mediterraneanbank plc

wealth management - savings - investments

Annual Report

2010

Company Registration Number: C 34125

Chairman's Statement

Notwithstanding the ongoing stresses within international financial markets, the year of 2010 has been one of significant progress for Mediterranean Bank plc (the "Bank"). A number of milestones were achieved throughout the year, through the careful delivery of the first part of a multi-year business plan, with the goal of creating an innovative Maltese bank, focused on providing market leading savings and wealth management products in a cost effective and transparent manner.

Background

Throughout much of 2010 the international market was dominated by significant concerns over the sustainability of public sector finance for the various European countries, post the 2008 banking crisis, with particular concern centred on the Eurozone periphery.

In the first quarter, much of this focus was on the Greek situation, with the funding costs of its debt issuance coming under severe stress and growing worries that Greece would be unable to refinance its debt in April/May. At this time a €110 billion facility was initiated by the European Union (EU) in collaboration with the International Monetary Fund (IMF), to enable Greece to fund itself until 2013, subject to the rigorous implementation of a series of profound structural reforms and a multi-year austerity budget designed to reduce deficits and place Greece on the road to a sustainable future. This was supplemented by various European Central Bank (ECB) policies, including the purchase of peripheral Eurozone Government debt, designed ostensibly to provide basic functionality in secondary Government debt markets, to ensure the transmission of monetary policy.

Despite some short term relief, ongoing concerns about contagion into other Eurozone countries featured very strongly with particular focus on Portugal, Ireland and Spain, with yields in both the primary and secondary markets widening significantly against the core funding costs of Germany.

In response to these concerns a joint EU/IMF Financial Stability Facility (EFSF) was implemented to ensure access to financing for all Eurozone countries. Additionally a pan European banking "stress test" was exercised, in an attempt to demonstrate the capital sustainability of the larger European banks.

Market pressures continued unabated, with some commentators beginning to question the viability of the euro, in its current format. The crisis moved to its next phase, toward the end of the year, with further revelations about the extent of the losses within the Irish banking system. Ultimately, this led to the implementation of an €85 billion rescue package and the first use of the EFSF.

2010 Developments

Despite the severe stresses in the European financial markets, Mediterranean Bank continued to pursue its core strategy of developing its Treasury management capabilities, thus enabling it to provide the delivery of attractive financial products to its Maltese and International customer base.

For much of 2010, the Bank continued to focus on its provision of attractive term deposit products, denominated in Euro, Sterling and US Dollar, supplementing these with a number of additional currencies, while also developing new products, such as the Liquidity Management account for its growing number of corporate customers.

In April 2010 the Bank embarked upon a rebranding exercise, changing our signage and logo and helping better define our presence in the local savings market. The accompanying multi media advertising campaign has markedly improved our local profile and the Bank has experienced a significant increase in its customer numbers and local deposit base.

In response to the increased customer flow, in August, the Bank opened its first Branch at Tigne´ Seafront in Sliema, thus offering easier access and greater connectivity.

Chairman's Statement

August was indeed a busy month for the management team, as it was announced that the Bank's parent company, Medifin Holding Limited, had completed the acquisition of 65% of Charts Investment Management Service Ltd, ("Charts") the renowned, well established, Maltese stock broking business led by Mr. Wilfred Mallia. The integration of the Charts wealth management and corporate broking functions is ongoing but the provision of local and international investment advice alongside our traditional savings products is an important step in providing a richer suite of products to our growing customer base.

In October another milestone was achieved with the issuance of our first bond, listed on the Malta Stock Exchange, maturing in 2015. The €15 million bond was fully subscribed at launch and distributed to almost 1,000 investors, thus allowing Mediterranean Bank to extend its customer base even further. The Bond has continued to perform well in the secondary market and I would like to take this opportunity to thank all those investors who contributed to making this inaugural transaction an outstanding success.

Outlook

We enter 2011 with ongoing concerns about the broader economic outlook with continued focus on the euro zone and the budgetary situation of peripheral euro countries. The early weeks of this new year have been more benign than expected with underlying economic growth numbers, particularly from core Europe, appearing stronger than many had anticipated which provides some ground for cautious optimism particularly when combined with a growing political consensus to provide a comprehensive solution to the European debt problem.

Although we still believe the environment will continue to be challenging for the foreseeable future, we are also confident that it is an environment in which Mediterranean Bank can continue to develop its business in a viable manner.

The implementation of a new Core Banking System, at a significant but appropriate cost, will enable the Bank to significantly improve its product offering and fundamentally alter our connectivity and service levels. In addition to the opening of our second branch in Paola, the opening of further branches will be considered through the course of the year. Building on our core competencies, management are exploring routes for further expansion which will be executed in a prudent and sustainable way.

The broader foundations provided by our performance in 2010, allow us to enter 2011 with optimism that we will continue on our growth path in a way that is appropriate to all our stakeholders, namely, our shareholders, our customers, our regulators, and our employees.

Francis J. Vassallo, Chairman
23 February 2011

Chief Executive Officer's Review

Mediterranean Bank, in 2010, focused much of its efforts on developing its profile and customer base locally in the Maltese market.

Having grown its employee base from 23 to 63 through 2010, the Bank undertook a rebranding and repositioning exercise early in the year which enabled it to grow its domestic customer base significantly.

Mediterranean Bank is committed to providing simple, transparent and understandable financial products that we hope to develop this year with a broader set of products for the long term saver and investor.

Underpinning this is a commitment to support these activities with a high quality balance sheet encompassing robust operating ratios.

Despite an environment of increasing credit concerns across Europe and multiple notch downgrades in the sovereign and banking sectors by the international rating agencies, the investment portfolio continues to perform in a stable and predictable manner. By the end of 2010, 93% of the diversified portfolio continues to be rated A or above with 66% rated AA or higher.

67% of the portfolio has a primary claim on high quality collateral supported by either structural subordination or contractual over collateralisation that provides an extremely high degree of confidence on the continued performance of these investments.

Due to the high quality nature of the assets on our balance sheet, Mediterranean Bank operates with very strong regulatory ratios. We close the year with a Tier One ratio of 37% (an international benchmark indicator of balance sheet strength) which is over nine times the current statutory minimum ratio of 4%.

Our balance sheet continues to be managed with a high level of liquidity reporting a 70% ratio at year end (against a required minimum of 30%).

Our profitability continued to improve throughout the year in a stable and positive manner. 2010 Bank's Profit before Tax was €18.97 million (2009: loss €0.86 million) producing an after tax earnings of €15.04 million (2009: loss €0.86 million). This will be retained in our capital base and thus help further sustain the strength of our balance sheet as we continue to develop our business.

We enter 2011 with several challenges ahead of us but having made significant progress throughout 2010, the establishment of a growing customer base with further investments in our brand and product capabilities place us well, despite the various economic headwinds that the Euro zone faces. I would like to thank our employees for their hard work and dedication throughout 2010 and look forward to working with them in the coming year as we continue to establish Mediterranean Bank as a leading provider of financial services to the Maltese community.

Mark A. Watson, Chief Executive Officer
23 February 2011

Directors' Report

For the Year Ended 31 December 2010

The directors present their report, together with the financial statements of Mediterranean Bank plc (the "Bank"), and of the group of which it is the parent ("the Group"), for the year ended 31 December 2010.

Board of directors

Mr. Francis J. Vassallo – Chairman
Mr. Mark Alexander Watson
Mr. Peter Bramwell Cartwright
Mr. Finlay Stuart McFadyen
Mr. Henry Schmeltzer
Mr. Joaquin Vicent
Mr. Frederic Villa (resigned on 15 February 2011)

Principal activities

The Group comprises Mediterranean Bank plc and its wholly owned subsidiaries Mediterranean Global Advisory SA and Mediterranean Research Limited (the "subsidiaries"). Mediterranean Global Advisory SA is a dormant company whilst Mediterranean Research Limited provides financial research services to the Bank.

The Bank was granted a licence by the Malta Financial Services Authority in terms of the Banking Act, Cap. 371 of the Laws of Malta on 14 July 2005, a Category 2 investment services licence, and a Category 4 investment services licence issued by the Malta Financial Services Authority.

The Bank is licensed, among other things, to carry out the business of banking, to undertake money transmission services, to issue and administer means of payment, guarantees and commitments, to trade for own account and/or for account of customers in a number of instruments, to provide portfolio management and advice and to provide safe-keeping services.

The Bank has built a high quality investment portfolio comprising European Union (EU) sovereign and sovereign related credits, covered bonds and other similar credit quality instruments, which are classified as either held-to-maturity or available-for-sale and are measured at amortised cost and at fair value, respectively.

The principal activities of the Bank comprise the following:

- The provision of term savings and wealth management products;
- The receipt and acceptance of customers' monies for deposit in savings and fixed term deposit accounts denominated in euro and other major currencies;
- Trading for own account and for account of customers in foreign exchange;
- The provision of money transmission services;
- The provision of safe custody services with a wide range of custom-tailored solutions as well as administration and safekeeping of securities;
- The provision of investment advice to customers of the Bank; and
- The provision of portfolio management services.

Directors' Report

For the Year Ended 31 December 2010

Review of business development and financial position

During 2010, the Bank began to execute its plans to develop new products for its mass affluent and high net worth customer base through the acquisition by its parent company, Medifin Holding Limited, of a majority shareholding in Charts Investment Management Service Limited, a premier Maltese stock broking, wealth management and corporate advisory firm.

Profit after tax for the year for the Bank and the Group amounted to €15,038,729 (2009: loss €859,702) and €15,110,802 (2009: loss €862,280), respectively. Shareholders' equity at reporting date amounted to €59,405,473 (2009: €44,267,449) and €59,471,118 (2009: €44,260,126) for the Bank and the Group respectively.

Dividends and reserves

Retained earnings for the Bank and the Group amounting to €6,320,944 (2009: accumulated losses €8,717,783) and €6,381,860 (2009: accumulated losses €8,728,940), respectively, are carried forward to the next financial year. The directors do not recommend the distribution of any dividends.

Standard licence conditions

In accordance with the Investment Services Rules for Investment Services providers regulated by the Malta Financial Services Authority, licence holders are required to include in the Directors' Report breaches of standard licence conditions or other regulatory requirements. Accordingly, the Directors confirm that no breaches of standard licence conditions or other breach of regulatory requirements, which were subject to administrative penalty or regulatory sanction were reported.

Future business developments

The Bank's ongoing business strategy is based on:

- diversification of its funding sources and building of a stable customer base;
- development of a range of new products aimed at the mass affluent and high net worth markets;
- continuing the Bank's conservative, long-term value-oriented investment philosophy; and
- maintaining or improving long-term profitability.

As noted above, the Bank has embarked on its business strategy by developing a range of funding sources, building a stable customer base, both in Malta and internationally, and investing in a portfolio of highly rated investment securities. The Bank plans to continue its focus on the mass affluent and high net worth markets.

Over the medium term, the Bank plans to continue to execute its existing strategy. On 30 August 2010, the Bank established a branch office in Sliema and opened another in Paola on 21 February 2011. The opening of other branches in Malta and abroad are also being considered.

Directors' Report

For the Year Ended 31 December 2010

Events after the reporting date

The Bank has been engaged in ongoing settlement discussions in respect to an action brought against it for alleged illegal use of the trade name "Mediterranean Bank". On 22 February 2011, the Bank signed settlement agreement in respect of such action. In accordance with the said agreement, the Bank will retain the use of the said trade name and will also retain its registration thereof, and of the trade mark related thereto. As a result of this agreement, complainant's action has been withdrawn.

Also, Mr Frederic Villa resigned from the post of director on the Board on 15 February 2011.

There were no other events after the reporting date that have a material effect on the financial statements.

Going concern

After due consideration of the Bank's profitability, balance sheet, capital adequacy and solvency, the Directors declare, pursuant to MFSA Listing Rule 5.62, that the Bank is in a position to continue operating as a going concern for the foreseeable future.

Statement by the directors pursuant to Listing Rule 5.68

We, the undersigned, declare that to the best of our knowledge, the financial statements prepared in accordance with the applicable accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Bank and its subsidiaries included in the consolidation taken as a whole, and that this report includes a fair review of the performance of the business and the position of the Bank and its subsidiaries, included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

Approved by the Board of Directors on the 23 February 2011 and signed on its behalf by:

Francis J. Vassallo
Chairman

Mark A. Watson
Director and Chief Executive Officer

Registered Office

10, St. Barbara Bastion,
Valletta,
Malta

Statement of Compliance with the Principles of Good Corporate Governance

Introduction

Mediterranean Bank plc (the "Bank") hereby reports on the extent to which the Code of Principles of Good Corporate Governance have been adopted as required by the Listing rules of the Malta Listing Authority as at 16 November 2010.

Board of Directors and Board committees

The Board is composed of persons having a diversity of knowledge, judgment and experience acquired as leaders of central and international banks, professional and business firms. This facilitates them to being fit and proper to direct the business of the Bank, with honesty, competence and integrity. The Board is composed of three non executive members and four executive members.

The position of the Chairman and that of the Chief Executive are occupied by different individuals, to avoid concentration of authority and power in one individual and differentiates leadership of the Board from the running of the business.

The Chairman of the Board and Board Directors resign and seek re-election at each Annual General Meeting of the Bank.

Functioning of the Board

For the Board to function effectively, the non-executive directors contribute to Board discussions and challenge and test the proposals on strategy that are put forward by the executive directors. The Board promotes an environment whereby challenge from the non-executive directors is welcomed and encouraged, combined with full support for and empowerment of the executive directors in implementing decisions.

The Board has the first level responsibility of 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, performance objectives and monitors implementation and corporate performance within the parameters of all relevant laws, regulations and codes of best business practice, by applying high ethical standards and taking into account the interests of stakeholders. In particular, the Board:

- defined in clear and concise terms, the Bank`s strategy, policies, management performance criteria and business policies which can be measured in a precise and tangible manner;
- established 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;
- established an Audit Committee in terms of the Listing Rules;
- 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;

Statement of Compliance with the Principles of Good Corporate Governance

Functioning of the Board (continued)

- evaluated the management's implementation of corporate strategy and financial objectives. The strategy, processes and policies adopted for implementation is 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;
- ensured that the Bank has appropriate policies and procedures in place to enable the Bank and its staff to maintain the highest standards of corporate conduct, including compliance with applicable laws, regulations and business and ethical standards;
- actively participated in the appointment of senior management;
- ensured that there is adequate training provided for management and employees;
- required management to constantly monitor performance and report on a monthly basis fully and accurately on the key performance indicators; and
- ensured that the financial statements of the Bank and the annual audit thereof are completed within the stipulated time periods.

Notice of the dates of the forthcoming meetings together with the supporting material have been circulated well in advance to the directors allowing ample opportunity to appropriately consider the information prior to the scheduled Board meetings. Advance notice is given of ad hoc meetings of the Board to allow all directors sufficient time to re-arrange their commitments in order to be able to participate. After each Board Meeting and before the next meeting, minutes that faithfully record attendance and decisions are prepared and circulated to all directors as soon as practicable after the meeting.

The following list details the members of the Board of Directors of the Bank and the members of each of the committees set up by the directors.

Board of directors

		Meetings held: 12 Attended
• Francis J. Vassallo	Chairman & Non-Executive Independent Director	12
• Finlay S.McFadyen	Non-Executive Director	10
• Peter B.Cartwright	Non-Executive Director	12
• Mark A.Watson	Executive Director – Chief Executive Officer	12
• Henry C. Schmeltzer	Executive Director – Chief Operating Officer	12
• Joaquin Vicent	Executive Director – Head Credit and Investments	11
• Frédéric Villa *	Executive Director – Head of Private Banking	11

* Resigned on 15 February 2011

The members of the Board were appointed in the second half of 2009. A formal and rigorous evaluation of its own performance and of that of its committees is planned for the first half of 2011. In addition, the Board will consider a succession plan for senior management.

The Board committees

Certain responsibilities of the Board are delegated to Board Committees to assist the Board in carrying out its functions and to ensure independent oversight of internal control and risk management. The Board Committees play an essential role in supporting the Board in fulfilling its responsibilities and ensuring that the highest standards of corporate governance are maintained throughout the Group. Each Board Committee reports to the Board following each of its meetings and the minutes of each Board Committee meeting are available to the Board.

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Board committees

Audit & Risk Committee

The Audit & Risk Committee is primarily responsible for reviewing and approving specific matters relating to the audit of the Bank, internal control and risk management systems.

The members of the Audit & Risk Committee are:

- Peter B. Cartwright Committee Chairman & Non-Executive Director
- Francis J. Vassallo Member & Independent Non-Executive Director / Chairman of the Board
- Finlay S. McFadyen Member & Non-Executive Director

Mr Francis J. Vassallo was appointed by the Board in terms of listing rule 5.117 on the basis that he has a long and distinguished career in both public and private enterprise. Mr Vassallo occupied various senior positions with Chase Manhattan Bank, is ex-Governor of the Central Bank of Malta, ex-Chairman of the Malta Development Corporation and presently a member of numerous boards of entities operating in the financial services industry. Mr Vassallo is deemed independent and considered to be competent in accounting. The role has been duly notified to the listing authority. The terms of reference of the committee have been drawn up and sent to the Listing Authority for its approval. The Audit Committee was formally constituted on 29 September 2010 and two meetings were held up to the day of this report. The Audit Committee is also responsible to develop and implement a policy on the engagement of the external auditors to supply non-audit services. The external auditors are invited to attend Audit & Risk Committee meetings.

The mandate of the Audit & Risk Committee is primarily to:

- Review and approve the annual audit plan and subsequent revisions and monitoring progress against the audit plan;
- Ensure that the scope of work performed in accordance with the audit plan is adequate and appropriate;
- Review work performed on all audit engagements;
- Establish and maintain access between the internal and external auditors and to ensure that this is open and constructive;
- Monitor and review the external auditors' independence, and in particular, the provision of additional services to the Bank;
- Develop and implement a policy on the engagement of the external auditors to supply non-audit services; and
- Review and interact with external auditors on the annual statutory audit

Meetings are to be held four times a year or additionally at the request of any committee member and at least annually, the committee is required to meet with the external auditors without the presence of an executive director.

