

Debt Issuance Programme

Dated 10 June 2010



Izola Bank p.l.c. a public limited liability company registered under the laws of Malta with company registration number C16343 and with registered office situated at 53/58 East Street, Valletta VLT 1251 as Issuer of :

€27,000,000 Debt Issuance Programme

Application has been made to the Listing Authority in Malta which is the Maltese competent authority for the purposes of the Prospectus Directive for the approval of this Prospectus.

Application has also been made to the Malta Stock Exchange for the Notes issued under the Programme to be admitted to trading on the Malta Stock Exchange's regulated market and to be listed on the official list of the Malta Stock Exchange.

See "*Risk Factors*" for a discussion of certain factors which should be considered by prospective investors in connection with an investment in any of the Notes. This Debt Issuance Programme constitutes a base prospectus for the purposes of Article 5.4 of the Prospectus Directive.

Approved by the Directors

A handwritten signature in black ink, appearing to be 'AM', written over a horizontal line.

Andrew Mifsud
on behalf of

Magdalena de Roeck, Countess A d'Oultremont, Peter Van Marcke, Frederick E Amato-Gauci,
Joseph Caruana, Charles Hertogs, John Melillo and Patrick H Van Leynseele

SPONSOR



LEGAL COUNSEL



SECURITY TRUSTEE



REGISTRAR



This Prospectus has been filed with the Listing Authority and will be published in electronic form on the website of the Listing Authority and of the Issuer, and in printed form, free of charge, at the offices of the Issuer.

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Responsibility Statement

The Issuer, with its registered office in Malta, is solely responsible for the information given in this Prospectus. The Issuer hereby declares that, having taken reasonable care to ensure that such is the case, the information contained in this Prospectus for which it is responsible is, to the best of its knowledge, in accordance with the facts and contains no omission likely to affect its import.

Notice

This Prospectus should be read and construed in conjunction with the Reference Documents. Full information on the Issuer and any tranche of Notes is only available on the basis of the Prospectus, as supplemented from time to time, together with the Reference Documents, and the applicable Final Terms.

The Issuer confirms that this Prospectus contains all information with respect to the Issuer and the Notes which is material in the context of the Programme and the issue and offering of the Notes thereunder; that the information contained herein in respect of the Issuer and the Notes is accurate in all material respects and is not misleading; that any opinions and intentions expressed herein are honestly held and based on reasonable assumptions; that there are no other facts, the omission of which would make any statement, whether fact or opinion, in this Prospectus misleading in any material respect; and that all reasonable enquiries have been made to ascertain all facts and to verify the accuracy of all statements contained herein.

The Listing Authority accepts no responsibility for the contents of this Prospectus, makes no representations as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this Prospectus.

No person has been authorised to give any information which is not contained or consistent with this Prospectus or any other document entered into in relation to the Programme or any information supplied by the Issuer or such other information in the public domain and, if given or made, such information must not be relied upon as having been authorised by the Issuer.

None of the advisers or any person mentioned in this Prospectus, other than the Issuer, is responsible for the information contained in this Prospectus or any supplement thereof, or any Final Terms or any Reference Documents, and accordingly, to the extent permitted by the laws of any relevant jurisdiction, none of these persons accepts any responsibility as to the accuracy and completeness of the information contained in any of these documents.

ALL THE ADVISERS TO THE ISSUER HAVE ACTED AND ARE ACTING EXCLUSIVELY FOR THE ISSUER IN RELATION TO THIS PUBLIC OFFER AND HAVE NO CONTRACTUAL, FIDUCIARY OR OTHER OBLIGATION TOWARDS ANY OTHER PERSON AND WILL ACCORDINGLY NOT BE RESPONSIBLE TO ANY INVESTOR OR ANY OTHER PERSON WHOMSOEVER IN RELATION TO THE TRANSACTIONS PROPOSED IN THE PROSPECTUS.

This Prospectus shall be valid until no more of the Notes are issued in a continuous or repeated manner and this Prospectus and any supplement thereto as well as any Final Terms reflect the status as of their respective dates of issue. The delivery of the Prospectus as supplemented or any Final Terms and the offering, sale or delivery of any Notes may not be taken as an implication that the information contained in such documents is accurate and complete subsequent to their respective dates of issue or that there has been no adverse change in the financial condition of the Issuer since such date or that any other information supplied in connection with the Programme is accurate at any time subsequent to the date on which it is supplied or, if different, the date indicated in the document containing the same.

The Issuer undertakes to supplement the Prospectus or publish a new Prospectus at any time after submission of the Prospectus for approval to the Listing Authority if and when the information herein should become materially inaccurate or incomplete in the event of any new significant factor that is capable of affecting the assessment of the Notes by potential investors.

The Notes will not be registered under the United States Securities Act of 1933, as amended. Subject to certain exceptions, the Notes will not be offered, sold or delivered within the United States or to U.S. persons, see “*Selling Restrictions*”.

The distribution of the Prospectus and any Final Terms and the offering, sale or delivery of the Notes in certain jurisdictions may be restricted by law. Persons into whose possession this Prospectus or any Final Terms comes are required by the Issuer to inform themselves about, and to observe, any such restrictions. For a description of certain restrictions on offers, sales and deliveries of Notes and the distribution of this Prospectus or any Final Terms and other offering material relating to the Notes, see “*Selling Restrictions*”.

This Prospectus is drawn up in the English language. The English version shall prevail over any part of this Prospectus translated into any other language other than the Terms and Conditions in respect of the Issuer of any Tranche (as hereinafter defined) of Notes under the Programme where the prevailing language will be specified in the applicable Final Terms.

The Notes issued under the Programme may be listed on the official list of the Malta Stock Exchange and admitted to trading on the regulated market of the Malta Stock Exchange. The Malta Stock Exchange’s Regulated Market is a regulated market for the purposes of Directive 2004/39/EC of the European Parliament and of the Council of 21 April 2004 on markets in financial instruments amending Council Directives 85/611/EC and 93/6/EC and Directive 2000/12 of the European Parliament and of the Council and repealing Council Directive 93/22/EC.

This Prospectus can only be used for the purposes for which it has been published.

This Prospectus and any Final Terms must not be used for the purpose of an offer or solicitation by anyone in any jurisdiction in which such offer or solicitation is not authorised or to any person to whom it is unlawful to make such an offer or solicitation.

All terms not otherwise defined in this Prospectus shall have the meaning as set out in the “*Terms and Conditions*” of the Notes.

Definitions

In addition to the defined terms used in the Section of this Prospectus entitled “**Terms and Conditions**”, the following capitalised terms shall have the meaning attributed hereunder:

Business Day	any day between Monday and Friday (both days included) on which commercial banks in Malta settle payments and are open for normal banking business;
Conditions	the Terms and Conditions applicable to each Tranche, as completed, modified, supplemented or replaced by virtue of the Final Terms;
CSD	the central securities depository of the Malta Stock Exchange established pursuant to article 24 of the Financial Market Act (Cap. 345, laws of Malta), and situated at Garrison Chapel, Castille Place, Valletta VLT 1063;
Debtors	all such debtors, whether natural or legal persons, listed from time to time in the Pledge as being debtors for the purposes of the Pledge;
Final Terms	final terms issued by the Issuer from time to time in the form set out in this Prospectus;
Group	the group of companies, the ultimate group holding company of which is VMKG PLLC, company number 0447.152.677;
Holdings	means the holders of Notes issued under the Programme;
Issuer	Izola Bank p.l.c.;
LA	the MFSA, appointed as Listing Authority for the purposes of the Financial Markets Act, 1990 (Cap. 345, laws of Malta) by virtue of L.N. 1 of 2003;
Notes	the notes issued by the Issuer in terms of this Prospectus;
Pledge	the pledge granted or to be granted by the Issuer in favour of Holders of Notes as security for the punctual performance of the Issuer’s obligations under the Notes, subject to the terms and conditions contained in the Security Trust Deed and the Pledge Agreements as the same is held on trust for the benefit of the Holders of Notes by the Security Trustee;
Pledge Agreements	the agreement or agreements giving rise to and regulating the Pledge as the same may be executed and amended from time to time by the Issuer and the Security Trustee, the main text of which is, as at the date of this Prospectus, reproduced in Annex II hereto;
Programme	the debt issuance programme being made by the Issuer pursuant to this Prospectus;
Prospectus Directive	Directive 2003/71/EC of the European Parliament and of the Council of 4 November 2003 on the prospectus to be published when securities are offered to the public or admitted to trading and amending Directive 2001/34/EC;

Receivables	<p>(a) all and any monies, whether by way of principal, interest or other costs and fees, due or which may become due to the Issuer and owed by the Debtors, pursuant to and in terms of invoices factored by the Issuer, whether on a recourse or non-recourse basis;</p> <p>(b) such other rights or assets which the Issuer and the Security Trustee may from time to time determine to be considered Receivables; and</p> <p>(c) cash and balances held in a bank account in the name of the Issuer as the same may be designated as such by agreement between the Issuer and the Security Trustee;</p>
Reference Documents	any supplement to the Prospectus, together with any document incorporated by reference;
Security Trust Deed	the trust deed entered into by the Issuer and the Security Trustee pursuant to which the rights under the Pledge are settled on trust in favour of the Holders of Notes as security for the punctual performance of the Issuer's obligations under the Notes, which as at the date of this Prospectus, is reproduced in Annex I hereto;
Series	one or more Tranches, which are expressed to be consolidated and forming a single series and identical in all respects, except for issue dates, interest commencement dates and/or issue prices;
Summary	the summary of the Prospectus, as the same is contained in the Section of this Prospectus named " Summary " and as the same may be amended, supplemented and updated from time to time;
Tranche	the issuance of Notes identical in all respects in various tranches, except for issue dates, interest commencement dates and/or issue prices.

Summary

The following constitutes the summary (the “**Summary**”) of the essential characteristics and risks associated with the Issuer and the Notes to be issued under the Programme. This Summary does not purport to be complete and should be read as an introduction to this Prospectus. Any decision by an investor to invest in the Notes should be based on consideration of this Prospectus as a whole, as supplemented from time to time, including the Reference Documents, any supplements thereto and the applicable Final Terms. Civil liability is attached to the Issuer who has tabled this Summary including any translation thereof, and applied for its notification, but only if this Summary is misleading, inaccurate or inconsistent when read together with the other parts of this Prospectus.

1. SUMMARY IN RESPECT OF THE NOTES

Issuer	Izola Bank p.l.c.
Admission to Trading	Application has been made to list the Notes to be issued under the Programme on the Official List of the Malta Stock Exchange and to be admitted to trading on the Regulated Market of the Malta Stock Exchange. Notes issued under the Programme may also be listed on such other or further stock exchange/s as may be determined by the Issuer.
Use of Proceeds	The net proceeds from each issue of the Notes will be used by the Issuer in supporting the general growth of the Bank principally through the expansion of its factoring, credit card and short term credit facilities business.
Expenses	The total expenses of the offer of the Notes and the net amount of proceeds therefrom shall be indicated in the applicable Final Terms.
Currencies	Notes may be denominated in euro as well as any other currency as the Issuer may determine, subject to applicable laws and regulations.
Denomination of Notes	Notes will be issued in such denomination as indicated in the applicable Final Terms, save that: a) the minimum denomination of the Notes will be, if in euro, €1,000, if in any currency other than euro, an amount in such other currency nearly equivalent to €1,000 at the time of the issue of the Notes; b) the maximum denomination of the Notes will be, if in euro, €40,000, if in any currency other than euro, an amount in such other currency nearly equivalent to €40,000 at the time of the issue of the Notes.
Maturities	Such maturities as indicated in the applicable Final Terms.
Form of Notes	The Notes may be issued only in registered form.
Interest Rate	The Notes will bear a fixed interest income throughout the entire term of the Notes and will be payable on that basis (as specified in the applicable Final Terms).

Dual Currency Notes	Notes where payment of principal and/or payment of interest can be made in different currencies. Payments (whether in respect of principal or interest and whether at maturity or otherwise) in respect of Dual Currency Notes will be made in such currencies, and based on such rates of exchange, as the Issuer may determine (as indicated in the applicable Final Terms).
Redemption	<p>The applicable Final Terms will indicate either that the Notes cannot be redeemed prior to their stated maturity (except for taxation reasons or upon the occurrence of an event of default) or that such Notes will be redeemable at the option of the Issuer upon giving notice with the notice period indicated in the applicable Final Terms to the Holders on a date or dates specified prior to such stated maturity.</p> <p>The redemption amount will be no more or less than 100% of the aggregate principal amount of the Notes.</p>
Taxation	All payments of principal and interest in respect of the Notes will be made subject to any applicable withholding or deducting obligations imposed by applicable law on the Issuer.
Acceleration Events	The Notes will provide for Acceleration Events entitling Holders to demand immediate redemption of the Notes, all as more fully set out in the Terms and Conditions.
Status of the Notes	The Notes will constitute the general, direct, unconditional and secured obligations of the Issuer, and shall, at all times, rank <i>pari passu</i> , without any priority among themselves.
Security	The obligations of the Issuer under the Notes shall be secured by the constitution of the Issuer in favour of the Holders of a pledge over the Receivables. The Security Trustee shall hold the pledge over the Receivables on trust for the benefit of all Holders of the Notes and as security for the punctual performance of the Issuer's obligations under the Notes.
Governing Law	The Notes will be governed by Maltese law.
Jurisdiction	Non-exclusive place of jurisdiction for any legal proceedings arising under the Notes is Malta.
Clearing and Settlement	Notes will be accepted for clearing through one or more clearing systems as specified in the applicable Final Terms. These systems will include those operated by the Malta Stock Exchange.
Distribution of the Notes	The method of distribution of each Tranche will be stated in the applicable Final Terms.
Markets	Application has been made to list the Notes under the Programme on the regulated market of the Malta Stock Exchange. Notes issued under the Programme may also be listed on such other or further stock exchange/s as may be determined by the Issuer.

2. SUMMARY OF RISK FACTORS

General	An investment in the Notes involves certain risks including those described below. Prospective investors should carefully consider, with their own independent financial and other professional advisers, the risks and other investment considerations as well as all the other information contained in the Prospectus and Reference Documents before deciding to make an investment in the Notes. In addition, prospective investors ought to be aware that the risk may combine and thus accumulate.
Forward-looking Statements	This document contains forward-looking statements. No guarantee can be given that future results or expectations covered by such statements will be achieved. These statements by their nature involve substantial risks and uncertainties, certain of which are beyond the Issuer's control.
<i>Risks Relating to the Issuer</i>	
Strategic & Business Risk	As described in Section 11.4(i) entitled "Principal Activities", the Issuer principally provides banking services to the Group and to customers of the Group. The Issuer is dependent on the Group for its ongoing business operations and future business expansion. Consequently, any adverse changes to the Group's operating results, financial position and business prospects could adversely affect the Issuer's business and the results of its operations.
Credit Risk	Risks arising from changes in credit quality and the recoverability of loans and amounts due from counterparties are inherent in the Issuer's business. Negative changes in the credit quality of the Issuer's borrowers and counterparties or a general deterioration in European or global economic conditions, or arising from systemic risks in the financial systems, could affect the recoverability and value of the Issuer's assets and require an increase in the provision for impairment losses and other provisions.
Concentration Risk	Risk arising from an uneven distribution of counterparties in credit or any other business relationship or from a concentration in business sectors or geographical regions which is capable of generating losses large enough to jeopardise the Issuer's solvency. The Issuer currently provides factoring services to the debtors of the Group on a non-recourse basis. The debtors are drawn from the Belgian property, building and construction sector. Accordingly, the Issuer is currently exposed to the said business sector and geographical region. The said concentration risk may have a negative impact on the financial performance of the Issuer.
Liquidity Risk	The risk that the Issuer will encounter difficulty in raising funds to meet financial commitments. This may result from the Issuer's inability to realise a financial asset quickly at close to its fair value or obtain adequate funding which could have a material adverse affect on the financial performance of the Issuer.
Interest Rate Risk	Risk arising from the extent that interest-earning assets and liabilities mature or re-price at different times. Such a mismatch may have a negative impact on the financial performance of the Issuer.

Operational Risk

The risk covering the losses arising from inadequate or failed internal processes and systems, the inability to retain key personnel, and unforeseen external events. The impact of such losses on the Issuer may be substantial. Although the Issuer has implemented risk controls and loss mitigation actions, and considerable resources are devoted to developing efficient procedures, systems, business continuity planning and to staff training, it is only possible to be reasonably, but not absolutely, certain that such procedures will be effective in controlling each of the operational risks faced by the Issuer.

External Risk

The Issuer's overall performance and results may also be adversely affected by external factors beyond the Issuer's control. These include changes in economic conditions, business cycles, volatility in financial markets and increased competitive pressure in the financial services sector. Negative changes in overall local and international economic conditions, inflation, consumer and business spending, recession, unemployment, limited credit availability and such other factors which are beyond the Issuer's control, may also negatively affect the performance of the Group.

Reputational Risk

The risk that negative publicity regarding the Issuer's and/or the Group's business practices, whether true or not, will cause a decline in the customer base, costly litigation or revenue reductions. Negative publicity can result from the Issuer's actual or alleged conduct in any number of activities, including lending practices, corporate governance, and actions taken by government regulators in response to those activities. Although the Issuer takes steps to minimise reputation risk in dealing with customers, the Issuer is inherently exposed to this risk.

Risks Relating to the Notes

Market Risk

The existence of an orderly and liquid market for the Notes depends on a number of factors, including the presence of willing buyers and sellers of the Issuer's Notes at any given time. Such presence is dependent upon the individual decisions of investors over which the Issuer has no control. Accordingly, there can be no assurance that an active secondary market for the Notes will develop, or, if it develops, that it will continue. Furthermore, there can be no assurance that an investor will be able to sell the Notes at or above the price at which they are issued or at all.

Impact of Future Offers

No prediction can be made about the effect which any future public offers of the Issuer's securities, or any takeover or merger activity involving the Issuer, will have on the market price of the Notes prevailing from time to time.

Market Interest Rates

Investment in the Notes involves the risk that subsequent changes in market interest rates may adversely affect the value of the Notes.

Laws and Regulations

The terms and conditions of the Notes are based on Maltese law in effect as at the date of the applicable Final Terms. No assurance can be given as to the impact of any possible judicial decision or change in Maltese law or administrative practice after the date thereof.

Ranking

The Notes shall constitute the general, direct, unconditional and secured obligations of the Issuer and shall, at all times, rank *pari passu* without any priority or preference among themselves.

Security

The Notes are secured by a pledge on certain receivables due to the Issuer. The value of the Pledge securing the obligations of the Issuer under the Notes is dependent upon the amount and value which the Security Trustee is able to recover from the Receivables. In the event that any of the Receivables are not recoverable by the Security Trustee, then the corresponding value of the Pledge shall be reduced accordingly and may, depending on the extent of such non-recoverable Receivables and in the event of a default by the Issuer under the Notes, impact the recourse to the Receivables.

Furthermore the pledge created over future receivables in the respective Pledge Agreement, is conditional upon the said receivables coming into existence. Accordingly, in the event that the receivables do not come into existence, no valid pledge thereon can be said to be created or subsist.

Offer Volume

The issue volume specified in the applicable Final Terms corresponds to the maximum total amount of Notes offered but is no indication of which volume of Notes will be actually issued. The actual volume depends on the market conditions and may change during the term of the Notes. Therefore, investors should note that the specified offer volume does not allow to draw any conclusions as to the liquidity of the Notes in the secondary market.

Early Redemption Rights

The Final Terms for a particular issue of Notes may provide for a right of termination of the Issuer. An optional redemption feature of Notes is likely to limit their market value. During any period when the Issuer may elect to redeem Notes, the market value of those Notes generally will not rise substantially above the price at which they can be redeemed. This also may be true prior to any redemption period.

Exchange Rate

A Holder will bear the risk of any fluctuations in exchange rates between the currency of denomination of the Notes and the Holder's currency of reference, if different.

Terms and Conditions

The terms and conditions of the Notes are based on Maltese law in effect as at the date of this Prospectus. No assurance can be given as to the impact of any possible judicial decision or change in Maltese law or administrative practice after the date of this Prospectus.

3. SUMMARY IN RESPECT OF THE ISSUER

3.1 Board of Directors, Senior Management, Auditors and Advisers

Directors	Magdalena de Roeck	Chairperson & Non-executive Director
	Countess A d'Oultremont	Executive Director
	Peter Van Marcke	Executive Director
	Frederick E Amato-Gauci	Non-executive Director
	Joseph Caruana	Non-executive Director
	Charles Hertogs	Non-executive Director
	John Melillo	Non-executive Director
	Patrick H Van Leynseele	Non-executive Director
Senior Management	Andrew Mifsud	General Manager
	Stefan Farrugia	Financial Controller
	Alexander Micallef	ICT & Operations Manager
Auditors	KPMG, Portico Building, Marina Street, Pieta PTA 9044, Malta	
Advisers	<i>Legal Counsel</i>	Camilleri Preziosi
	<i>Sponsor</i>	Charts Investment Management Service Limited

3.2 Board Practices

The Board of Directors has established the following Committees:

- **Board Committee**
The Board Committee comprises three directors and acts as the highest delegated authority by the Board in overseeing the activities and management of the Issuer and approving limits beyond the powers of the Credit Committee.
- **Audit Committee**
The Audit Committee currently comprises three independent non-executive directors. The Committee is responsible to monitor the audit of the annual accounts and to evaluate the scope, role and effectiveness of the internal audit function on an ongoing basis. The Audit Committee also monitors operational risk control effectiveness and reviews the Issuer's compliance with applicable laws and regulations. The General Manager attends the meetings. The composition and operation of the Audit Committee is in line with the applicable listing rules as issued by the LA.
- **Credit Committee**
The Credit Committee is composed of two independent non-executive directors. The Credit Committee reviews the credit risk management of the Issuer and considers and reviews credit applications and limits. The General Manager and Financial Controller attend the meetings.

