39,030)**	**494,777**	**(60,541)**	**-**

38. RISK MANAGEMENT (continued)

38.4 Liquidity risk (continued)

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**
At 31 December 2011						
Liabilities and equity						
Amounts owed to banks	50,677	-	-	-	-	50,677
Amounts owed to customers	381,268	174,689	131,654	14	-	687,625
Other liabilities	560	3,781	266	-	5,732	10,339
Equity	-	-	-	-	65,699	65,699
	432,505	**178,470**	**131,920**	**14**	**71,431**	**814,340**
Net	**(319,337)**	**(136,419)**	**89,077**	**406,541**	**(39,862)**	**-**

38. RISK MANAGEMENT (continued)

38.4 Liquidity risk (continued)

Analysis of financial liabilities by remaining contractual maturities

The table below summarises the maturity profile of the Group's financial liabilities at 31 December 2012 and 31 December 2011 based on contractual undiscounted repayment obligations,

The Group

	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 2012					
Liabilities					
Amounts owed to banks	21	-	70,000	-	70,021
Amounts owed to customers	238,459	311,897	181,424	29,946	761,726
	238,480	**311,897**	**251,424**	**29,946**	**831,747**

	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	230,647	294,240	146,950	18,579	690,416
	281,324	**294,240**	**146,950**	**18,579**	**741,093**

38. RISK MANAGEMENT (continued)

38.4 Liquidity risk (continued)

The Bank

	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 2012						
Assets						
Treasury bills	2,982	-	-	-	-	2,982
Cash and balances with Central Bank of Malta	37,676	-	-	-	-	37,676
Cheques in course of collection	2,650	-	-	-	-	2,650
Loans and advances to banks	14,926	-	-	-	-	14,926
Loans and advances to customers	84,415	18,567	59,519	343,544	-	506,045
Debt and other fixed income financial instruments	4,324	27,678	119,463	152,992	-	304,457
Equity and other non-fixed income instruments	-	-	-	-	1,402	1,402
Investment in subsidiaries	-	-	-	-	5,250	5,250
Investment in associate	-	-	-	-	9,887	9,887
Other assets	655	429	1,823	2,958	17,997	23,862
	147,628	**46,674**	**180,805**	**499,494**	**34,536**	**909,137**
Liabilities and equity						
Amounts owed to banks	21	-	70,000	-	-	70,021
Amounts owed to customers	390,496	196,752	148,450	9,536	-	745,234
Other liabilities	3,232	1,331	2,420	34	6,214	13,231
Equity	-	-	-	-	80,651	80,651
	393,749	**198,083**	**220,870**	**9,570**	**86,865**	**909,137**
Net	**(246,121)**	**(151,409)**	**(40,065)**	**489,924**	**(52,329)**	**-**

38. RISK MANAGEMENT (continued)

38.4 Liquidity risk (continued)

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 subsidiaries	-	-	-	-	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	381,289	174,689	131,654	14	-	687,646
Other liabilities	560	3,781	266	-	5,713	10,320
Equity	-	-	-	-	66,113	66,113
	432,526	**178,470**	**131,920**	**14**	**71,826**	**814,756**
Net	**(319,426)**	**(136,419)**	**89,077**	**406,541**	**(39,773)**	**-**

Analysis of financial liabilities by remaining contractual maturities

The table below summarises the maturity profile of the Bank's financial liabilities as at 31 December 2012 and 31 December 2011 based on contractual undiscounted repayment obligations:

	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 2012					
Liabilities					
Amounts owed to banks	21	-	70,000	-	70,021
Amounts owed to customers	240,606	311,987	181,424	29,946	763,963
	240,627	**311,987**	**251,424**	**29,946**	**833,984**

38. RISK MANAGEMENT (continued)

38.4 Liquidity risk (continued)

Analysis of financial liabilities by remaining contractual maturities (continued)

The Bank

	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	230,668	294,240	146,950	18,579	690,437
	281,345	**294,240**	**146,950**	**18,579**	**741,114**

Off – Balance sheet items

The Group / Bank

	Not Later Than One Year	
	2012	2011
	€000	€000
Loan commitments	**156,314**	152,843
Guarantees, acceptance and other financial facilities	**5,944**	6,850
	162,258	159,693

38.5 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:

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

38. RISK MANAGEMENT (continued)

38.5 Market risk (continued)

Currency risk (continued)

	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

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

Interest rate risk

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

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

Projected net interest income

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

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

	Increase / decrease in basis points	Effect on profit before tax €000
2012	**+25**	**177**
	-25	**(177)**
2011	+25	503
	-25	21

Capital approach

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

	2012	2011
	€000	€000
Net effect for the twelve month period	**1,267**	516

38. RISK MANAGEMENT (continued)

38.6 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.