Nomination & Remuneration Committee

The primary purpose of the Nomination & Remuneration Committee is to review the setting of remuneration levels within the Bank, to approve or otherwise performance related bonus awards and long term incentive plan awards and to identify and nominate for board approval, candidates for appointment as directors, members of board committees and as members of the Executive Management Committee and other senior management positions.

The members of the committee are:

- Francis J. Vassallo Committee Chairman & Non-Executive Director / Chairman of the Board
- Peter B. Cartwright Member & Non-Executive Director
- Mark A. Watson Member & Executive Director

Statement of Compliance with the Principles of Good Corporate Governance

Nomination & Remuneration Committee (Continued)

This committee was constituted early 2010 and has since met three times. Directors' remuneration is being disclosed in aggregate rather than as separate figures for each director as required by the principles. The aggregate amount of remuneration is disclosed in notes 10 and 11 to the financial statements.

Executive Committee

The Executive Committee of the Board was established in order to facilitate the day to day activities of the Bank including approval of asset purchases, approval of the establishment and modification of bank accounts and banking relationships, waiver of specific provisions of compliance requirements, limitation of signatory authorisation, dealing with investment portfolio/trading/operational matters and issuance of certified extracts of Board resolutions.

The members of the committee are:

- Mark A. Watson — Committee Chairman & Non-Executive Director
- Henry Schmeltzer — Member & Executive Director

This committee operated throughout the year and met on a monthly basis.

Management committees

Executive Management Committee ("Exco")

The Exco represents the principal forum for conducting the business of the Bank and takes day to day responsibility for the efficient running of the business. In addition, the Exco is responsible for the formulation and implementation of Board approved strategies and plans and is responsible for ensuring the performance of the business in accordance with such.

The members of the committee are:

- Mark A. Watson — Committee Chairman & Chief Executive Officer
- Henry Schmeltzer — Member & Chief Operating Officer
- Joaquin Vicent — Member & Head of Credit & Investment
- Edward Jaccarini — Member & Chief Financial Officer

This committee operated throughout the year and met on a monthly basis.

Whilst retaining the ultimate responsibility for actions taken, the Executive Management Committee may at its discretion delegate its responsibility to the following sub-committees: -

(a) Management Credit Committee

The Management Credit Committee is responsible for approving credit recommendations and making other credit decisions under its delegated authority. The Committee also reviews provisions and lending policies, monitors the health of the Bank's portfolio and reviews management information reports. The members of the committee are:

- Mark A. Watson — Committee Chairman & Chief Executive Officer
- Joaquin Vicent — Member & Head of Credit & Investment
- Xavier De Pauw — Member & Head of International Strategy
- Keith Huber — Member & Chief Risk Officer

The Credit Committee operated throughout the year and meetings were held via conference calls on an ad hoc basis.

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(b) Management Asset & Liability Committee

The Management Asset & Liability Committee sets and reviews overall policies and objectives for asset and liability management, capital management and allocation, capital usage and efficiency, transfer pricing, risk management, and underwriting, dealing and trading activities in various instruments according to the risk appetite set by the Board of Directors. The members of the committee are:

- Deo Catania — Committee Chairman & Head of Treasury
- Mark A. Watson — Member & Chief Executive Officer
- Joaquin Vicent — Member & Head of Credit & Investment
- Edward Jaccarini — Member & Chief Financial Officer
- Keith Huber — Member & Chief Risk Officer

This committee operated throughout the year and met on a monthly basis.

Operations Committee

The Operations Committee considers and discusses the day to day operating procedures of the Bank and constitutes a forum at which issues relating to the Bank's procedures can be discussed. The Operations Committee meet fortnightly.

The following persons are members of the Operations Committee:

- Henry Schmeltzer — Committee Chairman & Chief Operating Officer
- Domenic Degiorgio — Member & Head of Back Office & Settlements
- Edward Jaccarini — Member & Chief Financial Officer
- Deo Catania — Member & Head of Treasury
- Jonathan Jones — Member & Head of Information Technology
- Paula Galea Farrugia — Member & General Counsel and Head of Compliance
- Charles Cini — Member & Head of Corporate Banking
- Lorraine Bonello Ghio — Member & Head of Administration
- Frédéric Villa — Member & Head of Private Banking
- Ray Calleja — Member & Head of Consumer Banking
- Fleur Mawdsley — Member & Head of Client Service Group
- Keith Huber — Member & Chief Risk Officer

This committee operated throughout the year and met on a monthly basis.

Internal Controls Working Group

The Internal Controls Working Group reviews Bank's policies and procedures specifically and internal controls in general, with the aim of recommending changes to the Operations Committee and/or Executive Committee of the Board. The group may also review and assess internal audit functions and procedures and discuss means of strengthening internal controls.

The group meet fortnightly and is composed of the following persons:

- Henry Schmeltzer — Committee Chairman & Chief Operating Officer
- Paula Galea Farrugia — Member & General Counsel and Head of Compliance
- Edward Jaccarini — Member & Chief Financial Officer
- Deo Catania — Member & Head of Treasury
- Domenic Degiorgio — Member & Head of Bank Office & Settlements
- Charles Cini — Member & Head of Corporate Banking
- Joanne Dimech — Member & Product Controller
- Keith Huber — Member & Chief Risk Officer

The committee was constituted in July and met on a monthly basis.

Statement of Compliance with the Principles of Good Corporate Governance

New Products Committee

The New Products Committee has been established to analyse potential new products to be offered by the Bank from a risk, operations, reputation and legal/compliance perspective. The committee, in respect of any new product it considers, provides recommendations to the Management Committee as to whether a new product ought to be introduced by the Bank and as to appropriate policies, procedures and controls that should be adopted.

The committee is made up of the following persons:

- Joaquin Vicent — Committee Chairman & Head of Credit & Investment
- Henry Schmeltzer — Member & Chief Operating Officer
- Domenic Degiorgio — Member & Head of Back Office & Settlements
- Edward Jaccarini — Member & Chief Financial Officer
- Deo Catania — Member & Head of Treasury
- Keith Huber — Member & Chief Risk Officer
- Paula Galea Farrugia — Member & General Counsel and Head of Compliance

Disclosures

Francis J. Vassallo, who is the non-executive Chairman and independent director of Mediterranean Bank plc, occupies various positions in the financial services industry in Malta. He is a member of the Board of directors of FIMBank p.l.c, a credit institution licensed in terms of the Banking Act, Cap. 371 of the Laws of Malta and is the President and Managing Partner of Francis J. Vassallo & Associates Limited and Chairman of FJV Fiduciary Limited and FJV Management Limited. Francis J. Vassallo & Associates has entered into a referral agreement with the Bank. Francis J. Vassallo has declared that he will comply to the fullest with applicable rules of the Bank in not voting (or abstaining) at any meeting of the Board of Directors should a discussion with regard to such agreements or their contents be undertaken by the Board.

The memorandum and articles of association of the Bank provides that in the event that a director has a material interest, either directly or indirectly, in any contract or arrangement with the Bank, such director is not entitled to vote on any decisions taken in connection therewith. The Companies Act, Cap. 386 of the laws of Malta provides that directors are obliged, in addition to complying with their general fiduciary obligations as directors, to ensure that their personal interests do not conflict with the interests of the Bank.

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

Material contracts

<u>Non-discretionary Investment Advisory Agreement</u>

On 6 August 2009, the Bank entered into an agreement with Citadel Europe LLP, whereby the Bank sought the assistance of Citadel Europe LLP in connection with the construction and monitoring of a portfolio of investments subject to the terms and conditions contained therein. The term of this agreement is linked to the longest final maturity of the approved securities in the portfolio.

The services which are the subject of this agreement include investment advice, portfolio review, advice in respect of the Bank's credit approval process, sourcing and arranging for purchase of approved securities and portfolio surveillance. The agreement was terminated by the Bank on 21 December 2010 after providing six month prior written notice. This Agreement was governed by English law and subject to the exclusive jurisdiction of the English courts.

Statement of Compliance with the Principles of Good Corporate Governance

Material contracts (continued)

Outsourcing Agreement

On 1 January 2005, the Bank and Boss Lab SA entered into an agreement pursuant to which the Bank outsourced its information technology (IT) (or a portion thereof) and its back office administration (or a portion thereof) to Boss Lab SA. The term of the contract is indefinite; however either party may terminate the agreement at the end of June and December of any given year with a prior 12 months' written notice period. In the event that prescribed events, such as the insolvency of a party, prohibition by law of the performance of the contract and change of ownership of a party which change endangers its competitive position, the contract may be terminated with immediate effect.

Furthermore, the contract regulates the conditions by which such termination takes place. The services provided by Boss Lab SA relate to application services, data centre services, back office administration and related implementation services. Under the terms of this agreement, Boss Lab is required to provide a manual describing the operating processes and procedures relating to the provision of the data centre services. The Bank is required to pay the aggregate charges and annual charges, as described in the said agreement, within 30 days from the invoice date. In the event of termination of the agreement, Boss Lab SA is required to provide the necessary assistance to the client to transfer the client data to another services provider or to the Bank. Boss Lab SA are required to regularly report to the Bank on the performance of the services and on any problems incurred or forecasted and are further required to provide the Malta Financial Services Authority with all information and documents in relation to the outsourced business area that it requires for its supervisory activities.

Under the terms of this agreement, Boss Lab SA is liable only for direct damages resulting from gross negligence and wilful misconduct.

A notice of termination has been given such that the B Source contract will be terminated as at 30 June 2011.

Professional Services Agreement & Software Licence Agreement

On 10 August 2010, Infosys Technologies Limited ("Infosys") and the Bank entered into an agreement pursuant to which Infosys (a) granted the Bank a license to use its proprietary software Finacle (a banking software product) in accordance with the terms of the Software License Agreement; and (b) agreed to provide the Bank with services in relation to the installation, customisation, development, parameterisation, training, testing and implementation of the licensed software, subject to the terms and conditions contained in the said agreement.

On 10 August 2010, Infosys and the Bank entered into the Software License Agreement pursuant to which Infosys granted the Bank a non-exclusive, non-transferable, limited license to use the Finacle banking software product subject to the payment of a license fee and maintenance fees and other terms and conditions contained in the said agreement. Unless otherwise terminated by either party, the term of the agreement is indefinite.

The Professional Services Agreement is valid for a period of one year, and unless otherwise terminated beforehand, is automatically extended for a further period of one year.

Statement of Compliance with the Principles of Good Corporate Governance

Material contracts (continued)

Professional Services Agreement & Software Licence Agreement (continued)

Both the Professional Services Agreement and the Software Licence Agreement contain indemnity and limitation of liability clauses effectively limiting the liability of either party there under. Both agreements may terminate as follows: (i) either party has the right to terminate the agreement if the other breaches or is in default of any obligation there under (which default is incapable of cure or, if curable, is not cured within 30 calendar days after receipt of notice of default); (ii) either party may terminate the agreement by written notice to the other in the event of insolvency or bankruptcy, inability to pay its debts as they become due, or in the event that the other party makes an assignment for the benefit of creditors or the other party sells all or substantially all of its assets; (iii) in the case of the Professional Services Agreement, the Bank is entitled to terminate any individual work order issued pursuant to the agreement by providing 60 days' written notice (unless such notice period is otherwise set forth in the work order); and (iv) either party may terminate the agreement without cause by providing 60 days' written notice provided that such notice will not affect the completion of any work order. Following termination, the Bank is required to pay Infosys charges for the services and deliverable provided to the Bank up to the date of termination.

The agreements are governed by the laws of England and any disputes arising there under are to be finally settled by arbitration conducted in accordance with the rules of the United Nations Commission and International Trade Law.

Software Licence Agreement

On 14 August 2009, SunGard Front Arena AB ("SunGard") and the Bank entered into an agreement pursuant to which SunGard provided a personal, non-transferable, non-exclusive, limited-scope, term licence in favour of the Bank, subject to the payment of a license fee, yearly support fees, as well as professional services fees, expense reimbursements and taxes, all as specified in the agreement. The licence provided to the Bank relates to the Front Arena trading and risk management system under which the Bank can enter and execute new trades, manage asset and liability risk and perform risk and portfolio management. The initial licence term duration is five years from the specified date, after which the renewed licence term will continue unless terminated by either party giving the other party not less than 6 months' prior notice. The Bank or SunGard may immediately terminate the Agreement by giving a written notice of termination, upon the occurrence of certain events set forth in the agreement.

Management's internal controls over financial reporting

The Board is responsible that the Bank's senior management develops and implements a sound system of internal controls and for reviewing its effectiveness. Such a system is designed to manage, rather than eliminate, the risk of failure to achieve business objectives and can only provide reasonable, and not absolute, assurance against material misstatement or loss. During 2010 the Bank has operated a system of internal control which provides reasonable assurance of effective and efficient operations covering all controls, including financial and operational controls and compliance with laws and regulations. Processes are in place for identifying, evaluating and managing the significant risks facing the Bank.

The management of the Bank is responsible for instituting and preserving sufficient internal control over financial reporting. Internal control over financial reporting is a process designed under the supervision of the Chief Financial Officer to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external reporting purposes in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS).

Statement of Compliance with the Principles of Good Corporate Governance

Management's internal controls over financial reporting (cont.)

Internal control over financial reporting includes policies and procedures that pertain:

- to the maintenance of records that, in reasonable detail, accurately and fairly reflect transactions and dispositions of assets;
- to provide reasonable assurances that transactions are recorded as necessary to permit preparation of financial statements in accordance with IFRS;
- that receipts and expenditures are being made only in accordance with authorisations of management and the respective directors; and
- to provide reasonable assurance regarding prevention or timely detection of unauthorised acquisition, use or disposition of assets that could have a material effect on the financial statements.

Corporate social responsibility

As a Maltese bank, Mediterranean Bank is proud to play its part in enhancing the community's lifestyle by supporting and promoting culture, sport, heritage and charitable causes. The Bank's commitment to these initiatives was cemented during 2010 with a number of important sponsorship agreements.

The Bank's patronage of the sporting community is spread over a wide range of disciplines that began with the Bank extending its sponsorship of the racing yacht Elusive II Medbank for a second consecutive year culminating at the Rolex Middle Sea Race. Racing continued to feature on the Bank's sporting calendar when it sponsored Brian Muscat's participation in the Valletta Grand Prix. Mr Muscat drove a 1979 Citroen GS Pallas in the Standard Classic category placing 5th in the event.

On to more traditional sporting disciplines, the Malta Rugby Football Union (MRFU) will be benefitting from a major sponsorship deal which will assist the Union's development on an international level and support the local game as well as the new European 7's competition. As part of this agreement the MRFU Cup (local senior division league) will be renamed the Mediterranean Bank Cup as from February 2011.

Encouraging Maltese youth to participate in sporting activities is another major area of the Bank's social responsibility and the Bank was pleased to support two youth football tournaments. The carnival football tournament which was organised by Sliema Wanderers Youth Nursery and held at Melita F.C. in Pembroke took place in February. This was followed by the Easter tournament organised by San Gwann Youth Nursery at their training grounds.

Preserving a country's national heritage is important to enable future generations to appreciate their roots as they forge their way forward. To this end, the Bank is honoured to be part of Heritage Malta's Corporate Patronage Programme helping to fund the extension of the National Museum of Archaeology in Valletta. The project will include the establishment of a new children's area within the Museum and the renovation of the Museum's first floor which is currently closed to the public.

As part of Mediterranean Bank's Corporate Social Responsibility, it believes in supporting and promoting the performing and visual arts. In line with this commitment, the Bank will be the main sponsor of Manoel Theatre for two years starting from the 2010/2011 season. The Bank is committed to supporting Malta's National Theatre in ensuring the highest quality productions as well as encouraging the general public to enjoy the performing arts.

Statement of Compliance with the Principles of Good Corporate Governance

Corporate social responsibility (cont.)

The 20th edition of the Malta Jazz Festival was another event the Bank was proud to be part of. As the distinctive music of artistes including Esperanza Spalding, Mike Stern Band and Richard Bona reverberated around the Grand Harbour, customers of the Bank sampled light refreshments at its hospitality stand in line with the Bank's policy of increasing public participation at such events.

The Bank's patronage of the performing arts is set to continue in 2011 as the Bank was the main sponsor for the Malta Eurovision Song Festival 2011.

In collaboration with the Bank's sister company, Charts Investment Management Services Limited, the Bank also sponsored two art exhibitions in November 2010, organised by "Flimkien Għal Ambjent Aħjar." Anton Calleja's "Ilwien tal-Mediterran" exhibition was held at the Auberge d'Italie whilst "Heads and Tales" which featured a collection of mixed media works and collage by C.S. Lawrence was exhibited at Opus 64 Gallerie.

As 2010 drew to a close, the Bank made generous donations to three charitable causes namely L-Istrina, Malta Heart Foundation and Puttinu Cares. Whilst the donation to L-Istrina was made during the annual fundraising event, Malta Heart Foundation and Puttinu Cares benefitted from an innovative campaign. Mediterranean Bank's Click for Charity campaign encouraged anyone interested in opening an account with the Bank to calculate the potential income from their investment following which the Bank donated €1 to the charity of the visitor's choice. The fund was further boosted by donations linked to business generated throughout December.

Mediterranean Bank is passionate about its clients and its community and its commitment to supporting various aspects of community life will continue through 2011 and beyond.

Francis J. Vassallo
Chairman

Mark A. Watson
Director and Chief Executive Officer

Directors' Responsibility for the Financial Statements

The Companies Act, 1995 (Chapter 386, Laws of Malta) (the "Act") requires the directors of Mediterranean Bank plc (the "Bank") to prepare financial statements for each financial period which give a true and fair view of the financial position of the Bank and the Group as at the end of the financial period and of the profit or loss of the Bank and the Group 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 the Group and to enable them to ensure that the financial statements have been properly prepared in accordance with the provisions of the Companies Act, 1995 and the Banking Act, 1994.

