Annual Report
and
Consolidated
Financial Statements
2006

APS bank

Contents

Mission Statement

To offer quality financial services in an efficient, cost effective and ethical way inspired by the social commitment of our shareholders. Customer focus, employee development and innovation are the drivers of our success.

Bank Information

DIRECTORS

Emmanuel P. Delia M.A., M.Litt. (Oxon.), Chairman
Joseph C. Caruana A.C.I.B.
Carmel Curmi (resigned 27 October 2006)
Arthur Galea Salomone LL.M. (Toronto), LL.D.
Joseph M. Kenely M.Sc., A.C.M.A., F.I.A., C.P.A.
Frederick F. Micallef M.I.M.I.S., M.B.A.
Joseph Pace Ross A.C.I.B.

COMPANY SECRETARY

Mario Felice LL.D.

CHIEF EXECUTIVE OFFICER

Edward Cachia A.C.I.B.

REGISTERED OFFICE

APS House
20, St. Anne Square
Floriana FRN 9020
Malta

CHAIRMAN'S STATEMENT

Introduction

I am pleased to report that in 2006 APS Bank repeated the successful performance of last year, once again registering a pre-tax profit of Lm3.2 million. Total assets are now Lm258 million.

The growth of Lm20.6 million in customers' deposits is clear evidence of the public trust enjoyed by the Bank. It is of satisfaction to note that requests by customers for loans and advances are also increasing. With a rise of Lm22.5 million in lending, the Bank continues to contribute to the building up of personal and social infrastructures.

In the process, we have made positive strides in improving the Bank's credit risk spread by further penetrating diverse market segments. Commercial and public entities now account for 57% of total exposure. Our focus on building long-standing relationships with these clients is already giving encouraging results and we are confident that this impetus will remain in the years ahead.

Strategy

The Board of Directors has approved a comprehensive three-year plan that provides for a number of projects that will improve the delivery and range of the Bank's services. Today, most of these assignments are already underway.

Our positive experience with the introduction of investment services encourages us to expand this area of operations further. Plans are now in place for the launching of the Bank's first proprietary collective investment scheme and we will soon also offer portfolio management services to corporate customers.

Centralisation of back office operations and all administrative functions is expected to be completed by mid 2008, while Internet Banking will be available later this year. We are also working on the enlargement and refurbishment of our branch in Gozo, and our ATM network will soon be enhanced by other new installations.

As I indicated last year, the adoption of the Euro will present considerable opportunities and we are certain that the level of competitiveness will intensify. The Bank is already prepared for the challenges that lie ahead and intends to operate in new markets whilst extending services to its existing clients.

In 2007, the Bank is determined to pursue actively the training of its human resources on a technical level as well as on shared fundamental principles. Several staff members are undertaking specialised courses on banking and financial services, thus keeping them primed to meet market demands. In addition, we are involving all our employees as from the planning stage to achieve the right level of inclusiveness, whilst the Board provides a clear vision and direction. The promotion of teamwork, professionalism and integrity continues unabated as these will ensure long term sustainability.

FEBEA

In November 2006, the Bank joined the European Federation of Ethical and Alternative Banks and Financiers – FEBEA, which is based in Brussels. The primary objective of this Association is to promote the development of ethical and solidarity finance in the European Union through the dissemination of information, exchange of experiences and the creation of the appropriate instruments necessary to fulfil this scope.

FEBEA members are geared to offer their expertise and financing to entrepreneurs in the solidarity-based economy. We regard this affiliation as being of particular interest to both our customers and staff members.

APS Consult Limted

After building a meaningful presence in the banking sector, APS Consult Limited. was the ensuing step on our agenda. The mission of this new subsidiary is to offer specialised advisory services to parties who are active in those areas of the economy that are undergoing substantial restructuring. Supporting change through advice and facilitating communication is complementary to providing finance.

Community

The Bank reinforced its commitment towards cultural, educational, sports initiatives and social causes. This reflects the high degree of importance that we attach to the community spirit and cohesion.

During 2006, we have affirmed our efforts to back Malta's cultural heritage by sponsoring musical compositions, restoration of works of art and artistic exhibitions. For the sixth consecutive year, the Bank organised a sacred music concert which gave life to early 19th century recitals by the Augustinian monk, Giuseppe Spiteri Fremond. Furthermore, we thought it fitting that the painting showing St. Francis of Paola by Mattia Preti acquired by the Bank is shared with the public. Thus, this oil-on-canvas masterpiece is being displayed at the Mdina Cathedral Museum for everyone's appreciation. The Bank also supported the restoration of a unique and rare 15th century painting of the Assumption, found in the chapel of Sta. Maria at Ħal-Xluq, Siġġiewi.