38.7 Capital management

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

During the current financial year, the Group continued to perform the Internal Capital Adequacy Assessment Process (ICAAP), in compliance with the Pillar II requirements of Banking Rule BR/12/2012 - The Supervisory Review Process of Credit Institutions Authorised Under the Banking Act, Cap. 371 of the Laws of Malta. The objective of the ICAAP is to inform the Board of Directors of the ongoing assessment of the Group's risks, how the Group mitigates those risks and how much capital is necessary having considered other mitigating factors. The ICAAP demonstrated that the Group is well capitalised. This document was approved by the Board of Directors in July 2012.

In the current financial year the Group also updated the Capital Adequacy and Risk Disclosures Report to provide detailed information on the Group's implementation of the Basel II framework and risk assessment process in accordance with the Pillar III requirements of Banking Rule BR/07/2012 – Publication of Annual Report and Audited Financial Statements of Credit Institutions Authorised Under the Banking Act, Cap. 371 of the Laws of Malta.

The capital adequacy ratio measures the Group's own funds as a percentage of the total risk-weighted assets and off-balance sheet items. The ratio for the year under review has been prepared in compliance with the Pillar I requirements of Banking Rule BR/04/2012 – Capital Requirements of Credit Institutions Authorised under Banking Act, Cap. 371 of the Laws of Malta. During the year under review, the Group has complied with the externally imposed capital requirements. The table overleaf summarises the composition of regulatory capital and the ratios of the Group as at the reporting date.

38. RISK MANAGEMENT (continued)

38.7 Capital management (continued)

The Group

	2012 €000	2011 €000
Adjusted book value:	**1,074,872**	976,173
Weighted amounts:		
Credit risk calculation - standardised approach		
Total assets and off-balance sheet items	**401,619**	349,569
Operational risk - basic indicator approach		
15% of the three year adjusted average operating income	**43,803**	39,354
Foreign exchange risk		
8% of the capital requirement of the net short or long position, whichever is the higher	**781**	205
Total credit, operational and foreign exchange risk	**446,203**	389,128
Own funds analysis		
Share capital (note 30)	**42,803**	29,202
Share premium (note 31)	**1,770**	1,770
Regulatory reserve	**1**	1
Retained earnings (note 33)*	**16,690**	26,755
Non-controlling interest	**2,944**	-
Deductions:		
Intangible assets (other than goodwill) (note 22)	**(636)**	(963)
Original own funds	**63,572**	56,765
Revaluation reserve (note 32)	**8,693**	2,976
Collective provisions (note 15)	**3,576**	3,343
Additional own funds	**12,269**	6,319
Total own funds	**75,841**	63,084
Capital Adequacy	**17.00%**	16.21%

38. RISK MANAGEMENT (continued)

38.7 Capital management (continued)

The Bank

	2012	2011
	€000	€000
Adjusted book value:	**1,073,849**	976,588
Weighted amounts:		
Credit risk calculation - standardised approach		
Total assets and off-balance sheet items	**400,809**	349,985
Operational risk - basic indicator approach		
15% of the three year adjusted average operating income	**44,217**	38,463
Foreign exchange risk		
8% Capital requirements of the net short or long position, whichever is higher	**781**	205
Total credit, operational and foreign exchange risk	**445,807**	388,653
Own funds analysis		
Share capital (note 30)	**42,803**	29,202
Share premium (note 31)	**1,770**	1,770
Regulatory reserve	**1**	1
Retained earnings (note 33)*	**17,104**	27,169
Deductions:		
Intangible assets (other than goodwill) (note 22)	**(636)**	(963)
Original own funds	**61,042**	57,179
Revaluation reserve (note 32)	**8,693**	2,976
Collective provisions (note 15)	**3,576**	3,343
Additional own funds	**12,269**	6,319
Total own funds	**73,311**	63,498
Capital Adequacy	**16.44%**	16.34%

