



**Annual Report and Financial Statements**  
**2004**

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## DIRECTORS

Emmanuel P. Delia M.A., M.Litt. (Oxon.), Chairman  
Joseph C. Caruana A.C.I.B. (elected 22 April 2004)  
Carmel Curmi  
Arthur Galea Salomone LL.M. (Toronto) LL.D.  
Joseph M. Kenely M.Sc., A.C.M.A., F.I.A., C.P.A.  
Frederick F. Micallef M.I.M.I.S, M.B.A. (elected 22 April 2004)  
Joseph Pace Ross A.C.I.B.  
Francis H. Stivala M.Sc., B.A. (Hons.) Econ. (retired 22 April 2004)  
Lawrence Zammit M.A. (Econ.), (retired 22 April 2004)

## COMPANY SECRETARY

Mario Felice LL.D.

## CHIEF EXECUTIVE OFFICER

Edward Cachia A.C.I.B.

## REGISTERED OFFICE

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

## CHAIRMAN'S STATEMENT

I am pleased to announce that APS Bank registered a rewarding performance and recorded encouraging results in 2004, albeit at a time of relatively slow economic growth and tougher competition. The Bank continued diversifying its operations in line with its corporate philosophy of being an effective financial institution promoting the community spirit that animates it.

The Board of Directors considers the performance as the outcome of a strong commitment by the Bank's personnel, trust by our customers in the institution, and the constant support of our shareholders. Pre-tax profits increased to Lm2.03million, up from Lm1.32million; loans and advances reached Lm78.6million, and customers' deposits exceeded Lm189million, a rise of Lm14million on 2003. At the same time, the capital base was enhanced by a further injection of Lm1million, bringing paid up capital to Lm6million.

The Bank strengthened its presence in the market following the opening of another branch in Paola. The location is significant because we want to have access to a wider community. While the importance of technology is acknowledged, and the Bank is striving to enhance its IT-related services, yet the physical presence of a financial institution is always welcome in a locality. This is the response we got whenever the Bank opened its branches and Paola Branch is confirming this view.

The investment in personnel continues. They are the ones who transform the Bank's objectives into everyday reality. The coming few years will see the Maltese financial sector adopting more stringent regulations in the context of replacing the Malta Lira by the Euro. APS Bank is preparing for the change. We plan to be effectively present when the change takes place and the Bank will continue to fulfil its community role in a much wider context.

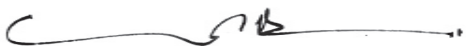
Similar investment is being carried out in information technology. It is both a means of communication and also a tool for efficient management. The Bank plans to get closer to its clients so that the quality of the service that is provided will be improved in terms of time and information. The balance between outlets, technology and staff complement that we have built in recent years will continue in the months ahead.

In 2004, APS Bank reconfirmed its commitments to education and culture. It endorsed financial support to many academic and cultural events including art exhibitions, sacred music concerts and conferences on themes that attracted the attention of participants from various countries. The Bank also launched the first book published under the special fund, *Fond għall-Kittieba tal-Malti*, that supports Maltese authors to publish their work. Other works will appear in 2005. Equally successful were the Bank's publications on economic and social issues and, particularly, the proceedings of the Bank's Annual Conference on the Development of Agriculture and Fisheries in the Maltese Islands.

I am pleased to acknowledge the constant support and dedication of my fellow directors. I thank them for their commitment to APS Bank and to its ideals. In particular, I would like to thank two directors, Francis Stivala and Lawrence Zammit, who had served the Bank for ten fruitful years. I wish also to thank the two new members who joined the Board in April 2004, Joseph C. Caruana and Frederick F. Micallef. They have integrated comfortably with the other members of the Board and were instrumental in the attainment of the Bank's goals in 2004.

The implementation of the Bank's policy is in the hands of the executive. The staff members persisted, difficulties notwithstanding, in carrying out their every day duties without losing sight of the overall long term goals. They worked enthusiastically and professionally, and embarked on various initiatives that are already bearing fruit. I thank them all for their commitment.

Finally, I thank our shareholders for the support that they have been giving APS Bank. Their trust in the institution makes the task of the Board harder; that trust has to be translated into results that do not only reflect improved financial performance but also an extended social commitment. I am confident that the Board and staff members at APS Bank will achieve both targets in the months ahead.



E. P. Delia  
Chairman

## DIRECTORS' REPORT

for the year ended 31 December 2004

### Principal activities

APS Bank Limited is registered in Malta as a limited liability company under the Companies Act, 1995. The Bank is licensed to carry out the business of banking and investment services in terms of the Banking Act, 1994 and the Investments Services Act, 1994, respectively.

### Standard licence conditions

In accordance with paragraph 10.32 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.

### General overview

The Bank continued to register growth, recording a significant upward trend in profits. During the year under review, the Bank's operations were characterised by the opening of the Paola Branch and the introduction of Investments Services from all its branches. The Lm1million of fresh capital invested by the shareholders to finance the Bank's investment projects continued to strengthen the organisation structure and sustain its expansion to better meet the ever-growing clients' expectations.

*The Directors present their report and the Bank's audited financial statements for the year ended 31 December 2004.*

*This report is prepared in terms of Section 177 of the Companies Act, 1995 and complies with the disclosure requirements of the Sixth Schedule of the same Act.*

### Results for the year

The Bank recorded a profit of Lm2million on ordinary activities before taxation for the year ended 31 December 2004, an increase of 53% over the results for the previous financial year.

### Net interest income

Net interest income rose by 23% to Lm5.2million and continues to be the main contributor to the Bank's increasing profits. This is largely attributable to the growth in interest bearing assets and a rise in the interest margin.

### Non-interest income

All sources of non-interest income generated higher returns during 2004, in total amounting to Lm1million, an increase of 22%. Since the last quarter of 2004 the Bank started offering assurance and investments products to its clients in a bid to attract higher commission income. Enhancing non-interest income performance is at the core of the Bank's development strategy and in the future other initiatives will be taken consistent with this approach.

### Administrative expenses and depreciation

The increases of 4% and 3% in administrative expenses and depreciation charge, respectively, over 2003 figures, reflect the Bank's strategy of containing costs whilst sustaining operational growth. The change in the rate of Value Added Tax also affected administrative expenses.

### Net impairment

Net impairment charge amounted to Lm0.5million resulting from a net increase in both specific and general provisions.