The Bank proceeded with its publications project that included the proceedings of the Annual Seminar on the Development of Agriculture and Fisheries in the Maltese Islands, the Occasional Papers Six – Reconsidering Co-operatives, and the 'Fond għall-Kittieba tal-Malti'. Two new original books were commissioned from this fund in 2006.

As part of its policy of fostering youth development through sports, the Bank has teamed with various valued associations with the aim that its contribution manifests itself in the desired benefits. Sponsored sports disciplines ranged from football and handball to rowing and cycling.

The Bank has also contributed to a number of worthy and deserving causes with beneficiaries cutting across broad segments of society.

A Word of Appreciation

These encouraging achievements and rewarding experiences are the result of several factors. They are the outcome of the confidence of our customers, the support of our shareholders and the hard work and dedication of management and members of staff. My gratitude goes to all of them.

Besides, I wish to thank my colleagues, members of the Board, who once again assisted me with their knowledge and experience. In particular, I would like to thank Can. C. Curmi who has ended his long term of service to the Bank in the role of Director in October 2006.

I thank you all and commend all parties involved in the running of the Bank to continue with their resolve in seeking ways of conducting APS Bank's mission proactively.

E. P. Delia
Chairman

DIRECTORS' REPORT

DIRECTORS' REPORT
for the year ended 31 December 2006

PRINCIPAL ACTIVITIES

APS Bank Limited is registered in Malta as a limited liability company under the Companies Act, 1995. The Bank is licensed by the Malta Financial Services Authority to carry out the business of banking and investment services in terms of the Banking Act, Cap. 371 and the Investments Services Act, Cap. 370 of the laws of Malta respectively.

APS Consult Limited is a subsidiary in which the Bank holds full control, as set in Note 37 to the Financial Statements. The Company was registered in June 2006 and did not effect material transactions during the period since incorporation.

FINANCIAL PERFORMANCE

The Bank reported a profit before tax of Lm3.2 million for the year ended 2006, realising a return on average shareholders' funds of 15.8%. These results were achieved by striving to meet the customers' needs by offering the appropriate products and services, whilst following a well defined business strategy.

Operations

Net interest income reached Lm6 million, up by 5.1% from 2005. This is the highest level ever attained despite a drop in net interest margin. It was mainly the growth in advances to customers that contributed to such a positive outcome. Interest from advances to customers accounted for 41.5% of total interest, an improvement of five percentage points when compared to the previous year's figures.

Non-interest income which grew by 5.5% was primarily generated by investment services and assurance business commissions. The Bank recognises that there is potential to improve this source of income further.

Administrative expenses amounted to Lm3.6 million, 6% higher than in 2005. The rise was predominantly due to an increase in staff costs. In fact, the Bank strengthened its workforce and also enhanced employees' remuneration packages. Furthermore, the Bank has stepped up its resources with the ultimate aim of supporting the implementation of new projects and the ongoing expansion strategy. Even though operating expenses increased, the operating cost to income ratio improved marginally by 1.05% throughout 2006 to 55.7%. The returns earned from core operations considerably offset the rise in operating expenses.

Balance sheet

At end 2006, total assets stood at Lm258 million, representing a steady increase of Lm21.8 million when compared to 2005. The Bank's lending portfolio continued to record rapid growth, especially in the mortgage sector. This considerable rise which amounted to Lm22.5 million, improved the ratio of advances to customers to deposits from 44.3% to 50%. Customers confirmed their trust and support towards the Bank boosting deposits by a further Lm20.6 million.

OUTLOOK

Driven by its achievements and the present challenging market conditions, the Bank's plans for 2007 are ambitious. Its capital expenditure is expected to exceed Lm3 million during the current year. The target is to implement these projects whilst maintaining the strong momentum gained over the past years in all areas of operation.

DIRECTORS' REPORT (continued)

CORPORATE GOVERNANCE

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

Board of Directors

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

The Board currently consists of six Non-Executive Directors, including the Chairman. No individual or group of individuals dominates the Board's decision-making. The Directors have wide-ranging experience and all have occupied or currently occupy senior positions in various organisations. Non-Executive Directors have a responsibility to bring independent, objective judgement to bear on Board decisions. The Board has reviewed the independence of these Directors and has reaffirmed that they are all considered to be independent. It is the practice of the Directors that, when a potential conflict of interest may arise in connection with any matter, this is declared and the Director concerned refrains from taking part in proceedings relating to the matter or decision. The Board minutes invariably include a suitable record of such declaration and of the action taken by the Director concerned.