3.3 Financial Information

The following information is extracted from the Issuer's Audited Financial Statements for the years ended 31 December 2009, 31 December 2008 and 31 December 2007:

SUMMARISED INCOME STATEMENTS

For the year ended 31 December

	2009	2008	2007
	EUR	EUR	EUR
Net interest income	1,461,063	1,600,716	1,369,715
Fees and commission income	990,827	865,027	811,706
Fees and commission expense	(32,486)	(23,921)	(36,442)
Net fees and commission income	958,341	841,106	775,264
Net trading gains	11,933	13,208	15,241
Other operating income	4,193	4,193	4,193
Operating income	2,435,530	2,459,223	2,164,413
Administrative expenses	(614,882)	(630,442)	(575,995)
Depreciation provision	(253,892)	(238,094)	(210,817)
Impairment allowances	(7,784)	(17,011)	(83,849)
Profit before income tax	1,558,972	1,573,676	1,293,752
Income tax expense	(160,702)	(200,666)	(188,714)
Profit for the year	1,398,270	1,373,010	1,105,038

SUMMARISED BALANCE SHEETS

At 31 December

	2009	2008	2007
	EUR	EUR	EUR
ASSETS			
Balances with Central Bank of Malta and cash	505,848	386,631	1,118,294
Investments	28,945,952	26,307,884	25,568,878
Loans and advances to banks	11,219,096	9,788,398	9,168,258
Factored receivables	5,338,919	4,362,518	2,916,099
Other loans and advances to customers	21,140,261	15,030,861	14,255,000
Property and equipment	2,016,686	2,009,850	2,106,232
Prepayments and accrued income	1,305,893	1,423,935	1,294,187
Total assets	70,472,655	59,310,077	56,426,948
LIABILITIES			
Balances with Central Bank of Malta	1,500,000	-	-
Amount owed to customers	53,915,259	45,196,148	44,510,872
Deferred tax liabilities	347,228	382,449	372,811
Current tax payable	230,043	228,666	201,847
Accruals and deferred income	885,948	1,756,089	967,703
Total liabilities	56,878,478	47,563,352	46,053,233
EQUITY			
Total equity	13,594,177	11,746,725	10,373,715
Total liabilities and equity	70,472,655	59,310,077	56,426,948

3.4 Financial Performance for the Financial Year ended 31 December 2009

During the year ended 31 December 2009, the Issuer generated a profit before tax of €1,558,972. Profit after tax was €1,398,270, an increase of 1.8% over the previous year. There was a decrease in net interest income of 8.7% to €1,461,063 on 2008, whereas net fees and commission income increased by 13.9% to €958,341. Operating expenses decreased by 2.5% (€15,560) over the prior year. Total assets reached €70,472,655 as at 31 December 2009 compared with €59,310,077 as at 31 December 2008. The Issuer's earnings per share for the year ended 31 December 2009 were of €8.74 compared to €8.58 for the year ended 31 December 2008. The 2009 financial statements have been approved by the Board on 15 February 2010 and approved by the shareholders of the Issuer on 18 February 2010.

The financial statements of the Issuer for the financial years ended 31 December 2007, 31 December 2008 and 31 December 2009 can be viewed on the Issuer's website at www.izolabank.eu

3.5 Capital Adequacy and Liquidity Ratios

The Issuer has maintained very sound capital and liquidity ratios over the past five years as demonstrated below:

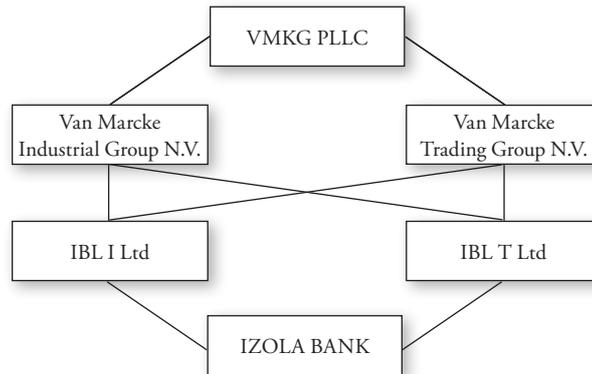
Capital Adequacy Ratio

At 31 December	2009	2008	2007	2006	2005
Statutory minimum	8%	8%	8%	8%	8%
Issuer's Capital Adequacy Ratio	79%	90%	93%	134%	107%

Liquidity Ratio

At 31 December	2009	2008	2007	2006	2005
Statutory minimum	30%	30%	30%	30%	30%
Issuer's Liquidity Ratio	220%	241%	184%	185%	136%

3.6 Organisational Structure and Information about the Group



The Issuer is wholly owned by the Group. The financial results and assets and liabilities of the Issuer are included in the consolidated financial statements of VMKG PLLC, company number 0447.152.677 (the ultimate Group holding company), the registered office of which is Bruulstraat 77, 1130 Brussels, Belgium. The above chart displays the position of the Issuer within the Group.

The Group, whose head office is located in Kortrijk, Belgium, operates in Belgium, France, the Netherlands, USA, Switzerland and Luxembourg though the bulk of its operations is concentrated in Belgium. Its activities are diverse; it is a very large plumbing and heating wholesaler and a manufacturer of office and laboratory furniture, sanitary ware, and hands-free electronic controls for wash basins. The Group is also involved in packaging, transportation, asphalt supply, road milling contracting and recycling of reclaimed asphalt.

As at 31 December 2008 the Group's total assets amounted to €228,219,000 with a consolidated turnover of €409,917,000. As at 31 December 2008, the average number of persons employed by the Group stood at 1,639.

As a result of the business operations of the Issuer detailed in Section 11.4 under the heading “**Description of Business**”, the Issuer is dependent on the Group for its ongoing business operations and future business expansion. Consequently, any adverse changes to the Group's operating results, financial position and business prospects could adversely affect the Issuer's business and the results of its operations.

3.7 Historical Background

The Issuer was incorporated on 8 June 1994 as Izola Bank Limited for an indefinite duration under the Commercial Partnerships Ordinance, 1962 (Cap. 168, laws of Malta), and with effect from 28 February 1998 complied with the Companies Act, 1995 under which it, *inter alia*, is currently regulated. On 15 February 2010, the shareholders of the Issuer resolved to change the status of the Issuer from a private limited liability company to that of a public limited liability company.

On 13 June 1994 the Issuer was granted a licence by the Ministry of Finance to carry on the business of banking as a financial institution operating initially with non-residents subject to such conditions as may from time to time be imposed under Section 4(6)(c) of the Banking Act, 1970. Following the enactment of the Banking Act, Cap. 371 of the laws of Malta, the Central Bank of Malta became the competent authority responsible for the regulation and supervision of credit institutions. On 15 November 1994, the Central Bank of Malta issued a new licence in terms of the Banking Act.

In September 2005, the terms of the licence were changed and the Issuer was authorised to conduct full banking activities in all currencies, except the Maltese Lira, with both residents and non-residents. With the entry of Malta into the Eurozone in 2008 and the adoption of the euro as its currency, the Maltese lira ceased to be legal tender.

3.8 Principal Activities of the Issuer

The Issuer is licensed by the Malta Financial Services Authority (“**MFS**A”) under the Banking Act, Cap. 371 of the laws of Malta as a credit institution and is authorised to carry out the business of banking.

The principal activities of the Issuer comprise the following:

- The receipt and acceptance of customers’ money on deposit in current, savings and term accounts which may be denominated in euro and other major currencies;
- The provision of advances by way of short and longer term loans and subscription to private bond issues;
- Money transmission services via SWIFT;
- Factoring services;
- Debit and Credit card issuance;
- Internet banking services; and
- Cash and treasury management services.

3.9 Principal Markets of the Issuer

The Issuer is authorised to provide banking services to residents of Malta, Belgium and France. The Issuer provides a range of services to residents of Belgium: current, savings and term deposit accounts, short and medium term loans, money transmission services, factoring services, credit card issuance, internet banking and cash management services. The Issuer provides internet banking services to residents of France and offers current, savings and term deposit accounts. The Issuer also provides current, savings and term deposit accounts as well as money transmission services to residents of Malta.

3.10 Trend Information

Despite the downturn in economic activity being experienced on a global basis, the financial year of the Issuer which ended 31 December 2009 delivered results which were in line with 2008 figures.

Co-ordinated measures taken by central banks over the past 18 months have included radical reductions in interest rates. Between 1 October 2008 and 31 March 2009, the European Central Bank lowered its reference rate five times from 4.25% to 1.5%. Subsequently, between 2 April 2009 and 7 May 2009, the European Central Bank lowered its reference rate by a further 0.5% to a record low of 1%. This extraordinarily rapid rate of decline in interest rates had an adverse impact on the Issuer’s net interest income.

The contraction in net interest income was largely offset by increased commissions generated by an increase in the factoring activity. On the factoring business side, there has, to date, been no evidence of any deterioration in credit quality and there were no losses reported for 2009.

The Issuer’s conservative funding and liquidity policies effectively mean that the Issuer does not rely on the short-term inter-bank or commercial paper market for funding the loan book. Nor does the Issuer engage in proprietary trading. Hence, the Issuer was, and remains, in a strong liquid position and at no time was it forced to dispose of any assets in its portfolio of holdings to meet its liabilities.

The Issuer’s credit risk is to a large extent contained, as 71% of the loan book is cash secured by amounts owed to customers. The Directors consider that trading conditions for the Issuer throughout the remainder of 2010 will remain largely in line with those experienced in 2009.

The Directors look forward to developing the factoring and credit card business further in this challenging environment. The factoring business has registered steady growth since its introduction in 2003. The Directors consider that there exists plenty of scope to carry on expanding this area of activity in the coming years. The existing vigilant controls will be kept in place. As at 31 December 2009, the Issuer’s largest exposure to a single factoring debtor amounted to €518,681 which represented 0.82% of the total advances portfolio.

The current credit approval and monitoring structures have helped to ensure very good credit quality of factoring debtors and minimised losses to the Issuer. In fact out of a total amount of €79,530,403 of invoices factored over a seven year period, only one amount of €82,021 pertaining to a single debtor was written off in 2008.

The Directors will also take measures to further promote the Issuer's short term credit facilities in its target market. A new marketing campaign will be launched in 2010 advertising increased credit card limits as well as introducing a new overdraft facility.

Save as disclosed herein, there has been no material adverse change in the prospects of the Issuer since the date of its last published audited financial statements, that is, 31 December 2009.

3.11 Major Shareholders

IBL I Limited and IBL T Limited each hold 50% of the issued share capital of the Issuer. The shareholding in IBL I Limited and IBL T Limited is indirectly held by VMKG PLLC (the ultimate parent company of the Group). Accordingly, VMKG PLLC has an indirect control of the Issuer. The presence of independent non-executive directors on the Board of Directors of the Issuer and on the Audit Committee of the Issuer serves to ensure compliance with good corporate governance of the Issuer.

3.12 Interests of Directors and Conflicts of Interest

Magdalena De Roeck, Countess A d'Oultremont and Peter Van Marcke have an indirect beneficial interest in the shareholding of the Issuer through their indirect shareholding in VMKG PLLC, company number 0447.152.677, the ultimate group holding company. Furthermore, Magdalena de Roeck, Countess A d'Oultremont and Peter Van Marcke are also directors of IBL I Limited and IBL T Limited and other companies forming part of the Group. A potential conflict of interest may arise between the duties of such directors in respect of their duties to the Issuer and the other companies forming part of the Group of which they are also directors.

Other than as herein disclosed, to the extent known or potentially known to the Issuer as at the date of this Prospectus, there are no other conflicts of interest between the duties to the Issuer and their private duties or other duties of the directors and members of senior management of the Issuer.

3.13 Legal Proceedings

There are no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer is aware) during the period covering at least the previous twelve months which may have, or have had in the recent past, significant effects on the Issuer or the Group's financial position or profitability.

3.14 Significant Change

There was no significant change in the financial position of the Issuer which has occurred since 31 December 2009.

3.15 Material Contracts

The Issuer has not entered into any material contracts outside of the ordinary course of its business, which in the view of the Issuer, could result in the Issuer being under an obligation or entitlement that is material to the Issuer's ability to meet its obligations to Holders in respect of the Notes.

Risk Factors

4 GENERAL

An investment in the Notes involves certain risks including those described below. Prospective investors should carefully consider, with their own independent financial and other professional advisers, the following risk factors and other investment considerations as well as all the other information contained in the Prospectus and Reference Documents before deciding to make an investment in the Notes. In addition, prospective investors ought to be aware that the risk may combine and thus accumulate.

5 FORWARD-LOOKING STATEMENTS

This document contains forward-looking statements. No assurance can be given that future results or expectations covered by such forward-looking statements will be achieved. These statements by their nature involve substantial risks and uncertainties, certain of which are beyond the Issuer's control.

6 RISKS RELATING TO THE ISSUER

The following are the risks that are material to the Issuer and that may affect the Issuer's ability to fulfil its obligations under the Notes. The Issuer is engaged in the business of banking. Exposure to credit risk, concentration risk, liquidity risk, interest rate risk, operational risk and reputational risk arises in the normal course of business. Exposure to strategic/business risk and external risk is also a factor. Prospective investors ought to carefully consider these risk factors before deciding to invest in the Notes under the Programme.

6.1 Strategic and Business Risk

As described in Section 11.4(i) entitled "Principal Activities", the Issuer principally provides banking services to the Group and to customers of the Group, including but not limited to, the provision of cash management services and acceptance of funds on current, savings and term deposit accounts. The Issuer is dependent on the Group for its ongoing business operations and future business expansion. Consequently, any adverse changes to the Group's operating results, financial position and business prospects could adversely affect the Issuer's business and the results of its operations.

6.2 Credit Risk

Risks arising from changes in credit quality and the recoverability of loans and amounts due from counterparties are inherent in the Issuer's business. Adverse changes in the credit quality of the Issuer's borrowers and counterparties or a general deterioration in European or global economic conditions, or arising from systemic risks in the financial systems, could affect the recoverability and value of the Issuer's assets and require an increase in the provision for impairment losses and other provisions.

6.3 Concentration Risk

Concentration risk denotes the risk arising from an uneven distribution of counterparties in credit or any other business relationship or from a concentration in business sectors or geographical regions which is capable of generating losses large enough to jeopardise the Issuer's solvency. The Issuer currently factors Group debtors on a non-recourse basis. The debtors are currently drawn from the Belgian property, building and construction sector. Accordingly, the Issuer is currently exposed to the said business sector and geographical region. The said concentration risk may have a negative impact on the financial performance of the Issuer.

6.4 *Liquidity Risk*

Liquidity risk is the risk that the Issuer will encounter difficulty in raising funds to meet financial commitments. This may result from the Issuer's inability to realise a financial asset quickly at close to its fair value or obtain adequate funding which could have a material adverse affect on the financial performance of the Issuer.

6.5 *Interest Rate Risk*

Interest rate risk arises from the extent that interest-earning assets and liabilities mature or re-price at different times. Such a mismatch may have a negative impact on the financial performance of the Issuer.

6.6 *Operational Risk*

Operational risk covers the losses arising from inadequate or failed internal processes and systems, the inability to retain key personnel, and unforeseen external events. The impact of such losses on the Issuer may be substantial. Although the Issuer has implemented risk controls and loss mitigation actions, and considerable resources are devoted to developing efficient procedures, systems, business continuity planning and to staff training, it is only possible to be reasonably, but not absolutely, certain that such procedures will be effective in controlling each of the operational risks faced by the Issuer.

6.7 *External Risk*

The Issuer's overall performance and results may also be adversely affected by external factors beyond the Issuer's control. These include changes in economic conditions, business cycles, volatility in financial markets and increased competitive pressure in the financial services sector. Negative changes in overall local and international economic conditions, inflation, consumer and business spending, recession, unemployment, limited credit availability and such other factors which are beyond the Issuer's control, may also negatively affect the performance of the Group.

6.8 *Reputational Risk*

Reputational risk is the risk that negative publicity regarding the Issuer's and/or the Group's business practices, whether true or not, will cause a decline in the customer base, costly litigation or revenue reductions. Negative publicity can result from the Issuer's actual or alleged conduct in any number of activities, including lending practices, corporate governance, and actions taken by government regulators in response to those activities. Although the Issuer takes steps to minimise reputation risk in dealing with customers, the Issuer is inherently exposed to this risk.

7 RISKS RELATING TO THE NOTES

7.1 *Market Risk*

The existence of an orderly and liquid market for the Notes depends on a number of factors, including the presence of willing buyers and sellers of the Issuer's Notes at any given time. Such presence is dependent upon the individual decisions of investors over which the Issuer has no control. Accordingly, there can be no assurance that an active secondary market for the Notes will develop, or, if it develops, that it will continue. Furthermore, there can be no assurance that an investor will be able to sell the Notes at or above the price at which they are issued or at all.

7.2 *Impact of Future Offers*

No prediction can be made about the effect which any future public offers of the Issuer's securities, or any takeover or merger activity involving the Issuer, will have on the market price of the Notes prevailing from time to time.

7.3 *Market Interest Rates*

Investment in the Notes involves the risk that subsequent changes in market interest rates may adversely affect the value of the Notes.

7.4 *Laws and Regulations*

The terms and conditions of the Notes are based on Maltese law in effect as at the date of the applicable Final Terms. No assurance can be given as to the impact of any possible judicial decision or change in Maltese law or administrative practice after the date thereof.

7.5 *Ranking*

The Notes shall constitute the general, direct, unconditional and secured obligations of the Issuer and shall, at all times, rank *pari passu* without any priority or preference among themselves.

7.6 *Security*

The value of the Pledge securing the obligations of the Issuer under the Notes is dependent upon the recoverability of the Receivables from the Debtors. In the event that any of the Receivables are not recoverable by the Security Trustee, then the corresponding value of the Pledge shall be reduced accordingly and may, depending on the extent of the non-recoverable Receivables and in the event of a default by the Issuer under the Notes, impact the repayment of the Notes from the Receivables.

Furthermore the pledge created over future receivables in the respective Pledge Agreement, is conditional upon the said receivables coming into existence. Accordingly, in the event that the receivables do not come into existence, no valid pledge thereon can be said to be created or subsist.

7.7 *Offer Volume*

The issue volume specified in the applicable Final Terms corresponds to the maximum total amount of Notes offered but is no indication of which volume of Notes will be actually issued. The actual volume depends on the market conditions and may change during the term of the Notes. Therefore, investors should note that the specified offer volume does not allow to draw any conclusions as to the liquidity of the Notes in the secondary market.

7.8 Early Redemption Rights

The Final Terms for a particular issue of Notes may provide for a right of termination of the Issuer. An optional redemption feature of Notes is likely to limit their market value. During any period when the Issuer may elect to redeem Notes, the market value of those Notes generally will not rise substantially above the price at which they can be redeemed. This also may be true prior to any redemption period.

7.9 Exchange Rate

A Holder will bear the risk of any fluctuations in exchange rates between the currency of denomination of the Notes and the Holder's currency of reference, if different.

7.10 Terms and Conditions

The terms and conditions of the Notes are based on Maltese law in effect as at the date of this Prospectus. No assurance can be given as to the impact of any possible judicial decision or change in Maltese law or administrative practice after the date of this Prospectus.

Incorporation By Reference/Documents On Display

The following Reference Documents are incorporated by reference into this Prospectus and are available in the English language:

- The Memorandum and Articles of Association of the Issuer; and
- The Audited Financial Statements of the Issuer for each of the financial years ended 31 December 2007, 31 December 2008 and 31 December 2009.

The above mentioned documents together with the Security Trust Deed and the Pledge Agreements shall also be available for inspection at the registered office of the Issuer.

General Description of the Programme

8 GENERAL

Under this €27,000,000 Debt Issuance Programme, the Issuer may from time to time issue Notes. The maximum aggregate principal amount of the Notes from time to time outstanding under the Programme will not exceed €27,000,000 (or its equivalent in any other currency).

The Notes may be issued on a continuing basis and may be distributed by way of public or private placements. The method of distribution of each Tranche will be stated in the applicable Final Terms.

Notes will be issued in Tranches, each Tranche consisting of Notes which are identical in all respects. One or more Tranches, which are expressed to be consolidated and forming a single series and identical in all respects, except for issue dates, interest commencement dates and/or issue prices may form a Series of Notes. Further Notes may be issued as part of existing Series. The specific terms governing each Tranche (which will be supplemented, where necessary, with supplemental terms and conditions) will be set forth in the applicable Final Terms. The Issuer shall notify the public of the method of publication of the Final Terms by means of electronic publication on the internet website of the MSE (www.borzamalta.com.mt), or, in addition and at the option of the Issuer, on the internet website of the Issuer (www.izolabank.eu). Any notice so given will be deemed to have been validly given on the date of such publication.

Notes will be issued in such denominations as may be determined by the Issuer and as indicated in the applicable Final Terms save; (a) that the minimum denomination of the Notes will be, if in euro, €1,000 and if in any currency other than euro, in an amount in such other currency nearly equivalent to €1,000; (b) the maximum denomination of the Notes will be, if in euro, €40,000, if in any currency other than euro, an amount in such other currency nearly equivalent to €40,000 at the time of the issue of the Notes.

Notes may be issued at an issue price which is at par or at a discount to, or a premium over, par.

The Notes shall be **secured** by virtue of a pledge over the Receivables. The said pledge over the Receivables shall be held by the Security Trustee for the benefit of the Holders of the Notes and to secure its obligations under the Notes. By acquiring any of the Notes, whether on issuance or thereafter, Holders will be deemed to have acknowledged and accepted the security over the Notes and the terms and conditions contained in each of the Security Trust Deed and the Pledge Agreements. In particular, each Note shall be bound by the terms of the Security Trust Deed as if he had been a party thereto and as if the Security Trust Deed covenants on the part of each Holder to observe and be bound by all the provisions thereof. The Holders furthermore acknowledge that the Notes may rank junior and subsequent to any prior ranking security interest arising by operation of the law.

INVESTORS AND PROSPECTIVE INVESTORS ARE URGED TO SEEK LEGAL ADVICE IN RESPECT OF THE IMPLICATIONS AND CONSEQUENCES OF AN ACQUISITION OF THE NOTES PARTICULARLY BUT NOT LIMITED TO THE OBLIGATIONS AND COVENANTS SET OUT IN THE SECURITY TRUST DEED.

Application has been made to list the Notes under the Programme on the regulated market of the Malta Stock Exchange. Notes issued under the Programme may also be listed on such other or further stock exchange/s as may be determined by the Issuer.