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

INCOME STATEMENTS - FIVE YEAR SUMMARIES

The Group

	2012 €000	2011 €000	2010 €000	2009 €000	2008 €000
Interest receivable and similar income	**36,211**	34,799	33,729	31,796	36,211
Interest payable	**(14,417)**	(14,158)	(14,182)	(15,703)	(20,254)
Net interest income	**21,794**	20,641	19,547	16,093	15,957
Other operating income	**5,265**	2,869	2,573	2,353	2,054
Total operating income	**27,059**	23,510	22,120	18,446	18,011
Other operating charges	**(13,111)**	(12,875)	(13,075)	(11,961)	(10,543)
Share of results of associate, net of tax	**689**	114	-	-	-
Revaluation release on loss of control of subsidiary	**-**	242	-	-	-
Net impairment losses	**(4,748)**	(2,633)	(990)	(483)	(1,664)
Profit before tax	**9,889**	8,358	8,055	6,002	5,804
Income tax expense	**(2,876)**	(2,762)	(2,716)	(2,022)	(1,742)
Profit for the year	**7,013**	5,596	5,339	3,980	4,062

The Bank

	2012 €000	2011 €000	2010 €000	2009 €000	2008 €000
Interest receivable and similar income	**36,124**	34,799	33,033	31,172	35,801
Interest payable	**(14,466)**	(14,158)	(14,206)	(15,703)	(20,254)
Net interest income	**21,658**	20,641	18,827	15,469	15,547
Other operating income	**5,327**	3,052	3,035	2,416	2,346
Total operating income	**26,985**	23,693	21,862	17,885	17,893
Other operating charges	**(12,917)**	(12,643)	(12,761)	(11,666)	(10,398)
Net impairment losses	**(4,998)**	(2,625)	(953)	(483)	(1,664)
Profit before tax	**9,070**	8,425	8,148	5,736	5,831
Income tax expense	**(2,789)**	(2,762)	(2,611)	(1,947)	(1,675)
Profit for the year	**6,281**	5,663	5,537	3,789	4,156

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

	2012	2011	2010	2009	2008
	€000	€000	€000	€000	€000
ASSETS					
Cash, treasury bills and balances					
with Central Bank of Malta	**7,796**	4,032	4,420	13,684	6,688
Reserve deposit with Central Bank of Malta	**32,862**	2,335	13,049	6,525	10,387
Cheques in course of collection	**2,650**	923	2,537	1,837	1,411
Loans and advances to banks	**14,926**	22,603	11,432	28,967	8,543
Loans and advances to customers	**506,023**	473,649	422,984	380,904	368,198
Debt and other fixed income instruments	**304,457**	273,109	302,777	262,707	247,295
Financial assets at fair value through profit or loss	**5,886**	-	-	-	-
Equity and other non-fixed income instruments	**1,402**	1,940	2,690	2,556	1,472
Investment in associate	**10,206**	9,894	-	-	-
Intangible assets	**636**	963	1,262	1,351	1,630
Investment property	**330**	330	330	330	-
Property and equipment	**13,636**	14,171	14,765	15,065	13,303
Deferred tax assets	**3,284**	4,271	2,588	1,586	3,442
Other receivables	**6,065**	6,120	7,271	6,797	6,232
Taxation	**-**	-	515	1,155	126
TOTAL ASSETS	**910,159**	814,340	786,620	723,464	668,727
LIABILITIES					
Amounts owed to banks	**70,021**	50,677	6,569	13,683	14,312
Amounts owed to customers	**743,106**	687,625	699,546	639,162	590,717
Other liabilities	**4,951**	1,970	2,675	3,268	2,389
Taxation	**1,920**	1,793	-	-	-
Accruals and deferred income	**6,373**	6,576	7,016	6,421	9,431
TOTAL LIABILITIES	**826,371**	748,641	715,806	662,534	616,849
EQUITY					
Issued capital	**42,803**	29,202	15,600	15,600	15,600
Share premium	**1,770**	1,770	1,770	1,770	1,770
Revaluation reserve	**8,693**	2,976	6,157	7,207	4,138
Retained earnings	**26,315**	30,690	36,155	31,812	28,695
Dividend reserve	**1,263**	1,061	862	787	787
Non-controlling interest	**2,944**	-	10,270	3,754	888
	83,788	65,699	70,814	60,930	51,878
TOTAL LIABILITIES AND EQUITY	**910,159**	814,340	786,620	723,464	668,727
MEMORANDUM ITEMS					
Contingent liabilities	**5,944**	6,850	5,842	4,528	5,262
Commitments	**156,314**	152,843	122,506	114,454	131,812

