



ANNUAL REPORT
2010

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Chairperson's Statement

For the Year Ended 31 December 2010

I am pleased to present the Bank results for the year ended 31 December 2010; a year in which the Bank managed to achieve very acceptable levels of growth and profitability despite the challenging economic climate.

Review of performance

During the year ended 31 December 2010, the Bank generated a profit before tax of €1,895,146, up 21.6% on 2009. Profit after tax was €1,150,137, a decrease of 18% over the previous year. The decrease in profit after tax is attributable to a change in the way income tax was computed in 2010, as the Bank was no longer eligible to claim foreign tax credits. The bank's statutory tax rate for 2010 was 35% (2009: 8.8%).

Net interest income decreased by 9% when compared to the previous year, which was in the main due to prevailing low interest rates. The contraction in net interest income was compensated for by an increase in net fee and commission income which was 70% above that earned in the previous year. Income derived from factoring activities largely contributed to the increase in commission income.

Operating expenses increased by 10%, or €64,338, in the year under review due to increases in staff costs as well as marketing and fee expenses in relation to the Bank's Note Issue which took place in June 2010. The Bank's Cost-to-Income ratio stood at a healthy 36.57 (2009: 35.99).

Review of financial position

Total assets increased by 11.8% to €78,819,768 whereas total liabilities rose from €56,878,478 to €64,065,479 – an increase of 12.6%. Shareholders' equity amounted to €14,754,289 compared with €13,594,177 of a year earlier.

As at 31 December 2010 the Capital Adequacy Ratio of 56% and Liquidity Ratio of 182% were both well above the European and US banking sector norms.

The Bank successfully listed a 5 year Secured Note Issue on the Malta Stock Exchange in June 2010. The proceeds of the Issue, which was over-subscribed, were utilised in expanding the Bank's factoring activity. In fact the total factored receivables increased by 208% year on year – €16,605,593 as at 31 December 2010 compared to €5,393,565 in 2009.

There was no sign of deterioration in asset quality in 2010. 76% of the Bank's investments and loans and advances to customers and banks is cash secured by amounts owed to customers held by the Bank. The current credit approval and monitoring structures have helped to ensure very good credit quality of factoring debtors and minimised losses. In fact out of a total amount of €69,106,953 of invoices factored in 2010, the Bank has taken a specific provision on €25,864 worth of invoices or 0.04% of the total factored during the year.

Chairperson's Statement

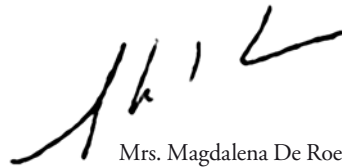
For the Year Ended 31 December 2010

Looking ahead

The Bank is committed to further consolidate its internet banking operations in 2011 and will devote considerable marketing resources to attract new customers.

Conclusion

On behalf of the Board I would like to thank our customers for their loyalty and support. Finally I would like to express my thanks to the management team and staff members for their continuing hard work and commitment to the Bank.



Mrs. Magdalena De Roeck
Chairperson – Izola Bank p.l.c.

18 March 2011

Directors' Report

For the Year Ended 31 December 2010

The directors present their report together with the financial statements of Izola Bank p.l.c. ("the Bank") for the year ended 31 December 2010.

Board of directors:

Mr. Carl Van Marcke (Chairman) (Deceased on 8 March 2010)

Mrs. Magdalena De Roeck (Chairperson) (Appointed on 10 March 2010)

Countess A. d'Oultremont

Mr. Peter Van Marcke

Mr. Frederick E. Amato-Gauci

Mr. Joseph Caruana

Mr. Anthony Camilleri (Appointed on 1 February 2011)

Mr. Charles Hertogs (Appointed on 4 January 2010)

Mr. John Melillo (Deceased on 3 July 2010)

Mr. Patrick Van Leynseele (Appointed on 4 January 2010)

Mr. Guido Mizzi (Appointed on 1 September 2010)

Company secretary

Mr. Stefan Farrugia

Results for the year

The Bank reported a profit after tax of €1,150,137 for the year under review. Further information on the results is provided in the Chairperson's Statement which immediately precedes this Directors' Report.

Principal activities

Izola Bank p.l.c. is registered in Malta as a public limited liability company under the Companies Act, 1995 (Chapter 386, Laws of Malta). The Bank is licensed by the Malta Financial Services Authority to carry out the business of banking in terms of the Banking Act, 1994 (Chapter 371, Laws of Malta). The Bank is principally engaged in providing corporate banking services to non-resident customers.

Review of financial performance and future developments

A review of the Bank's financial performance for the year ended 31 December 2010 and a summary of likely future developments are given in the Chairperson's Statement which immediately precedes this Directors' Report.

Directors' Report

For the Year Ended 31 December 2010

Events occurring after reporting date

No events to report.

Dividends

The directors have proposed a final dividend of €2,000,000 in respect of 2010, representing a dividend per share of €12.50.

Reserves

During the year, the Bank transferred an amount of €13,992 from the Depositor Compensation Scheme Reserve to retained earnings.

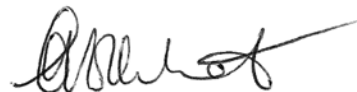
Auditors

KPMG have expressed their willingness to continue in office. A resolution proposing the re-appointment of KPMG as auditors of the Bank will be submitted at the forthcoming Annual General Meeting.

Approved by the Board of Directors on 18 March 2011 and signed on its behalf by:



Mr. Peter Van Marcke
Director



Countess A. d'Oultremont
Director

Registered Address

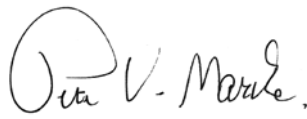
53-58, East Street, Valletta VLT 1251, Malta.

Statement by the Directors


on the Financial Statements included in the Annual Report

Pursuant to Listing Rule 5.68, we, the undersigned, declare that to the best of our knowledge, the financial statements included in the Annual Report, and prepared in accordance with the requirements of International Financial Reporting Standards as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Bank, and that this report includes a fair review of the development and performance of the business and position of the Bank, together with a description of the principal risks and uncertainties that it faces.

Signed on behalf of the Board of Directors on 18 March 2011 by



Mr. Peter Van Marcke
Director



Countess A. d'Oultremont
Director

Director's Statement of Compliance

with the Code of Principles of Good Corporate Governance

Pursuant to Listing Rule 5.97 as issued by the Listing Authority, Izola Bank p.l.c. (the 'Bank') hereby includes a Statement of Compliance reporting on the extent to which the Bank has adopted the Code of Principles of Good Corporate Governance appended as Appendix 5.1 to the said Listing Rules (the 'Principles') and the effective measures that the Bank has taken to ensure compliance with these Principles during the period under review.

Introduction

The adoption of the Principles is not mandatory, however the Board of Directors (the 'Board') of Izola Bank p.l.c. believes that the adoption of these Principles is in the best interest of the Bank and its shareholders.

The Bank applies all the provisions of the Code, save where there exist particular circumstances that warrant non-adherence thereto, as outlined in Part Two to this Statement. During the year under review, the Bank did not apply any corporate governance practices beyond the requirements under national law.

PART ONE - Compliance with the Main Principles of Good Corporate Governance

The Board is responsible for the adoption of policies and procedures which ensure good corporate governance. The Bank listed a bond issue on the Malta Stock Exchange in June 2010 and as a listed company is issuing this statement indicating the measures the Bank has adopted to ensure compliance with the Principles.

The Board of Directors

The Board meets to establish and review the policies and strategies of the Bank and to monitor the implementation thereof and the Bank's overall performance. The Bank's Chairperson has a non-executive role which ensures a clear division of responsibilities between the running of the Board and the executive responsibility for the running of the Bank's business. The Board is composed of both executive and non-executive directors as listed below.

Executive Directors:

Carl Van Marcke (deceased on 8 March 2010)

Countess A. d'Oultremont

Peter Van Marcke

First appointed:

June 1994

January 2000

April 2002

Director's Statement of Compliance

with the Code of Principles of Good Corporate Governance

Non-Executive Directors:

Magdalena de Roeck (Chairperson)	February 2006
Frederick E Amato-Gauci	June 1994
Joseph Caruana	February 2006
Anthony Camilleri	February 2011
Charles Hertogs	January 2010
John Melillo (deceased on 3 July 2010)	April 1998
Guido Mizzi	September 2010
Patrick H Van Leynseele	January 2010

Magdalena de Roeck, Countess A. d'Oultremont, Peter Van Marcke, Charles Hertogs and Patrick H Van Leynseele are directors of other companies of the Van Marcke Group of which the Bank is a member.

The Board considers that Frederick E Amato-Gauci, Joseph Caruana, Anthony Camilleri, Charles Hertogs, Guido Mizzi and Patrick H Van Leynseele are independent.

Though Mr Amato-Gauci has served on the Board for the past 17 years, the Board has no reason to question his independence of character or judgment.

Responsibilities of the Board

The Board of Directors is responsible for executing the four basic roles of corporate governance namely: accountability, monitoring, strategy formulation and policy development.

The Board regularly reviews and evaluates corporate strategy, major operational and financial plans, risk policy and performance objectives, and monitors implementation and corporate performance within the parameters of all relevant laws, regulations and codes of best business practice. The Board:

- a. defines the Bank's strategy, policies, management performance criteria and business policies;
- b. establishes a clear internal and external reporting system so that the Board has continuous access to accurate, relevant and timely information such that the Board can discharge its duties, exercise objective judgment on corporate affairs and take pertinent decisions to ensure that an informed assessment can be made of all issues facing the Board;
- c. continuously assesses and monitors the Bank's present and future operations, opportunities, threats and risks in the external environment and current and future strengths and weaknesses;
- d. seeks to establish an effective decision-making process in order to develop the Bank's business efficiently;
- e. evaluates management's implementation of corporate strategy and financial objectives. The strategy, processes and policies adopted for implementation are regularly reviewed by the Board using key performance indicators so that corrective measures can be taken to address any deficiencies and ensure the future sustainability of the Bank;
- f. ensures that the Bank has appropriate policies and procedures in place to assure that the Bank and its employees maintain the highest standards of corporate conduct, including compliance with applicable laws, regulations, business and ethical standards;
- g. reviews on a regular basis the terms of reference of the Audit Committee and the effectiveness of this Committee within the ambit of the operations and business activities of the Bank as these may change from time to time.

Unless appointed for a shorter period, or unless they resign or are removed, a director shall hold office for a maximum period of three (3) years. On the lapse of such period, a director will be eligible for re-appointment.

Director's Statement of Compliance

with the Code of Principles of Good Corporate Governance

Board Meetings

During the calendar year 2010 the Board met three times. Attendance of the Board members during the said year was as follows:

Carl Van Marcke (deceased on 8 March 2010)	0
Magdalena de Roeck	2
Countess A. d'Outremont	3
Peter Van Marcke	2
Frederick E Amato-Gauci	3
Joseph Caruana	3
Charles Hertogs	2
John Melillo (deceased on 3 July 2010)	1
Guido Mizzi (appointed on 1 September 2010)	1
Patrick H Van Leynseele	3

Notice of the dates of forthcoming meetings together with all board papers are circulated well in advance to the directors so that they have ample opportunity to consider the information and prepare for the next scheduled board meeting. After each board meeting and before the next meeting, minutes that faithfully record attendance and decisions are prepared and circulated to all directors.

Director's Statement of Compliance

with the Code of Principles of Good Corporate Governance

Committees

Board Committee

The Board of Directors has appointed three directors, namely Mrs Magdalena De Roeck, Countess Alexis d'Oultremont and Mr Peter Van Marcke to act as members of the Board Committee.

The Board Committee acts as the highest delegated authority by the Board in approving limits beyond the powers of the Credit Committee and in overseeing the activities and management of the Bank. It performs and executes most of the decision making process on behalf of the Board of Directors.

The Board Committee exercises the authorisation powers normally attributed to the Board; however the Board retains policy-making.

Credit Committee

The Credit Committee is made up of non-executive independent directors. The Credit Committee which met six times in 2010 is made up of the following members:

Frederick E. Amato-Gauci

Joseph Caruana

Mr Mizzi acts as an alternate member. This Committee considers credit applications and keeps credit limits under review. It makes its recommendations to the Board Committee for its final approval; however the Credit Committee has its own discretionary limit. The Credit Committee also ensures that each credit recommendation is accompanied by appropriate documentation prepared by the Bank's management.

The General Manager and Financial Controller attend meetings of the Credit Committee and the Finance Officer acts as Secretary to the Committee.

Audit Committee

The Audit Committee is made up of non-executive independent directors. The Audit Committee met three times in 2010 and is made up of the following members:

Frederick E. Amato-Gauci (Chairman)

Joseph Caruana

Guido Mizzi

Given his extensive experience as a former managing partner of a local accountancy firm, Mr Guido Mizzi is deemed by the Board to be the independent member who is competent in accounting and auditing in terms of the Listing Rules.

The Chairman of the Audit Committee is appointed by the Board from amongst the non-executive directors appointed to the Committee. The Chairman of the Committee is entrusted with reporting to the Board on the Committee's activities at least once a year.

Other Board members have a right to attend the meetings. The Financial Controller is responsible for the maintenance of internal controls and is invited to attend the Committee's meetings. The ICT & Operations Manager who is responsible for the maintenance of internal controls in relation to ICT is invited to attend meetings when ICT related topics are discussed. The Bank engages an audit firm (independent from the external auditor) to compile regular reports on the internal audit controls in place. A partner from the firm attends Audit Committee meetings whenever a report is presented to the Committee for its review.

Director's Statement of Compliance

with the Code of Principles of Good Corporate Governance

The Committee is a sub-committee of the Board and its role remains one of assisting the Board to comply with and discharge its statutory and fiduciary obligations. As such, it is for the Board to decide and determine the exact nature and role of the Committee and its terms of reference in accordance with applicable law. The Committee is at all times accountable to the Board.

The primary purpose of the Audit Committee is to protect the interests of the Bank's shareholders and assist the Directors in conducting their role effectively so that the Bank's decision making capability and the accuracy of its reporting and financial results are maintained at a high level at all times.