### Balance Sheet

Total assets as at year-end amounted to Lm212.1million, a growth of 10% over the figure of the previous year. Loans and advances to customers, gross of provisions, reached Lm78.6million, an increase of 27%. Investments also grew by 4%, equivalent to Lm4.8million. As in previous years, the increase in assets was largely financed by a rise in customers' deposits, a total of Lm14.1million.

As at 31 December 2004, shareholders' funds stood at Lm13.9million, an increase of Lm2.8million over 2003. The shareholders showed their commitment and trust in the Bank's strategy and performance, boosting paid up capital by a further Lm1 million.

## **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 Company 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, as well as agreements of a material nature, major capital expenditures, the business plan and senior executive appointments.

The Board consists of seven Non-Executive Directors including the Chairman. No individual or group of individuals dominates the Board's decision making. The Directors have wide-ranging experience and all have occupied or currently occupy senior positions in the service industry, ecclesiastical or government organisations. Non-Executive Directors have a responsibility to bring independent, objective judgement to bear on Board decisions. The Board has reviewed the independence of these Directors and has reaffirmed that they all are considered by the Board 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 individual 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 individual Director concerned. In all other circumstances, the Directors play a full and constructive role in the Bank's affairs.

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.

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

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

A Statement of Directors' Responsibilities in relation to the Financial Statements is set out on Page 9.

### **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 to review the Bank's internal financial controls and to monitor and review 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 identifying any matters in respect of

## DIRECTORS' REPORT (Continued)

which it considers that action or improvement is needed and making recommendations as to the steps to be taken.

**The Risk Management Committee.** The role of the Risk Management Committee is to assist management to identify and assess the main risks faced by the Bank in a co-ordinated manner, to assess, identify 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 Committee.** The responsibility of the Investments and Treasury Committee includes the development of new investment and treasury services, interest rate policy, liquidity and the management of the Bank's balance sheet in terms of investments.

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

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

### *Relations with shareholders and the Annual General Meeting*

The Bank maintains good communications with shareholders. Members of the Board, including the Chairman, meet frequently with representatives of the shareholders to discuss their views and to ensure that the strategies and objectives of the Bank are in keeping with these views. Issues discussed include the Bank's performance, the impact of major investments and any corporate governance concerns.

The Annual General Meeting is to be held on 14 April 2005.

### *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 complying 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 to review the bank-wide risks management framework.
- An Internal Audit Unit which reviews key business processes and controls.
- An Audit Committee which approves audit plans and deals with significant control issues raised by internal or external audit.

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

### Directors

The Directors of the Bank are listed on page 3.

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

### STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RELATION TO FINANCIAL STATEMENTS

The Companies Act, 1995 requires the Directors to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the Bank at the end of each financial year and of its profit or loss for the financial year.

The Directors are responsible for ensuring that:

- appropriate accounting policies have been consistently applied and supported by reasonable and prudent 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; and
- account has been taken of income and charges relating to the accounting period, irrespective of the date of receipt or payment.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Bank and which enable them to ensure that the financial statements comply with the Companies Act, 1995 and the Banking Act, 1994. They are also responsible for safeguarding the assets of the Bank and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

### DISCLOSURE IN TERMS OF THE SIXTH SCHEDULE TO THE COMPANIES ACT, 1995

During the year ended 31 December 2004, 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.

### 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  
24 March 2005



C. CURMI  
Director



J.C. CARUANA  
Director



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## REPORT OF THE AUDITORS

### to the members of APS BANK LIMITED

We have audited the financial statements of APS Bank Limited for the year ended 31 December 2004 which comprise the income statement, balance sheet, statement of changes in equity, cash flow statement and the related notes set out on pages 12 to 35.

As described on page 9 the Bank's Directors are responsible for the preparation of the financial statements. It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion to you. We are also required to report whether we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purpose of our audit, whether in our opinion proper books of account have been kept by the Bank so far as appears from our examination thereof and whether the financial statements are in agreement with the books.

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

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

In our opinion, the financial statements give a true and fair view of the financial position of the Bank as at 31 December 2004 and of the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the Companies Act, 1995 and the Banking Act, 1994.

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

Ernst & Young  
Certified Public Accountants  
Regional Business Centre  
Achille Ferris Street  
Msida, MSD 04

24 March 2005

Ernst & Young is a member Practice of Ernst & Young Global.  
Certified Public Accountants  
Partners and Directors: Mario P. Galea, Deo Scerri, Ronald Attard, Emanuel Azzopardi, Walter Cutajar  
Anthony Doublet, George Gregory, Maria Micallef, Christopher J. Naudi



**Financial Statements**  
**2004**

## PROFIT AND LOSS ACCOUNT

for the year ended 31 December 2004

	Notes	2004 Lm'000	2003 Lm'000
Interest receivable and similar income:			
- on loans and advances, balances with Central Bank of Malta and treasury bills	(2)	3,928	3,549
- on debt securities	(2)	6,348	6,053
		<b>10,276</b>	9,602
Interest payable	(3)	<b>(5,086)</b>	(5,381)
<b>Net interest income</b>		<b>5,190</b>	4,221
Dividend income	(4)	82	51
Fees and commissions receivable		331	266
Trading profits	(5)	339	314
Net gains on non-trading financial instruments	(6)	227	179
Other operating income		43	27
<b>Operating income</b>		<b>6,212</b>	5,058
Administrative expenses	(7)	<b>(3,023)</b>	(2,898)
Depreciation	(20)	<b>(679)</b>	(659)
Net impairment losses	(8)	<b>(483)</b>	(179)
		<b>(4,185)</b>	(3,736)
<b>Profit on ordinary activities before taxation</b>	(9)	<b>2,027</b>	1,322
Taxation	(10)	<b>(755)</b>	(486)
<b>Profit for the financial year after taxation</b>		<b>1,272</b>	836
Earnings per share	(12)	<b>6c1</b>	4c6

The accounting policies and explanatory notes on pages 16 to 35 form an integral part of the financial statements.