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

	2012	2011	2010	2009	2008
	€000	€000	€000	€000	€000
ASSETS					
Cash, treasury bills and balances with Central Bank of Malta	**7,796**	4,032	4,420	13,684	6,682
Reserve deposit with Central Bank of Malta	**32,862**	2,335	13,049	6,525	10,387
Cheques in course of collection	**2,650**	923	2,537	1,837	1,411
Loans and advances to banks	**14,926**	22,603	9,732	26,917	8,543
Loans and advances to customers	**506,045**	473,649	422,984	380,904	368,198
Debt and other fixed income instruments	**304,457**	273,109	287,548	251,885	236,529
Equity and other non-fixed income instruments	**1,402**	1,940	1,820	1,851	1,472
Investment in subsidiaries	**5,250**	500	10,387	10,387	10,387
Investment in associate	**9,887**	9,887	-	-	-
Intangible assets	**636**	963	1,262	1,351	1,630
Investment property	**330**	330	330	330	-
Property and equipment	**13,633**	14,162	14,749	15,042	13,278
Deferred tax assets	**3,371**	4,271	2,588	1,586	3,442
Other receivables	**5,892**	6,052	6,913	6,298	6,492
Taxation	**-**	-	515	1,355	126
TOTAL ASSETS	**909,137**	814,756	778,834	719,952	668,577
LIABILITIES					
Amounts owed to banks	**70,021**	50,677	6,569	13,683	14,312
Amounts owed to customers	**745,234**	687,646	701,929	639,450	591,128
Other liabilities	**4,947**	1,962	2,672	3,241	2,471
Taxation	**1,920**	1,793	-	-	-
Accruals and deferred income	**6,364**	6,565	7,015	6,392	9,415
TOTAL LIABILITIES	**828,486**	748,643	718,185	662,766	617,326
EQUITY					
Issued capital	**42,803**	29,202	15,600	15,600	15,600
Share premium	**1,770**	1,770	1,770	1,770	1,770
Revaluation reserve	**8,693**	2,976	5,915	7,202	4,269
Retained earnings	**26,122**	31,104	36,502	31,827	28,825
Dividend reserve	**1,263**	1,061	862	787	787
	80,651	66,113	60,649	57,186	51,251
TOTAL LIABILITIES AND EQUITY	**909,137**	814,756	778,834	719,952	668,577
MEMORANDUM ITEMS					
Contingent liabilities	**5,944**	6,850	5,842	4,528	5,262
Commitments	**156,314**	152,843	122,506	114,454	131,812

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

	2012 €000	2011 €000	2010 €000	2009 €000	2008 €000
Net cash flows from / (used in) operating activities	**7,849**	(61,886)	1,082	13,886	(25,250)
Investing activities					
Dividends received	**484**	458	206	214	184
Interest income from debt securities	**16,094**	16,652	16,184	14,981	15,360
Purchase of debt and other fixed income instruments	**(124,646)**	(83,868)	(91,196)	(58,473)	(62,561)
Proceeds on maturity and disposal of debt and other fixed income instruments	**103,180**	94,692	59,244	50,297	50,809
Purchase of financial assets at fair value through profit or loss	**(5,828)**	-	-	-	-
Proceeds on disposal of financial assets at fair value through profit or loss	**225**	-	-	-	-
Purchase of equity and other non-fixed income instruments	**(141)**	(735)	-	(199)	(686)
Proceeds on disposal of equity and other non-fixed income instruments	**826**	233	337	-	359
Purchase of property and equipment	**(1,002)**	(996)	(1,600)	(4,587)	(4,434)
Proceeds on disposal of property and equipment	-	8	-	14	13
Net cash flows (used in) / from investing activities	**(10,808)**	26,444	(16,825)	2,247	(956)
Financing activities					
Dividends paid	**(1,061)**	(862)	(961)	(831)	(787)
Net proceeds from non-controlling interest for shares in subsidiaries	**2,818**	-	6,349	2,794	879
Proceeds from issue of share capital	**3,601**	3,602	-	-	-
Net cash flows from financing activities	**5,358**	2,740	5,388	1,963	92
Net increase/ (decrease) in cash and cash equivalents	**2,399**	(32,702)	(10,355)	18,096	(26,114)
Cash and cash equivalents at 1 January	**(24,042)**	8,660	19,015	919	27,033
Cash and cash equivalents at 31 December	**(21,643)**	(24,042)	8,660	19,015	919

