APS bank

100 YEARS OF COMMUNITY BANKING

Annual Report
and
Financial Statements
2010

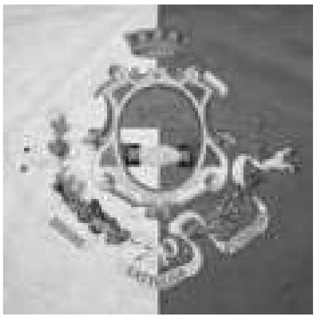
MISSION STATEMENT

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.

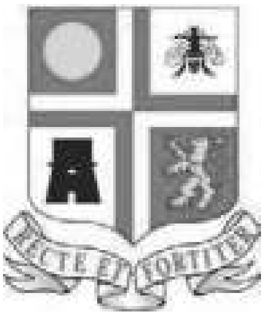
CONTENTS

100 years of history…
100 years of experience

Initial set up and aims



Coat-of-arms of UCSG (1918)



Coat-of-arms/logo designed by Chev. Adrian Strickland used between 1993 and 2003

Bank logo used between 1991 and 2001

Present logo launched in 2003

In 1910, a group of people led by the Jesuit Father Michele Vella embarked on an initiative to set up an association called *Lega dell'Apostolato della Preghiera* (Apostleship of Prayer). This *Lega* founded a number of social initiatives, amongst which we find the *Cassa di Risparmio* (Savings Bank). This proved to be the origin of APS Bank, the name of which also stems from the initials of each word of Apostleship of Prayer Savings Bank.

The essential characteristic of the *Lega* was similar to that of other small groupings of devotees based on prayer. The *Lega* focused on the main duty that was required from members, namely that of offering the prayers, work, suffering and joys of the day, in every morning's Holy Mass for all the intentions of the Sacred Heart, hence the appellation 'Apostleship of Prayer'.

The association was formally set up during its first meeting on 8 May 1910. The Committee decided to contact savings banks in France and Italy in order to assist the Committee to form the Bank's initial draft regulations. These first rules governing the operations of the Savings Bank were approved by the Committee on 18 September 1910. Subsequently, on 29 October 1910, Archbishop Mgr. P. Pace also confirmed these set of rules, and the Bank commenced operations.

In order to disseminate the *Lega's* ideals and principles, parish centres were set up in various towns and villages. Banking operations were originally carried out at Palazzo Caraffa, 94, Strada Forni in Valletta. In 1913, the Bank occupied the rented premises in Strait Street, Valletta. A year later, the Bank moved again, this time to premises in St Paul's Street, also in Valletta.

As the years progressed, the profits made by this Bank were utilised in order to implement and maintain the other social projects on the *Lega's* list of main initiatives. Eventually, the *Lega* changed its name to *Unione Cattolica San Giuseppe* (UCSG) with the aim of helping both in a spiritual and in a practical manner, with the Bank becoming popularly known as *Il-Bank ta' San Gużepp*.

The committee wanted to introduce various projects of a social nature which would be funded by utilising the profits of the Savings Bank. Over a short period of time, most of these projects were commenced, including: the *Mutuo di Soccorso Artistica ed Operaia San Giuseppe* (a mutual benefit society); a printing press (Empire Press, forerunner of Media Centre); the publication of a Maltese language periodical by the name of '*Il-Ħabib*' (The Friend); evening classes for the teaching of languages, music and crafts; an emigration bureau to help those wishing to settle in other countries; the *Cucina del Povero* with schemes for the free provision of food, medicines and medical care to people in need; the setting up of a consumer cooperative whereby the *Lega* could provide families with foodstuff and other day-to-day consumables at an affordable price; the translation, printing and distribution of copies of Pope Leo XIII's Encyclical '*Rerum Novarum*' and a *Circolo* (recreational club) for its members.

Watercolour painting by Joseph Pace Ross depicting APS Bank's premises in 275, St Paul's Street, Valletta

Fr. Michele Vella, S.J. (1859-1912)

UCSG members group photo (1917)

Mgr. Paolo Galea (1866-1952) served as President of UCSG after the death of Fr. M. Vella. Mgr. Galea was appointed Vicar General of the Archdiocese of Malta in 1929

'*L'Inno Degli Operai*' (Workers' hymn) was UCSG's official hymn. The music was composed by Mro. Paolino Vassallo (1856 – 1923) and the words were written by Mgr. Carmelo Psaila (1871 – 1961). The hymn was composed on 31 March 1912 and was performed for the first time during the opening of the *Circolo* on 16 May 1912. It also used to be performed during the annual concerts on St. Joseph's feast day (the Patron Saint of UCSG).

The founder

Father Michele Vella S.J. was born in Xagħra, Gozo on 1 April 1859. He studied in France and Syria, and following his ordination as a priest, he taught for four years (1880-1884) at the Jesuits School in Istanbul, formerly known as Constantinople, in Turkey. Fr. M. Vella then served for 18 years (1889-1907) as a missionary in Greece, and on his return to Malta was active among the students of St. Aloysius College, where he was Spiritual Director. He also provided his services in the Tas-Samra Church, Ħamrun where he frequently preached and spent much time hearing confessions. In later years, he became noted for having at heart the welfare of the working classes. Fr. M. Vella died on 7 July 1912, at the relatively young age of 53.

The second world war and post war period

During the thirties, the UCSG and the Bank continued to expand and build upon their existing activities. However, with the commencement of hostilities in 1939 and with the eventual onset and increase of the aerial attacks over the Islands, these activities were negatively affected. The parish sub-committees ceased to function, and as with other institutions located in Valletta, banking operations had to be moved out of the city to other places, such as St. Joseph's Institute in St. Venera.

Moreover, as a precautionary measure adopted temporarily, on a daily basis some of the Bank's staff members used to take home important documents such as cash books, correspondence and, at times, also cashiers' till boxes. Following the cessation of the international conflicts of those times, the Bank returned to its premises in Valletta and banking operations resumed their previous momentum.

During the post war period, the Bank continued to increase the volume of its activities, albeit these were still limited to the taking of deposits on a savings basis. For this purpose, the Bank had acquired the necessary license to operate as a savings institution. This was only natural, considering that one of the main aims of the Bank had always been to encourage the savings habit among humble workers, small traders, farmers and dockyard workers. These people were predominantly the main account holders with the Bank.

IL HABIB

L'EUUEL SENA — IL-HAMIS, L'EUUEL TA FRAR, 1912 — Nru. 1

Biex nibdeû.

Cull kalb trid ohra—ighid il Malti. U din il haga inhossuha ilcoll geûûa ruhna, ghax, fil ferh u fil ghali, dejjem nixtieku insibu *habib* biex nifthu kalbna miegha. Imma il ghazla ta dan il *habib* jahtieg naghmluha b'rekka chbira, ghax mhux cull-ma ilekk deheb; u, minn xi drabi, dac li nahsbuh *habib* icun l'aghar ghadu taghna.

Hemm proverbju ihor ighid: *Ma min rajtec nhabbtec*. Imma uiehed ghasel dan il proverbju u ûiehh hecc: *Ghidli x'cotba takra u nghidlec chif tahsibha!* Difatti, bhalma il *kari hazin* chien dejjem ittosscu tar-ruh u tal kalb; u bih, sa mill'ibghad zmienijet, thassru u intilfu ghal-collox bniedmin ghorrief, li, fihom infushom, ma chienux kabel nies hziena: hecc ucoll il *kari tajjeb* hu l'ahjar *habib taghna*.

Mela, jidher car li, actar ma kieghda tfur id-dinja b'*gazetti* u *rumanzi hziena*, actar haûn bzonn li din il marda issib min ifejjakha b'kari li jiftah il ghajnejn, li jati gost, li bih jistaghna il mohh u tithenna il kalb, li collox ighallem seûûa u sa fejn hu xierak ifittex ucoll il moghdija tazzmien.

Dan hu il hsieb li kankal il *Cumitat tal Ghakda tal Apostulat tat-Talb* biex johrog din il gazetta bil-Malti: u ghedna "id-dinja kieghda tfur bil kari hazin" ghax dan il hemm chbir u din il hsara bla-kies m'humiex haûn Malta biss, imma cull-imchien. Il ghedeûûa t'Alla u tal bniedmin ma ghandhomx pajjiz, ma ghandhomx bandiera, hlief tax-Xitan: u jaghmlu id-deni cull fejn jistghu. Fil bliet il chbar, ilhom bil kerk u bil chem...

mil Cnisja u cull triek tajjba ohra: u issa tahom ghalina ucoll.

Din il gazetta, bhalma taraû minn din l'euûel harga, ma hi hsiebiex taghmel priedchi: m'ahniex sejjrin nimleûha bil hajjet tal kaddisin u bl'ahbarijet tal festi: ftit minn daûn il hnejjeg; u mahhom cull xorta ta daûl u taghlim ihor li jisûa ghall gid u ghall'educazzjoni tal Maltin, fuk is-snajja, fuk il cummerc, fuk il biedja, fuk dac collu li jigri fid dinja, b'tiûûik tal ahbarijet ta Haûn u ta Barra, b'rumanzi tajjbin, bi grajja ta pajjizna, b'moghdijiet taz-zmien u b'loghob xierak—b'collox, basta tajjeb ghall mohh u ghall kalb.

Dan hu il *Habib* li gejj izurcom: u tistghu tilkghu sguri li, jecc tilkghuh u tifthu kalbcom miegha, ma tcunux imkarrkin ajnnu.

Niftehmu ahjar.

Il *Habib* ismu miegha: m'hux gejj ghall ghili u ghall glied...

...gazetta bil Malti: u nirriccmandaûh lir-Reverendi Cappillani, biex ixerrduh kalb l'insara tal Parrocci tahhom, ghax nistenneû minnu gid chbir.

Mil Belt, fid-19 ta Jannar, 1912.

✠ P. Arcisktof u Isktof.

Ahbar

Il *Habib*, li m'hux hiereg biex ihalli kliem u jecc ihalli, imur collu ghall ... jinbiegh SITT HABBIET — seûûa ... u seûûa cull-fejn jinbiegh il *Herald*.

Min irid jissieheb fih, jicteb lill'*Amministratur tieghu*, li jokghod il-Belt, strada Cristoforu, numru 174; jeû imur ihallsu ghand is-Sur *G. Muscat*, strada Mercanti numru 47.

Il *Habib* jinbiegh ucoll ghand is-Sur ... Borg—haûn, il Belt, strada *San Giovanni* numru 55.

Tûissija

... jissiehbu fil *Habib* ... ireghghuina din l'euûel harga l'ura, ghall'inkas ... li gejjin.

Imma, bil hlas hecc ... min hu li ma jissiehebx. IMGHAR BIEX IGHIN BISS IL KARI TAJJEB? ...

Ir-Re scond il Fidi

Min m'hux nisrani, ...

The 1st issue of 'Il-Ħabib', a weekly publication issued by UCSG (courtesy of the National Library)

Mgr. Michele Gonzi, Archbishop of Malta (1885-1984)

Old artefacts and ledgers dated 1910

Mechanical calculator used by the Bank pre-computerisation

Transfer of the UCSG to the Archdiocese of Malta

After the war, in November 1947, there was a very significant development. After careful considerations and discussions, the committee of the UCSG agreed to transfer the St. Joseph Catholic Union, which was the name which had been adopted by the Committee, with all its functions including the Bank, to the Archdiocese of Malta. This was affected by means of a private deed dated 19 January 1948.

The Archbishop of Malta, Mgr. M. Gonzi, as Head of the Archdiocese, appointed a committee of administration entrusted with the responsibility of running these activities, including those of the Bank. In 1994, the Diocese of Gozo purchased a small part of the shares held by the Archdiocese of Malta. Currently, AROM (Archdiocese of Malta) Holdings Limited owns around 83% shareholding and the Diocese of Gozo holds almost a 17% stake in the Bank. In addition, the Metropolitan Cathedral Chapter and Abbey Holdings Limited between them hold a minority interest of 0.04% in the Bank.

Growth after being awarded a commercial license

Towards the midst of the sixties, the financial services sector experienced some important developments with the setting up of the Central Bank of Malta and subsequent legislation – the Central Bank Act and the Banking Act. The Committee of Administration immediately conformed with the requirements of the new legislation, and the Bank was therefore incorporated as a private limited liability company under the name of Apostleship of Prayer Savings Bank Limited. It was registered on 1 June 1970 with Dr. Herbert Ganado LL.D. as the first Chairman. In March 1977, the then Minister of Finance, Customs and People's Financial Investments, issued a Banking License to the Bank in terms of the Banking Act 1970.

The initial authorised and issued share capital, almost wholly owned by the Archdiocese of Malta, amounted to Lm100,000 (€230,000). This eventually grew to become half a million Maltese Lira (€1,165,000) in 1990, one million Maltese Lira (€2.3 million) in 1991 and two million Maltese Lira (€4.6 million) in 1992. During 1990, a thorough study of the Bank's future potential was carried out. The shareholders approved the findings of this study and the Bank submitted an application to the Central Bank for a license to operate as a commercial bank. This license was issued by the Minister of Finance in November of the same year. Commercial banking operations commenced in September 1991. It was also in this same period that, with the shareholders' consent, the name of the Bank became APS Bank Limited.

The eighties saw the world swiftly moving towards computerisation and APS Bank was no exception. The first moves for a computerised system for the Bank started towards the late eighties. This system, produced by a local software company, was introduced in 1990. Eventually, with the increase of the volume of work, the provision of new services, with the Bank now operating as a commercial bank, as well as with the setting up of new branches, it became necessary to further develop and enhance the IT system. To this effect, in 2002, the Bank implemented a new IT system, one that facilitated the day-to-day transactions and reporting.

Chev. John Apap (1866 - 1938) a member of UCSG standing beside the gonfalone (standard)

New subsidiaries, alliances and services

As operations continued to grow and the customer base increased, it became necessary to seek other locations from where the Bank could attract and serve more customers. In the last 10 years, the Bank expanded its network of branches, agencies and standalone ATMs in 12 localities.

To cater for the competitive market, various loan schemes were introduced starting with the home ownership sector, which was very much in line with the Bank's social ethic, and ultimately the original aim of its founders. Schemes for students provided in an agreement with the Government's Department of Education were also launched to enable them to specialise in further studies. Other schemes for farmers followed. These were also subsidised by the Government's Department of Agriculture.

The Bank also introduced various types of accounts such as the insurance-linked Lifeguard Account; a concept now also found in other APS products, such as the First Coin and Teen Plus Account, as well as the Aplus (launched in 2000). The latter is the flagship product of the Bank. Following its success, the features, that carries with it this one account, were also extended to the agricultural sector. Besides, as from 2004 after having attained the necessary licences, the Bank started providing investment services.

The Bank's close contact with various economic sectors indicated the need for an institution to accelerate the restructuring process to face tougher competition from abroad. In response, the Bank set up APS Consult Limited in 2006 to achieve this end. Indeed, the subsidiary's primary objective is to intervene directly in various markets to help clients organise themselves better to meet a more competitive market environment. Through education and support networking, APS Consult Limited strives to enhance the resources in welfare services, agriculture and sports, thereby expanding in a concrete manner the significance of 'personal and institutional empowerment'.

One of the highlights of the Bank's community involvement - spread over so many decades - has been its admittance, in November 2006, as a member of a growing international organisation, the Federation of Ethical and Alternative Banks (FEBEA). This Federation, which is based in Brussels, is made up of financial institutions aiming at supporting - through co-operation and the creation of refinancing tools - a global economy that places major emphasis on the joint-principles of 'subsidiarity and solidarity'. Through its ties with the Federation, the Bank has been supporting the formation of alternative financial institutions in Eastern Europe and other initiatives in the Mediterranean Region. The Bank has also invested in ethical microfinance institutions in the west and is co-financing initiatives related to natural environment and renewable energy outside Malta with other FEBEA members.

SECURITY

The family scene represents the foundation of the Maltese society to which the Bank is highly committed.

APS Bank Internet Banking

Aplus – APS Bank's flagship product

Staff development is a key driver at APS Bank

In 2007, the Bank launched its 365 Online Internet Banking service with innovative features for the local market. Users are in fact able to open accounts, carry out transactions and submit pertinent applications online, and may choose to authenticate themselves through both mobile and token verification methods.

In addition, the Bank set up APS Funds SICAV plc in 2008 both to diversify services and also to introduce the selling of ethical funds in the Maltese Islands. Ethical funds are subject to demand based on the inherent values of respective social groups. APS Funds SICAV plc has the responsibility to educate the public on the meaning of such funds and facilitates their dissemination. Specific differences between one such fund and another are clearly examined and explained to potential subscribers before the actual sale is completed. The subsidiary can also propagate the use of seed capital products as part of its portfolio.

An instrument of social and economic development

All activities reflect efforts to build a just and honest social order. And 'at no time may the great principles of social ethics like transparency, honesty and responsibility be neglected or weakened' (Benedict XVI, *Caritas in Veritate, 36*).

The origin of APS Bank was conceived as one tool in an array of instruments meant to empower workers and their families to enhance their social and economic conditions. Saving enabled families to look to a financially sounder future, and fund their investment in housing, education, health and trade. As a result, they strengthened their relationship with the community in which they lived; this peace of mind reinforced their sense of social belonging. It was a time when support to families from the State was practically non-existent; people had to rely mainly on charity and non-governmental support in order to subsist and make ends meet.

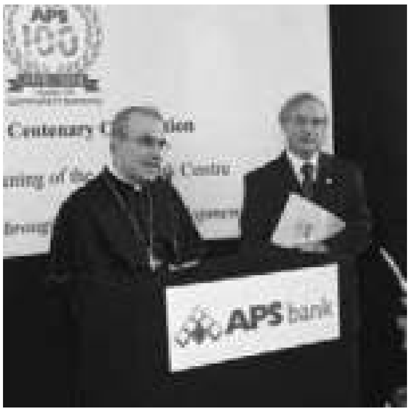
The transfer to a commercial bank in the 1990's was, in part, seen as a step for the Bank's shareholders to be in a position to consider 'at the appropriate time' the option of dispending of its shareholding in the Bank. Since then, the Bank's shareholders have been extended to include the Diocese of Gozo. Total equity (paid up capital and reserves) increased from €16.7 million in 2000 to over €60 million in 2010. And the Bank's role has been reconsidered especially following Malta's membership of the European Union and the ensuing adoption of the Euro. The Bank generates employment for over 200 workers. The current three-year business plan envisages the Bank's assets to reach €1 billion by 2012; they are around €780 million at present. This capital base and an enhanced administration structure utilising personnel in a more-effective manner will aim to achieve the following objectives:

INTEGRITY

The image of the tree reflects the Bank's solid roots and constant growth.