## BALANCE SHEET

as at 31 December 2004

	Notes	2004 Lm'000	2003 Lm'000
<b>ASSETS</b>			
Cash and balances with Central Bank of Malta	(13)	8,665	8,790
Cheques in course of collection		518	172
Treasury bills	(14)	-	5,550
Debt and other fixed income instruments	(15)	111,592	106,410
Equity and other non-fixed income instruments	(16)	2,105	2,514
Loans and advances to banks	(17)	6,975	3,388
Loans and advances to customers	(18)	76,443	60,204
Tangible fixed assets	(20)	2,765	2,818
Deferred taxation	(21)	737	770
Other assets	(22)	-	34
Prepayments and accrued income	(23)	2,300	2,387
<b>Total Assets</b>		<b>212,100</b>	<b>193,037</b>
<b>LIABILITIES</b>			
Amounts owed to banks	(24)	3,851	2,046
Amounts owed to customers	(25)	189,186	175,112
Other liabilities	(26)	2,044	1,522
Accruals	(27)	1,698	1,821
Subordinated liabilities	(28)	1,400	1,400
<b>Total Liabilities</b>		<b>198,179</b>	<b>181,901</b>
<b>SHAREHOLDERS' FUNDS</b>			
Called up share capital	(29)	6,000	5,000
Share premium account	(30)	760	760
Other reserves	(31)	175	175
Revaluation reserve	(32)	1,311	581
Profit and loss account		5,402	4,403
Dividend reserve		273	217
<b>Total Liabilities and Shareholders' Funds</b>		<b>212,100</b>	<b>193,037</b>
<b>MEMORANDUM ITEMS</b>			
Contingent liabilities	(33)	967	1,406
Commitments	(34)	39,462	39,415

The accounting policies and explanatory notes on pages 16 to 35 form an integral part of the financial statements.

The financial statements on pages 12 to 15 were authorised for issue by the Board of Directors on 24 March 2005 and were signed by:



E. P. Delia  
Chairman



C. Curmi  
Director



J.C. Caruana  
Director



E. Cachia  
Chief Executive Officer

## STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2004

Note	Called-up Share Capital Lm'000	Share Premium Account Lm'000	Revaluation Reserve Lm'000	Other Reserves Lm'000	Dividend Reserve Lm'000	Profit and Loss Account Lm'000	Total Lm'000
<b>FINANCIAL YEAR ENDED 31 DECEMBER 2003</b>							
At 1 January 2003	4,000	760	211	675	147	3,784	9,577
Increase in ordinary share capital	500	-	-	-	-	-	500
Net increase in unrealised revaluation reserve on available- for-sale assets and equities not recognised in the profit and loss account	-	-	444	-	-	-	444
Released on disposal	-	-	(74)	-	-	-	(74)
Transferred to profit and loss account	-	-	-	(500)	-	500	-
Bonus issue	500	-	-	-	-	(500)	-
Profit for the year after taxation	-	-	-	-	-	836	836
Dividends paid	-	-	-	-	(147)	-	(147)
Dividends, net after taxation (11)	-	-	-	-	217	(217)	-
Balance at 31 December 2003	5,000	760	581	175	217	4,403	11,136
<b>FINANCIAL YEAR ENDED 31 DECEMBER 2004</b>							
At 1 January 2004	5,000	760	581	175	217	4,403	11,136
Increase in ordinary share capital	1,000	-	-	-	-	-	1,000
Net increase in unrealised revaluation reserve on available- for-sale assets and equities not recognised in the profit and loss account	-	-	878	-	-	-	878
Released on disposal	-	-	(148)	-	-	-	(148)
Profit for the year after taxation	-	-	-	-	-	1,272	1,272
Dividends paid	-	-	-	-	(217)	-	(217)
Dividends, net after taxation (11)	-	-	-	-	273	(273)	-
Balance at 31 December 2004	6,000	760	1,311	175	273	5,402	13,921

The accounting policies and explanatory notes on pages 16 to 35 form an integral part of the financial statements.

## CASH FLOW STATEMENT

for the year ended 31 December 2004

	Note	2004 Lm'000	2003 Lm'000
<b>Cash flows from operating activities</b>			
Interest and commission receipts		4,548	4,498
Interest and commission payments		(5,209)	(5,125)
Cash paid to employees and suppliers		(2,800)	(2,930)
<b>Operating loss before changes in operating assets and liabilities</b>		<b>(3,461)</b>	<b>(3,557)</b>
<b>(Increase)/decrease in operating assets</b>			
Loans and advances		(16,822)	(11,899)
Reserve deposit with Central Bank of Malta		(464)	(1,032)
Cheques in course of collection		(346)	315
Other assets		40	(34)
<b>Increase/(decrease) in operating liabilities</b>			
Amounts owed to customers		14,074	27,676
Other liabilities		64	824
<b>Cash (used in)/generated from operating activities before taxation (6,915)</b>		<b>12,293</b>	
Tax paid		(728)	(361)
Tax refunded		160	-
<b>Net cash (used in)/from operating activities</b>		<b>(7,483)</b>	<b>11,932</b>
<b>Cash flows from/(used in) investing activities</b>			
Dividends received		82	51
Interest income from investment securities		7,457	6,396
Purchase of held-to-maturity and loans and receivables debt security instruments		(469)	(3,669)
Proceeds on maturity of held-to-maturity and loans and receivables debt security instruments		4,413	2,491
Purchase of available-for-sale debt security instruments		(13,651)	(18,963)
Proceeds on disposal of available-for-sale debt security instruments		4,065	4,230
Purchase of equity and other non-fixed income instruments		(165)	(1,025)
Proceeds on disposal of equity and other non-fixed income instruments		1,154	-
Purchase of tangible fixed assets		(708)	(899)
Proceeds on disposal of tangible fixed assets		20	-
<b>Net cash from/(used in) investing activities</b>		<b>2,198</b>	<b>(11,388)</b>
<b>Cash flows from financing activities</b>			
Increase in share capital		1,000	500
Dividends paid		(217)	(147)
<b>Net cash from financing activities</b>		<b>783</b>	<b>353</b>
<b>(Decrease)/increase in cash and cash equivalents</b>		<b>(4,502)</b>	<b>897</b>
<b>Cash and cash equivalents at beginning of year</b>		<b>8,725</b>	<b>7,828</b>
<b>Cash and cash equivalents at end of year</b>	(35)	<b>4,223</b>	<b>8,725</b>

The accounting policies and explanatory notes on pages 16 to 35 form an integral part of the financial statements.