The directors are also responsible for safeguarding the assets of the Group 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 from 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 and the Group'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 by:

Francis J. Vassallo
Chairman

Mark A. Watson
Director and Chief Executive Officer

Statement of Financial Position

As at 31 December 2010

		Group		Bank	
		2010	2009	**2010**	2009
	Notes	**€000**	€000	**€000**	€000
ASSETS					
Balances with Central Bank of Malta and cash	14	**10,526**	39,757	**10,526**	39,757
Loans and advances to banks	15	**35,801**	14,045	**35,801**	14,045
Loans and advances to customers	16	**1,295**	9	**1,295**	9
Investment securities	17	**1,324,114**	636,323	**1,324,114**	636,323
Investments in subsidiaries	18	**-**	-	**63**	63
Property and equipment	19	**2,682**	839	**2,596**	839
Intangible assets	20	**1,371**	246	**1,371**	246
Other assets	21	**433**	478	**443**	485
Prepayments and accrued income	22	**14,646**	5,750	**14,646**	5,750
Deferred tax assets	23	**695**	-	**695**	-
Total assets		**1,391,563**	697,447	**1,391,550**	697,517

The notes on pages 24 to 69 are an integral part of these financial statements.

Statement of Financial Position

As at 31 December 2010

		Group		Bank	
		2010	2009	**2010**	2009
	Notes	**€000**	€000	**€000**	€000
EQUITY					
Share capital	24	**41,030**	39,521	**41,030**	39,521
Share premium	24	**13,464**	13,464	**13,464**	13,464
Retained earnings/(accumulated losses)	24	**6,382**	(8,729)	**6,321**	(8,718)
Reserves	24	**(1,405)**	4	**(1,410)**	-
Total equity		**59,471**	44,260	**59,405**	44,267
LIABILITIES					
Amounts owed to banks	25	**1,134,986**	578,698	**1,134,986**	578,698
Amounts owed to customers	26	**172,847**	72,078	**172,926**	72,145
Debt securities in issue	27	**14,735**	-	**14,735**	-
Current tax		**3,891**	-	**3,865**	-
Other liabilities	28	**778**	859	**783**	857
Accruals	29	**4,855**	1,552	**4,850**	1,550
Total liabilities		**1,332,092**	653,187	**1,332,145**	653,250
Total equity and liabilities		**1,391,563**	697,447	**1,391,550**	697,517

The notes on pages 24 to 69 are an integral part of these financial statements.

The financial statements on pages 18 to 69 were approved and authorised for issue by the Board of Directors on 23 of February 2011 and signed on its behalf by:

Francis J. Vassallo
Chairman

Mark A. Watson
Director and Chief Executive Officer

Edward Jaccarini
Chief Financial Officer

Statement of Comprehensive Income

For the Year Ended 31 December 2010

		Group		Bank	
		2010	2009	**2010**	2009
	Notes	**€000**	€000	**€000**	€000
Interest income		**41,834**	4,544	**41,834**	4,544
Interest expense		**(14,188)**	(1,357)	**(14,188)**	(1,357)
Net interest income	7	**27,646**	3,187	**27,646**	3,187
Fee and commission income		**124**	114	**124**	114
Fee and commission expense		**(1,154)**	(176)	**(1,154)**	(176)
Net fee and commission expense	8	**(1,030)**	(62)	**(1,030)**	(62)
Net trading income		**347**	103	**346**	103
Other operating income	9	**3,280**	116	**3,280**	116
Total operating income		**30,243**	3,344	**30,242**	3,344
Administrative and other expenses	10	**5,675**	3,256	**6,860**	3,254
Personnel expenses	11	**5,137**	723	**4,058**	723
Depreciation and amortisation		**365**	227	**356**	227
Operating expenses		**11,177**	4,206	**11,274**	4,204
Profit/(loss) before income tax		**19,066**	(862)	**18,968**	(860)
Income tax expense	12	**3,955**	-	**3,929**	-
Profit/(loss) for the year		**15,111**	(862)	**15,039**	(860)
Other comprehensive income					
Exchange translation		**1**	-	**-**	-
Fair value reserve (available-for-sale assets)					
Net change in fair value		**2,877**	116	**2,877**	116
Net amount transferred to profit or loss		**(5,046)**	(116)	**(5,046)**	(116)
Income taxes		**759**	-	**759**	-
Other comprehensive income for the year		**(1,409)**	-	**(1,410)**	-
Total comprehensive income for the year		**13,702**	(862)	**13,629**	(860)
Earnings/(loss) per share (cents)	13	**37**	(4)	**37**	(4)

The notes on pages 24 to 69 are an integral part of these financial statements.

Statement of Changes in Equity

For the Year Ended 31 December 2010

Group	Share capital	Share premium	Retained Earnings/ (Acc Losses)	Other reserves Exchange translation	Fair value	Total
	€000	€000	€000	€000	€000	€000
Balance as at 1 January 2010	**39,521**	**13,464**	**(8,729)**	**4**	**-**	**44,260**
Total comprehensive income for the year						
Profit for the year	**-**	**-**	**15,111**		**-**	**15,111**
Other comprehensive income for the year						
Exchange translation	-	-	-	**1**	**-**	**1**
Available-for-sale assets:						
- Net change in fair value	**-**	**-**	**-**	**-**	**1,870**	**1,870**
- Net amount transferred to profit or loss	**-**	**-**	**-**	**-**	**(3,280)**	**(3,280)**
Total comprehensive income for the year	**-**	**-**	**15,111**	**1**	**(1,410)**	**13,702**
Transactions with owners, recorded directly in equity						
Contributions by to owners						
Issue of share capital	**1,509**	**-**	**-**	**-**	**-**	**1,509**
Total contributions by owners	**1,509**	**-**	**-**	**-**	**-**	**1,509**
Balance at 31 December 2010	**41,030**	**13,464**	**6,382**	**5**	**(1,410)**	**59,471**
Balance as at 1 January 2009	10,402	-	(7,867)	4	-	2,539
Total comprehensive income for the year						
Loss for the year	-	-	(862)	-	-	(862)
Other comprehensive income for the year						
Available-for-sale assets:						
- Net change in fair value	**-**	**-**	**-**	**-**	116	116
- Net amount transferred to profit or loss	**-**	**-**	**-**	**-**	(116)	(116)
	-	-	(862)	-	-	(862)
Transactions with owners, recorded directly in equity						
Contributions by owners						
Issue of share capital	29,119	13,464	-	-	-	42,583
Total contributions by owners	29,119	13,464	-	-	-	42,583
Balance at 31 December 2009	39,521	13,464	(8,729)	4	-	44,260

The notes on pages 24 to 69 are an integral part of these financial statements.

Statement of Changes in Equity

For the Year Ended 31 December 2010

Bank	**Share capital**	**Share premium**	**Retained earnings/ (Acc Losses)**	**Fair value reserve**	**Total**
	€000	**€000**	**€000**	**€000**	**€000**
Balance as at 1 January 2010	**39,521**	**13,464**	**(8,718)**	**-**	**44,267**
Total comprehensive income for the year					
Profit for the year	**-**	**-**	**15,039**	**-**	**15,039**
Other comprehensive income for the year:					
Available-for-sale assets:					
- Net change in fair value	**-**	**-**	**-**	**1,870**	**1,870**
- Net amount transferred to profit or loss	**-**	**-**	**-**	**(3,280)**	**(3,280)**
Total comprehensive income for the year	**-**	**-**	**15,039**	**(1,410)**	**13,629**
Transactions with owners, recorded directly in equity					
Contributions by owners					
Issue of share capital	**1,509**	**-**	**-**	**-**	**1,509**
Total contributions by owners	**1,509**	**-**	**-**	**-**	**1,509**
Balance at 31 December 2010	**41,030**	**13,464**	**6,321**	**(1,410)**	**59,405**
Balance as at 1 January 2009	10,402	-	(7,858)	-	2,544
Total comprehensive income for the year					
Loss for the year	-	-	(860)	-	(860)
Other comprehensive income for the year:					
Available-for-sale assets:					
- Net change in fair value	-	-	-	116	116
- Net amount transferred to profit or loss	-	-	-	(116)	(116)
Total comprehensive income for the year	-	-	(860)	-	(860)
Transactions with owners, recorded directly in equity					
Contributions by owners					
Issue of share capital	29,119	13,464	-	-	42,583
Total contributions by owners	29,119	13,464	-	-	42,583
Balance at 31 December 2009	39,521	13,464	(8,718)	-	44,267

The notes on pages 24 to 69 are an integral part of these financial statements.

Statement of Cash Flows

For the Year Ended 31 December 2010

	Note	Group 2010 €000	Group 2009 €000	Bank 2010 €000	Bank 2009 €000
Cash flows from operating activities					
Interest and commission receipts		**38,158**	1,642	**38,158**	1,642
Interest payments		**(13,828)**	(594)	**(13,828)**	(594)
Payments to employees and suppliers		**(9,328)**	(3,055)	**(9,432)**	(3,055)
Operating profit/(loss) before changes in operating assets/liabilities		**15,002**	(2,007)	**14,898**	(2,007)
(Increase)/decrease in operating assets:					
- reserve deposits with Central Bank of Malta		**(1,971)**	21	**(1,971)**	21
- loans advanced to customers and banks		**(1,038)**	334	**(1,038)**	334
- investment securities		**(694,718)**	(638,882)	**(694,718)**	(638,882)
Increase in operating liabilities:					
- amounts owed to customers and banks		**291,006**	616,229	**291,015**	616,229
Net cash used in operating activities		**(391,719)**	(24,305)	**(391,814)**	(24,305)
Cash flows from investing activities					
Acquisition of property and equipment		**(2,142)**	(41)	**(2,047)**	(41)
Acquisition of intangible asset		**(1,191)**	(197)	**(1,191)**	(197)
Acquisition of available-for-sale assets		**(81,489)**	(59,525)	**(81,489)**	(59,525)
Disposal of available-for-sale assets		**84,768**	59,641	**84,768**	59,641
Advances to parent		**(77)**	-	**(77)**	-
Net cash used in investing activities		**(131)**	(122)	**(36)**	(122)
Cash flows from financing activities					
Proceeds from the issue of share capital		**1,509**	42,584	**1,509**	42,584
Proceeds from the issue of debt securities		**14,735**	-	**14,735**	-
Net cash from financing activities		**16,244**	42,584	**16,244**	42,584
Net (decrease)/increase in cash and cash equivalents		**(375,606)**	18,157	**(375,606)**	18,157
Cash and cash equivalents at 1 January		**52,570**	34,413	**52,570**	34,413
Cash and cash equivalents at 31 December	30	**(323,036)**	52,570	**(323,036)**	52,570

The notes on pages 24 to 69 are an integral part of these financial statements.

Notes to the Financial Statements

For the Year Ended 31 December 2010

1 Reporting entity

Mediterranean Bank plc (the "Bank") is domiciled and incorporated in Malta. The address of the Bank's registered office is 10, St. Barbara Bastion, Valletta, VLT 1961, Malta. The financial statements of the Group as at and for the year ended 31 December 2010 comprise the Bank and its fully-owned subsidiaries (together referred to as the "Group" and individually as the "Group Entities"). The Group is principally involved in the provision of term savings and wealth management products which is supported by the acquisition of a high quality investment portfolio comprising EU sovereign and sovereign related credits, covered bonds and other similar credit quality instruments.

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 (IFRS) (the "applicable framework").

All references in these financial statements to IAS, IFRS or SIC/IFRIC interpretations refer to those adopted by the EU.

The financial statements have also been prepared and presented in accordance with the provisions of the Banking Act, 1994 (Chapter 371, Laws of Malta) and the Companies Act, 1995 (Chapter 386, Laws of Malta).

2.2 Basis of measurement

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

2.3 Functional and presentation currency

These financial statements are presented in euro (€), which is the Bank's functional currency. Except as otherwise indicated, financial information presented in euro has been rounded to the nearest thousand.

2.4 Use of estimates and judgements

The preparation of financial statements in conformity with IFRS 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.

2 Basis of preparation (continued)

2.4 Use of estimates and judgements (continued)

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.

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 5.

3 Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements, and have been applied consistently by Group entities.

3.1 Basis of consolidation

3.1.1 Subsidiaries

Subsidiaries are entities controlled by the Group. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The financial statements have been prepared using uniform accounting policies for like transactions and other events in similar circumstances.

3.1.2 Transactions eliminated on consolidation

Intra-group balances, and income and expenses (except for foreign currency transaction gains or losses) arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

3.2 Foreign currency

3.2.1 Foreign currency transactions

Transactions in foreign currencies are translated into the respective functional currency of the operation at the spot exchange rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated into the functional currency at the spot exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the spot exchange rate at the end of the period.

3 Significant accounting policies (continued)

3.2 Foreign currency (continued)

3.2.1 Foreign currency transactions (continued)

Foreign currency differences arising on retranslation 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.

3.2.2 Foreign operations

The assets and liabilities of foreign operations are translated into euro at spot exchange rates at the reporting date. The income and expenses of foreign operations are translated into euro at spot exchange rates at the dates of the transactions.

Foreign exchange gains or losses arising from a monetary item receivable from or payable to a foreign operation, the settlement of which is neither planned nor likely to occur in the foreseeable future and which in substance is considered to form part of the net investment in the foreign operation, are recognised in other comprehensive income in the translation reserve.

Foreign currency differences on the translation of foreign operations are recognised in other comprehensive income. These differences are recognised in the translation reserve. When a foreign operation is disposed of, the relevant amount in the translation reserve is transferred to profit or loss as part of the profit or loss on disposal. In partial disposal of a foreign operation, the relevant proportion is reclassified to profit or loss.

3.3 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. When calculating the effective interest rate, the Group estimates future cash flows considering all contractual terms of the financial instrument, but not future credit losses.

The calculation of the effective interest rate includes all fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or liability.

Interest income and expense presented in the statement of comprehensive income include interest on financial assets and financial liabilities measured at amortised cost calculated on an effective interest basis and interest on available-for-sale investment securities calculated on an effective interest basis.

3 Significant accounting policies (continued)

3.4 Fees and commission

Fees and commission income and expenses 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 fees and commission income, including servicing fees and investment management fees are recognised as the related services are performed.

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

3.5 Net trading income

Net trading income comprises gains less losses related to trading assets and liabilities, and includes all realised and unrealised fair value changes, interest, dividends and foreign exchange differences.

3.6 Dividend income

Dividend income is recognised when the right to receive income is established. These are reflected as a component of other operating income.

3.7 Lease payments made

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Contingent lease payments are accounted for by revising the minimum lease payments over the remaining term of the lease when the lease adjustment is confirmed.

3.8 Income tax

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognised in profit or loss except to the extent that it relates to items recognised directly in equity or in other comprehensive income.

3 Significant accounting policies (continued)

3.8 Income tax (continued)

Current tax is the expected tax payable or receivable on the taxable income or loss 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 in respect of 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 against current tax 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 for unused tax losses, tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

3.9 Financial assets and liabilities

3.9.1 Recognition

The Group initially recognises loans and advances and deposits on the date at which they are originated. Regular way purchases and sales of financial assets are recognised on the trade date at which the Group commits to purchase or sell the asset, except for investments which are recognised on date of settlement.

A financial asset or liability is measured initially at fair value plus transaction costs that are directly attributable to its acquisition or issue.

3.9.2 Classification

See accounting policies 3.10, 3.12 and 3.13.

3.9.3 Derecognition

The Group 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 assets are transferred or in which the Group neither transfers nor retains substantially all the risks and rewards of ownership and it does not retain control of the financial asset.

3 Significant accounting policies (continued)

3.9 Financial assets and liabilities (continued)

3.9.3 Derecognition (continued)

Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Group 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 Group enters into transactions whereby it transfers assets recognised on its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognised. Transfers of assets with retention of all or substantially all risks and rewards include, for example, repurchase transactions.

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

3.9.4 Offsetting

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to set off the recognised amounts and it intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted under IFRSs, or for gains and losses arising from a group of similar transactions.

3.9.5 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.

3.9.6 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.

3 Significant accounting policies (continued)

3.9 Financial assets and liabilities (continued)

3.9.6 Fair value measurement (continued)

The Group 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.

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.

Assets are measured at a bid price. Fair value reflects the credit risk of the instrument and includes adjustments to take account of the credit risk of the Group entity and the counterparty where appropriate.

3.9.7 Identification and measurement of impairment of financial assets

At each reporting date the Group assesses whether there is objective evidence that financial assets are impaired. A financial asset or a group of financial assets is (are) 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 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 Group on terms that the Group 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.

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

3 Significant accounting policies (continued)

3.9 Financial assets and liabilities (continued)

3.9.7 Identification and measurement of impairment of financial assets (continued)

In assessing collective impairment the Group uses published historical default rates relative to the credit quality of the issuer and the duration of the instrument, 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 default rates. Default rates, loss rates and the expected timing of future recoveries are regularly benchmarked against actual outcomes to ensure that they remain appropriate.

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.

The Group writes off loans and advances and investment securities when these are determined to be uncollectible (see note 4).

3.10 Cash and cash equivalents

Cash and cash equivalents include notes and coins on hand, unrestricted balances held with central banks and highly liquid financial assets with original maturities of less than three months, which are subject to insignificant risk of changes in their fair value, and are used by the Group in the management of its short-term commitments.

Cash and cash equivalents are carried at amortised cost in the statement of financial position.

3 Significant accounting policies (continued)

3.11 Investment in subsidiaries

Investment in subsidiaries is accounted for in the separate financial statements of the Bank at cost less impairment.

3.12 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 Group does not intend to sell immediately or in the near term.