The new APS Centre inaugurated on 8 October 2010

APS Centre's foyer



Archbishop Mgr. P. Cremona's speech during the inaugural ceremony of the new APS Centre

- *To support the present and future development of society* in various ways. Distributed dividends are directed to part finance the shareholders' involvement in the social welfare sector. On the other hand, the Bank enhances the capital base through retained earnings, thus securing its ability to grow.

- *To implement a socially oriented, effective and profitable loan portfolio* offering sustainable and fair rates on deposits and other financial products directed to strengthen the source of funds, while utilising them to finance activity in selected areas.

- *To create a 'seed capital' fund.* The shareholders, with the Bank's backing, will be providing resources for the setting up of new economic activities in selected areas. This pool of resources can be reinforced yearly, until such time that individual projects will, if profitable, contribute to future growth of such resources. Such pool of funds may be utilised primarily in the Maltese Islands in conjunction with other institutions. Alternatively they may also be applied to projects outside these Islands, especially if such projects can generate a spill-over effect in terms of employment and/or additional resources in Malta and Gozo.

Besides, the Bank supports Malta's Heritage and the Arts through sponsorships via specific funds allocated for this purpose. The Bank encourages the revival of past artistic works and also the creation of new ones. These refer to literature, historical research, music, paintings and sculpture, and other media expressing man's inventiveness and creative abilities.

Inauguration of a new head office and 100 years celebrations

In September 2010, the Bank inaugurated the APS Centre in Birkirkara. Laid out on over 7,000 square metres of floor space, this landmark building houses the Bank's various core operational units with more than 120 employees working in very modern and spacious offices on four floors with underground parking. The building also includes a fully-fledged branch office offering all the retail and commercial services of the Bank, as well as an ATM machine accessible 24/7 at street level.

In 2010, APS Bank celebrated one hundred years of community banking. An exhibition about the Bank's 100 year history was also set up at the foyer of this new APS Centre. Various artefacts from the Bank's rich past were displayed against a backdrop of posters depicting local and international events across the past ten decades. Exhibits included original manuscripts and diaries, meeting notes and many other interesting pieces that were on public display for the very first time.

A photographic competition 'Banking on our Local Heritage' was also organised by APS Bank in collaboration with the Malta Photographic Society as part of these centenary activities.

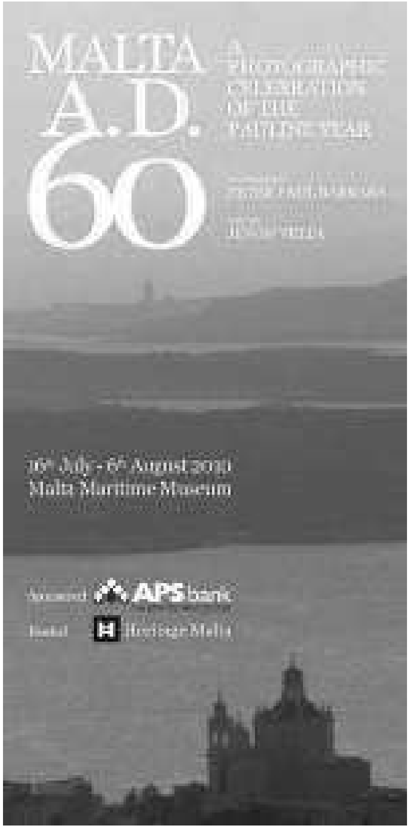
'Banking on our Local Heritage' Centenary photography competition winning photos:

'Safe Return' by Ronald Cocks
1st Place

'Cittá Invicta' by Melvin Bugeja
2nd Place

'Xogħol tal-Filugranu' by Guido Bartolo
3rd Place

APS Bank in the community



Malta A.D. 60 exhibition banner

Mattia Preti's 'St. Francis of Paola'

Overview

Ever since it was set up in 1910, APS Bank has been at the forefront of community involvement, either directly or in an indirect manner. Were it not for the public at large, there would have been no scope for the Bank to exist.

Over the years, the Bank has supported a wide range of non-financial activities in areas of culture (art, music, literature, heritage) as well as voluntary organisations and individuals. Building on its past successes - in line with its social-responsible agenda - the Bank continues to develop its commitment, vision and reach to remain a vital player in the Maltese community in which it operates. This section is a showcase of the numerous initiatives taken on a corporate level.

Art

The philosophy of APS Bank is to assist in projects and initiatives that are significant to the local artistic scene, in order to contribute towards the promotion and development of creative talent.

During the past years, APS Bank has sponsored various artistic exhibitions. These included the exhibition organised by the philanthropic association 'Friends of St. Luke's Foundation' which consisted of various types of paintings by established local and foreign artists mainly depicting Birgu (also known as *Citta' Vittoriosa*), its history and environs.

The Bank has also sponsored the Malta A.D. 60 - Pauline Year Photographic Exhibition, consisting of forty-five prints representing the natural and cultural landscapes of the Maltese islands. Each image was a liberal reinterpretation of verses taken from Chapters 27 and 28 of the Acts of the Apostles, and illustrated the fateful voyage of St. Paul to Malta. The photos were taken from stock library of Magister Images and were the works of Peter Paul Barbara.

The well-established Contemporary Christian Art exhibition has also been sponsored by the Bank for a number of consecutive years, thus offering artists with opportunities to present their work, and in doing so also promoting creativity and enhancing public appreciation in this regard.

The Bank has made possible the participation of local artists in the '*Biennale di Firenze*', the world's largest artist sponsored exhibition attended by nearly one thousand participants from around the world. Furthermore, Christopher Saliba was able to hold his 10th personal art show entitled 'Introspections' at the *Auberge d'Italie* with the backing of the Bank.

On a different note but still on the same lines, the Bank has purchased a rediscovered Mattia Preti oil-on-canvas painting showing 'St. Francis of Paola'. The painting measuring 71 cms by 58 cms, is considered a fine example of Preti's late austere style in which the devout artist concentrates all his forces on spiritual concerns, eschewing the distractions of colours. The painting, which is in very good condition, is being exhibited at the Mdina Cathedral Museum.

'The Annunciation', one of the hand-painted icons by Joseph Vella on display at St. Francis Church in Hamrun, that were sponsored by APS Bank

APS Annual Sacred Music Concert

Original music scores by Paolino Vassallo of the 'Inno degli Operai' - the UCSG official hymn

Sacred Music CDs issued by APS Bank

Music

Over the years, sacred music has attracted the attention of Maltese composers and musicians so much so that, at least up to the middle of the 20th century, it occupied the central place in the development of music in Malta to the almost total exclusion of other genres with the partial exception of opera composition. The idea of bringing to light sacred music composed by renowned Maltese composers as part of the Bank's corporate responsibility was an opportunity not to be missed.

The Bank undertook a pioneering four-year (2001 to 2004) project, comprising of an annual flagship concert of short sacred pieces, many of them revivals, by composers of the eighteenth, nineteenth and twentieth centuries. The concerts were enhanced by the printing of meticulously researched souvenir programme notes which quickly gained the status of collectors' items.

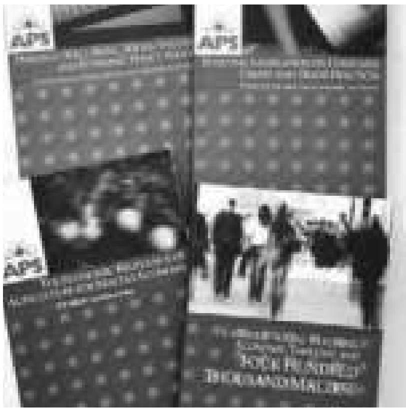
To further its goal of preserving present realisations for future generations, the Bank also perpetuated the works on compact disc accompanied by a wide-ranging informative booklet about the composers and the era's musical milieu. The recording company Gega New of Bulgaria was contracted to record and print the selected music for both local and international distribution. In total, five CDs were issued. Since the series contains outstanding works by the leading Maltese composers - most of them '*maestri di cappella'* - of the last 300 years, it illustrates the development of sacred music during these three centuries.

Encouraged by the favourable critical and public interest success of its initial project and by the impressive continuing increases in concert audiences, the Bank decided to embark on another four-year cycle (2005 to 2008). The aim now was the revival of eminent nineteenth-century grand masses which, although frequently heard in their day, had to be shelved after the imposition of Pius X's 1903 motu proprio on church music. As was done in its initial project, the Bank decided to record the works on 4 CDs; each one was accompanied by a wide-ranging and meticulously researched booklet.

At the same time, the Bank also proceeded to move into a sphere which, it believes, needs support and national appreciation - the composition of new musical works that will form part of the musical legacy which tomorrow's generations will appreciate and take pride in. This new initiative took the form of a music competition for the composition of musical works. The competition required an oratorio-type work lasting about 60 minutes. Composers could choose from two subjects, underlining two aspects of the nation's totality: its Catholic religion and its literature.

The symphonic song cycle '*Ghanjiet ta' Bniedem Solitarju*', composed by Albert Pace, placed first and a Jury Prize was awarded to Joseph Sammut's 'Canticles of Saint Luke: an oratorio in three parts'.

APS Concert 'Ghanjiet ta' Bniedem Solitarju' (Songs of a Lonely Man) by Albert Pace held on 12th October 2009 at the St. John's Co-Cathedral, Valletta



Occasional Papers issued by APS Bank

As an integral part of the Bank's stance to promote music, a number of other concerts and music literature were sponsored, such as the production of oratorio '*Kristu Sultan*', penned by Oliver Friggieri on the original musical composition of Dion Buhagiar.

Equally important was 'Musical 1956', a Rock Opera organised by the Leone Band Club together with the Parish of the Gozo Cathedral and the St. Monica Choir, quite famous in its circles not just in Malta but in many places scattered around different parts of Europe, respected by many for its high level of choral singing, dynamism and a vast and varied repertoire. The Bank further extended its association with the St. Monica Choir to hold another local performances, Johann Sebastian Bach's 'Christmas Oratorio' and 'The Armed Man: A Mass for Peace' by Karl Jenkins. Apart from the intensive artistic experiences, these occasions were all the more significant since they served as fund-raising activities in aid of the Augustinian Sisters' Mission in the Philippines.

Launch of St. Monica Choir's performance of Karl Jenkins' 'The Armed Man'

Education and literature

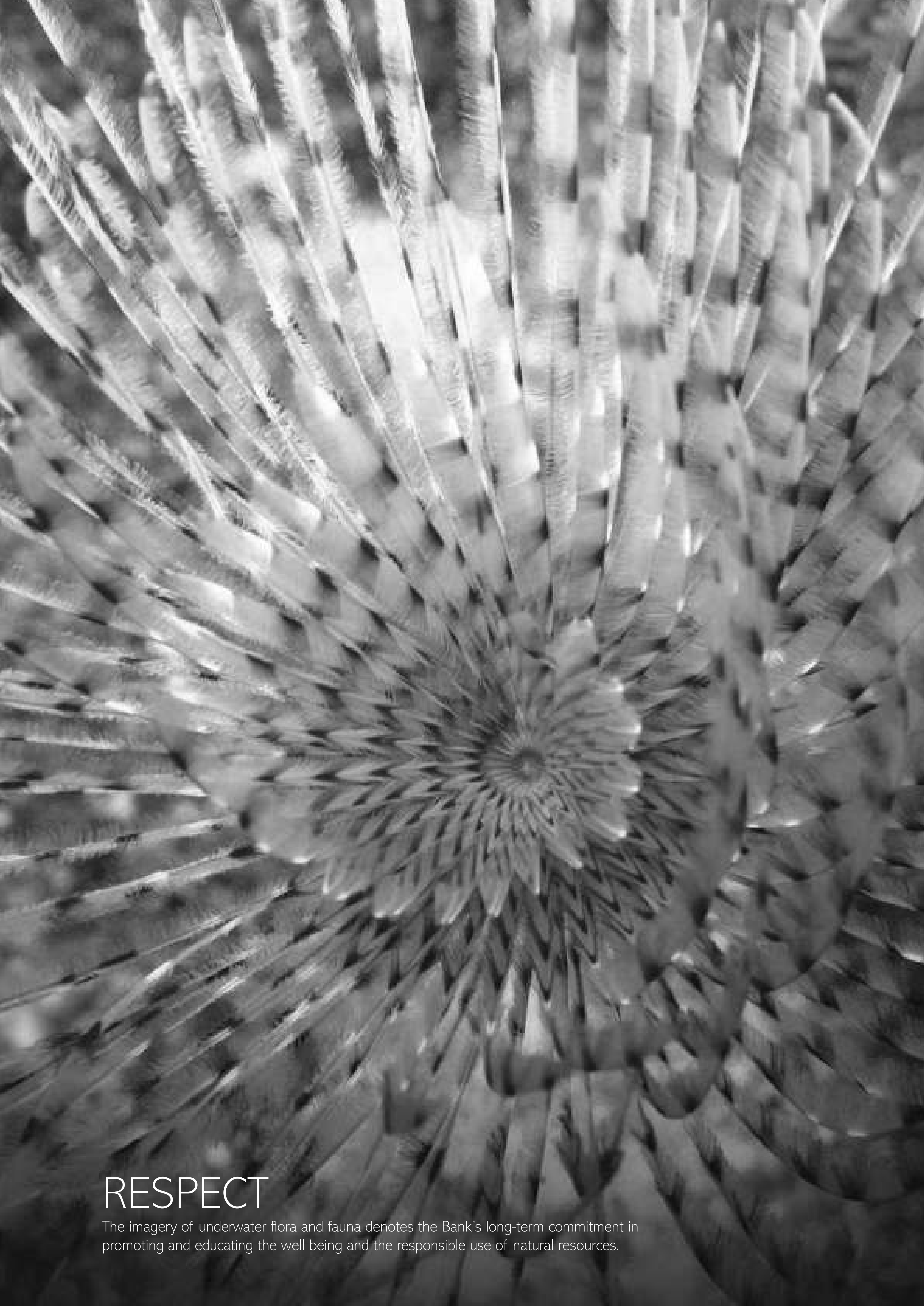
On the educational front, the Bank has been publicly promoting discussion on economic and social issues over these last few years. In order to ensure that such initiatives will serve as a catalyst to on-going debate and plausible remedial or proactive action, seminars have been held on an annual basis, with high profile speakers on the panels. In addition, ensuing Proceedings as well as a series of Occasional Papers have been published since 2001. Amongst the topics discussed and analysed in the Proceedings series were the development of agriculture and fisheries, safeguarding water resources and waste management, especially within the local context. Specific consideration was also given to demographic, economic, political and legal issues, supplemented with examples of every day realities and structures; these views were published in the Occasional Papers series.

One of the Annual Seminars organised by APS Bank

In parallel, the Bank has assisted the University's Institute of Agriculture to promote local rural development among students. Activities held at University have also been given attention by the Bank. An example of this is the sponsorship of The Ritual Year Conference held in 2004.

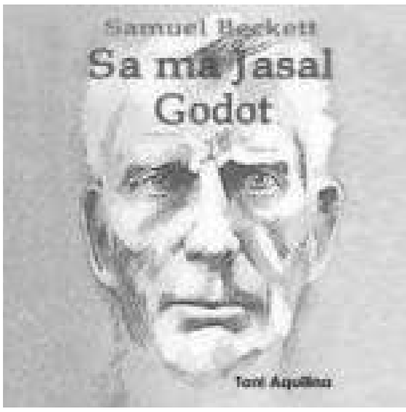
In the literary sphere, there has been the publication of important books of profound scholarly research which would otherwise never have seen the light of day. The Banks' active collaboration with *l-Akkademja tal-Malti*, whose members include leading Maltese writers, led to the establishment of APS Bank's *Fond għall-Kittieba tal-Malti*.

This well-welcomed initiative aims at providing financial assistance to local authors who intend to publish literary works in Maltese. The first publication was '*Requiem għal Sieħbi Faxxista jew l-Interrogazzjoni*', originally written in English by the late Francis Ebejer and translated to Maltese by Charles Briffa. The second and third books were '*Bagalja Ħolm*' and '*Għand 'l Hena*'. The former was written by Vincent Vella and is sectioned in two plays, namely '*Ħal-Tmiem*' and '*Agave Adaġjo*', while the latter was written by Michael Zammit and consists of one poem made up of thirty-five cycles.



RESPECT

The imagery of underwater flora and fauna denotes the Bank's long-term commitment in promoting and educating the well being and the responsible use of natural resources.



Anthony Aquilina's book issued under APS Bank's 'Fond għall-Kittieba tal-Malti'

A tragicomedy was also published under the *Fond* entitled '*Sa Ma Jasal Godot*'. This work—translated into Maltese by Anthony Aquilina from the original French text of Samuel Beckett's '*En Attendant Godot*'—was placed first in the drama translations category of the National Book Council's annual awards. Another publication, 'Dwardu Cachia (1857-1907)', which is written by Joseph Axiaq, recounts the biography of the poet Dwardu Cachia, mostly known for the ballad '*Katrin ta' l-Imdina*', a poet among the first ones writing in the Maltese language during the late 19th and early 20th century. The book, entitled '*Għana Bikri u Għana Waħħari*' (Early and Late Poetry) was also made possible thanks to the *Fond*. This includes many poems for children and others for an adult readership. It was written by the late Ġorġ Pisani (1909-1999), the renowned Gozitan poet and edited for publication by his son Paul George Pisani. A noteworthy addition to the collection of sponsored publications was '*Miexi Lejn id-Dawl*' (Walking towards the Light), written by the late Joseph M. Ghigo, S.J. (1927-2003).

