APS bank

Annual Report and Financial Statements 2005

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BANK INFORMATION

DIRECTORS

Emmanuel P. Delia M.A., M.Litt. (Oxon.), Chairman
Joseph C. Caruana A.C.I.B.
Carmel Curmi
Arthur Galea Salomone LL.M. (Toronto), LL.D.
Joseph M. Kenely M.Sc., A.C.M.A., F.I.A., C.P.A.
Frederick F. Micallef M.I.M.I.S., M.B.A.
Joseph Pace Ross A.C.I.B.

COMPANY SECRETARY

Mario Felice LL.D.

CHIEF EXECUTIVE OFFICER

Edward Cachia A.C.I.B.

REGISTERED OFFICE

APS House
20, St. Anne Square
Floriana VLT 16
Malta

CHAIRMAN'S STATEMENT

It is once more my pleasure to present the financial statements of APS Bank Ltd. It has been a very successful year for the Bank, recording a pre-tax profit of Lm3.2 million. These results were achieved through ongoing improvements in business processes aimed at delivering new and better value-added services to our customers, whilst containing expenditure and meeting the highly demanding market conditions. Our performance was marked with a high increase in business volumes, whereby customer deposits rose by Lm21.5 million sustaining a growth in loans and advances to customers of Lm14.9 million and an increase in investments that reached Lm120.6 million.

The shareholders achieved their objective of increasing the paid up share capital to Lm6.5 million over a span of four years by investing a further Lm0.5 million of fresh capital. This tangible proof of confidence demonstrates the shareholders' support towards the Bank in its gearing up to face future challenges and, at the same time, meet its social obligations.

A Strategy to Master Change

The environment in which we operate is continually evolving with increased competition brought about by a revamped regulatory framework and the advent of the Euro. The Bank is adopting a strategy to be more versatile in meeting these challenges. Preparations cannot occur overnight. They require structured planning and a well-prepared staff complement supported by a robust site infrastructure and technology. It also implies the implementation of sound cost management. We are undertaking the necessary measures to attain these goals. Such an approach should enable the Bank to continue assessing critically its role while ensuring the sustainability of its future revenues by offering innovative products and services.

The engagement of experienced professionals in key positions and improved performance management processes have contributed to strengthen the Bank's workforce. We firmly believe in our personnel at all levels and continually encourage them to proceed with their training both locally and abroad.

By widening and improving its distribution channels, the Bank endeavours to improve the quality of the service it offers to its clients and also reach new market segments. Accordingly, the Bank is constantly investing in state of the art technologies whilst modernising its existing offices both in Malta and in Gozo.

We have embarked on a three-year project of centralising our corporate operations. Hosting all back-office services under one roof should result in enhanced efficiency and effectiveness.

The Bank is aiming to broaden its capabilities and market territory. In this regard we strive to create alliances with financial institutions that embrace similar ethical and social philosophies.

Contribution to the Community

Driven by its corporate aims and unique social responsibility, the Bank remains an active player in the Maltese community. The support that the Bank offers to various deserving causes, and the diverse cultural, sports and social activities which it finances, prove this.

Thus, encouraged by its highly successful initial concert cycle and the launch of five CD recordings of these performances, the Bank has decided to organise another series of sacred music recitals by 19th century Maltese composers. During 2005, we also stepped up our backing to Maltese talent launching three new books under the '*Fond għall-Kittieba tal-Malti*'. Furthermore, the Bank supported a number of sport activities. Such events included tournaments organised by the Malta Handball Federation, the Youth Football Association, the Malta Cycling Federation and the Malta Chess Federation.

We are determined to pursue our agenda to act as catalyst for discussion, offer specialised consultancy services and instigate tangible actions in those sectors where we deem that solidarity and social cohesion can be achieved in the interest of sustainable development. This will be a prime responsibility of a subsidiary company that the Bank intends to set up. In this respect, another concrete step in conjunction with the Bank's series of Occasional Papers on economic and social issues, is the publication of the proceedings of the Annual Seminar on the Development of Agriculture and Fisheries in the Maltese Islands conducted in collaboration with the Food and Agriculture Organisation of the United Nations and COPA-COGECA Unit of the EU.

We are satisfied with our achievements to date and look forward to more positive results in the future.

A Word of Appreciation

First and foremost, I would like to express my gratitude to our customers for their loyalty, to whom the Bank is committed to keep offering the best-value service possible. I also wish to extend my appreciation to our shareholders for their continued trust in the Bank. A word of thanks is due to my fellow Directors. It is a real pleasure to work with such committed Board Members. My sincere congratulations also go to our management team and staff members, without whose wholehearted dedication these rewarding results would not have been achieved.

To all of you, my heartfelt thanks.

E. P. Delia
Chairman

DIRECTORS' REPORT

for the year ended 31 December 2005

PRINCIPAL ACTIVITIES

APS Bank Limited is registered in Malta as a limited liability company under the Companies Act, 1995. 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, 1994 and the Investments Services Act, 1994 respectively.

FINANCIAL PERFORMANCE

The Bank reported an all time high profit before tax of Lm3.2 million for the year ended 31 December 2005, an increase of 55.6 per cent over 2004. The achievements for 2005 demonstrate the impetus the Bank has gained, both in terms of financial performance and in making further progress in the development of its customer base.

NET INTEREST INCOME

Interest, which remains the Bank's main source of revenue, rose by 8.3 per cent reaching Lm5.6 million in 2005. The main contributor in achieving such results was the increase in customer lending, in particular, the growth in demand for residential property financing which attracts lower interest rates. The financial year was also characterised by a significant rise in fixed income instruments. In spite of the drop in the weighted average interest rates, return on advances was up by 19.4 per cent while debt securities generated 4.3 per cent higher returns over last year's figures. Interest payable rose by 10.3 per cent when compared to 2004, however the weighted average cost of financing only increased marginally in 2005.

NON-INTEREST INCOME

The strategy of introducing assurance and investment related services attracted the expected response, with the Bank's dependency on non-interest operations increasing from 16.5 per cent to 17.7 per cent of total revenue in 2005.

OPERATING EXPENSES

Operating expenses, which comprises administrative and depreciation costs, rose by 4.7 per cent to Lm3.9 million over the last year. This increase is mainly attributable to higher staff costs relating to a rise in the professional and specialised staff complement. Depreciation decreased to Lm0.4 million from Lm0.7 million in 2004. The Bank is carrying on with its agenda of enhancing cost efficiency whilst improving and expanding its operations. As a result of this, the cost to income ratio improved to 56.7 per cent from 59.6 per cent in 2004.

NET IMPAIRMENT

The quality of the Bank's assets remained satisfactory with impaired loans and advances of 6.5 per cent of gross lending portfolio. These results were achieved by adopting effective credit worthiness analysis prior to granting of facilities. The increase in advances provision was to a large extent offset by the successful operations of the recoveries function. Furthermore, prudent debt securities and equity management led to a net write back in provision for impaired investments of Lm0.2 million.

BALANCE SHEET

On a comparable basis, total assets increased by 11.2 per cent over the previous year amounting to Lm235.8 million. Advances to customers moved up by 19.1 per cent to Lm93.3 million. Whilst mortgages remain an important component of the Bank's lending portfolio, corporate lending has increased steadily, particularly in the education and construction industries. Investments grew by Lm6.8 million, mainly through acquisitions of foreign corporate securities. The growth in financial assets was matched by an accretion in liquidity with customer deposits reaching Lm210.7 million.