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

	2012	2011	2010	2009	2008
	€000	€000	€000	€000	€000
Net cash flows from / (used in) operating activities	**10,065**	(61,886)	3,003	15,961	(25,243)
Investing activities					
Dividends received	**484**	458	542	357	450
Interest income from debt securities	**16,094**	16,652	16,184	14,981	15,360
Purchase of debt and other fixed income instruments	**(124,646)**	(83,868)	(82,177)	(54,889)	(49,747)
Proceeds on maturity and disposal of debt and other fixed income instruments	**103,179**	94,692	54,143	47,047	48,899
Purchase of equity and other non-fixed income instruments	**(141)**	(735)	-	-	(686)
Proceeds on disposal of equity and other non-fixed income instruments	**826**	233	337	-	359
Purchase of property and equipment	**(1,002)**	(996)	(1,600)	(4,582)	(4,403)
Proceeds on disposal of property and equipment	-	8	-	14	13
Investment in subsidiaries	**(5,000)**	-	-	-	(10,328)
Net cash flows (used in) / from investing activities	**(10,206)**	26,444	(12,571)	2,928	(83)
Financing activities					
Dividends paid	**(1,061)**	(862)	(787)	(787)	(787)
Proceeds from issue of share capital	**3,601**	3,602	-	-	-
Net cash flows from / (used in) financing activities	**2,540**	2,740	(787)	(787)	(787)
Net increase / (decrease) in cash and cash equivalents	**2,399**	(32,702)	(10,355)	18,102	(26,113)
Cash and cash equivalents at 1 January	**(24,042)**	8,660	19,015	913	27,026
Cash and cash equivalents at 31 December	**(21,643)**	(24,042)	8,660	19,015	913

THE GROUP'S FIVE YEAR SUMMARY - ACCOUNTING RATIOS

	2012	2011	2010	2009	2008
	%	%	%	%	%
Net interest income and other operating income to total assets	**3.0**	2.9	2.8	2.6	2.4
Operating expenses to total assets	**1.4**	1.6	1.7	1.7	1.6
Profit before tax to total assets	**1.1**	1.0	1.0	0.8	0.9
Return on capital employed before tax *	**13.2**	13.3	12.5	11.2	12.2
Profit after tax to equity *	**9.3**	8.9	8.3	7.4	8.5

	2012	2011	2010	2009	2008
Shares in issue (thousands)	**71,338**	48,669	26,000	26,000	26,000
Net assets per share *	**105c**	129c	249c	207c	184c
Net dividends per share	**2c**	2c	3c	3c	3c
Dividend cover	**5.6**	5.3	6.2	5.1	5.2

* 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

	2012	2011	2010	2009	2008
	%	**%**	**%**	**%**	**%**
Net interest income and other operating income to total assets	**3.0**	2.9	2.8	2.5	2.7
Operating expenses to total assets	**1.4**	1.6	1.6	1.6	1.6
Profit before tax to total assets	**1.0**	1.0	1.05	0.8	0.9
Return on capital employed before tax *	**12.6**	13.3	14.9	11.5	12.4
Profit after tax to equity *	**8.7**	9.0	10.1	7.6	8.8

	2012	2011	2010	2009	2008
Shares in issue (thousands)	**71,338**	48,669	26,000	26,000	26,000
Net assets per share *	**101c**	130c	211c	192c	181c
Net dividends per share	**2c**	2c	3c	3c	3c
Dividend cover	**5.0**	5.3	6.4	4.8	5.3

* 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 2012

The following figures were converted from Euro to US Dollars using the rate of exchange ruling on 31 December 2012. The rates used were €1 : $1.3192. Comparative results have also been translated at this rate.

These highlights do not reflect the effect of the change in the rates of exchange since 31 December 2012.

	2012	2011
	$000	$000
Net interest income	**28,751**	27,230
Operating income	**35,696**	31,014
Operating profit before impairment reversals and provisions	**19,309**	14,499
Profit before tax	**13,046**	11,026
Profit for the year	**9,252**	7,382
Total assets	**1,200,682**	1,074,277
Liquid funds	**76,822**	39,435
Debt and other fixed income instruments	**401,640**	360,285
Financial assets at fair value through profit or loss	**7,765**	-
Loans and advances to customers	**667,546**	624,838
Equity	**110,533**	86,670

THE BANK'S FINANCIAL HIGHLIGHTS IN US DOLLARS

Year ended 31 December 2012

The following figures were converted from Euro to US Dollars using the rate of exchange ruling on 31 December 2012. The rates used were €1 : $1.3192. Comparative results have also been translated at this rate.

These highlights do not reflect the effect of the change in the rates of exchange since 31 December 2012.

	2012	2011
	$000	$000
Net interest income	**28,571**	27,230
Operating income	**35,599**	31,256
Operating profit before impairment reversals and provisions	**18,559**	14,577
Profit before tax	**11,965**	11,114
Profit for the year	**8,286**	7,471
Total assets	**1,199,334**	1,074,826
Liquid funds	**76,822**	39,435
Debt and other fixed income instruments	**401,640**	360,285
Loans and advances to customers	**667,575**	624,838
Equity	**106,395**	87,216

NOTES

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