Restoration of the Old Portable Organ found in the Cospicua Parish Church

Over the last three years, the Bank has been sponsoring extensive works of a research nature which have shed light on the vicissitudes of the Maltese Diocese dating back as early as the Norman Period until the sixteenth century. This was part of the *'Melita Sacra'* series by Vincent Borg.

The Bank has also financed the project, AWRORA, an application which may be applied on both Windows and Machintosh's operating systems. AWRORA facilitates the use of correctly written Maltese words in e-mails and web pages. It has been approved by the *Akkademja tal-Malti*, enabling pertinent orthography usually found in other languages to be also applicable in the use of written Maltese.

On different occasions, the Bank has shown its commitment to improve the facilities of libraries in Malta, making books more accessible to the public. Over the years it has presented donations to local councils towards the purchase of books in their respective libraries.

Restoration of old books at the Capuchin's Province Library in Floriana

Restoration

The Bank is committed in helping with projects in the interest of cultural heritage. Over the years, the Bank presented substantial financial contributions towards restoration works and some examples are cited below.

The restoration of a unique 15th century painting of the Assumption, found in the chapel of Sta. Maria at *Ħal-Xluq*, was undertaken by the Cultural Heritage Commission of Siġġiewi following the Bank's support.

Restoration works were carried out on one of Malta's oldest portable organs held at Cospicua Parish Church, with the Bank being the sole sponsor. Robert Buhagiar, an engineer with extensive experience in the restoration of old Maltese organs, performed the works on this rare musical instrument.

Restorations carried out on the painting 'The Martyrdom of St. Lawrence' found in St. John's Co-Cathedral

Youth playing football in the Youth FA's leagues sponsored by APS Bank

Tour of Malta 2007 organised by the Malta Cycling Federation – APS Bank co-sponsored the event.

Abseiling event sponsored by APS Bank

The extensive restoration works at *Palazzo Falson*, the second oldest medieval building in Mdina, undertaken by *Fondazzjoni Patrimonju Malti*, also benefited from the Bank's funding.

The Bank has contributed financially to the restoration of priceless books at the Capuchin Province Library in Floriana, which publications are considered to be of great value apart from being a national heritage.

The Bank was the main sponsor of all restoration works carried out on the Baroque Lunette Painting depicting 'The Massacre of the Knights of Malta at Fort St. Elmo in 1565'. This masterpiece, which is located at the Franciscan Friary in Rabat, Malta, dates back to the first half of the seventeenth century.

The chapel of the langue of Aragon, Catalonia and Navarre has also undergone major restoration interventions on the initiative of the St. John's Co-Cathedral Foundation, with the assistance of sponsors including APS Bank. The project consisted of the restoration of the dome and wall carvings and the marble funerary monuments as well as the restoration of the lunette painting representing 'The Martyrdom of St. Lawrence' and the painting of 'St. Francis Xavier' both considered as important works by Mattia Preti.

Sports and youths

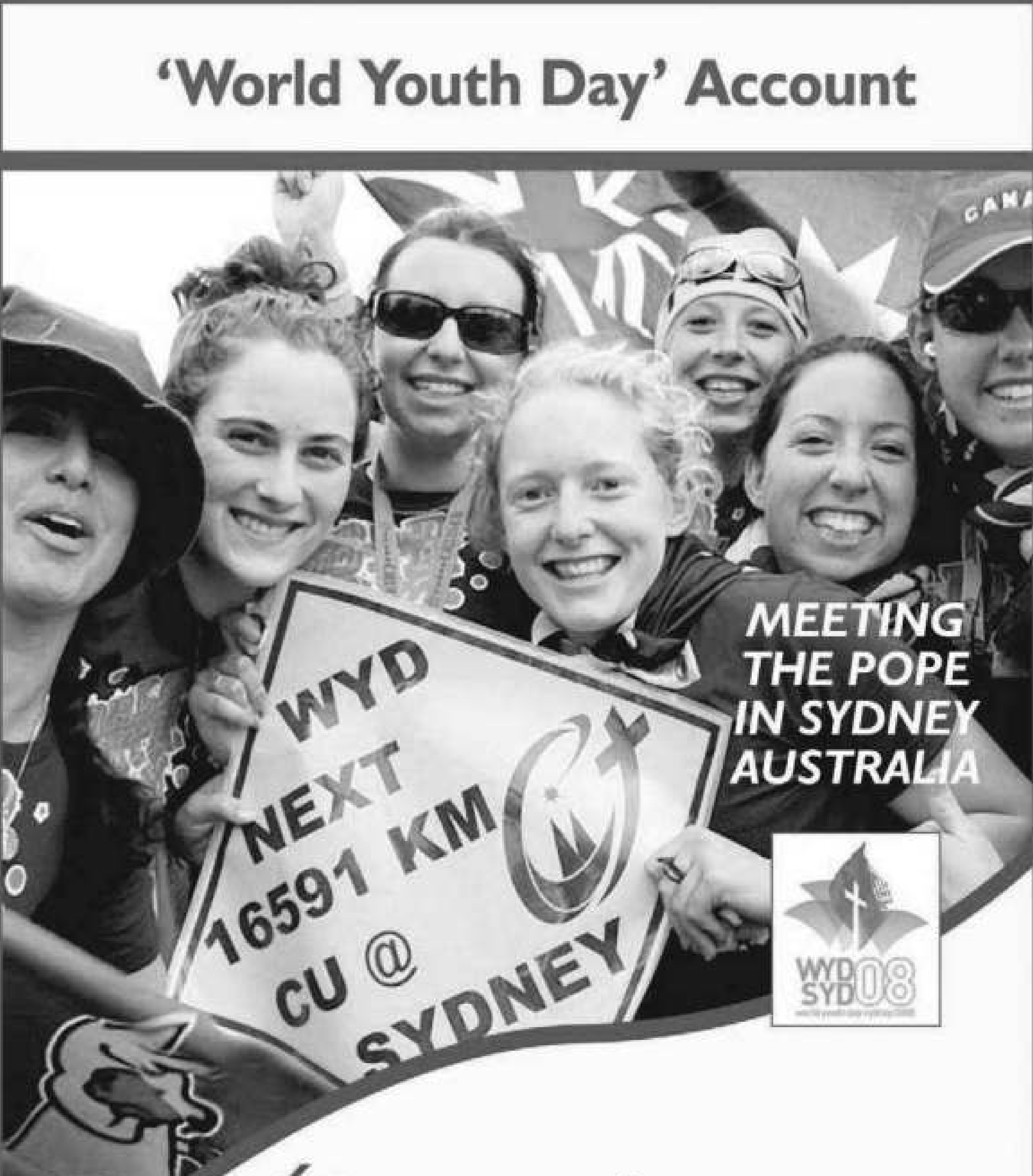
Various initiatives taken by the Bank over the years aim at fostering active participation in sports, skill development, social integration, character formation and general positive values, particularly amongst youths. The sport sector has been a main beneficiary as witnessed by the numerous sponsorships of sports associations.

The Bank has extended its financial support to the Youth Football Association for a number of years, encouraged by the way the Association has effectively applied the funds allocated. As a result young football enthusiasts were able to benefit from actively participating in training and other competitive events.

Similarly, following the Bank's financial support to the Malta Handball Association, the latter was able to direct resources to the smooth running of national leagues as well as development projects with the aim of increasing the number of youth practicing the game of handball.

Another sponsorship given by the Bank was toward the Malta Chess Foundation, which is one of Malta's oldest associations focusing on youth development. Indeed, chess is considers very beneficial for the younger generation since through this discipline one acquires a higher degree of judgement, strategic planning, maturity and self-dependency.

Other sports events that fell perfectly in line with the various initiatives taken by the Bank in this sector were organised by the Malta Cycling Federation and an abseiling event for charity.



'World Youth Day' Account was launched in 2007 to assist young people to save for the 2008 World Youth Day in Australia. Initiative organised with the assistance of KDŻ.

Pope Benedict's XVI meeting with the youth organised by KDŻ and supported by APS Bank

Launch of the annual philanthropic event held in aid of Id-Dar tal-Providenza in Siġġiewi sponsored by APS Bank

Birdlife's Interpretative Centre at Simar Nature Reserve (Xemxija Bay) build with the financial support of APS Bank

The youths and students have always been at heart to the Bank and this was also manifested through collaborations with the Millenium Chapel, the *Kummissjoni Djoċesana Żgħażagħ* (KDŻ) and AEGEE-Valletta. The participation of a group of students in the World ExpoScience has also been supported.

Other initiatives

In recent years, APS Bank has been supporting a number of high calibre cultural and philanthropic initiatives with a view of enhancing the level of local voluntary participation in the respective sectors, thus benefiting the community at large.

The Maltese cultural heritage has always been on top of the Bank's agenda and this is reflected with various sponsorships including Malta's Fishing Heritage exhibition by *Din l-Art Ħelwa* and the National Pictures Archive being housed at *Santo Spirito* in Rabat.

Additionally, in line with its policy to promote environmental issues and enable possible implementation of positive environmentally-oriented projects, APS Bank has given a helping hand to a number of voluntary organisations and initiatives including Is-Simar Nature Reserve managed by BirdLife Malta, tree planting events in Gozo and the first international conference on the 'Management of Coastal Recreational Resource'.

On the religious and philanthropic front, the Bank has given its backing to the Archbishop's Seminary, the Malta Bible Society and the Cana Movement. RTK radio, especially its annual fund-raising campaign in aid of *Id-Dar Tal-Providenza*, has been supported by the Bank for a number of consecutive years. The Bank has also reached out to assist Caritas' Foundation for Victims of Usury and Sir Paul Boffa Hospital in Floriana.

SUSTAINABILITY

The strawberries, a typical Maltese agricultural produce symbolises the Bank's capacity to endure through different times.

Commemorative silver memento

To commemorate the 100th year anniversary with a suitably prestigious memento, APS Bank commissioned a renowned Maltese engraver Noel Galea Bason to design and produce a set of solid silver medals in two different weights and sizes.

Noel Galea Bason

The engraver

Noel Galea Bason trained as a coin and medal engraver at the '*Scuola dell'Arte della Medaglia*' at the State Mint in Rome. He has designed and engraved over 60 coins such as a 10 coin set for the Republic of San Marino and the Malta Euro Coin set. Galea Bason has exhibited his bronze relief sculptures in Malta, England, Portugal, Yugoslavia and France. His work may be found in several private collections as well as the British Museum. He is regularly commissioned by the Presidency of Malta to create gifts for visiting Heads of State such as H.M. Queen Elizabeth II, H.E. Mario Soares President of Portugal, H.M. Juan Carlos of Spain and Popes John Paul II and Benedict XVI.

Artist's design of the Centenary Medal

The medals

40 medals were produced with a diameter of 50mm weighing approximately 60g, whilst another 500 were made with a diameter of 38.6mm and an approximate weight of 31.1g. Both versions were finished in antique silver and presented in an attractive case with an individually numbered certificate.

The identical design on both sets of medals shows the Bank's centenary logo on one face while the obverse depicts a tree and its roots with the words 'Soundly rooted in the Past, Projected into the Future'. This imagery and phrase illustrate the Bank's vision of projecting itself into the future whilst proudly building on the solid foundations established by its founding members in the beginning. With its rich and varied history at its roots, the Bank continuously strives to be the leading driver of ethical, social and economic development in the financial services sector for the benefit of the community where it operates.

Silver medal commemorating APS Bank's Centenary anniversary

BANK INFORMATION

DIRECTORS

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

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

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

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

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

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

Joseph Pace Ross A.C.I.B.

COMPANY SECRETARY

Mario Felice LL.D.

CHIEF EXECUTIVE OFFICER

Edward Cachia A.C.I.B.

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CHAIRMAN'S STATEMENT

CHAIRMAN'S STATEMENT

Soundly Rooted in the Past, Projected into the Future

A year ago this time, the Bank was just a few months into the celebrations of its centennial year. It was a time of opportunity to re-address our orientation and adapt the rooted ideals into the means to face with confidence and vigour a challenging future in the Eurozone and the Mediterranean basin. I am pleased to report that the series of occasions that marked the centenary commemoration served to clarify our objectives with all stakeholders related to the Bank and to identify the resources that will help us attain the economic and financial targets in the coming years. Besides, I am equally satisfied with the financial results and developments registered by the Bank and its subsidiaries in 2010.

Three occasions demand singular highlighting: the official opening of the new offices at Victoria, Gozo, in September and of the APS Centre in Birkirkara in October. The Bank took these opportunities to launch an exhibition that traced the main landmarks in the history of this institution, an organisation that contributed in its own particular way to the empowerment of Maltese in the absence of a well-developed state welfare-support system in general and technical education and health. Indeed, it was a fitting tribute to this contribution that on the occasion of the official inauguration of the APS Centre, we gave life to *'L'Inno degli Operai'*, commissioned by the Bank's founding organisation, the *Unione Cattolica San Giuseppe*, in 1912 with words by Monsignor Karm Psaila and music by Maestro Paolino Vassallo, two main contributors to Malta's artistic heritage. This composition epitomised the main ideals of a world based on solidarity and work, a world to which the Bank plans to continue contributing.

A third occasion was the organisation of the Annual General Meeting of FEBEA (the European Federation of Ethical and Alternative Banks and Financial Institutions) in April. This meeting coincided with the European Year for Combating Poverty and Social Exclusion and was preceded with a half-day international conference on 'Microcredit as a Tool of Ethical Financing for Sustainable Development'. Microcredit, like other financial instruments, is a tool that has to be assessed from time to time in terms of its contribution to enterprise, economic growth, and personal and social welfare. It is pertinent to assess the role of such a tool in the context of a solidarity-based networking in the Eurozone and in the European Union (EU) with the specific objective of going beyond these monetary and political zones and spill over in the Mediterranean basin and further on. In turn, such ideas have to be translated into practical measures that aim directly to generate employment and economic wealth. To this effect, the FEBEA members, including APS Bank, recorded examples of interventions through micro-credit in 'The Atlas of Job Creation: Good Practices for Social Inclusion'. It is a first step to synchronise various initiatives in several countries to support job creation at a time when global economic restructuring is proceeding at a fast rate.

It is our intention to continue reinforcing these interactions within the EU and in the Mediterranean. The Bank is therefore preparing itself to participate actively in such undertakings. For this purpose it will be strengthening its capital and human resources in order to be ready to fulfil its newly-defined adaptation of the ideals of its founders. Such objectives can become a reality through consistency in our financial performance.

Marking the Centenary with Improved Performance

Indeed, 2010 was a year that recorded a notable enhancement in the Bank's operations. We delivered an improved performance against a backdrop of a slowly recovering economy in the Maltese Islands and tougher competition in the financial services sector. The Group registered a record pre-tax profit of €8.1 million while its total assets increased by €63.2 million reaching a high of €786.6 million. This expansion was mainly supported by a rise of €60.4 million in customer deposits, reflecting the unfaltering trust the Bank enjoys with the Maltese community.

The Bank's subsidiaries also contributed to the Group's social objectives: APS Consult Limited supported the creation and strengthening of social networking in the Maltese Islands in part through co-operation with entities coming from the EU and operating in other parts of the world, mainly in Africa. APS Funds SICAV plc also contributed to the financial bottom-line as it increased its activity to €20.4 million. The fund is suitably positioned to safeguard the best interest of the investors by endeavouring to maximise the rate of return while minimising the volatility of the portfolio.

CHAIRMAN'S STATEMENT (continued)

Marking the Centenary with Improved Performance (continued)

The Bank's branch network was widened: apart from the new branch at the APS Centre in Birkirkara, two new mini-branches became operational in Sliema and Qormi and work continued on a new outlet in Rabat, Malta. It is encouraging that from the first results in these localities, it is seen that the operational investment is bearing fruit and giving scope for our workforce to express themselves better in relation to both internal operations and to existing and prospective clients. We are very confident that the inputs in infrastructure and human resources will yield the desired outcome in social networking and financials.

Encouraging the Arts and Social Work

Our responsibilities go beyond financial and operational performance. We are very sensitive to the role we have in contributing to the welfare of both the Maltese community and those in other countries that can benefit directly from the Group's intervention. Locally, the Bank has continued to play its vital role in assisting its shareholders to finance a varied set of social support activities.

In addition, the Bank has kept on seeking other means to actively encourage other worthy and eligible causes. Towards this, a number of sponsorships were given to promote national heritage, culture and talent. In November, the Bank hosted its popular annual concert that saw the premier of the oratorio, '*Il-Kantiċi ta' San Luqa*', which was awarded the Jury Prize in the APS Bank 2007 Open Music Competition. The Bank also made possible the premiere of another oratorio, '*Kristu Sultan*', in June, a work written to commemorate the centenary of the Parish of Paola. A further link between the Bank and St. John's Co-Cathedral, besides these events, was the restoration of the painting of 'The Martyrdom of St. Lawrence' by Mattia Preti. This work is part of the conservation project relating to the Chapel of the Langue of Aragon, Catalonia and Navarre.

Besides, the Bank co-financed the publication of several books related to specific institutions, like Philip Xuereb's '*L-Oratorju u Lilhinn Minnu*' and Dun Gwann Galea's '*L-Istitut Kattoliku – Ħamsin Sena ta' Ħajja u Ħidma*'. Of particular interest was the subsidy given to the production of an agro-film on the 'Cultivation of Cacti in Malta', screened at the International Agro-film Festival in Slovakia. The Bank will continue participating in similar activities in the future.

Looking toward the Future

2010 was truly an eventful year, a bridge between the Bank's historic past and its envisaged future. The work carried out was achieved thanks to the skills and dedication of our staff members and the trust placed in us by our customers. I am convinced that the same spirit will enable the Bank to translate its social objectives into reality and maintain its viable business momentum.

Attaining the set goals is not possible without the steady backing of our shareholders, to whom I would like to express my sincere gratitude and recognition. To conclude, I would like to thank the members of the Board of Directors for their guidance and dedication over the past year.