Shareholders' funds reached Lm19.5 million, a growth of Lm5.5 million. This includes an injection of Lm0.5 million fresh capital. Shareholders' funds finance 8.3 per cent of the Bank's balance sheet, an increase of 1.8 per cent when weighed against last year figures. The Bank recorded an earning of 9c3 per share.

OUTLOOK

APS Bank performed strongly in 2005, and there is a good momentum from the sound balance sheet growth. The Bank plans 2006 to be another year of progress by strengthening further the foundations for future success through enhanced governance, the implementation of improved technologies and expansion of the services it offers pursuing synergy opportunities.

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 consists of seven Non-Executive Directors, including the Chairman. No individual or group of individuals dominates the Board's decision-making. The Directors have wide-ranging experience and all have occupied or currently occupy senior positions in the service industry, ecclesiastical or government organisations. Non-Executive Directors have a responsibility to bring independent, 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. In all other circumstances, the Directors play a full and constructive role in the Bank's affairs.

The Board has procedures in place for Directors to take independent professional advice if they feel it is required, at the Bank's expense. 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' remuneration is disclosed in Note 9 to the Financial Statements.

DIRECTORS' REPORT (Continued)

A Statement of Directors' Responsibilities in respect of the Financial Statements is set out on Page 10.

Committees established by the Board

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

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

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

The Advances Executive Committee. The 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 includes the development of new investment and treasury services, interest rate policy and the management of the Bank's liquidity and balance sheet 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 to monitor those decisions entrusted to it. It has also the responsibility to review the administrative policies of the Bank to ensure that effective support is provided throughout the Bank.

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

Senior Executive Committee

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

Principles of business conduct

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

INTERNAL CONTROL

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

The key elements of the system are as follows:

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

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

Relations with shareholders and the Annual General Meeting

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

The Annual General Meeting is to be held on 20 April 2006.

DIRECTORS

The Directors of the Bank are listed on page 3.

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.

DIRECTORS' REPORT (Continued)

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS

The Companies Act, 1995 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 judgements and estimates;
- financial statements have been drawn up in accordance with International Financial Reporting Standards;
- the financial statements are prepared on the basis that the Bank must be presumed to be carrying on its business as a going concern; and
- 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, 1995 and the Banking Act, 1994. 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, 1995

During the year ended 31 December 2005, 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 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	C.Curmi Director	J.C. Caruana Director

20 March 2006

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REPORT OF THE AUDITORS

to the members of APS Bank Limited

We have audited the financial statements of APS Bank Limited for the year ended 31 December 2005 which comprise the income statement, balance sheet, statement of changes in equity, cash flow statement and the related notes set out on pages 12 to 39.

As described on page 10 the Bank's Directors are responsible for the preparation of the financial statements. It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion to you. We are also required to report whether we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purpose of our audit, whether in our opinion proper books of account have been kept by the Bank so far as appears from our examination thereof and whether the financial statements are in agreement with the books.

We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates and judgements made by the Directors, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

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

In our opinion, the financial statements give a true and fair view of the financial position of the Bank as at 31 December 2005 and of the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the Companies Act, 1995 and the Banking Act, 1994.

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

Ernst & Young
Certified Public Accountants

20 March 2006

PROFIT AND LOSS ACCOUNT
for the year ended 31 December 2005

	Notes	2005 Lm'000	2004 Lm'000
Interest receivable and similar income:			
On loans and advances, balances with the Central Bank of Malta and treasury bills	(2)	**4,612**	3,928
On debt securities	(2)	**6,623**	6,348
		11,235	10,276
Interest payable	(3)	**(5,612)**	(5,086)
Net interest income		**5,623**	5,190
Dividend income	(4)	**90**	82
Fees and commissions receivable		**430**	331
Trading profits	(5)	**400**	339
Net gains on non-trading financial instruments	(6)	**261**	227
Other operating income		**28**	43
Operating income		**6,832**	6,212
Administrative expenses	(7)	**(3,439)**	(3,023)
Depreciation	(20)	**(437)**	(679)
Operating profit before impairment, reversals and provisions		**2,956**	2,510
Net impairment reversals/(losses)	(8)	**199**	(483)
Profit on ordinary activities before taxation	(9)	**3,155**	2,027
Taxation	(10)	**(887)**	(755)
Profit for the financial year after taxation		**2,268**	1,272
Earnings per share	(12)	**9c3**	6c1

The accounting policies and explanatory notes on pages 16 to 39 form an integral part of the financial statements.

BALANCE SHEET
as at 31 December 2005

	Notes	2005 Lm'000	2004 Lm'000
ASSETS			
Cash and balances with Central Bank of Malta	(13)	**11,622**	8,665
Cheques in course of collection		**1,405**	518
Treasury bills	(14)	**1,180**	-
Debt and other fixed income instruments	(15)	**118,382**	111,592
Equity and other non-fixed income instruments	(16)	**2,206**	2,105
Loans and advances to banks	(17)	**3,780**	6,975
Loans and advances to customers	(18)	**91,348**	76,443
Tangible fixed assets	(20)	**2,627**	2,765
Current taxation		**51**	-
Deferred taxation	(21)	**674**	737
Prepayments and accrued income	(22)	**2,534**	2,300
TOTAL ASSETS		**235,809**	212,100
LIABILITIES			
Amounts owed to banks	(23)	**185**	3,851
Amounts owed to customers	(24)	**210,695**	189,186
Other liabilities	(25)	**1,790**	2,044
Accruals	(26)	**2,278**	1,698
Subordinated liabilities	(27)	**1,400**	1,400
TOTAL LIABILITIES		**216,348**	198,179
SHAREHOLDERS' FUNDS			
Share capital	(28)	**6,500**	6,000
Share premium account	(29)	**760**	760
Other reserves	(30)	**175**	175
Revaluation reserve	(31)	**4,356**	1,311
Profit and loss account		**7,354**	5,402
Dividend reserve		**316**	273
		19,461	13,921
TOTAL LIABILITIES AND SHAREHOLDERS' FUNDS		**235,809**	212,100
MEMORANDUM ITEMS			
Contingent liabilities	(32)	**2,497**	967
Commitments	(33)	**44,962**	39,462

The accounting policies and explanatory notes on pages 16 to 39 form an integral part of the financial statements.

The financial statements on pages 12 to 39 were authorised for issue by the Board of Directors on 20 March 2006 and were signed by:

E. P. Delia Chairman	C.Curmi Director	J.C. Caruana Director	E. Cachia Chief Executive Officer

STATEMENT OF CHANGES IN EQUITY

	Note	Share Capital Lm'000	Share Premium Account Lm'000	Revaluation Reserve Lm'000	Other Reserves Lm'000	Dividend Reserve Lm'000	Profit and Loss Account Lm'000	Total Lm'000
FINANCIAL YEAR ENDED 31 DECEMBER 2004								
At 1 January 2004		5,000	760	581	175	217	4,403	11,136
Increase in ordinary share capital		1,000	-	-	-	-	-	1,000
Net gains on available-for-sale financial assets and equities not recognised in the profit and loss account, net of deferred tax		-	-	957	-	-	-	957
Released on disposal		-	-	(227)	-	-	-	(227)
Profit for the year after taxation		-	-	-	-	-	1,272	1,272
Dividends paid		-	-	-	-	(217)	-	(217)
Dividends, net after taxation	(11)	-	-	-	-	273	(273)	-
Balance at 31 December 2004		6,000	760	1,311	175	273	5,402	13,921
FINANCIAL YEAR ENDED 31 DECEMBER 2005								
At 1 January 2005 (as reported)		6,000	760	1,311	175	273	5,402	13,921
Impact of adoption of IAS 39 (revised)		-	-	2,262	-	-	-	2,262
At 1 January 2005 (restated)		6,000	760	3,573	175	273	5,402	16,183
Increase in ordinary share capital		500	-	-	-	-	-	500
Net gains on available-for-sale financial assets and equities not recognised in the profit and loss account, net of deferred tax		-	-	1,044	-	-	-	1,044
Released on disposal		-	-	(261)	-	-	-	(261)
Profit for the year after taxation		-	-	-	-	-	2,268	2,268
Dividends paid		-	-	-	-	(273)	-	(273)
Dividends, net after taxation	(11)	-	-	-	-	316	(316)	-
Balance at 31 December 2005		**6,500**	**760**	**4,356**	**175**	**316**	**7,354**	**19,461**