In fulfilling its main role and responsibilities the Audit Committee:

- a) reviews the annual financial statements and discusses with the external auditors their work and findings;
- b) reviews the external auditor's management letter and management's response. The external auditor reports to the Audit Committee on key matters arising from the audit, and in particular, on material weaknesses in internal controls in relation to the financial reporting process.
- c) makes recommendations to the Board in relation to the appointment of the external auditor and the approval of the remuneration and terms of engagement of the external auditor following appointment by the shareholders in general meeting;
- d) develops and monitors implementation of a policy on the engagement of the external auditor to supply non-audit services;
- e) evaluates the scope, role and effectiveness of the internal audit function on an ongoing basis by reviewing internal audit findings and recommendations, presented by external consultants and management implementation thereof;
- f) reviews those controls designed to provide reasonable assurance of the maintenance of proper accounting records, the reliability of financial information and compliance with operational and security procedures;
- g) considers the nature of relevant comments appearing in the ICT Audit reports, particularly those relating to material weaknesses in the ICT processes and security aspects. This responsibility stems from the recognition that the use of advanced ICT technology throughout the Bank's operations requires adequate supervision and control;
- h) establishes and maintains access between the external auditors of the Bank and external consultants contracted to perform internal controls reviews and ensures that this communication is open and constructive;
- i) monitors operational risk control effectiveness and oversees the range of operational risks across the Bank. The Audit Committee receives an Operational Risk Profile Report on a six monthly basis. This report which is compiled by management includes a profile of the key risks to the business objectives and operational risk events. Through perusal of this report the Audit Committee considers control issues in conjunction with their risk mitigation;
- j) reviews the Bank's compliance with applicable laws and regulations and with professional and other applicable codes of ethics by Bank employees.

The General Manager acts as Secretary to the Committee. The Secretary circulates information and makes available the minutes of meetings of the Committee to all members of the Board.

Director's Statement of Compliance

with the Code of Principles of Good Corporate Governance

Asset and Liability Management Committee (ALCO)

The Board of Directors has established this management committee. It is chaired by the General Manager with the Financial Controller and Finance Officer as members. The Committee meets on a monthly basis and the Finance Officer acts as Secretary to the Committee.

The ALCO monitors the Bank's financial performance, and reviews and manages financial risks in accordance with Bank policies, namely: interest rate, liquidity and funding risk, solvency, market sector and country risk and counterparty and foreign exchange risk. The ALCO manages the Bank's balance sheet in respect of the adequate matching of assets and liabilities, asset mix, liabilities and balance sheet growth. The ALCO also formulates a forward looking strategy for the Bank in terms of the mix of assets and liabilities, given its expectations of the future and the potential consequences of interest rate movements, liquidity constraints, foreign exchange exposure and capital adequacy.

The ALCO reports to the Board on a quarterly basis.

Information and Professional Development

All directors can access independent professional advice at the Bank's expense when they judge it necessary to discharge their responsibilities as directors. All directors have access to the services of the company secretary for advice on all governance matters.

All new directors are briefed in detail on the Bank's organisation and activities and their responsibilities as directors.

The Bank is committed to provide for the development and training of management and employees. The Board is updated at least annually with the latest staff development programme.

Relations with the Market

The Bank provides the market with regular, timely, accurate and detailed information in accordance with the requirements of the Listing Rules.

Conflicts of Interest

The Board recognises that the directors' primary responsibility is always to act in the interest of the Bank and its shareholders as a whole, irrespective of who appointed them to the Board.

Each director has declared to the Bank, where applicable, his or her indirect beneficial interest in the share capital of the Bank.

Corporate Social Responsibility

The Board seeks to adhere to accepted principles of corporate social responsibility in implementing day-to-day management practices of the Bank. The Bank seeks to act as a good corporate citizen in the local community and work closely with customers, employees, suppliers and public authorities.

Director's Statement of Compliance

with the Code of Principles of Good Corporate Governance

PART TWO – Non-Compliance with the Main Principles of Good Corporate Governance

The Board does not consider it necessary to appoint a Committee to carry out a specific evaluation on the performance of the Board, its directors or Committees.

The Board does not have a formal succession policy in place for the future composition of the Board of Directors or the senior management team. Nor does it consider it necessary to appoint a Nomination Committee for the appointment of new directors to the Board.

The Board does not organise formal information sessions for its directors.

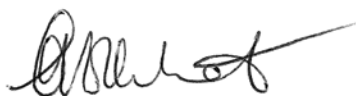
The Board is in the process of establishing an internal code of dealing.

Given that the remuneration of directors is not performance-related, no separate Remuneration Committee is established. The Board has delegated the tasks normally attributed to such a Committee to the Board Committee. The Board has established a Remuneration Policy the aim of which is to increase transparency when offering remuneration and benefits to the Bank's senior management team.

Approved by the Board of Directors on 18 March 2011 and signed on its behalf by:



Mr. Peter Van Marcke
Director



Countess A. d'Oultremont
Director

Director's Responsibilities

for the Financial Statements

The Companies Act, 1995 (Chapter 386, Laws of Malta) (the 'Act') requires the directors of Izola Bank p.l.c. to prepare financial statements for each financial period which give a true and fair view of the financial position of the Bank as at the end of the financial year and of the profit or loss of the Bank for that period in accordance with the requirements of International Financial Reporting Standards as adopted by the EU.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy, at any time, the financial position of the Bank and to enable them to ensure that the financial statements have been properly prepared in accordance with the provisions of the Act and the Banking Act, 1994 (Chapter 371, Laws of Malta).

The directors are also responsible for safeguarding the assets of the Bank and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

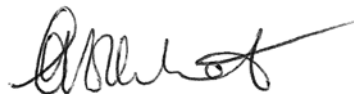
The directors, through oversight of management, are responsible to ensure that the Bank establishes and maintains internal control to provide reasonable assurance with regard to reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations.

Management is responsible, with oversight by the directors, to establish a control environment and maintain policies and procedures to assist in achieving the objective of ensuring, as far as possible, the orderly and efficient conduct of the Bank's business. This responsibility includes establishing and maintaining controls pertaining to the Bank's objective of preparing financial statements as required by the Act and managing risks that may give rise to material misstatements in those financial statements. In determining which controls to implement, to prevent and detect fraud, management considers the risks that the financial statements may be materially misstated as a result of fraud.

Signed on behalf of the Board of Directors on 18 March 2011 by:



Mr. Peter Van Marcke
Director



Countess A. d'Oultremont
Director

Remuneration Report

For the Year Ended 31 December 2010

Given that the remuneration of directors is not performance-related, no separate Remuneration Committee is established. The Board has delegated the tasks normally attributed to such a Committee to the Board Committee in line with Code Principle 8A.2.

Remuneration Policy

The aim of the Bank's Remuneration Policy is to increase transparency in remuneration matters, to support the business goals of the Bank by efficient remuneration structures, and to create common basic values and guidelines for the Bank when offering remuneration and benefits to the senior management team of the Bank.

Service contracts

None of the directors have service contracts with the Bank as at the end of the financial year.

Directors

None of the directors, in their capacity as a director of the Bank, is entitled to profit sharing, share options, pension benefits or any other remuneration. The aggregate remuneration received by directors for the financial year ended 31 December 2010 amounts to €26,129.81.

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Statements of Financial Position

As at 31 December 2010

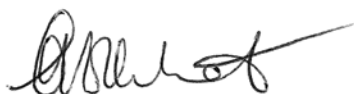
	Note	2010 €	2009 €
ASSETS			
Cash		1,218	850
Balances with Central Bank of Malta		885,071	504,998
Investments	13	30,790,237	28,945,952
Loans and advances to banks	14	11,052,866	11,219,096
Factored receivables	15	16,404,996	5,338,919
Other loans and advances to customers	16	16,219,498	21,140,261
Property and equipment	17	2,331,502	2,016,686
Other assets	18	1,134,380	1,305,893
Total assets		78,819,768	70,472,655
LIABILITIES			
Balance owed to Central Bank of Malta		–	1,500,000
Amounts owed to customers	19	52,718,805	53,915,259
Debt securities issued	20	8,733,363	–
Deferred tax liabilities	21	343,777	347,228
Current tax payable		942,899	230,043
Accruals and deferred income	22	1,326,635	885,948
Total liabilities		64,065,479	56,878,478
EQUITY			
Called up share capital	23	4,000,000	4,000,000
Property revaluation reserve	23	633,271	640,483
Fair value reserve	23	6,091	–
Depositor compensation scheme reserve	23	37,425	51,417
Capital contribution	23	7,449,182	7,449,182
Retained earnings	23	2,628,320	1,453,095
Total equity attributable to equity holders of the Bank		14,754,289	13,594,177
Total liabilities and equity		78,819,768	70,472,655
Memorandum items			
Commitments	24	21,709,573	6,835,420

The notes on pages 6 to 43 are an integral part of these financial statements.

The financial statements on pages 6 to 43 were approved by the Board of Directors on 18 March 2011 and signed on its behalf by:



Mr. Peter Van Marcke
Director



Countess A. d'Oultremont
Director

Statements of Comprehensive Income

For the Year Ended 31 December 2010

	Note	2010 €	2009 €
Interest receivable and similar income			
- on loans and advances	5	1,544,278	1,048,604
- on debt securities		1,261,998	1,674,301
Interest expense	6	(1,474,670)	(1,261,842)
Net interest income		1,331,606	1,461,063
Fee and commission income		1,668,449	990,827
Fee and commission expense		(38,921)	(32,486)
Net fee and commission income	7	1,629,528	958,341
Net trading gains	8	22,464	11,933
Other operating income		4,193	4,193
Operating income		2,987,791	2,435,530
Administrative expenses		(679,222)	(614,882)
Depreciation		(267,472)	(253,892)
Impairment allowances	9	(145,951)	(7,784)
Profit before income tax	10	1,895,146	1,558,972
Income tax expense	11	(745,009)	(160,702)
Profit for the year		1,150,137	1,398,270
Other comprehensive income, net of income tax			
Transfer of depreciation on revaluation surplus net of deferred tax			
- retained earnings		11,096	7,212
- revaluation reserve		(7,212)	(7,212)
Change in fair value of available-for-sale financial assets, net of deferred tax		6,091	-
Other comprehensive income for the year, net of income tax		9,975	-
Total comprehensive income for the year		1,160,112	1,398,270
Earnings per share	12	7.25	8.74

The notes on pages 6 to 43 are an integral part of these financial statements.

Statements of Changes in Equity

For the Year Ended 31 December 2010

	Share capital €	Property revaluation reserve €	Fair value reserve €	Depositor compensation scheme reserve €	Capital contribution €	Retained earnings €	Total €
Balance at 1 January 2009	4,000,000	647,695	–	–	–	7,099,030	11,746,725
Total comprehensive income for the year							
Profit or loss	–	–	–	–	–	1,398,270	1,398,270
Other comprehensive income, net of tax							
Transfer of depreciation on revaluation surplus net of deferred tax	–	(7,212)	–	–	–	7,212	–
Transfer from retained earnings	–	–	–	51,417	–	(51,417)	–
Total other comprehensive income, net of tax	–	(7,212)	–	51,417	–	(44,205)	–
Total comprehensive income for the year	–	(7,212)	–	51,417	–	1,354,065	1,398,270
Transactions with owners, recorded directly in equity							
Contributions by and distributions to owners							
Dividends paid to equity holders	–	–	–	–	–	(7,000,000)	(7,000,000)
Contributions paid by equity holders	–	–	–	–	7,449,182	–	7,449,182
Total contributions by and distributions to owners	–	–	–	–	7,449,182	(7,000,000)	449,182
Balance at 31 December 2009	4,000,000	640,483	–	51,417	7,449,182	1,453,095	13,594,177
Balance at 1 January 2010	4,000,000	640,483	–	51,417	7,449,182	1,453,095	13,594,177
Total comprehensive income for the year							
Profit or loss	–	–	–	–	–	1,150,137	1,150,137
Other comprehensive income, net of tax							
Transfer of depreciation on revaluation surplus	–	(11,096)	–	–	–	11,096	–
Deferred tax thereon	–	3,884	–	–	–	–	3,884
Change in fair value of available-for-sale financial assets, net of deferred tax	–	–	6,091	–	–	–	6,091
Transfer to retained earnings	–	–	–	(13,992)	–	13,992	–
Total other comprehensive income, net of tax	–	(7,212)	6,091	(13,992)	–	25,088	9,975
Total comprehensive income for the year	–	(7,212)	6,091	(13,992)	–	1,175,225	1,160,112
Balance at 31 December 2010	4,000,000	633,271	6,091	37,425	7,449,182	2,628,320	14,754,289

The notes on pages 6 to 43 are an integral part of these financial statements.

Statements of Cash Flows

For the Year Ended 31 December 2010

	Note	2010 €	2009 €
Cash flows from operating activities			
Interest and commission receipts		3,239,384	2,127,680
Interest and commission payments		(1,126,629)	(2,170,820)
Payments to employees and suppliers		(843,552)	(688,860)
Operating profit/(loss) before changes in operating assets/liabilities		<u>1,269,203</u>	<u>(732,000)</u>
(Increase)/decrease in operating assets:			
- loans and advances to customers		4,920,763	(6,109,400)
- factored receivables		(11,113,486)	(977,554)
- other receivables		130,875	-
Increase/(decrease) in operating liabilities:			
- amounts owed to customers		(1,196,454)	8,719,111
- amounts owed to banks		(1,500,000)	1,500,000
Net cash (absorbed by)/generated from operating activities before income tax	25	<u>(7,489,099)</u>	<u>2,400,157</u>
Income tax paid		(34,999)	(194,547)
Net cash (used in)/from operating activities		<u>(7,524,098)</u>	<u>2,205,610</u>
Cash flows from investing activities			
Payments to acquire property and equipment		(582,290)	(182,889)
Payments to acquire investments		(1,834,914)	(1,850,356)
Interest received from investments		1,452,518	1,038,253
Net cash used in investing activities		<u>(964,686)</u>	<u>(994,992)</u>
Cash flow from financing activities			
Net capital contribution received		-	339,297
Issue of debt securities		9,000,000	-
Capitalised costs related to the issue of debt securities		(297,005)	-
Net cash from financing activities		<u>8,702,995</u>	<u>339,297</u>
Net increase in cash and cash equivalents		<u>214,211</u>	<u>1,549,915</u>
Cash and cash equivalents at beginning of year		<u>11,724,944</u>	<u>10,175,029</u>
Cash and cash equivalents at end of year	26	<u>11,939,155</u>	<u>11,724,944</u>

The notes on pages 6 to 43 are an integral part of these financial statements.

Notes to the Financial Statements

For the Year Ended 31 December 2010

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Notes to the Financial Statements

For the Year Ended 31 December 2010

1 Reporting entity

Izola Bank p.l.c. (the “Bank”) is a public limited liability company domiciled and incorporated in Malta.

2 Basis of preparation

2.1 Statement of compliance

These financial statements have been drawn up in accordance with International Financial Reporting Standards as adopted by the EU (the “applicable framework”). All references in these financial statements to IAS, IFRS or SIC/IFRIC interpretation refer to those adopted by the EU.

These financial statements have also been prepared and presented in accordance with the provisions of the Companies Act, 1995 and the Banking Act, 1994, to the extent that such provisions do not conflict with the applicable framework.

2.2 Basis of measurement

The financial statements have been prepared on the historical cost basis except for available-for-sale financial assets that are stated at fair value.

2.3 Functional and presentation currency

These financial statements are presented in Euro, which is the Bank’s functional currency.

2.4 Use of estimates and judgements

The preparation of financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

In particular, information about significant areas of estimation, uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are described in note 30.