When the Group purchases a financial asset and simultaneously enters into an agreement to resell the asset (or a substantially similar asset) at a fixed price on a future date ("reverse repo"), the arrangement is accounted for as a loan or advance, and the underlying asset is not recognised in the Group's financial statements.

Loans and advances are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method.

3.13 Investment securities

The Bank's investment securities primarily represent assets classified as held-to-maturity and available-for-sale.

3.13.1 Held-to-maturity

Held-to-maturity investments are non-derivative assets with fixed or determinable payments and fixed maturity that the Group 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. 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 group 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 Group has collected substantially all of the asset's original principal.
- sales or reclassifications attributable to non-recurring isolated events beyond the Group's control that could not have been reasonably anticipated.

3 Significant accounting policies (continued)

3.13 Investment securities (continued)

3.13.2 Available-for-sale

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. Available-for-sale investments are carried at fair value.

Interest income is recognised in profit or loss using the effective interest method. 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 held-to-maturity category once any tainting period has lapsed, or if the Group has the intention and ability to hold that financial asset until maturity.

3.14 Property and equipment

3.14.1 Recognition and measurement

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

Cost includes expenditures that are directly attributable to the acquisition of the asset. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When parts of an item of property and equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

The gain or loss on disposal of an item of property and equipment is determined by comparing the proceeds from disposal with the carrying amount of the item of property and equipment, and are recognised net within other income in profit or loss.

3.14.2 Subsequent costs

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

3 Significant accounting policies (continued)

3.14 Property and equipment (continued)

3.14.3 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 since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Leased assets under finance leases are depreciated over the shorter of the lease term and their useful lives.

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

• improvements to premises and furniture and fittings	10	years
• computer equipment	3 – 5	years
• other equipment	4	years
• motor vehicles	5	years

Depreciation methods, useful lives and residual values are reassessed at each financial year-end and adjusted if appropriate.

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3.15 Intangible assets

The Bank's intangible assets represent software. Software acquired by the Group is stated at cost less accumulated amortisation and accumulated impairment losses.

Subsequent expenditure on software assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Expenditure on internally developed software is recognised as an asset when the Group is able to demonstrate its intention and ability to complete the development and use the software in a manner that will generate future economic benefits, and can reliably measure the costs to complete the development. The capitalised costs of internally developed software include all costs directly attributable to developing the software and capitalised borrowing costs, and are amortised over its useful life. Internally developed software is stated at capitalised cost less accumulated amortisation and impairment.

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful life of the software, from the date that it is available for use since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. The estimated useful life of the software is 3 to 5 years.

Amortisation methods, useful lives and residual values are reviewed at each financial year-end and adjusted if appropriate.

3 Significant accounting policies (continued)

3.16 Leased assets - lessee

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are operating leases and the leased assets are not recognised on the Group's statement of financial position.

3.17 Impairment of non-financial assets

The carrying amounts of the Group's non-financial assets, other than deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated. For intangible assets that are not yet available for use, the recoverable amount is estimated each year at the same time.

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 Group'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 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 Significant accounting policies (continued)

3.18 Amounts owed to banks, amounts owed to customers and debt securities issued

Amounts owed to banks and customers are the Group's principal sources of debt funding.

When the Group sells a financial asset and simultaneously enters into an agreement to repurchase the asset (or a similar asset) at a fixed price on a future date ("repo"), the arrangement is accounted for as a secured loan, and the underlying asset continues to be recognised in the Group's financial statements.

Amounts owed to banks, amounts owed to customers and debt securities are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method.

3.19 Provisions

A provision is recognised if, as a result of a past event, the Group 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.

3.20 Employee benefits

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

3.21 Earnings per share

The Group 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.

3.22 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 Group.

4 Financial risk management

4.1 Introduction and overview

In this note, reference to the Bank implies the Group in view that the impact of the subsidiaries on the consolidated financial statements of the Bank is insignificant. The Bank has exposure to the following risks from its use of financial instruments:

- credit risk
- liquidity risk
- market risk
- operational risk

This note presents information about the Bank's exposure to each of the above risks, the Bank's objectives, policies and processes for measuring and managing risks, and the Bank's management of capital.

4.2 Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Board has established the Asset and Liability (ALCO) and Management Credit Committees which are responsible for developing and monitoring the Bank's risk management policies in their specified areas. The Board has set up an independent and comprehensive risk management function under the responsibility of the Chief Risk Officer. The aim of Risk Management is to create value for shareholders by supporting the institution in achieving its goals and objectives, and ultimately ensuring that the risks are commensurate with the rewards.

The Chief Risk Officer is responsible for the oversight of the risk management process including the identification, assessment, monitoring, mitigation/control and communication of material risks and assumes, monitors, and actively manages interest rate risk, price risk, foreign exchange risk, liquidity risk, credit risk, concentration risk, operational risk, strategic risk and reputational risk through an integrated approach.

Additionally, Risk Management extends to the provision of support to all other functions across the Bank and in particular, to the Board in the setting of the Bank's business strategy in order to ensure that material risks have been taken into account and that such risks fall within the tolerable limits and the appetite set by the Board itself.

The Bank's risk management policies are established to identify and analyse the risks faced by the Bank, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Bank, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

4 Financial risk management (continued)

4.2 Risk management framework (continued)

The Audit & Risk Committee (the "Committee") was appointed by the Board of Directors (the "Board"), in the last quarter of 2010, to assist the Board in monitoring the:

- accounting and financial reporting processes of the Bank and audits of the financial statements of the Bank;
- integrity of the accounting and financial reporting process, systems of internal controls and financial statements of the Bank;
- performance of the Bank's internal audit function; and
- compliance by the Bank with legal and regulatory requirements.

The Committee serves as a Board level oversight role where it oversees the relationship with the independent auditor and with the Bank's internal auditor, receives information and provides advice, counsel and general direction, as it deems appropriate, to management and the auditors, taking into account the information it receives, discussions with the auditors, and the experience of the Committee's members in business, financial and accounting matters. The Committee provides to the Board such additional information and materials as it may deem necessary to make the Board aware of significant financial matters that require the attention of the Board.

4.3 Credit risk

Credit risk is the risk of financial loss to the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Bank's loans and advances to customers and other banks, and investment debt 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).

4.3.1 Management of credit risk

The Board of Directors has delegated the responsibility for the management of credit risk to the Management Credit Committee. ALCO has oversight of credit risk and approves impairment provisions. The Bank's principal assets comprise high credit quality debt securities. The Bank's exposure to credit risk is mitigated through the availability of collateral. Concentrations of exposures are also mitigated by geographical diversification and by investing only in debt instruments with sound credit ratings.

4 Financial risk management (continued)

4.3 Credit risk (continued)

4.3.1 Management of credit risk (continued)

All securities in the portfolio undergo a thorough analytical credit research process. The research process reviews all securities not only from a credit perspective but also from a legal, financial and ratings perspective. The Credit and Investment department, which manages the research process, is composed of highly-trained individuals with specialised skill sets and years of experience in the Fixed Income markets. The research process subjects potential investments to severe stress tests to determine whether they can withstand significant adverse credit and market events and multiple combinations of such events. Additionally, the portfolio is subject to a continual and thorough surveillance process in order to identify any securities the performance of which requires increased monitoring.

The day-to-day management of credit risk is the responsibility of the Credit and Investments department, which includes:

- formulating credit policies
- establishing the authorisation structure
- reviewing and assessing credit risk
- limiting concentrations of exposure
- reviewing compliance with agreed exposure limits
- providing advice and guidance

The Chief Risk Officer reports on all credit related matters to the Management Credit Committee.

4.3.2 Impaired loans and advances and investment debt securities

Impaired loans and debt securities are loans and advances and investment debt securities 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 loan / investment security agreement(s).

The Management Credit Committee has reviewed all credit exposures on a case by case and collective basis (see accounting policy 3.9.7) in the light of current economic conditions and considered the likelihood that the Bank may be exposed to losses on loans and advances and investment debt securities. No circumstances have emerged up to the date of approval of these financial statements which may indicate that an impairment allowance has become necessary. In view of this credit assessment, ALCO does not consider that an impairment allowance is necessary at the reporting date.

The Bank monitors concentrations of credit risk by location. An analysis of concentrations of credit risk at the reporting date is shown below.

4 Financial risk management (continued)

4.3 Credit risk (continued)

4.3.2 Impaired loans and advances and investment debt securities (continued)

	Loans and advances to banks		Loans and advances to customers		Investment securities	
	2010	2009	**2010**	2009	**2010**	2009
	€'000	€'000	**€'000**	€'000	**€'000**	€'000
Concentration by sector						
Banks	**35,801**	14,045	**-**	-	**585,235**	374,409
Government and Government Guaranteed securities	**-**	-	**-**	-	**474,828**	141,336
Corporate	**-**	-	**1,137**	9	**264,051**	120,578
Retail Unsecured Lending	**-**	-	**158**	-	**-**	-
	35,801	14,045	**1,295**	9	**1,324,114**	636,323
Concentration by location						
Europe	**34,253**	7,430	**1,295**	9	**1,261,566**	632,430
North America	**1,548**	6,615	**-**	-	**62,548**	3,893
	35,801	14,045	**1,295**	9	**1,324,114**	636,323

Concentration by location for investment securities is measured based on the location of issuer of the security.

The investment portfolio is composed of Euro-denominated high credit quality government, government-guaranteed and non-government securities. All securities in the portfolio are accepted by the ECB as collateral and are rated by at least two of Moody's, Standard & Poor's and Fitch.

The Bank held investment assets of €1,324 million as at 31 December 2010 (2009: €636 million), an analysis of the credit quality based on rating agency ratings is as follows:

	2010	2009
	€'000	€'000
Government and Government guaranteed securities		
AA- and higher	**132,033**	236,873
A+ or lower	**342,795**	90,295
Non-Government securities		
AA- and higher	**745,368**	309,155
A+ or lower	**103,918**	-
Total	**1,324,114**	636,323

The Bank's loans and advances and investment securities are neither past due nor impaired. In addition, the Bank did not have any renegotiated assets that would otherwise result to be past due.

4 Financial risk management (continued)

4.3 Credit risk (continued)

4.3.3 Settlement risk

The Bank's activities may give rise to risk at the time of settlement of transactions and trades. Settlement risk is the risk of loss due to the failure of an entity to honour its obligations to deliver cash, securities or other assets as contractually agreed.

For all types of investment transactions the Bank mitigates this risk by conducting settlements through a settlement / clearing agent to ensure that a trade is settled only when both parties have fulfilled their contractual settlement obligations. Settlement limits form part of the credit approval / limit monitoring process described earlier.

4.4 Liquidity risk

Liquidity risk is the risk that the Bank will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.

4.4.1 Management of liquidity risk

The Bank's approach to managing liquidity is to ensure that, as far as possible, 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 Treasury Department receives information from other business units regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows arising from projected future business. Treasury then maintains a portfolio of short-term liquid assets to ensure that sufficient liquidity is maintained within the Bank. The liquidity requirements of the Bank are met through the international repo market and through ECB secured funding to cover any short-term fluctuations and longer term funding to address any structural liquidity requirements. In addition, deposits and issuance of debt securities provides further support to the bank's liquidity requirements.

The Bank's daily and weekly liquidity positions are monitored and subject to regular liquidity stress testing conducted under a variety of scenarios covering both normal and severe market conditions. All liquidity policies and procedures are subject to review and approval by ALCO.

The Bank relies on deposits from customers, banks, the wholesale funding market and issued debt securities as its primary sources of funding. The Bank actively manages the risk from short-term tenor of deposits through maintaining competitive pricing and constant monitoring of market trends. In addition to the bond issue (note 27), during 2010 new deposit products were offered by the Bank resulting in an increase in customer term deposits with weighted average life of over one year.

4 Financial risk management (continued)

4.4 Liquidity risk (continued)

4.4.2 Exposure to liquidity risk

The key measure used by the Bank for managing liquidity risk is the ratio of the net liquid assets to wholesale funding. For this purpose net liquid assets are considered as including cash and cash equivalents and investment grade debt securities for which there is an active and liquid market as a percentage to the actual wholesale funding of the Bank. A similar, but not identical, calculation is used to measure the Bank's compliance with the liquidity requirement established by the Bank's lead regulator, the Malta Financial Services Authority. Details of the reported Bank's ratio of eligible liquid assets to eligible short term liabilities at the reporting date and during the reporting period were as follows:

	2010	2009
At 31 December	**70.56%**	137.02%
Average for the period	**78.75%**	116.88%

4.4.3 Residual contractual maturities of financial liabilities

	Carrying amount	**Gross nominal outflow**	**Less than 1 month**	**1 to 3 months**	**3 months to 1 year**	**1 year to 5 years**
	€'000	**€'000**	**€'000**	**€'000**	**€'000**	**€'000**
31 December 2010						
Non-derivative liabilities						
Amount owed to banks	**1,134,986**	**1,137,600**	**463,197**	**674,403**	**-**	**-**
Amounts owed to customers	**172,847**	**184,702**	**70,665**	**3,710**	**46,718**	**63,609**
Debt securities in issue	**14,735**	**19,688**	**-**	**-**	**938**	**18,750**
	1,322,568	**1,341,990**	**533,862**	**678,113**	**47,656**	**82,359**
31 December 2009						
Non-derivative liabilities						
Amount owed to banks	578,698	584,611	694	-	583,917	-
Amounts owed to customers	72,078	73,245	32,826	6,115	30,663	3,708
	650,776	657,856	33,520	6,115	614,580	3,708

4 Financial risk management (continued)

4.4 Liquidity risk (continued)

4.4.3 Residual contractual maturities of financial liabilities (continued)

The previous table shows the undiscounted cash flows on the Bank's non-derivative financial liabilities. The Bank's expected cash flows on these instruments vary significantly from this analysis. For example, demand deposits from customers are expected to maintain a stable or increasing balance.

To manage the liquidity risk arising from financial liabilities, the Bank holds liquid assets comprising cash and cash equivalents and investment grade debt securities for which there is an active and liquid market. The Bank does not expect that the disposal of such securities to cover possible liquidity gaps would result in losses.

4.5 Market risks

Market risk is the risk that changes in market prices, such as interest rate, foreign exchange rates and credit spreads (not relating to changes in the obligor's / issuer's credit standing) will affect the Bank's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

4.5.1 Management of market risks

With the exception of translation risk arising on the Bank's net investment in its foreign operations, all foreign exchange risk within the Bank is managed and hedged by the Treasury department. Accordingly, the foreign exchange position is treated as part of the Bank's investment portfolios for risk management purposes.

Overall authority for market risk is vested in ALCO which is responsible for the development of detailed risk management policies and for the day-to-day review of their implementation.

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 is exposed to currency risk on foreign exchange movements relating to the US Dollar, GB Pound, Canadian Dollar, Swiss Francs, Australian Dollar, New Zealand Dollar, Japanese Yen, South African Rand, Swedish Kroner, Norwegian Kroner and Danish Kroner originating from the Bank's corporate banking business. In the majority of cases the Bank covers this risk by ensuring that its foreign currency denominated liabilities are matched with corresponding assets in the same currency. Any mismatches that can arise are monitored accordingly.

Notes to the Financial Statements

For the Year Ended 31 December 2010

4 Financial risk management (continued)

4.5 Market risks (continued)

4.5.2 Currency risk (continued)

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

At 31 December	2010 Euro Currency € 000	2010 Other Currencies € 000 equivalent	2010 Total € 000 equivalent	2009 Euro Currency € 000	2009 Other Currencies €000 equivalent	2009 Total €000 equivalent
Financial assets						
Balances with Central Bank of Malta and cash	**10,526**	**-**	**10,526**	39,757	-	39,757
Investment securities	**1,324,114**	**-**	**1,324,114**	636,323	-	636,323
Loans and advances to banks	**8,700**	**27,101**	**35,801**	4,572	9,473	14,045
Loans and advances to customers	**1,295**	**-**	**1,295**	8	1	9
	1,344,635	**27,101**	**1,371,736**	680,660	9,474	690,134
Financial liabilities						
Amounts owed to banks	**1,132,043**	**2,943**	**1,134,986**	578,210	488	578,698
Amounts owed to customers	**149,189**	**23,958**	**173,147**	63,210	8,935	72,145
Debt securities in issue	**14,735**	**-**	**14,735**	-	-	-
	1,295,967	**26,901**	**1,322,868**	641,420	9,423	650,843

4.5.3 Exposure to interest rate risk – non-trading portfolios

The principal risk to which non-trading portfolios are exposed is the risk of loss from fluctuations in the future cash flows or fair values of financial instruments because of a change in market interest rates. Interest rate risk is managed principally through monitoring interest rate gaps and by having pre-approved limits for re-pricing bands. ALCO is the monitoring body for compliance with these limits and is assisted by Treasury in its day-to-day monitoring activities. A summary of the Bank's interest rate gap position on non-trading portfolios is as follows:

Notes to the Financial Statements

For the Year Ended 31 December 2010

4 Financial risk management (continued)

4.5 Market risks (continued)

4.5.3 Exposure to interest rate risk – non-trading portfolios (continued)

	Carrying amount €'000	Less than 3 months €'000	3 months to 1 year €'000	More than 1 year €'000
31 December 2010				
Balances with Central Bank of Malta	**10,526**	**8,022**	**-**	**2,504**
Investment Securities	**1,324,114**	**-**	**46,284**	**1,277,830**
Loans and advances to banks	**35,801**	**35,694**	**-**	**107**
Loans and advances to customers	**1,295**	**-**	**158**	**1,137**
	1,371,736	**43,716**	**46,442**	**1,281,578**
Amounts owed to banks	**1,134,986**	**1,134,986**	**-**	**-**
Amounts owed to customers	**172,847**	**74,238**	**45,463**	**53,146**
Debt securities issued	**14,735**	**-**	**-**	**14,735**
	1,322,568	**1,209,224**	**45,463**	**67,881**
Interest rate gap	**49,168**	**(1,165,508)**	**979**	**1,213,697**
31 December 2009				
Balances with Central Bank of Malta	39,757	39,226	-	531
Investment Securities	636,323	-	31,603	604,720
Loans and advances to banks	14,045	14,045	-	-
Loans and advances to customers	9	9	-	-
	690,134	53,280	31,603	605,251
Amounts owed to banks	578,698	698	578,000	-
Amounts owed to customers	72,078	40,569	31,109	400
	650,776	41,267	609,109	400
Interest rate gap	39,358	12,013	(577,506)	604,851

4 Financial risk management (continued)

4.5 Market risks (continued)

4.5.3 Exposure to interest rate risk – non-trading portfolios (continued)

The management of interest rate risk against interest rate gap limits is supplemented by monitoring the sensitivity of the Bank's financial assets and liabilities to various interest rate scenarios. The estimated impact on Net Interest Margin (NIM) and Fair Value Reserve as a result of a 100 basis points ("bps") parallel fall / rise in the yield curves would be as follows:

- Net profit would decrease/increase by €3.942 million (2009: increase/decrease by €1.228 million).
- Fair Value Reserve would decrease/increase by €2.411 million (2009: nil).