The accounting policies and explanatory notes on pages 16 to 39 form an integral part of the financial statements.

CASH FLOW STATEMENT

	Note	2005 Lm'000	2004 Lm'000
Cash flows from operating activities			
Interest and commission receipts		**5,884**	4,548
Interest and commission payments		**(5,173)**	(5,209)
Cash paid to employees and suppliers		**(3,729)**	(2,800)
Operating loss before changes in operating assets and liabilities		**(3,018)**	(3,461)
(Increase)/decrease in operating assets			
Loans and advances to customers		**(14,540)**	(16,822)
Reserve deposit with Central Bank of Malta		**(896)**	(464)
Cheques in course of collection		**(887)**	(346)
Other assets		**15**	40
Increase in operating liabilities			
Amounts owed to customers		**21,509**	14,074
Other liabilities		**218**	64
Cash generated from/(used in) operating activities before taxation		**2,401**	(6,915)
Tax paid		**(1,185)**	(728)
Tax refunded		**-**	160
Net cash from/(used in) operating activities		**1,216**	(7,483)
Cash flows from investing activities			
Dividends received		**90**	82
Interest income from debt securities		**6,616**	7,457
Purchase of held-to-maturity debt security instruments		**(1,838)**	(469)
Proceeds on maturity of held-to-maturity debt security instruments		**9,266**	4,413
Purchase of available-for-sale debt security instruments		**(16,380)**	(13,651)
Proceeds on disposal of available-for-sale debt security instruments		**4,766**	4,065
Purchase of equity and other non-fixed income instruments		**-**	(165)
Proceeds on disposal of equity and other non-fixed income instruments		**261**	1,154
Purchase of tangible fixed assets		**(370)**	(708)
Proceeds on disposal of tangible fixed assets		**3**	20
Net cash from investing activities		**2,414**	2,198
Cash flows from financing activities			
Increase in share capital		**500**	1,000
Dividends paid		**(273)**	(217)
Net cash from financing activities		**227**	783
Increase/(decrease) in cash and cash equivalents		**3,857**	(4,502)
Cash and cash equivalents at beginning of year		**4,223**	8,725
Cash and cash equivalents at end of year	(34)	**8,080**	4,223

The accounting policies and explanatory notes on pages 16 to 39 form an integral part of the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1. PRINCIPAL ACCOUNTING POLICIES

The significant accounting policies used in the preparation of these financial statements are set out below:

Basis of preparation

The financial statements have been prepared under the historical cost convention as modified by the revaluation of available-for-sale financial assets, and are in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board and comply with the Companies Act, 1995.

The format of the financial statements conforms with the Banking Directive on the publication of audited financial statements of credit institutions authorised under the Banking Act, 1994.

In the year under review the Bank adopted the revised IAS 32 - Financial Instruments: Disclosure and Presentation and the revised IAS 39 - Financial Instruments: Recognition and Measurement.

In the light of the revised standard, the Bank designated investments previously classified as originated loans and receivables into the available-for-sale and held-to-maturity categories. Comparatives have been restated in the available-for-sale category in accordance with the revised IAS 39.

The Bank has not applied IFRS 7 - Financial Instruments: Disclosures that has been issued but is not yet effective. This Standard supersedes IAS 30 and disclosure requirements of IAS 32 and is effective for annual periods beginning on or after 1 January 2007.

Revenue recognition

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

Interest income

Interest income is recognised in the profit and loss account as it accrues, unless collectibility is in doubt, and impairment allowances are recorded as described in the related policy.

Fee and commission income

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

Dividend income

Dividend income is recognised when the right to receive payment is established.

Foreign currency translation

These financial statements are presented in Maltese Lira, which is the Bank's functional and presentation currency. Transactions in foreign currencies are initially recorded in the functional currency rate 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 balance sheet 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.

Loans and advances and doubtful debts

Loans and advances are stated after deduction of specific and collective impairment provisions for doubtful debts. Specific provisions have been made in respect of all identified impaired advances. The amount of specific allowances represents the difference between the carrying amount and the estimated recoverable amount.

The aggregate provisions which are made during the year are charged against profit before income tax, while amounts realised and recoveries of debts previously written off are added to profit. Bad debts are written off in whole or in part when the extent of the loss incurred has been confirmed and where appropriate are then removed from the amount included in the specific provision.

Financial instruments

Financial assets in the scope of IAS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale financial assets, as appropriate. When financial assets or financial liabilities are recognised initially, they are measured at fair value, plus, in the case of financial assets or financial liabilities not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial assets or financial liabilities. The Bank determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at each financial year-end.

All regular way purchases and sales of financial assets are recognised on the trade date, which is the date that the Bank commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Financial assets at fair value through profit or loss

Financial assets classified as held for trading are included in the category financial assets at fair value through profit or loss. Financial assets are classified as held for trading if acquired for the purpose of selling in the near term. Gains or losses on investments held for trading are recognised in income.

The Bank did not include any assets in this category during 2005.

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Bank has the positive intention and ability to hold to maturity. Investments intended to be held for an undefined period are not included in this classification. Other long-term investments that are intended to be held-to-maturity, such as bonds, are subsequently measured at amortised cost. This cost is computed as the amount initially recognised minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initially recognised amount and the maturity amount. This calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums and discounts. For investments carried at amortised cost, gains and losses are recognised in income when the investments are derecognised or impaired, as well as through the amortisation process.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in income when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

NOTES TO THE FINANCIAL STATEMENTS (continued)

1. PRINCIPAL ACCOUNTING POLICIES (continued)

Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified in any of the three preceding categories. After initial recognition available-for-sale financial assets are measured at fair value with gains or losses being recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the profit and loss account. The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business on the balance sheet date.

Derecognition of financial assets and 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;
- the Bank retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; or
- the Bank has transferred its rights to receive cash flows from the asset 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.

Where the Bank has transferred its rights to receive cash flows from an asset 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 Bank's continuing involvement in the asset.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is 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 Bank assesses at each balance sheet date whether there is evidence that a financial asset or group of financial assets is impaired.

Assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables 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 Bank first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If 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.

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 profit and loss account, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

Available-for-sale financial assets

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in profit or loss, is transferred from equity to the profit and loss account. Reversals in respect of equity instruments classified as available-for-sale are not recognised in profit. Reversals of impairment losses on debt instruments are reversed through profit or loss, if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognised in profit or loss.