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

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

A Statement of Directors' Responsibilities in respect of the Financial Statements is set out on Page 5.

Committees established by the Board

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

The **Audit Committee**. The main role of the Audit Committee is to monitor the integrity of the financial statements of the Bank and review significant financial reporting judgements contained in them. It has also the responsibility for reviewing the Bank's internal financial controls, and monitoring and reviewing the effectiveness of the Bank's internal audit functions. It makes recommendations to the Board regarding the appointment of the Bank's external auditors, their remuneration and terms of engagement. The Committee is required to report to the Board any matters on which action or improvement is needed and to make recommendations as to the steps to be taken.

The **Risk Management Committee**. The role of the Risk Management Committee is to assist management in identifying and assessing the main risks faced by the Bank in a coordinated manner, to identify, evaluate and document the Bank's risk profile and to ensure that the business agenda is geared towards critical business issues.

DIRECTORS' REPORT (continued)

The **Advances Executive Committee**. The Committee is responsible for assessing credit facilities beyond certain thresholds in order to maximise profitability while safeguarding the reputation and standing of the Bank.

The **Investments and Treasury Executive Committee**. The responsibility of this Committee involves the development of new investment and treasury services, interest rate policy and the management of the Bank's liquidity and balance sheet in terms of investments.

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

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

Senior Executive Committee

The Chief Executive Officer leads the Senior Executive Committee. While the Chief Executive Officer retains full responsibility for the authority delegated to him by the Board, the Senior Executive Committee is one of the vehicles through which he exercises that authority in respect of the Bank's business. The Senior Executive Committee meets on a regular basis to review all major business issues and decisions which are not reserved to the Board.

Principles of business conduct

The Bank places particular attention on security, integrity and trust. All employees are required to comply with the Bank's Code of Conduct. The Code defines the core values and principles governing the conduct of the Bank's business. It covers areas such as compliance with local laws and regulations, ethical dealings with customers and third parties and the avoidance of conflicts of interest.

INTERNAL CONTROL

The Board of Directors is responsible for the Bank's system of internal control that is designed to facilitate effective and efficient operations and to ensure the quality of internal and external reporting and compliance with applicable laws and regulations. In devising internal controls, the Bank has regard to the nature and extent of the risk, the likelihood of it crystallising and the cost of controls. A system of internal control is designed to manage the risk of failure to achieve business objectives and can only provide reasonable, and not absolute, assurance against the risk of material misstatement, fraud or losses.

The key elements of the system are as follows:

- A Code of Conduct distributed throughout the Bank.
- Clearly defined organisation structures and limits of authority.
- Bank-wide policies for financial reporting, accounting, financial risk management, information security, project appraisal and corporate governance.
- Bank-wide procedures for the reporting and resolution of fraudulent activities.
- Annual budgets for all operating units, identifying key risks and opportunities.
- Monitoring of performance against plans and budgets and reporting thereon to the Directors on a monthly basis.
- A Risk Management Unit which is responsible for reviewing the Bank-wide risk management framework.
- An Internal Audit Unit which reviews key business processes and controls.
- An Audit Committee which approves audit plans and deals with significant control issues raised by internal or external audit.

DIRECTORS' REPORT (continued)

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

Relations with shareholders and the Annual General Meeting

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

The Annual General Meeting is to be held on 19 April 2007.

DIRECTORS

The Directors of the Bank are listed on page III.

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

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RELATION TO CONSOLIDATED FINANCIAL STATEMENTS

The Companies Act, Cap. 386 requires the Directors to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the Bank at the end of each financial year and of its profit or loss for the financial year.

The Directors are responsible for ensuring that:

- appropriate accounting policies have been consistently applied and supported by reasonable and prudent judgments and estimates;
- financial statements have been drawn up in accordance with International Financial Reporting Standards;
- the financial statements are prepared on the basis that the Bank must be presumed to be carrying on its business as a going concern; and
- account has been taken of income and charges relating to the accounting period, irrespective of the date of receipt or payment.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Bank and which enable them to ensure that the consolidated financial statements comply with the Companies Act, Cap. 386 and the Banking Act, Cap. 371. They are also responsible for safeguarding the assets of the Bank and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

DIRECTORS' REPORT (continued)

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

During the year ended 31 December 2006, no shares in the Bank were:

- purchased by it or acquired by it by forfeiture or surrender or otherwise;
- acquired by another person in circumstances where the acquisition was by the Bank's nominee, or by another with the Bank's financial assistance, the Bank itself having a beneficial interest;
- made subject to pledge or other privileges, to a hypothec or to any other charge in favour of the Bank.