Notes to the Financial Statements

For the Year Ended 31 December 2010

3 Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

3.1 Financial assets and liabilities

3.1.1 *Non-derivative financial assets and liabilities*

Non-derivative financial assets and liabilities comprise investments in equity and debt securities, cash equivalents, loans and receivables, deposits and debt securities issued.

Non-derivative financial assets and liabilities are recognised initially at fair value plus, for an item not at fair value through profit or loss, any directly attributable transaction costs. Subsequent to initial recognition, non-derivative financial assets and liabilities are measured as described below.

3.1.1.1 Held-to-maturity investments

Held-to-maturity investments are non-derivative assets with fixed or determinable payments and fixed maturity that the Bank has the positive intent and ability to hold to maturity, and which are not designated as at fair value through profit or loss or as available-for-sale.

Held-to-maturity investments are carried at amortised cost using the effective interest method, less any impairment losses. A sale or reclassification of a more than insignificant amount of held-to-maturity investments would result in the reclassification of all held-to-maturity investments as available for sale, and would prevent the bank from classifying investment securities as held to maturity for the current and the following two financial years. However, sales and reclassifications in any of the following circumstances would not trigger a reclassification:

- sales or reclassifications that are so close to maturity that changes in the market rate of interest would not have a significant effect on the financial asset's fair value
- sales or reclassifications after the bank has collected substantially all of the asset's original principal
- sales or reclassifications attributable to non-recurring isolated events beyond the bank's control that could not have been reasonably anticipated.

3.1.1.2 Available-for-sale financial assets

Available-for-sale investments are non-derivative investments that are designated as available for sale or are not classified as another category of financial assets. Unquoted equity securities whose fair value cannot reliably be measured are carried at cost. All other available-for-sale investments are carried at fair value.

Interest income is recognised in profit or loss using the effective interest method. Dividend income is recognised in profit or loss when the Bank becomes entitled to the dividend. Foreign exchange gains or losses on available-for-sale debt security investments are recognised in profit or loss.

Other fair value changes are recognised in other comprehensive income until the investment is sold or impaired, whereupon the cumulative gains and losses previously recognised in other comprehensive income are reclassified to profit or loss as a reclassification adjustment.

A non-derivative financial asset may be reclassified from the available-for-sale category to the loans and receivables category if it otherwise would have met the definition of loans and receivables and if the Bank has the intention and ability to hold that financial asset for the foreseeable future or until maturity.

Notes to the Financial Statements

For the Year Ended 31 December 2010

3 Significant accounting policies (continued)

3.1 Financial assets and liabilities (continued)

3.1.1 *Non-derivative financial assets and liabilities (continued)*

3.1.1.3 Loans and advances

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Bank does not intend to sell immediately or in the near term. These include loans and advances to banks and customers which are recognised on the day the cash is advanced to the borrowers, and factoring receivables. These are initially recognised at fair value plus transaction costs that are directly attributable to the acquisition of the financial assets. Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest method, less impairment losses.

3.1.2 *Derecognition*

The Bank derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or when it transfers the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred or in which the Bank neither transfers nor retains substantially all the risks and rewards of ownership and it does not retain control of the financial asset. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Bank is recognised as a separate asset or liability in the statement of financial position. On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset transferred), and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

The Bank derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

Assets designated by the Bank as available-for-sale assets that are sold are derecognised and corresponding receivables from the buyer for the payment are recognised as at the date the Bank commits to sell the assets.

Held-to-maturity instruments and loans and receivables are derecognised on the day these are transferred by the Bank.

3.1.3 *Offsetting*

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

3.1.4 *Amortised cost measurement*

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

Notes to the Financial Statements

For the Year Ended 31 December 2010

3 Significant accounting policies (continued)

3.1 Financial assets and liabilities (continued)

3.1.5 Fair value measurement

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction on the measurement date.

When available, the Bank measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis.

If a market for a financial instrument is not active, the Bank establishes fair value using a valuation technique. Valuation techniques include using recent arm's length transactions between knowledgeable, willing parties (if available), reference to the current fair value of other instruments that are substantially the same, discounted cash flow analyses and option pricing models. The chosen valuation technique makes maximum use of market inputs, relies as little as possible on estimates specific to the Bank, incorporates all factors that market participants would consider in setting a price, and is consistent with accepted economic methodologies for pricing financial instruments. Inputs to valuation techniques reasonably represent market expectations and measures of the risk-return factors inherent in the financial instrument.

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price, i.e., the fair value of the consideration given or received, unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e., without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets. When transaction price provides the best evidence of fair value at initial recognition, the financial instrument is initially measured at the transaction price and any difference between this price and the value initially obtained from a valuation model is subsequently recognised in profit or loss on an appropriate basis over the life of the instrument but not later than when the valuation is supported wholly by observable market data or the transaction is closed out.

Assets and long positions are measured at a bid price; liabilities and short positions are measured at an asking price. Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the Bank and the counterparty where appropriate. Fair value estimates obtained from models are adjusted for any other factors, such as liquidity risk or model uncertainties, to the extent that the Bank believes a third-party market participant would take them into account in pricing a transaction.

3.1.6 Identification and measurement of impairment

At each reporting date the Bank assesses whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. A financial asset or a group of financial assets is impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset(s), and that the loss event has an impact on the future cash flows of the asset(s) that can be estimated reliably.

Objective evidence that financial assets (including equity securities) are impaired can include significant financial difficulty of the borrower or issuer, default or delinquency by a borrower, restructuring of a loan or advance by the Bank on terms that the Bank would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the group. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

The Bank considers evidence of impairment for loans and advances and held-to-maturity investment securities at both a specific asset and collective level.

Notes to the Financial Statements

For the Year Ended 31 December 2010

3 Significant accounting policies (continued)

3.1 Financial assets and liabilities (continued)

3.1.6 Identification and measurement of impairment (continued)

All individually significant loans and advances and held-to-maturity investment securities are assessed for specific impairment. All individually significant loans and advances and held-to-maturity investment securities found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Loans and advances and held-to-maturity investment securities that are not individually significant are collectively assessed for impairment by grouping together loans and advances and held-to-maturity investment securities with similar risk characteristics.

In assessing collective impairment the Bank uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical data. Default rates, loss rates and the expected timing of future recoveries are regularly reviewed by the Credit Committee.

Impairment losses on assets carried at amortised cost are measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the asset's original effective interest rate. Impairment losses are recognised in profit or loss and reflected in an allowance account against loans and advances. Interest on impaired assets continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Impairment losses on available-for-sale investment securities are recognised by transferring the cumulative loss that has been recognised in other comprehensive income to profit or loss as a reclassification adjustment. The cumulative loss that is reclassified from other comprehensive income to profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognised in profit or loss. Changes in impairment provisions attributable to time value are reflected as a component of interest income.

If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed, with the amount of the reversal recognised in profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised in other comprehensive income.

The Bank writes off certain loans and advances and investment securities when they are determined to be uncollectible.

3.2 Cash and cash equivalents

Cash and cash equivalents comprise notes and coins in hand, unrestricted balances held with the Central Bank of Malta and deposits with contractual maturity of less than three months. Subsequent to initial recognition, cash and cash equivalents are measured at amortised cost.

3.3 Property and equipment

3.3.1 Recognition and measurement

Items of property and equipment are measured at cost or revaluation less accumulated depreciation and accumulated impairment losses.

Freehold property is revalued to fair value on the basis of its existing use every five years or earlier, whenever its fair value differs materially from its carrying amount. Revaluations are performed by a professionally qualified architect. Any surpluses arising on such revaluation are credited to a revaluation reserve. Any deficiencies resulting from decreases in value are deducted from this reserve to the extent that it is sufficient to absorb them, with any excess charged to profit or loss thereafter.

Where parts of an item of property and equipment have different useful lives, they are accounted for as separate items of property and equipment.

Notes to the Financial Statements

For the Year Ended 31 December 2010

3 Significant accounting policies (continued)

3.3 Property and equipment (continued)

3.3.2 Subsequent costs

The cost of replacing part of an item of property and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied with the part will flow to the Bank and its cost can be measured reliably. The costs of the day-to-day servicing of property and equipment are recognised in profit or loss as incurred.

3.3.3 Depreciation

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property and equipment.

The estimated useful lives for the current and comparative periods are as follows:

Premises and improvements	20 – 100 years
Computer hardware and software	3 – 5 years
Other equipment	5 years

Depreciation methods, useful lives and residual values are reviewed at each reporting date.

3.4 Impairment of non-financial assets

The carrying amounts of the Bank's non financial assets, other than deferred tax assets, are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. If any such indication exists then the asset's recoverable amount is estimated.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit" or "CGU").

The Bank's corporate assets do not generate separate cash inflows. If there is an indication that a corporate asset may be impaired, then the recoverable amount is determined for the CGU to which the corporate asset belongs.

An impairment loss is recognised if the carrying amount of an asset or a CGU exceeds its recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

3.5 Deposits and debt securities issued

Deposits and debt securities issued are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method. The Bank did not choose to carry any liabilities at fair value through profit or loss.

Notes to the Financial Statements

For the Year Ended 31 December 2010

3 Significant accounting policies (continued)

3.6 Provisions

A provision is recognised if, as a result of a past event, the Bank has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

3.7 Interest

Interest income and expense are recognised in profit or loss using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. The effective interest rate is established on initial recognition of the financial asset and liability and is not revised subsequently.

The calculation of the effective interest rate includes all transaction costs, and discounts or premiums that are an integral part of the effective interest rate. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or liability.

Interest income and expense presented in the statement of comprehensive income include interest on financial assets and liabilities at amortised cost on an effective interest rate basis.

3.8 Fees and commissions

Income and expenses, from fees and commissions that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate.

Other fee and commission income, including account servicing fees, investment management fees, sales commission, placement fees and syndication fees, are recognised as the related services are performed. When a loan commitment is not expected to result in the draw-down of a loan, loan commitment fees are recognised on a straight-line basis over the commitment period.

Other fee and commissions expense relate mainly to transaction service fees, which are expensed as the services are received.

3.9 Trading gains/losses

Trading gains/losses comprises all realised and unrealised foreign exchange differences.

3.10 Operating lease payments

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease.

3.11 Employee benefits

The Bank contributes towards the State pension defined contribution plan in accordance with local legislation and to which it has no commitment beyond the payment of fixed contributions. Obligations for contributions to the defined contribution plan are recognised as an expense in profit or loss as they fall due.

Notes to the Financial Statements

For the Year Ended 31 December 2010

3 Significant accounting policies (continued)

3.12 Foreign currency transactions

Transactions in foreign currencies are recorded in the functional currency at the foreign exchange rate prevailing on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated into the functional currency at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in profit or loss. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated into the functional currency at foreign exchange rates ruling at the dates the fair values were determined. Foreign currency differences arising in retranslation are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments.

3.13 Income tax

Income tax expense comprises current and deferred tax. Income tax is recognised in profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised. Deferred tax assets are reviewed at each balance sheet date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

3.14 Earnings per share

The Bank presents basic earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the period.

3.15 Operating segments

An operating segment is a component of the Bank that engages in business activities from which it may earn revenues and incur expenses, including revenue and expenses that relate to transactions with any of the Bank's other components, whose operating results are reviewed regularly by the Bank's Board of Directors (being the chief operating decision maker), to make decisions about resources allocated to each segment and assess its performance, and for which discrete financial information is available.

3.16 New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2010, and have not been applied in preparing these financial statements. None of these are expected to have a significant effect on the financial statements of the Bank, except for IFRS 9 Financial Instruments, which becomes mandatory for the Bank's 2013 financial statements and could change the classification and measurement of financial assets. The Bank does not plan to adopt this standard early and the extent of the impact has not been determined.

Notes to the Financial Statements

For the Year Ended 31 December 2010

4 Financial risk management

4.1 Organisation

The Board of Directors has overall responsibility for the establishment and oversight of the Bank's risk management framework. The Board has established the Board Committee, the Audit Committee, the Asset and Liability (ALCO) Committee and the Credit Committee, which are responsible for the monitoring of risk in their specified areas. Executive and non-executive directors sit on these Committees and the Committees report regularly to the Board of Directors on their activities.

Risk management policies have been established to identify and analyse the risks faced by the Bank, to set out appropriate risk limits and controls, and to monitor risks and adherence to limits.

The risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Bank has developed appropriate risk management training for the needs of the relevant staff members.

4.2 Risk exposure

The Bank is exposed to a number of risks, which it manages at different organisational levels.

The main categories of risk are:

- Credit risk: Risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. It arises from the lending, treasury and other activities undertaken by the Bank.
- Market risk: Risk of losses arising from unfavourable changes in the level and volatility of interest rates, foreign exchange rates or investment prices.
- Liquidity risk: Liquidity risk is divided into two-categories:
 - Market (product) liquidity risk: risk of losses arising from difficulty in accessing a product or market at the required time, price and volume.
 - Funding liquidity risk: risk of losses arising from a timing mismatch between investing, placements and funds arising from activities resulting in obligations missing the settlement date or satisfied at higher than normal rates.
- Operational risk: Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Bank's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of the Bank's operations and are faced by all business entities.

Notes to the Financial Statements

For the Year Ended 31 December 2010

4 Financial risk management (continued)

4.3 Capital base

The Bank is a licensed financial services provider and must therefore comply with the capital requirements under the relevant capital requirements laws and regulations. The Bank has adopted the Standardised Approach to calculate its capital requirements.

4.3.1 Capital management

The Bank must have sufficient capital to comply with regulatory capital requirements. The purpose of the Bank's capital management is to ensure an efficient use of capital in relation to risk appetite as well as business development.

The Bank's regulatory capital is analysed into two tiers:

- Tier 1 capital, which includes ordinary share capital, capital contribution and retained earnings.
- Tier 2 capital, which includes property revaluation reserve, collective impairment allowances and fair value reserve.

Banking operations are categorised as banking book, and risk-weighted assets are determined according to specified requirements that seek to reflect the varying levels of risk attached to assets and off-balance sheet exposures.

The Bank has complied with all capital requirements directives and rules throughout the year.

There have been no material changes in the Bank's management of capital during the year.

4.3.2 Calculation of minimum capital requirement and risk-weighted assets

The minimum capital requirements are calculated for the credit, market and operational risk. The capital ratio is calculated using the definition of regulatory capital and risk-weighted assets. The total capital ratio must be no lower than 8%.

Total risk-weighted assets are determined by multiplying the capital requirements for market risk and operational risk by 12.5 (i.e. the reciprocal of the minimum capital ratio of 8%) and adding the resulting figures to the sum of risk-weighted assets for credit risk.

Below is the Bank's capital requirements and capital adequacy ratio computation.