Tangible fixed assets and depreciation

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

	%
Building	1
Computer equipment	25
Other	5 - 20

Leasehold properties are amortised over the period of the leases.

A tangible fixed asset is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the profit and loss account in the year the asset is derecognised. The assets' residual values, useful lives and methods are reviewed, and adjusted if appropriate, at each financial year end.

NOTES TO THE FINANCIAL STATEMENTS (continued)

1. PRINCIPAL ACCOUNTING POLICIES (continued)

Impairment of assets

The Bank 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 Bank makes an estimate of the asset's recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. Impairment losses are recognised in the profit and loss account in those expense categories consistent with the function of the impaired asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying 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 profit or loss. 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.

Dividends payable

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

Deferred taxation

In accordance with IAS 12 Income Taxes, deferred taxation is determined under the liability method in respect of all material temporary differences between the carrying amount of an asset or liability in the balance sheet and its tax base. 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 balance sheet date.

Deferred tax is recognised as income or an expense and included in profit and loss for the period, except to the extent that the tax arises from a transaction or event which is recognised directly in equity.

Deferred tax assets are recognised only to the extent that future taxable profits will be available such that realisation of the related tax benefit is probable.

Retirement benefit costs

The Bank contributes towards the government pension in accordance with local legislation. These costs are charged to the profit and loss account as they accrue. The Bank does not contribute towards defined contribution or retirement benefit plans.

Cash and cash equivalents

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

(i) 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;

(ii) 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; and

(iii) advances to/from banks repayable within three months from the date of the advance.

2. INTEREST RECEIVABLE AND SIMILAR INCOME

	2005 Lm'000	2004 Lm'000
On loans and advances to banks	**132**	88
On loans and advances to customers	**4,138**	3,465
On balances with Central Bank of Malta	**269**	247
On treasury bills	**73**	128
	4,612	3,928
On debt securities	**7,169**	6,844
Amortisation of premium/discount	**(546)**	(496)
	6,623	6,348
	11,235	10,276

3. INTEREST PAYABLE

	2005 Lm'000	2004 Lm'000
On deposits by banks	**46**	51
On customer accounts	**5,461**	4,930
On subordinated liabilities	**105**	105
	5,612	5,086

4. DIVIDEND INCOME

	2005 Lm'000	2004 Lm'000
From equity shares	**90**	82

5. TRADING PROFITS

	2005 Lm'000	2004 Lm'000
Profit on foreign exchange activities	**400**	339

NOTES TO THE FINANCIAL STATEMENTS (continued)

6. NET GAINS ON NON-TRADING FINANCIAL INSTRUMENTS

	2005 Lm'000	2004 Lm'000
Realised gains on disposal of available-for-sale investments	**261**	227

7. ADMINISTRATIVE EXPENSES

	2005 Lm'000	2004 Lm'000
Staff costs:		
- Wages and salaries		
Key management personnel	**108**	92
Other	**1,454**	1,329
- Social security costs	**111**	102
Other administrative expenses	**1,766**	1,500
	3,439	3,023

Wages and salaries in respect of key management personnel consist of short-term employment benefits.

8. NET IMPAIRMENT REVERSALS/(LOSSES)

	2005 Lm'000	2004 Lm'000
Write-downs:		
Loans and advances to customers:		
- Collective impairment provision	**(144)**	(25)
- Specific provisions	**(173)**	(700)
- Bad debts written off	**(21)**	(45)
	(338)	(770)
Reversal of write-downs:		
Loans and advances to customers:		
- Specific provisions	**289**	287
Debt and other fixed income instruments:		
- Specific provision	**248**	-
	537	287
Net impairment reversals/(losses)	**199**	(483)

9. PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

Profit on ordinary activities before taxation is stated after charging:

	2005 **Lm'000**	2004 Lm'000
Auditors' remuneration	**7**	7
Directors' emoluments		
- Fees	**35**	35
- Other emoluments	**2**	2

10. TAXATION

The taxation charge for the year is composed of the following:

	2005 **Lm'000**	2004 Lm'000
Current taxation: Malta income tax on taxable profit at 35%	**861**	810
Net deferred tax movement relating to the origination and reversal of temporary differences	**26**	(55)
	887	755

The taxation on profit on ordinary activities differs from the theoretical taxation expense that would apply on the Bank's profit on ordinary activities before taxation using the applicable tax rate in Malta of 35% (2004:35%) as follows:

	2005 **Lm'000**	2004 Lm'000
Profit on ordinary activities before taxation	**3,155**	2,027
Theoretical taxation expense at 35%	**1,104**	709
Tax effect of:		
- Depreciation charges not deductible by way of capital allowance	**(42)**	(60)
- Investment income exempt from tax	**(170)**	117
- Other income exempt from tax	**(5)**	(11)
Taxation on profit on ordinary activities	**887**	755

NOTES TO THE FINANCIAL STATEMENTS (continued)

11. DIVIDENDS

	2005 Lm'000	2004 Lm'000	2005 %	2004 %
Proposed final gross of income tax	**486**	420	**7.48**	7.00

	2005 Lm'000	2004 Lm'000	2005 Cents per share	2004 Cents per share
Proposed final net of income tax	**316**	273	**1.2154**	1.1375

12. EARNINGS PER SHARE

The earnings per share of 9c3 (2004: 6c1) has been calculated by dividing the profit for the financial year after taxation attributable to ordinary shareholders, amounting to Lm2,268,000 (2004: Lm1,272,000) by the weighted average number of ordinary shares outstanding during the year amounting to 24,333,333 (2004: 20,666,667).

13. CASH AND BALANCES WITH CENTRAL BANK OF MALTA

	2005 Lm'000	2004 Lm'000
Cash in hand	**1,243**	1,212
Balances with Central Bank of Malta	**2,062**	32
Reserve deposit with Central Bank of Malta	**8,317**	7,421
	11,622	8,665

Reserve deposit with Central Bank of Malta is held in terms of Section 37 of the Central Bank of Malta Act, Cap. 204.

14. TREASURY BILLS

	2005 Lm'000	2004 Lm'000
Issued by the Government of Malta	**1,180**	-

The treasury bills are all held for investment purposes and are stated at market value.

15. DEBT AND OTHER FIXED INCOME INSTRUMENTS

	2005 **Lm'000**	2004 Lm'000
Held-to-maturity	**54,760**	58,712
Available-for-sale	**63,622**	53,129
Less impairment on available-for-sale	**-**	(249)
	118,382	111,592
Held-to-maturity		
Issued by public bodies:		
- Local government	**52,073**	54,667
- Foreign government	**-**	482
	52,073	55,149
Issued by other issuers:		
- Local banks	**491**	994
- Foreign banks	**1,395**	1,647
- Foreign others	**635**	756
- Local other	**166**	166
	2,687	3,563
Total	**54,760**	58,712
Available-for-sale		
Issued by public bodies:		
- Local government	**23,508**	20,298
- Foreign government	**5,386**	4,349
	28,894	24,647
Issued by other issuers:		
- Local banks	**606**	973
- Foreign banks	**12,057**	8,654
- Foreign others	**19,864**	16,197
- Local others	**2,201**	2,409
	34,728	28,233
Total	**63,622**	52,880
Total debt securities	**118,382**	111,592

NOTES TO THE FINANCIAL STATEMENTS (continued)

15. DEBT AND OTHER FIXED INCOME INSTRUMENTS (continued)

	2005 Lm'000	2004 Lm'000
Analysed by currency:		
- Maltese Liri	**79,045**	79,041
- Foreign	**39,337**	32,551
	118,382	111,592
Unamortised premiums on debt and other fixed income instruments	**1,970**	2,233
Listing status:		
- Listed on Malta Stock Exchange	**79,605**	79,508
- Listed elsewhere	**38,777**	32,084
	118,382	111,592

Movement in debt and other fixed income instruments

	2005 Lm'000	2004 Lm'000
Cost and carrying value		
At 1 January	**111,592**	106,410
Redemption and disposals	**(14,233)**	(8,478)
Acquisitions	**18,218**	14,120
Amortisation	**(546)**	(496)
Increase in fair values	**2,754**	244
Exchange adjustments	**597**	(208)
At 31 December	**118,382**	111,592

Included with the available-for-sale financial assets is an amount of Lm21.3 million in respect of financial assets previously classified as originated loans and receivables. The amortised value of these financial assets as at 31 December 2004 stood at Lm18.8 million. A fair value gain of Lm2.3 million was recognised in the opening Revaluation Reserve due to this reclassification.