STANDARD LICENCE CONDITIONS

In accordance with paragraph 10.35 of the Investment Services Guidelines issued by the Malta Financial Services Authority, licence holders are required to disclose any regulatory breaches of standard licence conditions in their annual report. During the year under review, there were no breaches of the standard licence conditions or regulatory sanctions imposed by the Malta Financial Services Authority.

AUDITORS

Messrs. Ernst & Young have signified their willingness to continue in office as auditors of the Bank and a resolution proposing their reappointment will be put to the Annual General Meeting.

The Directors' report was authorised for issue by the Board of Directors and was signed on its behalf by:

E. P. DELIA
Chairman

J. C. CARUANA
Director

13 March 2007

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF APS BANK LIMITED

We have audited the accompanying financial statements of APS Bank Limited and its subsidiary ('the Group'), which comprise the balance sheet as at 31 December 2006 and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes set on pages 12 to 38.

Directors' Responsibility for the Financial Statements

The directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as of 31 December 2006, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the Companies Act, Cap. 386 and the Banking Act, Cap. 371 of the laws of Malta.

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

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

13 March 2007

INCOME STATEMENT
for the year ended 31 December 2006

	Notes	2006 Lm'000	2005 Lm'000
Interest receivable and similar income:			
On loans and advances, balances with the Central Bank of Malta and treasury bills	(2)	**5,885**	4,612
On debt securities	(2)	**6,630**	6,623
		12,515	11,235
Interest payable	(3)	**(6,606)**	(5,612)
Net interest income		**5,909**	5,623
Dividend income	(4)	**98**	90
Fees and commissions receivable		**472**	430
Trading profits	(5)	**370**	400
Net gains on disposal of non-trading financial instruments	(6)	**311**	261
Other operating income		**24**	28
Total operating income		**7,184**	6,832
Personnel expenses	(7)	**(1,912)**	(1,673)
Other administrative expenses		**(1,735)**	(1,766)
Depreciation	(20)	**(353)**	(437)
Operating profit before impairment, reversals and provisions		**3,184**	2,956
Net impairment (losses)/reversals	(8)	**(32)**	199
Profit on ordinary activities before taxation	(9)	**3,152**	3,155
Taxation	(10)	**(1,107)**	(887)
Profit for the financial year after taxation		**2,045**	2,268
Earnings per share	(12)	**7c9**	9c3

The accounting policies and explanatory notes on pages 12 to 38 form an integral part of the consolidated financial statements.

BALANCE SHEET
as at 31 December 2006

	Notes	2006 Lm'000	2005 Lm'000
ASSETS			
Cash and balances with Central Bank of Malta	(13)	**13,538**	11,622
Cheques in course of collection		**651**	1,405
Treasury bills	(14)	**-**	1,180
Debt and other fixed income instruments	(15)	**112,200**	118,382
Equity and other non-fixed income instruments	(16)	**1,884**	2,206
Loans and advances to banks	(17)	**8,008**	3,780
Loans and advances to customers	(18)	**113,867**	91,348
Property, plant and equipment	(20)	**4,164**	2,627
Current taxation		**-**	51
Deferred taxation	(21)	**765**	674
Prepayments and accrued income	(22)	**2,492**	2,534
TOTAL ASSETS		**257,569**	235,809
LIABILITIES			
Amounts owed to banks	(23)	**360**	185
Amounts owed to customers	(24)	**231,260**	210,695
Other liabilities	(25)	**1,696**	1,790
Accruals	(26)	**2,507**	2,278
Subordinated liabilities	(27)	**1,400**	1,400
TOTAL LIABILITIES		**237,223**	216,348
SHAREHOLDERS' FUNDS			
Share capital	(28)	**6,500**	6,500
Share premium account	(29)	**760**	760
Other reserves	(30)	**-**	175
Revaluation reserve	(31)	**3,512**	4,356
Retained earnings		**9,257**	7,354
Dividend reserve		**317**	316
		20,346	19,461
TOTAL LIABILITIES AND SHAREHOLDERS' FUNDS		**257,569**	235,809
MEMORANDUM ITEMS			
Contingent liabilities	(32)	**2,228**	2,497
Commitments	(33)	**56,545**	44,962

The accounting policies and explanatory notes on pages 12 to 38 form an integral part of the consolidated financial statements.