## NOTES TO THE FINANCIAL STATEMENTS

### I. PRINCIPAL ACCOUNTING POLICIES

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

#### **Basis of preparation**

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

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

#### **Revenue recognition**

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

##### *Interest income*

Interest income is recognised in the profit and loss account as it accrues, unless collectibility is in doubt. Interest on doubtful loans and advances is classified as interest in suspense when there is uncertainty about its collectibility and is excluded from income until it is received.

##### *Fee income*

Fee income is accounted for in the period when receivable, except where the fee 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, the fee is recognised on an appropriate basis over the relevant period.

##### *Dividend income*

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

#### **Foreign currency translation**

Transactions denominated in foreign currencies are translated into Maltese Liri at the rates of exchange ruling on the transaction date. Monetary assets and liabilities denominated in foreign currencies are translated into Maltese Liri at the rates of exchange ruling at the balance sheet date. Gains and losses arising from such translation are dealt with in the profit and loss account.

#### **Loans and advances and doubtful debts**

Loans and advances are stated after deduction of specific and general provisions for doubtful debts. Specific provisions have been made in respect of all identified impaired advances. The amount of specific allowances represents the difference between the carrying amount and the estimated recoverable amount. The general provision is maintained in respect of losses which, although not yet specifically identified, are known from experience to be present and are inherent in any portfolio of bank loans and advances.

The aggregate provisions which are made during the year are charged against profit before income tax, while amounts realised and recoveries of debts previously written off are added to profit.

Bad debts are written off in whole or in part when the extent of the loss incurred has been confirmed and where appropriate are then removed from the amount included in the specific provision.

#### **Financial instruments**

Originated loans and receivables are loans and receivables created by the Bank providing money directly to a debtor, other than those created with the intention of short-term profit taking.



Held-to-maturity assets are financial assets with fixed or determinable payments and fixed maturity that the Bank has the intent and ability to hold to maturity.

Available-for-sale assets are financial assets that are not held for trading purposes, originated by the Bank, or held-to-maturity.

All investments are initially recognised at cost, being the fair value of the consideration given and includes acquisition charges associated with the investment.

After initial recognition, investments which are classified as available-for-sale are measured at fair value, without any deduction for transaction costs that it may incur on sale or other disposal. Unrealised gains or losses on available-for-sale securities are reported as a separate component of equity until the investment is sold, collected or otherwise disposed of, 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.

Originated loans and receivables and held-to-maturity assets, are subsequently measured at amortised cost. Amortised cost is calculated by taking into account any discount or premium on acquisition, over the period to maturity. Amortised cost is calculated on the effective interest rate method. For investments carried at amortised cost, any gain or loss is recognised in the income statement when the investment is derecognised or impaired, as well as through the amortisation process.

For investments actively traded in organised financial markets, fair value is generally determined by reference to Stock Exchange quoted market bid prices at the close of business on the balance sheet date. For investments where there is no quoted market price, a reasonable estimate of the fair value is determined by reference to the current market value of another instrument which is substantially the same or is calculated based on the expected cash flows of the underlying net asset base of the instrument. Unlisted investments are carried at cost net of provision for diminution in value where fair value cannot be reliably measured.

### Trade and settlement date accounting

All “regular way” purchases and sales of financial assets are recognised on the “trade date”, i.e. the date that the entity 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 time frame generally established by regulation or convention in the market place.

### Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost less accumulated depreciation. Depreciation is calculated on the straight line basis so as to write off the cost of each asset 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.

In the case of freehold premises, it is the Bank’s policy to maintain properties in such condition, that their value taken as a whole, is not impaired by the passage of time. Such expenditure is charged to the profit and loss account in the year in which it is committed.

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### I. PRINCIPAL ACCOUNTING POLICIES (Continued)

#### Dividends payable

Dividends payable on ordinary shares are recognised in the period in which they are declared.

#### Deferred taxation

In accordance with IAS 12 Income Taxes, deferred taxation is determined under the liability method in respect of all material temporary differences between the carrying amount of an asset or liability in the balance sheet and its tax base. Deferred tax assets are recognised only to the extent that future taxable profits will be available such that realisation of the related tax benefit is probable.

#### Retirement benefit costs

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

#### Cash and cash equivalents

Cash and cash equivalents comprise:

- (i) cash in hand and deposits repayable on call or short notice or with a contractual period to maturity of less than three months, with any bank or financial institution;
- (ii) short term highly liquid investments which are readily convertible into known amounts of cash without notice, subject to an insignificant risk of changes in value and with a contractual period of maturity of less than three months; and
- (iii) advances from banks repayable within three months from the date of the advance.

### 2. INTEREST RECEIVABLE AND SIMILAR INCOME

	2004 Lm'000	2003 Lm'000
On loans and advances to banks	88	62
On loans and advances to customers	3,465	2,992
On balances with Central Bank of Malta	247	261
On treasury bills	128	234
	<b>3,928</b>	<b>3,549</b>
On debt securities	6,844	6,478
Amortisation of premium/discount	(496)	(425)
	<b>6,348</b>	<b>6,053</b>
	<b>10,276</b>	<b>9,602</b>

### 3. INTEREST PAYABLE

	2004 Lm'000	2003 Lm'000
On deposits by banks	51	58
On customer accounts	4,930	5,218
On subordinated liabilities	105	105
	<b>5,086</b>	<b>5,381</b>

### 4. DIVIDEND INCOME

	2004 Lm'000	2003 Lm'000
From equity shares	82	51

### 5. TRADING PROFITS

	2004 Lm'000	2003 Lm'000
Profit on foreign exchange activities	339	314

### 6. NET GAINS ON NON-TRADING FINANCIAL INSTRUMENTS

	2004 Lm'000	2003 Lm'000
Realised gains on disposal of available-for-sale instruments	227	179

### 7. ADMINISTRATIVE EXPENSES

	2004 Lm'000	2003 Lm'000
Staff costs:		
- wages and salaries	1,421	1,258
- social security costs	102	88
Other administrative expenses	1,500	1,552
	<b>3,023</b>	<b>2,898</b>

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 8. NET IMPAIRMENT LOSSES

	2004 Lm'000	2003 Lm'000
Write-downs:		
Investments in available for sale debt and other fixed income instruments	-	249
Loans and advances to customers:		
- general provision	25	100
- specific provisions	700	329
- bad debts written off	45	53
	<hr/> 770	<hr/> 731
Reversal of write-downs:		
Loans and advances to customers:		
- specific provisions	(287)	(552)
Net impairment losses	<hr/> 483	<hr/> 179