E. P. DELIA
Chairman

'Banking on our Local Heritage' Centenary photography competition - Photo by Andrew Attard

APS bank

FINANCIAL STATEMENTS
2010

DIRECTORS' REPORT
for the year ended 31 December 2010

PRINCIPAL ACTIVITIES

Parent

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

Subsidiaries

APS Consult Limited is a wholly owned subsidiary of the Bank. Since its incorporation in June 2006, the company provided various advisory services to customers in niche markets.

APS Funds SICAV plc was registered in January 2008 and less than three months later launched its first fund. The performance of this fund has been very positive, especially during 2010, when it also grew by 48.1% to €20.4 million.

FINANCIAL PERFORMANCE

In 2010, the Group delivered a strong financial and operational performance, enjoying another successful year in a gradually recovering economic environment. Profit before tax was a record €8.1 million, up from €6.0 million in the previous year. Essentially, this increase of 34.2% was primarily due to a growth in income underpinned by a number of cost-saving initiatives.

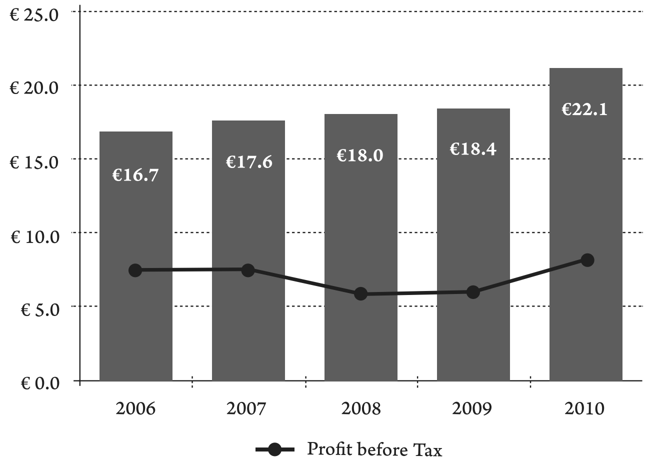
Operations

Operating income for the year under review amounted to €22.1 million, a 19.9% rise over that registered in 2009. This was mainly driven by an increase of 21.5% in net interest income which reached €19.5 million. This outcome was a result of a boost in credit facilities and a selective addition to the debt securities portfolio. Moreover, results were further strengthened through a revised deposit management strategy which proactively anticipated market shifts.

Non-interest income reached €2.6 million following an upward movement exceeding 9.3%. Over the past years, the Group has endeavoured to improve income arising from fees and commissions. The main contributor during the last twelve months was the advances function, while good progress was also registered by the investments-related services. Notwithstanding, the Group is intensifying its efforts to capitalise on opportunities that this latter revenue stream presents.

Operating expenses rose by 9.3% when compared to the previous year's figure. These mainly reflected the extension of the branch network and the intake of an additional 22 staff members. 2010 was also the first full year of operating from APS Centre in Swatar. The Group benefited from this move in terms of economies of scale and maintaining depreciation at the same level of 2009. While administrative expenses rose by 11.5%, these were far outweighed by the growth in operating income, leading to a marked improvement of 5.7 percentage points in the cost-to-income ratio that went down to 59.1%. In line with its plans, the Group will continue re-engineering its operations in order to enhance overall efficiency and ultimately offer a more competitive service to its customers.

Group Total Operating Income (in millions)



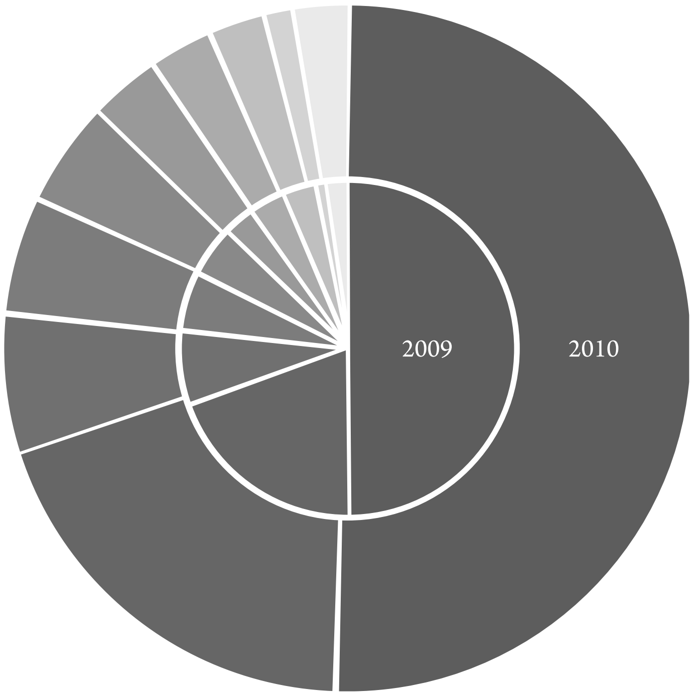
Despite signs of improvement in the performance of the economy, the credit environment remains fragile. As a consequence, the net impairment losses at end of year stood at €1.0 million, but this situation is expected to revert to improved levels in the coming months.

DIRECTORS' REPORT (continued)
for the year ended 31 December 2010

Statement of Financial Position

In order to support long term growth, the Group continued to manage its capital prudently by maintaining suitable risk-exposure levels. The Group retained its sound position by closing the year with a capital adequacy ratio of 18.2%.

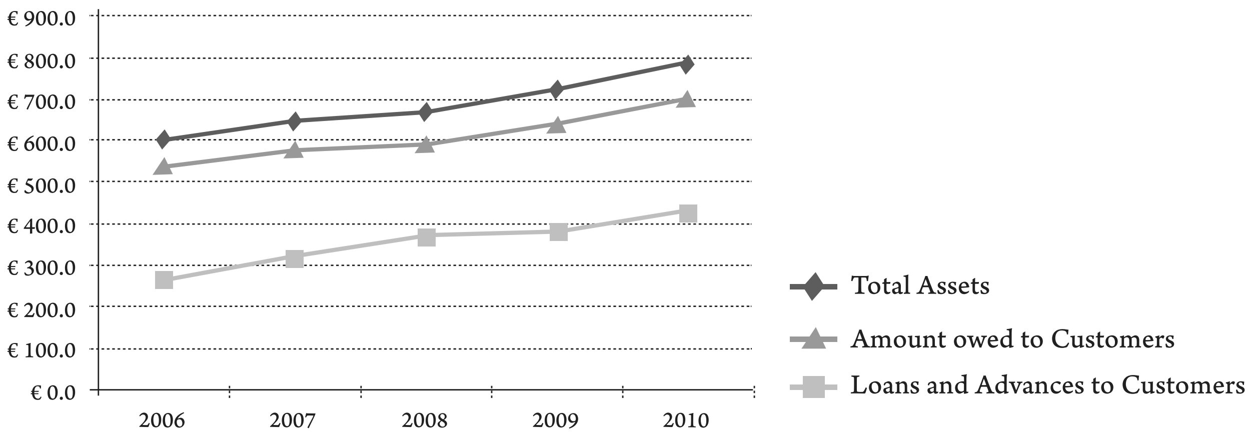
Total assets grew by 8.7% over the previous year's figure, represented by an enlargement in the securities portfolio of €40.1 million and an expansion in lending of €42.1 million. Net lending amounted to €423.0 million, an increase of 11.1% which is mainly attributable to fresh facilities granted to households and individuals. These upward trends were also registered in several sectors, including education, hotels and restaurants and other business categories.



Lending by Activity	2010	2009
Households and individuals	50.6%	49.6%
Construction	19.4%	19.9%
Wholesale and retail trade	6.5%	7.3%
Hotels and restaurants	5.6%	5.5%
Electricity, gas, and water supply	4.8%	5.1%
Real estate, renting and business	3.4%	2.8%
Manufacturing	3.1%	3.5%
Agriculture and fishing	2.6%	3.3%
Education	1.4%	0.7%
Other	2.6%	2.3%

On the liabilities side, following a number of initiatives to expand further the main source of funds, the Group attained a 9.4% rise in amounts owed to customers. New products and services targeting different customer segments have attracted an additional €60.4 million in deposits, despite the challenging competitive environment.

The Group's Growth over a 5-Year Period
(in millions)



DIRECTORS' REPORT (continued)
for the year ended 31 December 2010

Outlook

The Group's performance in recent years reflects the relevance of its strategy to the external environment in which it performs. The Group has been extremely solid, focusing on risk management, and maintaining prudent liquidity and high solvency ratio. This combination enabled the Group to face successfully the challenging times and seize the opportunities. This was possible because it continued to invest in systems, enhance its organisational structures and develop its staff. The aim has constantly been the provision of personalised and 'value added' services to its customers. We are sure that these factors will continue to support the Group's performance in the years ahead.

Indeed, the Group will be anticipating regulatory requirements, as well as being conscious of its diverse obligations to its customers by strengthening further its capital base. Such a step will reflect on the Group's resolve to maintain a prudent relationship with the underlying risks of the business.

CORPORATE GOVERNANCE

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

Board of Directors

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

The Board currently consists of seven Non-Executive Directors, including the Chairman. No individual or group of individuals dominates the Board's decision-making. The Directors have wide-ranging experience and all have occupied or currently occupy senior positions in various organisations. Non-Executive Directors have a responsibility to bring independent, 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 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' emoluments are disclosed in note 9 to the Financial Statements.

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

Committees established by the Board

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

The Audit Committee
The main role of the Audit Committee is to monitor the integrity of the financial statements of the Bank and review significant financial reporting judgements contained in them. It has also the responsibility for reviewing the Bank's internal financial controls, and monitoring and reviewing the effectiveness of the Bank's internal audit 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.

DIRECTORS' REPORT (continued)
for the year ended 31 December 2010

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 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 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.

DIRECTORS' REPORT (continued)
for the year ended 31 December 2010

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

RELATIONS WITH SHAREHOLDERS AND THE ANNUAL GENERAL MEETING

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

The Annual General Meeting is to be held on 28 April 2011.

DIRECTORS

The Directors of the Bank are listed on page XXVII.

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.
- 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.

DIRECTORS' REPORT (continued)
for the year ended 31 December 2010

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

During the year ended 31 December 2010, 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	J. C. CARUANA Director

7 April 2011

CAPITAL ADEQUACY AND RISK DISCLOSURES REPORT 2010

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/07/2010 - Publication of Annual Report and Audited Financial Statements of Credit Institutions Authorised under the Banking Act, Cap. 371 of the Laws of Malta.

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 2010 which adhere to International Financial Reporting Standards (IFRSs) as adopted by the EU. However, this report has been subject to comprehensive internal review and approval by the Risk Management Committee (RMC) and the Board of Directors. This information is published annually.

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. It is also responsible for highlighting any material risks and changes in the Group's risk profile to the RMC, even as part of the business planning process.

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

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

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 investments and 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.

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 also decide on delegation of credit approving powers, prudential limits on risk concentrations, standards for advances collateral, portfolio management, loan review mechanism, risk concentrations, risk monitoring and evaluation, pricing of loans, provisioning and regulatory/legal compliance.

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.

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 monitoring and control of credit risk. The rating process also provides a basis for the recognition of impaired loans.

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 of Directors.

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 of Directors.

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

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.

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.

CAPITAL ADEQUACY AND RISK DISCLOSURES REPORT 2010 (continued)

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 2010	% of gross loans & advances
Residential property	60.89
Commercial property	15.83
Investments	5.64
Cash	3.31
Government guarantees	3.16

Sensitivity Testing

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

Capital Requirement

The Group adopts the Standardised Approach (as per Banking Rule BR/04/2010 - Capital Requirements of Credit Institutions Authorised under the Banking Act, Cap. 371 of the Laws of Malta) for the purposes of calculating the risk-weighted exposures to credit risk. It adopts credit ratings by Standard and Poor's to establish the credit quality of all exposure classes, that is, institutions, government and corporate debt securities. The Standardised Approach is based on the assumption that the Group's portfolio is infinitely granular, as this methodology has been calibrated for internationally active banks. For this reason, the Group also allocates additional capital to cover concentration risk separately.

Concentration Risk

Concentration risk is an exposure or group of exposures with the potential to produce losses large enough to threaten the Group's health or its ability to maintain its core business. This risk may arise from:
• Large (possibly connected) individual exposures; or
• Significant exposures to groups of counterparties whose likelihood of default is driven by common underlying factors.

The Group's activities are highly concentrated in the local environment so that it has a significant exposure to the local economy. The Group adopts an exposure limits system for mitigating concentration risk. The RMC and the Board of Directors 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.

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 the Group does not trade instruments in the trading book. The Group's market risk is therefore only triggered by foreign exchange risk. This is the risk of the exposure of the Group's financial position and cash flow to adverse movements in foreign exchange rates. The Group's financial assets and liabilities are substantially held in Euro. The Board of Directors 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.

CAPITAL ADEQUACY AND RISK DISCLOSURES REPORT 2010 (continued)

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 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.

NON-TRADING BOOK EXPOSURES IN EQUITIES

The Group has an investment of €2.7 million in equities. The risk associated with this exposure is not considered to be material.

INTEREST RATE RISK IN THE BANKING BOOK

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

Interest rate movements are monitored constantly by 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 2010, is an increase in net interest income of €5K. On the other hand, a parallel increase in interest rates of 25 basis points is expected to result in a decrease of €14K 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 2010, 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 €413K in its economic value, and vice versa.

LIQUIDITY RISK

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

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

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

CAPITAL ADEQUACY AND RISK DISCLOSURES REPORT 2010 (continued)

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.

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 of Directors.

CAPITAL

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.

Capital Adequacy

The Group adopts the Standardised Approach (Banking Rule BR/04/2010 – Capital Requirements of Credit Institutions Authorised Under Banking Act, Cap. 371 of the Laws of Malta) 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 2010.

For the purposes of allocating capital to cover foreign exchange risk, the Group adopts the Basic Method (Banking Rule BR/08/2010 – Capital Adequacy of Credit Institutions Authorised Under the Banking Act, Cap. 371 of the Laws of Malta). 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 2010.

The Group adopts the Basic Indicator Approach (Banking Rule BR/04/2010 – Capital Requirements of Credit Institutions Authorised Under Banking Act, Cap. 371 of the Laws of Malta) 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.

CAPITAL ADEQUACY AND RISK DISCLOSURES REPORT 2010 (continued)

31 December 2010

	Book Value €000	Risk Weighted Exposure €000	Capital Allocation €000
Standardised Approach - Credit Risk			
Government	199,933	3,839	307
Home loans	237,179	72,243	5,779
Institutions	31,605	13,033	1,043
Short-term claims on institutions	11,432	4,660	373
Corporate	308,369	186,116	14,889
Collective investment undertakings	10,153	4,955	396
Retail	89,832	31,924	2,554
Other	29,267	27,238	2,179
	917,770	344,008	27,520
Basic Indicator Approach			
Operational Risk		35,141	5,271
Basic Method			
Foreign Exchange Risk		540	43
Total		**379,689**	**32,834**

Own Funds Analysis	
Issued capital	15,600
Share premium	1,770
Non-controlling interest	10,270
Regulatory reserve	1
Retained earnings	32,155
Original own funds	**59,796**
Revaluation reserves	6,157
Collective provisions	3,025
Additional own funds	**9,182**
Total Own Funds	**68,978**
Capital Adequacy Ratio	**18.17%**

The Group's capital adequacy is monitored regularly through reporting to the RMC and the Board of Directors.

CAPITAL ADEQUACY AND RISK DISCLOSURES REPORT 2010 (continued)

Internal Capital Adequacy Assessment Process

The Bank performs an Internal Capital Adequacy Assessment Process (ICAAP) as per Banking Rule BR/04/2010 – Capital Requirements of Credit Institutions Authorised Under Banking Act, Cap. 371 of the Laws of Malta. 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.

The Bank's capital requirement was set at a starting point of zero and a structured and comprehensive assessment and quantification of all the material risks was performed. Pillar I risks were assessed to consider whether the minimum regulatory requirement captured all the risks and adjustments were made to add a capital portion for operational risk (to account for growth of the Bank's operations) and credit risk (to account for concentration risk). The Bank adopted an index-based model to allocate capital to individual and sector concentration.
Other risks were assessed in detail to determine the necessary capital allocation:

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

The ICAAP document was based on the principle of proportionality set out in Banking Rule BR/04/2010 - Capital Requirements of Credit Institutions Authorised under the Banking Act, Cap. 371 of the Laws of Malta and adopts a combination of quantitative capital and adequate systems and controls in fulfilment of these requirements. The Bank's ICAAP was approved by the RMC and the Board of Directors.

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 17 to 67 which comprise the statements of financial position as at 31 December 2010, the income statements, the statements of comprehensive income, the 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' responsabilities on page 6, the Directors are responsible for the preperation 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 preperation of financial statements that are free from material mistatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. These standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate for the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by directors, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements:

- give a true and fair view of the Bank's and the Group's financial position as at 31 December 2010, 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.