9 ISSUE PROCEDURES

The Final Terms shall render the Terms and Conditions applicable to each Tranche, as completed, modified, supplemented or replaced, the “**Conditions**”. As to the controlling language of the respective Terms and Conditions, the Issuer anticipates that, in general, subject to any stock exchange or legal requirements applicable from time to time and unless otherwise determined by the Issuer, English will be the controlling language.

The provisions of the applicable Final Terms and the Terms and Conditions, taken together, shall constitute the Conditions. Such Conditions will be constituted as follows:-

- the blanks in the provisions of the Terms and Conditions which are applicable to the Notes will be deemed completed by the information contained in the Final Terms as if such information were inserted in the blanks of such provisions;
- the Terms and Conditions will be modified, supplemented or replaced by the text of any provisions of the Final Terms modifying, supplementing or replacing, in whole or in part, the provisions of the Terms and Conditions;
- alternative or optional provisions of the Terms and Conditions as to which the corresponding provisions of the Final Terms are not completed or are deleted will be deemed to be deleted from the Conditions;
- all instructions and explanatory notes set out in square brackets in the Terms and Conditions and any footnotes and explanatory text in the Final Terms will be deemed to be deleted from the Conditions.

Information about the Issuer

10 STATUTORY AUDITORS

The annual statutory financial statements of the Issuer for the financial years ended 31 December 2009, 31 December 2008 and 31 December 2007 have been audited by KPMG, Portico Building, Marina Street, Pieta PTA 9044, Malta. KPMG is a firm of certified public accountants holding a warrant to practice the profession of accountant in terms of the Accountancy Profession Act (Cap. 281 of the laws of Malta).

11 GENERAL INFORMATION ABOUT THE ISSUER

Full Legal & Commercial Name of Company:	Izola Bank p.l.c.
Registered Address:	53/58 East Street, Valletta VLT 1251
Place of Registration and Domicile:	Malta
Telephone Number:	(00356) 2124 1258
Telefax:	(00356) 2124 1250
Email:	info@izolabank.eu
Website:	www.izolabank.eu

11.1 Introduction

The Issuer is registered in Malta as a public liability company under registration number C16343 and with registered office at 53/58 East Street, Valletta VLT 1251, Malta.

11.2 Historical Background

The Issuer was incorporated on 8 June 1994 as Izola Bank Limited for an indefinite duration under the Commercial Partnerships Ordinance, 1962 (Cap. 168, laws of Malta), and with effect from 28 February 1998 complied with the Companies Act, 1995 under which it, *inter alia*, is currently regulated.

On 15 February 2010, the shareholders of the Issuer resolved to change the status of the Issuer from a private limited liability company to that of a public limited liability company.

On 13 June 1994 the Issuer was granted a licence by the Ministry of Finance to carry on the business of banking as a financial institution operating initially with non-residents subject to such conditions as may from time to time be imposed under Section 4(6)(c) of the Banking Act, 1970. Following the enactment of the Banking Act, Cap. 371 of the laws of Malta, the Central Bank of Malta became the competent authority responsible for the regulation and supervision of credit institutions. On 15 November 1994, the Central Bank of Malta issued a new licence in terms of the Banking Act.

In September 2005, the terms of the licence were changed and the Issuer was authorised to conduct full banking activities in all currencies, except the Maltese Lira, with both residents and non-residents. With the entry of Malta into the Eurozone in 2008 and the adoption of the euro as its currency, the Maltese lira ceased to be legal tender.

11.3 Organisational Structure and Information about the Group

The Issuer is wholly owned by the Group. The financial results and assets and liabilities of the Issuer are included in the consolidated financial statements of VMKG PLLC, company number 0447.152.677 (the ultimate group holding company), the registered office of which is Bruulstraat 77, 1130 Brussels, Belgium.

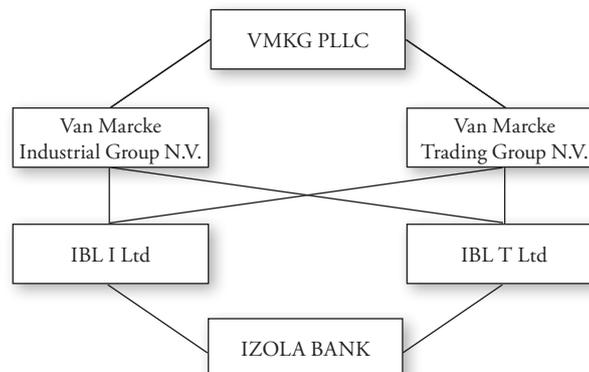
The Issuer is 50% owned by **IBL I Limited** and 50% owned by **IBL T Limited**. Both IBL I Limited and IBL T Limited are Maltese registered companies. IBL I Limited is in turn owned by Van Marcke Industrial Group n.v. and Van Marcke Trading Group n.v., with Van Marcke Industrial Group n.v. being the major shareholder. IBL T Limited is owned by Van Marcke Trading Group n.v. and Van Marcke Industrial Group n.v. with Van Marcke Trading Group n.v. being the major shareholder. Van Marcke Industrial Group n.v. and Van Marcke Trading Group n.v. are the main holding companies of the manufacturing and trading arms of the Group.

The Group, whose head office is located in Kortrijk, Belgium, operates in Belgium, France, the Netherlands, USA, Switzerland and Luxembourg though the bulk of its operations are concentrated in Belgium. Its activities are diverse; it is a very large plumbing and heating wholesaler and a manufacturer of office and laboratory furniture, sanitary ware, and hands-free electronic controls for wash basins. The Group is also involved in packaging, transportation, asphalt supply, road milling contracting and recycling of reclaimed asphalt.

As at 31 December 2008 the Group's total assets amounted to €228,219,000 with a consolidated turnover of €409,917,000. As at 31 December 2008, the average number of persons employed by the Group stood at 1,639.

As a result of the business operations of the Issuer as described in Section 11.4 hereunder, the Issuer is dependent on the Group for its ongoing business operations and future business expansion. Consequently, any adverse changes to the Group's operating results, financial position and business prospects could adversely affect the Issuer's business and the results of its operations.

The following chart displays the position of the Issuer within the Group:



11.4 Description of Business

(i) Principal Activities

Introduction

The Issuer is licensed by the Malta Financial Services Authority (“**MFSA**”) under the Banking Act, Cap. 371 of the laws of Malta, as a credit institution and is authorised to carry out the business of banking. The Issuer is wholly owned by the Van Marcke private group of companies.

The principal activities of the Issuer comprise the following:

- The receipt and acceptance of customers’ money on deposit in current, savings and term accounts which may be denominated in euro and other major currencies;
- The provision of advances by way of short and longer term loans and subscription to private bond issues;
- Money transmission services via SWIFT;
- Factoring services;
- Debit and Credit card issuance;
- Internet banking services; and
- Cash and treasury management services.

Principal activities of the Issuer

One of the Issuer’s main activities comprises the acceptance of customers’ funds on current, savings and term deposit accounts in euro and other major currencies and the provision of advances by way of short and medium term loans and subscription to private bond issues. In this regard, the Group is the Issuer’s principal customer. The Issuer is also heavily involved in providing cash management services to the Group. These services, including balance reporting, zero balancing, sweep accounts and SWIFT transfers, are delivered through highly computer automated straight through processing operations.

The Issuer began providing factoring services in 2003 on a customised software platform which caters for the straight-through processing of all factored invoices.

In 2005 the Issuer finalised its infrastructure to provide internet banking services and in accordance with LN88 of 2004, as amended by LN66 of 2005 Regulation 9, of the European Passport Rights for Credit Institutions Regulations 2004, gave notice to the MFSA of its intention to provide cross border internet banking services to **residents of Belgium**. Permission was granted by the Belgian authorities and in 2006 the Issuer launched its internet banking services to Belgian customers of the Group and began issuing debit cards which could be used by the Issuer’s internet banking customers to access their accounts online and purchase goods in the Group’s hundred odd stores across Belgium.

In 2008 the Issuer launched a credit card for its internet banking customers which could be used online to settle Group invoices and to purchase goods in the Group’s stores.

In 2009 the Issuer, in accordance with LN88 of 2004, as amended by LN66 of 2005 Regulation 9, of the European Passport Rights for Credit Institutions Regulations 2004, gave notice to the MFSA of its intention to provide cross border internet banking services to **residents of France**. Permission was granted by the French authorities and the Issuer launched its internet banking services to French customers of the Group.

(ii) Principal Markets

The Issuer is authorised to provide banking services to residents of Malta, Belgium and France.

The Issuer provides a range of services to residents of Belgium: current, savings and term deposit accounts, short and medium term loans, money transmission services, factoring services, credit card issuance, internet banking and cash management services.

The Issuer provides internet banking services to residents of France and offers current, savings and term deposit accounts. The Bank also provides current, savings and term deposit accounts as well as money transmission services to residents of Malta.

(iii) Trend Information

Despite the downturn in economic activity being experienced on a global basis, the financial year of the Issuer which ended 31 December 2009 delivered results which were in line with 2008 figures.

Co-ordinated measures taken by central banks over the past 18 months have included radical reductions in interest rates. Between 1 October 2008 and 31 March 2009, the European Central Bank lowered its reference rate five times from 4.25% to 1.5%. Subsequently, between 2 April 2009 and 7 May 2009, the European Central Bank lowered its reference rate by a further 0.5% to a record low of 1%. This extraordinarily rapid rate of decline in interest rates had an adverse impact on the Issuer's net interest income.

The contraction in net interest income was largely offset by increased commissions generated by an increase in the factoring activity. On the factoring business side, there has, to date, been no evidence of any deterioration in credit quality and there were no losses reported for 2009.

The Issuer's conservative funding and liquidity policies effectively mean that the Issuer does not rely on the short-term inter-bank or commercial paper market for funding the loan book. Nor does the Issuer engage in proprietary trading. Hence, the Issuer was, and remains, in a strong liquid position and at no time was it forced to dispose of any assets in its portfolio of holdings to meet its liabilities.

The Issuer's credit risk is to a large extent contained, as 71% of the loan book is cash secured by amounts owed to customers. The Directors consider that trading conditions for the Issuer throughout the remainder of 2010 will remain largely in line with those experienced in 2009.

The Directors look forward to developing the factoring and credit card business further in this challenging environment. The factoring business has registered steady growth since its introduction in 2003 as demonstrated in the table below. The Directors consider that there exists plenty of scope to carry on expanding this area of activity in the coming years. The existing vigilant controls will be kept in place. As at 31 December 2009, the Issuer's largest exposure to a single factoring debtor amounted to €518,681 which represented 0.82% of the total advances portfolio.

The current credit approval and monitoring structures have helped to ensure very good credit quality of factoring debtors and minimised losses to the Issuer. In fact out of a total amount of €79,530,403 of invoices factored over a seven year period, only one amount of €82,021 pertaining to a single debtor was written off in 2008.

The Directors will also take measures to further promote the Issuer's short term credit facilities in its target market. A new marketing campaign will be launched in 2010 advertising increased credit card limits as well as introducing a new overdraft facility.

History of the Issuer's factoring activity:

Year	Number of factored invoices	Amount (€)
2003	947	2,970,469
2004	4,988	7,342,254
2005	9,454	8,536,084
2006	9,893	9,952,607
2007	13,111	13,051,980
2008	13,895	14,608,703
2009	17,776	23,068,304
Total	70,064	79,530,403

Save as disclosed herein, there has been no material adverse change in the prospects of the Issuer since the date of its last published audited financial statements, that is, 31 December 2009.

12 BOARD OF DIRECTORS AND SENIOR MANAGEMENT

12.1 Board of Directors

The following persons constitute the board of directors of the Issuer. They are responsible for the overall management of the Issuer. The Board meets to establish and review the policies and strategies of the Issuer and to monitor the implementation thereof and the overall performance of the Issuer.

Magdalena de Roeck	Chairperson & Non-executive Director
Countess A d'Oultremont	Executive Director
Peter Van Marcke	Executive Director
Frederick E Amato-Gauci	Non-executive Director
Joseph Caruana	Non-executive Director
Charles Hertogs	Non-executive Director
John Melillo	Non-executive Director
Patrick H Van Leynseele	Non-executive Director

The business address of each director is the registered office of the Issuer. The curriculum vitae of each director is included below:

Magdalena de Roeck
Chairperson &
Non-Executive Director

Appointed to the Board in February 2006. A UCL business engineering graduate from the Catholic University of Louvain, Belgium, Ms de Roeck is Chairperson and non-executive director of the Group.

Countess Alexis d'Oultremont
Executive Director

Appointed to the Board in January 2000. A Solvay business engineering graduate from the University of Brussels, Belgium, Countess Alexis d'Oultremont nee Caroline Van Marcke is an executive director of the Group. Her main areas of responsibility are in group marketing and information technology, thus covering the whole Information Area of the Group.

Peter Van Marcke
Executive Director

Appointed to the Board in April 2002. A business graduate from the University of Louvain-la-Neuve, Belgium, Mr Van Marcke is an executive director of the Group. His main area of responsibility is in Group sales and product management, thus covering the whole Product Area of the Group. He has a banking background having previously worked for 10 years in the Belgian financial services sector.

Frederick E Amato-Gauci
Non-executive Director

Appointed to the Board in June 1994. He held a number of senior positions in the Civil Service. In the 1970s he was Managing Director of GIE (Malta) Ltd, a subsidiary of General Instrument Corporation of USA. In the 1980s and 1990s he practised as a management consultant with Joseph Tabone & Co. He served as director on the boards of Bank of Valletta International Limited and Santumas Shareholdings Limited. Between 1987 and 1990 he served as ambassador of Malta to the Federal Republic of Germany, Austria, Hungary and Czechoslovakia.

Joseph Caruana
Non-executive Director

Appointed to the Board in February 2006. He has extensive banking experience, having worked for 44 years in the financial services sector both with Barclays Bank in Malta and the U.K., and as General Manager of the Mid-Med Bank Group and HSBC Bank Malta p.l.c. until his retirement in 2000. He is at present a director of APS Bank Limited, Malta and is active in the Corinthia Group of Companies, Malta and holds a number of other directorships.

Charles Hertogs
Non-executive Director

Appointed to the Board in January 2010. A business graduate from the Catholic University of Louvain, Belgium, Mr Hertogs is a business consultant specializing in large industrial plants, mainly in relation to the ThyssenKrupp Group. He is a non-executive director on the boards of several companies of the Group.

John Melillo
Non-executive Director

Appointed to the Board in April 1998. An experienced banker, he was General Manager of Mid-Med Bank Limited, Malta between 1992 and 1997. On retirement he served as Chairman of the Board of Special Commissioners (Income Tax Management Act), Chairman of the Gaming Board and Chairman of Malta Air Traffic Services Limited. He is at present a director of Eurochange Financial Services Limited and City Security Limited.

Patrick H Van Leynseele
Non-executive Director

Appointed to the Board in January 2010. A law graduate from the Free University of Brussels, Belgium, Mr Van Leynseele holds a Masters degree in Comparative Law from the University of Miami. Called to the Bar in Brussels in 1979 and in New York in 1997, Mr Van Leynseele is a partner in the Brussels law firm Dal & Veldekens. He is a non-executive director on the boards of several companies of the Van Marcke group.

The Board of Directors has established the following Committees:

- **Board Committee**
- **Audit Committee**
- **Credit Committee**

Board Committee

The Board Committee comprises three directors and acts as the highest delegated authority by the Board in overseeing the activities and management of the Issuer and approving limits beyond the powers of the Credit Committee.

Audit Committee

The Audit Committee currently comprises three independent non-executive directors. The Committee is responsible to monitor the audit of the annual accounts and to evaluate the scope, role and effectiveness of the internal audit function on an ongoing basis. The Audit Committee also monitors operational risk control effectiveness and reviews the Issuer's compliance with applicable laws and regulations. The General Manager attends the meetings. The composition and operation of the Audit Committee is in line with the applicable listing rules as issued by the LA.

Credit Committee

The Credit Committee is composed of two independent non-executive directors. The Credit Committee reviews the credit risk management of the Issuer and considers and reviews credit applications and limits. The General Manager and Financial Controller attend the meetings.

12.2 Senior Management

Andrew Mifsud	General Manager
Stefan Farrugia	Financial Controller
Alexander Micallef	ICT & Operations Manager

The business address of each of the above described persons is the registered office of the Issuer. The curriculum vitae of senior management is included below:

Andrew Mifsud General Manager	An Associate of the Chartered Institute of Bankers and holder of an MBA specialising in banking from the University of Exeter, U.K. He joined the Issuer in June 1994 as a Banking Executive and was appointed General Manager in August 1998. Previously held positions with National Westminster Bank plc, London and Melita Bank Limited, Malta (subsidiary of Istituto Bancario San Paolo di Torino).
Stefan Farrugia Financial Controller	An Honours graduate of the University of Malta in Accountancy, he is a certified public accountant and auditor. He joined the Issuer in June 2008 and is responsible for Finance, Treasury and Legal and Compliance. He also acts as Company Secretary. Previously held positions with PricewaterhouseCoopers, Malta and with Global Procurement Company Limited.
Alexander Micallef ICT & Operations Manager	Prior to joining the Issuer he had twenty years experience in IT programming, systems analysis and systems administration. He joined the Issuer in December 2007 and is responsible for the ICT and Operations departments. Previously held positions with ST Microelectronics Ltd (Malta), Marsovin, Employment and Training Corporation and the Mizzi Organisation.

12.3 Major Shareholders

The following persons hold 5% or more of the issued share capital of the Issuer:

IBL I Limited	50%
IBL T Limited	50%

IBL I Limited and IBL T Limited are 100% indirect subsidiaries of VMKG PLLC (the ultimate parent company of the Group). Accordingly, VMKG PLLC has the indirect control of the Issuer. The presence of independent non-executive directors on the Board of Directors of the Issuer and on the Audit Committee of the Issuer serves to ensure compliance with good corporate governance of the Issuer.

12.4 Interests of Directors

Magdalena De Roeck, Countess A d'Oultremont and Peter Van Marcke have an indirect beneficial interest in the shareholding of the Issuer through their indirect shareholding in VMKG PLLC, company number 0447.152.677, the ultimate group holding company. Furthermore, Magdalena de Roeck, Countess A d'Oultremont and Peter Van Marcke are also directors of IBL I Limited and IBL T Limited and other companies forming part of the Group. A potential conflict of interest may arise between the duties of such directors in respect of their duties to the Issuer and the other companies forming part of the Group of which they are also directors.

12.5 Conflicts of Interest

Other than the interests disclosed in Section 12.4 above, to the extent known or potentially known to the Issuer as at the date of this Prospectus, there are no other conflicts of interest between the duties to the Issuer and their private duties or other duties of the directors and members of senior management of the Issuer.

12.6 Financial Information

The following information is extracted from the Issuer's Audited Financial Statements for the years ended 31 December 2009, 31 December 2008 and 31 December 2007:

SUMMARISED INCOME STATEMENTS

For the year ended 31 December

	2009	2008	2007
	EUR	EUR	EUR
Net interest income	1,461,063	1,600,716	1,369,715
Fees and commission income	990,827	865,027	811,706
Fees and commission expense	(32,486)	(23,921)	(36,442)
Net fees and commission income	958,341	841,106	775,264
Net trading gains	11,933	13,208	15,241
Other operating income	4,193	4,193	4,193
Operating income	2,435,530	2,459,223	2,164,413
Administrative expenses	(614,882)	(630,442)	(575,995)
Depreciation provision	(253,892)	(238,094)	(210,817)
Impairment allowances	(7,784)	(17,011)	(83,849)
Profit before income tax	1,558,972	1,573,676	1,293,752
Income tax expense	(160,702)	(200,666)	(188,714)
Profit for the year	1,398,270	1,373,010	1,105,038

SUMMARISED BALANCE SHEETS**At 31 December**

	2009	2008	2007
	EUR	EUR	EUR
ASSETS			
Balances with Central Bank of Malta and cash	505,848	386,631	1,118,294
Investments	28,945,952	26,307,884	25,568,878
Loans and advances to banks	11,219,096	9,788,398	9,168,258
Factored receivables	5,338,919	4,362,518	2,916,099
Other loans and advances to customers	21,140,261	15,030,861	14,255,000
Property and equipment	2,016,686	2,009,850	2,106,232
Prepayments and accrued income	1,305,893	1,423,935	1,294,187
Total assets	70,472,655	59,310,077	56,426,948
LIABILITIES			
Balances with Central Bank of Malta	1,500,000	-	-
Amount owed to customers	53,915,259	45,196,148	44,510,872
Deferred tax liabilities	347,228	382,449	372,811
Current tax payable	230,043	228,666	201,847
Accruals and deferred income	885,948	1,756,089	967,703
Total liabilities	56,878,478	47,563,352	46,053,233
EQUITY			
Total equity	13,594,177	11,746,725	10,373,715
Total liabilities and equity	70,472,655	59,310,077	56,426,948

12.7 Capital Adequacy and Liquidity Ratios

The Issuer has maintained very sound capital and liquidity ratios over the past five years as demonstrated below.