Interest rate movements affect reported equity in the following ways:

- Retained earnings arising from increases or decreases in net interest income; and
- Fair value reserves arising from increases or decreases in fair values of available-for-sale financial instruments reported directly in equity.

As the Bank's expectation is that it will increase its annual reserves by more than the calculated maximum loss under the most severe stress scenario of 100 bps noted above, the Bank will always generate a net positive increase of its reserves.

Overall non-trading interest rate risk positions are managed by the Treasury department, which uses advances to banks and deposits from banks to manage the overall position arising from the Bank's non-trading activities.

4.6 Operational risks

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.

4 Financial risk management (continued)

4.6 Operational risks (continued)

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 and to avoid control procedures that restrict initiative and creativity while maintaining risk taking within a tolerable limit.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management within each business unit. This responsibility is supported by the development of overall Bank standards for the management of operational risk in the following areas:

- requirements for appropriate segregation of duties, including the independent authorisation of transactions
- requirements for the reconciliation and monitoring of transactions
- compliance with regulatory and other legal requirements
- documentation of controls and procedures
- requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified
- requirements for the reporting of operational losses and proposed remedial action
- development of contingency plans
- training and professional development
- ethical and business standards
- risk mitigation, including insurance where this is effective.

A financial measurement of this risk is calculated by the Group for the purpose of allocating risk capital using the Basic Indicator Approach under the Banking Rule 4. The capital requirement for operational risk under this method was calculated at €1,554,200 (2009: €72,900).

4.7 Capital management

4.7.1 Regulatory capital

The Bank's regulator, the Malta Financial Services Authority ("MFSA"), sets and monitors capital requirements for the Bank.

In implementing current capital requirements, the MFSA requires the Bank to maintain a prescribed ratio of total capital to total risk-weighted assets.

The Bank does not engage in trading and is exempt from having a trading book. Risk-weighted assets on the bank book are determined according to specified requirements that seek to reflect the varying levels of risk attached to assets including balances with counterparties and other illiquid assets.

4 Financial risk management (continued)

4.7 Capital management (continued)

4.7.1 Regulatory capital (continued)

With effect from 1 January 2009 the Bank was required to comply with the provisions of the Basel II framework in respect of regulatory capital and it applies the standardised approach.

The Group's regulatory capital consists entirely of core tier 1 capital, which includes ordinary share capital, share premium, retained earnings, and other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy purposes including Other Comprehensive Income and deductions relating to Reserve for Depositor Compensation Scheme and the carrying amounts of investments in subsidiaries that are not included in the regulatory consolidation and certain other regulatory items.

The Bank's policy is to maintain a sufficient capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholders' return is also recognised and the Bank recognises the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position.

The Bank's share capital increased by €1,509,137 on 25 May 2010.

The Bank's regulatory capital position at 31 December was as follows:

	2010	2009
	€'000	€'000
Ordinary share capital	**41,030**	39,521
Share premium	**13,464**	13,464
Accumulated losses brought forward	**(8,718)**	(7,858)
Result for the year	**15,039**	(860)
Other reserves	**(267)**	-
Intangible assets	**(1,371)**	(246)
Other Comprehensive Income	**(1,410)**	-
Total	**57,767**	44,021

4 Financial risk management (continued)

4.7 Capital management (continued)

4.7.2 Capital ratios

	2010	2009
Regulatory capital as a % of total risk-weighted assets	**36.83%**	80.58%

5 Use of estimates and judgements

The Directors considered the development, selection and disclosure of the Group's critical accounting policies and estimates and the application of these policies and estimates. These disclosures supplement the disclosures on the financial risk management (see note 4).

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

5.1 Financial assets and liabilities classification

In classifying financial assets as held-to-maturity, the Group has determined that it has both the positive intention and ability to hold the assets until their maturity date as required by accounting policy 3.13.1.

5.2 Revision of estimated cash flows from investment securities

A substantial part of the investment securities has a pass-through principal repayment profile. This means that principal payments on the investment securities that are held by the group are driven by, and dependent on, the receipts from the underlying collateral pool.

Inherently, projections on principal receipts from a collateral pool are uncertain, and based on a number of assumptions. For this reason, the Group considers different scenarios in analysing the investment securities portfolio. Three of the scenarios are similar to the rating agency stress scenarios (AAA, AA, A) and the fourth approximates a prudent estimate of cash flows based on historical observations.

As part of the monitoring of the Group's investments, the Credit and Investment Department, together with the back office, tracks actual receipts on the investment securities. As new observations occur on due dates of the securities, actual cash flow receipts are compared to the estimated cash flows for the same date. The latter is an estimate and thus differences from actual cash flows are expected.

If the cash flows received deviate from those expected by more than 50%, the assumptions underlying the measurement of the investment security are reassessed and adjusted, if required.

5 Use of estimates and judgements (continued)

5.3 Allowances for credit losses

Assets accounted for at amortised cost are evaluated for impairment on the basis described in accounting policy 3.9.7. The specific counterparty component of the total allowances for impairment applies to financial assets evaluated individually for impairment and is based upon management's best estimate of the present value of the cash flows that are expected to be received as described in 5.2. In estimating these cash flows, management also considers the net realisable value of any underlying collateral.

Collectively assessed impairment allowances cover credit losses inherent in portfolios of loans and advances and held-to-maturity investment securities with similar credit risk characteristics when there is objective evidence to suggest that they contain impaired loans and advances and held-to-maturity investment securities, but individually impaired items cannot yet be identified. In assessing the need for collective loss allowances, management considers factors such as credit quality, portfolio size, concentrations and economic factors. In order to estimate the required allowance, assumptions are made to define the way inherent losses are modelled and to determine the required input parameters, based on historical experience (including loss emergence periods) and current economic conditions. The accuracy of the allowances depends on the estimates of future cash flows for specific counterparty allowances and the model assumptions and parameters used in determining collective allowances.

6 Financial assets and liabilities

The fair value of the financial assets and liabilities, which are measured at amortised cost and have a short re-pricing maturity, is not materially different from their carrying amount in the balance sheet, except for held-to-maturity investments with an amortised cost of €1,242 million, the fair market value of which at year-end amounted to €1,144 million.

The fair value of debt instruments represents the closing bid price quoted in an active market and is classified as level 1 under the fair value hierarchy in accordance with IFRS7.

7 Net interest income

	Group and Bank	
	2010	2009
	€000	€000
Interest income		
Investment securities	**41,694**	4,376
Loans and advances to banks	**96**	168
Loans and advances to customers	**44**	-
	41,834	4,544
Interest expense		
Amounts owed to customers	**3,722**	278
Amounts owed to banks	**10,263**	1,079
Debt securities in issue	**203**	-
	14,188	1,357
Net interest income	**27,646**	3,187

8 Net fee and commission expense

	Group and Bank	
	2010	2009
	€000	€000
Portfolio and other management fees	**(1,030)**	(62)

Net fee and commission income include €6,304 (2009: €200) derived from investments services activities.

9 Other operating income

This represents gains achieved on disposal of available-for-sale investments, which were purchased at €413 million (2009: €59.5 million).

10 Administrative and other expenses

Administrative expenses include:

	Group		Bank	
	2010	2009	**2010**	2009
	€000	€000	**€000**	€000
Operating lease charges	**193**	131	**104**	131
Directors' fees	**105**	34	**105**	34

Included in other administrative expenses are fees charged by the Group's auditors for the year as follows:

	Audit Services	Other assurances Services	Tax advisory services	Other non-audit services
	€000	**€000**	**€000**	**€000**
31 December 2010				
Auditors' remuneration	34	13	6	48

11 Personnel expenses

11.1 Personnel expenses incurred are analysed as follows:

	Group		Bank	
	2010	2009	**2010**	2009
	€000	€000	**€000**	€000
Directors' emoluments:				
- salaries	**1,415**	168	**1,415**	168
- defined contribution social security costs	**6**	2	**6**	2
Staff costs:				
- wages and salaries	**3,576**	539	**2,570**	539
- defined contribution social security costs	**140**	14	**67**	14
	5,137	723	**4,058**	723

Notes to the Financial Statements

For the Year Ended 31 December 2010

11 Personnel expenses (continued)

11.2 The weekly average number of persons employed was as follows:

	Group		Bank	
	2010	2009	**2010**	2009
	No.	No.	**No.**	No.
Executive and senior management	**13**	2	**12**	2
Other managerial supervisory and clerical	**31**	6	**27**	6
Other	**4**	2	**4**	2
	48	10	**43**	10

11.3 The number of persons employed was as follows:

	Group		Bank	
	2010	2009	**2010**	2009
	No.	No.	**No.**	No.
Management and administration	**63**	23	**57**	23

12 Tax expense

12.1

	Group		Bank	
	2010	2009	**2010**	2009
	€000	€000	**€000**	€000
Current	**3,891**	-	**3,865**	-
Deferred	**64**	-	**64**	-
Income tax expense	**3,955**	-	**3,929**	-

12 Tax expense (continued)

12.2 The tax expense and the result of accounting profit or loss multiplied by the tax rate applicable in Malta, the Bank's country of incorporation, are reconciled as follows:

	Group		**Bank**	
	2010	2009	**2010**	2009
	€000	€000	**€000**	€000
Profit/(Loss) for the year	**19,066**	(862)	**18,968**	(860)
Tax expense	**(3,955)**	-	**(3,929)**	-
Profit/(Loss) before tax	**15,111**	(862)	**15,039**	(860)
Tax at the applicable rate of 35%	**6,673**	302	**6,639**	301
Tax effect of:				
Tax rates in foreign jurisdictions	**(6)**	-	**-**	-
Non-deductible expenses	**53**	(1)	**53**	-
Depreciation charges not deductible by way of capital allowances	**3**	(40)	**3**	(40)
Temporary differences not previously recognised	**(2,830)**	-	**(2,830)**	-
Temporary difference not recognised	**64**	(261)	**64**	(261)
Other differences	**(2)**	-	**-**	-
Tax expense	**3,955**	-	**3,929**	-

13 Earnings / (loss) per share

The calculation of the Bank's and the Group's basic earnings per share at 31 December 2010 (2009: loss per share) was based on the profit (2009: loss) attributable to ordinary shareholders of €15,038,729 and €15,110,802 respectively (2009: €859,702 and €862,280) and a weighted average number of ordinary shares in issue of 40,430,587 (2009: 19,162,347).

14 Balances with Central Bank of Malta and cash

	Group and Bank	
	2010	2009
	€000	€000
Balances with Central Bank of Malta	**10,504**	33,534
Malta Treasury Bills	**-**	6,137
Cash	**22**	86
	10,526	39,757

Balances with Central Bank of Malta include a reserve deposit of the Bank in terms of Regulation (EC) No 1745/2003 of the European Central Bank amounting to €2,504,295 (2009: €533,193) bearing interest at 1% (2009: 1%) per annum and an overnight deposit amounting to €8,000,000 bearing interest at 0.25% per annum.

15 Loans and advances to banks

15.1

	Group and Bank	
	2010	2009
	€000	€000
At amortised cost:		
Repayable on call and at short notice	**35,694**	14,045
Term loans and advances	**107**	-
	35,801	14,045

15.2 Loans and advances to banks amounting to €559,427 (2009: €351,992) are pledged in favour of other banks providing credit card facilities to customers. None of the loans and advances was past due or impaired (2009: Nil).

16 Loans and advances to customers

16.1

	Group and Bank	
	2010	2009
	€000	€000
At amortised cost:		
Loans and advances on demand	**1,295**	9

16 Loans and advances to customers (continued)

16.2 Loans and advances to customers as at the end of the current and comparative year were neither past due nor impaired.

16.3 Loans and advances to customers include the following:

	Group and Bank	
	2010	2009
	€000	€000
Amounts due by:		
- immediate parent company at 8% per annum	**1,100**	-
- immediate parent company which is interest free	**37**	9
- directors bearing interest at 4.5% per annum	**158**	**-**
	1,295	9

17 Investment securities

17.1

	Group and Bank	
	2010	2009
	€000	€000
Held-to-maturity investment securities	**1,241,514**	636,323
Available-for-sale investment securities	**82,600**	-
	1,324,114	636,323

At 31 December 2010, €1,278 million (2009: €636 million) of investment securities are expected to be recovered after more than 12 months after the reporting date.

Notes to the Financial Statements

For the Year Ended 31 December 2010

17 Investment securities (continued)

17.2.1 *Held-to-maturity investment securities*

	Group and Bank	
	2010	2009
	€000	€000
Government bonds	**242,753**	141,332
Non-Government bonds	**998,761**	494,991
Debt securities	**1,241,514**	636,323

17.2.2 Available-for-sale investments consist of non-government bonds.

17.3 No evidence of impairment was identified on debt securities.

17.4 All investment securities are pledged as collateral against the provision of facilities (note 25).

18 Investment in subsidiaries

Name of the Company	Incorporated In	Nature of Business	Current Equity Interest	Bank 2010	Bank 2009
			%	**€**	€
Mediterranean Global Advisory SA	Switzerland	Dormant	wholly owned	**63,086**	63,086
Mediterranean Research Limited	United Kingdom	Investment research	wholly owned	**2**	2
				63,088	63,088

19 Property and equipment

19.1 Group

	Improvements to premises	Computer equipment	Other equipment	Fixtures and fittings	Motor vehicles	Total
	€000	€000	€000	€000	€000	€000
Cost						
At 1 January 2009	928	51	22	567	127	1,695
Acquisitions	-	33	2	5	-	40
At 31 December 2009	928	84	24	572	127	1,735
At 1 January 2010	928	84	24	572	127	1,735
Acquisitions	-	1,859	86	178	19	2,142
At 31 December 2010	928	1,943	110	750	146	3,877
Depreciation						
At 1 January 2009	278	51	16	260	79	684
Charge for the year	93	2	6	86	25	212
At 31 December 2009	371	53	22	346	104	896
At 1 January 2010	371	53	22	346	104	896
Charge for the year	93	116	14	49	27	299
At 31 December 2010	464	169	36	395	131	1,195
Carrying amounts						
At 1 January 2009	650	-	6	307	48	1,011
At 31 December 2009	557	31	2	226	23	839
At 1 January 2010	557	31	2	226	23	839
At 31 December 2010	**464**	**1,774**	**74**	**355**	**15**	**2,682**

19 Property and equipment (continued)

19.2 Bank

	Improvements to premises	Computer equipment	Other equipment	Fixtures and fittings	Motor vehicles	Total
	€000	€000	€000	€000	€000	€000
Cost						
At 1 January 2009	928	51	22	567	127	1,695
Acquisitions	-	33	2	5	-	40
At 31 December 2009	928	84	24	572	127	1,735
At 1 January 2010	928	84	24	572	127	1,735
Acquisitions	-	1,859	65	104	19	2,047
At 31 December 2010	928	1,943	89	676	146	3,782
Depreciation						
At 1 January 2009	278	51	16	260	79	684
Charge for the year	93	2	6	86	25	212
At 31 December 2009	371	53	22	346	104	896
At 1 January 2010	371	53	22	346	104	896
Charge for the year	93	116	13	41	27	290
At 31 December 2010	464	169	35	387	131	1,186
Carrying amounts						
At 1 January 2009	650	-	6	307	48	1,011
At 31 December 2009	557	31	2	226	23	839
At 1 January 2010	557	31	2	226	23	839
At 31 December 2010	**464**	**1,774**	**54**	**289**	**15**	**2,596**

Notes to the Financial Statements

For the Year Ended 31 December 2010

19 Property and equipment (continued)

19.3 The Bank operates from three immovable properties which are held under operating lease agreements (see note 31).

19.4 There were no capitalised borrowing costs related to the acquisition of property and equipment during the year (2009: Nil).

20 Intangible assets

20.1 Group and Bank

Intangible assets

	Total
	€000
Cost	
At 1 January 2009	1,178
Acquisitions	259
At 31 December 2009	1,437
At 1 January 2010	**1,437**
Acquisitions	**1,191**
At 31 December 2010	**2,628**
Amortisation	
At 1 January 2009	1,176
Charge for the year	15
At 31 December 2009	1,191
At 1 January 2010	**1,191**
Charge for the year	**66**
At 31 December 2010	**1,257**

20 Intangible assets (continued)

20.1 Group and Bank (continued)

Intangible assets

	Total
	€000
Carrying amounts	
At 1 January 2009	2
	======
At 31 December 2009	246
	======
At 1 January 2010	246
	======
At 31 December 2010	**1,371**
	======

20.2 There were no capitalised borrowing costs related to the acquisition of software during the year (2009: Nil).

20.3 Intangible assets are inclusive of capitalised wages amounting to €60,120 (2009: Nil).

21 Other assets

21.1

	Group		Bank	
	2010	2009	**2010**	2009
	€000	€000	**€000**	€000
Amount receivable from ultimate parent company	**79**	435	**79**	435
Amount receivable from immediate parent company	**83**	6	**83**	6
Amount receivable from subsidiary	**-**	-	**10**	7
Other assets	**271**	37	**271**	37
	433	478	**443**	485

21.2 Amounts receivable from ultimate parent company, immediate parent company and subsidiary are interest free, unsecured and repayable on demand.