	2010	2009
	€	€
Tier 1 capital		
Ordinary share capital	4,000,000	4,000,000
Capital Contribution	7,449,182	7,449,182
Retained earnings	2,628,320	1,453,095
	<u>14,077,502</u>	<u>12,902,277</u>
Tier 2 capital		
Property revaluation reserve	411,626	640,483
Collective impairment allowance	174,733	54,646
Fair value movement reserve	6,091	–
	<u>592,450</u>	<u>695,129</u>
Total regulatory capital	<u>14,669,952</u>	<u>13,597,406</u>

Notes to the Financial Statements

For the Year Ended 31 December 2010

4 Financial risk management (continued)

4.3 Capital base (continued)

4.3.2 Calculation of minimum capital requirement and risk-weighted assets (continued)

	Statement of financial position value	Risk weighted exposure	Capital requirement	Statement of financial position value	Risk weighted exposure	Capital requirement
	2010	2010	2010	2009	2009	2009
	€	€	€	€	€	€
On balance sheet assets						
Cash	1,218	–	–	850	–	–
Balances with Central Bank of Malta	885,071	–	–	504,998	–	–
Investments	30,790,237	3,653	292	28,945,952	3,653	292
Loans and advances to banks	11,052,866	2,210,573	176,846	11,219,096	2,243,819	179,506
Factored receivables	16,404,996	16,404,996	1,312,400	5,338,919	5,393,565	431,486
Other loans and advances to customers	16,219,498	295,498	23,640	21,140,261	2,423,261	193,861
Property and equipment	2,331,502	2,331,502	186,520	2,016,686	2,016,687	161,335
Prepayments and accrued income	1,134,380	567,190	45,375	1,305,893	652,946	52,236
	78,819,768	21,813,412	1,745,073	70,472,655	12,733,931	1,018,716
Off balance sheet items						
Commitments	21,709,573	–	–	6,835,420	–	–
Credit risk capital requirement		21,813,412	1,745,073		12,733,931	1,018,716
Foreign exchange risk capital requirement		45,802	3,660		23,250	1,860
Operational risk capital requirement		4,378,878	350,310		4,423,425	353,874
Total capital requirement		26,238,092			17,180,606	
Own funds						
Original own funds	14,077,502			12,902,277		
Additional own funds	592,450			695,129		
Total own funds	14,669,952			13,597,406		
Capital adequacy ratio at 31 December			56%			79%

Notes to the Financial Statements

For the Year Ended 31 December 2010

4 Financial risk management (continued)

4.4 Credit risk

Credit risk is the risk of financial loss to the Bank if a customer or counterparty to the financial instrument fails to meet its contractual obligations, and arises principally from the Bank's loans and advances to customers and other investment securities. For risk management reporting purposes, the Bank considers and consolidates all elements of credit risk exposure (such as individual obligor default risk, country and sector risk).

The Bank follows standards, policies and procedures established by the Bank's Board of Directors for the control and monitoring of all risks. The Board of Directors has delegated the responsibility for the management of credit risk to the Board Committee and Credit Committee. The Bank's management is responsible for the oversight of the Bank's credit risk. The Bank's credit risk policies and procedures are reviewed regularly through internal audit.

At reporting date, 98% of other loans and advances to customers and 93% of investments were cash secured.

4.4.1 Maximum exposure to credit risk

The Bank's maximum credit risk exposure to on and off balance sheet financial instruments, before taking account of any collateral held or other credit enhancements can be classified in the following categories:

- Financial assets recognised on balance sheet comprising balances with Central Bank of Malta, financial investments, factored receivables, loans and advances and acceptances and endorsements. The maximum exposure of these financial assets to credit risk, equals their carrying amount.
- Commitments for factored receivables - the maximum exposure to credit risk is the full amount of the committed facilities (note 24).

4.4.2 Industry concentration

The following industry concentrations relating to loans and advances to customers are considered significant:

	2010		2009	
	€	%	€	%
Manufacturing	3,639,430	22	12,303,000	58
Wholesale and retail trade	1,376,996	9	2,541,000	12
Real estate, renting and business activities	11,203,072	69	6,296,261	30
	<u>16,219,498</u>	<u>100</u>	<u>21,140,261</u>	<u>100</u>

4.4.3 Analysis of collateral

The Bank holds collateral against loans and advances to customers and investment securities in the form of pledges over deposits held with the Bank. Factored receivables are unsecured and collateral generally is not held over loans and advances to banks.

The fair value of collateral held as security is as follows:

Type of collateral	Carrying amounts of neither past due nor impaired			
	Loans and advances to customers		Investment in debt securities	
	2010	2009	2010	2009
	€	€	€	€
Deposits held with the Bank	<u>15,924,000</u>	<u>18,717,000</u>	<u>28,186,574</u>	<u>27,101,944</u>

Notes to the Financial Statements

For the Year Ended 31 December 2010

4 Financial risk management (continued)

4.4 Credit risk (continued)

4.4.4 Impaired factored receivables

These comprise factored receivables for which the Bank determines that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the factored receivables agreements.

	2010 €	2009 €
Factored receivables - gross	16,605,593	5,393,565
Collectively determined	16,605,593	5,393,565
Collective allowance for impairment	174,733	54,646
Specific allowance for impairment	25,864	-

4.4.5 Neither past due nor impaired loans and securities

	2010 €	2009 €
Loans and advances to customers	16,219,498	21,140,261
Loans and advances to banks	11,052,866	11,219,096
Investment securities	30,790,237	28,945,952
	58,062,601	61,305,309

4.4.6 Past due but not impaired

Receivables where contractual interest or principal payments are past due but the Bank believes that impairment is not appropriate on the basis of the level of security / collateral available and / or the stage of collection of amounts owed to the Bank.

At 31 December 2010, 22% of the Bank's factored receivables were past due but not impaired.

4.4.7 Loans with renegotiated terms

Loans with renegotiated terms are loans that have been restructured due to deterioration in the borrower's financial position and where the Bank has made concessions that it would not otherwise consider. Once the loan is restructured it remains in this category independent of satisfactory performance after restructuring.

The Bank does not have loans with renegotiated terms.

4.4.8 Allowances for impairment

The Bank establishes an allowance for impairment losses that represents its estimate of incurred losses in its factored receivables portfolio. The main components of this allowance are a specific loss component that relates to individually impaired receivables, and a collective loss allowance established for groups of factored receivables in respect of losses that have been incurred but have not been identified and subjected to individual assessment for impairment.

	2010 €	2009 €
Factored receivables		
Collective allowance for impairment	174,733	54,646

An additional allowance for impairment of €25,864 was required for specific exposures.

Notes to the Financial Statements

For the Year Ended 31 December 2010

4 Financial risk management (continued)

4.4 Credit risk (continued)

4.4.9 Write-off policy

The Bank writes off a loan, security and/or factored receivable balance (and any related allowance for impairment losses) when management determines that the loan, security and/or factored receivable is uncollectible. This determination is reached after considering information such as occurrence of significant changes in the borrower / issuer's financial position such that the borrower / issuer can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure.

4.4.10 Concentration risk

The Bank monitors concentration of credit risk by sector and by geographic location. An analysis of concentrations of credit risk is shown below.

	Loans and advances to customers		Factored receivables		Loans and advances to banks		Investment securities	
	2010 €	2009 €	2010 €	2009 €	2010 €	2009 €	2010 €	2009 €
Carrying amount	16,219,498	21,140,261	16,404,996	5,338,919	11,052,866	11,219,096	30,790,237	28,945,952
Concentration by sector								
Corporate	16,219,498	21,140,261	16,404,996	5,338,919	–	–	28,186,574	28,942,299
Banks	–	–	–	–	11,052,866	11,219,096	–	–
Sovereign	–	–	–	–	–	–	2,600,010	–
Equity	–	–	–	–	–	–	3,653	3,653
	16,219,498	21,140,261	16,404,996	5,338,919	11,052,866	11,219,096	30,790,237	28,945,952
Concentration by location								
Europe	16,219,498	21,140,261	16,404,996	5,338,919	11,052,866	11,219,096	30,790,237	28,945,952

Concentration by location for loans and advances to customers and banks and investment securities is measured based on the location of the borrower or issuer of the security.

4.5 Market risk

Market risk comprises the risk of losses in value caused by unexpected changes in market prices (interest rates, equity prices, foreign exchange rates and credit spreads) before the affected positions can be closed out or hedged.

Market risk for the Bank consists of three elements:

- Interest rate risk, which is the risk of losses because of changes in interest rates.
- Exchange rate risk, which is the risk of losses on the Bank's positions in foreign currency because of changes in exchange rates.
- Investment price risk, which is the risk of losses because of changes in investments prices.

Notes to the Financial Statements

For the Year Ended 31 December 2010

4 Financial risk management (continued)

4.5 Market risk (continued)

4.5.1 Interest rate risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The Bank's operations are subject to the risk of interest rate fluctuations to the extent that interest-earning assets and interest-bearing liabilities mature or re-price at different times or at different amounts. The Bank accepts deposits from customers at both fixed and floating rates and for varying maturity periods. This risk is managed through the matching of the interest resetting dates on assets and liabilities. However, the Bank seeks to maximise the spread over the cost of capital by investing funds in a portfolio of securities and loans and receivables with a longer tenure than the liabilities (therefore carrying a negative maturity gap position) through the efficient management of shorter term liabilities over the medium to longer term. The table below summarises re-pricing mismatches at reporting date together with the effective interest rates where applicable.

		Effective Interest Rate	Less than three months	Between three months and one year	Between one year and five years	More than five years	Others
2010	€	%	€	€	€	€	€
Assets							
Cash	1,218	–	–	–	–	–	1,218
Balances with Central Bank of Malta	885,071	1.0	885,071	–	–	–	–
Investments:							
- Held-to-maturity debt securities	29,786,574	5.2	3,235,000	26,551,574	–	–	–
- Available-for-sale debt securities	1,000,010	–	–	–	–	1,000,010	–
- Equities available-for-sale	3,653	–	–	–	–	–	3,653
Loans and advances to banks	11,052,866	0.6	11,052,866	–	–	–	–
Loans and advances to customers	16,219,498	3.8	6,519,498	–	9,700,000	–	–
Factored receivables	16,404,996	–	–	–	–	–	16,404,996
Other assets	3,465,882	–	–	–	–	–	3,465,882
Total assets	78,819,768		21,692,435	26,551,574	9,700,000	1,000,010	19,875,749
Liabilities							
Balance owed to Central Bank of Malta	–	–	–	–	–	–	–
Amounts owed to customers	52,718,805	1.7	45,653,430	710,036	6,355,339	–	–
Debt Securities in Issue	8,733,363	5.4	–	–	–	8,733,363	–
Current tax payable	942,899	–	–	–	–	–	942,899
Other liabilities	1,670,412	–	–	–	–	–	1,670,412
	64,065,479		45,653,430	710,036	6,355,339	8,733,363	2,613,311
Equity							
Issued capital	4,000,000	–	–	–	–	–	4,000,000
Property revaluation reserve	633,271	–	–	–	–	–	633,271
Depositors' compensation scheme reserve	37,425	–	–	–	–	–	37,425
Fair-value reserve	6,091	–	–	–	–	–	6,091
Retained earnings	2,628,320	–	–	–	–	–	2,628,320
Capital contribution	7,449,182	–	–	–	–	–	7,449,182
	14,754,289		–	–	–	–	14,754,289
Total liabilities and equity	78,819,768		45,653,430	710,036	6,355,339	8,733,363	17,367,600
Gap			(23,960,995)	25,841,538	3,344,661	(7,733,353)	2,508,149
Cumulative gap			(23,960,995)	1,880,543	5,225,204	(2,508,149)	–

Notes to the Financial Statements

For the Year Ended 31 December 2010

4 Financial risk management (continued)

4.5 Market risk (continued)

4.5.1 Interest rate risk (continued)

	Effective Interest Rate	Less than three months	Between three months and one year	Between one year and five years	More than five years	Others
2010	€ %	€	€	€	€	€
Assets						
Cash	850	-	-	-	-	850
Balances with Central Bank of Malta	504,998	1.3	504,998	-	-	-
Investments:						
- Debt securities held-to-maturity	28,942,299	6.0	14,624,558	14,317,741	-	-
- Equities available-for-sale	3,653	-	-	-	-	3,653
Loans and advances to banks	11,219,096	1.3	11,219,096	-	-	-
Loans and advances to customers	21,140,261	3.0	18,140,261	-	3,000,000	-
Factored receivables	5,338,919	-	-	-	-	5,338,919
Other assets	3,322,579	-	-	-	-	3,322,579
Total assets	70,472,655		44,488,913	14,317,741	3,000,000	8,666,001
Liabilities						
Balance owed to Central Bank of Malta	1,500,000	1.0	-	1,500,000	-	-
Amounts owed to customers	53,915,259	2.1	25,279,029	12,886,230	15,750,000	-
Current tax payable	230,043	-	-	-	-	230,043
Other liabilities	1,233,176	-	-	-	-	1,233,176
	56,878,478		25,279,029	14,386,230	15,750,000	1,463,219
Equity						
Issued capital	4,000,000	-	-	-	-	4,000,000
Property revaluation reserve	640,483	-	-	-	-	640,483
Depositors' compensation scheme reserve	51,417	-	-	-	-	51,417
Retained earnings	1,453,095	-	-	-	-	1,453,095
Capital Contribution	7,449,182	-	-	-	-	7,449,182
	13,594,177		-	-	-	13,594,177
Total liabilities and equity	70,472,655		25,279,029	14,386,230	15,750,000	15,057,396
Gap			19,209,884	(68,489)	(12,750,000)	(6,391,395)
Cumulative gap			19,209,884	19,141,395	6,391,395	6,391,395

Notes to the Financial Statements

For the Year Ended 31 December 2010

4 Financial risk management (continued)

4.5 Market risk (continued)

4.5.1 Interest rate risk (continued)

4.5.1.1 Interest rate profile

At the reporting date the interest rate profile of the Bank's interest bearing financial instruments was:

	2010	2009
	€	€
Fixed rate instruments		
Investments – Debt securities held-to-maturity	1,600,000	14,580,725
Investments – Debt securities available-for-sale	1,000,010	–
Loans and advances to banks	10,398,088	7,031,288
Loans and advances to customers	16,219,498	18,140,261
Balance owed to Central Bank of Malta	–	(1,500,000)
Debt securities in issue	(8,733,363)	–
Amounts owed to customers	(27,659,453)	(32,633,536)
	<u>(7,175,220)</u>	<u>5,618,738</u>
Variable rate instruments		
Balances with Central Bank of Malta	885,071	504,998
Investments – Debt securities held-to-maturity	28,186,574	14,361,574
Loans and advances to banks	654,778	4,187,808
Loans and advances to customers	–	3,000,000
Amounts owed to customers	(25,059,352)	(21,281,723)
	<u>4,667,071</u>	<u>772,657</u>

4.5.1.2 Fair value sensitivity analysis for fixed rate instruments

The Bank does not account for any fixed rate financial assets and liabilities at fair value through profit or loss. Therefore, a change in interest rates at the reporting date would not affect profit or loss.