### 9. PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

	2004 Lm'000	2003 Lm'000
Profit on ordinary activities before income tax is stated after charging:		
Auditors' remuneration	7	7
Directors' emoluments		
- fees	35	34
- other emoluments	2	4

## 10. TAXATION

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

	<b>2004</b> <b>Lm'000</b>	<b>2003</b> <b>Lm'000</b>
Current taxation: Malta income tax on taxable profit at 35%	<b>810</b>	533
Net deferred tax movement relating to the origination and reversal of temporary differences	<b>(55)</b>	(47)
	<b>755</b>	<b>486</b>

The taxation on profit on ordinary activities differs from the theoretical taxation expense that would apply on the company's profit on ordinary activities before taxation using the applicable rate in Malta of 35% (2003:35%) as follows:

	<b>2004</b> <b>Lm'000</b>	<b>2003</b> <b>Lm'000</b>
Profit on ordinary activities before taxation	<b>2,027</b>	1,322
Theoretical taxation expense at 35%	<b>709</b>	463
Tax effect of:		
- Depreciation charges not deductible by way of capital allowance	<b>(60)</b>	14
- Expenses not allowed for taxation purposes	<b>117</b>	33
- Non deductible expenses	<b>(11)</b>	(24)
Taxation on profit on ordinary activities	<b>755</b>	<b>486</b>

## 11. DIVIDENDS

	<b>2004</b> <b>Lm'000</b>	<b>2003</b> <b>Lm'000</b>	<b>2004</b> <b>%</b>	<b>2003</b> <b>%</b>
Proposed final gross of income tax	<b>420</b>	333	<b>7.00</b>	6.67

	<b>2004</b> <b>Lm'000</b>	<b>2003</b> <b>Lm'000</b>	<b>2004</b> <b>Cents per share</b>	<b>2003</b> <b>Cents per share</b>
Proposed final net of income tax	<b>273</b>	217	<b>1.1375</b>	1.0850

## 12. EARNINGS PER SHARE

The earnings per share of 6c1 (2003: 4c6) have been calculated on the profits attributable to shareholders after taxation as shown in the income statements, divided by the number of shares in issue during the year.

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 13. CASH AND BALANCES WITH CENTRAL BANK OF MALTA

	2004 Lm'000	2003 Lm'000
Cash in hand	1,212	1,039
Balances with Central Bank of Malta	32	794
Reserve deposit with Central Bank of Malta	7,421	6,957
	<b>8,665</b>	<b>8,790</b>

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

### 14. TREASURY BILLS

	2004 Lm'000	2003 Lm'000
Issued by the Government of Malta	-	5,550

The treasury bills are all held for investment purposes. The market value of the treasury bills does not differ significantly from their carrying value.

### 15. DEBT AND OTHER FIXED INCOME INSTRUMENTS

	2004 Lm'000	2003 Lm'000
Loans and receivables	48,362	48,369
Held-to-maturity	29,180	32,861
Available-for-sale	34,299	25,429
Less impairment on available-for-sale	(249)	(249)
	<b>111,592</b>	<b>106,410</b>
<b>Loans and receivables</b>		
Issued by public bodies:		
- local government securities	45,427	45,447
- foreign government securities	26	-
	<b>45,453</b>	<b>45,447</b>
Issued by other issuers:		
- local banks	675	689
- local others	2,234	2,233
	<b>2,909</b>	<b>2,922</b>
Total loans and receivables	<b>48,362</b>	<b>48,369</b>

	2004 Lm'000	2003 Lm'000
<b>Held-to-maturity</b>		
Issued by public bodies:		
- local government	25,135	27,567
- foreign government	482	-
	<b>25,617</b>	<b>27,567</b>
Issued by other issuers:		
- local banks	994	997
- foreign banks	1,647	2,791
- foreign others	756	1,340
- local other	166	166
	<b>3,563</b>	<b>5,294</b>
<b>Total Held-to-maturity</b>	<b>29,180</b>	<b>32,861</b>
<b>Available-for-sale</b>		
Issued by public bodies:		
- local government	4,403	4,571
- foreign government	4,323	655
	<b>8,726</b>	<b>5,226</b>
Issued by other issuers:		
- local banks	298	161
- foreign banks	8,654	6,627
- foreign others	16,197	12,993
- local others	175	173
	<b>25,324</b>	<b>19,954</b>
<b>Total Available-for-sale</b>	<b>34,050</b>	<b>25,180</b>
<b>Total debt securities</b>	<b>111,592</b>	<b>106,410</b>
Analysed by remaining period to maturity:		
- over 5 years	61,092	68,598
- 5 years or less but over 1 year	42,914	32,298
- 1 year or less but over 3 months	6,366	4,913
- 3 months or less	1,220	601
	<b>111,592</b>	<b>106,410</b>

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 15. DEBT AND OTHER FIXED INCOME INSTRUMENTS (continued)

	2004 Lm'000	2003 Lm'000
Analysed by currency:		
- Maltese Liri	79,041	81,491
- foreign	32,551	24,919
	<b>111,592</b>	<b>106,410</b>
Unamortised premiums on debt and other fixed income instruments	<b>2,233</b>	<b>2,779</b>
Listing status:		
- listed on Malta Stock Exchange	79,508	82,003
- listed elsewhere	32,084	24,407
	<b>111,592</b>	<b>106,410</b>
Movement in debt and other fixed income instruments		
		<b>Cost and carrying value Lm'000</b>
At 1 January 2004		<b>106,410</b>
Redemption and disposals		<b>(8,478)</b>
Acquisitions		<b>14,120</b>
Amortisation		<b>(496)</b>
Increase in fair values		<b>244</b>
Exchange adjustments		<b>(208)</b>
At 31 December 2004		<b>111,592</b>



## 16. EQUITY AND OTHER NON-FIXED INCOME INSTRUMENTS

### Available-for-sale

	2004 Lm'000	2003 Lm'000
Listed on Malta Stock Exchange	2,105	2,514

### Movement in equity and other non-fixed income instruments

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

## 17. LOANS AND ADVANCES TO BANKS

	2004 Lm'000	2003 Lm'000
Repayable on call and at short notice	920	1,190
Term loans and advances	6,055	2,198
	6,975	3,388

### Remaining maturity of term loans and advances

- 1 year or less but over 3 months	145	-
- 3 months or less	5,910	2,198
	6,055	2,198