Within the comparative figure for held-to-maturity financial assets is an amount of Lm29.5 million that had been previously classified as originated loans and receivables. This restatement has been made for comparative purposes.

16. EQUITY AND OTHER NON-FIXED INCOME INSTRUMENTS

Available-for-sale

	2005 Lm'000	2004 Lm'000
Listed on Malta Stock Exchange	**2,206**	2,105

Movement in equity and other non-fixed income instruments

	2005 Lm'000	2004 Lm'000
Carrying value		
At 1 January	**2,105**	2,514
Disposals	**(261)**	(1,154)
Acquisitions	**-**	165
Exchange adjustments	**34**	6
Increase in fair values	**328**	574
At 31 December	**2,206**	2,105

17. LOANS AND ADVANCES TO BANKS

	2005 Lm'000	2004 Lm'000
Repayable on call and at short notice	**1,789**	920
Term loans and advances	**1,991**	6,055
	3,780	6,975
Analysed by currency:		
- Maltese Liri	**1,337**	570
- Foreign	**2,443**	6,405
	3,780	6,975

NOTES TO THE FINANCIAL STATEMENTS (continued)

18. LOANS AND ADVANCES TO CUSTOMERS

	2005 Lm'000	2004 Lm'000
Repayable on call and at short notice	**15,231**	19,124
Term loans and advances	**78,019**	59,193
	93,250	78,317
Less impairment	**(1,902)**	(1,874)
	91,348	76,443
Impairment:		
- Specific	**1,066**	1,182
- Collective	**836**	692
	1,902	1,874
Changes in impairment provisions:		
Opening balance	**1,874**	1,436
Write-downs:		
- Collective impairment	**144**	25
- Specific	**173**	700
Reversals	**(289)**	(287)
Closing balance	**1,902**	1,874
Analysed by currency:		
- Maltese Liri	**91,502**	77,786
- Foreign	**1,748**	531
	93,250	78,317

The aggregate amount of advances on which interest is reserved is Lm2,883,500 (2004: Lm2,693,816) gross of provisions against which Lm988,018 (2004: Lm1,106,169) is being provided for after taking into account the extendible value of security backing such loans and advances. Total interest that would have accrued on these advances amounted to Lm361,000 (2004: Lm316,000).

19. CONCENTRATION OF LOANS AND ADVANCES

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

	2005 Lm'000	2004 Lm'000
Agriculture	**1,468**	1,225
Fishing	**71**	107
Mining and quarrying	**2**	-
Manufacturing	**4,012**	4,150
Electricity, gas and water supply	**5,246**	7,294
Construction	**10,436**	8,422
Wholesale and retail trade, repairs	**8,261**	7,131
Hotels and restaurants, excluding related construction activities	**4,126**	3,469
Transport, storage and communication	**2,678**	2,792
Financial intermediation	**1,792**	1,719
Real estate, renting and business	**2,645**	1,862
Public administration	**1,932**	915
Education	**8,249**	4,986
Health and social work	**105**	21
Community, recreational and personal service activities	**1,089**	867
Households and individuals	**41,138**	33,357
	93,250	78,317

20. TANGIBLE FIXED ASSETS

	Land and buildings Lm'000	**Computer equipment Lm'000**	**Other Lm'000**	**Total Lm'000**
Year ended 31 December 2005				
Opening net book amount	1,759	276	730	2,765
Additions	36	170	93	299
Disposals	-	-	(49)	(49)
Depreciation charge	(47)	(222)	(168)	(437)
Depreciation released on disposal	-	-	49	49
Closing net book amount	**1,748**	**224**	**655**	**2,627**
At 31 December 2005				
Cost	2,022	2,394	2,016	6,432
Provision for depreciation	(274)	(2,170)	(1,361)	(3,805)
Net book amount	**1,748**	**224**	**655**	**2,627**
At 31 December 2004				
Cost	1,986	2,224	1,972	6,182
Provision for depreciation	(227)	(1,948)	(1,242)	(3,417)
Net book amount	1,759	276	730	2,765

NOTES TO THE FINANCIAL STATEMENTS (continued)

20. TANGIBLE FIXED ASSETS (continued)

	2005 Lm'000	2004 Lm'000
Future capital expenditure:		
- Contracted but not provided for in the financial statements	**1,274**	47
- Authorised by the Directors but not contracted	**1,595**	4,313
	2,869	4,360

21. DEFERRED TAXATION

	2005 Lm'000	2004 Lm'000
The net deferred tax asset arises as a consequence of temporary differences resulting from:		
Fair value movements in investment securities	**(109)**	(72)
Provisions for bad and doubtful debts	**666**	743
Excess of capital allowances over depreciation	**117**	66
	674	737

Deferred tax movements arising on the fair value movements on investment securities, amounting to Lm37,000, were debited directly in equity; other movements, amounting to Lm26,000, were debited in the profit and loss account.

22. PREPAYMENTS AND ACCRUED INCOME

	2005 Lm'000	2004 Lm'000
Accrued income	**2,284**	2,207
Other	**250**	93
	2,534	2,300

23. AMOUNTS OWED TO BANKS

	2005 Lm'000	2004 Lm'000
With agreed maturity dates or periods of notice, by remaining maturity:		
- 3 months or less but not repayable on demand	**185**	3,851
Analysed by currency:		
- Maltese Liri	**40**	2,852
- Foreign	**145**	999
	185	3,851

24. AMOUNTS OWED TO CUSTOMERS

	2005 Lm'000	2004 Lm'000
Term deposits	**146,894**	141,070
Repayable on demand	**63,801**	48,116
	210,695	189,186
Analysed by currency:		
- Maltese Liri	**169,179**	151,375
- Foreign	**41,516**	37,811
	210,695	189,186

25. OTHER LIABILITIES

	2005 Lm'000	2004 Lm'000
Bills payable	**1,624**	1,676
Taxation	**-**	268
Other liabilities	**166**	100
	1,790	2,044

26. ACCRUALS

	2005 Lm'000	2004 Lm'000
Accrued interest	**1,767**	1,328
Other accruals	**511**	370
	2,278	1,698

27. SUBORDINATED LIABILITIES

	2005 Lm'000	2004 Lm'000
7.5% Subordinated Unsecured Loan Stock	**1,400**	1,400

The loan stock is redeemable at par on 30 January 2008.