22 Prepayments and accrued income

	Group		Bank	
	2010	2009	**2010**	2009
	€000	€000	**€000**	€000
Prepayments	**381**	265	**381**	265
Accrued income	**14,265**	5,485	**14,265**	5,485
	14,646	5,750	**14,646**	5,750

23 Deferred tax assets

23.1 Deferred tax assets are attributable to the following:

	Group and Bank	
	2010	2009
	€000	€000
Property and equipment	**(64)**	-
Available-for-sale securities	**759**	-
	695	-

23.2 Movement in temporary differences

	Group and Bank			
		Recognised		
	Balance 01 Jan 09	in profit or loss	in equity	Balance 31 Dec10
	€000	€000	€000	**€000**
Property and equipment	-	(64)	**-**	**(64)**
Available-for-sale securities	-	-	759	**759**
	-	(64)	759	**695**

Notes to the Financial Statements

For the Year Ended 31 December 2010

24 Capital and reserves

	Group and Bank	
	2010	2009
24.1.1 *Share capital*	**No.**	No.
Issued and fully paid up:		
Shares of €1 each		
Ordinary 'A' shares	**41,030,106**	39,520,969
Ordinary 'B' shares	**1**	1
	41,030,107	39,520,970

24.1.2 At 31 December 2010 the authorised share capital consisted of 100,000,000 ordinary shares (2009: 100,000,000 shares) of €1 each. All issued shares are fully paid-up.

		Group and Bank	
		2010	2009
	Note	**€000**	€000
At beginning of year		**39,521**	10,402
Issued for cash during the year	24.1.4	**1,509**	29,119
At end of year – fully paid up		**41,030**	39,521

24.1.3 The holders of 'A' ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Bank. 'B' ordinary shares are not entitled to vote in respect of its shares or to receive any dividends distributed.

24.1.4 By an extraordinary resolution dated 25 May 2010, it was resolved to increase the issued share capital by 1,509,137 ordinary shares to 41,030,107 issued ordinary shares of €1 each.

24.2 Exchange translation reserve arises as a result of the translation of the foreign subsidiary financial position and operational results.

24.3 The fair value reserve includes the cumulative net change in the fair value of available-for-sale investments, excluding impairment losses, until the investment is derecognised.

24.4 All reserves at reporting date, except for retained earnings, are non-distributable.

Notes to the Financial Statements

For the Year Ended 31 December 2010

25 Amounts owed to banks

	Group and Bank	
	2010	2009
	€000	€000
Repayable on call and at short notice	**618**	360
Term loans and advances	**1,134,368**	578,338
	1,134,986	578,698

Term loans and advances, excluding an amount of €6.2 million, are secured by a pledge over the investment securities (note 17.4).

26 Amounts owed to customers

	Group		Bank	
	2010	2009	**2010**	2009
	€000	€000	**€000**	€000
Repayable on demand	**49,392**	17,759	**49,471**	17,825
Term deposits	**123,455**	54,319	**123,455**	54,320
	172,847	72,078	**172,926**	72,145

Term deposits as at 31 December 2010 include a deposit from the immediate parent company amounting to €15,000,000 (2009: €25,000,000).

27 Debt securities in issue

	Group and Bank	
	2010	2009
	€000	€000
At amortised cost:		
Debt securities in issue	**14,735**	-

The debt securities, which are unsecured, are denominated in euro, mature on 30 October 2015 and are listed on the Malta Stock Exchange. The interest payable is fixed at 6.25% per annum. The fair value of these debt securities as at 31 December 2010 is €15.4 million.

27 Debt securities in issue (continued)

The above liabilities will in the event of default or insolvency of the issuer, have a general claim on the assets of the Bank *pari passu* with other unsecured creditors. Bondholders therefore would rank after all interbank funding lines and repurchase agreements that are collateralised by investments securities through the said funding. The group has not had any defaults of interest during the current year.

28 Other liabilities

	Group		Bank	
	2010	2009	**2010**	2009
	€000	€000	**€000**	€000
Other liabilities	**272**	467	**277**	465
VAT payable	**506**	392	**506**	392
	778	859	**783**	857

29 Accruals

	Group		Bank	
	2010	2009	**2010**	2009
	€000	€000	**€000**	€000
Accrued expenses	**2,628**	714	**2,623**	712
Accrued interest expense	**2,227**	838	**2,227**	838
	4,855	1,552	**4,850**	1,550

Notes to the Financial Statements

For the Year Ended 31 December 2010

30 Cash and cash equivalents

Balances of cash and cash equivalents as shown in the cash flow statement are analysed below:

	Notes	Group and Bank 2010 €000	Group and Bank 2009 €000
Analysis of cash and cash equivalents:			
Cash in hand		**22**	86
Call deposits		**43,694**	14,045
Malta Treasury Bills		**-**	6,137
Term deposits		**-**	33,000
Repayable on call and at short notice		**(618)**	(360)
Amounts owed to banks with maturity less than 3 months		**(366,134)**	(338)
Cash and cash equivalents		**(323,036)**	52,570
Adjustment to reflect:			
Balance with Central Bank of Malta		**2,504**	534
Term deposits with maturity over 3 months		**107**	-
Amounts owed to banks with maturity over 3 months		**(768,234)**	(578,000)
		(1,088,659)	(524,896)
Analysed as follows:			
Balances with Central Bank of Malta and Cash	14	**10,526**	39,757
Loans and advances to banks	15	**35,801**	14,045
Amounts owed to banks	25	**(1,134,986)**	(578,698)
		(1,088,659)	(524,896)

31 Operating leases

The Bank signed a rent agreement in 2005 for its main premises, which agreement runs for an initial fixed period of 5 years for an annual rent of €65,000, with an additional period of 5 years for an annual rent of €70,000, and a further period of 5 years for an annual rent of €70,000 in addition to inflation adjustment. In 2010, the Bank signed two agreements for the rent of three other immovable properties. These agreements run for an initial period of one to four years for an annual rent of €15,340, €21,535 and €28,320 respectively. These agreements are renewable for a further period ranging from two to four years.

32 Related parties

32.1 Parent company

The Bank is a wholly owned subsidiary of Medifin Holding Limited. The registered office of the parent company is situated at 10, St. Barbara Bastion, Valletta, Malta.

Medifin Holding Limited prepares consolidated financial statements of the Group of which Mediterranean Bank plc and its subsidiaries form part. These financial statements are filed and available for public inspection at the Registrar of Companies in Malta.

The ultimate parent company is Anacap Financial Partners II L.P. Their registered office is situated at Carinthia House, 9 -12 The Grange, St Peter Port, GY1 4BF, Guernsey.

32.2 Transactions with key management personnel

In addition to their salaries (disclosed in note 11), the Group also provides non-cash benefits to directors in the form of insurance and use of car and accommodation.

32.3 Related party balances

Amounts owed to customers set out in note 26 include amounts due to immediate parent of €15,492,714 (2009: €25,000,000), amounts due to subsidiary of €79,155 (2009: €66,588), and an amount owed to a director amounting to €141,367 (2009: €8,694).

Accruals set out in note 29 include accrued interest payable to immediate parent company of €9,998 (2009: €86,111).

Other assets set out in note 21 include amounts receivable from the ultimate parent company of €78,975 (2009: €434,503) and amounts receivable from the immediate parent company of €83,456 (2009: Nil). The Bank has amounts receivable from subsidiaries of €10,422 (2009: €7,475).

Loans and advances to customers set out in note 16 include loans to directors and a loan to the immediate parent company.

Other liabilities set out in note 28 include other amounts payable to directors amounting to €215 (2009: €57,502) and amounts payable to subsidiary of €6,576 (2009: €421).

32.4 Related party transactions

Interest expense set out in note 7 includes interest payable to immediate parent company of €819,999 (2009: €86,111) and interest payable to directors of €847 (2009: Nil). Interest income set out in note 7 includes interest receivable from immediate parent company of €36,896 (2009: Nil) and interest receivable from directors of €8,839 (2009: Nil).

32 Related parties (continued)

32.4 Related party transactions (continued)

Administrative expenses include directors' fee amounting to €105,001 (2009: €34,275), consultancy fees charged by directors amounting to €112,000 (2009: €280,000), professional fees payable to related parties amounting to €34,705 (2009: Nil), management fee payable to subsidiary of €1,417,469 (2009: Nil) and fees charged by the ultimate parent company amounting to €120,000 (2009: €53,253).

33 Segmental information

The Bank has a single reportable segment represented by the investment in high quality EU sovereign and sovereign related credit, covered bonds and other similar credit quality instruments. Information about the product and services and geographical areas are set out in notes 4, 7, and 17 to the financial statements which provide information about the financial risks, credit concentrations by sector and location and revenues from the single reportable segment. The investment portfolio is spread across a large number of exposures diversified in government, financial institutions and other corporates. 12.5% of the interest income from these exposures related to one credit institutional counterparty represented by investments classified as held-to-maturity.

34 Capital commitments

At reporting date the Bank had capital commitments amounting to €4.6 million in connection with the acquisition of a new Core Banking IT System and €0.2 million in respect of the setting up of a new branch.

35 Events after reporting date

The Bank has been engaged in ongoing settlement discussions in respect to an action brought against it for alleged illegal use of the trade name "Mediterranean Bank". On 22 February 2011, the Bank has signed settlement agreement in respect of such action. In accordance with the said agreement, the Bank will retain the use of the said trade name and will also retain its registration thereof, and of the trade mark related thereto. As a result of this agreement, complainant's action has been withdrawn.

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Independent Auditors' Report

To the Members of Mediterranean Bank plc

Report on the Financial Statements

We have audited the financial statements of Mediterranean Bank plc (the "bank") and of the group of which the bank is the parent, as set out on pages 18 to 69, which comprise the statements 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 17, 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, as regards the financial statements of the Group, Article 4 of the IAS Regulation, 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 Company'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 Mediterranean Bank plc

Opinion on Financial Statements

In our opinion, the financial statements:

- give a true and fair view of the group's and the bank's financial position as at 31 December 2010, and of their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the 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), and, as regards the financial statements of the group, Article 4 of the IAS Regulation.

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 Report of the Directors 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 Mediterranean Bank plc

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 Issuer 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 7 to 16.

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 group's corporate governance procedures or its risks and control procedures, nor on the ability of the group to continue in operational existence.

In our opinion, the Directors' Statement of Compliance set out on pages 7 to 16 provides the disclosures required by Listing Rule 5.97 issued by the Listing Authority of Malta.

Noel Mizzi (Partner) for and on behalf of

KPMG
Registered Auditors

23 February 2011

Additional Regulatory Disclosures in terms of Appendix 2 of Banking Rule 7

For the Year Ended 31 December 2010

Contents

Additional Regulatory Disclosures in terms of Appendix 2 of Banking Rule 7

For the Year Ended 31 December 2010

1 Background

Mediterranean Bank plc (the "Bank") calculates regulatory capital using the Basel II framework of the Basel Committee on Banking Supervision ('Basel Committee').

Basel II is structured around three 'pillars':

- Pillar 1 – minimum capital requirements;
- Pillar 2 – supervisory review process; and
- Pillar 3 – market discipline.

The Capital Requirements Directive ("CRD") implemented Basel II in the European Union ("EU") and the Malta Financial Services Authority (the "MFSA") then gave effect to the CRD by including the requirements of the CRD in Banking Rule 4 ("BR/04").

Pillar 3 complements the minimum capital requirements (Pillar 1) and the supervisory review process (Pillar 2). Its aim is to encourage market discipline by developing a set of disclosure requirements which will allow market participants to assess key pieces of information on the Bank's capital, risk exposures and risk assessment processes.

2 Introduction

In accordance with BR/07, "Publication of Annual report and Audited Financial Statements", the Bank has prepared this report which contains Pillar 3 disclosures.

Consistent with the banking regulations, these disclosures are not subject to external audit except where they are equivalent to those prepared under International Financial Reporting Standards ("IFRS") requirements in the Bank's Annual Report. These disclosures have been appropriately verified internally by the Bank's management and Audit and Risk Committee, including a review by the internal auditor.

3 Risk management objectives and policies

In this note, reference to the Bank implies the Group in view that the impact of the subsidiaries on the consolidated financial statements of the Bank is insignificant. The Bank has exposure to the following risks from its use of financial instruments:

- credit risk
- liquidity risk
- market risk
- operational risk

This note presents information about the Bank's exposure to each of the above risks, the Bank's objectives, policies and processes for measuring and managing risks, and the Bank's management of capital.

3 Risk management objectives and policies (cont.)

3.1 Risk management framework

The Board of directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Board has established the Asset and Liability (ALCO) and Credit Committees which are responsible for developing and monitoring the Bank's risk management policies in their specified areas. The Board has set up an independent and comprehensive risk management function under the responsibility of the Chief Risk Officer. The aim of Risk Management is to create value for shareholders by supporting the institution in achieving its goals and objectives, and ultimately ensuring that the risks are commensurate with the rewards.

The Chief Risk Officer is responsible for the oversight of the risk management process including the identification, assessment, monitoring, mitigation/control and communication of material risks and assumes, monitors, and actively manages interest rate risk, price risk, foreign exchange risk, liquidity risk, credit risk, concentration risk, operational risk, strategic risk and reputational risk through an integrated approach.

Additionally, Risk Management extends to the provision of support to all other functions across the Bank and in particular, to the Board in the setting of the Bank's business strategy in order to ensure that material risks have been taken into account and that such risks fall within the tolerable limits and the appetite set by the Board itself.

The Bank's risk management policies are established to identify and analyse the risks faced by the Bank, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Bank, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

The Audit & Risk Committee is responsible for monitoring compliance with the Bank's risk management policies and procedures, and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Bank. An Internal Audit Function has been set up to assist the Audit & Risk Committee. This function includes the carrying out of both regular and ad-hoc reviews of risk management controls and procedures, as well as reporting their findings to the Audit & Risk Committee.

3.2 Credit risk

Credit risk is the risk of financial loss to the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Bank's loans and advances to customers and other banks, and investment debt 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).

3 Risk management objectives and policies (cont.)

3.2 Credit risk (cont.)

3.2.1 Management of credit risk

The Board of Directors has delegated the responsibility for the management of credit risk to the Credit Committee. ALCO has oversight of credit risk and approves impairment provisions. The Bank's principal assets comprise high credit quality debt securities. The Bank's exposure to credit risk is mitigated through the availability of collateral. Concentrations of exposures are also mitigated by geographical diversification and by investing only in debt instruments with sound credit ratings.

All securities in the portfolio undergo a thorough analytical credit research process. The research process reviews all securities not only from a credit perspective but also from a legal, financial and credit ratings perspective. The Credit and Investment Department, which manages the research process, is composed of highly-trained individuals with specialised skill sets and years of experience in the Fixed Income markets. The research process subjects potential investments to severe stress tests to determine whether they can withstand significant adverse credit and market events and multiple combinations of such events. Additionally, the portfolio is subject to a continual and thorough surveillance process in order to identify any securities the performance of which requires increased monitoring.

The day-to-day management of credit risk is responsibility of the Credit and Investments Department, which includes:

- Formulating credit policies
- Establishing the authorisation structure
- Reviewing and assessing credit risk
- Limiting concentrations of exposure
- Reviewing compliance with agreed exposure limits
- Providing advice and guidance

The Chief Risk Officer reports on all credit related matters to the Credit Committee.

3.2.2 Impaired loans and advances and investment debt securities

Impaired loans and debt securities are loans and advances and investment debt securities 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 loan / investment security agreement(s).

The Credit Committee has reviewed all credit exposures on a case by case and collective basis (See accounting policy 3.9.7) in the light of current economic conditions and considered the likelihood that the Bank may be exposed to losses on loans and advances and investment debt securities. No circumstances have emerged up to the date of approval of these financial statements which may indicate that an impairment allowance may be necessary. In view of this credit assessment, ALCO does not consider that an impairment allowance is necessary at the reporting date.

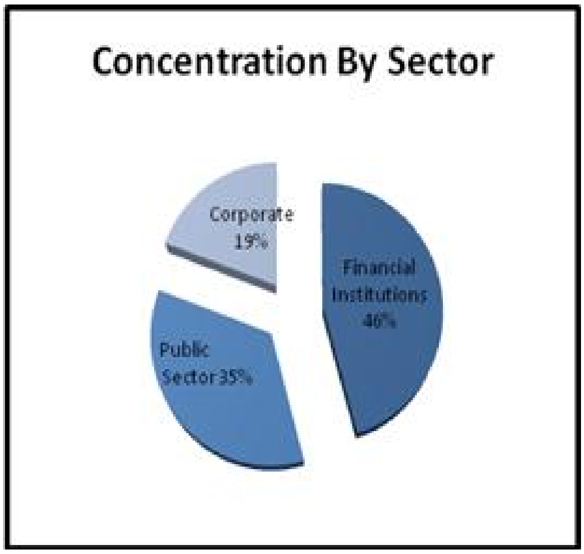
3 Risk management objectives and policies (cont.)

3.2 Credit risk (cont.)

3.2.2 Impaired loans and advances and investment debt securities (cont.)

The Bank monitors concentrations of credit risk by location. An analysis of concentrations of credit risk at the reporting date is shown below. Concentration by location for investment securities is measured based on the location of issuer of the security.

All securities in the portfolio are accepted by the ECB as eligible collateral and are rated by at least two from Moody's, Standard & Poor's and Fitch. The Bank held investment assets of €1,324 million as at 31 December 2010 (2009: €636 million), an analysis of the credit quality based on external credit ratings, where applicable, is as follows.