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF APS BANK LIMITED (continued)

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Auditors' Responsibility

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

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

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

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

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

This copy of the audit report has been signed by
Anthony Doublet for and on behalf of

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

7 April 2011

INCOME STATEMENTS
for the year ended 31 December 2010

	Notes	The Group 2010 €000	The Group 2009 €000	The Bank 2010 €000	The Bank 2009 €000
Interest receivable and similar income:					
On loans and advances, balances with the Central Bank of Malta and treasury bills	(3)	**17,870**	16,566	**17,813**	16,566
On debt securities	(3)	**15,859**	15,230	**15,220**	14,606
		33,729	31,796	**33,033**	31,172
Interest payable	(4)	**(14,182)**	(15,703)	**(14,206)**	(15,703)
Net interest income		**19,547**	16,093	**18,827**	15,469
Dividend income	(5)	**287**	335	**623**	480
Fees and commission income		**1,712**	1,427	**1,819**	1,514
Trading income	(6)	**305**	307	**303**	307
Net gains on disposal of non-trading financial instruments	(7)	**59**	18	**141**	18
Other operating income		**210**	266	**149**	97
Total operating income		**22,120**	18,446	**21,862**	17,885
Personnel expenses	(8)	**(5,703)**	(5,248)	**(5,539)**	(5,093)
Other administrative expenses	(9)	**(5,349)**	(4,799)	**(5,206)**	(4,667)
Amortisation of intangible assets	(20)	**(763)**	(684)	**(763)**	(684)
Depreciation of property and equipment	(21)	**(1,260)**	(1,230)	**(1,253)**	(1,222)
Operating profit before impairment, reversals and provisions		**9,045**	6,485	**9,101**	6,219
Net impairment losses	(10)	**(990)**	(483)	**(953)**	(483)
Profit before tax		**8,055**	6,002	**8,148**	5,736
Income tax expense	(11)	**(2,716)**	(2,022)	**(2,611)**	(1,947)
Profit for the year		**5,339**	3,980	**5,537**	3,789

STATEMENTS OF COMPREHENSIVE INCOME
for the year ended 31 December 2010

	The Group		The Bank	
	2010	2009	**2010**	2009
	€000	€000	**€000**	€000
Profit for the year	**5,339**	3,980	**5,537**	3,789
Other comprehensive income:				
Net (loss) / gain on available-for-sale financial assets	**(1,444)**	4,519	**(1,932)**	4,362
Net (gain) / loss released on disposal of available-for-sale financial assets	**(65)**	404	**(65)**	404
Income tax relating to the components of other comprehensive income	**710**	(1,833)	**710**	(1,833)
Other comprehensive income for the year, net of tax	**(799)**	3,090	**(1,287)**	2,933
Total comprehensive income for the year, net of tax	**4,540**	7,070	**4,250**	6,722
Profit attributable to:				
Equity holders of the parent	**5,205**	3,904	**5,537**	3,789
Non-controlling interest	**134**	76	-	-
	5,339	3,980	**5,537**	3,789
Total comprehensive income attributable to:				
Equity holders of the parent	**4,155**	6,973	**4,250**	6,722
Non-controlling interest	**385**	97	-	-
	4,540	7,070	**4,250**	6,722

STATEMENTS OF FINANCIAL POSITION
as at 31 December 2010

	Notes	The Group 2010 €000	The Group 2009 €000	The Bank 2010 €000	The Bank 2009 €000
ASSETS					
Balances with Central Bank of Malta, treasury bills and cash	(13)	**17,469**	20,209	**17,469**	20,209
Cheques in course of collection		**2,537**	1,837	**2,537**	1,837
Loans and advances to banks	(14)	**11,432**	28,967	**9,732**	26,917
Loans and advances to customers	(15)	**422,984**	380,904	**422,984**	380,904
Debt and other fixed income instruments	(17)	**302,777**	262,707	**287,548**	251,885
Equity and other non-fixed income instruments	(18)	**2,690**	2,556	**1,820**	1,851
Investment in subsidiaries	(19)	**-**	-	**10,387**	10,387
Intangible assets	(20)	**1,262**	1,351	**1,262**	1,351
Investment property		**330**	330	**330**	330
Property and equipment	(21)	**14,765**	15,065	**14,749**	15,042
Deferred tax assets	(22)	**2,588**	1,586	**2,588**	1,586
Other receivables	(23)	**7,786**	7,952	**7,428**	7,653
TOTAL ASSETS		**786,620**	723,464	**778,834**	719,952
LIABILITIES					
Amounts owed to banks	(24)	**6,569**	13,683	**6,569**	13,683
Amounts owed to customers	(25)	**699,546**	639,162	**701,929**	639,450
Other liabilities	(26)	**2,675**	3,268	**2,672**	3,241
Accruals	(27)	**7,016**	6,421	**7,015**	6,392
TOTAL LIABILITIES		**715,806**	662,534	**718,185**	662,766
EQUITY					
Issued capital	(28)	**15,600**	15,600	**15,600**	15,600
Share premium	(29)	**1,770**	1,770	**1,770**	1,770
Revaluation reserve	(30)	**6,157**	7,207	**5,915**	7,202
Retained earnings	(31)	**36,155**	31,812	**36,502**	31,827
Dividend reserve		**862**	787	**862**	787
		60,544	57,176	**60,649**	57,186
Non-controlling interest		**10,270**	3,754	**-**	-
TOTAL EQUITY		**70,814**	60,930	**60,649**	57,186
TOTAL LIABILITIES AND EQUITY		**786,620**	723,464	**778,834**	719,952
MEMORANDUM ITEMS					
Contingent liabilities	(32)	**5,842**	4,528	**5,842**	4,528
Commitments	(33)	**122,506**	114,454	**122,506**	114,454

The financial statements on pages 17 to 67 were authorised for issue by the Board of Directors on 7 April 2011 and were signed by:

E. P. DELIA
Chairman

J. C. CARUANA
Director

E. CACHIA
Chief Executive Officer

STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2010

	Attributable to the equity holders of the parent							
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**
FINANCIAL YEAR ENDED 31 DECEMBER 2010								
Balance at 1 January 2010	**15,600**	**1,770**	**7,207**	**787**	**31,812**	**57,176**	**3,754**	**60,930**
Profit for the year	-	-	-	-	5,205	5,205	134	5,339
Other comprehensive income	-	-	(1,050)	-	-	(1,050)	251	(799)
Total comprehensive income	-	-	(1,050)	-	5,205	4,155	385	4,540
Dividends paid (note 12)	-	-	-	(787)	-	(787)	-	(787)
Dividends proposed (note 12)	-	-	-	862	(862)	-	-	-
Dividends of subsidiaries	-	-	-	-	-	-	(175)	(175)
Net share capital issued in subsidiary company	-	-	-	-	-	-	6,306	6,306
Balance at 31 December 2010	**15,600**	**1,770**	**6,157**	**862**	**36,155**	**60,544**	**10,270**	**70,814**
FINANCIAL YEAR ENDED 31 DECEMBER 2009								
Balance at 1 January 2009	**15,600**	**1,770**	**4,138**	**787**	**28,695**	**50,990**	**888**	**51,878**
Profit for the year	-	-	-	-	3,904	3,904	76	3,980
Other comprehensive income	-	-	3,069	-	-	3,069	21	3,090
Total comprehensive income	-	-	3,069	-	3,904	6,973	97	7,070
Dividends paid (note 12)	-	-	-	(787)	-	(787)	-	(787)
Dividends proposed (note 12)	-	-	-	787	(787)	-	-	-
Dividends of subsidiaries	-	-	-	-	-	-	(44)	(44)
Net share capital issued in subsidiary company	-	-	-	-	-	-	2,813	2,813
Balance at 31 December 2009	**15,600**	**1,770**	**7,207**	**787**	**31,812**	**57,176**	**3,754**	**60,930**

STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2010

The Bank	Issued capital €000	Share premium €000	Revaluation reserve €000	Dividend reserve €000	Retained earnings €000	Total €000
FINANCIAL YEAR ENDED 31 DECEMBER 2010						
Balance at 1 January 2010	**15,600**	**1,770**	**7,202**	**787**	**31,827**	**57,186**
Profit for the year	-	-	-	-	5,537	5,537
Other comprehensive income	-	-	(1,287)	-	-	(1,287)
Total comprehensive income	-	-	(1,287)	-	5,537	4,250
Dividends paid (note 12)	-	-	-	(787)	-	(787)
Dividends proposed (note 12)	-	-	-	862	(862)	-
Balance at 31 December 2010	**15,600**	**1,770**	**5,915**	**862**	**36,502**	**60,649**
FINANCIAL YEAR ENDED 31 DECEMBER 2009						
Balance at 1 January 2009	**15,600**	**1,770**	**4,269**	**787**	**28,825**	**51,251**
Profit for the year	-	-	-	-	3,789	3,789
Other comprehensive income	-	-	2,933	-	-	2,933
Total comprehensive income	-	-	2,933	-	3,789	6,722
Dividends paid (note 12)	-	-	-	(787)	-	(787)
Dividends proposed (note 12)	-	-	-	787	(787)	-
Balance at 31 December 2009	**15,600**	**1,770**	**7,202**	**787**	**31,827**	**57,186**

STATEMENTS OF CASH FLOWS
for the year ended 31 December 2010

	Note	The Group		The Bank	
		2010	2009	**2010**	2009
		€000	€000	**€000**	€000
OPERATING ACTIVITIES					
Interest and commission receipts		**17,252**	15,396	**16,650**	14,764
Interest and commission payments		**(14,428)**	(17,645)	**(14,430)**	(17,645)
Cash paid to employees and suppliers		**(11,611)**	(9,522)	**(11,314)**	(9,221)
Operating loss before changes in operating assets and liabilities		**(8,787)**	(11,771)	**(9,094)**	(12,102)
(Increase) / decrease in operating assets					
Loans and advances to customers		**(43,033)**	(13,424)	**(43,033)**	(13,424)
Reserve deposit with Central Bank of Malta		**(5,447)**	3,862	**(5,447)**	3,862
Cheques in course of collection		**(700)**	(426)	**(700)**	(426)
Treasury bills and term deposits with original maturity of more than three months		-	(9,953)	-	(7,903)
Other assets		**(110)**	(1,317)	**(192)**	(937)
Increase / (decrease) in operating liabilities					
Amounts owed to customers		**60,311**	48,445	**62,479**	48,322
Other liabilities		**806**	1,389	**856**	1,419
Cash from operating activities before tax		**3,040**	16,805	**4,869**	18,811
Income tax paid		**(1,958)**	(2,919)	**(1,866)**	(2,850)
Net cash flows from operating activities		**1,082**	13,886	**3,003**	15,961
INVESTING ACTIVITIES					
Dividends received		**206**	214	**542**	357
Interest income from debt securities		**16,184**	14,981	**16,184**	14,981
Purchase of held-to-maturity debt security instruments		**(200)**	-	**(200)**	-
Proceeds on maturity of held-to-maturity debt security instruments		**3,870**	10,150	**3,870**	10,150
Purchase of available-for-sale debt security instruments		**(90,996)**	(58,473)	**(81,977)**	(54,889)
Proceeds on disposal of available-for-sale debt security instruments		**55,374**	40,147	**50,273**	36,897
Purchase of equity and other non-fixed income instruments		-	(199)	-	-
Proceeds on disposal of equity and other non-fixed income instruments		**337**	-	**337**	-
Purchase of property and equipment		**(1,600)**	(4,587)	**(1,600)**	(4,582)
Proceeds on disposal of property and equipment		-	14	-	14
Net cash flows (used in) / from investing activities		**(16,825)**	2,247	**(12,571)**	2,928
FINANCING ACTIVITIES					
Dividends paid		**(961)**	(831)	**(787)**	(787)
Net proceeds from non-controlling interest for shares in subsidiary		**6,349**	2,794	-	-
Net cash flows from / (used in) financing activities		**5,388**	1,963	**(787)**	(787)
Net (decrease) / increase in cash and cash equivalents		**(10,355)**	18,096	**(10,355)**	18,102
Cash and cash equivalents at 1 January		**19,015**	919	**19,015**	913
Cash and cash equivalents at 31 December	(34)	**8,660**	19,015	**8,660**	19,015

NOTES TO THE FINANCIAL STATEMENTS

1. CORPORATE INFORMATION

APS Bank Group comprises APS Bank Limited, APS Consult Limited and APS Funds SICAV plc.

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

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

2.1 BASIS OF PREPARATION

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

Statement of compliance

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

Basis of consolidation

The consolidated financial statements comprise the financial statements of APS Bank Limited and its subsidiaries as at 31 December 2010, 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 Bank achieves control and continue to be consolidated until the date that such control ceases. Control is achieved where the Bank has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

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

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

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

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

- IFRS 1, 'First-time Adoption of IFRS' (Revised) effective 1 July 2009.
- IFRS 1 (Amendments) – Additional Exemptions for First-time Adopters effective 1 January 2010.
- IFRS 2 (Amendments) – Group Cash-settled Share-based Payment Transactions effective 1 January 2010.
- IFRS 3, 'Business Combinations' (Revised) and IAS 27, 'Consolidated and Separate Financial Statements' (Amended) effective 1 July 2009 including consequential amendments to IAS 28 and IAS 31.

NOTES TO THE FINANCIAL STATEMENTS (continued)

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

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

- IAS 39 (Amendments) Financial Instruments: Recognition and Measurement Eligible Hedged Items effective 1 July 2009.
- IFRIC 17 Distributions of Non-cash to Owners effective 1 July 2009.
- Improvements to IFRSs issued in April 2009.

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

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

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

- IFRS 1 - First-time Adoption of International Financial Reporting Standards, Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters, effective for annual periods beginning on or after 1 July 2010. This is not relevant to the Group.
- IAS 24 - Related Party Disclosures (Amendments). The amended standard is effective for annual periods beginning on or after 1 January 2011. It clarified the definition of a related party to simplify the identification of such relationships and to eliminate inconsistencies in its application. The revised standard introduces a partial exemption of disclosure requirements for government-related entities. Early adoption is permitted for either the partial exemption for government-related entities or for the entire standard.
- IAS 32 - Financial Instruments: Presentation, Amendments relating to classification of rights issue, effective for annual periods beginning on or after 1 February 2010.
- IFRIC 14 - IAS 19 - The limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction, Amendments with respect to voluntary prepaid contributions. The amendment to IFRIC 14 is effective for annual periods beginning on or after 1 January 2011 with retrospective application. The amendment provides guidance on assessing the recoverable amount of a net pension asset. The amendment permits an entity to treat the prepayment of a minimum funding requirement as an asset.
- IFRIC 19 - Extinguishing Financial Liabilities with Equity Instruments. IFRIC 19 is effective for annual periods beginning on or after 1 July 2010. The interpretation clarifies that equity instruments issued to a creditor to extinguish a financial liability qualify as consideration paid. The equity instruments issued are measured at their fair value. In case this cannot be reliably measured, they are measured at the fair value of the liability extinguished. Any gain or loss is recognised immediately in profit or loss.
- Third omnibus improvement to IFRS issued by IASB in May 2010, effective for annual periods on or after either 1 July 2010 or 1 January 2011.

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

- IFRS 1 - First-time Adoption of International Financial Reporting Standards, Amendments – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters, effective for annual periods beginning on or after 1 July 2011.
- IFRS 7 - Financial Instruments: Disclosures, Amendment - Transfer of Financial Assets, effective for annual periods beginning on or after 1 July 2011.
- IAS 12 - Income Taxes, Amendment – Tax Recovery of Underlying Assets, effective for annual periods beginning on or after 1 January 2012.
- IFRS 9 - Financial Instruments: Classification and Measurement, effective for annual periods beginning on or after 1 January 2013.

NOTES TO THE FINANCIAL STATEMENTS (continued)

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Interest income and expense

For all financial instruments measured at amortised cost and interest bearing financial instruments classified as available-for-sale financial instruments, interest income or expense is recorded at 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.

Non-interest income

Fees and commission income

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

Dividend income

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

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 financial 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 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.

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 Group 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 Group 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 market place.

NOTES TO THE FINANCIAL STATEMENTS (continued)

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

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

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

The Group did not include any assets in this category during 2010.

Held-to-maturity investments

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

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

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments and fixed maturities that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not classified as 'Financial assets held for trading', designated as 'Financial investment – available-for-sale' or 'Financial assets designated at fair value through profit or loss'. These comprise loans and advances to banks and customers. 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 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 income statement. 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. 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 reporting date.

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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derecognition of financial assets and financial liabilities (continued)

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

Financial liabilities

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

Impairment of financial assets

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

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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

Available-for-sale financial assets

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

In the case of equity investments classified as available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of the investments below its cost. 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 equity.

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. Interest continues to be accrued at the original effective interest rate on the reduced carrying amount of the asset and is recorded as part of 'Interest and similar income'. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the income statement the impairment loss is reversed through the income statement.

Renegotiated loans

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

Amounts owed to banks

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

Property and equipment

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

	%
Building	1
Computer equipment	25
Other	5 - 20

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

Property and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in 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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets

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

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

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

Investment property

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

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

The investment property, being land, is not depreciated.

Impairment of assets

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

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount. 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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment in subsidiaries

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

Dividends payable

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 profit or loss.

Deferred income tax

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Taxation (continued)

Deferred income tax (continued)

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 profit or loss. 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 cash flow statement, 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.

Related parties

In these financial statements, related parties include any company that, directly or indirectly, controls, or is under common control with the Group (this includes the parent and fellow subsidiaries).

NOTES TO THE FINANCIAL STATEMENTS (continued)

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Significant accounting judgments, estimates and assumptions

In preparing the financial statements, management is required to make judgements, estimates and assumptions that affect reported income, expenses, assets, liabilities and disclosure of contingent assets and liabilities. Use of available information and application of judgement are inherent in the formation of estimates. Actual results in the future could differ from such estimates and the differences may be material to the financial statements. These estimates are reviewed on a regular basis and if a change is needed, it is accounted in the period the changes become known.

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

Impairment losses on financial assets

The Bank reviews its problem loans and advances at each reporting date to assess whether an allowance for impairment should be recorded in the income statement. In particular, judgement by management is required in the estimation of the amount and timing of future cash flows when determining the level of allowance required. Such estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance. Factors such as any deterioration in industry risk or deterioration in cash flows are taken into consideration when assessing impairment.

In the opinion of the management, except for the above, the accounting estimates, assumptions and judgements made in the course of preparing these financial statements are not difficult, subjective or complex to a degree which would warrant their description as critical in terms of the requirements of IAS 1 (revised) - 'Presentation of financial statements'.

3. INTEREST RECEIVABLE AND SIMILAR INCOME

	The Group		The Bank	
	2010	2009	**2010**	2009
	€000	€000	**€000**	€000
On loans and advances to banks	**103**	62	**46**	62
On loans and advances to customers	**17,584**	16,077	**17,584**	16,077
On balances with Central Bank of Malta	**118**	202	**118**	202
On treasury bills	**65**	225	**65**	225
	17,870	16,566	**17,813**	16,566
On debt securities	**16,918**	15,605	**16,188**	14,981
Amortisation of premium	**(1,059)**	(375)	**(968)**	(375)
On debt securities	**15,859**	15,230	**15,220**	14,606
	33,729	31,796	**33,033**	31,172

Interest receivable on loans and advances to customers is netted off with €111,000 (2009: €303,729) in respect of interest accrued on impaired loans and advances to customers (note 15).