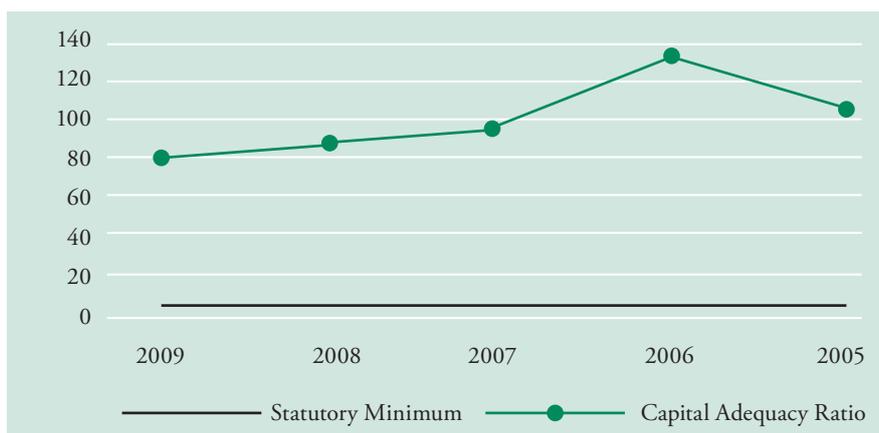
Capital Adequacy Ratio

At 31 December	2009	2008	2007	2006	2005
Statutory minimum	8%	8%	8%	8%	8%
Issuer's Capital Adequacy Ratio	79%	90%	93%	134%	107%

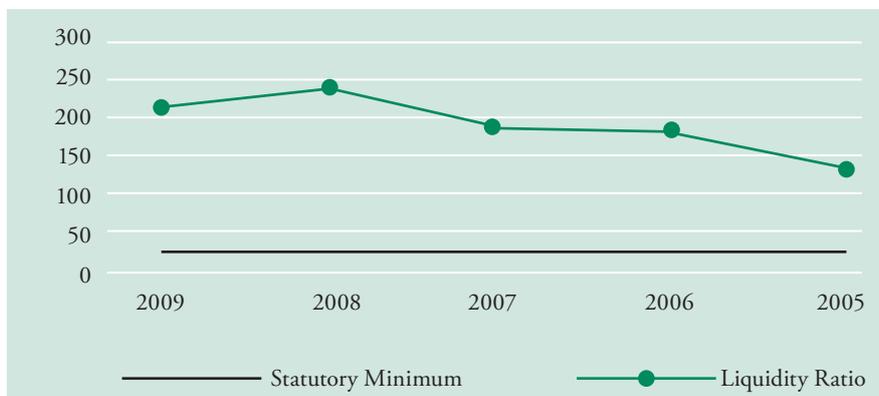
Liquidity Ratio

At 31 December	2009	2008	2007	2006	2005
Statutory minimum	30%	30%	30%	30%	30%
Issuer's Liquidity Ratio	220%	241%	184%	185%	136%

Capital Adequacy Ratio (%)



Liquidity Ratio (%)



12.8 Financial Performance for the Financial Year ended 31 December 2009

During the year ended 31 December 2009, the Issuer generated a profit before tax of €1,558,972. Profit after tax was €1,398,270, an increase of 1.8% over the previous year.

There was a decrease in net interest income of 8.7% to €1,461,063 on 2008, whereas net fees and commission income increased by 13.9% to €958,341. Operating expenses decreased by 2.5% (€15,560) over the prior year. Total assets reached €70,472,655 as at 31 December 2009 compared with €59,310,077 as at 31 December 2008.

The Issuer's earnings per share for the year ended 31 December 2009 were of €8.74 compared to €8.58 for the year ended 31 December 2008.

The 2009 financial statements have been approved by the Board on 15 February 2010 and approved by the shareholders of the Issuer on 18 February 2010.

The financial statements of the Issuer for the financial years ended 31 December 2007, 31 December 2008 and 31 December 2009 can be viewed on the Issuer's website at www.izolabank.eu

12.9 Legal Proceedings

There are no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer is aware) during the period covering at least the previous twelve months which may have, or have had in the recent past, significant effects on the Issuer or the Group's financial position or profitability.

12.10 Significant Change

There was no significant change in the financial position of the Issuer which has occurred since the 31 December 2009.

12.11 Material Contracts

The Issuer has not entered into any material contracts outside of the ordinary course of its business, which in the view of the Issuer, could result in the Issuer being under an obligation or entitlement that is material to the Issuer's ability to meet its obligations to Holders in respect of the Notes.

Terms and Conditions

13 APPLICABILITY OF THE TERMS AND CONDITIONS

The provisions of these Terms and Conditions apply to the Notes as completed, modified, supplemented or replaced, in whole or in part, by the terms of the final terms which are attached hereto, the “**Final Terms**”. The blanks in the provisions of these Terms and Conditions which are applicable to the Notes shall be deemed to be completed by the information contained in the Final Terms as if such information were inserted in the blanks of such provisions; any provisions of these Terms and Conditions modifying, supplementing or replacing, in whole or in part, the provisions of these Terms and Conditions shall be deemed to so modify, supplement or replace the provisions of these Terms and Conditions; alternative or optional provisions of these Terms and Conditions as to which the corresponding provisions of the Final Terms are not completed or are deleted shall be deemed to be deleted from these Terms and Conditions; and all provisions of these Terms and Conditions which are inapplicable to the Notes (including instructions, explanatory notes and text set out in square brackets) shall be deemed to be deleted from these Terms and Conditions, as required to give effect to the terms of the Final Terms. Copies of the applicable Final Terms may be obtained free of charge at the offices of the Issuer.

13.1 *Currency, Denomination, Form and Title, Certain Definitions*

(i) *Currency and Denomination*

This Series of Notes of Izola Bank p.l.c. (the “**Issuer**” is issued in [] (the “**Specified Currency**”) in the aggregate principal amount of [insert aggregate principal amount] and is divided into [] Notes in the principal amount of [] (the “**Specified Denominations**”).

(ii) *Form and Title*

The Notes are issued in fully registered and dematerialised form without interest coupons and are represented in uncertificated form by the appropriate entry in the electronic register maintained by the CSD on behalf of the Issuer. There will be entered in such electronic register the names, addresses, identity card numbers (in the case of natural persons), registration numbers (in the case of companies) and MSE account numbers of the Holders and particulars of the Notes held by them respectively and a copy of the Holder’s entry into the register will, at all reasonable times during business hours, be open to the inspection of the Holder at the CSD.

The CSD will issue, upon a request by the Holder, a statement of holdings to Holders evidencing their entitlement to Notes held in the register kept by the CSD.

(iii) *Certain Definitions*

“**Clearing System**” means the Central Securities Depository (CSD) [, and] [specify any other Clearing System] and any successor in such capacity;

“**Holder**” means, in respect of the Notes, any holder thereof, as the same is evidenced by an entry in the register of Notes held by the CSD;

“**Paying Agent**” any such Paying Agent, as the same may be appointed from time to time;

“**Security Trustee**” means HSBC Bank Malta p.l.c. and any other successor in such capacity and any additional trustee appointed for that purpose by the Issuer;

References herein to the “Notes” are references to the Notes of this Series.

References herein to the “**Specified Currency**” shall include any successor currency provided for by the laws in force in the jurisdiction where the Specified Currency is issued or pursuant to intergovernmental agreement or treaty (a “**Successor Currency**”) to the extent that payment in the predecessor currency is no longer a legal means of payment by the Issuer on the Notes.

13.2 Status

The Notes constitute the **secured obligations** of the Issuer and rank *pari passu* without any preference among themselves.

13.3 Security and Rights

The obligations of the Issuer under the Notes shall be secured by a **pledge** on the Receivables held on trust by the Security Trustee for the benefit of all Holders of the Notes. A pledge confers upon the creditor the right to obtain payment out of the asset pledged with privilege over other creditors as provided in Title XXIII of the Civil Code, Cap. 16 of the laws of Malta. There are no special rights attached to the Notes other than the right of the Holders to payment of capital and interest and in accordance with the ranking specified herein.

By acquiring any of the Notes, whether on issuance or thereafter, Holders will be deemed to have acknowledged and accepted the security over the Notes and the terms and conditions contained in each of the Security Trust Deed and the Pledge Agreements. In particular, each Holder shall be bound by the terms of the Security Trust Deed as if he had been a party thereto and as if the Security Trust Deed covenants on the part of each Holder to observe and be bound by all the provisions thereof. The Holders furthermore acknowledge that the Notes may rank junior and subsequent to any prior ranking security interest arising by operation of the law.

INVESTORS AND PROSPECTIVE INVESTORS ARE URGED TO SEEK LEGAL ADVICE IN RESPECT OF THE IMPLICATIONS AND CONSEQUENCES OF AN ACQUISITION OF THE NOTES PARTICULARLY BUT NOT LIMITED TO THE OBLIGATIONS AND COVENANTS SET OUT IN THE SECURITY TRUST DEED.

THE DESCRIPTION OF THE SECURITY TRUST DEED AND THE PLEDGE AGREEMENTS IN PARAGRAPHS 13.4 AND 13.5 OF THIS PROSPECTUS DO NOT PURPORT TO BE COMPREHENSIVE DESCRIPTIONS OF THE SECURITY TRUST DEED AND THE PLEDGE AGREEMENTS. INVESTORS AND PROSPECTIVE INVESTORS ARE URGED TO REVIEW THE FULL TEXT OF THE SECURITY TRUST DEED AND THE PLEDGE AGREEMENTS SET OUT IN ANNEX I AND ANNEX II OF THIS PROSPECTUS BEFORE DECIDING TO ACQUIRE ANY NOTES.

13.4 Security Trust Deed

Pursuant to the Security Trust Deed the Issuer undertook and bound itself to grant to the Security Trustee a pledge over the Receivables and certain cash and balances held in a bank account in the name of the Issuer. The Security Trustee has, pursuant to the Security Trust Deed, accepted to act as security trustee for the benefit of the Holders *pari passu* in proportion to the Notes they hold.

The Issuer has undertaken in favour of the Security Trustee to maintain a certain level of Receivables (subject to the Pledge) as better described in Clause 6.1.7 of the Security Trust Deed.

The main powers and functions of the Security Trustee are listed in Clause 8 of the Security Trust Deed. These include the power to monitor financial information relating to the Issuer, the power to engage any person or partnership to manage the property settled on trust as well as the power to enforce or take any step or proceedings to enforce the covenants and provisions of the Security Trust Deed and/or the Pledge Agreements. The Security Trustee is not bound to take any such steps or proceedings to enforce the said covenants and provisions unless requested to do so in writing by not less than 75% in value of the Holders.

By acquiring the Notes, the Holders *inter alia* agree:

- (i) to hold the Security Trustee harmless and fully indemnified for and against any loss, damage, cost or other liability it may incur by virtue of its failure to enforce or take any steps or proceedings to enforce the covenants and provisions of the Security Trust Deed in the event that it would have not received proper instructions in writing from at least 75% in value of the Holders; and
- (ii) not to exercise any right of set-off in respect of any amount payable by the Holders to the Issuer against any amount payable by the Issuer to the Holders.

All monies held by the Security Trustee shall (subject to any prior ranking claims thereon) be held on trust and shall be applied for the following purposes and in the following order of priority in payment of:

- (i) all costs, charges, expenses and liabilities incurred and payments made in or about the exercise of the trust by the Security Trustee including all remuneration payable to the Security Trustee with interest thereon;
- (ii) the interest owing upon the Notes *pari passu* and without any preference or priority; and
- (iii) the principal monies owing upon the Notes *pari passu* and without any preference or priority.

The Security Trustee is bound to give to the Holders at least ten days notice of every distribution made to them and is entitled to withhold payment of any monies due to be distributed to the Holders. Should the Security Trustee decide to withhold payment it shall place the same in a savings account with a bank. The amount which equals the amount of the principal monies withheld shall not carry interest while such monies are withheld (save for any interest allowed on the savings account in which the monies withheld are placed).

In terms of Clause 13 of the Security Trust Deed, the Security Trustee may at any time prior to exercising any power of discretion:

- (i) call a meeting of the Holders by giving them not less than seven days notice in writing setting out the date, time, place of the meeting and the matters to be discussed thereat; or
- (ii) write to the Holders requesting their instructions or directions.

At such meeting of the Holders two persons present in person or by proxy shall constitute a quorum and all decisions shall be passed by a simple majority of the persons present and voting (unless otherwise stated in the Security Trust Deed). The Holders are in terms of the Security Trust Deed entitled to require the Security Trustee to convene a meeting of the Holders provided that such request is made by at least 10% in value of the Holders at that time.

The Security Trustee may, in its absolute and uncontrolled discretion and shall, upon the request in writing of not less than 75% in value of the Beneficiaries, by notice in writing to the Company, declare that, in terms of the Prospectus the Notes to have become immediately payable.

The Security Trustee will not be liable for any default or breach of duty or trust committed by it or for any loss of profits unless such default or breach is caused by the fraud, wilful misconduct or gross negligence on the part of the Security Trustee or by some act or omission in respect of which the Security Trustee cannot be indemnified under proper law. Moreover the Security Trustee is exonerated from the obligations imposed on him by article 1968(1) of the Civil Code.

The Security Trustee also has the power (without the prior written consent of the Holders) to vary, amend, add to or delete any or all provisions of the Security Trust Deed (whether of a beneficial or administrative nature), provided that such power shall not be exercised if, *inter alia*, it infringes the proper law of the Security Trust Deed. Moreover, the Security Trustee is entitled to receive from the Issuer remuneration for acting as Security Trustee.

Furthermore, the Security Trustee may resign by giving not less than 3 months notice in writing to the Issuer without assigning any reason whatsoever and without being responsible for any costs occasioned by such retirement. The Holders also have the power exercisable by a resolution passed at a meeting of Holders passed by 75% in value of the Holders to remove the Security Trustee. This is subject to the provisions of the Trust and Trustees Act, Cap. 331 of the laws of Malta regulating the resignation of a trustee. The Issuer has undertaken to use all reasonable endeavours to procure a new trustee to be appointed. The retirement or removal shall not become effective until such time as a successor trustee is appointed.

13.5 Pledge Agreements

As at the date of this Prospectus the Security Trustee and the Issuer have entered into two Pledge Agreements consisting of a pledge of receivables agreement (the “**Receivables Pledge Agreement**”) and a pledge over bank accounts and balances (the “**Bank Account Pledge Agreement**”).

(i) Receivables Pledge Agreement

Pursuant to the Receivables Pledge Agreement the Issuer pledged in favour of the Security Trustee a number of receivables and related rights (existing at the time of the entry in the Receivables Pledge Agreement or which may come into existence thereafter). These receivables may include receivables arising as a result of the factoring business carried out by the Issuer, receivables under overdraft, short-term and credit card facilities and such other receivables as may be agreed to between the Security Trustee and the Issuer.

In terms of the Receivables Pledge Agreement the Issuer bound itself in favour of the Security Trustee to, *inter alia*, appoint a reputable audit firm to perform and report on certain procedures on or about the interest commencement date of the Notes and as a minimum at the end of each quarter thereafter. The procedures are listed in Annex 4 of the Receivables Pledge Agreement.

The rights, powers and remedies of the Security Trustee following an Acceleration Event are listed in Clause 6 of the Receivables Pledge Agreement.

(ii) Bank Account Pledge Agreement

The Issuer has, in terms of the Bank Account Pledge Agreement pledged the bank account held by the Issuer with HSBC Bank Malta p.l.c. (the “**Pledged Account**”) together with all monies deposited therein and all balances lying in the account and all related rights as security for the due and punctual payment of all monies and liabilities owing under the Notes.

In terms of the Bank Account Pledge Agreement the Issuer is obliged to maintain in the Pledged Account such minimum funds as are equivalent to the amount arrived at by applying the formula in Clause 5.3 of the Bank Account Pledge Agreement. The Issuer shall only be allowed to withdraw from the account any amount which is over and above the minimum funds as aforesaid.

The Remedies of the Security Trustee following an Acceleration Event are provided for in Clause 7 of the Bank Account Pledge Agreement.

13.6 Interest

(i) Rate of Interest and Interest Payment Dates

The Notes bear interest on their principal amount at the fixed rate of [insert rate of interest] % per annum from (and including) [insert interest commencement date] to (and including) the Maturity Date. Interest shall be payable in arrears on [insert fixed interest date(s)] in each year (each such date, an “**Interest Payment Date**”). The first payment of interest shall be made on [insert first interest payment date] [if First Interest Payment Date is not first anniversary of Interest Commencement Date insert: and will amount to [insert Initial Broken Amount(s)].] [if Maturity Date is not a Fixed Interest Date insert: Interest in respect of the period from (and including) [insert Fixed Interest Date preceding the Maturity Date] to (but excluding) the Maturity Date will amount to [insert Final Broken Amount(s)].]

(ii) *Calculation of Interest for Partial Periods*

When interest is required to be calculated for any period of less than a year such interest shall be calculated on the basis of the actual number of days in such period divided by the actual number of days (365 or 366) in the respective year.

(iii) *Interest Payment Date not being a Business Day*

In the event that any Interest Payment Date falls on a day other than a Business Day, such Interest Payment Date will be carried over to the next following day that is a Business Day.

13.7 Payments

Payment of the principal amount of the Notes will be made in the Specified Currency by the Issuer to the person in whose name such Notes are registered as at the close of business on the Maturity Date, with interest accrued up to (and including) the Maturity Date, by means of [direct credit transfer into such bank account as the Holder may designate from time to time, provided such bank account is denominated in [insert Specified Currency] and held with any licensed bank in [insert Principal Financial Centre of Country of Specified Currency]] [[insert Specified Currency] cheque drawn on a bank in [insert Principal Financial Centre of Country of Specified Currency] . Such payment shall be effected within [insert number of days] Business Days of the Maturity Date. The Issuer shall not be responsible for any loss or delay in transmission. Upon payment of the [insert redemption value] the “Redemption Value”, the Notes shall be redeemed and the appropriate entry made in the electronic register of the Notes at the CSD.

In the case of Notes held subject to usufruct, payment will be made against the joint instructions of all bare owners and usufructuaries. Before effecting payment the Issuer shall be entitled to request any legal documents deemed necessary concerning the entitlement of the bare owner/s and the usufructuary/ies to payment of the Notes.

Payment of any instalment of interest on a Note will be made to the person in whose name such Note is registered at the close of business [insert number of days] prior to the Interest Payment Date by means of [insert method of payment].

All payments with respect to the Notes are subject in all cases to any applicable fiscal or other laws and regulations. In particular, but without limitation, all payments of principal and interest by or on behalf of the Issuer in respect of the Notes shall be made net of any amount which the Issuer is compelled by law to deduct or withhold for or on account of any present or future taxes, duties, assessments or other government charges of whatsoever nature imposed, levied, collected, withheld or assessed.

No commissions or expenses shall be charged by the Issuer to Holders in respect of such payments.

13.8 Redemption

(i) *Redemption at Maturity*

Unless previously purchased and cancelled in whole or in part, the Issuer will redeem the Notes (together with payment of interest accrued thereon) at their Redemption Value on [insert the specified Maturity Date] (the “Maturity Date”).

(ii) *Early Redemption at the Option of the Issuer*

- a) The Issuer may, upon giving notice in accordance with Clause (b), redeem all or some only of the Notes on the Early Redemption Date(s) at the Redemption Value together with accrued interest, if any, to (and including) the Early Redemption Date(s).

-
- b) Notice of redemption shall be given by the Issuer to the Holders of the Notes in accordance with Section 13.13. Such notice shall specify:-
- i. the Series of Notes subject to redemption;
 - ii. whether such Series is to be redeemed in whole or in part only and, if in part only, the aggregate principal amount of the Notes which are to be redeemed;
 - iii. the Early Redemption Date, which shall not be less than 15 nor more than 60 days after the date on which notice is given by the Issuer to the Holders; and
 - iv. the Redemption Value at which the Notes are to be redeemed together with accrued interest, if any.

13.9 Paying Agent

(i) Appointment

If applicable, the initial Paying Agent and its respective business address is:
[]

(ii) Variation / Termination of Appointment

The Issuer reserves the right at any time to vary or terminate the appointment of the Paying Agent, if any.

(iii) Agent of the Issuer

The Paying Agent, if any, acts solely as the agent of the Issuer and does not assume any obligations towards or relationship of agency or trust for any Holder.

13.10 Taxation

All amounts payable under the Notes will be paid with deduction or withholding for or on account of any present or future taxes, duties or governmental charges whatsoever imposed or levied by or on behalf of the [insert jurisdiction] or any taxing authority therein, where the Issuer is compelled by a law or other regulation to deduct or withhold such taxes, duties or governmental charges. The Issuer will not be obliged to make any additional payments in respect of any such withholding or deduction imposed.

13.11 Acceleration

(i) Right of Acceleration

Each Holder shall be entitled to declare his Notes due and demand immediate redemption thereof at the Redemption Value, together with accrued interest, if any, to the date of repayment, in the event that any of the following events (each an “Acceleration Event”) occurs:

- a) The Issuer shall fail to pay any interest on any Note when due and such failure shall continue for thirty (30) days after written notice thereof shall have been given to the Issuer by any Holder; or
- b) The Issuer shall fail duly to perform or shall otherwise be in breach of any other material obligation contained in the Conditions of the Notes and such failure shall continue for sixty (60) days after written notice thereof shall have been given to the Issuer by any Holder; or
- c) An order is made or resolution passed or other action taken for the dissolution, termination of existence, liquidation, winding-up or bankruptcy of the Issuer; or
- d) The Issuer stops or suspends payments (whether of principal or interest) with respect to all or any class of its debts or announces an intention to do so or ceases or threatens to cease to carry on its business or a substantial part of its business; or
- e) The Issuer is unable, or admits in writing its inability, to pay its debts as they fall due or otherwise becomes insolvent; or
- f) There shall have been entered against the Issuer a final judgment by a court of competent jurisdiction from which no appeal may be or is taken for the payment of money in excess of [insert relevant figure] or its equivalent and ninety (90) days shall have passed since the date of entry of such judgment without its having been satisfied or stayed; or
- g) Any default occurs and continues for ninety (90) days under any contract or document relating to any financial indebtedness of the Issuer in excess of [insert relevant figure] or its equivalent at any time.

(ii) Form of Notice

Any notice, including any notice declaring Notes due, in accordance with Section 13.11(i) shall be made by means of a written declaration delivered by hand or registered mail to the registered office of the Issuer.

13.12 Further Issues in Tranches, Purchases and Cancellation

(i) Further Issues in Tranches

The Issuer may from time to time, without the consent of the Holders, issue further Notes having the same terms and conditions as the Notes in all respects (or in all respects except for the issue date, interest commencement date and/or issue price) so as to form a single Series with the Notes.

(ii) Purchases

The Issuer may at any time purchase Notes in the open market or otherwise and at any price. Notes purchased by the Issuer may, at the option of the Issuer, be held, resold or surrendered for cancellation. If purchases are made by tender, tenders for such Notes must be made available to all Holders of such Notes alike.

(iii) Cancellation

All Notes redeemed in full shall be cancelled forthwith and may not be reissued or resold.