4.5.1.3 Cash flow sensitivity analysis for variable rate instruments

The sensitivity of the interest rate gaps to various interest rate scenarios is also monitored by management. Standard scenarios that are considered on a monthly basis include a 100 basis point (bp) parallel rise or fall in all the yield curves. An analysis of the Bank's sensitivity to an increase or decrease in market interest rates is as presented below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

	Impact on	
	Profit or loss €	Equity €
2010		
+100 basis points	46,671	37,258
-100 basis points	(46,671)	(37,076)
2009		
+100 basis points	7,727	7,727
-100 basis points	(7,727)	(7,727)

Notes to the Financial Statements

For the Year Ended 31 December 2010

4 Financial risk management (continued)

4.5 Market risk (continued)

4.5.2 Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to the changes in foreign exchange rates. The Bank holds and deals in foreign currency with the aim to service client foreign exchange buying and selling activity. The Bank does not speculate on its foreign exchange holdings. The Bank's foreign exchange exposure is mainly limited to the United States Dollar and Swiss Francs originating from the Bank's corporate banking business. The Bank manages this risk by ensuring that its foreign currency denominated liabilities is matched with corresponding assets in the same currency.

Exposure to foreign currencies is maintained at minimum levels and within the prescribed limits set by the Bank's Board of Directors. Under the scenario that all foreign currencies fluctuate up or down by 20% against the Euro, the fair values of financial assets and liabilities would fluctuate, up or down by € 6,994 respectively.

The following table provides an analysis of the financial assets and liabilities of the Bank into relevant currency groupings.

	2010			2009		
	Euro €	Other currencies €	Total €	Euro €	Other currencies €	Total €
Financial Assets						
Cash	1,218	–	1,218	850	–	850
Investments:						
- Debt securities held-to-maturity	29,786,574	–	29,786,574	28,942,299	–	28,942,299
- Debt securities available-for- sale	1,000,010	–	1,000,010	–	–	–
- Equities available-for- sale	3,653	–	3,653	3,653	–	3,653
Loans and advances to banks and balance with Central Bank of Malta	10,153,341	1,784,596	11,937,937	9,025,002	2,699,092	11,724,094
Loans and advances to customers and credit cards	16,219,498	–	16,219,498	21,140,261	–	21,140,261
Factored receivables - gross	16,605,593	–	16,605,593	5,393,565	–	5,393,565
	73,769,887	1,784,596	75,554,483	64,505,630	2,699,092	67,204,722
Financial liabilities						
Balance owed to Central Bank of Malta	–	–	–	1,500,000	–	1,500,000
Debt securities in issue	8,733,363	–	8,733,363	–	–	–
Amounts owed to customers	51,026,656	1,692,149	52,718,805	51,326,002	2,589,257	53,915,259
	59,760,019	1,692,149	61,452,168	52,826,002	2,589,257	55,415,259

At the reporting date, the Bank was not exposed to any off balance sheet currency risk.

Notes to the Financial Statements

For the Year Ended 31 December 2010

4 Financial risk management (continued)

4.5 Market risk (continued)

4.5.3 Investment price risk

The exposure of the bank to this risk is not significant. Frequent management reviews are carried out to ensure high quality of the portfolio.

Fair value and price verification control

The majority of the financial assets and liabilities of the Bank are carried at cost or amortised cost less impairment losses and not fair value.

Investments – Debt securities available-for-sale

This category of assets is carried at fair value. The instrument included in this category is quoted and its fair value has been determined by reference to the market price as at 31 December 2010.

Investments – Debt securities held-to-maturity

This category of assets is carried at amortised cost. The instruments are unquoted and quoted market price for similar instruments is not available. There is no other appropriate or workable method of reasonably estimating the fair value of these unquoted investments for disclosure purposes.

Investments – Equity instruments available-for-sale

The Bank has an interest in an unquoted equity investment as disclosed in note 13.4. The investment is measured at fair value. Fair value has been determined by reference to the amount recoverable which is represented by the notional amount of the investment.

Loans and advances to banks and customers

This category of assets is reported net of impairment allowances to reflect the estimated recoverable amounts. Loans and advances to banks are repriceable within 3 months. 40% of loans and advances to customers are repriceable within 3 months while 60% are repriceable within five years. The fact that the majority of this category of financial assets has a short term contractual repricing coupled with the fact that interest rates reflect current market rates, the carrying amounts of these financial assets approximate their fair values.

Amounts owed to customers

This category of liabilities is carried at amortised cost and amounts to €52,718,805 (2009: €53,915,259). 87% of the Bank's amounts owed to customers have a contractual repricing term of three months or less. The carrying value of these amounts approximates their fair values. In respect of other longer-term fixed-maturity deposits, that are repriceable upon their contractual maturity date, it is not practicable to determine fair value with sufficient reliability. Fair value is therefore taken to be the amount payable at balance sheet date.

Balance owed to Central Bank of Malta

The loan in the comparative year contracted by the Bank for a one year term with the Central Bank of Malta was carried at amortised cost.

Notes to the Financial Statements

For the Year Ended 31 December 2010

4 Financial risk management (continued)

4.6 Liquidity risk

Liquidity risk is the risk that the Bank's obligations to repay liabilities or fund new loans exceeds the Bank's ability to raise funds from either the liquidation of assets or the acceptance of new deposits. Liquidity risk arises because a bank does not exactly match the maturity of assets with the maturity of liabilities but must always be able to meet its liabilities as they fall due. Liquidity risk may also be affected by the depth of the market in which a bank has its assets and liabilities.

The Bank's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Bank's reputation.

The Bank's liquidity risk management focuses on structuring both the asset and liability portfolio so as to maintain diversity of funding sources and a spread of asset and liability maturities. It is Bank's policy to reduce exposure to liquidity risk by matching, as much as possible, assets and liabilities in different maturity periods. A significant proportion of deposits are pledged, which contributes to the reduction of liquidity risk.

Liquidity policies and procedures are reviewed regularly through internal audit reporting. All liquidity policies are subject to the review and approval of the Board of Directors.

The following table provides an analysis of the financial assets and liabilities of the bank into relevant remaining maturity groupings based on the remaining periods to repayment.

At 31 December 2010	Less than one month	Between one and three months	Between three months and one year	Between one and five years	More than five years	Total
	€	€	€	€	€	€
Financial assets						
Cash	1,218	-	-	-	-	1,218
Investments:						
Debt securities held-to-maturity	1,600,000	-	-	20,691,574	7,495,000	29,786,574
Equity shares	-	-	-	-	3,653	3,653
Debt securities available for sale	1,000,010	-	-	-	-	1,000,010
Loans and advances to banks and balance with Central Bank of Malta	11,937,937	-	-	-	-	11,937,937
Loans and advances to customers	6,519,498	-	-	9,700,000	-	16,219,498
Factored receivables – gross	8,867,949	6,618,295	1,119,349	-	-	16,605,593
	<u>29,926,612</u>	<u>6,618,295</u>	<u>1,119,349</u>	<u>30,391,574</u>	<u>7,498,653</u>	<u>75,554,483</u>
Financial liabilities						
Debt securities in Issue	-	-	-	8,733,363	-	8,733,363
Amounts owed to customers	27,795,371	17,858,059	710,036	6,355,339	-	52,718,805
	<u>27,795,371</u>	<u>17,858,059</u>	<u>710,036</u>	<u>15,088,702</u>	<u>-</u>	<u>61,452,168</u>

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For the Year Ended 31 December 2010

4 Financial risk management (continued)

4.6 Liquidity risk (continued)

At 31 December 2009	Less than one month	Between one and three months	Between three months and one year	Between one and five years	More than five years	Total
	€	€	€	€	€	€
Financial assets						
Cash	850	–	–	–	–	850
Investments:						
Debt securities held-to-maturity	–	14,580,725	–	5,616,574	8,745,000	28,942,299
Equity shares	–	–	–	–	3,653	3,653
Loans and advances to Banks and balance with Central Bank of Malta	8,816,082	2,908,012	–	–	–	11,724,094
Loans and advances to customers	18,140,261	–	–	3,000,000	–	21,140,261
Factored receivables – gross	2,472,870	2,711,556	209,138	–	–	5,393,564
	<u>29,430,063</u>	<u>20,200,293</u>	<u>209,138</u>	<u>8,616,574</u>	<u>8,748,653</u>	<u>67,204,721</u>
Financial liabilities						
Balance owed to Central Bank of Malta	–	–	1,500,000	–	–	1,500,000
Amounts owed to customers	25,279,029	–	12,886,230	15,750,000	–	53,915,259
	<u>25,279,029</u>	<u>–</u>	<u>14,386,230</u>	<u>15,750,000</u>	<u>–</u>	<u>55,415,259</u>

4.6.1 Exposure to liquidity risk

The key measure used by the Bank for managing liquidity risk is the ratio of net liquid assets to customer deposits. For this purpose net liquid assets are considered as comprising cash and cash equivalents less any deposits from banks and other borrowings and commitments maturing within the next month. This calculation is used to measure the Bank's compliance with the liquidity limit established by the Malta Financial Services Authority. Details of the Bank's ratio of net liquid assets to deposits at the reporting date and during the reported period are as follows:

	2010	2009
As at 31 December	182%	220%
Average for the year	191%	179%
Maximum for the year	301%	338%
Minimum for the year	105%	83%

Notes to the Financial Statements

For the Year Ended 31 December 2010

4 Financial risk management (continued)

4.6 Liquidity risk (continued)

4.6.2 Residual contractual maturities of financial liabilities

The table below shows a maturity analysis for financial liabilities by remaining contractual maturities of undiscounted cash flows.

	Carrying amount	Gross nominal inflow/ (outflow)	Between Less than one month	Between one and three months	Between three months and one year	Between one and five years
	€	€	€	€	€	€
At 31 December 2010						
Debt securities in issue	8,733,363	(11,407,500)	–	–	(481,500)	(10,926,000)
Amounts owed to customers	52,718,805	(55,362,711)	(27,913,165)	(18,613,370)	(253,943)	(8,582,233)
	<u>61,452,168</u>	<u>(66,770,211)</u>	<u>(27,913,165)</u>	<u>(18,613,370)</u>	<u>(735,443)</u>	<u>(19,508,233)</u>
At 31 December 2009						
Balance owed to Central Bank of Malta	1,500,000	(1,515,333)	–	–	(1,515,333)	–
Amounts owed to customers	53,915,259	(53,450,226)	(22,788,750)	–	(14,136,576)	(16,524,900)
	<u>55,415,259</u>	<u>(54,965,559)</u>	<u>(22,788,750)</u>	<u>–</u>	<u>(15,651,909)</u>	<u>(16,524,900)</u>

4.7 Operational risks

Management of operational risk

The Bank's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Bank's reputation with overall cost effectiveness. To manage this risk in an appropriate manner the following policies have been adopted:

- To adopt policies, processes and procedures to control and/or mitigate material operational risks.
- To identify and assess the operational risk inherent in all material products, activities, processes and systems. Before new products, activities, processes and systems are introduced or undertaken, the operational risk inherent in them is subject to adequate assessment.
- To monitor all potential operational risks and material exposures to losses.
- To monitor whether there is motive, means and opportunity, within the overall control environment to commit fraudulent acts.
- To adopt contingency and business continuity plans to ensure ability to operate on an ongoing basis and limit losses in the event of severe business disruption.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management. Periodic internal audit reports are submitted to the Bank's Audit Committee.

A financial measurement of this risk is arrived at by the Bank for the purpose of allocating risk capital using the Basic Indicator Approach under the Capital Requirements Directive rules. The capital requirement for operational risk under this method was calculated at €350,310 as at 31 December 2010 (2009: €353,874).

Notes to the Financial Statements

For the Year Ended 31 December 2010

5 Interest receivable on loans and advances

	2010 €	2009 €
On loans and advances to banks	25,999	65,383
On loans and advances to customers	1,518,279	983,221
	<u>1,544,278</u>	<u>1,048,604</u>

6 Interest expense

	2010 €	2009 €
On amounts owed to banks	14,833	819
On amounts owed to customers	1,203,916	1,261,023
On debts securities issued	255,921	–
	<u>1,474,670</u>	<u>1,261,842</u>

7 Net fee and commission income

	2010 €	2009 €
Straight-through-processing fees	591,447	601,160
Commissions from factoring services	1,077,002	389,667
Fee and commission income	<u>1,668,449</u>	<u>990,827</u>
SWIFT and bank charges	(38,921)	(32,486)
Fee and commission expense	<u>(38,921)</u>	<u>(32,486)</u>
	<u>1,629,528</u>	<u>958,341</u>

8 Net trading gains

Net trading gains comprise exchange rate differences.

9 Impairment allowances

	2010 €	2009 €
Write-downs		
Factored receivables		
- collective allowances	(120,087)	(7,784)
- specific allowances	(25,864)	–
	<u>(145,951)</u>	<u>(7,784)</u>

Notes to the Financial Statements

For the Year Ended 31 December 2010

10 Profit before income tax

10.1 Profit before income tax is stated after charging fees payable, inclusive of VAT, to the Bank's auditors during 2010 for:

	€
Auditors' remuneration	25,960
Other non-audit services	49,078
	<u>75,038</u>

10.2 Staff costs incurred by the Bank during the year are analysed as follows:

	2010 €	2009 €
Directors' fees	26,130	24,261
Staff costs:		
- wages, salaries and allowances	239,891	209,767
- defined contribution social security costs	12,351	10,573
	<u>278,372</u>	<u>244,601</u>

10.3 The weekly average number of persons employed by the Bank during the year was as follows:

	2010 No.	2009 No.
Managerial	3	3
Supervisory and clerical	5	4
	<u>8</u>	<u>7</u>

Notes to the Financial Statements

For the Year Ended 31 December 2010

11 Income tax expense

11.1 Total income tax expense

	Note	2010 €	2009 €
Current tax expense			
Current year		747,855	195,923
Deferred tax			
Origination and reversal of temporary differences	21	(2,846)	(35,221)
		<u>745,009</u>	<u>160,702</u>

11.2 The income tax expense for the year and the result of the accounting profit multiplied by the tax rate applicable in Malta, the Bank's country of incorporation, are reconciled as follows:

	2010 €	2009 €
Profit before income tax	1,895,146	1,558,972
Income tax at the applicable tax rate of 35%	(663,301)	(545,640)
Income tax effect of:		
Flat rate foreign tax credit	–	359,992
Different tax rates	(73,677)	29,391
Depreciation charges not deductible by way of capital allowances	(7,005)	(2,060)
Non-taxable income	137	137
Non-deductible expenses	(1,163)	(2,522)
Tax expense	<u>(745,009)</u>	<u>(160,702)</u>

12 Earnings per share

Earnings per share is calculated on the total comprehensive income of the Bank for the year ended 31 December 2010 amounting to €1,160,112 (2009: €1,398,270) divided by 160,000 (2009: 160,000), being the number of ordinary shares in issue and ranking for dividend during the year.