NOTES TO THE FINANCIAL STATEMENTS (continued)

4. INTEREST PAYABLE

	The Group		The Bank	
	2010	2009	**2010**	2009
	€000	€000	**€000**	€000
On deposits by banks	**191**	103	**191**	103
On customer accounts	**13,991**	15,600	**14,015**	15,600
	14,182	15,703	**14,206**	15,703

5. DIVIDEND INCOME

	The Group		The Bank	
	2010	2009	**2010**	2009
	€000	€000	**€000**	€000
From equity shares	**287**	335	**623**	480

6. TRADING INCOME

	The Group		The Bank	
	2010	2009	**2010**	2009
	€000	€000	**€000**	€000
Profit on foreign exchange activities	**305**	307	**303**	307

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

	The Group		The Bank	
	2010	2009	**2010**	2009
	€000	€000	**€000**	€000
Realised gains on disposal of available-for-sale investments	**59**	18	**141**	18

8. PERSONNEL EXPENSES

	The Group		The Bank	
	2010	2009	**2010**	2009
	€000	€000	**€000**	€000
Wages and salaries:				
- key management personnel	**356**	368	**300**	314
- other staff	**5,001**	4,554	**4,986**	4,554
- wages recharged to subsidiary at cost	**-**	-	**(83)**	(96)
Social security costs	**346**	326	**336**	321
	5,703	5,248	**5,539**	5,093

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

8. PERSONNEL EXPENSES (continued)

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

	The Group		The Bank	
	2010	2009	**2010**	2009
	Number of Employees	Number of Employees	**Number of Employees**	Number of Employees
Managerial	**40**	32	**36**	32
Supervisory and clerical	**167**	152	**165**	150
Others	**10**	11	**10**	11
	217	195	**211**	193

9. OTHER ADMINISTRATIVE EXPENSES

	The Group		The Bank	
	2010	2009	**2010**	2009
	€000	€000	**€000**	€000
Remuneration payable to the auditors for:				
- the audit of financial statements	**32**	32	**30**	30
- tax compliance services	**2**	1	**2**	1
Directors' emoluments	**97**	92	**87**	87
Insurance	**140**	224	**137**	221
Professional fees	**405**	303	**384**	309
Repairs and maintenance	**1,110**	927	**1,110**	926
Telecommunications	**276**	237	**276**	237
Office operating expenses	**1,285**	1,311	**1,285**	1,137
Others	**2,002**	1,672	**1,895**	1,719
	5,349	4,799	**5,206**	4,667

10. NET IMPAIRMENT LOSSES

	The Group		The Bank	
	2010	2009	**2010**	2009
Charge for the year:	**€000**	€000	**€000**	€000
Loans and advances to customers:				
- collective impairment (note 15)	**299**	405	**299**	405
- individual impairment	**1,086**	545	**1,049**	545
- bad debts written off	**77**	1	**77**	1
On investments	**-**	96	**-**	96
	1,462	1,047	**1,425**	1,047
Reversal of write-downs:				
Loans and advances to customers:				
- individual impairment	**(472)**	(564)	**(472)**	(564)
Net impairment losses	**990**	483	**953**	483

NOTES TO THE FINANCIAL STATEMENTS (continued)

11. INCOME TAX EXPENSE

The major components of income tax expense for the years ended 31 December 2010 and 2009 are:

	The Group		The Bank	
	2010	2009	**2010**	2009
	€000	€000	**€000**	€000
Current income tax	**3,008**	1,999	**2,903**	1,924
Deferred income tax (note 22)	**(292)**	23	**(292)**	23
Income tax expense reported in the income statement	**2,716**	2,022	**2,611**	1,947

A reconciliation between tax expense and the product of accounting profit multiplied by the applicable tax rate in Malta of 35% (2009: 35%) for the years ended 31 December 2010 and 2009 is as follows:

	The Group		The Bank	
	2010	2009	**2010**	2009
	€000	€000	**€000**	€000
Profit before tax	**8,055**	6,002	**8,148**	5,736
Theoretical tax expense at 35%	**2,819**	2,101	**2,852**	2,008
Tax effect of:				
- Differences between depreciation and capital allowances	**(62)**	43	**(62)**	43
- Non-taxable income	**40**	(83)	**(46)**	-
- Non- deductible expenses	**132**	4	**80**	4
- Income subject to reduced rates of tax	**(137)**	-	**(137)**	(65)
- Prior year tax losses surrendered by a group company	**(20)**	-	**(20)**	(23)
- Current year tax losses surrendered by a group company	**(56)**	(43)	**(56)**	(20)
Income tax expense	**2,716**	2,022	**2,611**	1,947

12. DIVIDENDS

Disclosed and paid during the year:

	The Group		The Bank	
	2010	2009	**2010**	2009
	€000	€000	**€000**	€000
Dividends on ordinary shares:				
Final gross of income tax for 2009: 4.66 cents per share (2008: 4.66 cents per share)	**1,212**	1,212	**1,212**	1,212
Final net of income tax for 2009: 3.03 cents per share (2008: 3.03 cents per share)	**787**	787	**787**	787

NOTES TO THE FINANCIAL STATEMENTS (continued)

12. DIVIDENDS (continued)

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

	The Group		The Bank	
	2010	2009	**2010**	2009
	€000	€000	**€000**	€000
Proposed final gross of income tax for 2010: 5.10 cents per share (2009: 4.66 cents per share)	**1,326**	1,212	**1,326**	1,212
Proposed final net of income tax for 2010: 3.32 cents per share (2009: 3.03 cents per share)	**862**	787	**862**	787

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

	The Group		The Bank	
	2010	2009	**2010**	2009
	€000	€000	**€000**	€000
Cash in hand (note 34)	**4,420**	4,781	**4,420**	4,781
Balances with Central Bank of Malta (note 34)	**1,077**	-	**1,077**	-
Reserve deposit with Central Bank of Malta (note 34)	**11,972**	6,525	**11,972**	6,525
Malta Government Treasury Bills	-	8,903	-	8,903
	17,469	20,209	**17,469**	20,209

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 €925,000 pledged in favour of the MFSA's Depositors' Compensation Scheme (note 17).

14. LOANS AND ADVANCES TO BANKS

	The Group		The Bank	
	2010	2009	**2010**	2009
	€000	€000	**€000**	€000
Repayable on call and at short notice	**9,732**	26,917	**9,732**	26,917
Term loans and advances	**1,700**	2,050	-	-
	11,432	28,967	**9,732**	26,917
Analysed by currency:				
- Euro	**6,056**	23,813	**4,356**	22,366
- Foreign	**5,376**	5,154	**5,376**	4,551
	11,432	28,967	**9,732**	26,917

NOTES TO THE FINANCIAL STATEMENTS (continued)

15. LOANS AND ADVANCES TO CUSTOMERS

	The Group		The Bank	
	2010	2009	**2010**	2009
	€000	€000	**€000**	€000
Repayable on call and at short notice	**66,765**	50,251	**66,765**	50,251
Term loans and advances	**363,040**	336,487	**363,040**	336,487
Gross loans and advances	**429,805**	386,738	**429,805**	386,738
Less allowance for impairment losses	**(6,821)**	(5,834)	**(6,821)**	(5,834)
	422,984	380,904	**422,984**	380,904

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	
	2010	2009	**2010**	2009
	€000	€000	**€000**	€000
At 1 January	**5,834**	5,752	**5,834**	5,752
Charge for the year:				
- Collective (note 10)	**299**	405	**299**	405
- Individual	**688**	(323)	**688**	(323)
At 31 December	**6,821**	5,834	**6,821**	5,834

Included in the movement of the individual impairment allowance is an amount of €111,000 (2009: €303,729) in respect of accrued interest on impaired loans and advances to customers.

Impairment losses:

	The Group		The Bank	
	2010	2009	**2010**	2009
	€000	€000	**€000**	€000
- Individual	**3,796**	3,108	**3,796**	3,108
- Collective	**3,025**	2,726	**3,025**	2,726
	6,821	5,834	**6,821**	5,834

Gross loans and advances analysed by currency:

	The Group		The Bank	
	2010	2009	**2010**	2009
	€000	€000	**€000**	€000
- Euro	**428,444**	385,572	**428,444**	385,572
- Foreign	**1,361**	1,166	**1,361**	1,166
	429,805	386,738	**429,805**	386,738

NOTES TO THE FINANCIAL STATEMENTS (continued)

15. LOANS AND ADVANCES TO CUSTOMERS (continued)

Included with the individually assessed allowance at the reporting date is an amount of €1,175,605 (2009: €1,064,605) which has been netted-off against interest receivable.

The aggregate amount of impaired loans and advances at the reporting date amounted to €5,020,077 (2009: €7,081,831).

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 36.3.

Collateral repossessed

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

16. CONCENTRATION OF LOANS AND ADVANCES TO CUSTOMERS

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

The Group / Bank

	2010	2009
	€000	€000
Agriculture	**8,226**	8,213
Fishing	**2,934**	4,453
Mining and quarrying	**1,168**	26
Manufacturing	**13,268**	13,641
Electricity, gas and water supply	**20,591**	19,712
Construction	**83,504**	76,992
Wholesale and retail trade	**28,044**	28,191
Hotels and restaurants, excluding related construction activities	**23,889**	21,189
Transport, storage and communication	**3,222**	3,084
Financial intermediation	**537**	338
Real estate, renting and business	**14,668**	10,731
Public administration	**2,264**	2,025
Education	**6,025**	2,855
Health and social work	**521**	513
Community, recreational and personal service activities	**3,492**	2,810
Households and individuals	**217,452**	191,965
	429,805	386,738

NOTES TO THE FINANCIAL STATEMENTS (continued)

17. DEBT AND OTHER FIXED INCOME INSTRUMENTS

	The Group		The Bank	
	2010	2009	**2010**	2009
	€000	€000	**€000**	€000
Held-to-maturity	**89,438**	93,342	**89,438**	93,342
Available-for-sale	**213,339**	169,365	**198,110**	158,543
	302,777	262,707	**287,548**	251,885

Held-to-maturity				
Issued by public bodies:				
- Local government	**88,935**	91,873	**88,935**	91,873
Issued by other issuers:				
- Local banks	**-**	1,163	**-**	1,163
- Foreign others	**500**	300	**500**	300
- Local other	**3**	6	**3**	6
	503	1,469	**503**	1,469
Total	**89,438**	93,342	**89,438**	93,342

NOTES TO THE FINANCIAL STATEMENTS (continued)

17. DEBT AND OTHER FIXED INCOME INSTRUMENTS (continued)

	The Group		The Bank	
	2010	2009	**2010**	2009
	€000	€000	**€000**	€000
Available-for-sale				
Issued by public bodies:				
- Local government	**60,088**	45,861	**55,583**	41,198
- Foreign government	**11,533**	12,548	**12,223**	12,364
	71,621	58,409	**67,806**	53,562
Issued by other issuers:				
- Local banks	**2,941**	2,119	**1,023**	1,364
- Foreign banks	**29,037**	29,542	**27,524**	29,080
- Foreign others	**97,205**	69,504	**96,074**	68,530
- Local others	**12,535**	9,791	**5,683**	6,007
	141,718	110,956	**130,304**	104,981
Total	**213,339**	169,365	**198,110**	158,543
Total debt and other fixed income instruments	**302,777**	262,707	**287,548**	251,885
Analysed by currency:				
- Euro	**255,969**	203,005	**240,740**	202,320
- Foreign	**46,808**	59,702	**46,808**	49,565
	302,777	262,707	**287,548**	251,885
Unamortised premiums on debt and other fixed income instruments	**4,086**	2,732	**4,086**	2,732
Listing status:				
- Listed on Malta Stock Exchange	**164,502**	150,813	**151,227**	141,611
- Listed elsewhere	**138,275**	111,894	**136,321**	110,274
	302,777	262,707	**287,548**	251,885

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 (2009: the same). There is no market for this investment and the Bank intends to hold it for the long-term.

Debt instruments issued by the local government with a nominal value of €74,539,952 (2009: the same) have been pledged against the provision of credit lines by the Central Bank of Malta.

NOTES TO THE FINANCIAL STATEMENTS (continued)

17. DEBT AND OTHER FIXED INCOME INSTRUMENTS (continued)

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

The Group / Bank

	2010	2009
	€000	€000
Deposit with Central Bank of Malta (note 13)	**925**	-
Debt instruments with local government	**3,075**	-
	4,000	-

18. EQUITY AND OTHER NON-FIXED INCOME INSTRUMENTS

Available-for-sale

	The Group		**The Bank**	
	2010	2009	**2010**	2009
	€000	€000	**€000**	€000
Listed on Malta Stock Exchange	**2,588**	2,460	**1,718**	1,755
Listed elsewhere	**102**	96	**102**	96
	2,690	2,556	**1,820**	1,851

All available-for-sale equities are recorded at fair value except for the Bank's investment of NOK 800,000 equivalent to €102,344 (2009: €96,264) in Cultura Sparebank, which is unquoted and thus recorded at cost since its fair value cannot be reliably estimated (2009: the same). There is no market for this investment and the Bank intends to hold it for the long-term.

19. INVESTMENT IN SUBSIDIARIES

				Cost	
	Country of	**% equity interest**		**2010**	2009
Name	**incorporation**	**2010**	2009	**€000**	€000
APS Consult Limited	Malta				
199,999 ordinary shares at €2.50		**99.9**	99.9	**500**	500
APS Funds SICAV p.l.c:	Malta				
1,199 founder shares at €1.00		**99.9**	99.9	**1**	1
98,853.14 units at €100.01		**50.05**	72.84	**9,886**	9,886
				10,387	10,387

The market value of the Bank's shareholding in the quoted subsidiary as at 31 December 2010 amounted to €10,169,220 (2009: €10,032,322).

NOTES TO THE FINANCIAL STATEMENTS (continued)

20. INTANGIBLE ASSETS

The Group / Bank

	Computer software €000
Cost	
At 1 January 2009	5,715
Additions	405
At 31 December 2009	6,120
Additions	674
At 31 December 2010	**6,794**
Amortisation	
At 1 January 2009	4,085
Amortisation	684
At 31 December 2009	4,769
Amortisation	763
At 31 December 2010	**5,532**
Net book value	
At 31 December 2010	**1,262**
At 31 December 2009	1,351
At 1 January 2009	1,630

NOTES TO THE FINANCIAL STATEMENTS (continued)

21. PROPERTY AND EQUIPMENT

The Group

	Land and Buildings €000	Computer Equipment €000	Other €000	Total €000
Cost				
At 1 January 2009	9,841	3,019	7,877	20,737
Additions	393	137	2,469	2,999
Disposals	-	-	(143)	(143)
At 31 December 2009	10,234	3,156	10,203	23,593
Additions	103	232	630	965
Disposals	-	-	(58)	(58)
At 31 December 2010	**10,337**	**3,388**	**10,775**	**24,500**
Depreciation				
At 1 January 2009	920	2,428	4,086	7,434
Depreciation charge for the year	135	219	876	1,230
Disposals	-	-	(136)	(136)
At 31 December 2009	1,055	2,647	4,826	8,528
Depreciation charge for the year	139	224	897	1,260
Disposals	-	-	(53)	(53)
At 31 December 2010	**1,194**	**2,871**	**5,670**	**9,735**
Net book value				
At 31 December 2010	**9,143**	**517**	**5,105**	**14,765**
At 31 December 2009	9,179	509	5,377	15,065
At 1 January 2009	8,921	591	3,791	13,303

	2010 €000	2009 €000
Future capital expenditure:		
- Authorised by the Directors but not contracted	**3,343**	2,691

NOTES TO THE FINANCIAL STATEMENTS (continued)

21. PROPERTY AND EQUIPMENT (continued)

The Bank

	Land and Buildings €000	Computer Equipment €000	Other €000	Total €000
Cost				
At 1 January 2009	9,841	3,015	7,850	20,706
Additions	393	134	2,466	2,993
Disposals	-	-	(143)	(143)
At 31 December 2009	10,234	3,149	10,173	23,556
Additions	103	232	630	965
Disposals	-	-	(58)	(58)
At 31 December 2010	**10,337**	**3,381**	**10,745**	**24,463**
Depreciation				
At 1 January 2009	920	2,427	4,081	7,428
Depreciation charge for the year	135	217	870	1,222
Disposals	-	-	(136)	(136)
At 31 December 2009	1,055	2,644	4,815	8,514
Depreciation charge for the year	139	222	892	1,253
Disposals	-	-	(53)	(53)
At 31 December 2010	**1,194**	**2,866**	**5,654**	**9,714**
Net book value				
At 31 December 2010	**9,143**	**515**	**5,091**	**14,749**
At 31 December 2009	9,179	505	5,358	15,042
At 1 January 2009	8,921	588	3,769	13,278

	2010 €000	2009 €000
Future capital expenditure:		
- Authorised by the Directors but not contracted	**3,343**	2,691

NOTES TO THE FINANCIAL STATEMENTS (continued)

22. DEFERRED TAX ASSETS

Deferred income tax at 31 December relates to the following:

	The Group		The Bank	
	2010	2009	**2010**	2009
	€000	€000	**€000**	€000
Deferred income tax assets/liabilities:				
Fair value movements in investment securities	**(470)**	(1,180)	**(470)**	(1,180)
Impairment allowance for loans and advances to customers	**3,075**	2,710	**3,075**	2,710
Excess of capital allowances over depreciation	**(17)**	56	**(17)**	56
Deferred tax assets net	**2,588**	1,586	**2,588**	1,586

Deferred tax arising on the fair value movements on investment securities, amounting to €709,501 was debited directly in equity; (2009: debited €1,832,915); other movements, amounting to €291,914 (2009: debited by €22,736) in the income statement (note 11).