13.13 Notices

(i) Publication

All notices concerning the Notes will be made by means of electronic publication on the internet website of the Malta Stock Exchange (www.borzamalta.com.mt), or, in addition and at the option of the Issuer, on the internet website of the Issuer (www.izolabank.eu). Any notice so given will be deemed to have been validly given on the date of such publication. Furthermore, Holders may request that any such notices be sent by post to the address contained in the register of Holders maintained by the CSD on behalf of the Issuer.

13.14 Applicable Law, Place of Performance, Place of Jurisdiction and Enforcement

(i) Applicable Law

The Notes, as to form and content, and all the rights and obligations of the Holders and the Issuer, shall be governed by Maltese law.

(ii) Submission to Jurisdiction

The place of jurisdiction for all legal proceedings arising out of or in connection with the Notes shall be Malta. Each holder, however, may pursue his claims also before any other court of competent jurisdiction.

13.15 Language

[The Conditions are written in the **[insert language]** only].

[The Conditions are written in the **[insert language]** and provided with an **[insert language]** language translation.

The **[insert language]** shall be controlling and binding. The **[insert language]** is provided for convenience only].

Form of Final Terms

Full information on the Issuer and the issue of the Notes is only available on the basis of the combination of these Final Terms and the Prospectus dated 10 June 2010. The Final Terms will be available for inspection at the registered office of the Issuer.

Date []

Final Terms

[Title of relevant Series of Notes]

[(to be consolidated, form a single series with the [Title of Relevant Series of Notes] issued on []]

Series []/[], Tranche []

Issued pursuant to the

€27,000,000 Debt Issuance Programme

Dated [] 2010 of

Izola Bank p.l.c.



Issue Price: []

Issue Date: []

These are the applicable Final Terms of an Issue of Notes under the €27,000,000 Debt Issuance Programme of Izola Bank p.l.c. (the “Programme”). Full information on the Issuer and the issue of the Notes is only available on the basis of the combination of the Prospectus dated 10 June 2010, the “Prospectus” and these Final Terms.

14 PART I - TERMS AND CONDITIONS

This part of the Final Terms is to be read in conjunction with the Terms and Conditions of the Notes, the “**Terms and Conditions**” set forth in the Prospectus dated 10 June 2010 pertaining to the Programme, as the same may be supplemented from time to time. Capitalised terms not otherwise defined herein shall have the same meanings specified in the Terms and Conditions.

All provisions in the Terms and Conditions corresponding to items in the Final Terms which are either not selected or completed or which are deleted shall be deemed to be deleted from the terms and conditions applicable to the Notes, the “**Conditions**”.

14.1 Language of Conditions

Language []

14.2 Currency, Denomination, Form and Title, Certain Definitions ¹

Specified Currency []
Aggregate Principal Amount []
Specified Denomination []
Number of Notes to be issued in each Specified Denomination []
Minimum Subscription []

14.3 Certain Definitions

Clearing System

Central Securities Depository
[]

Other - specify

14.4 Interest

Rate of Interest []
Interest Commencement Date []
Fixed Interest Date []
First Interest Payment Date []
Initial Broken Amount(s) (per Specified Denomination) []
Final Broken Amount(s) (per Specified Denomination) []

Dual Currency Notes
(set forth details in full here (including exchange rate(s) or basis for calculating exchange rate(s) to determine interest/
fall-back provisions))

¹ The minimum denomination of the Notes will be, if in euro, €1,000 and if in any currency other than euro, in an amount in such other currency nearly equivalent to €1,000 at the time of issue of the Notes.

14.5 Payments

Payment of Principal	[Direct Credit / Cheque]
Specified Currency	[]
Principal Financial Centre of Country of Specified Currency	[]
Payments of Principal - Number of Business Days	[]
Redemption Value	[]
Entitlement of Interest Instalment	Payment will be made to the person in whose name such Note is registered at the close of business [] days prior to the Interest Payment Date
Payment of Interest	[Direct Credit / Cheque]

14.6 Redemption

Maturity Date	[]
Early Redemption	[Yes / No]
Early Redemption Date	[]
Minimum Notice Period	[] days
Maximum Notice Period	[] days

Right of Acceleration – Section 13.11(i)(f) and (g) of the Prospectus:

13.11(i)(f) There shall have been entered against the Issuer a final judgment by a court of competent jurisdiction from which no appeal may be or is taken for the payment of money in excess of [] or its equivalent and ninety (90) days shall have passed since the date of entry of such judgment without its having been satisfied or stayed;

13.11(i)(g) Any default occurs and continues for ninety (90) days under any contract or document relating to any financial indebtedness of the Issuer in excess of [] or its equivalent at any time.

14.7 Paying Agent(s)

[insert details]

14.8 Notices

[insert details]

14.9 Place and Medium of Publication

- Website of the Malta Stock Exchange
- Registered Office of the Issuer
- Other (specify)

14.10 Governing Law

Maltese Law

15 PART II - ADDITIONAL DISCLOSURE REQUIREMENTS RELATING TO NOTES

15.1 Risk Factors ¹

[insert details]

15.2 Interests of Natural and Legal Persons Involved in the Issue

[insert details]

15.3 Reasons for the Issue ² and Expenses

[insert details]

15.4 ISIN

ISIN []

15.5 Yield

Yield []

Calculation []

15.6 Selling Restriction

The Selling Restrictions set out in Section [] of the Prospectus shall apply []

Additional Selling Restrictions (specify) []

15.7 Taxation

Information on taxes on the income from the Notes withheld at source in respect of countries where the offer is being made or admission to trading is being sought.³ []

¹ Include only product specific risk factors which are not covered under “**Risk Factors**” in the Prospectus.

² See “**Use of Proceeds**” section in the Prospectus. If the reasons of the issue are different, include those reasons here.

³ Unless specified in the Prospectus.

16 TERMS AND CONDITIONS OF THE ISSUE ¹

Expected price at which the Notes will be offered, the amount of any expenses and taxes charged to the applicant.

[insert details]

Conditions to which offer is subject - [insert details, if applicable]

16.1 Method of Distribution

[insert details]

16.2 Form of Commitment

Underwriting	[]
Other	[]

16.3 Commissions

Selling Commission	[]
Other	[]

16.4 Expected Timetable

[insert details]

16.5 Admission to Trading and Dealing Arrangements

Malta Stock Exchange	[]
Regulated Market	[]
Other (insert details)	[]
Date of Admission	[]
Commencement of Dealing	[]
Regulated markets or equivalent markets on which, to the knowledge of the Issuer, notes of the same class of the Note to be offered or admitted to trading are already admitted to trading	[]

¹ In the case of a public offer of Notes, information regarding items 5.1.1, 5.1.3 – 5.1.8, 5.2 and 5.4.1 of Annex V of the Commission Regulation 809/2004 will be completed in the Final Terms.

16.6 Additional Information

Manner and Date of Publication of Results of Offer of Notes	[]
Process of Notification of Amounts Allotted ¹	[]
Method and Time Limits for Paying Up, and for Delivery of, Notes	[]
Reduction of Subscription and Refunds	[]
Other Relevant Terms and Conditions	[]
Information from a Third Party	[]
Source of Information	[]

The Issuer confirms that this information has been accurately reproduced

16.7 Listing

The above Final Terms comprise the details required to list this issue of Notes pursuant to the €27,000,000 Debt Issuance Programme of Izola Bank p.l.c. (as from [insert Issue Date of the Notes]).

16.8 Responsibility

The Issuer accepts responsibility for the information contained in these Final Terms as set out in the section “**Responsibility Statement**” in the Prospectus.

Izola Bank p.l.c.
[Name and Title of Signatories]

¹ Dealings in the Notes may not commence prior to the said notification.

Taxation

INVESTORS AND PROSPECTIVE INVESTORS ARE URGED TO SEEK PROFESSIONAL ADVICE AS REGARDS BOTH MALTESE AND ANY FOREIGN TAX LEGISLATION WHICH MAY BE APPLICABLE TO THEM IN RESPECT OF THE NOTES, INCLUDING THEIR ACQUISITION, HOLDING AND DISPOSAL AS WELL AS ANY INCOME/GAINS DERIVED THEREFROM OR MADE ON THEIR DISPOSAL.

The following is a summary of the anticipated tax treatment applicable to Noteholders in so far as taxation in Malta is concerned. This information does not constitute legal or tax advice and does not purport to be exhaustive. The information below is based on an interpretation of tax law and practice relative to the applicable legislation, as known to the Issuer at the date of the Prospectus, in respect of a subject on which no official guidelines exist. Investors are reminded that tax law and practice and their interpretation as well as the levels of tax on the subject matter referred to in the preceding paragraph, may change from time to time.

This information is being given solely for the general information of investors. The precise implications for investors will depend, among other things, on their particular circumstances and on the classification of the Notes from a Maltese tax perspective, and professional advice in this respect should be sought accordingly.

17 MALTA

17.1 Malta Tax on Interest

Since interest is payable in respect of a Note which is the subject of a public issue, unless the Issuer is otherwise instructed by a Noteholder or if the Noteholder does not fall within the definition of “recipient” in terms of article 41(c) of the Income Tax Act, (Cap. 123, laws of Malta), interest shall be paid to such person net of a final withholding tax, currently at the rate of 15% of the gross amount of the interest, pursuant to article 33 of the Income Tax Act. Noteholders who do not fall within the definition of a “recipient” do not qualify for the said rate and should seek advice on the taxation of such income as special rules may apply.

This withholding tax is considered as a final tax and a Maltese resident individual Noteholder need not declare the interest so received in his income tax return. No person shall be charged to further tax in respect of such income. However tax withheld shall in no case be available to any person for a credit against that person’s tax liability or for a refund as the case may be.

In the case of a valid election made by an eligible Noteholder resident in Malta to receive the interest due without the deduction of final tax, interest will be paid gross and such person will be obliged to declare the interest so received in his income tax return and be subject to tax on it at the standard rates applicable to that person at that time. Additionally in this latter case the Issuer will advise the Inland Revenue on an annual basis in respect of all interest paid gross and of the identity of all such recipients unless the beneficiary does not qualify as a “recipient” in terms of article 41(c) of the Income Tax Act. Any such election made by a resident Noteholder at the time of subscription may be subsequently changed by giving notice in writing to the Issuer. Such election or revocation will be effective within the time limit set out in the Income Tax Act.

In terms of article 12(1)(c) of the Income Tax Act, Noteholders who are not resident in Malta satisfying the applicable conditions set out in the Income Tax Act are not taxable in Malta on the interest received and will receive interest gross, subject to the requisite declaration/evidence being provided to the Issuer in terms of law.

17.2 European Union Savings Directive

Non-residents of Malta should note that payment of interest to individuals and certain residual entities residing in another EU Member State is reported on an annual basis to the Malta Commissioner of Inland Revenue who will in turn exchange the information with the competent tax authority of the Member State where the recipient of interest is resident. This exchange of information takes place in terms of the EU Savings Directive 2003/48/EC.

17.3 Malta Capital Gains on Transfer of the Notes

On the assumption that the Notes would not fall within the definition of “securities” in terms of article 5(1)(b) of the Income Tax Act, that is, “*shares and stocks and such like instrument that participate in any way in the profits of the company and whose return is not limited to a fixed rate of return*”, no Malta tax on capital gains is chargeable in respect of transfer of the Notes held as capital assets at the time of disposal.

17.4 Duty on Documents and Transfers

In terms of article 50 of the Financial Markets Act, (Cap. 345, laws of Malta) as the Notes constitute financial instruments of a company quoted on a regulated market, as is the MSE, redemptions and transfers of the Notes are exempt from Maltese duty.

INVESTORS AND PROSPECTIVE INVESTORS ARE URGED TO SEEK PROFESSIONAL ADVICE AS REGARDS BOTH MALTESE AND ANY FOREIGN TAX LEGISLATION APPLICABLE TO THE ACQUISITION, HOLDING AND DISPOSAL OF NOTES AS WELL AS INTEREST PAYMENTS MADE BY THE ISSUER. THE ABOVE IS A SUMMARY OF THE ANTICIPATED TAX TREATMENT APPLICABLE TO THE NOTES AND TO NOTEHOLDERS. THIS INFORMATION, WHICH DOES NOT CONSTITUTE LEGAL OR TAX ADVICE, REFERS ONLY TO NOTEHOLDERS WHO DO NOT DEAL IN SECURITIES IN THE COURSE OF THEIR NORMAL TRADING ACTIVITY.

General Information

18 GENERAL

The applicable Final Terms will specify which clearing system/systems has/have accepted the relevant Notes for clearance and provide further appropriate information.

There are no interests of natural and legal persons involved in potential issues under the Programme, including conflicting ones that are material to the issue of Notes under the Programme.

19 SELLING RESTRICTIONS

19.1 United States of America

The Notes have not been and will not be registered under the Securities Act of 1933 of the United States of America and accordingly may not be offered or sold within the United States or to or for the account or benefit of a U.S. person.

19.2 European Economic Area

In relation to each Member State of the European Economic Area (other than Malta) which has implemented the Prospectus Directive when securities are offered to the public or admitted to trading or which, pending such implementation, applies article 3.2 of said directive, the securities can only be offered to “qualified investors” (as defined in said directive) as well as in any other circumstances which do not require the publication by the Issuer of a prospectus pursuant to article 3 of said directive.

20 USE OF PROCEEDS

The net proceeds from each issue of the Notes will be used by the Issuer in supporting the general growth of the Issuer principally through the expansion of its factoring, credit card and short term credit facilities business.

21 LISTING ON THE OFFICIAL LIST AND ADMISSION TO TRADING INFORMATION

21.1 Malta Stock Exchange

Application has been made to list the Notes to be issued under the Programme on the official list of the Malta Stock Exchange and to be admitted to trading on the Regulated Market of the Malta Stock Exchange. Notes issued under the Programme may also be listed on such other or further stock exchange/s as may be determined by the Issuer.

Each Final Terms relating to the Notes shall be available for inspection at the registered office of the Issuer.

21.2 Undertaking

The Issuer has undertaken, in connection with the listing of the Notes, that if, while Notes of an Issuer are outstanding and listed on the Regulated Market of the Malta Stock Exchange (or of any other or further stock exchange/s as may be determined by the Issuer), there shall occur any substantial adverse change in the business, financial position or otherwise of the Issuer that is material in the context of issuance under the Programme and which is not reflected in the Prospectus (or any of the Reference Documents) the Issuer, as the case may be, will prepare or produce the preparation of a supplement to the Prospectus, or as the case may be, publish a new Prospectus for use in connection with any subsequent offering by the Issuer of Notes to be listed on the Regulated Market of the Malta Stock Exchange (or of any other or further stock exchange/s as may be determined by the Issuer).

If the Terms and Conditions of the Notes (as set out in the Prospectus) are modified or amended in a manner which would make the Prospectus, as supplemented, inaccurate or misleading, a new Prospectus will be prepared to the extent required by law.

The Issuer will provide, free of charge, a copy of the Prospectus (or any Reference Documents).

21.3 Authorisation

The establishment of the Programme was authorised by the Board of Directors of the Issuer on 15 February 2010.

Annex I - Security Trust Deed

A SECURITY TRUST DEED DATED 20 APRIL 2010 AS AMENDED AND RESTATED ON 10 JUNE 2010

Between

Izola Bank p.l.c.
(the “Company”)

And

HSBC Bank Malta p.l.c.
(the “Security Trustee”)

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This Trust Deed is made on the 20th day of April 2010 and amended and restated on 10 June 2010,

BETWEEN:

1. Izola Bank p.l.c., a public limited liability company registered under the laws of Malta with company registration number C16343 and with registered office situated at 53-58, East Street, Valletta, Malta, duly represented hereon by Andrew Mifsud as duly authorised, hereinafter referred to as the “**Company**”; and
2. HSBC Bank Malta p.l.c., a public limited liability company registered under the laws of Malta with company registration number C3177 and with registered office situated at 233, Republic Street, Valletta, Malta duly represented hereon by Emmanuel Magri and Jan Sammut, as duly authorised, hereinafter referred to as the “**Security Trustee**”.

WHEREAS:

- A. The Company intends to issue a debt issuance programme by virtue of a base prospectus, the “**Prospectus**”;
- B. By virtue of the Prospectus, the Company shall be authorised to issue up to €27,000,000 in value of Notes, as defined in the Prospectus, subject to the terms and conditions contained in the said Prospectus;
- C. The Company has covenanted that all and any Notes issued by virtue of the Prospectus shall constitute the secured obligations of the Company and the security shall be held by a security trustee for the benefit of all Holders;
- D. The Security Trustee is authorised to act as security trustee thereby holding the security granted or to be granted by the Company on trust for the benefit of all Holders;

NOW THEREFORE IT IS AGREED AND DECLARED AS FOLLOWS:

1 DEFINITIONS

1.1 In this Deed, unless otherwise defined, the definitions contained in the Prospectus, as the same may be updated from time to time, shall bear the same meaning herein:

Act	Trust and Trustees Act, Cap. 331 of the laws of Malta;
------------	--

Beneficiaries	a Holder whose interest in the Trust Property is recognised by the Security Trustee by means of an appropriate entry in the register of Holders maintained by the CSD;
----------------------	--

Deed	this trust deed, as the same may be amended, replaced or updated from time to time;
-------------	---

Deposited Monies	cash and balances held in a bank account in the name of the Issuer as the same may be designated as such by agreement between the Issuer and the Security Trustee, which account shall be pledged in favour of the Security Trustee pursuant to the Deposited Monies Pledge Agreement;
Deposited Monies Pledge Agreement	the pledge agreement to be executed on or around the date of this Deed whereby the Company shall constitute a pledge on the Deposited Monies in favour of the Security Trustee for the benefit of the Beneficiaries, subject to the terms and conditions contained therein, as the same may be amended from time to time;
Factoring Receivables	shall have the same meaning as that attributed to it in the Receivables Pledge Agreement;
First Tranche Notes	the first Tranche of Notes to be issued by the Issuer pursuant to the Prospectus;
Other Receivables	shall have the same meaning as that attributed to it in the Receivables Pledge Agreement;
Pledge Agreements	means the Deposited Monies Pledge Agreement and Receivables Pledge Agreement;
Procedures Report	shall have the same meaning as that attributed to it in the Receivables Pledge Agreement;
Receivables	shall have the same meaning as that attributed to it in the Receivables Pledge Agreement;
Receivables Pledge Agreement	the pledge agreement to be executed on or around the date of this Deed whereby the Company shall constitute a pledge on the Receivables in favour of the Security Trustee for the benefit of the Beneficiaries, subject to the terms and conditions contained therein, as the same may be amended from time to time;
Reported Factoring Receivables	shall have the same meaning as that attributed to it in the Deposited Monies Pledge Agreement;
Secured Obligation	the obligations of the Company under the Notes, in particular the obligation of the Company to pay interest and principal as the same may be due in respect of the Notes, subject to the terms and conditions contained in the Prospectus;
Security Interest	the pledge on the Receivables and Deposited Monies and any other document, real or personal right which the Security Trustee and the Company agree at any time is to be comprised within the “ Security Interest ” for the purposes of this Deed;
Trust Period	the period ending on the earlier of : a) the day when the Trust Property has been distributed in its entirety; b) the day when the Company has fulfilled its obligations to pay principal and interest under the Programme;
Trust Property	initially the undertaking to grant the Security Interest as stated in Clause 2 of this Deed, and subsequently: a) the rights emanating from this Deed; and b) the rights emanating from the Security Interest.

1.2 Any reference to the Company and/or the Security Trustee includes a reference to its/their duly authorised delegates.

1.3 References to Clauses are references to Clauses of this Deed.

1.4 The headings to the Clauses of this Deed are for convenience only and shall not affect the construction or interpretation hereof.

2 UNDERTAKING TO SECURITY TRUSTEE - TRUST PROPERTY

2.1 The Company undertakes and binds itself to grant to the Security Trustee the Security Interest in the manner and at the times and under the conditions contained in this Deed and the Security Trustee:

2.1.1 accepts this undertaking and declares a trust thereon for the benefit of all of the Beneficiaries; and

2.1.2 agrees and undertakes to receive the Security Interest on trust for the benefit of all of the Beneficiaries.

3 DECLARATION OF TRUST

3.1 Subject to the provisions of this Deed and applicable law:

3.1.1 The Trust Property is held by the Security Trustee on trust for all the Beneficiaries *pari passu* according to the rights and interests held by each Beneficiary in the Trust Property as evidenced by the register of Holders;

3.1.2 Any sums received by the Security Trustee, whether of principal, interest or otherwise, from the Company, under the Programme, shall be received by the Security Trustee on trust to apply them to indemnities, costs and charges in accordance with this Deed and thereafter to distribute and apply them in accordance with rights and interests of each Beneficiary as set out in this Deed;

3.1.3 The Security Trustee shall make additional declarations of trust whenever additional property is received under these trusts and such declarations of trust shall be on the same terms as stated herein and shall form an integral part hereof;

3.1.4 The trust established under this Deed is to be known as the “**Izola Programme Trust**” or the “**Trust**”.

4 DEED BINDING ON ALL BENEFICIARIES

4.1 The terms and conditions of this Deed shall, upon subscription or purchase of any Note, be binding upon any Beneficiary as if he had been a party hereto and as if this Deed covenants on the part of each Beneficiary to observe and be bound by all the provisions hereof, and the Security Trustee is hereby authorised and required to do the things required of it by this Deed.

4.2 The Beneficiaries acknowledge that the Notes may rank junior and subsequent to any prior ranking security interest arising by operation of the law.

5 BENEFICIARIES

5.1 The register of the Holders shall be maintained by a central securities depository and shall serve as conclusive evidence of the entitlement of each Beneficiary under this Deed.

5.2 The Company hereby agrees to provide the Security Trustee, at any moment in time, with full access to the register of Holders thereby providing the Security Trustee with full and unrestricted information in respect thereof. Furthermore, the Company hereby undertakes in favour of the Security Trustee that it shall pay all and any charges, levies that may, from time to time, be levied by the CSD for the services performed by the same in connection with the Notes and the register of Holders.