### Analysed by currency:

- Maltese Liri	570	553
- foreign	6,405	2,835
	6,975	3,388

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 18. LOANS AND ADVANCES TO CUSTOMERS

	2004 Lm'000	2003 Lm'000
Repayable on call and at short notice	19,124	18,016
Term loans and advances	59,509	43,916
	<b>78,633</b>	61,932
Less impairment	(1,874)	(1,436)
Less interest in suspense	(316)	(292)
	<b>76,443</b>	60,204
Remaining maturity of term loans and advances:		
- over 5 years	20,761	14,338
- 5 years or less but over 1 year	22,614	16,839
- 1 year or less but over 3 months	12,262	3,310
- 3 months or less	3,872	9,429
	<b>59,509</b>	43,916
Impairment:		
- specific	1,182	769
- general	692	667
	<b>1,874</b>	1,436
Analysed by currency:		
- Maltese Liri	78,102	61,495
- foreign	531	437
	<b>78,633</b>	61,932

The aggregate amount of advances on which interest is reserved is Lm2,693,816 (2003 : Lm2,530,666) gross of provisions against which Lm1,106,169 (2003 : Lm644,306) is being provided for after taking into account the extendible value of security backing such loans and advances.

## 19. CONCENTRATION OF LOANS AND ADVANCES

	2004 Lm'000	2003 Lm'000
The following industry concentrations, gross of provisions, are considered significant:		
Agriculture	1,228	1,188
Fishing	107	109
Manufacturing	4,200	4,013
Electricity, gas and water supply	7,294	2,431
Construction	8,490	8,249
Wholesale and retail trade; repairs	7,239	7,646
Hotels and restaurants, excluding related construction activities	3,497	801
Transport, storage and communication	2,792	4,060
Financial intermediation	1,719	180
Real estate, renting and business	1,884	1,898
Public administration	915	1,064
Education	4,986	3,319
Health and social work	21	7
Community, recreational and personal service activities	868	1,018
Households and individuals	33,393	25,949
	<b>78,633</b>	<b>61,932</b>

## 20. TANGIBLE FIXED ASSETS

	Land and buildings Lm'000	Computer equipment Lm'000	Other Lm'000	Total Lm'000
<b>Year ended 31 December 2004</b>				
Opening net book amount	1,635	686	497	2,818
Additions	159	64	405	628
Disposals	(2)	-	-	(2)
Depreciation charge	(33)	(474)	(172)	(679)
<b>Closing net book amount</b>	<b>1,759</b>	<b>276</b>	<b>730</b>	<b>2,765</b>
<b>As at 31 December 2004</b>				
Cost	1,986	2,224	1,972	6,182
Provision for depreciation	(227)	(1,948)	(1,242)	(3,417)
<b>Net book amount</b>	<b>1,759</b>	<b>276</b>	<b>730</b>	<b>2,765</b>
<b>As at 31 December 2003</b>				
Cost	1,829	2,160	1,567	5,556
Provision for depreciation	(194)	(1,474)	(1,070)	(2,738)
<b>Net book amount</b>	<b>1,635</b>	<b>686</b>	<b>497</b>	<b>2,818</b>
	<b>2004 Lm'000</b>	<b>2003 Lm'000</b>		
Future capital expenditure:				
- contracted but not provided for in the financial statements	47	-		
- authorised by the directors but not contracted	4,313	4,380		
	<b>4,360</b>	<b>4,380</b>		

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 21. DEFERRED TAXATION

	2004 Lm'000	2003 Lm'000
The deferred tax asset arises as a consequence of temporary differences resulting from:		
Fair value movements in investment securities	(72)	16
Provisions for bad and doubtful debts	743	627
Excess of capital allowances over depreciation	66	127
	<b>737</b>	<b>770</b>

### 22. OTHER ASSETS

	2004 Lm'000	2003 Lm'000
Property held for resale	-	34

### 23. PREPAYMENTS AND ACCRUED INCOME

	2004 Lm'000	2003 Lm'000
Accrued income	2,207	2,283
Other	93	104
	<b>2,300</b>	<b>2,387</b>

### 24. AMOUNTS OWED TO BANKS

	2004 Lm'000	2003 Lm'000
With agreed maturity dates or periods of notice, by remaining maturity:		
- 3 months or less but not repayable on demand	<b>3,851</b>	<b>2,046</b>
Analysed by currency:		
- Maltese Liri	2,852	1,929
- foreign	999	117
	<b>3,851</b>	<b>2,046</b>

## 25. AMOUNTS OWED TO CUSTOMERS

	2004 Lm'000	2003 Lm'000
With agreed maturity dates or periods of notice, by remaining maturity:		
- over 5 years	3,660	2,805
- 5 years or less but over 1 year	31,346	34,312
- 1 year or less but over 3 months	52,507	45,284
- 3 months or less but not repayable on demand	53,557	37,250
	<b>141,070</b>	<b>119,651</b>
Repayable on demand	48,116	55,461
	<b>189,186</b>	<b>175,112</b>
Analysed by currency:		
- Maltese Liri	151,375	147,822
- foreign	37,811	27,290
	<b>189,186</b>	<b>175,112</b>

## 26. OTHER LIABILITIES

	2004 Lm'000	2003 Lm'000
Bills payable	1,676	1,384
Taxation	268	15
Other liabilities	100	123
	<b>2,044</b>	<b>1,522</b>

## 27. ACCRUALS

	2004 Lm'000	2003 Lm'000
Accrued interest	1,328	1,402
Other accruals	370	419
	<b>1,698</b>	<b>1,821</b>

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 28. SUBORDINATED LIABILITIES

	2004 Lm'000	2003 Lm'000
7.5% Subordinated Unsecured Loan Stock	1,400	1,400

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

### 29. SHARE CAPITAL

	2004 Lm'000	2003 Lm'000
<b>Authorised</b> 50,000,000 (2003: 50,000,000) ordinary shares of Lm0.25 each	12,500	12,500
<b>Issued, called up and fully paid up</b> 24,000,000 (2003: 20,000,000) ordinary shares of Lm0.25 each	6,000	5,000