Notes to the Financial Statements

For the Year Ended 31 December 2010

13 Investments

13.1 Investments comprise

	2010 €	2009 €
Held-to-maturity debt securities	29,786,574	28,942,299
Available-for-sale debt securities	1,000,010	–
Available-for-sale equity instruments	3,653	3,653
	<u>30,790,237</u>	<u>28,945,952</u>

At 31 December 2010, €29,190,237 (2009: €14,365,227) of investment securities are expected to be recovered more than 12 months after the reporting date.

13.2 Held-to-maturity debt securities comprise unquoted non-convertible nominative bonds amounting to €28,186,574 (2009: €27,101,944) issued by related parties and acquired on issuance by the Bank and Malta Government Treasury bills amounting to €1,600,000 (2009: €1,840,355). The unquoted non-convertible nominative bonds are cash secured by amounts owed to customers held by the Bank.

13.3 Available-for-sale debt securities comprise Malta Government Stocks, acquired by the bank during the year.

13.4 Equity instruments available-for-sale comprise:

	2010 €	2009 €
Unquoted equity holding		
- Society for Worldwide Interbank Financial		
Telecommunications SCRL		
2 ordinary shares fully paid up	3,653	3,653
	<u>3,653</u>	<u>3,653</u>

13.5 The movement in investments may be summarised as follows:

	Held-to- maturity €	Available- for sale €	Total €
At 1 January 2009	26,304,231	3,653	26,307,884
Acquisitions	1,850,356	–	1,850,356
Capitalisation of interest	787,712	–	787,712
	<u>28,942,299</u>	<u>3,653</u>	<u>28,945,952</u>
At 31 December 2009	28,942,299	3,653	28,945,952
At 1 January 2010	28,942,299	3,653	28,945,952
Acquisitions	17,017,585	990,640	18,008,225
Capitalisation of interest	856,378	–	856,378
Fair value movement	–	9,370	9,370
Maturity	(17,029,688)	–	(17,029,688)
	<u>29,786,574</u>	<u>1,003,663</u>	<u>30,790,237</u>
At 31 December 2010	29,786,574	1,003,663	30,790,237

Notes to the Financial Statements

For the Year Ended 31 December 2010

14 Loans and advances to banks

	2010 €	2009 €
Repayable on call and at short notice	2,510,406	1,687,808
Term loans and advances	8,542,460	9,531,288
	<u>11,052,866</u>	<u>11,219,096</u>

15 Factored receivables

	2010 €	2009 €
Receivables factored without recourse	16,605,593	5,393,565
Allowance for uncollectibility:		
- Specific	(25,864)	-
- Collective	(174,733)	(54,646)
	<u>(200,597)</u>	<u>(54,646)</u>
	<u>16,404,996</u>	<u>5,338,919</u>

Of the carrying amount of factoring receivables as at 31 December 2010, the Bank pledged an amount of €14,576,196 in favour of the trustee holding the security granted by the Bank on trust for the benefit of all holders of debts securities issued by the Bank (see note 20).

	Allowances €
At 1 January 2010	54,646
Increase	145,951
At 31 December 2010	<u>200,597</u>

An allowance for uncollectability is provided against receivables factored without recourse, other than exposures to European governmental agencies.

Notes to the Financial Statements

For the Year Ended 31 December 2010

16 Other loans and advances to customers

16.1 Term loans and advances

	2010	2009
	€	€
Term loans and advances to related parties	15,924,000	21,117,000
Credit cards and overdrafts	295,498	23,261
	<u>16,219,498</u>	<u>21,140,261</u>

16.2 At 31 December 2010 €9,700,000 (2009: €3,000,000) of loans and advances to customers are expected to be recovered more than 12 months after the reporting date.

16.3 Loans and advances to customers amounting to €15,924,000 (2009: €18,717,000) are cash secured by amounts owed to customers held by the Bank and no specific allowance for uncollectibility is necessary.

Notes to the Financial Statements

For the Year Ended 31 December 2010

17 Property and equipment

	Revalued amount		Cost		
	Total	Premises and improvements	Computer hardware and software	Other equipment	Motor vehicles
	€	€	€	€	€
Cost/revalued amount					
At 1 January 2009	3,422,650	1,611,007	1,466,103	339,717	5,823
Acquisitions	260,725	35,475	205,592	19,658	–
At 31 December 2009	3,683,375	1,646,482	1,671,695	359,375	5,823
At 1 January 2010	3,683,375	1,646,482	1,671,695	359,375	5,823
Acquisitions	582,288	405,540	165,401	11,347	–
At 31 December 2010	4,265,663	2,052,022	1,837,096	370,722	5,823
Depreciation					
At 1 January 2009	1,412,800	121,529	992,785	295,644	2,842
Charge for the year	253,889	17,451	217,311	17,964	1,163
At 31 December 2009	1,666,689	138,980	1,210,096	313,608	4,005
At 1 January 2010	1,666,689	138,980	1,210,096	313,608	4,005
Charge for the year	267,472	21,113	226,701	18,495	1,163
At 31 December 2010	1,934,161	160,093	1,436,797	332,103	5,168
Carrying amount					
At 1 January 2009	2,009,850	1,489,478	473,318	44,073	2,981
At 31 December 2009	2,016,686	1,507,502	461,599	45,767	1,818
At 1 January 2010	2,016,686	1,507,502	461,599	45,767	1,818
At 31 December 2010	2,331,502	1,891,929	400,299	38,619	655

The carrying amount of premises and improvements that would have been included in the financial statements had these assets been carried at cost less depreciation is €481,636 (2009: €485,147).

At balance sheet date capital expenditure contracted but not provided for in the accounts amounted to €35,989 (2009: €338,444).

Notes to the Financial Statements

For the Year Ended 31 December 2010

18 Other assets

	2010 €	2009 €
Accrued income	910,915	1,010,276
Accounts receivable and prepayments	223,465	295,617
	<u>1,134,380</u>	<u>1,305,893</u>

Accrued income on bonds issued by foreign related parties amounted to € 774,269 (2009: €1,006,481).

19 Amounts owed to customers

	2010 €	2009 €
Repayable on demand	26,536,371	23,781,723
Term deposits	26,182,434	30,133,536
	<u>52,718,805</u>	<u>53,915,259</u>

Amounts owed to customers include an amount of €47,029,755 (2009: €43,291,145) owing by the Bank to related parties.

20 Debt securities issued

	2010 €	2009 €
Debt securities issued at amortised cost	8,733,363	–
At 1 January	–	–
Funds raised by issue during the year	9,000,000	–
Debt issuance costs during the year	(297,005)	–
	<u>8,702,995</u>	–
Amortisation of debt issuance costs during the year	30,368	–
At 31 December	<u>8,733,363</u>	–

On 21 June 2010, the Bank issued debt securities amounting to €9,000,000 at 5.35%, maturing in 2015. These notes are secured by a pledge on factored receivables amounting to €14,576,196 (refer to note 15). The debt securities issued as at 31 December 2010 constitute the general, direct, unconditional and secured obligations of the Bank and shall, at all times, rank pari passu without any priority or preference among themselves.

The Bank has not had any breaches with respect to debt securities in 2010.

Notes to the Financial Statements

For the Year Ended 31 December 2010

21 Deferred tax liabilities

Deferred income taxes are calculated on all temporary differences under the balance sheet liability method using rates substantively enacted at balance sheet date. The deferred income tax balance composition is as follows:

	Assets	Liabilities	Net	Assets	Liabilities	Net
	2010	2010	2010	2009	2009	2009
	€	€	€	€	€	€
Excess of capital allowances over depreciation	–	(69,713)	(69,713)	–	(5,219)	(5,219)
Collective impairment allowance	61,156	–	61,156	2,868	–	2,868
Specific impairment allowance	9,052	–	9,052	–	–	–
Revaluation of property	–	(340,993)	(340,993)	–	(344,877)	(344,877)
Fair value movements	–	(3,279)	(3,279)	–	–	–
	<u>70,208</u>	<u>(413,985)</u>	<u>(343,777)</u>	<u>2,868</u>	<u>(350,096)</u>	<u>(347,228)</u>

Movement in temporary differences relating to:

	At 1	Recognised	Recognised	At 31
	January	in profit	in equity	December
	2010	or loss	in equity	2010
	€	€	€	€
Excess of capital allowances over depreciation	(5,219)	(64,494)	–	(69,713)
Collective impairment allowances	2,868	58,288	–	61,156
Specific impairment allowances	–	9,052	–	9,052
Revaluation of property	(344,877)	–	3,884	(340,993)
Fair value movements	–	–	(3,279)	(3,279)
	<u>(347,228)</u>	<u>2,846</u>	<u>605</u>	<u>(343,777)</u>

	At 1	Recognised	At 31
	January	in profit	December
	2009	or loss	2009
	€	€	€
Excess of capital allowances over depreciation	(36,147)	30,928	(5,219)
Collective impairment allowances	2,459	409	2,868
Revaluation of property	(348,761)	3,884	(344,877)
	<u>(382,449)</u>	<u>35,221</u>	<u>(347,228)</u>

Notes to the Financial Statements

For the Year Ended 31 December 2010

22 Accruals and deferred income

	2010	2009
	€	€
Accrued interest payable	1,026,630	639,668
Deferred factoring commissions	150,363	51,821
Other accrued expenses	149,642	194,459
	<u>1,326,635</u>	<u>885,948</u>

Accruals and deferred income includes amounts due to related parties amounting to €855,110 (2009: €543,388).

23 Share capital and reserves

23.1 Share capital

	Ordinary shares	
	2010	2009
	No.	No.
On issue at 1 January:		
Issued for cash	54,762	54,762
Issued in lieu of dividend payment	105,238	105,238
	<u>160,000</u>	<u>160,000</u>
On issue at 31 December – fully paid		

At 31 December 2010, the authorised and issued share capital comprised 160,000 ordinary shares (2009: 160,000) of €25 each. The Bank's issued ordinary shares are equally held by IBL I Limited and IBL T Limited, which are 100% indirect subsidiaries of VMKG PLLC (the ultimate parent).

All shares in issue are fully paid up.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at shareholders' meetings of the Bank.

23.2 Property revaluation reserve

The property revaluation reserve represents the surplus arising on the revaluation of the Bank's premises and improvements, net of related deferred tax effects, and net of that part of the surplus realised through use or disposal of the revalued property. This reserve is not distributable except on realisation of the assets through sale.

23.3 Fair value reserve

The fair value reserve comprises the cumulative net change in the fair value of available-for-sale financial assets net of deferred tax effect until the investments are derecognised or impaired.

Notes to the Financial Statements

For the Year Ended 31 December 2010

23 Share capital and reserves (continued)

23.4 Depositor compensation scheme reserve

The depositor compensation scheme reserve represents amounts set aside by the Bank from its retained earnings. As at 31 December 2010, a total amount of €37,425 was placed with the Central Bank of Malta by the Bank and pledged in favour of the Depositor Compensation Scheme.

23.5 Availability of reserves for distribution

	2010 €	2009 €
Distributable	10,077,502	8,902,277
Non-distributable	676,787	691,900
	<u>10,754,289</u>	<u>9,594,177</u>

23.6 Dividends

During the year ended 31 December 2009, the Bank declared and paid a dividend of €43.75 per ordinary share that amounted to €7,000,000.

After 31 December 2010, the directors proposed a dividend of €12.50 per ordinary share in respect of 2010 amounting to €2,000,000. The proposed dividends have not been provided for and there are no income tax consequences.

24 Commitments

	2010 €	2009 €
Unutilised factoring, overdraft facilities and credit card commitments	<u>21,709,573</u>	<u>6,835,420</u>

The Bank may unconditionally cancel factoring commitments at its discretion, other than amounts being currently utilised by customers.

Factoring commitments are granted to customers at prevailing market rates at transfer date.

Notes to the Financial Statements

For the Year Ended 31 December 2010

25 Net cash (absorbed by)/generated from operating activities

	2010 €	2009 €
Profit for the year:	1,150,137	1,398,270
Adjustments for:		
Depreciation	267,472	253,889
Income tax expense	745,009	160,702
Impairment allowance	145,953	7,784
Interest receivable on debt securities	(1,261,998)	(1,674,301)
Amortisation of transaction costs on debts securities issued	30,368	–
	<u>1,076,941</u>	<u>146,344</u>
Working capital changes:		
Change in loans and advances to customers and factored receivables	(6,211,730)	(7,014,832)
Change in amounts owed to customers and accruals and deferred income	(2,354,310)	9,268,645
	<u>(7,489,099)</u>	<u>2,400,157</u>

26 Cash and cash equivalents

	2010 €	2009 €
Cash	1,218	850
Balances with Central Bank of Malta	885,071	504,998
Loans and advances to banks with contractual maturity of three months or less	11,052,866	11,219,096
	<u>11,939,155</u>	<u>11,724,944</u>

27 Operating leases

The future minimum lease payments for the Bank under non-cancellable operating lease rentals payable to a third party are as follows:

	2010 €	2009 €
Less than one year	8,873	11,808
Between one and five years	11,379	14,319
	<u>20,252</u>	<u>26,127</u>

The Bank leases two motor vehicles under operating leases. During the year ended 31 December 2010, €11,808 was recognised as an expense in the statement of comprehensive income in respect of operating leases (2009: €11,808).

In case of termination of the lease contract, the Bank is entitled to pay liquidation damages equivalent to 50% of the rental charges due from the date of termination for the period of all unexpired leases including all rental charges due to the termination of the contract.

Notes to the Financial Statements

For the Year Ended 31 December 2010

28 Related parties

28.1 Identity of related parties

Related parties are related by virtue of having common directors. The Bank's ultimate parent is VMKG PLLC, company number 0447.152.677.

The financial results and assets and liabilities of the Bank are included in the consolidated financial statements of VMKG PLLC, the registered office of which is Bruulstraat 77, 1130 Brussels, Belgium.

28.2 Related party transactions

Interest, fees and other income/charges in respect of related parties in the statement of comprehensive income comprise:

	2010 €	2009 €
Interest receivable and similar income	2,739,340	2,631,566
Fees and commissions receivable	1,630,414	954,029
Other operating income	4,193	4,193
	<u>891,618</u>	<u>421,649</u>
Interest expense		

28.3 Related party balances

The statement of financial position includes outstanding transactions and balances in respect of related parties as follows:

	2010 €	2009 €
Assets		
Loans and advances to customers	15,924,000	21,140,261
Investments	28,186,574	27,101,943
Prepayments and accrued income	903,183	1,006,481
	<u>45,013,757</u>	<u>49,248,685</u>
Liabilities		
Amounts owed to customers	47,029,755	43,291,145
Debt securities issued to director	150,000	–
Accruals and deferred income	855,110	543,388
	<u>48,034,865</u>	<u>43,834,533</u>

28.4 Compensation to key management personnel

	2010 €	2009 €
Compensation to key management personnel	151,956	141,503

28.5 Ultimate controlling party

Magdalena De Roeck, Countess A d'Oultremont and Peter Van Marcke have an indirect beneficial interest in the shareholding of the Bank through their indirect shareholding in the ultimate parent (see note 28.1).