3.2.3 Credit risk: Regulatory Capital Impact

The Bank calculates its risk weighted exposure amounts in accordance with the Standardised Approach to credit risk as per BR/04. To calculate risk-weighted exposure amounts, risk weights are applied based on the exposure class to which the exposure is assigned and to its credit quality. Credit quality is determined by reference to the credit assessments of External Credit Assessment Institutions (ECAIs) that have been determined as eligible by the MFSA. The Bank has nominated Moody's Investors Service, Standard & Poor's and Fitch for this purpose.

Additional Regulatory Disclosures in terms of Appendix 2 of Banking Rule 7

For the Year Ended 31 December 2010

3 Risk management objectives and policies (cont.)

3.2 Credit risk (cont.)

3.2.3 Credit risk: Regulatory Capital Impact (cont.)

A breakdown of total exposure values, average exposure values over the year, risk-weighted exposure amounts and the 8 percent capital requirement is shown in the following table.

Capital requirements – analysis by exposure type

	Exposure value - 31.12.2010	Exposure value - Average	RWAs	Capital required
	€000	€000	€000	€000
Public sector	245,554	236,210	-	-
Financial	874,642	877,355	78,905	6,312
Corporate	265,593	250,641	54,028	4,322
Retail	158	142	158	13
Other	4,232	4,876	4,209	337
Total	**1,390,179**	**1,369,224**	**137,300**	**10.984**

The geographic distribution of the Bank's exposures is shown in the following table.

Credit risk exposure – analysis by geographical region

	Europe	North America	Total
	€000	€000	€000
Public sector	245,554	-	245,554
Financial	808,894	65,748	874,642
Corporate	265,593	-	265,593
Retail	158	-	158
Other	4,227	5	4,232
Total	**1,324,426**	**65,753**	**1,390,179**

The residual maturity breakdown of all exposures is presented in the following table.

Credit risk exposure – analysis by residual maturity

	Less than 1 year	1 to 5 years	Over 5 years	Total
	€000	€000	€000	€000
Public sector	-	121,880	123,674	245,554
Financial	85,802	757,297	31,543	874,642
Corporate	4,481	30,063	231,049	265,593
Retail	158	-	-	158
Other	1,005	983	2,244	4,232
Total	**91,446**	**910,223**	**388,510**	**1,390,179**

Additional Regulatory Disclosures in terms of Appendix 2 of Banking Rule 7

For the Year Ended 31 December 2010

3 Risk management objectives and policies (cont.)

3.2 Credit risk (cont.)

3.2.3 Credit risk: Regulatory Capital Impact (cont.)

The following table is a simplified version of the risk weight allocation process as set out in BR/04.

Credit quality steps and risk weights under the Standardised approach

Credit quality Step	Public Sector	Corporates	Financial
Credit quality Step 1	0%	20%	20%
Credit quality Step 2	20%	50%	50%
Credit quality Step 3	50%	100%	50%
Credit quality Step 4	100%	100%	100%
Credit quality Step 5	100%	150%	100%
Credit quality Step 6	150%	150%	150%

The following table shows the exposure values associated with each credit quality step prescribed by BR/04.

Credit risk exposure – analysis by credit quality step

	Credit quality step 1	Credit quality step 2	Credit quality step 3	Credit quality step 4	Credit quality step 5	Credit quality step 6	N/A	Total
	€000	€000	€000	€000	€000	€000	€000	€000
Public sector	245,554	-	-	-	-	-	-	245,554
Financial	607,930	256,101	-	-	-	-	10,611	874,642
Corporate	264,456	-	1,137	-	-	-	-	265,593
Retail	-	-	-	-	-	-	158	158
Other	-	-	-	-	-	-	4,832	4,832
Total	**1,117,940**	**256,101**	**1,137**	**-**	**-**	**-**		**1,390,779**

There were no impaired or past due exposures in 2010.

3.2.4 Settlement risk

The Bank's activities may give rise to risk at the time of settlement of transactions and trades. Settlement risk is the risk of loss due to the failure of an entity to honour its obligations to deliver cash, securities or other assets as contractually agreed.

For all types of investment transactions the Bank mitigates this risk by conducting settlements through a settlement / clearing agent to ensure that a trade is settled only when both parties have fulfilled their contractual settlement obligations. Settlement limits form part of the credit approval / limit monitoring process described earlier.

Additional Regulatory Disclosures in terms of Appendix 2 of Banking Rule 7

For the Year Ended 31 December 2010

3 Risk management objectives and policies (cont.)

3.3 Liquidity risk

Liquidity risk is the risk that the Bank will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.

3.3.1 Management of liquidity risk

The Bank's approach to managing liquidity is to ensure that, as far as possible, 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 Treasury Department receives information from other business units regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows arising from projected future business. Treasury then maintains a portfolio of short-term liquid assets to ensure that sufficient liquidity is maintained within the Bank. The liquidity requirements of the Bank are met through the international repo market and through ECB secured funding to cover any short-term fluctuations and longer term funding to address any structural liquidity requirements. In addition, deposits and issuance of debt securities provides further support to the Bank's liquidity requirements.

The Bank's daily and weekly liquidity positions are monitored and subject to regular liquidity stress testing is conducted under a variety of scenarios covering both normal and severe market conditions. All liquidity policies and procedures are subject to review and approval by ALCO.

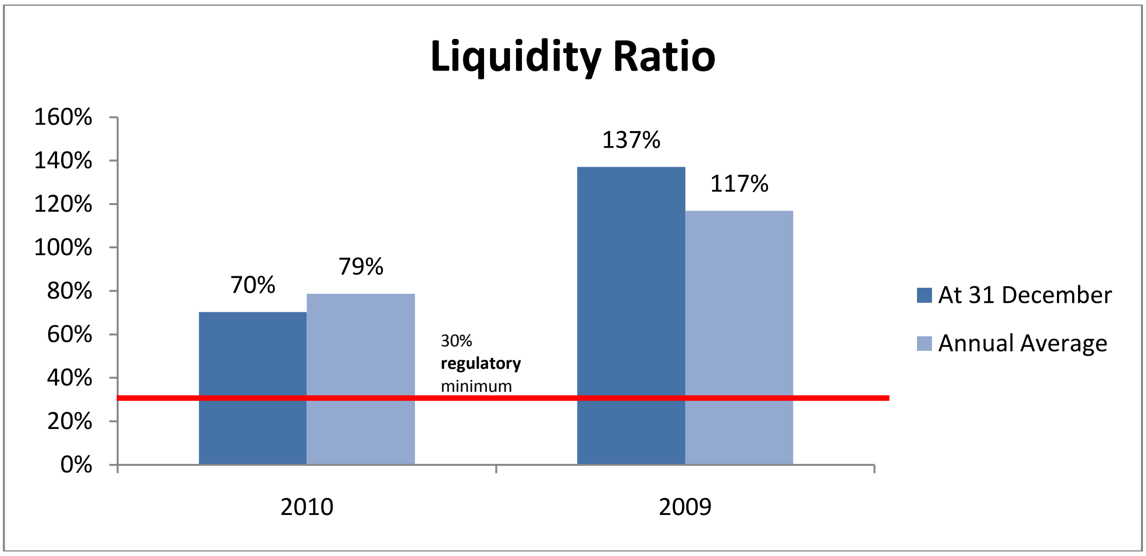
The Bank relies on deposits from customers, banks, the wholesale funding market and issued debt securities as its primary sources of funding. The Bank actively manages the risk from short-term tenor of deposits through maintaining competitive pricing and constant monitoring of market trends. During 2010 new deposit products were offered by the Bank resulting in an increase in customer term deposits with weighted average life of over one year.

3 Risk management objectives and policies (cont.)

3.3 Liquidity risk (cont.)

3.3.2 Exposure to liquidity risk

The key measure used by the Bank for managing liquidity risk is the ratio of the net liquid assets to wholesale funding. For this purpose net liquid assets are considered as including cash and cash equivalents and investment grade debt securities for which there is an active and liquid market as a percentage to the actual wholesale funding of the Bank. A similar, but not identical, calculation is used to measure the Bank's compliance with the liquidity requirement established by the Bank's lead regulator, the Malta Financial Services Authority. Details of the reported Bank's ratio of eligible liquid assets to eligible short term liabilities at the reporting date and during the reporting period were as follows.

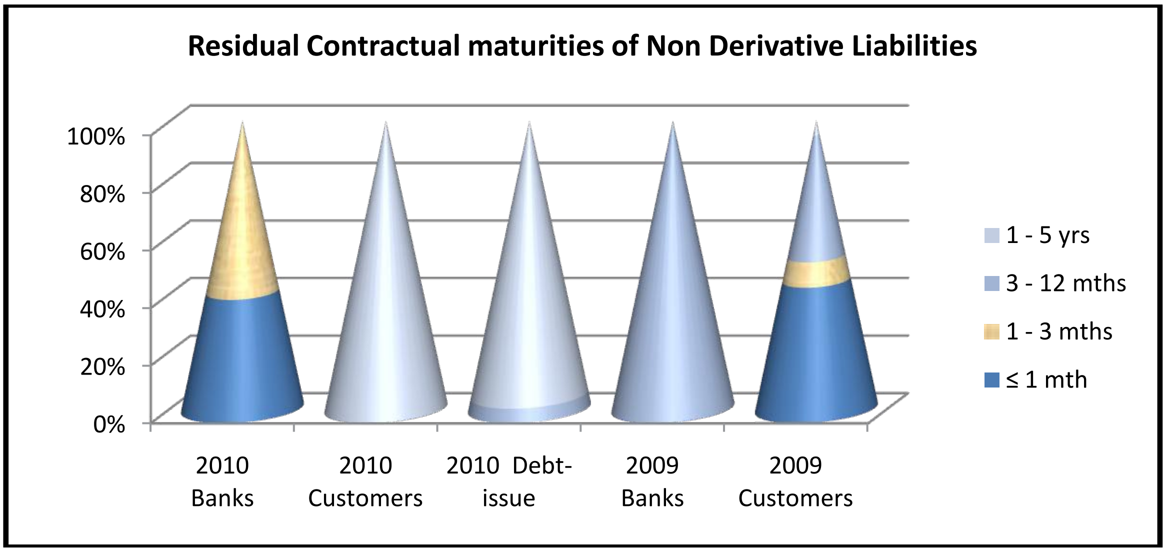


The above liquidity ratios are well above the statutory minimum of 30% as prescribed by BR/05.

3 Risk management objectives and policies (cont.)

3.3 Liquidity risk (cont.)

3.3.2 Exposure to liquidity risk (cont.)



The previous table shows the undiscounted cash flows on the Bank's non-derivative financial liabilities. The Bank's expected cash flows on these instruments vary significantly from this analysis. For example, demand deposits from customers are expected to maintain a stable or increasing balance.

To manage the liquidity risk arising from financial liabilities, the Bank holds liquid assets comprising cash and cash equivalents and investment grade debt securities for which there is an active and liquid market. The Bank maintains internal liquidity buffers established by ALCO and approved by the Board. These are monitored daily by Treasury and reported daily to management and monthly to the Board.

3.4 Market risk

Market risk is the risk that changes in market prices, such as interest rate, foreign exchange rates and credit spreads (not relating to changes in the obligor's / issuer's credit standing) will affect the Bank's income or the value of its holdings of financial instruments.

3.4.1 Management of market risks

The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk. Market risk is subject to strict controls, which set out the markets and instruments in which risk can be assumed, the type of positions which can be taken and the limits which must be complied with.

Overall authority for market risk is vested in ALCO which is responsible for the development of detailed risk management policies and for the day-to-day review of their implementation.

3 Risk management objectives and policies (cont.)

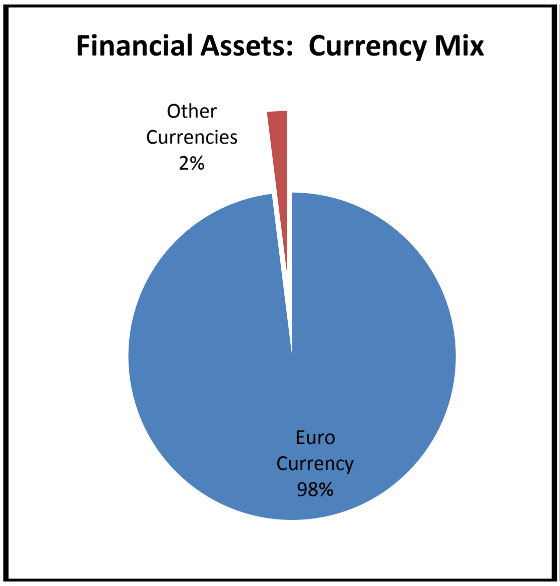
3.4 Market risk (cont.)

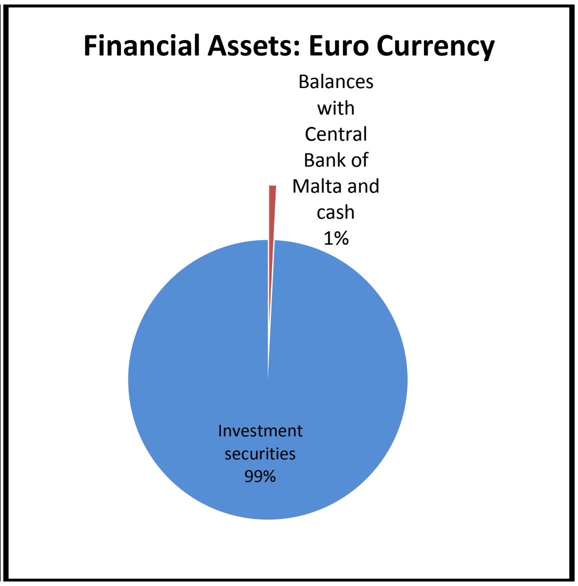
3.4.2 Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to the changes in foreign exchange rates. The Bank is exposed to currency risk on foreign exchange movements relating to the US Dollar, GB Pound, Canadian Dollar, Swiss Francs, Australian Dollar, New Zealand Dollar, Japanese Yen, South African Rand, Swedish Kroner, Norwegian Kroner and Danish Kroner originating from the Bank's corporate banking business. In the majority of cases the Bank covers this risk by ensuring that its foreign currency denominated liabilities are matched with corresponding assets in the same currency. Any mismatches that can arise are monitored accordingly.

With the exception of translation risk arising on the Bank’s net investment in its foreign operations, all foreign exchange risk within the Bank is managed and hedged by the Treasury Department. Accordingly, the foreign exchange position is treated as part of the Bank’s investment portfolios for risk management purposes.

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





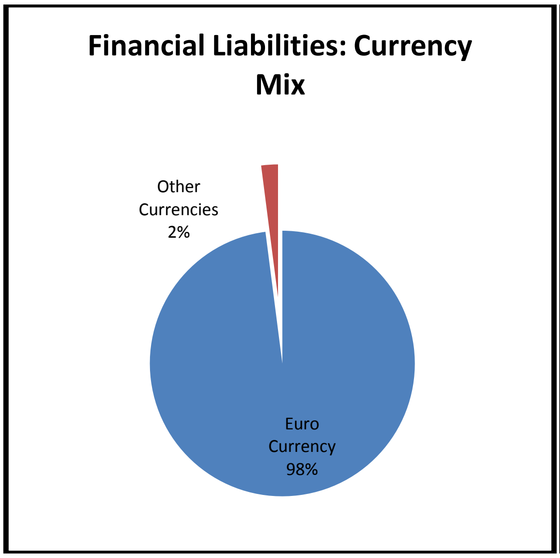
Additional Regulatory Disclosures in terms of Appendix 2 of Banking Rule 7

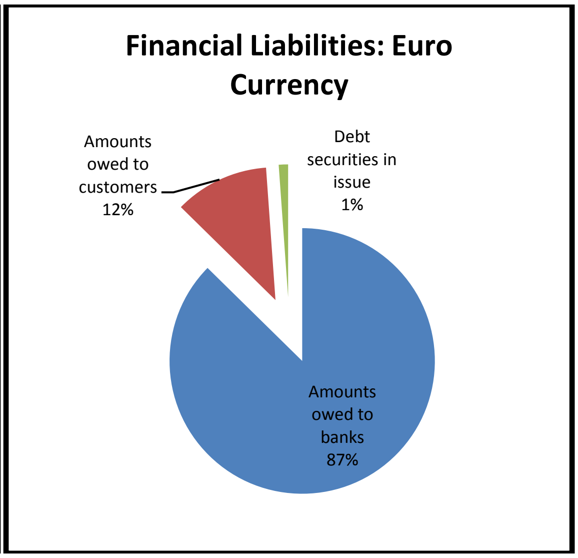
For the Year Ended 31 December 2010

3 Risk management objectives and policies (cont.)

3.4 Market risk (cont.)

3.4.2 Currency risk (cont.)





3.4.3 Interest rate risk

The Bank's operations are subject to the risk of interest rate fluctuations to the extent that interest-bearing assets and interest-bearing liabilities mature or re-price at different times or in different amounts. The principal risk to which non-trading portfolios are exposed is the risk of loss from fluctuations in the future cash flows or fair values of financial instruments because of a change in market interest rates. Interest rate risk is managed principally through monitoring interest rate gaps and by having pre-approved limits for re-pricing bands. ALCO is the monitoring body for compliance with these limits and is assisted by Treasury in its day-to-day monitoring activities. A summary of the Bank's interest rate gap position on non-trading portfolios is as follows.