6 COVENANTS BY THE COMPANY

6.1 The Company covenants in favour of the Security Trustee that at all times during the continuance of this Deed:

6.1.1 it will maintain its corporate existence as a company duly organised and existing and in good standing under the laws of Malta;

6.1.2 it will maintain a licence to carry on the business of banking in terms of the Banking Act, Cap. 371 of the laws of Malta;

6.1.3 it will, promptly upon the happening of an Acceleration Event, notify the Security Trustee of such event;

6.1.4 it shall, at all times and without cost or expense to the Security Trustee, use its best endeavours to, or to cause to, maintain, preserve and keep in proper condition the Security Interest;

6.1.5 the Company will keep proper books of account which shall, at all reasonable time, be open to inspection by the Security Trustee or any person appointed thereby for that purpose, and will furnish to the Security Trustee or any such agent all such information relating to the business or affairs of the Company as they shall require in accordance with International Financial Reporting Standards as adopted by the EU and will deliver to the Security Trustee at least five days before the annual general meeting of the Company each year, a copy of the balance sheet and profit and loss account of the Company certified by the auditors of the Company and copies of the auditors' and directors' report thereon together with copies of any other documents required by law to be attached thereto. The Security Trustee may but shall not be required or bound to carry out any independent audit or other verification of any book of account, balance sheet, profit and loss account, certificates or information furnished to it by the Company;

6.1.6 the Company shall carry on its business in a proper and efficient manner;

6.1.7 the Company undertakes that, for as long as the First Tranche Notes are outstanding, the aggregate of the Reported Factoring Receivables and the Other Receivables shall amount to at least one hundred and twenty per cent (120%) of the amount arrived by deducting the Deposited Monies, if any, from the principal amount of outstanding First Tranche Notes; any default in the compliance by the Company of its obligations under this Clause shall be remedied by the Company within a period of fifteen (15) business days from receipt of notice from the Security Trustee requesting the remedy of same;

6.1.8 the Company shall forthwith on receipt of same, deliver to the Security Trustee all orders, directions, notices and other things whatsoever affecting or likely to adversely affect the Security Interest and the Company shall be entitled to retain a copy thereof, at its own expense.

7 REPRESENTATIONS AND WARRANTIES

7.1 The Company represents and warrants in favour of the Security Trustee that relies upon such representations and warranties, that, for the duration of the Deed:

7.1.1 it is duly incorporated and validly registered under the laws of Malta and has the power to carry on its business as it is now being conducted and to hold its property and other assets under legal title;

7.1.2 it has the power to execute, deliver, and perform its obligations under this Deed;

7.1.3 all necessary corporate action has been duly taken to authorise the execution, delivery and performance of the same;

7.1.4 this Deed constitute the legally valid and binding obligations of the Company;

7.1.5 the execution of the Deed and the performance of the Company's obligations hereunder do not (a) contravene any existing applicable law, statute, rule or regulation or any judgment, decree or permit to which the Company is subject, (b) conflict with, or result in any breach of any terms of, or constitute a default or acceleration event under any bond or other instrument to which the Company is a party or is subject or by which it or its property is bound, (c) contravene any provisions of the Company's memorandum and articles of association;

7.1.6 no litigation, arbitration or administrative proceedings are pending or, to the knowledge of the Company, threatened against the Company which could have a material adverse effect on its business, assets or financial condition;

7.1.7 the Prospectus contains all material information with respect to the Company and that all information contained therein is, in every material respect, correct and true and not misleading and that there are no facts in relation to the Company, its respective businesses and financial position, the omission of which would, in the context of the Programme make any statement made in the Prospectus misleading or inaccurate in any material respect;

7.1.8 no Acceleration Event has occurred and is continuing.

8 POWERS AND FUNCTIONS

- 8.1** The Security Trustee shall, in addition and without prejudice to all statutory powers, have the powers and immunities set out in this Deed. No power conferred on the Security Trustee shall be exercised so as to conflict with the beneficial provisions of this Deed.
- 8.2** The Trustee shall not distribute to or hold all or any of the Trust Property for the benefit of any person who is not a Beneficiary.
- 8.3** The Security Trustee may, in its absolute discretion and without further notice, enforce or take any step or proceedings to enforce the covenants and provisions in this Deed, and may in its absolute and uncontrolled discretion waive on such terms and conditions as it shall deem expedient any of the covenants and provisions contained in this Deed and/or the Pledge Agreements on the part of the Company to be performed and observed. The Security Trustee shall not be bound to take any such steps or proceedings to enforce the said covenants and provisions unless requested to do so in writing by not less than 75% in value of the Beneficiaries. The Beneficiaries shall hold the Security Trustee harmless and fully indemnified for and against any loss, damage, cost or other liability it may incur by virtue of its failure to enforce or take any steps or proceedings to enforce the covenants and provisions in this Deed in the event that it has not received proper instructions in writing from at least 75% in value of the Beneficiaries.
- 8.4** The Security Trustee shall have the power, but shall have no obligation, to monitor financial information relating to the Company, on behalf of the Beneficiaries, as may be forwarded to the Security Trustee by the Company on an annual basis.
- 8.5** The Security Trustee may, at any time during the Trust Period, accept (but shall not be bound to so accept) additional money, investments or other property of whatever nature and wherever situate, paid or transferred to it by any person. Such additional money, investments or other property shall be held upon trust with and subject to the powers and provisions of this Deed.
- 8.6** The Security Trustee shall have the powers and discretions granted to it pursuant to the Pledge Agreements and any other document relating to or regulating the Security Interest.
- 8.7** Without prejudice to the powers and the reliefs conferred upon trustees under applicable law, the Security Trustee shall have the following powers:
- 8.7.1** The Security Trustee may employ and pay, at the expense of the Company, any agent in any part of world to transact any business in connection with this Trust without being responsible for the fraud, dishonesty or negligence of such agent if employed in good faith;
- 8.7.2** The Security Trustee may hold all or any part of the Trust Property in the name of any person or partnership, as nominee, on such terms as the Security Trustee thinks fit;
- 8.7.3** The Security Trustee may engage any person or partnership to manage the Trust Property without being liable for any consequent loss;
- 8.7.4** The Security Trustee may, without being liable for any consequent loss, delegate to any person the operation of any bank or other account;
- 8.7.5** The Security Trustee may, by deed revocable or irrevocable, delegate to another trustee or any other person the exercise of all or any Trust and powers conferred on such trustee (other than the power of delegation conferred by this sub-Clause) notwithstanding the fiduciary nature of such trusts and powers;

8.7.6 To delegate, whenever it thinks fit, any of its powers and discretions under this Deed to any person/s (including but without limitation, any officer/employee/agent of the Security Trustee) believed by it to be competent and responsible and to delegate all or any of the trust powers and duties vested in it under this Deed to such person/s (including any such officer/employee/agent as aforesaid) as it shall think fit without incurring any liability for the default of any person to whom such discretions, powers or duties are delegated;

8.7.7 The Security Trustee may rely on the advice, opinion, direction, report, statement, certificate or other information by any advocate, broker, surveyor, valuer, accountant, auditor or other professional person without incurring any liability for so relying notwithstanding that such professional person may have been employed by the Company or may otherwise not be disinterested and without incurring liability for any error in the transmission of any such advise, opinion, direction, report, statement, certificate or other information, or by reason of the same not being authentic. The Security Trustee may but shall not be bound to make any investigation or inquiry into any matters stated in such advice, opinion, direction, report, statement, certificate or other information.

8.8 The Security Trustee shall be under no obligation to insure any of the Trust Property or any deeds, documents of title, certificates, bonds or other evidence in respect thereof, or to require any other person to maintain any such insurance.

8.9 The Security Trustee shall be empowered to execute any document for the constitution of the Security Interest for the benefit of the Beneficiaries. Until the end of the Trust Period, the Security Trustee shall be empowered to carry out any transaction and to execute any such document required pursuant to and/or conducive to the Security Interest, including but not limited to, any amendment thereto and waiver to any terms thereof.

9 FINANCIAL TRANSACTIONS BY SECURITY TRUSTEES

Neither the Security Trustee nor any director, officer or employee of the Security Trustee shall, by reason of the fiduciary position of such Security Trustee, be in any way precluded from making any commercial contracts or entering into any commercial transactions with the Company, whether directly or through any subsidiary or associated company, or from accepting the trusteeship of any other debenture stock, debentures or securities of the Company, and without prejudice to the generality of these provisions it is expressly declared that such contracts and transactions include any contract or transaction in relation to the placing, underwriting, purchasing, subscribing for or dealing with or lending money upon or making payments in respect of any stock, shares, debenture stock, debentures or other securities of the Company or any contract of banking or insurance with the Company and neither the Security Trustee nor any such director, officer or employee shall be accountable to the Beneficiaries for any profit, fees, commissions, interest, discounts or share of brokerage earned, arising or resulting from any such contracts or transactions, and the Security Trustee and any such director, officer or employee shall also be at liberty to retain the same without accounting therefor.

10 ACKNOWLEDGEMENT OF SECURITY

The execution of this Deed by the Security Trustee and the publication thereof by virtue of the Prospectus shall constitute notice to each of the Beneficiaries of the security created in favour of the Beneficiaries.

11 PROCEDURE UPON ACCELERATION EVENT

11.1 The Security Trustee may, in its absolute and uncontrolled discretion and shall, upon the request in writing of not less than seventy-five per cent (75%) in value of the Beneficiaries, by notice in writing to the Company, declare that, in terms of the Prospectus the Notes to have become immediately payable.

11.2 Provided that in the event of any breach by the Company of any of the covenants, obligations or provisions herein contained due to any fortuitous event of a calamitous nature, beyond the control of the Company, the Security Trustee may, but shall be under no obligation to do so, give the Company such period of time to remedy the breach as in its sole opinion may be justified in the circumstances and if in its sole opinion the breach is remediable within the short term and without any adverse impact on the Beneficiaries. Provided that, in the circumstance contemplated by this Clause, the Security Trustee shall at all times act on and in accordance with any instructions it may receive from a simple majority in value of the Beneficiaries present and voting at a meeting of Beneficiaries.

11.3 The Security Trustee shall not be bound to take any steps to ascertain whether any Acceleration Event or other condition, event or circumstance has occurred or may occur, and, until it shall have actual knowledge or express notice to the contrary, the Security Trustee shall be entitled to assume that no such Acceleration Event or condition, event or circumstance has happened and that the Company is observing and performing all the obligations, conditions and provisions on its part contained in the Prospectus and this Deed.

11.4 All monies received or recovered by any of the Beneficiaries after the occurrence and during the continuance of an Acceleration Event shall be held on trust for the Security Trustee and be applied by the Security Trustee in favour of the Beneficiaries *pari passu* according to the rights and interests held by each Beneficiary in the Trust Property as evidenced by the register of Holders.

11.5 The Beneficiaries acknowledge that the Security Trustee shall not be bound to take any steps or institute any proceedings or to take any other action to enforce the security constituted by the Security Interest unless the Security Trustee shall have been indemnified to its satisfaction against all actions, proceedings, claims and demands to which it may thereby render itself liable and all costs, charges, damages and expenses which it may incur by so doing.

11.6 The Security Trustee shall be entitled to make deductions and withholdings (on account of taxes or otherwise) from payments to the Beneficiaries hereunder which it is required by any applicable law to make, and to pay all taxes which may be assessed against it in respect of the Security Interest, in respect of anything done by it in its capacity as trustee or otherwise by virtue of its capacity as trustee. Neither the Company, nor the Security Trustee shall be under any obligation to pay any additional amounts in the event of a withholding or deduction required by applicable law and the Secured Obligations shall be discharged upon receipt by the Beneficiaries of such amounts as are due to them but subject to any valid withholdings or deductions having been made from such amounts.

12 DISTRIBUTION BY SECURITY TRUSTEE

12.1 All monies arising from any calling in or collection hereunder and all monies received by the Security Trustee hereunder at any time shall be held by the Security Trustee (subject to any prior ranking claims thereon, if any) upon trust to apply the same for the following purposes and in the following order of priority in payment of:

12.1.1 All costs, charges, expenses and liabilities incurred and payments made in or about the exercise of the trust in relation to this Deed by the Security Trustee including all remuneration payable to the Security Trustee with interest thereon as hereinafter provided;

12.1.2 The interest owing upon the Notes *pari passu* and without any preference or priority;

12.1.3 The principal monies owing upon the Notes *pari passu* and without any preference or priority.

12.2 The Security Trustee shall give to the Beneficiaries at least ten (10) days notice of every distribution made by it to the Beneficiaries. The Security Trustee shall be entitled, at its discretion, to withhold payment of any monies due to be distributed to any Beneficiaries. Any monies the payment whereof is for the time being withheld by the Security Trustee pursuant to this Clause shall be placed by it at the risk of the person or persons entitled thereto in a savings account with a bank. The amount which equals the amount of any principal monies for the time being withheld from the person or persons registered or entitled to be registered as the Beneficiaries of the Notes shall not carry interest while such monies are being withheld (save any interest allowed on the savings account in which such monies are placed). The receipt of the Holder or of the first named joint Holders for any monies paid by the Security Trustee in respect of the Notes shall be a good discharge to the Security Trustee for those monies.

13 MEETINGS OF BENEFICIARIES

13.1 The Security Trustee at any time and at the cost of the Company prior to exercising any power or discretion hereunder may:

13.1.1 Call a meeting of Beneficiaries by giving such Beneficiaries not less than seven (7) days notice in writing setting out in the notice the time, place and date set for the meeting and the matters to be discussed thereat; or

13.1.2 Write to all Beneficiaries requesting their instructions or directions.

Provided that the Security Trustee shall not be liable for any action it may deem necessary to take prior to acting in accordance with paragraphs 13.1.1 or 13.1.2 above.

13.2 In the event that there are more than two Beneficiaries at any meeting of Beneficiaries, two persons present in person or by proxy shall constitute a quorum. Unless this Deed otherwise determines, all decisions taken at meetings of Beneficiaries shall be passed by simple majority of those present and voting.

13.3 Upon request made at any time by Beneficiaries holding at least ten per cent (10%) of the outstanding value of the Notes, the Security Trustee shall call a meeting of Beneficiaries.

13.4 The Security Trustee shall not be bound to act on behalf of the Beneficiaries under this Deed unless it receives duly authorised instructions or directions as stipulated in this Deed.

13.5 Nothing in this Deed shall be construed as meaning that the Security Trustee is bound to act in the manner specified in this Clause unless so required by this Deed.

14 RESTRICTIONS ON EXERCISE OF CERTAIN RIGHTS

14.1 Each of the Beneficiaries agrees with the Security Trustee and the Company that it shall not exercise any right of set-off in respect of any amount payable to it by the Company against any amount payable by it to the Company.

15 PROTECTION OF THE TRUSTEE GENERALLY

15.1 The Security Trustee shall not be liable for any default or breach of duty or trust committed by its act or omission or that of any of the former or current trustee or any of the Security Trustee's agents or advisers or for any loss or depreciation in value or loss of profits howsoever caused which may be suffered in respect of the capital or income of the Trust Property, unless such default or breach is, or such loss or depreciation in value or loss of profit is caused by:

- (i) fraud, wilful misconduct or gross negligence on the part of the Security Trustee which is sought to be made liable; and/or
- (ii) some act or omission in respect of which that Security Trustee cannot under the proper law for the time being of this Deed lawfully be exonerated from personal liability by the terms of this Deed. The Security Trustee shall not be liable for any error of judgment committed in good faith unless it shall be proved that it was grossly negligent in ascertaining the pertinent facts.

15.2 The Security Trustee, (which shall include each director, employee, shareholder, delegate and agent thereof) shall be indemnified out of the Trust Property:

15.2.1 against any liability incurred by him in defending any proceedings in connection with his duties as a Security Trustee, in which judgment is given in his favour or in which he is acquitted; and

15.2.2 against all claims, liabilities, costs, damages and expenses (including legal fees) to which he may be or become subject by reason of their activities as Security Trustee so long as the said activity or circumstance does not involve fraud or wilful misconduct or gross negligence on the part of the Security Trustee.

15.3 The Security Trustee may purchase and maintain insurance, to the extent and in such a manner in its absolute discretion deems appropriate, on behalf of itself, against any liability that may be asserted or expenses that may be incurred by any such person in connection with the activities of the Trust, regardless of whether the Security Trustee has the right to be indemnified out of the Trust Property under the provisions of the Trust or by law.

16 RELEASE OF POWERS

16.1 The Security Trustee may by deed (and so as to bind successive trustee of this Trust) release or restrict the future exercise of all or any of the powers conferred on it by this Trust.

17 INFORMATION TO BENEFICIARIES

17.1 The Security Trustee shall, so far as is reasonable and within a reasonable time of receiving a request in writing to that effect, provide full and accurate information as to the state and amount of the Trust Property, including the accounts of the Trust.

18 REMUNERATION TO SECURITY TRUSTEE

During the continuance of this Deed, the Security Trustee shall be entitled to receive and the Company shall be obliged to pay such reasonable remuneration as they may agree in writing between them. The Security Trustee shall be entitled to be indemnified for all reasonable costs and expenses incurred in carrying out the Trust.

19 RESIGNATION OF SECURITY TRUSTEE AND APPOINTMENT OF NEW OR ADDITIONAL TRUSTEE

19.1 Subject to the provisions of article 20(2) of the Act, the Security Trustee may resign as Security Trustee by giving not less than three (3) months notice in writing to the Company without assigning any reason whatsoever and without being responsible for any costs occasioned by such retirement. The Holders shall have the power exercisable by a resolution passed at a meeting of Holders passed by seventy-five per cent (75%) in value of the Holders to remove the Security Trustee. The Company undertakes that in the event of the Security Trustee giving notice, or being removed, under this Clause it will use all reasonable endeavours to procure a new trustee to be appointed. The retirement or removal shall not become effective until such time as a successor trustee is appointed.

20 TERMINATION

20.1 The Security Trustee shall only be discharged from all liabilities and obligations which it has under this Deed upon the Early Redemption (if any) or redemption on the Maturity Date of the principal amount of the Notes and payment of all interest thereunder and re-imburement of all expenses incurred by, and payment of, remuneration due to the Security Trustee under this Deed.

21 EXCLUSION OF IMPLIED DUTIES

21.1 The Security Trustee shall not have or incur any obligation, duty or responsibility, whether fiduciary or otherwise, to the Company or to any of the Beneficiaries, as the case may be, except those expressly specified in this Deed and the Notes to the effect that the Security Trustee has such a duty or responsibility.

21.2 For all intents and purposes it is being expressly stipulated that the Security Trustee shall not be bound to initiate and or maintain any legal or judicial proceedings against any defaulting Debtors (as defined in the Receivables Pledge Agreement) under the Receivables Pledge Agreement and the decision whether to initiate and or maintain any such action shall be in the absolute discretion of the Pledgee. The Pledgee is hereby being exonerated in the most ample manner from the obligation imposed by article 1968(1) of the Civil Code.

22 AMENDMENTS TO THIS DEED

22.1 The Trustee may at any time or times during the Trust Period by deed or deeds and without the prior written consent of the Beneficiaries, vary, amend, add to or delete any or all of the provisions of this Deed (whether of a beneficial or administrative nature) including the trusts, powers and discretions and the administrative powers herein declared and contained provided that:

22.1.1 no such variation, amendment, addition or deletion shall infringe the Proper Law of this Deed; and

22.1.2 no such variation, amendment or addition shall be permitted to the provisions of this Clause 22, but it shall be permissible to delete this Clause in its entirety.

23 PROPER LAW, FORUM AND PLACE OF ADMINISTRATION

23.1 The Proper Law of this Deed shall be that of Malta. All rights under this Deed and its construction and effect shall be subject to the jurisdiction of the courts and construed according to the laws of Malta. The courts of Malta shall be the forum for the administration of these trusts.

Annex II - Pledge Agreements

RECEIVABLES PLEDGE AGREEMENT

AGREEMENT DATED 20 APRIL 2010 AS AMENDED AND RESTATED ON 10 JUNE 2010

Between

HSBC Bank Malta p.l.c.
hereinafter the “Pledgee”

And

Izola Bank p.l.c.
hereinafter the “Pledgor”

This Pledge of Receivables Agreement (the “**Agreement**”) is made on the 20th day of April 2010, and amended and restated on the 10th day of June 2010,

BETWEEN

1. Izola Bank p.l.c., a public limited liability company registered under the laws of Malta with company registration number C16343 and with registered office situated at 53-58, East Street, Valletta, Malta, duly represented hereon by Andrew Mifsud as duly authorised, hereinafter referred to as the “**Pledgor**” or the “**Company**”;

AND

2. HSBC Bank Malta p.l.c., a public limited liability company registered under the laws of Malta with company registration number C3177 and with registered office situated at 233, Republic Street, Valletta, Malta duly represented hereon by Emmanuel Magri and Jan Sammut, as duly authorised, hereinafter referred to as the “**Pledgee**” or the “**Security Trustee**”;

WHEREAS

- A. The Pledgor intends to issue a debt issuance programme by virtue of a base prospectus, the “**Prospectus**”;
- B. By virtue of the Prospectus, the Pledgor shall be authorised to issue up to €27,000,000 in value of Notes, as defined in the Prospectus, subject to the terms and conditions contained in the said Prospectus;
- C. The Pledgor shall, pursuant to the Prospectus, covenant that all and any Notes issued by virtue of the Prospectus shall constitute the secured obligations of the Pledgor and the security shall be held by a security trustee for the benefit of all Holders;
- D. The Security Trustee is authorised to act as security trustee thereby holding the security granted or to be granted by the Company on trust for the benefit of all Holders;
- E. On 20 April 2010, the Company and the Security Trustee entered into a trust deed whereby the Company undertook and bound itself to grant to the Security Trustee the Security Interest (as therein defined) in the manner and at the times and under the conditions contained in the said trust deed;
- F. The Pledgor and the Pledgee are therefore entering into this Agreement so as to establish the terms and conditions under which the pledging of the Secured Assets shall take place and under which the release and termination of such pledge shall be affected.