Notes to the Financial Statements

For the Year Ended 31 December 2010

29 Operating segments

- 29.1** The Bank has identified one reportable operating segment, being corporate banking services, which is its only strategic business unit. Revenues earned and expenses incurred are the result of corporate banking services provided to its clients. Management does not use any other internal report for decision making which is significantly different from information disclosed in the statements of comprehensive income.

29.2 Geographical information

The Bank provides all its services from Malta. In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of customers. Segment assets are based on the geographical location of the assets.

	2010	2009
	€	€
Revenue		
Malta	62,720	73,888
Belgium	4,412,005	3,639,844
	<u>4,474,725</u>	<u>3,713,732</u>
Non-current assets		
Malta – property and equipment	2,331,502	2,016,686
	<u>2,331,502</u>	<u>2,016,686</u>

The Bank's major customer is the group of which it forms part. Belgium is the country of domicile of this group.

Information above revenues, costs and balances as a result of transactions with this group is set out in note 28.

Notes to the Financial Statements

For the Year Ended 31 December 2010

30 Accounting estimates and judgements

30.1 The directors considered the development, selection and disclosure of the Bank's critical accounting policies and estimates and the application of these policies and estimates. Estimates and judgements are continually evaluated and are based on historical and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

30.2 Critical accounting judgements in applying the Bank's accounting policies

Certain critical accounting judgements in applying the Bank's accounting policies are described below.

30.2.1 Classification of held-to-maturity investments

The Bank follows the guidance in IAS 39 on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity. The classification requires significant judgement. In making this judgment, the Bank evaluates its intention and ability to hold such investments to maturity. If the Bank fails to keep these investments to maturity other than for specific circumstances, for example, selling an insignificant amount close to maturity, it will be required to reclassify the entire class as available-for-sale. The investments would therefore be measured at fair value instead of at amortised cost.

30.2.2 Impairment losses on loans and advances and factored receivables

The Bank reviews its loan portfolio to assess impairment on an ongoing basis as relevant generic data is observed concerning risks associated with loans and factored receivables with similar risk characteristics. As a result, the Bank makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans and factored receivables, before the decrease is actually identified with an individual loan or factored receivable in that portfolio. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

30.2.3 Revaluation of premises

The Bank's premises are measured at revaluation amount less accumulated depreciation. The revaluation amount is determined on the basis of open market values provided periodically, but at least every five years, by independent valuers. The open market valuation provided by independent valuers on 14 August 2007 of the property disclosed in note 17 was €1,747,030. The directors applied a downward adjustment of €232,937 to limit the revaluation to what they believe is the lower range of the fair open market value.



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Independent Auditors' Report

To the Members of Izola Bank p.l.c.

Report on the Financial Statements

We have audited the financial statements of Izola Bank p.l.c. (the "Bank"), as set out on pages 1 to 43, which comprise the statement of financial position as at 31 December 2010 and the statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Financial Statements

As explained more fully in the Directors' Responsibilities Statement set out on page xiii of the Annual Report, the directors are responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the EU, the Companies Act, 1995 (Chapter 386, Laws of Malta) (the "Act"), and the Banking Act, 1994 (Chapter 371, Laws of Malta), and for such internal control as the directors determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. This report, including the opinion, has been prepared for and only for the Bank's members as a body in accordance with Article 179 of the Act, and Article 31 of the Banking Act, 1994 (Chapter 371, Laws of Malta), and may not be appropriate for any other purpose.

In addition, we read the other information contained in the Annual Report 2010 and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent material misstatements of fact or material inconsistencies with the financial statements.

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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



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Independent Auditors' Report (continued)

To the Members of Izola Bank p.l.c.

Opinion on Financial Statements

In our opinion, the financial statements:

- give a true and fair view of the Bank's financial position as at 31 December 2010, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU; and
- have been properly prepared in accordance with the Companies Act, 1995 (Chapter 386, Laws of Malta), the Banking Act, 1994 (Chapter 371, Laws of Malta).

Report on Other Legal and Regulatory Requirements

Matters on which we are required to report by the Banking Act, 1994 (Chapter 371, Laws of Malta)

In our opinion:

- we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purpose of our audit;
- proper books of account have been kept by the Bank so far as appears from our examination thereof;
- the Bank's financial statements are in agreement with the books of account; and
- to the best of our knowledge and belief and, on the basis of the explanations given to us, the financial statements give the information required by law in force in the manner so required.

Matters on which we are required to report by exception by the Companies Act, 1995 (Chapter 386, Laws of Malta) (the "Act"), other than those reported upon above.

We have nothing to report in respect of the following matters where the Act requires us to report to you if, in our opinion:

- the information given in the Directors' Report for the financial year for which the financial statements are prepared is not consistent with the financial statements; or
- certain disclosures of directors' remuneration specified by the Act are not made.



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Independent Auditors' Report (continued)

To the Members of Izola Bank p.l.c.

Report required by Listing Rule 5.98 issued by the Listing Authority in Malta on the Directors' Statement of Compliance with the Code of Principles of Good Corporate Governance (the "Principles") outlined in Appendix 5.1 to Chapter 5 (Continuing Obligations) of the Listing Rules (the "Appendix")

Listing Rule 5.97 requires an Issuer whose securities are admitted to trading on a Regulated Market operating in Malta to prepare a corporate governance statement. In addition, as an Issuer registered in Malta, Listing Rule 5.94 requires that the Bank endeavours to adopt the Principles and to prepare a report explaining how it has complied with the provisions of the Appendix.

Our responsibility as independent auditors of the Bank, is laid down by Listing Rule 5.98, which requires us to issue a report on the Directors' Statement of Compliance with the Principles, which is set out on pages vi to xii.

We review the Directors' Statement of Compliance, and report as to whether this Statement provides the disclosures required by Listing Rule 5.97. We are not required to, and we do not, consider whether the Board's statements on internal control and risk management systems cover all the risks and controls in relation to the financial reporting process, or form an opinion on the effectiveness of the Bank's corporate governance procedures or its risks and control procedures, nor on the ability of the Bank to continue in operational existence.

In our opinion, the Directors' Statement of Compliance set out on pages vi to xii provides the disclosures required by Listing Rule 5.97 issued by the Listing Authority of Malta.

Joseph C Schembri (Partner) for and on behalf of

KPMG

18 March 2011

Registered Auditors

KPMG, a Maltese civil partnership, is a member firm of KPMG International Cooperative ("KPMG International"), a Swiss entity

The firm is registered as a partnership of Certified Public Accountants in terms of the Accountancy Profession Act.

A list of partners and directors of the firm is available at Portico Building, Marina Street, Pieta', PTA 9044 Malta.

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1 Introduction

1.1 Background to Pillar 3 disclosures

The objective of Basel II Pillar 3 is to improve market discipline through effective public disclosure and to complement requirements under Pillar 1 and Pillar 2. To that end, Pillar 3 introduces substantial new public disclosure requirements, and represents a significant increase in the amount of information made publicly available by banks and investment firms regarding capital structure, capital adequacy, risk management and risk measurement.

Nature of disclosures

This document serves as the Basel II Pillar 3 disclosures of Izola Bank p.l.c. (“the Bank”) in accordance with the Malta Financial Services Authority (‘MFSA’) Banking Rule 7 (BR07). These Pillar 3 disclosures refer to financial year ended 31 December 2010.

The Bank has in place a formal policy to comply with the disclosure requirements laid down in Banking Rule BR/07/2009 and the revised BR/07/2010. The Directors, after due consideration of the size and complexity of the Bank, do not feel it necessary to produce Pillar 3 disclosures more frequently than annually.

Banking Rule BR/07 requirements are incorporated in this document if they are deemed relevant for the Bank. The Bank’s management is responsible for the verification of these Pillar 3 disclosures. They are also subject to review and verification by the Bank’s Audit Committee.

2 Risk management objectives and policies

The principal risks to which the Bank is exposed are business, credit concentration, operational and interest rate risk in the non-trading book. Counterparty risk is also recognised as important.

Business risk

Business risk is the risk that the Bank may not be able to carry out its business plan or its desired strategy and could therefore suffer losses if its income falls.

This is a risk that every business faces. Business risk mainly results from the Bank’s dependence on the Group for its ongoing business and future business expansion. There are no specific mitigating factors though it is to be noted that the Group is itself diversified and has a large number of clients and suppliers which in turn helps to diversify the underlying risk.

Concentration risk

Concentration risk arises as a result of the concentration of exposures within the same category, whether it is geographical location, product-type, industry sector or counterparty type. These risks are managed through adherence to Board-approved lending criteria.

The Bank recognizes that credit concentration risk is present in the Bank’s factoring business in view of the fact that factored debtors are active in the property, building and construction sector. Credit concentration risk is mitigated by the Group’s vast experience in this sector and local and in-depth knowledge of the customer base. The Bank is fully able to take advantage of this experience and local knowledge.

Appendix I

Pillar 3 Disclosures as at 31 December 2010

2 Risk management objectives and policies (continued)

Operational risk

Operational risk is associated with the Bank's internal processes and systems and the potential for these not to function properly. Through implementing a robust internal control system the Bank is able to mitigate many of the identified risks. The Bank also maintains third party insurance to cover certain risk events such as computer fraud. Regular reporting on operational risk is made to the Audit Committee.

Interest rate risk in the non-trading book

Market risk incorporates the loss of income which in the case of the Bank would be as a result of changes to interest rates. The Bank limits this exposure to movements in interest rates by matching as much as possible its advances to deposits in the same maturity bands.

3 Board and committee structure

During 2010, the Bank's Board of Directors comprised 2 executive directors and 7 non-executive directors and met quarterly throughout the year. In addition to the Board and Board Committee, there are two Board appointed committees, the Credit Committee and the Audit Committee, which report directly to the Board.

Board Committee

Composition The Board Committee comprises three directors.

Main functions The Board Committee performs and executes the authorisation powers normally attributed to the Board except for policy decisions.

Frequency This Committee meets on an ad-hoc basis throughout the year.

Credit Committee

Composition A minimum of 2 non-executive directors

Main functions The Credit Committee considers credit applications and keeps credit limits under review.

Frequency The Committee meets at least four times a year.

3 Board and committee structure (continued)

Audit Committee

Composition A minimum of 3 non-executive and independent directors

Main functions The primary purpose of the Audit Committee is to protect the interests of the Bank's shareholders and assist the Directors in conducting their role effectively so that the Bank's decision making capability and the accuracy of its reporting and financial results are maintained at a high level at all times.

The Committee provides independent review, monitoring and assessment of:

- the integrity of the annual financial statements
- the effectiveness of management's system of internal control
- the effectiveness of operational risk controls
- the Bank's compliance with applicable laws and regulations
- the Bank's ethical and business standards

Frequency The Committee meets at least four times a year.

The Board of Directors has also established the **Asset and Liability Management Committee (ALCO)**.

Composition This committee is chaired by the General Manager with the Financial Controller and Finance Officer as members.

Main functions The ALCO

- monitors the Bank's financial performance, and reviews and manages financial risks in accordance with Bank policies;
- manages the Bank's balance sheet in respect of the adequate matching of assets and liabilities, asset mix, liabilities and balance sheet growth;
- formulates a forward looking strategy for the Bank in terms of the mix of assets and liabilities, given its expectations of the future and the potential consequences of interest rate movements, liquidity constraints, foreign exchange exposure and capital adequacy.

Frequency The Committee meets on a monthly basis and reports to the Board on a quarterly basis.

Appendix I

Pillar 3 Disclosures as at 31 December 2010

4 Own funds

During the year ended 31 December 2010, the Bank complied with all of the externally imposed capital requirements to which it was subject. The following table summarises the composition of the Bank's regulatory capital as reported to the MFSA as at 31st December 2010.

TOTAL OWN FUNDS				
1.0.0	Original Own Funds	€'000s	€'000s	€'000s
	Paid up capital			
1.1.1	Ordinary shares (i)	4,000		
1.1.5	Total Paid Up capital		4,000	
	Reserves			
1.1.6	Retained profits/Capital contribution (ii,iii)	10,078		
1.1.12	Total Reserves		10,078	
1.1.14	Total Gross Original Own Funds		14,078	
2.0.0	Additional Own Funds			
2.1.9	Collective provisioning (iv)	175		
2.1.11	Total Lower Tranche Additional Own Funds		175	
2.3.0	IFRS Prudential Filters: Increases to Additional Own Funds			
2.3.2	Additions in relation to fair value movements on AFS financial assets			
2.3.2.3	Unrealised net gains on other AFS financial assets (v)	6		
2.3.3	Additions in relation to fair value movements on revaluation of immovable property			
2.3.3.1	Unrealised net gains on revaluation of own use property (vi)	412		
2.3.6	Total Increase attributable to IFRS Prudential Filters		418	
2.4.0	TOTAL Additional Own Funds AFTER application of prudential filters		592	
2.6.0	TOTAL Eligible Additional Own Funds			592
3.0.0	TOTAL Gross Own Funds			14,670
4.0.0	Supplementary Own Funds			
4.1.0	Subordinated loan capital	-		
4.2.0	Net trading book profits/(losses)	-		
4.3.0	TOTAL Supplementary Own Funds			-
5.0.0	TOTAL OWN FUNDS			14,670

4 Own funds (continued)

Composition of own funds

- i. Ordinary Shares: At 31 December 2010, the authorised and issued share capital comprised 160,000 ordinary shares of €25 each. All shares in issue are fully paid up. The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at shareholders' meetings of the bank.
- ii. Retained Profits: this includes the balance available for distribution to the shareholders.
- iii. Capital Contribution: this represents a contribution, to the distributable reserves of the Bank, by the shareholders.
- iv. Collective Provisioning: this represents a general provision against the Bank's unsecured lending.
- v. Available-for-sale Financial Assets (AFS): this represents fair value movements on AFS assets.
- vi. Revaluation Reserve: this represents reserves arising from the revaluation of tangible fixed assets.

5 Capital adequacy

5.1 Internal capital adequacy assessment process (ICAAP)

ICAAP methodology

The Bank's latest ICAAP report is based on 31 December 2009 figures.

The Bank has chosen to base its ICAAP on the results of the Pillar 1 calculation with additional Pillar 2 risks – business risk, credit concentration and interest rate risk in the banking book – assessed separately through stress testing and added to Pillar 1. The Bank has also further analysed its operational risk exposure through stress testing in order to determine whether an additional Pillar 2 charge for operational risk may be necessary.

The Bank's ICAAP also contains three year projections as well as the capital plan, and the Board monitors that there are adequate capital resources to support the corporate goals contained within the plan.

In order to produce a capital plan, the Bank's ICAAP contains calculations of the capital resources requirement (effectively the minimum capital required) for each of the three years using the standardised approach for credit risk and the basic indicator approach for operational risk.