NOTES TO THE FINANCIAL STATEMENTS (continued)

28. SHARE CAPITAL

	2005 Lm'000	2004 Lm'000
Authorised		
50,000,000 (2004: 50,000,000) ordinary shares of Lm0.25 each	**12,500**	12,500
Issued, called up and fully paid up		
26,000,000 (2004: 24,000,000) ordinary shares of Lm0.25 each	**6,500**	6,000

The Bank's major shareholders are the Archdiocese of Malta and the Diocese of Gozo who hold 83.30% and 16.67% of the share capital respectively.

The issued share capital was increased by Lm1 million on 26 October 2004, and a further increase of Lm0.5 million was made on 17 October 2005.

29. SHARE PREMIUM ACCOUNT

	2005 Lm'000	2004 Lm'000
Balance at beginning and end of year	**760**	760

30. OTHER RESERVES

In accordance with the Central Bank of Malta directive, a gain of Lm174,926 arising on the translation of its net foreign currency holding following the devaluation of the Maltese Lira on 25 November 1992, has been set aside as a non-distributable reserve.

Investment compensation scheme reserve, which amounts to Lm300 is held in a savings account with a commercial bank. This account is pledged in favour of the Scheme in accordance with the provisions of the Investor Compensation Scheme Regulations, 2003 issued under the Investment Services Act, 1994.

31. REVALUATION RESERVE

The revaluation reserve arises on the gains/losses on the revaluation of available-for-sale equity shares and debt securities to fair value, net of deferred taxation thereon. The revaluation reserve is not available for distribution.

32. CONTINGENT LIABILITIES

	2005 Lm'000	2004 Lm'000
Guarantees	**2,391**	884
Other contingent liabilities	**106**	83
	2,497	967

There were no significant lawsuits against the Bank as at 31 December 2005 and 31 December 2004.

33. COMMITMENTS

	2005 Lm'000	2004 Lm'000
Undrawn formal standby facilities, credit facilities and other commitments to lend	**44,962**	39,462

34. CASH AND CASH EQUIVALENTS

	2005 Lm'000	2004 Lm'000
Analysis of balances of cash and cash equivalents as shown in the cash flow statement		
Cash in hand	**1,243**	1,212
Balances with Central Bank of Malta (excluding reserve deposits)	**2,062**	32
Treasury bills	**1,180**	-
Loans and advances to banks	**3,780**	6,830
Amounts owed to banks	**(185)**	(3,851)
	8,080	4,223

35. THE AGGREGATE AMOUNT OF ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES TRANSLATED INTO MALTESE LIRI

	2005				
	EUR Lm'000	**USD Lm'000**	**GBP Lm'000**	**Other Lm'000**	**Total Lm'000**
Assets	18,800	3,529	19,905	2,722	44,956
Liabilities	16,194	3,554	20,059	2,677	42,484

	2004				
	EUR Lm'000	USD Lm'000	GBP Lm'000	Other Lm'000	Total Lm'000
Assets	15,860	3,175	18,591	2,295	39,921
Liabilities	14,715	3,096	18,438	2,198	38,447

36. SEGMENTAL INFORMATION

The Bank is a retail bank providing normal commercial banking services in the local market and therefore business and geographical segmentation information is not appropriate.

NOTES TO THE FINANCIAL STATEMENTS (continued)

37. RELATED PARTY TRANSACTIONS

During the course of its normal banking business, the Bank conducts business on commercial terms with the Archdiocese of Malta and the Diocese of Gozo, the major shareholders of the Bank.

Shareholders' balances:

	2005	2004
	Lm'000	Lm'000
Amounts due from shareholders		
Diocese of Gozo	**116**	263

Amounts due from shareholders are secured by cash and Malta Government Securities.

	2005	2004
	Lm'000	Lm'000
Amounts due to shareholders		
Archdiocese of Malta	**11,888**	14,787
Diocese of Gozo	**318**	321
	12,206	15,108

Included in the amounts due to the Archdiocese of Malta is an amount of Lm175,000 (2004: Lm175,000) which is pledged against overdraft facilities granted to third parties.

Interest on shareholders' balances:

	2005	2004
	Lm'000	Lm'000
Interest receivable		
Diocese of Gozo	**5**	7

	2005	2004
	Lm'000	Lm'000
Interest payable		
Archdiocese of Malta	**349**	716
Diocese of Gozo	**12**	13
	361	729

38. GENERAL

(a) Loans to and commitments on behalf of directors and officers:

	2005 Loans and advances Lm'000	2005 Commitments Lm'000	2004 Loans and advances Lm'000	2004 Commitments Lm'000
Directors				
1 January	**50**	**12**	46	11
Additions	**4**	**11**	40	2
	54	**23**	86	13
Less repayments/cancellations and reclassifications	**(22)**	**-**	(36)	(1)
31 December	**32**	**23**	50	12
Officers				
Executives 1 January	**46**	**9**	80	5
Other staff 1 January	**508**	**56**	425	39
Executives additions	**54**	**10**	1	4
Other staff additions	**504**	**80**	191	45
	1,112	**155**	697	93
Less repayments/cancellations				
Executives	**(11)**	**-**	(6)	(28)
Other staff	**(147)**	**-**	(137)	-
31 December	**954**	**155**	554	65

(b) The average number of persons employed by the Bank during the year was as follows:

	2005 Number of employees	2004 Number of employees
Managerial	**33**	31
Supervisory and clerical	**136**	122
Others	**14**	13
	183	166

NOTES TO THE FINANCIAL STATEMENTS (continued)

39. FINANCIAL INSTRUMENTS

Financial risk management

APS Bank Limited is subject to a combination of financial risks which are inherent in the business of banking. Financial risks are managed by the Bank within statutory limits and within internal parameters established by the Board of Directors.

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, treasury bills and loans and advances to banks are highly liquid assets. The Directors regard the amount shown in the balance sheet for these items as reflecting their fair value in that these assets will be realised for cash in the immediate future.

All the Bank's listed equities are carried in the balance sheet at market value. Debt securities which are classified as available-for-sale investments are also carried in the balance sheet at market value. However, debt securities classified as held-to-maturity investments are carried in the balance sheet at amortised cost. At the balance sheet date the amortised cost of these assets amounted to Lm54.8 million (2004: Lm77.5 million), whereas their market value amounted to Lm63.4 million (2004: Lm87.4 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 customers are mainly deposit liabilities. Amounts due on demand at the balance sheet date are shown at fair value. Similarly, the Directors consider that other amounts due to customers subject to a specified maturity, which are shown at amounts contracted, reflect the fair value of the cash amounts that are due to customers.

The amounts for contingent liabilities and commitments fairly reflect the cash outflows that are expected to arise upon their occurrence.

Currency risk

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

The Bank's financial assets and liabilities are substantially held in Maltese Liri.

Financial assets denominated in foreign currencies are invested in such manner as to reflect the foreign currency composition of the basket of the Maltese Lira, thereby hedging against exchange losses. Any deviations are subject to monitoring by the Bank's management. Local banks are exposed to currency risk in the event that the Central Bank of Malta changes the value of the Maltese Lira.

39. FINANCIAL INSTRUMENTS (continued)

Interest rate risk

Interest rate risk is the risk of the exposure of the Bank'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. The following table discloses that 45.76% (2004: 43.15%) of the Bank's assets and 47.58% (2004: 49.75%) of its liabilities and equity are contractually repriceable within a three month timeframe from the current financial period end.