NOW IT IS HEREBY AGREED AS FOLLOWS

1. INTERPRETATION

1.1 In this Agreement (including the preamble):

“**Acceleration Event**” has the meaning given to that term in the Prospectus;

“**Additional Pledge**” means the additional pledge agreement, the form of which is contained in Annex 3 of this Agreement;

“**Beneficiaries**” has the same meaning given to that term in the Deed;

“**Credit Card Receivables**” all and any monies, whether by way of principal, interest or other costs and fees due or which may become due to the Pledgor and owed by any of the Debtors, whether as at the date of this Agreement or on any other future date, in respect of credit card facilities provided to any of the Debtors;

“**Deed**” means the trust deed dated 20 April 2010 entered into by and between the Pledgor as the Company and the Pledgee as the Security Trustee, as the same may be amended from time to time;

“**Debtor**” means any debtor of any of the Receivables as the same are identified in Annex 2 of this Agreement and as the same may be updated from time to time;

“**Delegate**” means any delegate, agent, attorney, or co-trustee appointed by the Security Trustee;

“**Factoring Receivables**” means all and any monies, whether by way of principal, interest or other costs and fees due or which may become due to the Pledgor and owed by any of the Debtors, whether as at the date of this Agreement or on any other future date, pursuant to invoices factored by the Pledgor, whether on a recourse or on non-recourse basis;

“**First Tranche Notes**” means the first Tranche of Notes to be issued by the Pledgor pursuant to the Prospectus;

“**Final Maturity Date**” means the latest of any of the Maturity Dates of any Notes issued by the Pledgor pursuant to the Prospectus;

“**Future Receivables**” means

- a) any Receivables which may become due by the Debtors to the Pledgor after the entry into of this Agreement (the “**Future Factoring Receivables**”); and
- b) any Other Receivables, which are deemed to be Receivables as a result of the execution of the Additional Pledge and which become due by the Debtors to the Pledgor after the execution of the Additional Pledge,

provided that such receivables come into existence before the Final Maturity Date;

“**Future Debtors**” means any and all such debtors which the Pledgor and the Pledgee may, by updating Annex 2, determine are to be considered Debtors for the purposes of this Agreement;

“**Indebtedness**” means all money or liabilities due, owing or incurred to the Holders by the Pledgor under the Notes issued pursuant to the Prospectus (including without limitation, under any amendments, supplements or restatements of the Prospectus) at present or in the future, together with all interest accruing thereon (if any);

“**Initial Factoring Receivables**” means the Factoring Receivables which are the subject of the Initial Report and which, as a result thereof, are stated to be in existence as at 30 March 2010;

“**Initial Report**” means the report required to be prepared and executed pursuant to and in accordance with Clause 4.1(e) of this Agreement;

“**Notification**” means the notification to be provided by the Pledgor to each Debtor pursuant to this Agreement, substantially in the forms contained in Annex 1 hereof and the term ‘Notify’ shall be construed accordingly;

“**Other Receivables**” means:

- (a) Overdraft Receivables;
- (b) Short Term Receivables;
- (c) Credit Card Receivables; or
- (d) Such other receivables deemed to be such by the Pledgor and the Pledgee.

“**Overdraft Receivables**” all and any monies, whether by way of principal, interest or other costs and fees due or which may become due to the Pledgor and owed by any of the Debtors in respect of overdraft facilities provided to any of the Debtors;

“**Procedures**” means the procedures set out in Annex 4 of this Agreement;

“**Procedures Report**” means the report contemplated in Clause 4.1 (f) of this Agreement;

“**Receivables**” means the Factoring Receivables;

“**Related Rights**” means rights attaching to, deriving from or exercisable by virtue of the Receivables;

“**Secured Assets**” means the Receivables, the Future Receivables and the Related Rights;

“**Secured Parties**” means the Holders;

“**Short Term Loan Receivables**” all and any monies, whether by way of principal, interest or other costs and fees due or which may become due to the Pledgor and owed by any of the Debtors, in respect of short term facilities provided to any of the Debtors;

1.2 In this Agreement, unless the context otherwise requires, a reference to a Secured Asset shall include:

- (a) any part of that Secured Asset; and
- (b) any proceeds of that Secured Asset.

1.3 In this Agreement, unless the context otherwise requires, any reference to the singular shall include the plural and vice versa, the use of the masculine pronoun shall include the feminine, the use of the neutral pronoun shall include the masculine or the feminine as the case may be and any reference to any Statute Law or Regulation having the force of Law or any section thereof includes reference to any modification thereto or re-enactment of such Statute Law or Regulation having the force of Law for the time being in force.

1.4 The headings in this Agreement are used and inserted for convenience only and shall be ignored in the interpretation of this Agreement.

1.5 Capitalised terms used herein shall have the same meaning as set out in the Prospectus unless the context requires or unless expressly defined herein.

2. CONSTITUTION OF THE PLEDGE

- 2.1** The Pledgor hereby pledges to the Pledgee, who accepts, the Secured Assets of the Pledgor as a continuing security for the due and punctual payment of the Indebtedness.
- 2.2** This pledge confers upon the Pledgee the right to obtain payment out of the Secured Assets with privilege over other creditors as provided by the Civil Code (Chapter 16 of the Revised Edition of the Laws of Malta, 1984) in virtue of the special privilege accorded by law under section 2009(a) of the said Code as well as the right of retention over the Secured Assets which entitles the Pledgee in his capacity as creditor to retain the benefits of this Agreement until such time as the full amount of the Indebtedness shall have been fully repaid and all obligations of the Pledgor under the Notes have been fully discharged in accordance with the terms and conditions contained therein.
- 2.3** In respect of any Future Receivables, upon coming into existence, the Future Receivables shall be deemed to be subject to the pledge created pursuant to this Agreement and shall for all intents and purposes of law be deemed to also fall within the definition of Receivables.
- 2.4** The parties agree that with respect to Future Debtors, the Pledgor and the Pledgee may, from time to time, update Annex 2 hereof to include such persons which the Pledgor and the Pledgee agree are to be considered Debtors for the purposes of this Agreement. The Pledgor shall thereafter include the Notification set out in Part B of Annex 1 on each invoice or other document relating to the Receivables of the existence of the pledge created over the Secured Assets pursuant to this Agreement.
- 2.5** Nothing in this Agreement shall be construed as placing on the Pledgee any liability whatsoever in respect of any obligations or payments relating to any of the Secured Assets or to any rights, accruing, offered or arising as aforesaid, and the Pledgor shall at all times indemnify and hold harmless the Pledgee against and from all demands made against it, payments made by it, and costs, expenses, damages, losses or other liabilities incurred or suffered by it at any time in respect of any such obligations or payments as aforesaid.
- 2.6** It is expressly agreed that this pledge is being granted to the Pledgee as security for payment of the Indebtedness.
- 2.7** Upon the Pledgor and the Pledgee so agreeing, Other Receivables may be pledged in favour of the Pledgee by executing the Additional Pledge and such Other Receivables shall, following the execution thereof, for all intents and purposes be deemed to be Receivables and shall be regulated as such.

3. REPRESENTATIONS AND WARRANTIES

- 3.1** The Pledgor represents and warrants to the Pledgee that:
- (a) it is the sole owner of the Secured Assets and that the Secured Assets are free from all and any encumbrances other than the special privilege created as a result of this Agreement;
 - (b) save for the acknowledgements or notifications specified in this Agreement it is not necessary to ensure the legality, validity, enforceability or admissibility in evidence of this Agreement that it or any other instrument be notarised, filed, recorded, registered or enrolled in any court, public office or elsewhere in the Republic of Malta or that any stamp, registration or similar tax or charge be paid in the Republic of Malta on or in relation to this Agreement and that this Agreement is in proper form for its enforcement in the courts of the Republic of Malta;

-
- (c) there is no document which confers the exclusive right to the disposal of the Receivables; and
 - (d) none of the Secured Assets are affected by, or are the subject of a precautionary or executive warrant of seizure issued by the Courts of Malta.

4. COVENANTS

4.1 The Pledgor covenants and agrees with the Pledgee:-

- (a) to warrant and to defend the right, title and interest of the Pledgor and the Pledgee in and to the Secured Assets against the claims and demands of all persons whomsoever;
- (b) that it will not sell, assign, transfer, pledge or encumber in any other manner any of the Secured Assets or suffer to exist any warrant or encumbrance on the Secured Assets except a pledge contemplated hereby in favour of the Pledgee or with the prior consent of the Pledgee;
- (c) that it will Notify in writing each debtor listed in Annex 2 as at the date of this Agreement of the existence of the pledge created over the Secured Assets pursuant to this Agreement. Such Notification shall include a list of the amounts due by the debtors to the Pledgor, a reference to the relative invoices and a notice of the pledge created pursuant to this agreement which shall be substantially in the form set out in Part A of Annex 1. Any invoices relating to the Future Factoring Receivables shall contain the Notice substantially in the form set out in Part B of Annex 1.
- (d) that it shall provide the Pledgee with the aggregate sum of all Receivables promptly upon request by the Pledgee, and in any case, on a quarterly basis;
- (e) that it shall, at its own cost and expense, appoint a reputable audit firm, to audit and opine on the existence of the balances of the Initial Factoring Receivables, and to produce a report thereon which shall be addressed and made available to the Pledgee by 17 May 2010.
- (f) that it shall, at its own cost and expense, appoint a reputable audit firm to perform and report on the Procedures as at the Interest Commencement Date of the Notes and, as a minimum, at the end of each quarter thereafter (hereinafter referred to as the "Relevant Date"). A copy of the report shall be addressed and made available to the Pledgee within two weeks of the Relevant Date.

4.2 The parties agree that, other than the report referred to in Clause 4.1 (f) above and notwithstanding the issuance by the Pledgor of further Tranches under the Programme, no additional report or confirmations will be required by the Pledgee in relation to the Receivables securing the Notes.

5. TERMINATION AND RELEASES

5.1 Once the Pledgee is satisfied, acting reasonably, that all the Indebtedness has been paid in full, the Pledgee shall, at the request and cost of the Pledgor, take any action which may be necessary to release the Secured Assets from the security constituted by this Agreement and to notify the Debtors of the said release.

6. RIGHTS, POWER AND REMEDIES

6.1 Until an Acceleration Event occurs all rights, discretions, obligations and powers attaching to the Secured Assets will be exercised by the Pledgor as the Pledgor may from time to time reasonably direct, provided that the Pledgor shall not be entitled to direct that the rights, obligations and powers attaching to the Secured Assets be exercised in a manner which the Pledgee reasonably considers to be prejudicial to the interests of the Secured Parties under this Agreement. For all intents and purposes it is being expressly stipulated that repayment of all monies, whether by way of principal, interests or other costs and fees due by the Debtors to the Pledgor are to continue to be collected by the Pledgor or to be directly effected by the Debtors into the account designated by the Pledgor. The Pledgee is hereby being exonerated in the most ample manner from the obligation imposed by article 1968(1) of the Civil Code.

6.2 After an Acceleration Event occurs the Pledgee shall be entitled to:

- (a) demand that the Receivables be assigned to him in payment of the Indebtedness;
- (b) exercise all and any remedies available to the Pledgee under the laws of Malta; and
- (c) pursuant to Clause 12.1, exercise or direct the exercise in the name of the Pledgor of the rights and powers attached to any Secured Assets in such manner as it considers fit.

For all intents and purposes it is being expressly stipulated that the Pledgee shall not be bound to initiate and or maintain any legal or judicial proceedings against any defaulting Debtors and the decision whether to initiate and or maintain any such action shall be in the absolute discretion of the Pledgee. The Pledgee is hereby being exonerated in the most ample manner from the obligation imposed by article 1968(1) of the Civil Code.

6.3 After an Acceleration Event occurs the Pledgor shall:

- (a) comply, or procure the compliance, with any directions of the Pledgee in respect of the exercise of any rights and powers exercisable in relation to such Secured Assets; and
- (b) if the Pledgee so requests, promptly deliver to the Pledgee a form of proxy or other authority (in each case, in such form as the Pledgee shall reasonably require) appointing such person as the Pledgee shall select to be the proxy of the Pledgor or otherwise enabling such person as the Pledgee shall select to exercise such rights and powers as shall be specified (whether generally or specifically) in the relevant notice.

6.4 The Pledgee shall not be under any duty to ensure that any payments or other monies payable in respect of those Secured Assets are duly and promptly paid or received by the Pledgor or its nominee, or to verify that the correct amounts are paid or received, or to take any action in connection with the taking up of any (or any offer of any) stocks, shares, rights, monies or other property paid, distributed, accruing or offered at any time by way of interest, dividend, rights, or otherwise on or in respect of or in substitution for, any of those Secured Assets.

6.5 The Pledgor will forward copies of all notices, documents and other communications received by it or its nominee in connection with the Secured Assets to the Pledgee promptly following receipt, upon request of the Pledgee.

6.6 These rights and remedies are in addition to the remedies granted to the Pledgee under Maltese law and, in so far as it is necessary to do so, the Pledgor authorises the Pledgee to avail itself of all and any of the above remedies in protection of or enforcement of its rights.

6.7 It is further acknowledged that the grant of the rights in Clause 6.1 above is in no way a release or restitution by the Pledgee to the Pledgor of the Secured Assets and the Pledgee shall continue to be entitled to exercise its right of retention over the Secured Assets, subject to any authorities they may grant the Pledgor from time to time, until the termination of this Agreement.

7. RESERVED MATTERS

7.1 Notwithstanding the provision of Clause 6.1 above, it is agreed that the Pledgor shall provide written notice to the Pledgee before authorising or otherwise allowing to subsist any of the following matters:

- (a) any waiver or renunciation or non-enforcement of any rights in respect of the Receivables; and
- (b) any amendment to the any terms regulating the Receivables.

8. IRREGULARITIES IN OTHER SECURITY - TIME FOR PAYMENT INDEMNITY

8.1 This Agreement shall not be extinguished, discharged or otherwise affected by the total or partial invalidity or unenforceability or any irregularity or defect in any security the Pledgee may now or at any time hold in respect of all or any of the Indebtedness, and the Pledgee shall have full power at its discretion to give time for payment to any person (whether physical, corporate or unincorporate) giving such other security or not to enforce or avail itself of such other security without prejudice to the Pledgor's liability hereunder.

9. CURRENCY CONVERSION

9.1 For the purpose of or pending the discharge of any of the Indebtedness, the Pledgee may convert any monies received, recovered or realised by it under this Agreement (including the proceeds of any conversion under this Clause) from their existing currency of denomination into such other currency of denomination into such other currency as the Pledgee considers necessary and any such conversion shall be effected at the then prevailing Pledgee's spot selling rate of exchange for such other currency against the existing currency and, for the avoidance of doubt, it is hereby being expressly agreed that references in this Clause to currency include funds of that currency and the Pledgee may convert funds of one currency into different funds of the same currency.

10. APPLICATION OF PROCEEDS

10.1 Following the happening of an Acceleration Event all payments arising in relation to the Secured Assets including the proceeds of any sale of all or any part of the Secured Assets and received by the Pledgee under this Agreement, shall be credited to the account of the Pledgee held on trust for the Beneficiaries under the Deed and applied in accordance with the terms of the Deed in permanent proportionate reduction of the Indebtedness.

11. NEGLIGENCE IN REALISATIONS

Saving the provisions of the second paragraph of Clause 6.2, the Pledgee shall not be liable in respect of any neglect by the Pledgee or by any agent, or receiver appointed by the Pledgee in connection with the enforcement or otherwise of any security which the Pledgee may from time to time hold from the Pledgor or from any other person. This Clause excludes liability for ordinary negligence only and nothing herein shall be deemed to exclude any liability for gross negligence or wilful default.

12. ATTORNEY

12.1 The Pledgor, by way of security, irrevocably and severally appoints the Pledgee, each Receiver and any person nominated for the purpose by the Pledgee or any Receiver (in writing and signed by an officer of the Pledgee or Receiver) as its attorney (in connection with and for the purpose of the security under this Agreement, with full power of substitution and delegation) in its name and on its behalf to act, execute, and deliver and otherwise perfect and do any deed, assurance, agreement, instrument, act or thing which it ought to execute and do under the terms of this Agreement, or which may be required or deemed proper in the exercise of any rights or powers conferred on the Pledgee or any Receiver under this Agreement or otherwise for any of the purposes of this Agreement, and the Pledgor covenants with the Pledgee and each Receiver to ratify and confirm all such acts or things made, done or executed by that attorney. Such power of attorney shall only be exercisable following the occurrence of an Acceleration Event or if the Pledgor has failed to comply with its further assurance obligations pursuant to Clause 13 hereof or a perfection obligation pursuant to this Agreement.

13. FURTHER ASSURANCES AND AGREEMENTS

13.1 The Pledgor must, promptly following request, at its own expense, take whatever action the Pledgee or a Receiver may reasonably require for:

- (a) creating, perfecting or protecting any security intended to be created by or pursuant to this Agreement;
- (b) facilitating the realisation of any Secured Asset;
- (c) facilitating the exercise of any right, power or discretion exercisable by the Pledgee or any Receiver or any of their respective delegates or sub-delegates in respect of any Secured Asset.

13.2 Actions taken by the Pledgor pursuant to Clause 13.1 above shall include:

- (a) the re-execution of or accession to this Agreement; and
- (b) the giving of any notice, order or direction and the making of any filing or registration, which, in any such case, the Pledgee may think expedient.

14. CERTIFICATES CONCLUSIVE

14.1 A certificate, determination, notification or opinion of the Pledgee stipulated for in this Agreement or as to any rate of interest or any other amount payable under this Agreement will be conclusive and binding on the Pledgor, except in the case of manifest error.

15. NOTICES

15.1 All notices or other communications under this Agreement shall be in writing addressed as follows:

To the Pledgor:

Address: 53/58 East Street, Valletta VLT 1251, Malta

Attn: Andrew Mifsud

Fax: (+356) 21241250

To the Pledgee:

Address: Trust Services Department, PFS Centre, Mill Street, Qormi, QRM 3103, Malta

Attn: Emmanuel Magri; Jan Sammut

Fax: (+356) 23802205

and once given or made shall be irrevocable and shall be deemed to have been duly given or made:-

- (a) in the case of a communication by letter or by cable when received; and
- (b) in the case of a communication by telex or facsimile when sent.

15.2 Any changes to any of the above shall be notified to the parties by notice in accordance with this Agreement.

16. SEVERANCE AND MODIFICATION OF CLAUSES

16.1 If any of the Clauses or part thereof of this Agreement is or becomes invalid or unenforceable for any reason whatsoever, the validity of the remaining Clauses or part/s thereof will not in any way be affected or impaired.

16.2 If any invalid or unenforceable Clause or part thereof of this Agreement would not be enforceable or invalid if its form or effect were modified in any way, it shall be deemed to have the modified form or effect provided that the Pledgee gives its consent.

17. GOVERNING LAW AND JURISDICTION

17.1 This Agreement and any matter arising from or in connection with it (including non-contractual obligations) shall be governed by and construed in accordance with the laws of Malta.

17.2 The courts of Malta have non-exclusive jurisdiction to settle any dispute arising out of or in connection with this Agreement (including a dispute regarding the existence, validity or termination of this Agreement as well as non-contractual obligations) (a “Dispute”).

18. MISCELLANEOUS

18.1 The Pledgee declares that, for all intents and purposes of law, it is holding the pledge created by virtue of this Agreement and all rights arising therefrom, on trust as security trustee for the benefit of the Beneficiaries.

18.2 This Agreement may be executed by one or more of the parties to this agreement on any number of separate counterparts, and all of said counterparts taken together shall be deemed to constitute one and the same instrument. Delivery of an executed signature page of this Agreement by facsimile transmission shall be effective as delivery of a manually executed counterpart hereof. A set of the copies of this Agreement signed by all the parties shall be lodged with the Pledgor and the Pledgee.

18.3 Failure by one or more parties (“**Non-Signatories**”) to execute this Agreement on the date hereof will not invalidate the provisions of this Agreement as between the other parties who do execute this Agreement. Such Non-Signatories may execute this Agreement (or a counterpart thereof) on a subsequent date and will thereupon become bound by its provisions.

Annex 1

Notification

Part A

“The invoices listed above have been pledged in favour of HSBC Bank Malta p.l.c. as security trustee for noteholders of Izola Bank p.l.c.”

Part B

In the case of Factoring Receivables:

“Notice of Pledge: The receivables due under this invoice have been pledged in favour of HSBC Bank Malta p.l.c. as security trustee for noteholders of Izola Bank p.l.c.”

In the case of Other Receivables:

Notice of Pledge: Any and all amounts due or which may become due by you to Izola Bank p.l.c. in respect of [insert description of Other Receivables] have been pledged in favour of HSBC Bank Malta p.l.c. as security trustee for noteholders of Izola Bank p.l.c.

Annex 2

Debtors

Debtors under Factoring Receivables

Intentionally not included

Debtors under Other Receivables

n/a

Annex 3

Additional Pledge

An Agreement entered into by and between:-

1. HSBC Bank Malta p.l.c., a public limited liability company registered under the laws of Malta with company registration number C-3177 and with registered office situated at 233, Republic Street, Valletta, Malta duly represented hereon by [], hereinafter referred to as the “Pledgee” or the “Security Trustee”;
2. Izola Bank p.l.c., a public limited liability company registered under the laws of Malta with company registration number C16343 and with registered office situated at 53-58, East Street, Valletta, Malta, duly represented hereon by [], hereinafter referred to as the “Pledgor” or the “Company”;

1. The Pledgor hereby pledges to the Pledgee, the following receivables:

(the “Additional Pledged Receivables”)

as a continuing security for the due and punctual performance and observance by the Pledgor of the Indebtedness as defined in the Pledge of Receivables Agreement entered into between the parties hereto dated 20 April 2010 (hereinafter the “Pledge of Receivables Agreement”);

2. This Additional Pledge is a transaction contemplated by and subject to all the terms and conditions of the Pledge of Receivables Agreement and it is being specifically agreed that the Pledge of Receivables Agreement is being incorporated *in toto*, including the recitals thereto, into this Additional Pledge and shall apply to and form an integral part of this Additional Pledge. The Pledgee shall enjoy all the rights, discretions, privileges and powers granted to it in the Pledge of Receivables Agreement in relation to the Additional Pledged Receivables.
3. The Additional Pledged Receivables shall in accordance with the provisions of Clause 2.7 of the Pledge of Receivables Agreement be deemed to be Receivables and shall be regulated as such. The Pledgor is hereby delivering to the Pledgee an updated list of Debtors including the Debtors of the Additional Pledged Receivables.
4. The Pledgor shall promptly Notify in writing the Debtors of the Additional Pledged Receivables of the existence of the pledge created over the Secured Assets substantially in the form set out under the heading “in the case of Other Receivables” under Part B of Annex 1.
5. As at the date of this Additional Pledge Agreement the representations and warranties set out in Clause 3 of the Pledge of Receivables Agreement (Representations and Warranties) are true and accurate in all respects.