### 30. SHARE PREMIUM ACCOUNT

	2004 Lm'000	2003 Lm'000
Balance at beginning and end of year	760	760

### 31. OTHER RESERVES

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

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

### 32. REVALUATION RESERVE

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

### 33. CONTINGENT LIABILITIES

	2004 Lm'000	2003 Lm'000
Guarantees	884	1,025
Other contingent liabilities	83	381
	<b>967</b>	<b>1,406</b>

### 34. COMMITMENTS

	2004 Lm'000	2003 Lm'000
Undrawn formal standby facilities, credit facilities and other commitments to lend	<b>39,462</b>	<b>39,415</b>

### 35. CASH AND CASH EQUIVALENTS

	2004 Lm'000	2003 Lm'000
Analysis of balances of cash and cash equivalents as shown in the cash flow statement:		
Cash in hand	1,212	1,039
Balances with Central Bank of Malta (excluding reserve deposits)	32	794
Treasury bills	-	5,550
Loans and advances to banks	6,830	3,388
Amounts owed to banks	(3,851)	(2,046)
	<b>4,223</b>	<b>8,725</b>

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

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

	2004 Lm'000	2003 Lm'000
Assets	<b>39,921</b>	29,303
Liabilities	<b>38,477</b>	27,586

### 37. SEGMENTAL INFORMATION

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

### 38. RELATED PARTY TRANSACTIONS

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



### 39. GENERAL

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

	<b>2004 Loans and advances Lm'000</b>	<b>2004 Commitments Lm'000</b>	<b>2003 Loans and advances Lm'000</b>	<b>2003 Commitments Lm'000</b>
<b>Directors</b>				
1 January	46	11	32	13
Additions	40	2	19	1
	86	13	51	14
Less repayments/cancellations and reclassifications	(36)	(1)	(5)	(3)
<b>31 December</b>	<b>50</b>	<b>12</b>	<b>46</b>	<b>11</b>
<b>Officers</b>				
1 January	505	44	326	42
Additions	192	49	260	3
	697	93	586	45
Less repayments/cancellations	(143)	(28)	(81)	(1)
<b>31 December</b>	<b>554</b>	<b>65</b>	<b>505</b>	<b>44</b>

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

	<b>2004 Number of employees</b>	<b>2003 Number of employees</b>
Managerial	31	28
Supervisory and clerical	122	109
Others	13	13
	<b>166</b>	<b>150</b>

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 40. FINANCIAL INSTRUMENTS

#### Financial risk management

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

#### Fair values

The reporting of fair values is intended to guide users as to the amount, timing and certainty of cash flows.

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

All the Bank's listed equities are carried in the balance sheet at market value. Debt securities which are classified as available-for-sale investments are also carried in the balance sheet at market value. However, investments classified as loans and receivables and debt securities classified as held-to-maturity investments are carried in the balance sheet at amortised cost. At the balance sheet date the amortised cost of these assets amounted to Lm77.5million, whereas their market value amounted to Lm87.4million.

Loans and advances to customers are stated at the amounts contractually due less provisions to reflect the expected recoverable amounts.

Amounts owed to customers are mainly deposit liabilities. Amounts due on demand at the balance sheet date are shown at fair value. Similarly, the Directors consider that other amounts due to customers subject to a specified maturity, which are shown at amounts contracted, reflect the fair value of the cash amounts that are due to customers.

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

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

#### Currency risk

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

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

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

#### Interest rate risk

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

#### ***Interest rate risk (continued)***

Changes in local interest rates are monitored constantly by management and corrective action taken by realigning the maturities of and re-pricing the assets and liabilities. The Bank does not have significant exposure to foreign interest rate movements.

#### ***Credit risk***

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

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

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

Decisions on loans and advances to customers are subject to approval limits involving various levels of management of the Bank. Loans and advances to customers are generally backed by security usually in the form of property, personal or bank guarantees. The security held is subject to periodic review to ensure that it remains adequate and valid.

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

#### ***Liquidity risk***

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

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

## **41. COMPARATIVE FIGURES**

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

**SOLVENCY RATIO**

as at 31 December 2004

	<b>Book Value Lm'000</b>	<b>Weighted Amount Lm'000</b>
<b>ON - BALANCE SHEET ASSETS</b>		
Cash and balances with Central Bank of Malta	1,244	-
Reserve deposit with Central Bank of Malta	7,421	-
Cheques in course of collection	518	104
Debt and other fixed income instruments	111,592	22,571
Equity and other non fixed income instruments	2,105	2,105
Loans and advances to banks	6,975	1,395
Loans and advances to customers*	77,135	36,930
Tangible fixed assets	2,765	2,765
Deferred taxation	737	737
Prepayments and accrued income	2,300	1,150
<b>Total Assets</b>	<b>212,792</b>	<b>67,757</b>

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

	<b>Book Value Lm'000</b>	<b>Weighted Amount Lm'000</b>
<b>OFF - BALANCE SHEET ITEMS</b>		
Contingent liabilities:		
-Guarantees	884	884
-Other contingent liabilities	83	75
Commitments	39,462	-
	<b>40,429</b>	<b>959</b>

**OWN FUNDS**

	<b>Lm'000</b>
Original own funds	12,337
Additional own funds	692
Subordinated liabilities	700
<b>Total own funds</b>	<b>13,729</b>

**Solvency Ratio****19.98**

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

## THE BANK'S FIVE YEAR SUMMARY – PROFIT AND LOSS ACCOUNTS

	2004 Lm'000	2003 Lm'000	2002 Lm'000	2001 Lm'000	2000 Lm'000
INTEREST RECEIVABLE AND SIMILAR INCOME	10,276	9,602	8,689	7,966	6,684
INTEREST PAYABLE	(5,086)	(5,381)	(5,337)	(5,071)	(4,346)
<b>NET INTEREST INCOME</b>	5,190	4,221	3,352	2,895	2,338
OTHER OPERATING INCOME	1,022	837	746	1,440	1,578
TOTAL OPERATING INCOME	6,212	5,058	4,098	4,335	3,916
OTHER OPERATING CHARGES	(3,702)	(3,557)	(3,137)	(2,599)	(2,079)
NET IMPAIRMENT LOSSES	(483)	(179)	(54)	(584)	(530)
<b>PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION</b>	2,027	1,322	907	1,152	1,307
TAXATION	(755)	(486)	(337)	(121)	(375)
<b>PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION</b>	1,272	836	570	1,031	932
<b>EARNINGS PER SHARE*</b>	6c1	4c6	4c7	12c9	11c7

\*The earnings per share figures in respect of the years 2000 to 2002 have been adjusted retrospectively to reflect the increase in the number of ordinary shares following a bonus issue which occurred during 2003.