	Effective interest rate	Less than three months	Between three months and one year	Between one and five years	More than five years	Others	Total
	%	Lm'000	Lm'000	Lm'000	Lm'000	Lm'000	Lm'000
At 31 December 2005							
Assets							
Balances with Central Bank of Malta, treasury bills and cash	3.08	11,559	-	-	-	1,243	12,802
Cheques in course of collection	-	-	-	-	-	1,405	1,405
Debt and other fixed income financial instruments	5.60	1,791	8,465	52,076	56,050	-	118,382
Equity and other non-fixed income instruments	-	-	-	-	-	2,206	2,206
Loans and advances to banks	3.04	3,780	-	-	-	-	3,780
Loans and advances to customers	4.86	90,783	300	265	-	-	91,348
Other assets	-	-	-	-	-	5,886	5,886
Total 2005		**107,913**	**8,765**	**52,341**	**56,050**	**10,740**	**235,809**
Total 2004		91,526	6,666	43,179	61,092	9,637	212,100
Liabilities							
Amounts owed to banks	2.92	185	-	-	-	-	185
Amounts owed to customers	2.68	112,009	54,434	30,626	13,626	-	210,695
Subordinated liabilities	7.50	-	-	1,400	-	-	1,400
Other liabilities	-	-	-	-	-	4,068	4,068
Shareholders' funds	-	-	-	-	-	19,461	19,461
Total 2005		**112,194**	**54,434**	**32,026**	**13,626**	**23,529**	**235,809**
Total 2004		105,524	52,507	31,346	3,660	19,063	212,100
Gap 2005		**(4,281)**	**(45,669)**	**20,315**	**42,424**	**(12,789)**	**-**
Gap 2004		(13,998)	(45,841)	11,833	57,432	(9,426)	-
Cumulative Gap 2005		**(4,281)**	**(49,950)**	**(29,635)**	**12,789**	**-**	**-**
Cumulative Gap 2004		(13,998)	(59,839)	(48,006)	9,426	-	-

NOTES TO THE FINANCIAL STATEMENTS (continued)

39. FINANCIAL INSTRUMENTS (continued)

Credit risk

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

In view of the nature of its business, the Bank'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.

The Bank has established a policy whereby only investments of high quality are held. Limits have also been established on the level and type of investment held.

Decisions on loans and advances to customers are subject to approval limits involving various levels of management of the Bank. 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 1.

Liquidity risk

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

The Bank manages this risk by matching the maturities of assets and liabilities. Investments are all quoted on local or foreign stock exchanges and therefore enjoy a high degree of marketability and liquidity.

The disclosures made in the Bank's Financial Statements showing maturities are intended to show the timing of cash flows arising from assets and liabilities. The table on page 39 analyses the Bank's assets and liabilities into relevant maturity groupings, based on the remaining period at balance sheet date to the contractual maturity date.

39. FINANCIAL INSTRUMENTS (continued)

	Less than three months	Between three months and one year	Between one and five years	More than five years	Others	Total
	Lm'000	Lm'000	Lm'000	Lm'000	Lm'000	Lm'000
At 31 December 2005						
Assets						
Balances with Central Bank of Malta, treasury bills and cash	1,180	-	-	-	11,622	12,802
Cheques in course of collection	-	-	-	-	1,405	1,405
Debt and other fixed income financial instruments	1,791	8,465	52,076	56,050	-	118,382
Equity and other non-fixed income instruments	-	-	-	-	2,206	2,206
Loans and advances to banks	3,780	-	-	-	-	3,780
Loans and advances to customers	20,362	15,283	27,921	27,782	-	91,348
Other assets	-	-	-	-	5,886	5,886
	27,113	**23,748**	**79,997**	**83,832**	**21,119**	**235,809**
Liabilities and shareholders' funds						
Amounts owed to banks	185	-	-	-	-	185
Amounts owed to customers	112,009	54,434	30,626	13,626	-	210,695
Subordinated liabilities	-	-	1,400	-	-	1,400
Other liabilities	-	-	-	-	4,068	4,068
Shareholders' funds	-	-	-	-	19,461	19,461
	112,194	**54,434**	**32,026**	**13,626**	**23,529**	**235,809**
At 31 December 2004						
Assets						
Balances with Central Bank of Malta, treasury bills and cash	-	-	-	-	8,665	8,665
Cheques in course of collection	-	-	-	-	518	518
Debt and other fixed income financial instruments	1,220	6,366	42,914	61,092	-	111,592
Equity and other non-fixed income instruments	-	-	-	-	2,105	2,105
Loans and advances to banks	6,975	-	-	-	-	6,975
Loans and advances to customers	22,356	11,919	21,981	20,187	-	76,443
Other assets	-	-	-	-	5,802	5,802
	30,551	18,285	64,895	81,279	17,090	212,100
Liabilities and shareholders' funds						
Amounts owed to banks	3,851	-	-	-	-	3,851
Amounts owed to customers	101,673	52,507	31,346	3,660	-	189,186
Subordinated liabilities	-	-	1,400	-	-	1,400
Other liabilities	-	-	-	-	3,742	3,742
Shareholders' funds	-	-	-	-	13,921	13,921
	105,524	52,507	32,746	3,660	17,663	212,100

40. COMPARATIVE FIGURES

Where applicable, comparative figures have been adjusted to conform to the current year's presentation.

SOLVENCY RATIO
AS AT 31 DECEMBER 2005

ON - BALANCE SHEET ASSETS	Book Value Lm'000	Weighted Amount Lm'000
Cash and balances with Central Bank of Malta	3,305	-
Reserve deposit with Central Bank of Malta	8,317	-
Cheques in course of collection	1,405	281
Debt and other fixed income instruments including treasury bills	119,562	29,010
Equity and other non-fixed income instruments	2,206	2,206
Loans and advances to banks	3,780	756
Loans and advances to customers*	92,184	42,941
Tangible fixed assets	2,627	2,627
Deferred taxation	674	674
Prepayments and accrued income	2,534	1,267
Total Assets	236,594	79,762

*Loans and advances to customers are shown gross of general provisions which are included with *own funds* below.

OFF – BALANCE SHEET ITEMS	Book Value Lm'000	Weighted Amount Lm'000
Contingent liabilities		
- Guarantees	2,391	884
- Other contingent liabilities	106	75
Commitments	45,470	-
	47,967	959

OWN FUNDS	Lm'000
Original own funds	15,106
Additional own funds	836
Subordinated liabilities	700
Total own funds	16,642

Solvency Ratio **20.62%**

The solvency ratio is a measure of the Bank's capital adequacy and is the ratio of own funds to total risk-weighted assets and off-balance sheet items in terms of the Solvency Ratio Directive BD/04 issued in accordance with Section 17(1) of the Banking Act, 1994.

THE BANK'S FIVE YEAR SUMMARY - PROFIT AND LOSS ACCOUNTS

	2005 Lm'000	2004 Lm'000	2003 Lm'000	2002 Lm'000	2001 Lm'000
Interest receivable and similar income	**11,235**	10,276	9,602	8,689	7,966
Interest payable	**(5,612)**	(5,086)	(5,381)	(5,337)	(5,071)
Net interest income	**5,623**	5,190	4,221	3,352	2,895
Other operating income	**1,209**	1,022	837	746	1,440
Total operating income	**6,832**	6,212	5,058	4,098	4,335
Other operating charges	**(3,876)**	(3,702)	(3,557)	(3,137)	(2,599)
Net impairment reversals/(losses)	**199**	(483)	(179)	(54)	(584)
Profit on ordinary activities before taxation	**3,155**	2,027	1,322	907	1,152
Taxation	**(887)**	(755)	(486)	(337)	(121)
Profit on ordinary activities after taxation	**2,268**	1,272	836	570	1,031
Earnings per share*	**9c3**	6c1	4c6	4c7	12c9

* The earnings per share figures in respect of the years 2001 and 2002 have been adjusted retrospectively to reflect the increase in the number of ordinary shares following a bonus issue, which occurred during 2003.