ID: _____ ID: _____
For and on behalf of Pledgee

ID: _____
For and on behalf of Pledgor

Annex 4

Procedures

- Check the total of the component accounts on the trial balance making up the Bank's factored receivables as at the cut off date¹ or the relevant date, and compare this total to the balance in the related general ledger account;
- On relevant dates subsequent to the cut off date¹ check that the opening balance on the factored receivables agree to the closing balance of the factoring receivables covered by the preceding report;
- Obtain a schedule reconciling the opening balance of the factored receivables covered by the preceding report with the closing balance of the factored receivables by taking into account the aggregate amount of invoices/credit notes issued and receipts during the period;
- Vouch all invoices making up the balance of factored receivables outstanding as at the cut-off date¹ having regard to the amount, date and evidence of pledge. Cast invoices and trace to schedule reconciling the balance as at 30 March to that at the cut-off date¹;
- Obtain a report with an analysis of the individual factoring customers with details of each invoice factored and whether due and outstanding or prepaid at the relevant date. Confirm that this list is appropriately reconciled to the Bank's general ledger. For amounts that do not agree, obtain reconciliations from the Bank's management. For reconciliations obtained, identify and list outstanding invoices, credit notes and outstanding cheques, of an amount exceeding €500. Locate and examine such invoices and credit notes subsequently issued and cheques subsequently received and endeavour to conclude as to whether these should in fact have been listed as outstanding on the reconciliations;
- Perform cut-off procedures on invoice/credit note and receipts around the relevant date;
- For a sample of receipts during the period from 30 March 2010 or the previous relevant date to the relevant date (chosen, where applicable, by the use of statistical sampling techniques having regard to materiality levels), trace directly to the respective invoices (in the case of open item receipts) and to the deposits;
- Review the post relevant date receipts up to the date of the report relating to factored receivables to ascertain the extent to which these will have been subsequently settled;
- Obtain an age-analysis of the due and outstanding factored receivables.
- Obtain historical default loss statistics on the Bank's factoring receivables;
- The report will also specify the balance of factored invoices by Izola Bank p.l.c. outstanding at cut-off date¹ or relevant date.

¹ The cut-off date is a date on or close to the Interest Commencement Date which will be communicated to KPMG by IZB with a minimum of one week notice period.

BANK ACCOUNT PLEDGE AGREEMENT

AGREEMENT FOR THE PLEDGE OF BANK ACCOUNTS & BALANCES

Between

HSBC Bank Malta p.l.c.
hereinafter the “Pledgee”

And

Izola Bank p.l.c.
hereinafter the “Pledgor”

THIS PLEDGE AGREEMENT (the “Agreement”) IS MADE ON THIS 20TH DAY OF APRIL 2010

BETWEEN

Izola Bank p.l.c., a public limited liability company registered under the laws of Malta with company registration number C-16343 and with registered office situated at 53-58, East Street, Valletta, duly represented hereon by Andrew Mifsud, as duly authorised, hereinafter referred to as the “Pledgor” or the “Company”;

and

HSBC Bank Malta p.l.c., a public limited liability company registered under the laws of Malta with company registration number C-3177 and with registered office situated at 233, Republic Street, Valletta, Malta duly represented hereon by Emmanuel Magri and Jan Sammut, as duly authorised, hereinafter referred to as the “Pledgee” or the “Security Trustee”;

WHEREAS:

- (A) The Pledgor has opened an interest bearing bank account in its name with HSBC Bank Malta p.l.c. (hereinafter referred to in its capacity as the credit institution with whom the Account has been opened as the “Bank”) identified as follows: Bank’s Reference No: Account: 033179128050 (Currency: EUR) as per document herewith attached and marked Schedule 1, which together with all moneys, or balances thereof, deposited therein, all accrued or accruing interest and all related rights, are herein referred to as the “Account”;
- (B) The Pledgor intends to issue a debt issuance programme by virtue of a base prospectus the “Prospectus”;
- (C) By virtue of the Prospectus, the Pledgor shall be authorised to issue up to €27,000,000 in value of Notes, as defined in the Prospectus, subject to the terms and conditions contained in the said Prospectus;
- (D) The Pledgor has covenanted that all and any Notes issued by virtue of the Prospectus shall constitute the secured obligations of the Pledgor and the security shall be held by a security trustee for the benefit of all Holders;
- (E) The Security Trustee is authorised to act as security trustee thereby holding the security granted or to be granted by the Company on trust for the benefit of all Holders;
- (F) On 20 April 2010, the Company and the Security Trustee entered into a trust deed whereby the Company undertook and bound itself to grant to the Security Trustee the Security Interest in the manner and at the times and under the conditions contained in the said trust deed;
- (G) The Pledgor and the Pledgee are therefore entering into this Agreement so as to establish the terms and conditions under which the pledging of the Account shall take place and under which the release and termination of such pledge shall be affected.

NOW IT IS HEREBY AGREED AS FOLLOWS:

1. INTERPRETATION

- 1.1** In this Agreement reference to the parties includes reference to their lawful successors and assigns except in the case of the Pledgor which is prohibited (except as otherwise provided herein) to assign this Agreement without the prior written consent of the Pledgee;
- 1.2** Capitalised terms used herein shall have the same meaning as set out in the Prospectus unless the context requires or unless expressly defined herein.

1.3 In this Agreement, unless the context otherwise requires, any reference to the singular shall include the plural and vice versa, the use of the masculine pronoun shall include the feminine, the use of the neutral pronoun shall include the masculine or the feminine as the case may be and any reference to any Statute Law or Regulation having the force of Law or any section thereof includes reference to any modification thereto or re-enactment of such Statute Law or Regulation having the force of Law for the time being in force.

1.4 The headings in this Agreement are used and inserted for convenience only and shall be ignored in the interpretation of this Agreement.

1.5 In this Agreement, (including the preamble):

“**Acceleration Event**” has the meaning given to that term in the Prospectus;

“**Deed**” means the trust deed dated 20 April 2010 entered into by and between the Pledgor as the Company and the Pledgee as the Security Trustee, as the same may be amended from time to time;

“**Delegate**” means any delegate, agent, attorney, or co-trustee appointed by the Security Trustee;

“**Factoring Receivables**” shall have the same meaning as that attributed to it in the Receivables Pledge Agreement;

“**First Tranche Notes**” means the first Tranche of Notes to be issued by the Pledgor pursuant to the Prospectus;

“**First Tranche Principal Indebtedness**” means the principal amount of outstanding First Tranche Notes;

“**Indebtedness**” means all money or liabilities due, owing or incurred to the Holders by the Pledgor under the Notes issued pursuant to the Prospectus (including without limitation, under any amendments, supplements or restatements of the Prospectus) at present or in the future, together with all interest accruing thereon (if any);

“**Other Receivables**” shall have the same meaning as that attributed to it in the Receivables Pledge Agreement;

“**Procedures**” shall have the same meaning as that attributed to it in the Receivables Pledge Agreement;

“**Procedures Report**” means the report contemplated in Clause 4.1 (f) of the Receivables Pledge Agreement;

“**Receivables**” shall have the same meaning as that attributed to it in the Receivables Pledge Agreement;

“**Receivables Pledge Agreement**” means the pledge agreement to be executed on or around the date of this Agreement whereby the Pledgor shall constitute a pledge on the Receivables in favour of the Security Trustee for the benefit of the Secured Parties, subject to the terms and conditions contained therein, as the same may be amended from time to time;

“**Reported Factoring Receivables**” means the balance of Factoring Receivables which, in a Procedures Report, is stated to be outstanding;

“Reporting Date” means the date of issue of each Procedures Report;

“Secured Parties” means the Holders;

“Subsequent Documents” the documentation referred to in Schedule 2 of this Agreement;

2. PLEDGE

- 2.1** The Pledgor hereby undertakes to the Pledgee (for the avoidance of doubt, in its capacity as security trustee) the due and punctual payment of all the Indebtedness.
- 2.2** The Pledgor hereby pledges to the Pledgee, which accepts, the Account together with all monies deposited therein and all balances as of this date or at any date hereafter lying in the Account and all related rights, as security for the due and punctual payment of the Indebtedness. It is agreed that each time a deposit is made into the Account, the Pledgor is doing so subject to the terms of this Agreement and is thereby confirming this pledge. The parties are entering into this Agreement to regulate the said pledge.
- 2.3** In constitution of the said pledge the Pledgor is placing the Account under the full control of the Pledgee and accordingly the Pledgor undertakes to execute and deliver to the Bank a notice of the pledge in the form of Schedule 1 hereto and procure the acknowledgement in writing of the pledge by the Bank in the form of Schedule 2 hereto.
- 2.4** During the currency of this Pledge Agreement, any banking mandate given to the Bank is suspended to the extent stated herein.
- 2.5** It is expressly agreed that this pledge is being granted to the Pledgee as security for the Indebtedness as well as security for any future indebtedness of the Pledgor.
- 2.6** This pledge confers upon the Pledgee the right to obtain payment out of the Account with privilege over other creditors as provided by the Civil Code (Chapter 16 of the Laws of Malta) in virtue of the special privilege accorded by law under Article 2009(a) of the said Code as well as the right of retention over the said Account which entitles the Pledgee to retain the benefits of this Agreement until such time as the full amount of the Indebtedness shall have been paid.
- 2.7** The Indebtedness shall also include all and any fees and/or expenses which the Pledgee and may hereafter incur in the protection or enforcement of its security hereunder.
- 2.8** The Pledgee holds the benefit of this Agreement on trust for Holders in accordance with the provisions of the Deed.

3. REPRESENTATIONS AND WARRANTIES

- 3.1** The Pledgor represents and warrants to the Pledgee that:
- (a) it is an entity duly incorporated and validly existing under the laws of its jurisdiction of incorporation and it has the power to own its assets and carry on its business as it is being conducted;

-
- (b) the Pledgor is the sole legal owner of the Account and the Account is free from all and any encumbrances other than the special privilege created as a result of this Agreement;
 - (c) it has the power to enter into and perform, and has taken all necessary action to authorise the entry into, performance and delivery of, this Agreement;
 - (d) the Agreement constitutes its legal, valid and binding obligation enforceable in accordance with its terms;
 - (e) all authorisations, regulatory approvals and third party consents required or advisable in connection with the entry into, performance, validity and enforceability of this pledge have been obtained or effected and are in full force and effect;
 - (f) other than in accordance with this Agreement, the Pledgor no longer enjoys any right to dispose of its interest in such Account;
 - (g) the entry into and performance by it of, and the transactions contemplated by, the pledge does not and will not:
 - (i) conflict with any law or regulation or judicial or official order; or
 - (ii) conflict with its constitutional documents; or
 - (iii) conflict with any document which is binding upon itself or any of its assets;
 - (h) this Agreement and all the terms and obligations herein contained are valid and binding on the Pledgor and there exist no limitations in any agreement to which any Pledgor is a party or in any applicable law which would hinder the performance of any of the obligations of the Pledgor hereunder; and
 - (i) for the purposes of Council (EC) Regulation No. 1346/2000 of 29th May 2000 on Insolvency Proceedings (the “**Regulation**”), the centre of main interest of the Pledgor (as that term is used in Article 3(1) of the Regulation) is situated in its jurisdiction of incorporation.

3.2 The Pledgor also represents and warrants to and undertakes in favour of the Pledgee that the foregoing representations and warranties in Clause 3.1 will be true and accurate throughout the duration of this Agreement with reference to the facts and circumstances subsisting from time to time.

4. COVENANTS

The Pledgor hereby covenants and agrees with the Pledgee:-

- (a) that it will at all times remain the owner of the Account;
- (b) to warrant and to defend its right title and interest and that of the Pledgee in and to the Account against the claims and demands of all persons whomsoever;
- (c) not, without the prior written consent of the Pledgee, to sell, assign, transfer, pledge or encumber in any other manner the Account or suffer to exist any encumbrance on the Account except this Agreement;

-
- (d) that the Pledgor will not grant in favour of any other person any interest in or other rights in respect of the Account; and
 - (e) that the Pledgor will obtain and maintain in full force and effect all governmental and other approvals and consents and to do or cause to be done all other acts and things necessary or desirable in connection herewith or for the obligations hereunder.

5. USE OF ACCOUNT

- 5.1 The Account shall be used strictly in accordance with this Agreement as the same may from time to time be modified or substituted with the consent of both parties.
- 5.2 The Pledgor shall be obliged to maintain such minimum funds in the Account as the same calculated in accordance with Clause 5.3, the “**Minimum Funds**”, and any positive amount over and above the Minimum Funds, the “**Free Funds**”, shall be released by the Pledgee in favour of the Pledgor in accordance with the provisions of Clause 5.5.
- 5.3 The Minimum Funds shall be the amount arrived at by applying the following formula: -

$$MF = \left[\frac{FI - 100 (OR + RFR) + I}{120} \right]$$

MF = Minimum Funds

FI = First Tranche Principal Indebtedness

OR = Other Receivables

RFR = Reported Factoring Receivables

I = Interest paid on the monies held in the Account

- 5.4 The Minimum Funds and the Free Funds shall be calculated as at each Reporting Date.
- 5.5 Subject to Clause 5.6, the Pledgee undertakes that within two (2) business days from the receipt of a Procedures Report to its reasonable satisfaction, it shall give transfer instructions for release of any Free Funds to a local bank account indicated by the Pledgor. All bank charges related to the release of the Free Funds shall be borne by the Pledgor.
- 5.6 The Pledgor shall be bound to deliver the Subsequent Documents to the Pledgee and the Pledgee shall only be bound to release the Free Funds in accordance with the terms of Clause 5.5, if the Subsequent Documents have been so delivered. Upon the delivery thereof, the Pledgee shall be deemed to have fulfilled its obligation in terms of this Agreement, and to continue to so fulfil for the term of this Agreement.

6. INSTRUCTIONS, RIGHTS AND DISCRETIONS IN RELATION TO ACCOUNT

- 6.1 All rights to give instructions relating to or connected with payments from the Account, including without limitation payments of interest and re-payment of principal and/or any balances, shall vest exclusively in the Pledgee.

6.2 Unless otherwise permitted under this Agreement, with respect to instructions not relating to or connected with payments from the Account, the Pledgor undertakes not to give any instructions to the Bank relating to the Account which may have the effect of reducing or prejudicing the value of the security given hereunder without the prior written consent of the Pledgee.

6.3 It is agreed that the right to close the Account shall not at any time be exercisable by the Pledgor without the express written consent of the Pledgee.

7. REMEDIES

7.1 After an Acceleration Event occurs, the Pledgee may exercise in relation to the Account all the rights and remedies possessed by it under this Agreement or granted to it by law or otherwise, including without limitation applying the balances (if any) then held in the Account in the manner described in this Agreement in payment of the Indebtedness. These remedies are in addition to the remedies granted to the Pledgee under any applicable law and, in so far as it is necessary to do so, the Pledgor authorises the Pledgee to avail itself of all and any of the above rights and/or remedies in the exercise and protection of its rights hereunder.

7.2 No failure to exercise, nor any delay in exercising, on the part of the Pledgee, any right or remedy under this Agreement shall operate as a waiver, nor shall any single or partial exercise of any right or remedy prevent any further or other exercise or the exercise of any other right or remedy. The rights and remedies provided in this Agreement are cumulative and not exclusive of any rights or remedies provided by law.

8. RETENTION OF PLEDGE

The Pledgee is entitled to retain this Pledge and decline to release control over it, even if the Indebtedness shall have been paid in full, until such time as it is satisfied that any payment of the Indebtedness will not be challenged and avoided at any time whether as a preference or otherwise and, for all good intents and purposes, it is being expressly agreed that any release of this pledge is subject to the condition that any payments towards the Indebtedness shall not be reversed, revoked or declared null at any time provided that the Pledgee shall not be entitled to retain this Pledge for a period which is longer than six months from the payment in full of the Indebtedness.

9. ATTORNEY

Subject to any limitations expressed elsewhere in this Agreement, the Pledgee is hereby irrevocably appointed the true and lawful Attorney of the Pledgor for the purpose of carrying out the provisions of this Agreement and taking any action or executing any instruments which the Pledgee may deem necessary to accomplish the purposes hereof. This appointment as Attorney is being given as part of this security and is being accepted by the Pledgee;

PROVIDED THAT the Pledgee shall have the option but not an obligation to utilise such power of attorney and the Pledgee shall in no way be responsible for not utilising the said power of attorney nor shall the Pledgee be in any way responsible for anything done in virtue of the said power of attorney.

10. FURTHER ASSURANCES AND AGREEMENTS

The Pledgor agrees that at any time and from time to time upon the written request of the Pledgee, it will promptly and duly execute and deliver to the Pledgee any and all such further instruments and documents as the Pledgee may deem necessary for obtaining the full benefit of this Agreement and of the rights and powers herein granted or perfecting the security created hereunder.

11. APPLICATION OF PROCEEDS

The Pledgor hereby agrees that following the happening of an Acceleration Event, the proceeds of the Account under this Pledge Agreement shall be applied as follows:

- FIRST in payment of all costs and expenses,
- SECOND in payment of any interest due,
- THIRD in payment of the principal Indebtedness and

the surplus, if any, shall be paid to the Pledgor or such other person as may for the time being be entitled thereto.

12. TERMINATION OF PLEDGE

Upon payment and discharge in full of all moneys and obligations intended to be secured hereby, the Pledgee shall forthwith release of the Account from this security and shall, in so far as is necessary, release to the Pledgor any excess of cash (if any) then held by the Pledgee hereunder.

13. NOTICE OF PLEDGE TO THIRD PARTIES

13.1 The Pledgor shall, if requested to state the position of its accounts, inform third parties of this pledge and shall not represent in any way that it has free use of the Account.

13.2 When the Pledgor gives its consent to the Bank to the provision of information about the Account, the Bank is authorised to give information relating to this Agreement. All statements and other records relating to the Account may carry a statement relating to this Agreement.

14. NOTICES

14.1 Notices may be sent by registered mail, fax or electronic mail. Where notice is sent by registered mail, it shall be deemed to have been served five (5) days following the date on which it was posted and in the case of notice sent by fax or electronic mail, on the day of transmission. In providing such service it shall be sufficient to prove that the notice was addressed properly and posted or transmitted to such fax or electronic mail address as may be notified to the other party for this purpose.

14.2 For the purposes of this Agreement, the proper addresses (including electronic mail addresses) and fax numbers of the Parties are:

Pledgor:

Name: Izola Bank p.l.c.
Attention: Andrew Mifsud
Address: 53/58 East Street, Valletta VLT 1251, Malta
Fax No.: (+356) 21241250

Pledgee

Name: HSBC Bank Malta p.l.c, Trust Services Department
Attention: Emmanuel Magri; Jan Sammut
Address: PFS Centre, Mill Street, Qormi, QRM 3101, Malta
Fax No.: (+356) 23802205

14.3 Provided that each party may at any time change such address or fax number by giving five (5) days' prior written notice to the other party.

15. SEVERANCE AND MODIFICATION OF CLAUSES

15.1 If any of the Clauses or part thereof of this Agreement is or becomes invalid or unenforceable for any reason whatsoever, the validity of the remaining Clauses or part thereof will not in any way be affected or impaired.

15.2 If any invalid or unenforceable Clause or part thereof of this Agreement would not be enforceable or invalid if its form or effect were modified in any way, it shall be deemed to have the modified form or effect provided that the Pledgee gives its consent.

15.3 If there are two or more persons (whether physical corporate or unincorporate) comprised in the expression "the Pledgor", and if this Agreement is unenforceable or otherwise ineffective against one or more of such persons, none of the rest will be released from this Agreement.

16. NOTIFICATION TO, AND ACKNOWLEDGEMENT OF PLEDGE BY, THE BANK

In accordance with the provisions of Article 1966 (3) of the Civil Code, the Pledgor hereby notifies the Bank of the Pledge created by this Agreement and hereby requests the Bank to make a record of such pledge in its records.

By signing this agreement, the Pledgee is also acknowledging the pledge in its capacity as the Bank.

17. GOVERNING LAW

This Agreement shall be governed by and construed in accordance with the laws of Malta.

18. JURISDICTION

18.1 For the benefit of the Pledgee, the Pledgor agrees that the Courts of Malta have jurisdiction to settle any disputes in connection herewith and accordingly submit to the jurisdiction of such Courts. The Pledgor waives any objection to the Maltese Courts on grounds of inconvenient forum or otherwise as regards proceedings in connection herewith and agrees that a judgement or order of such a Court shall be conclusive and binding on it and may be enforced against it in the Courts of any other jurisdiction.

18.2 Nothing in this Agreement limits the right of the Pledgee to bring proceedings against the Pledgor in any other Court of competent jurisdiction or concurrently in more than one jurisdiction.

19. COUNTERPARTS

This Agreement may be executed in any number of counterparts, and this has the same effect as if the signatures on the counterparts (including fax copies) were on a single copy of this Agreement.

Schedule 1

Intentionally not included

Schedule 2

Subsequent Documents

1. A legal opinion from DLA Piper, Belgium to the reasonable satisfaction of the Pledgee in relation to:-
 - (a) the enforceability under Belgian law of the Receivables Pledge Agreement;
 - (b) the enforceability under Belgian law of a judgment granted in favour of the Pledgee by a Maltese court with regard to the appropriation of the Receivables by the Security Trustee; and
 - (c) the recoverability by the Pledgee of the underlying debts from a Belgian Debtor (as defined in the Receivables Pledge Agreement) on the basis of, *inter alia*, the invoices provided to the Security Trustee by the Pledgor.
2. A legal opinion from Camilleri Preziosi to the reasonable satisfaction of the Pledgee in relation to the enforceability under Maltese law of the Receivables Pledge Agreement and the factoring agreement pursuant to which the Factoring Receivables were transferred to the Pledgor;
3. The Initial Report (as defined in the Receivables Pledge Agreement);
4. Signed and executed letters of representations and warranties of the Pledgor and each trader (that is, each company which transferred the Factoring Receivables to the Pledgor) to the reasonable satisfaction of the Pledgee.