23. OTHER RECEIVABLES

	The Group		The Bank	
	2010	2009	**2010**	2009
	€000	€000	**€000**	€000
Accrued income	**6,819**	6,222	**6,503**	5,840
Prepayments and other receivables	**452**	575	**367**	453
Amounts due from subsidiaries	**-**	-	**43**	5
Taxation	**515**	1,155	**515**	1,355
	7,786	7,952	**7,428**	7,653

24. AMOUNTS OWED TO BANKS

	The Group		The Bank	
	2010	2009	**2010**	2009
	€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 34)	**6,569**	13,683	**6,569**	13,683
Analysed by currency:				
- Euro	**6,009**	13,010	**6,009**	13,010
- Foreign	**560**	673	**560**	673
	6,569	13,683	**6,569**	13,683

NOTES TO THE FINANCIAL STATEMENTS (continued)

25. AMOUNTS OWED TO CUSTOMERS

	The Group		The Bank	
	2010	2009	**2010**	2009
	€000	€000	**€000**	€000
Term deposits	**494,038**	450,747	**496,138**	450,747
Repayable on demand	**205,508**	188,415	**205,791**	188,703
	699,546	639,162	**701,929**	639,450
Analysed by currency:				
- Euro	**645,170**	582,620	**647,548**	582,908
- Foreign	**54,376**	56,542	**54,381**	56,542
	699,546	639,162	**701,929**	639,450

26. OTHER LIABILITIES

	The Group		The Bank	
	2010	2009	**2010**	2009
	€000	€000	**€000**	€000
Bills payable	**2,443**	2,923	**2,443**	2,923
Other liabilities	**232**	345	**197**	306
Amounts due to subsidiaries	**-**	-	**32**	12
	2,675	3,268	**2,672**	3,241

27. ACCRUALS

	The Group		The Bank	
	2010	2009	**2010**	2009
	€000	€000	**€000**	€000
Accrued interest payable	**4,667**	4,912	**4,688**	4,912
Other accruals	**2,349**	1,509	**2,327**	1,480
	7,016	6,421	**7,015**	6,392

NOTES TO THE FINANCIAL STATEMENTS (continued)

28. ISSUED CAPITAL

	The Group		The Bank	
	2010	2009	**2010**	2009
	€000	€000	**€000**	€000
Authorised				
50,000,000 ordinary shares of €0.60 each	**30,000**	30,000	**30,000**	30,000
Issued and fully paid				
26,000,000 ordinary shares of €0.60 each	**15,600**	15,600	**15,600**	15,600

The Bank's major shareholders are AROM Holdings Limited and the Diocese of Gozo that hold 83.33% and 16.67% of the share capital, respectively.

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.

29. SHARE PREMIUM

	The Group		The Bank	
	2010	2009	**2010**	2009
	€000	€000	**€000**	€000
Balance at beginning and end of year	**1,770**	1,770	**1,770**	1,770

30. 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.

31. 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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

32. CONTINGENT LIABILITIES

	The Group		The Bank	
	2010	2009	**2010**	2009
	€000	€000	**€000**	€000
Guarantees	**5,462**	4,217	**5,462**	4,217
Other contingent liabilities	**380**	311	**380**	311
	5,842	4,528	**5,842**	4,528

The majority of contingent liabilities are backed by corresponding obligations from third parties. There were no significant law suits against the Group and the Bank as at 31 December 2010 and 31 December 2009.

33. COMMITMENTS

	The Group		The Bank	
	2010	2009	**2010**	2009
	€000	€000	**€000**	€000
Undrawn formal standby facilities, credit facilities and other commitments to lend	**122,506**	114,454	**122,506**	114,454

34. NOTES TO THE STATEMENTS OF CASH FLOWS

	The Group		The Bank	
	2010	2009	**2010**	2009
	€000	€000	**€000**	€000
Cash in hand (note 13)	**4,420**	4,781	**4,420**	4,781
Balances with Central Bank of Malta (excluding reserve deposit) (note 13)	**1,077**	-	**1,077**	-
Treasury bills (with original maturity of less than 3 months)	**-**	1,000	-	1,000
Loans and advances to banks (repayable within 3 months)	**9,732**	26,917	**9,732**	26,917
Amounts owed to banks (note 24)	**(6,569)**	(13,683)	**(6,569)**	(13,683)
Cash and cash equivalents included in the statements of cash flows	**8,660**	19,015	**8,660**	19,015
Balances with contractual maturity of more than three months	**1,700**	9,953	-	7,903
Central Bank of Malta (reserve deposit) (note 13)	**11,972**	6,525	**11,972**	6,525
	22,332	35,493	**20,632**	33,443
Equivalent items reported in the statement of financial position:				
Balances with Central Bank of Malta, Treasury bills and cash (note 13)	**17,469**	20,209	**17,469**	20,209
Loans and advances to banks (note 14)	**11,432**	28,967	**9,732**	26,917
Amounts owed to banks (note 24)	**(6,569)**	(13,683)	**(6,569)**	(13,683)
	22,332	35,493	**20,632**	33,443

NOTES TO THE FINANCIAL STATEMENTS (continued)

35. RELATED PARTY DISCLOSURES

The Group

Consolidated subsidiaries

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

Name	Country of incorporation	% equity interest 2010	2009
APS Consult Limited	Malta	**99.9**	99.9
APS Funds SICAV plc	Malta	**50.05**	72.84

The registered office of APS Consult Limited and APS Funds SICAV plc is APS House, 20, St. Anne Square, Floriana, FRN 9020, Malta.

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

Transactions with subsidiaries

APS Bank Limited is the parent company of APS Consult Limited and APS Funds SICAV plc.

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

Related parties	Year	Income from related parties €000	Expenses charged to / (by)related parties €000	Amounts owed by related parties €000	Amounts owed to related parties €000
APS Consult Limited	**2010**	**14**	**(8)**	**6**	**11**
APS Consult Limited	2009	-	15	5	12
APS Funds SICAV plc	**2010**	**510**	**-**	**37**	**21**
APS Funds SICAV plc	2009	86	-	24	-

NOTES TO THE FINANCIAL STATEMENTS (continued)

35. 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.

	2010	2009
	€000	€000
Loans and advances	**5**	4
Commitments	**18**	12

(b) Transactions with executives and other staff:

	2010	2009
	€000	€000
Loans and advances	**3,171**	3,176
Commitments	**228**	123

Transactions with other related parties

	Balances as at 31.12.2010	**Interest receivable 2010**	Balances as at 31.12.2009	Interest receivable 2009
	€000	**€000**	€000	€000
Amounts due from other related parties:				
Individuals related to directors	**244**	**7**	85	4
Entities with common directorship	**13,227**	**438**	9,918	471
	13,471	**445**	10,003	475

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

35. RELATED PARTY DISCLOSURES (continued)

	Balances as at 31.12.2010 €000	**Interest payable 2010 €000**	Balances as at 31.12.2009 €000	Interest payable 2009 €000
Amounts due to other related parties:				
Shareholders	**24,762**	**739**	20,579	244

Included in the amounts due to the shareholders is an amount of €250,000 (2009: €385,768) which is pledged against overdraft facilities granted to third parties.

For the year ended 31 December 2010, the Bank has not made any provision for impairment of receivables relating to amounts due from related parties (2009: Nil).

NOTES TO THE FINANCIAL STATEMENTS (continued)

36. RISK MANAGEMENT

36.1 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.

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.

36.2 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 €89.4 million (2009: €93.3 million). Their market value amounted to €102.1 million (2009: €106.9 million), whilst their nominal value amounted to €87.7 million (2009: €91.4 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 banks and customers are mainly deposit liabilities. Of this category of liability, 84% has contractual re-pricing within one year, whilst 16% re-prices between one year and over. For demand deposits and deposits within one year, fair value is taken to be the amount payable on demand at the reporting date.

NOTES TO THE FINANCIAL STATEMENTS (continued)

36. RISK MANAGEMENT (continued)

36.2 Fair values (continued)

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 financial assets held by the Group as at 31 December 2010 and 31 December 2009 are classified under level 1 in the above hierarchy except for the unquoted available-for-sale financial assets of €0.9 million (2009: the same) which are classified under level 2.

36.3 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 prodominantely 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 for 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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

36. RISK MANAGEMENT (continued)

36.3 Credit risk (continued)

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

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

	The Group Gross Maximum exposure		The Bank Gross Maximum exposure	
	2010	2009	**2010**	2009
	€000	€000	**€000**	€000
Treasury bills	-	8,903	-	8,903
Cash and balances with Central Bank of Malta (excluding cash in hand)	**13,049**	6,525	**13,049**	6,525
Cheques in course of collection	**2,537**	1,837	**2,537**	1,837
Loans and advances to banks	**11,432**	28,967	**9,732**	26,917
Loans and advances to customers	**245,102**	222,627	**245,102**	222,627
Loans and advances to corporate entities	**177,882**	158,277	**177,882**	158,277
Debt and other fixed income instruments	**302,777**	262,707	**287,548**	251,885
Equity and other non-fixed income instruments	**2,690**	2,556	**1,820**	1,851
Other receivables	**7,786**	7,952	**7,428**	7,653
Total	**763,255**	700,351	**745,098**	686,475
Credit risk exposures relating to off-balance sheet items are as follows:				
Financial guarantees	**5,842**	4,528	**5,842**	4,528
Commitments	**122,506**	114,454	**122,506**	114,454
	128,348	118,982	**128,348**	118,982

Collateral

Of the total loans and advances to customers, 90.36% (2009: 93.26%) 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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

36. RISK MANAGEMENT (continued)

36.3 Credit risk (continued)

The Group

Concentrations of risk

	Financial Institutions €000	Manu-facturing €000	Real Estate €000	Wholesale and Retail Trade €000	Public Sector €000	Other Industries €000	Individuals €000	Total €000
Cash and balances with Central Bank of Malta (excluding cash in hand)	13,049	-	-	-	-	-	-	13,049
Cheques in course of collection	2,537	-	-	-	-	-	-	2,537
Loans and advances to banks	11,432	-	-	-	-	-	-	11,432
Loans and advances to customers	319	12,697	92,841	27,026	2,264	66,280	221,557	422,984
Debt and other fixed income instruments	68,490	9,405	3,743	29,803	165,305	26,031	-	302,777
Equity and other non-fixed income instruments	2,377	-	-	-	-	313	-	2,690
Other receivables	-	-	-	-	-	7,786	-	7,786
At 31 December 2010	**98,204**	**22,102**	**96,584**	**56,829**	**167,569**	**100,410**	**221,557**	**763,255**
At 31 December 2009	98,238	19,219	87,710	49,636	164,213	88,517	192,818	700,351
Financial guarantees	625	32	1,227	1,569	7	930	1,452	5,842
Commitments	1,404	1,452	30,731	11,234	3,116	9,806	64,763	122,506
As at 31 December 2010	**2,029**	**1,484**	**31,958**	**12,803**	**3,123**	**10,736**	**66,215**	**128,348**
At 31 December 2009	-	2,715	36,813	7,370	6,079	11,965	54,040	118,982

NOTES TO THE FINANCIAL STATEMENTS (continued)

36. RISK MANAGEMENT (continued)

36.3 Credit risk (continued)

The Bank

Concentrations of risk

	Financial Institutions	Manu-facturing	Real Estate	Wholesale and Retail Trade	Public Sector	Other Industries	Individuals	Total
	€000	€000	€000	€000	€000	€000	€000	€000
Cash and balances with Central Bank of Malta (excluding cash in hand)	13,049	-	-	-	-	-	-	13,049
Cheques in course of collection	2,537	-	-	-	-	-	-	2,537
Loans and advances to banks	9,732	-	-	-	-	-	-	9,732
Loans and advances to customers	319	12,697	92,841	27,026	2,264	66,280	221,557	422,984
Debt and other fixed income instruments	65,228	9,010	2,656	26,176	159,177	25,301	-	287,548
Equity and other non-fixed income instruments	1,658	-	-	-	-	162	-	1,820
Other receivables	-	-	-	-	-	7,428	-	7,428
At 31 December 2010	**92,523**	**21,707**	**95,497**	**53,202**	**161,441**	**99,171**	**221,557**	**745,098**
At 31 December 2009	93,691	19,219	86,541	47,242	159,271	87,693	192,818	686,475
Financial guarantees	625	32	1,227	1,569	7	930	1,452	5,842
Commitments	1,404	1,452	30,731	11,234	3,116	9,806	64,763	122,506
As at 31 December 2010	**2,029**	**1,484**	**31,958**	**12,803**	**3,123**	**10,736**	**66,215**	**128,348**
At 31 December 2009	-	2,715	36,813	7,370	6,079	11,965	54,040	118,982

NOTES TO THE FINANCIAL STATEMENTS (continued)

36. RISK MANAGEMENT (continued)

36.3 Credit risk (continued)

Credit quality

Debt Securities and other bills by rating agency (Standard & Poor's) designation:

The Group

As at 31 December 2010

	Balance with CBM and Treasury bills €000	Debt securities €000	Loans and Advances to banks €000	Total €000
AAA	-	10,081	10	10,091
AA+ to AA-	-	15,915	3,510	19,425
A+ to A-	13,049	192,982	4,795	210,826
Lower than A-	-	54,348	-	54,348
Unrated	-	29,451	3,117	32,568
	13,049	**302,777**	**11,432**	**327,258**

As at 31 December 2009

	Balance with CBM and Treasury bills €000	Debt securities €000	Loans and Advances to banks €000	Total €000
AAA	-	10,754	-	10,754
AA+ to AA-	-	21,744	1,070	22,814
A+ to A-	15,428	179,546	23,879	218,853
Lower than A-	-	31,793	162	31,955
Unrated	-	18,870	3,856	22,726
	15,428	**262,707**	**28,967**	**307,102**

The Bank

As at 31 December 2010

	Balance with CBM and Treasury bills €000	Debt securities €000	Loans and advances to banks €000	Total €000
AAA	-	10,005	10	10,015
AA+ to AA-	-	15,322	3,510	18,832
A+ to A-	13,049	186,139	4,795	203,983
Lower than A-	-	53,671	-	53,671
Unrated	-	22,411	1,417	23,828
	13,049	**287,548**	**9,732**	**310,329**

As at 31 December 2009

	Balance with CBM and Treasury bills €000	Debt securities €000	Loans and advances to banks €000	Total €000
AAA	-	10,692	-	10,692
AA+ to AA-	-	21,319	1,070	22,389
A+ to A-	15,428	174,508	23,879	213,815
Lower than A-	-	31,206	162	31,368
Unrated	-	14,160	1,806	15,966
	15,428	**251,885**	**26,917**	**294,230**

NOTES TO THE FINANCIAL STATEMENTS (continued)

36. RISK MANAGEMENT (continued)

36.3 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 lending portfolio:

The Group / Bank

	2010	2009
	€000	€000
Neither past due nor impaired	**377,029**	350,465
Past due but not impaired	**46,580**	28,127
Impaired	**6,196**	8,146
	429,805	386,738

Analysis of loans and advances by internal credit rating

The Group / Bank

	2010	2009
	€000	€000
Regular	**367,380**	322,529
Watch List	**15,101**	24,034
Sub-Standard	**12,093**	23,576
Doubtful	**35,231**	16,599
	429,805	386,738

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:

	2010	2009
	€000	€000
Past due up to 29 days	**4,756**	346
Past due 30-59 days	**13,864**	6,617
Past due 60-89 days	**11,801**	14,990
Past due over 90 days	**16,159**	6,174
	46,580	28,127

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 €5,079,000 (2009: €13,235,000).

NOTES TO THE FINANCIAL STATEMENTS (continued)

36. RISK MANAGEMENT (continued)

36.4 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.