THE BANK'S FIVE YEAR SUMMARY - BALANCE SHEETS

	2005 Lm'000	2004 Lm'000	2003 Lm'000	2002 Lm'000	2001 Lm'000
ASSETS					
Cash and balances with Central Bank of Malta	**3,305**	1,244	1,833	1,407	3,497
Reserve deposit with Central Bank of Malta	**8,317**	7,421	6,957	5,925	4,897
Cheques in course of collection	**1,405**	518	172	487	549
Treasury bills	**1,180**	-	5,550	2,082	964
Debt and other fixed income instruments	**118,382**	111,592	106,410	91,663	84,202
Equity and other non-fixed income instruments	**2,206**	2,105	2,514	1,270	1,234
Loans and advances to banks	**3,780**	6,975	3,388	4,560	2,910
Loans and advances to customers	**91,348**	76,443	60,204	48,174	35,993
Tangible fixed assets	**2,627**	2,765	2,818	2,624	2,697
Current and deferred taxation	**725**	737	770	829	701
Other assets	**-**	-	34	-	-
Prepayments and accrued income	**2,534**	2,300	2,387	1,879	1,812
	235,809	212,100	193,037	160,900	139,456

	2005 Lm'000	2004 Lm'000	2003 Lm'000	2002 Lm'000	2001 Lm'000
LIABILITIES					
Amounts owed to banks	**185**	3,851	2,046	221	4,337
Amounts owed to customers	**210,695**	189,186	175,112	147,437	124,218
Other liabilities	**1,790**	2,044	1,522	684	1,176
Accruals and deferred income	**2,278**	1,698	1,821	1,581	1,624
Subordinated liabilities	**1,400**	1,400	1,400	1,400	1,400
	216,348	198,179	181,901	151,323	132,755
SHAREHOLDERS' FUNDS					
Called up share capital	**6,500**	6,000	5,000	4,000	1,500
Share premium account	**760**	760	760	760	760
Other reserves	**175**	175	175	675	675
Revaluation reserve	**4,356**	1,311	581	211	287
Profit and loss account	**7,354**	5,402	4,403	3,784	3,362
Dividend reserve	**316**	273	217	147	117
	19,461	13,921	11,136	9,577	6,701
TOTAL LIABILITIES AND SHAREHOLDERS' FUNDS	**235,809**	212,100	193,037	160,900	139,456
MEMORANDUM ITEMS					
Contingent liabilities	**2,497**	967	1,406	966	840
Commitments	**44,962**	39,462	39,415	27,531	18,584
	47,459	40,429	40,821	28,497	19,424

THE BANK'S FIVE YEAR SUMMARY - CASH FLOW STATEMENTS

	2005 Lm'000	2004 Lm'000	2003 Lm'000	2002 Lm'000	2001 Lm'000
Net cash flows from/(used in) operating activities	**1,216**	(7,483)	11,932	5,125	6,138
Cash flows from/(used in) investing activities					
Dividends received from equity shares	**90**	82	51	46	28
Interest income from investment securities	**6,616**	7,457	6,396	6,163	4,155
Purchase of debt and other fixed income instruments	**(18,218)**	(14,120)	(22,632)	(12,301)	(26,187)
Proceeds on maturity and disposal of debt and other fixed income instruments	**14,032**	8,478	6,721	4,371	4,749
Purchase of equity and other non-fixed income instruments	**-**	(165)	(1,025)	(328)	-
Proceeds on disposal of equity and other non-fixed income instruments	**261**	1,154	-	81	3,911
Purchase of tangible fixed assets	**(370)**	(708)	(899)	(746)	(374)
Proceeds on disposal of tangible fixed assets	**3**	20	-	-	-
Net cash from/(used in) investing activities	**2,414**	2,198	(11,388)	(2,714)	(13,718)
Cash flows from/(used in) financing activities					
Increase in share capital	**500**	1,000	500	2,500	-
Ordinary dividends paid	**(273)**	(217)	(147)	(117)	(117)
Repayment of subordinated loan stock	-	-	-	-	(510)
Net cash from/(used in) financing activities	**227**	783	353	2,383	(627)
Increase/(decrease) in cash and cash equivalents	**3,857**	(4,502)	897	4,794	(8,207)
Cash and cash equivalents at 1 January	**4,223**	8,725	7,828	3,034	11,241
Cash and cash equivalents at 31 December	**8,080**	4,223	8,725	7,828	3,034

THE BANK'S FIVE YEAR SUMMARY - ACCOUNTING RATIOS

	2005	2004	2003	2002	2001
	%	%	%	%	%
Net interest income and other operating income to total assets	**2.9**	2.9	2.6	2.5	3.1
Operating expenses to total assets	**1.5**	2.0	1.9	2.0	2.3
Profit before taxation to total assets	**1.3**	1.0	0.7	0.6	0.8
Return on capital employed before taxation*	**20.9**	16.1	12.5	9.7	18.0
Profit after taxation to equity*	**15.0**	10.1	7.9	6.1	16.1

	2005	2004	2003	2002	2001
Shares in issue of 25c each (thousands)	**26,000**	24,000	20,000	16,000	6,000
Net assets per share (cents) *	**58**	53	53	59	107
Earnings per share **	**9c3**	6c1	4c6	4c7	12c9
Dividends per share					
Gross	**1c9**	1c8	1c7	1c4	3c0
Net	**1c2**	1c1	1c1	0c9	1c9
Dividend cover	**7.4**	4.7	3.9	3.9	8.8

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

** Earnings per share is calculated on the weighted average number of shares in issue during the year, and in respect of the years 2001 and 2002, have been adjusted retrospectively to reflect the increase in the number of ordinary shares following a bonus issue, which occurred during 2003.

BANK FINANCIAL HIGHLIGHTS IN EUROS AND US DOLLARS

Year ended 31 December 2005

The following figures were converted from Lm to EUR and USD using the rates of exchange ruling on 31 December 2005. The rates used were Lm1: EUR2.3017 or EUR1: Lm0.4293 and Lm1: USD2.7685. These do not reflect the effect of the change in the rates of exchange since 31 December 2005.

	2005 EUR'000	2004 EUR'000	**2005 USD'000**	2004 USD'000
Net interest income	**12,942**	11,946	**15,567**	14,369
Operating income	**15,725**	14,298	**18,914**	17,198
Operating profit before impairment, reversals and provisions	**6,804**	5,777	**8,184**	6,949
Profit on ordinary activities before taxation	**7,262**	4,666	**8,735**	5,612
Profit for the financial year after taxation	**5,220**	2,928	**6,279**	3,522
Total assets	**542,762**	488,191	**652,837**	587,199
Liquid funds	**29,984**	21,137	**36,065**	25,423
Securities	**280,273**	261,696	**337,115**	314,770
Loans and advances to customers	**210,256**	175,949	**252,897**	211,632
Shareholders' funds	**44,793**	32,042	**53,878**	38,540