	Carrying Amount €'000	Less than 3 months €'000	3 months to 1 year €'000	More than 1 year €'000
31 December 2010				
Balances with Central Bank of Malta	10,526	8,022	-	2,504
Investment securities	1,324,114	-	46,284	1,277,830
Loans and advances to banks	35,801	35,694	-	107
Loans and advances to customers	1,295	-	158	1,137
	1,371,736	43,716	46,442	1,281,578
Amounts owed to banks	1,134,986	1,134,986	-	-
Amounts owed to customers	172,847	74,238	45,463	53,146
Debt securities issued	14,735	-	-	14,735
	1,322,568	1,209,224	45,463	67,881
Interest rate gap	49,168	(1,165,508)	979	1,213,697

Additional Regulatory Disclosures in terms of Appendix 2 of Banking Rule 7

For the Year Ended 31 December 2010

3 Risk management objectives and policies (cont.)

3.4 Market risk (cont.)

3.4.3 Interest rate risk (cont.)

	Carrying amount €'000	Less than 3 months €'000	3 months to 1 year €'000	More than 1 year €'000
31 December 2009				
Balances with Central Bank of Malta	39,757	39,226	-	531
Investment securities	636,323	-	31,603	604,720
Loans and advances to banks	14,045	14,045	-	-
Loans and advances to customers	9	9	-	-
	690,134	53,280	31,603	605,251
Amounts owed to banks	578,698	698	578,000	-
Amounts owed to customers	72,078	40,569	31,109	400
	650,776	41,267	609,109	400
Interest rate gap	39,358	12,013	(577,506)	604,851

The management of interest rate risk against interest rate gap limits is supplemented by monitoring the sensitivity of the Bank's financial assets and liabilities to various interest rate scenarios. The estimated impact on Net Interest Margin (NIM) and Fair Value reserve as a result of a 100 and 200 basis points ("bps") parallel fall or rise in the yield curves would be as follows:

2010	**100 bps parallel increase** €'000	**100 bps parallel decrease** €'000	**200 bps parallel increase** €'000	**200 bps parallel decrease** €'000
Impact on Net Interest Margin	(3,942)	3,942	(7,852)	7,852
Impact on Fair Value reserve	(2,411)	2,411	(4,728)	4,728

As the Bank's expectation is that it will increase its annual reserves by more than the calculated maximum loss under the most severe stress scenario of 200 bps noted above, the Bank will always generate a net positive increase of its reserves.

Overall non-trading interest rate risk positions are managed by the Treasury Department, which uses advances to banks and deposits from banks to manage the overall position arising from the Bank's non-trading activities.

3 Risk management objectives and policies (cont.)

3.4 Market risk (cont.)

3.4.4 Market Risk: Regulatory Capital Impact

In terms of BR/08 the Bank's capital requirement in relation to this risk stood at €11,000 at 31 December 2010.

3.5 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.

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 and to avoid control procedures that restrict initiative and creativity while maintaining risk taking within a tolerable limit.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management within each business unit. This responsibility is supported by the development of overall Bank standards for the management of operational risk in the following areas:

- requirements for appropriate segregation of duties, including the independent authorisation of transactions
- requirements for the reconciliation and monitoring of transactions
- compliance with regulatory and other legal requirements
- documentation of controls and procedures
- requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified
- requirements for the reporting of operational losses and proposed remedial action
- development of contingency plans
- training and professional development
- ethical and business standards
- risk mitigation, including insurance where this is effective

A financial measurement of this risk is calculated by the Group for the purpose of allocating risk capital using the Basic Indicator Approach under the CRD rules. The capital requirement for operational risk under this method was calculated at €1,554,200 (2009: €72,900).

In October 2010 the Bank's Business Continuity Plan came into force. This Plan provides for disaster scenarios and categorises disasters into five levels. The Plan also defines three types of tolerance levels depending on recovery time. The critical resources are named and security and contingency measures are laid out. Recovery procedures and locations are set out by the Plan which also defines the roles and responsibilities of the business continuity team.

Additional Regulatory Disclosures in terms of Appendix 2 of Banking Rule 7

For the Year Ended 31 December 2010

3 Risk management objectives and policies (cont.)

3.5 Operational risk (cont.)

Operational Risk: Regulatory Capital Impact

The Bank calculates its operational risk capital requirements in accordance with the Basic Indicator Approach. This approach requires the Bank to hold capital to cover its operational risk equal to 15 percent of the average of annual gross income (excluding losses). The operational risk capital requirement as at 31 December 2010 stood at €1,554,200 (2009: €72,900)

4 Capital risk management

4.1 Internal capital adequacy assessment process

Regulatory capital requirements are calculated on the basis of Pillar 1 and Pillar 2 of the Basel framework. Pillar 1 capital covers credit, market and operational risks. The calculation methods (including formulae and weightings per exposure category) are specified by Basel II rules.

The Bank covers Pillar 2 capital requirements through stress testing processes to forecast the Bank’s projected capital requirements and resources in a range of stress scenarios. This enables the Bank to guarantee that it can meet its minimum regulatory capital requirements in a stressed environment.

This provides management with a tool to assess impact under changing economic conditions and how best to anticipate and mitigate such impact. The Bank stress testing process contributes to the strategic planning and forms a key component of the internal capital adequacy assessment process (ICAAP).

4.2 Own funds

Own funds represents the Bank's available capital and reserves for the purposes of capital adequacy. Capital adequacy is a measure of the financial strength of a bank, usually expressed as a ratio of its capital to its assets. The Bank adopts processes to ensure that the minimum regulatory requirements are met at all times, through the assessment of its capital resources and requirements given current financial projections.

4 Capital risk management (cont.)

4.2 Own funds (cont.)

The following table represents the Bank's capital position at 31 December 2010. Details on all Own Funds items are found in note 4.7.1 in the Bank's Annual Report.

Own Funds	***€000***	***€000***
Paid up capital		
Ordinary shares		41,030
Share premium account		13,464
Total Paid Up Capital		**54,494**
Reserves		
Retained profits	6,321	
Other reserves	(267)	
Total Reserves		**6,054**
Total Gross Original Own Funds		**60,548**
Deductions		
Intangible assets (other than goodwill)		(1,371)
TOTAL Original Own Funds		**59,177**
IFRS Prudential Filters: Deductions from Original Own Funds		(1,410)
Total Eligible Own Funds		**57,767**
Core Tier 1 Ratio		**36.83%**

5 Pooled investments

This section discloses information about the Bank's pooled investments activities which only include traditional transactions.

5.1 Objectives and roles

Mediterranean Bank plc (the "Bank") directly invests in the senior tranches of high grade third party pooled investments. As at 31st December 2010, 86% of the pooled investments were AAA while the remaining 14% were AA rated.

5.2 Valuation

The performance of pooled investments position is primarily driven by the performance of the assets underlying that pooled investments position. The Bank uses a combination of market standard systems and third party data providers to monitor the performance data for pooled investments. The valuation process of these investments primarily focuses on quotations from third parties, observed trade levels and calibrated valuations from market standard models.

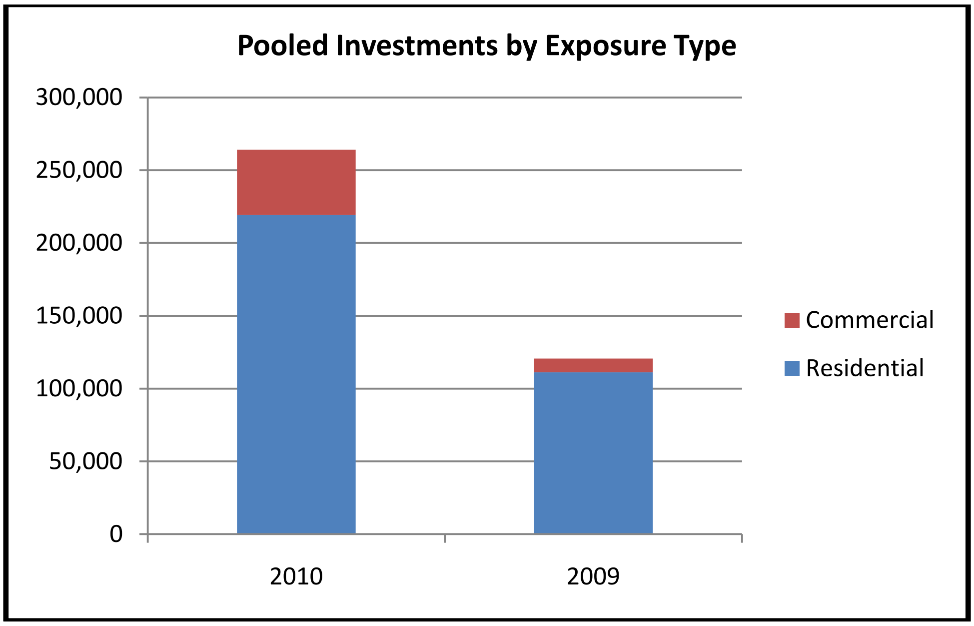
5 Pooled investments (cont.)

5.3 Accounting treatment

Pooled investments are held to maturity and their full accounting treatment can be found in note 3 of the Bank's 2010 financial statements.

5.4 Calculation of risk-weighted assets (RWA) for pooled investments exposures

RWAs reported for pooled investments are calculated in line with Banking Rule BR/04 using the standardised approach, which relies on the mapping of External Credit Assessment Institutions (ECAIs) credit ratings to risk weights. The Bank has nominated Moody's Investors Service for this purpose, being an eligible ECAI as determined by the MFSA. The Bank holds only investments categorised under BR/04 as Credit Quality Step 1 (highest quality category) and hence a 20% risk weight is applied.



Five Year Summary

Income Statements

	2010	2009	2008	2007	2006
	€000	€000	€000	€000	€000
Interest income	41,834	4,544	1,298	816	187
Interest expense	(14,188)	(1,357)	(670)	(280)	(68)
Net interest income	27,646	3,187	628	536	119
Fee and commission income	124	114	266	172	3
Fee and commission expense	(1,154)	(176)	(170)	(165)	-
Net fee and commission (expense)/income	(1,030)	(62)	96	7	3
Net trading income	347	103	53	7	-
Other operating income	3,280	116	-	-	-
Operating income	30,243	3,344	777	550	122
Impairment loss on financial asset	-	-	(93)	-	-
Personnel expenses	(5,137)	(723)	(426)	(520)	(821)
Administrative expenses	(5,672)	(3,256)	(1,703)	(1,375)	(1,553)
Depreciation and amortisation	(368)	(227)	(610)	(621)	(622)
Operating expenses	(11,177)	(4,206)	(2,832)	(2,516)	(2,996)
Profit/(loss) before income tax	19,066	(862)	(2,055)	(1,966)	(2,874)
Tax (expense)/income	(3,955)	-	(1,274)	-	961
Profit/(loss) for the year	15,111	(862)	(3,329)	(1,966)	(1,913)

Five Year Summary

Statements of Financial Position

	2010 €'000	2009 €'000	2008 €'000	2007 €'000	2006 €'000
Assets					
Cash	10,526	39,757	590	402	7
Loans and advances to banks	35,801	14,045	35,251	31,176	20,435
Loans and advances to customers	1,295	9	2	-	-
Investment securities	1,324,114	636,323	-	-	-
Property, plant and equipment	2,682	839	1,011	1,228	1,460
Intangible assets	1,371	246	2	394	782
Deferred income tax asset	695	-	-	1,274	1,274
Other assets	433	478	7	4	55
Prepayments and accrued income	14,646	5,750	100	127	115
Total assets	**1,391,563**	**697,447**	**36,963**	**34,605**	**24,128**
Liabilities					
Amounts owed to banks	1,134,986	578,698	122	383	116
Amounts owed to customers	172,847	72,078	33,825	28,611	16,162
Debt Securities in Issue	14,735	-	-	-	-
Other liabilities	778	859	283	49	90
Accruals and deferred income	4,855	1,552	194	101	328
Provision for taxation	3,891	-	-	-	-
	1,332,092	653,187	34,424	29,144	16,696
Equity					
Called up issued share capital	41,030	39,521	10,402	10,000	10,000
Share premium	13,464	13,464	-	-	-
Retained Earnings/(accumulated losses)	6,382	(8,729)	(7,867)	(4,537)	(2,571)
Fair value reserve	(1,410)	-	-	-	-
Other reserves	-	-	-	-	1
Exchange differences on consolidation	5	4	4	(2)	2
	59,471	44,260	2,539	5,461	7,432
Total liabilities and equity	**1,391,563**	**697,447**	**36,963**	**34,605**	**24,128**

Five Year Summary

Statements of Cash Flow

	2010	2009	2008	2007	2006
	€000	€000	€000	€000	€000
Cash flows from operating activities					
Interest and commission receipts	38,158	1,642	1,391	819	191
Interest payments	(13,828)	(594)	(664)	(276)	(65)
Payments to employees and suppliers	(9,328)	(3,055)	(1,712)	(2,101)	(2,192)
Operating profit/(loss) before changes in operating assets/liabilities	15,002	(2,007)	(985)	(1,558)	(2,066)
(Increase)/decrease in operating assets:					
- reserve deposits with Central Bank of Malta	(1,971)	21	211	(765)	-
- loans advanced to customers and banks	(1,038)	334	(870)	-	-
- investment securities	(694,718)	(638,882)	-	-	-
Increase in operating liabilities:					
- amounts owed to customers and banks	291,006	616,229	5,214	12,449	16,162
Net cash used in operating activities	(391,719)	(24,305)	3,570	10,126	14,096
Cash flows from investing activities					
Acquisition of property and equipment	(2,142)	(41)	(7)	(8)	(934)
Acquisition of intangible asset	(1,191)	(197)	-	(5)	(30)
Acquisition of available-for-sale assets	(81,489)	(59,525)	-	-	-
Disposal of available-for-sale assets	84,768	59,641	-	-	-
Advances to parent	(77)	-	-	-	
Net cash used in investing activities	(131)	(122)	(7)	(13)	(964)
Cash flows from financing activities					
Proceeds from the issue of share capital	1,509	42,584	402	-	3,400
Proceeds from the issue of debt securities	14,735	-	-	-	-
Repayment of bank loans	-	-	(41)	(38)	(39)
Interest paid on financial liabilities	-	-	(5)	(8)	(10)
Net cash from financing activities	16,244	42,584	356	(46)	3,351
Net (decrease)/increase in cash and cash equivalents	(375,606)	18,157	3,919	10,067	16,483
Cash and cash equivalents at 1 January	52,570	34,413	30,494	20,427	3,944
Cash and cash equivalents at 31 December	**(323,036)**	**52,570**	**34,413**	**30,494**	**20,427**

Five Year Summary

Bank Ratios

	2010 %	2009 %	2008 %	2007 %	2006 %
Net interest income and other operating income to total assets	3.0%	0.9%	1.8%	1.8%	0.8%
Operating expenses to total assets	1.1%	1.1%	7.9%	8.6%	19.7%
Cost to income ratio	37.0%	125.8%	364.6%	457.7%	2451.9%
Profit / (loss) before tax to total assets	1.8%	-0.2%	-5.7%	-6.7%	-18.9%
Profit / (loss) before tax on equity	36.8%	-3.7%	-51.4%	-30.5%	-43.0%
Profit / (loss) after tax to equity	29.1%	-3.7%	-83.2%	-30.5%	-28.6%

	2010 No	2009 No	2008 No	2007 No	2006 No
Shares in issue	41,030,107	39,520,970	10,401,500	10,000,000	10,000,000

	2010 €	2009 €	2008 €	2007 €	2006 €
Net assets per share	25.83	18.88	3.49	2.94	1.93
Earnings /(loss) per share (cents) based on profit after tax	37.4	(4.4)	(32.5)	(19.7)	(24.3)

Company Information

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

Medifin Holding Limited C34111				
	Type & Class of Shares	**Issued Shares**	**% Paid Up**	**Nominal Value Per Share in EUR**
Mark Watson Holdings Limited	Ordinary B	627,854	100	1.000000
	Ordinary C	1,170,000	100	0.001000
HCS Holdings Limited	Ordinary B	224,233	100	1.000000
	Ordinary C	540,000	100	0.001000
JVP Holdings Limited	Ordinary B	362,903	100	1.000000
	Ordinary C	840,000	100	0.001000
Mark A. Watson	Ordinary B	1	100	1.000000

Mediterranean Bank plc C34125				
	Type & Class of Shares	**Issued Shares**	**% Paid Up**	**Nominal Value Per Share in EUR**
Medifin Holding Limited	Ordinary A	41,030,106	100	1.000000

Mediterranean Bank plc C34125		
	Number of shares	**Number of holders**
Class A	41,030,106	1
Class B	1	1

Mediterranean Bank plc C34125	**Number of holders**	
Range	**Class "A"**	**Class "B"**
1 - 500	-	1
501 - 1000	-	-
1001 - 5000	-	-
5001 & over	1	-

The holders of ordinary A shares are entitled to one vote for each share. The holder of ordinary B share is not entitled to vote in respect of its shares

Company Information

Board of Directors

Francis J. Vassallo – Chairman
Mark A. Watson
Peter B. Cartwright
Finlay S. McFadyen
Henry Schmeltzer
Joaquin Vicent
Frederic Villa (resigned, effective 15 February 2011)

Company Secretary

Edward Jaccarini (appointed 24 February 2010)
Paula Galea Farrugia (resigned 24 February 2010)

Senior Management

Watson, Mark A.	Chief Executive Officer
Bonello Ghio, Lorraine	Head of Personnel and Administration
Calleja, Raymond	Head of Consumer Banking
Catania, Deo	Treasurer
Cini, Charles	Head of Corporate Banking
Degiorgio, Domenic	Head of Back Office and Settlements
De Pauw, Xavier	Head of International Strategy
Galea Farrugia, Paula	General Counsel and Compliance Officer
Huber, Keith	Chief Risk Officer
Jaccarini, Edward	Chief Financial Officer
Jones, Jonathan	Head of Information Technology
Mallia, Wilfred	Head of Wealth Management
Mawdsley, Fleur	Head of Client Service Group
Schmeltzer, Henry	Chief Operating Officer
Vicent, Joaquin	Head of Credit and Investments
Villa, Frederic	Head of Private Banking (resigned effective 1 March 2011)

Registered address:

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