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

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

The Group

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

36. RISK MANAGEMENT (continued)

36.4 Liquidity risk (continued)

	Less Than Three Months €000	Between Three Months and One Year €000	Between One and Five Years €000	More Than Five Years €000	Others €000	Total €000
At 31 December 2009						
Assets						
Treasury bills	7,915	988	-	-	-	8,903
Cash and balances with Central Bank of Malta	11,306	-	-	-	-	11,306
Cheques in course of collection	1,837	-	-	-	-	1,837
Loans and advances to banks	27,267	1,700	-	-	-	28,967
Loans and advances to customers	57,049	22,445	73,375	228,035	-	380,904
Debt and other fixed income financial instruments	13,554	30,545	127,199	91,409	-	262,707
Equity and other non-fixed income instruments	-	-	-	-	2,556	2,556
Other assets	1,995	862	2,853	1,929	18,645	26,284
	120,923	**56,540**	**203,427**	**321,373**	**21,201**	**723,464**
Liabilities and equity						
Amounts owed to banks	13,683	-	-	-	-	13,683
Amounts owed to customers	341,264	195,697	88,503	13,698	-	639,162
Other liabilities	1,850	1,796	1,194	121	4,728	9,689
Equity	-	-	-	-	60,930	60,930
	356,797	**197,493**	**89,697**	**13,819**	**65,658**	**723,464**
Net	**(235,874)**	**(140,953)**	**113,730**	**307,554**	**(44,457)**	**-**

Analysis of financial liabilities by remaining contractual maturities

The table below summarises the maturity profile of the Group's financial liabilities at 31 December 2010 and 31 December 2009 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 2010					
Liabilities					
Amounts owed to banks	6,569	-	-	-	6,569
Amounts owed to customers	218,537	335,453	129,059	32,823	715,872
	225,106	**335,453**	**129,059**	**32,823**	**722,441**

NOTES TO THE FINANCIAL STATEMENTS (continued)

36. RISK MANAGEMENT (continued)

36.4 Liquidity risk (continued)

	Less Than Three Months €000	Between Three Months and One Year €000	Between One and Five Years €000	More Than Five Years €000	Total €000
At 31 December 2009					
Liabilities					
Amounts owed to banks	13,683	-	-	-	13,683
Amounts owed to customers	193,754	102,597	319,081	40,071	655,503
	207,437	**102,597**	**319,081**	**40,071**	**669,186**

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

36. RISK MANAGEMENT (continued)

36.4 Liquidity risk (continued)

	Less Than Three Months €000	Between Three Months and One Year €000	Between One and Five Years €000	More Than Five Years €000	Others €000	Total €000
At 31 December 2009						
Assets						
Treasury bills	7,915	988	-	-	-	8,903
Cash and balances with Central Bank of Malta	11,306	-	-	-	-	11,306
Cheques in course of collection	1,837	-	-	-	-	1,837
Loans and advances to banks	26,917	-	-	-	-	26,917
Loans and advances to customers	57,049	22,445	73,375	228,035	-	380,904
Debt and other fixed income financial instruments	13,554	28,699	120,136	89,496	-	251,885
Equity and other non-fixed income instruments	-	-	-	-	1,851	1,851
Investment in subsidiaries	-	-	-	-	10,387	10,387
Other assets	1,995	540	2,853	1,929	18,645	25,962
	120,573	**52,672**	**196,364**	**319,460**	**30,883**	**719,952**
Liabilities and equity						
Amounts owed to banks	13,683	-	-	-	-	13,683
Amounts owed to customers	341,552	195,697	88,503	13,698	-	639,450
Other liabilities	1,794	1,796	1,194	121	4,728	9,633
Equity	-	-	-	-	57,186	57,186
	357,029	**197,493**	**89,697**	**13,819**	**61,914**	**719,952**
Net	**(236,456)**	**(144,821)**	**106,667**	**305,641**	**(31,031)**	-

Analysis of financial liabilities by remaining contractual maturities

The table below summarises the maturity profile of the Bank's financial liabilities at 31 December 2010 and 31 December 2009 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 2010					
Liabilities					
Amounts owed to banks	6,569	-	-	-	6,569
Amounts owed to customers	218,537	337,836	129,059	32,823	718,255
	225,106	**337,836**	**129,059**	**32,823**	**724,824**

NOTES TO THE FINANCIAL STATEMENTS (continued)

36. RISK MANAGEMENT (continued)

36.4 Liquidity risk (continued)

	Less Than Three Months €000	Between Three Months and One Year €000	Between One and Five Years €000	More Than Five Years €000	Total €000
At 31 December 2009					
Liabilities					
Amounts owed to banks	**13,683**	-	-	-	13,683
Amounts owed to customers	**193,821**	99,384	309,837	36,408	639,450
	207,504	**99,384**	**309,837**	**36,408**	**653,133**

Off – Balance sheet items

The Group / Bank

	Not Later Than One Year 2010 €000	2009 €000
Loan commitments	**122,506**	114,454
Guarantees, acceptance and other financial facilities	**5,842**	4,528
	128,348	118,982

36.5 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:

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

36. RISK MANAGEMENT (continued)

36.5 Market risk (continued)

	2009			
	USD	GBP	Other	Total
	€000	€000	€000	€000
Assets	8,745	43,813	6,613	59,171
Liabilities	8,667	43,807	6,477	58,951

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 in before tax €'000**
2010	**+25**	**(14)**
	-25	**5**
2009	+25	41
	-25	(41)

Capital approach

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

	2010	2009
	€000	€000
Net effect for a twelve-month period	**413**	**558**

NOTES TO THE FINANCIAL STATEMENTS (continued)

36. RISK MANAGEMENT (continued)

36.6 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, authorisation and reconciliation procedures, staff education and assessment processes, including the use of internal audit.

36.7 Capital management

The primary objective of the Group's capital management is to ensure that the Group complies with regulatory capital requirements and has adequate capital to support its business and to maximise shareholder value. The Group manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Group may 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/12/2010 - The Supervisory Review Process of Credit Institutions Authorised Under the Banking Act, Cap. 371 of the Laws of Malta. The objective of the ICAAP is to inform the Board of Directors of the ongoing assessment of the Group's risks, how the Group mitigates 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 2010.

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

36. RISK MANAGEMENT (continued)

36.7 Capital management (continued)

The Group

	Adjusted Book Value €000	Weighted Amount €000
Credit risk calculation - standardised approach		
Total assets and off-balance sheet items	**917,770**	344,008
Operational risk - basic indicator approach		
15% of the three year adjusted average operating income		35,141
Foreign exchange risk		
8% of the capital requirement of the net short or long position, whichever is the higher		540
Total credit, operational and foreign exchange risk		**379,689**

Own funds	
Original own funds	59,796
Additional own funds	9,182
Total own funds	**68,978**
Capital Adequacy	**18.17%**

The Bank

	Adjusted Book Value €000	
Credit risk calculation - standardised approach		
Total assets and off-balance sheet items	**909,981**	340,268
Operational risk - basic indicator approach		
15% of the three year adjusted average operating income		34,510
Foreign exchange risk		
8% Capital requirements of the net short or long position, whichever is higher		540
Total credit, operational and foreign exchange risk		**375,318**

NOTES TO THE FINANCIAL STATEMENTS (continued)

36. RISK MANAGEMENT (continued)

36.7 Capital management (continued)

Own funds	**€000**
Original own funds	49,873
Additional own funds	8,940
Total own funds	**58,813**
Capital Adequacy	**15.67%**

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

INCOME STATEMENTS - FIVE YEAR SUMMARIES

The Group	2010 €000	2009 €000	2008 €000	2007 €000	2006 €000
Interest receivable and similar income	**33,729**	31,796	36,211	33,421	29,152
Interest payable	**(14,182)**	(15,703)	(20,254)	(18,552)	(15,388)
Net interest income	**19,547**	16,093	15,957	14,869	13,764
Other operating income	**2,573**	2,353	2,054	2,721	2,970
Total operating income	**22,120**	18,446	18,011	17,590	16,734
Other operating charges	**(13,075)**	(11,961)	(10,543)	(9,961)	(9,317)
Net impairment (losses)/reversals	**(990)**	(483)	(1,664)	(163)	(75)
Profit before tax	**8,055**	6,002	5,804	7,466	7,342
Income tax expense	**(2,716)**	(2,022)	(1,742)	(2,341)	(2,579)
Profit for the year	**5,339**	3,980	4,062	5,125	4,763

The Bank	2010 €000	2009 €000	2008 €000	2007 €000	2006 €000
Interest receivable and similar income	**33,033**	31,172	35,801	33,421	29,152
Interest payable	**(14,206)**	(15,703)	(20,254)	(18,552)	(15,388)
Net interest income	**18,827**	15,469	15,547	14,869	13,764
Other operating income	**3,035**	2,416	2,346	2,705	2,970
Total operating income	**21,862**	17,885	17,893	17,574	16,734
Other operating charges	**(12,761)**	(11,666)	(10,398)	(9,930)	(9,317)
Net impairment (losses)/reversals	**(953)**	(483)	(1,664)	(163)	(75)
Profit before tax	**8,148**	5,736	5,831	7,481	7,342
Income tax expense	**(2,611)**	(1,947)	(1,675)	(2,341)	(2,579)
Profit for the year	**5,537**	3,789	4,156	5,140	4,763

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

	2010 €000	2009 €000	2008 €000	2007 €000	2006 €000
ASSETS					
Cash, treasury bills and balances with Central Bank of Malta	**4,420**	13,684	6,688	15,759	10,161
Reserve deposit with Central Bank of Malta	**13,049**	6,525	10,387	20,801	21,374
Cheques in course of collection	**2,537**	1,837	1,411	1,759	1,516
Loans and advances to banks	**11,432**	28,967	8,543	21,186	18,654
Loans and advances to customers	**422,984**	380,904	368,198	315,518	265,239
Debt and other fixed income instruments	**302,777**	262,707	247,295	248,106	261,355
Equity and other non-fixed income instruments	**2,690**	2,556	1,472	2,516	4,389
Investment property	**330**	330	-	-	-
Intangible assets	**1,262**	1,351	1,630	1,484	627
Property and equipment	**14,765**	15,065	13,303	9,028	9,073
Deferred tax assets	**2,588**	1,586	3,442	2,325	1,782
Other receivables	**7,786**	7,952	6,358	6,438	5,804
TOTAL ASSETS	**786,620**	723,464	668,727	644,920	599,974
LIABILITIES					
Amounts owed to banks	**6,569**	13,683	14,312	1,281	839
Amounts owed to customers	**699,546**	639,162	590,717	579,157	538,691
Subordinated liabilities	-	-	-	3,261	3,261
Other liabilities	**2,675**	3,268	2,389	4,855	3,950
Accruals and deferred income	**7,016**	6,421	9,431	7,827	5,840
TOTAL LIABILITIES	**715,806**	662,534	616,849	596,381	552,581
EQUITY					
Issued capital	**15,600**	15,600	15,600	15,141	15,141
Share premium	**1,770**	1,770	1,770	1,770	1,770
Revaluation reserve	**6,157**	7,207	4,138	4,941	8,181
Retained earnings	**36,155**	31,812	28,695	25,900	21,563
Dividend reserve	**862**	787	787	787	738
Non - controlling interest	**10,270**	3,754	888	-	-
	70,814	60,930	51,878	48,539	47,393
TOTAL LIABILITIES AND EQUITY	**786,620**	723,464	668,727	644,920	599,974
MEMORANDUM ITEMS					
Contingent liabilities	**5,842**	4,528	5,262	54,696	5,190
Commitments	**122,506**	114,454	131,812	120,543	131,714

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

	2010 €000	2009 €000	2008 €000	2007 €000	2006 €000
ASSETS					
Cash, treasury bills and balances with Central Bank of Malta	**4,420**	13,684	6,682	15,752	10,103
Reserve deposit with Central Bank of Malta	**13,049**	6,525	10,387	20,801	21,374
Cheques in course of collection	**2,537**	1,837	1,411	1,759	1,516
Loans and advances to banks	**9,732**	26,917	8,543	21,186	18,654
Loans and advances to customers	**422,984**	380,904	368,198	315,518	265,239
Debt and other fixed income instruments	**287,548**	251,885	236,529	248,106	261,355
Equity and other non-fixed income instruments	**1,820**	1,851	1,472	2,516	4,389
Investment in subsidiaries	**10,387**	10,387	10,387	58	58
Intangible assets	**1,262**	1,351	1,630	1,484	627
Investment Property	**330**	330	-	-	-
Property and equipment	**14,749**	15,042	13,278	9,028	9,073
Deferred tax assets	**2,588**	1,586	3,442	2,325	1,782
Other receivables	**7,428**	7,653	6,618	6,473	5,804
TOTAL ASSETS	**778,834**	719,952	668,577	645,006	599,974
LIABILITIES					
Amounts owed to banks	**6,569**	13,683	14,312	1,281	839
Amounts owed to customers	**701,929**	639,450	591,128	579,157	538,691
Subordinated liabilities	-	-	-	3,261	3,261
Other liabilities	**2,672**	3,241	2,471	4,936	3,950
Accruals and deferred income	**7,015**	6,392	9,415	7,817	5,840
TOTAL LIABILITIES	**718,185**	662,766	617,326	596,452	552,581
EQUITY					
Issued capital	**15,600**	15,600	15,600	15,141	15,141
Share premium	**1,770**	1,770	1,770	1,770	1,770
Revaluation reserve	**5,915**	7,202	4,269	4,941	8,181
Retained earnings	**36,502**	31,827	28,825	25,915	21,563
Dividend reserve	**862**	787	787	787	738
	60,649	57,186	51,251	48,554	47,393
TOTAL LIABILITIES AND EQUITY	**778,834**	719,952	668,577	645,006	599,974
MEMORANDUM ITEMS					
Contingent liabilities	**5,842**	4,528	5,262	54,696	5,190
Commitments	**122,506**	114,454	131,812	120,543	131,714

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

	2010 €000	2009 €000	2008 €000	2007 €000	2006 €000
Net cash flows from / (used in) operating activities	**1,082**	13,886	(25,250)	(20,417)	(15,104)
Investing activities					
Dividends received	**206**	214	184	128	231
Interest income from debt securities	**16,184**	14,981	15,360	15,747	16,583
Purchase of debt and other fixed income instruments	**(91,196)**	(58,473)	(62,561)	(31,712)	(17,098)
Proceeds on maturity and disposal of debt and other fixed income instruments	**59,244**	50,297	50,809	36,401	28,535
Purchase of equity and other non-fixed income instruments	**-**	(199)	(686)	(100)	-
Proceeds on disposal of equity and other non-fixed income instruments	**337**	-	359	1,239	606
Purchase of property and equipment	**(1,600)**	(4,587)	(4,434)	(1,505)	(3,885)
Proceeds on disposal of property and equipment	**-**	14	13	14	23
Net cash flows (used in) / from investing activities	**(16,825)**	2,247	(956)	20,212	24,995
Financing activities					
Dividends paid	**(961)**	(831)	(787)	(738)	(736)
Net proceeds from non-controlling interest for shares in subsidiary	**6,349**	2,794	879	-	-
Net cash flows from / (used in) financing activities	**5,388**	1,963	92	(738)	(736)
Net decrease / (increase) in cash and cash equivalents	**(10,355)**	18,096	(26,114)	(943)	9,155
Cash and cash equivalents at 1 January	**19,015**	919	27,033	27,976	18,821
Cash and cash equivalents at 31 December	**8,660**	19,015	919	27,033	27,976

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

	2010 €000	2009 €000	2008 €000	2007 €000	2006 €000
Net cash flows from / (used in) operating activities	**3,003**	15,961	(25,243)	(20,365)	(15,104)
Investing activities					
Dividends received	**542**	357	450	128	231
Interest income from debt securities	**16,184**	14,981	15,360	15,747	16,583
Purchase of debt and other fixed income instruments	**(82,177)**	(54,889)	(49,747)	(31,712)	(17,098)
Proceeds on maturity and disposal of debt and other fixed income instruments	**54,143**	47,047	48,899	36,401	28,535
Purchase of equity and other non-fixed income instruments	-	-	(686)	(100)	-
Proceeds on disposal of equity and other non-fixed income instruments	**337**	-	359	1,239	606
Purchase of property and equipment	**(1,600)**	(4,582)	(4,403)	(1,505)	(3,885)
Proceeds on disposal of property and equipment	-	14	13	14	23
Investment in subsidiaries	-	-	(10,328)	-	(58)
Net cash flows (used in) / from investing activities	**(12,571)**	2,928	(83)	20,212	24,937
Financing activities					
Dividends paid	**(787)**	(787)	(787)	(738)	(736)
Net cash flows (used in) financing activities	**(787)**	(787)	(787)	(738)	(736)
Net (decrease) / increase in cash and cash equivalents	**(10,355)**	18,102	(26,113)	(891)	9,097
Cash and cash equivalents at 1 January	**19,015**	913	27,026	27,917	18,820
Cash and cash equivalents at 31 December	**8,660**	19,015	913	27,026	27,917

THE GROUP'S FIVE YEAR SUMMARY - ACCOUNTING RATIOS

	2010	2009	2008	2007	2006
	%	%	%	%	%
Net interest income and other operating income to total assets	**2.8**	2.6	2.4	2.7	2.8
Operating expenses to total assets	**1.7**	1.7	1.6	1.5	1.6
Profit before tax to total assets	**1.0**	0.8	0.9	1.2	1.2
Return on capital employed before tax *	**12.5**	11.2	12.2	17.1	18.7
Profit after tax to equity *	**8.3**	7.4	8.5	11.8	12.1

	2010	2009	2008	2007	2006
Shares in issue (thousands)	**26,000**	26,000	26,000	26,000	26,000
Net assets per share *	**249c**	207c	184c	168c	151c
Earnings per share	**20c5**	15c3	15c6	19c7	18c4
Dividends per share					
Gross	**5c1**	4c7	4c7	4c6	4c4
Net	**3c**	3c	3c	3c	2c7
Dividend cover	**6.2**	5.1	5.2	6.5	6.5

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

THE BANK'S FIVE YEAR SUMMARY - ACCOUNTING RATIOS

	2010	2009	2008	2007	2006
	%	%	%	%	%
Net interest income and other operating income to total assets	**2.8**	2.5	2.7	2.7	2.8
Operating expenses to total assets	**1.6**	1.6	1.6	1.5	1.6
Profit before tax to total assets	**1.05**	0.8	0.9	1.2	1.2
Return on capital employed before tax *	**14.9**	11.5	12.4	17.2	18.7
Profit after tax to equity *	**10.1**	7.6	8.8	11.8	12.1

	2010	2009	2008	2007	2006
Shares in issue (thousands)	**26,000**	26,000	26,000	26,000	26,000
Net assets per share *	**211c**	192c	181c	168c	151c
Earnings per share	**21c3**	14c6	16c0	19c8	18c4
Dividends per share					
Gross	**5c1**	4c7	4c7	4c7	4c4
Net	**3c**	3c	3c	3c	2c7
Dividend cover	**6.4**	4.8	5.3	6.5	6.5

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

THE GROUP'S FINANCIAL HIGHLIGHTS IN US DOLLARS

Year ended 31 December 2010

The following figures were converted from Euro to US Dollars using the rates of exchange ruling on 31 December 2010. The rates used were €1:$1.3374. Comparative results have also been translated at these rates.

These highlights do not reflect the effect of the change in the rates of exchange since 31 December 2010.

	2010	2009
	$000	$000
Net interest income	**26,142**	21,523
Operating income	**29,583**	24,670
Operating profit before impairment reversals and provisions	**12,097**	8,673
Profit before tax	**10,773**	8,027
Profit for the year	**7,140**	5,323
Total assets	**1,052,026**	967,560
Liquid funds	**42,045**	68,225
Debt and other fixed income instruments	**404,934**	351,344
Loans and advances to customer	**565, 699**	509,421
Equity	**94,707**	81,488

THE BANK'S FINANCIAL HIGHLIGHTS IN US DOLLARS

Year ended 31 December 2010

The following figures were converted from Euro to US Dollars using the rates of exchange ruling on 31 December 2010. The rates used were €1:$1.3374. Comparative results have also been translated at these rates.

These highlights do not reflect the effect of the change in the rates of exchange since 31 December 2010.

	2010	2009
	$000	$000
Net interest income	**25,179**	20,688
Operating income	**29,238**	23,919
Operating profit before impairment reversals and provisions	**12,172**	8,317
Profit before tax	**10,897**	7,671
Profit for the year	**7,405**	5,067
Total assets	**1,041,613**	962,864
Liquid funds	**39,771**	65,483
Debt and other fixed income instruments	**384,567**	336,871
Loans and advances to customers	**565,699**	509,421
Equity	**81,112**	76,481

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