Under the standardised approach for credit risk, the Bank applies a risk weighted asset value to each of its exposure classes and provides 8% of that risk weighted asset value as the minimum capital requirement for credit risk.

Under the basic indicator approach for operational risk, the Bank calculates its average net income over the previous three years and provides 15% of that average net income as the minimum capital requirement for operational risk.

Appendix I

Pillar 3 Disclosures as at 31 December 2010

5 Capital adequacy (continued)

5.2 Credit risk capital requirement by standardised approach exposure class

Table 5.1 Capital Requirement by exposure class as at 31 December 2010

	Capital requirement
	€ 000s
Central Government or Central Banks	–
Corporates	1,337
Institutions	176
Other	232
Total	1,745

5.3 Market risk capital requirement

The market risk capital requirement of the Bank is not significant, comprising a foreign exchange risk charge of €3,660.

5.4 Operational risk capital requirement

The gross income registered by the Bank in 2007, 2008 and 2009 amounted to €2,144,979, €2,441,822 and €2,419,404 respectively. The operational risk capital requirement for 2010 amounted to €350,310.

6 Credit risk

6.1 Credit risk

Credit risk is the risk of financial loss to the Bank if a customer or counterparty to the financial instrument fails to meet its contractual obligations. For risk management reporting purposes, the Bank considers and consolidates all elements of credit risk exposure (such as individual obligor default risk, country and sector risk).

The Bank follows standards, policies and procedures established by the Board of Directors for the control and monitoring of all risks. The Board of Directors has delegated the responsibility for the management of credit risk to the Board Committee and Credit Committee. The Bank's management is responsible for the oversight of the Bank's credit risk. The Bank's credit risk policies and procedures are reviewed regularly through internal audit.

6 Credit risk (continued)

6.2 Definition of 'past due' and 'impaired' for accounting purposes

Impaired factored receivables

These comprise factored receivables for which the bank determines that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the factored receivables agreements.

Table 6.1 Allowance for impairment on factored receivables

	2010 €	2009 €
Factored receivables - gross	16,605,593	5,393,564
Collectively determined allowance for impairment	174,733	54,646
Specific allowance for impairment	25,864	–

Past due but not impaired

Receivables where contractual interest or principal payments are past due but the bank believes that impairment is not appropriate on the basis of the level of security / collateral available and / or the stage of collection of amounts owed to the Bank.

At 31 December 2010, 22% of the Bank's factored receivables were past due but not impaired.

Table 6.2 Neither past due nor impaired loans and securities

	2010 €	2009 €
Loans and advances to customers	16,219,498	21,140,261
Loans and advances to banks	11,052,866	11,219,096
Investment securities	30,790,237	28,945,952
	58,062,601	61,305,309

6 Credit risk (continued)

6.3 Description of approaches and methods adopted for determining value adjustments and provisions

Allowances for impairment

The bank establishes an allowance for impairment losses that represents its estimate of incurred losses in its factored receivables portfolio. The main components of this allowance are a specific loss component that relates to individually impaired receivables, and a collective loss allowance established for groups of factored receivables in respect of losses that have been incurred but have not been identified and subjected to individual assessment for impairment.

	2010	2009
Factored receivables	€	€
Collective allowance for impairment	<u>174,733</u>	<u>54,646</u>

Table 6.3 Total period end and average exposures after individual impairment and prior to credit risk mitigation by exposure class

	Exposure as at 31/12/2010	Average exposure for period to 31/12/2010
	€ 000s	€ 000s
Central Government or Central Banks	3,485	2,632
Corporates	60,816	73,068
Institutions	11,053	9,375
Other	3,466	3,301
Total	78,820	88,375

Table 6.4 Geographic distribution of exposure classes

	Malta	Europe	Rest of the world	Total
	€ 000s	€ 000s	€ 000s	€ 000s
Central Government or Central Banks	3,485	–	–	3,485
Corporates	–	60,812	4	60,816
Institutions	140	10,224	689	11,053
Other	2,358	953	155	3,466
Total	5,983	71,989	848	78,820

Appendix I

Pillar 3 Disclosures as at 31 December 2010

6 Credit risk (continued)

6.3 Description of approaches and methods adopted for determining value adjustments and provisions (continued)

Table 6.5 Distribution of the exposures by industry/counterparty type

	Central Government or Central Banks	Corporates	Institutions	Other	Total
	€ 000s	€ 000s	€ 000s	€ 000s	€ 000s
Monetary Financial Institutions	3,485	-	11,053	4	14,542
Manufacturing	-	6,012	-	90	6,102
Wholesale and retail trade	-	4,966	-	85	5,051
Real estate, renting and business activities	-	30,806	-	628	31,434
Construction	-	15,296	-	1	15,297
Education	-	29	-	-	29
Other	-	3,707	-	2,658	6,365
Total	3,485	60,816	11,053	3,466	78,820

Table 6.6 Residual Maturity Breakdown of the exposures

	< 1 year	1 – 5 years	> 5 years	Total
	€ 000s	€ 000s	€ 000s	€ 000s
Central Government or Central Banks	2,485	-	1,000	3,485
Corporates	22,929	30,392	7,495	60,816
Institutions	11,053	-	-	11,053
Other	3,466	-	-	3,466
Total	39,933	30,392	8,495	78,820

6.4 Past Due Exposures and Impaired Assets

Table 6.7 Impaired, past due exposures and provisions by industry sector

Standardised exposure classes	Individual & collective provision	Charged to income statement in the year ended 31 December 2010
	€ 000s	€ 000s
Central Government or Central Banks	-	-
Corporates	201	146
Institutions	-	-
Other	-	-
Total	201	146

Appendix I

Pillar 3 Disclosures as at 31 December 2010

6 Credit risk (continued)

6.4 Past Due Exposures and Impaired Assets (continued)

Table 6.8 Impaired, past due exposures and provisions by geographic area

Standardised exposure classes	Individual & collective provision	Charged to income statement in the year ended 31 December 2010
	€ 000s	€ 000s
Malta	–	–
Europe	201	146
Rest of the World	–	–
Total	201	146

Table 6.9 Movement in allowances for impaired and past due exposures and provisions

	Individual & collective provisions
	€ 000s
Opening balance	55
Charged to income statement	146
Closing balance	201

Appendix I

Pillar 3 Disclosures as at 31 December 2010

7 Standardised approach to credit risk

7.1 Exposure to Institutions

Fitch Rating Agency is the External Credit Assessment Institution (ECAI) used to rate exposures to institutions. The external ratings are mapped to the prescribed credit quality assessment scale that in turn produces standard risk weightings.

The following table shows the exposure values before and after Credit Risk Mitigation associated with the credit quality step under the Standardised Approach.

Table 7.1 Institutions

Credit quality step	Risk weight	Ratings	Exposure	Exposure after CRM
			€ 000s	€ 000s
1	20%	Fitch AAA to A+	11,053	11,053

7.2 Exposure to Central Government and Central Bank

Exposures to central government and central bank denominated and funded in the domestic currency of the central government and central bank are assigned a risk weight of 0% in line with BR/04/2010 (Appendix 2).

Table 7.2 Central Government and Central Bank

Credit quality step	Risk weight	Banking regulation	Exposure	Exposure after CRM
			€ 000s	€ 000s
1	0%	BR/04/2010	3,485	3,485

7.3 Exposure to Corporates

Corporate Group exposures have a 0% risk weighting as they are cash secured.

Table 7.3 Corporates

Credit quality step	Risk weight	Banking regulation	Exposure	Exposure after CRM
			€ 000s	€ 000s
1	0%	BR/04/2010	44,111	0

Appendix I

Pillar 3 Disclosures as at 31 December 2010

8 Remuneration policy

Due to the small size of the institution and scale of operations, a Remuneration Committee has not been established. The Board has delegated the tasks normally attributed to such a Committee to the Board Committee. Remuneration of the senior management team is not linked to the Bank's financial performance but is based on other qualitative criteria.

9 Credit risk mitigation

9.1 Collateral

Analysis of collateral is disclosed in Note 4.4.3 of the Annual Report 2010.

Table 9.1 Exposure value covered by eligible financial collateral

	€ 000s
Central Government or Central Banks	–
Corporates	45,021
Institutions	–
Other	–
Total	45,021

10 Conclusion

This disclosure document has been prepared in accordance with the requirements of Banking Rule 7 issued by the Malta Financial Services Authority (MFSA).

Appendix II

Five-year Summary

Statements of Comprehensive Income

	2010	2009	2008	2007	2006
	€	€	€	€	€
Interest receivable and similar income	2,806,276	2,722,905	3,529,298	3,367,821	3,273,182
Interest payable	(1,474,670)	(1,261,842)	(1,928,582)	(1,998,106)	(1,418,666)
Net interest income	1,331,606	1,461,063	1,600,716	1,369,715	1,854,516
Fee and commission income	1,629,528	958,341	841,106	775,264	636,156
Other operating income	26,657	16,126	17,401	19,434	11,712
Other operating charges	(946,692)	(868,774)	(868,536)	(786,812)	(725,862)
Net impairment losses	(145,953)	(7,784)	(17,011)	(83,849)	(6,854)
Profit before tax	1,895,146	1,558,972	1,573,676	1,293,752	1,769,668
Income tax expense	(745,009)	(160,702)	(200,666)	(188,714)	(197,794)
Profit for the year	1,150,137	1,398,270	1,373,010	1,105,038	1,571,874
Other comprehensive income for the year, net of income tax	9,975	–	–	–	–
Total comprehensive income for the year	1,160,112	1,398,270	1,373,010	1,105,038	1,571,874
Earnings per share	7.25	8.74	8.58	6.91	9.82

Appendix II

Five-year Summary

Statement of Financial Position

	2010	2009	2008	2007	2006
	€	€	€	€	€
ASSETS					
Cash	1,218	850	779	466	1,409
Balances with Central Bank of Malta	885,071	504,998	385,852	1,117,828	–
Investments	30,790,237	28,945,952	26,307,884	25,568,878	24,876,652
Loans and advances to banks	11,052,866	11,219,096	9,788,398	9,168,258	7,184,794
Factored receivables	16,404,996	5,338,919	4,362,518	2,916,099	2,773,556
Other loans and advances to customers	16,219,498	21,140,261	15,030,861	14,255,000	15,696,545
Property and equipment	2,331,502	2,016,686	2,009,850	2,106,232	1,846,601
Other assets	1,134,380	1,305,893	1,423,935	1,294,187	1,215,632
Total assets	78,819,768	70,472,655	59,310,077	56,426,948	53,595,189
LIABILITIES					
Balance owed to Central Bank of Malta	–	1,500,000	–	–	–
Amounts owed to customers	52,718,805	53,915,259	45,196,148	44,510,872	43,693,758
Debt securities in issue	8,733,363	–	–	–	–
Deferred tax liabilities	343,777	347,228	382,449	372,811	235,896
Current tax payable	942,899	230,043	228,666	201,847	186,668
Accruals and deferred income	1,326,635	885,948	1,756,089	967,703	452,910
Total liabilities	64,065,479	56,878,478	47,563,352	46,053,233	44,569,232
EQUITY					
Called up share capital	4,000,000	4,000,000	4,000,000	4,000,000	4,000,000
Property revaluation reserve	633,271	640,483	647,695	654,907	420,773
Fair value reserve	6,091	–	–	–	–
Depositor compensation scheme reserve	37,425	51,417	–	–	–
Capital contribution	7,449,182	7,449,182	–	–	–
Retained earnings	2,628,320	1,453,095	7,099,030	5,718,808	4,605,184
Total equity attributable to equity holders of the Bank	14,754,289	13,594,177	11,746,725	10,373,715	9,025,957
Total liabilities and equity	78,819,768	70,472,655	59,310,077	56,426,948	53,595,189
Memorandum items					
Commitments	21,709,573	6,835,420	5,917,759	3,502,027	3,573,422

Appendix II

Five-year Summary

Statements of Cash Flows

	2010	2009	2008	2007	2006
	€	€	€	€	€
Net cash (used in)/from operating activities	(7,524,098)	2,205,610	(923,261)	2,413,681	3,260,690
Cash flows from investing activities					
Payments to acquire property and equipment	(582,290)	(182,889)	(141,712)	(101,655)	(318,004)
Payments to acquire investments	(1,834,914)	(1,850,356)	–	(1,635,000)	(3,360,000)
Proceeds from maturity of investments	–	–	–	1,636,097	3,346,564
Interest received from investments	1,452,818	1,038,23	953,450	787,226	694,34
Net cash (used in)/from investing activities	(964,686)	(994,992)	811,738	686,668	362,924
Cash flows from financing activities					
Net capital contribution received	–	339,297	–	–	–
Issue of debt securities	9,000,000	–	–	–	–
Capitalised cost related to the issue of debt securities	(297,005)	–	–	–	–
Net cash from financing activities	8,702,995	339,297	–	–	–
Increase/(decrease) in cash and cash equivalents	214,211	1,549,915	(111,523)	3,100,349	3,623,614

Accounting Ratios	2010	2009	2008	2007	2006
	%	%	%	%	%
Net interest income and other operating income to total assets	3.79	3.46	4.15	3.84	4.67
Operating expenses to total assets	1.39	1.24	1.49	1.54	1.37
Profit before tax to total assets	2.40	2.21	2.65	2.29	3.30
Pre-tax return on capital employed	13.46	12.08	14.18	13.31	20.57
Profit after tax to equity	7.80	10.29	11.69	10.65	17.42

Appendix III

Supplementary Financial Information

Directors' interest in the share capital of the Bank or in any related company as at 31 December 2010.

No director has a direct beneficial or non-beneficial interest in the share capital of the Bank.

Magdalena De Roeck, Countess A. d'Oultremont and Peter Van Marcke have an indirect beneficial interest in the shareholding of the Bank through their indirect shareholding in VMKG PLLC, a company registered in Belgium with registration number 0447.152.677. VMKG PLLC is the ultimate holding company of the group to which the bank belongs.

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. VMT S.A and IVM S.A are the trading and industrial holding companies of the Van Marcke Group respectively.

	Type & class of shares	Issued shares	Percentage paid up	Nominal value per share
IBL I Limited C 16321				
VMT S.A	Ordinary	24,999	100	€24.79
IVM S.A	Ordinary	1	100	€24.79
IBL T Limited C 16322				
VMT S.A	Ordinary	24,999	100	€24.79
IVM S.A	Ordinary	1	100	€24.79
Shareholders holding 5% or more of the Share Capital as at 31st December 2010				
IBL I Limited	Ordinary "A"	80,000	100	€25.00
IBL T Limited	Ordinary "B"	80,000	100	€25.00
Number of Shareholders				
Class	Number of Shares	Number of Holders		
Class A	80,000	1		
Class B	80,000	1		
Range	Class "A"	Class "B"		
1 - 5000	–	–		
5001 & over	1	1		

As at date of publication of the annual report, no changes were effected to the shareholding structure.



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