**THE BANK'S FIVE YEAR SUMMARY - BALANCE SHEETS**

	2004 Lm'000	2003 Lm'000	2002 Lm'000	2001 Lm'000	2000 Lm'000
<b>ASSETS</b>					
Cash and balances with Central Bank of Malta	1,244	1,833	1,407	3,497	1,527
Reserve deposit with Central Bank of Malta	7,421	6,957	5,925	4,897	5,259
Cheques in course of collection	518	172	487	549	952
Treasury bills	-	5,550	2,082	964	3,428
Debt and other fixed income instruments	111,592	106,410	91,663	84,202	62,831
Equity and other non-fixed income instruments	2,105	2,514	1,270	1,234	5,787
Loans and advances to banks	6,975	3,388	4,560	2,910	6,286
Loans and advances to customers	76,443	60,204	48,174	35,993	31,151
Tangible fixed assets	2,765	2,818	2,624	2,697	2,375
Current and deferred taxation	737	770	829	701	480
Other assets	-	34	-	-	-
Prepayments and accrued income	2,300	2,387	1,879	1,812	1,352
	212,100	193,037	160,900	139,456	121,428
<b>LIABILITIES</b>					
Amounts owed to banks	3,851	2,046	221	4,337	-
Amounts owed to customers	189,186	175,112	147,437	124,218	109,486
Other liabilities	2,044	1,522	684	1,176	1,316
Accruals and deferred income	1,698	1,821	1,581	1,624	1,547
Subordinated liabilities	1,400	1,400	1,400	1,400	1,900
	198,179	181,901	151,323	132,755	114,249
<b>SHAREHOLDERS' FUNDS</b>					
Called up share capital	6,000	5,000	4,000	1,500	1,500
Share premium account	760	760	760	760	760
Other reserves	175	175	675	675	675
Revaluation reserve	1,311	581	211	287	1,680
Profit and loss account	5,402	4,403	3,784	3,362	2,564
Dividend reserve	273	217	147	117	-
	13,921	11,136	9,577	6,701	7,179
<b>TOTAL LIABILITIES AND SHAREHOLDERS' FUND</b>	212,100	193,037	160,900	139,456	121,428
<b>MEMORANDUM ITEMS</b>					
Contingent liabilities	967	1,406	966	840	728
Commitments	39,462	39,415	27,531	18,584	8,775
	40,429	40,821	28,497	19,424	9,503

## THE BANK'S FIVE YEAR SUMMARY – CASH FLOW STATEMENTS

	2004 Lm'000	2003 Lm'000	2002 Lm'000	2001 Lm'000	2000 Lm'000
<b>Net cash flows (used in)/from operating activities</b>	(7,483)	11,932	5,125	6,138	10,970
<b>Cash flows from/(used in) investing activities</b>					
Dividends received from equity shares	82	51	46	28	23
Interest income from investment securities	7,457	6,396	6,163	4,155	3,199
Purchase of debt and other fixed income instruments	(14,120)	(22,632)	(12,301)	(26,187)	(15,396)
Proceeds on maturity and disposal of debt and other fixed income instruments	8,478	6,721	4,371	4,749	3,437
Purchase of equity and other non fixed income instruments	(165)	(1,025)	(328)	-	(1,484)
Proceeds on disposal of equity and other non fixed income instruments	1,154	-	81	3,911	2,289
Purchase of tangible fixed assets	(708)	(899)	(746)	(374)	(447)
Proceeds on disposal of tangible fixed assets	20	-	-	-	-
<b>Net cash from/(used in) investing activities</b>	2,198	(11,388)	(2,714)	(13,718)	(8,379)
<b>Cash flows from/(used in) financing activities</b>					
Increase in share capital	1,000	500	2,500	-	-
Ordinary dividends paid	(217)	(147)	(117)	(117)	(117)
Repayment of subordinated loan stock	-	-	-	(510)	-
<b>Net cash from/(used in) financing activities</b>	783	353	2,383	(627)	(117)
<b>(Decrease)/increase in cash and cash equivalents</b>	(4,502)	897	4,794	(8,207)	2,474
<b>Cash and cash equivalents at 1 January</b>	8,725	7,828	3,034	11,241	8,767
<b>Cash and cash equivalents at 31 December</b>	4,223	8,725	7,828	3,034	11,241

## THE BANK'S FIVE YEAR SUMMARY - ACCOUNTING RATIOS

	2004 %	2003 %	2002 %	2001 %	2000 %
<b>Net interest income and other operating income to total assets</b>	<b>2.9</b>	2.6	2.5	3.1	3.2
<b>Operating expenses to total assets</b>	<b>2.0</b>	1.9	2.0	2.3	2.1
<b>Profit before taxation to total assets</b>	<b>1.0</b>	0.7	0.6	0.8	1.1
<b>Return on capital employed before taxation*</b>	<b>16.1</b>	12.5	9.7	18.0	23.8
<b>Profit after taxation to equity*</b>	<b>10.1</b>	7.9	6.1	16.1	16.9
	<b>2004</b>	<b>2003</b>	<b>2002</b>	<b>2001</b>	<b>2000</b>
<b>Shares in issue of 25c each (thousands)</b>	<b>24,000</b>	20,000	16,000	6,000	6,000
<b>Net assets per share (cents)*</b>	<b>53</b>	53	59	107	92
<b>Earnings per share (cents)**</b>	<b>6c1</b>	4c6	4c7	12c9	11c7
<b>Dividends per share (cents)</b>					
Gross	1c8	1c7	1c4	3c	3c
Net	1c1	1c1	0c9	1c9	1c9
<b>Dividend cover</b>	<b>4.7</b>	3.9	3.9	8.8	8.0

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

\*\* Earnings per share is calculated on the weighted average number of shares in issue during the year, and, in respect of the years 2000 to 2002, have been adjusted retrospectively to reflect the increase in the number of ordinary shares following a bonus issue which occurred during 2003.