The consolidated financial statements on pages 8 to 38 were authorised for issue by the Board of Directors on 13 March 2007 and were signed by:

E. P. DELIA
Chairman

J. C. CARUANA
Director

E. CACHIA
Chief Executive Officer

STATEMENT OF CHANGES IN EQUITY

	Share Capital Lm'000	Share Premium Account Lm'000	Revaluation Reserve Lm'000	Other Reserves Lm'000	Dividend Reserve Lm'000	Retained Earnings Lm'000	Total Lm'000
FINANCIAL YEAR ENDED 31 DECEMBER 2005							
At 1 January 2005 (as reported)	6,000	760	1,311	175	273	5,402	13,921
Impact of adoption of IAS 39 (revised)	-	-	2,262	-	-	-	2,262
At 1 January 2005 (restated)	6,000	760	3,573	175	273	5,402	16,183
Increase in ordinary share capital	500	-	-	-	-	-	500
Net gains on available-for-sale financial assets and equities not recognised in the income statement	-	-	1,044	-	-	-	1,044
Released on disposal	-	-	(261)	-	-	-	(261)
Profit for the year after taxation	-	-	-	-	-	2,268	2,268
Dividends paid	-	-	-	-	(273)	-	(273)
Dividends, net after taxation (Note 11)	-	-	-	-	316	(316)	-
Balance at 31 December 2005	6,500	760	4,356	175	316	7,354	19,461
FINANCIAL YEAR ENDED 31 DECEMBER 2006							
At 1 January 2006	6,500	760	4,356	175	316	7,354	19,461
Net loss on available-for-sale financial assets and equities not recognised in the income statement	-	-	(372)	-	-	-	(372)
Released on disposal	-	-	(472)	-	-	-	(472)
Release of currency revaluation Reserve (Note 30)	-	-	-	(175)	-	175	-
Profit for the year after taxation	-	-	-	-	-	2,045	2,045
Dividends paid	-	-	-	-	(316)	-	(316)
Dividends, net after taxation (Note 11)	-	-	-	-	317	(317)	-
Balance at 31 December 2006	**6,500**	**760**	**3,512**	**-**	**317**	**9,257**	**20,346**

The accounting policies and explanatory notes on pages 12 to 38 form an integral part of the consolidated financial statements.

CASH FLOW STATEMENT

	Note	2006 Lm'000	2005 Lm'000
Cash flows from operating activities			
Interest and commission receipts		**6,993**	5,884
Interest and commission payments		**(6,196)**	(5,173)
Cash paid to employees and suppliers		**(4,340)**	(3,729)
Operating loss before changes in operating assets and liabilities		**(3,543)**	(3,018)
(Increase)/decrease in operating assets			
Loans and advances to customers		**(22,563)**	(14,540)
Reserve deposit with Central Bank of Malta		**(859)**	(896)
Cheques in course of collection		**754**	(887)
Other assets		**-**	15
Increase in operating liabilities			
Amounts owed to customers		**20,565**	21,509
Other liabilities		**25**	218
Cash (used in)/generated from operating activities before taxation		**(5,621)**	2,401
Tax paid		**(864)**	(1,185)
Tax refunded		**1**	-
Net cash (used in)/from operating activities		**(6,484)**	1,216
Cash flows from investing activities			
Dividends received		**99**	90
Interest income from debt securities		**7,119**	6,616
Purchase of held-to-maturity debt security instruments		**-**	(1,838)
Proceeds on maturity of held-to-maturity debt security instruments		**1,771**	9,266
Purchase of available-for-sale debt security instruments		**(7,340)**	(16,380)
Proceeds on disposal of available-for-sale debt security instruments		**10,479**	4,766
Proceeds on disposal of equity and other non-fixed income instruments		**260**	261
Purchase of property, plant and equipment		**(1,668)**	(370)
Proceeds from sale of property, plant and equipment		**10**	3
Net cash from investing activities		**10,730**	2,414
Cash flows from financing activities			
Increase in share capital		**-**	500
Dividends paid		**(316)**	(273)
Net cash (used in)/from financing activities		**(316)**	227
Increase in cash and cash equivalents		**3,930**	3,857
Cash and cash equivalents at beginning of year		**8,080**	4,223
Cash and cash equivalents at end of year	(34)	**12,010**	8,080

The accounting policies and explanatory notes on pages 12 to 38 form an integral part of the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1.1 BASIS OF PREPARATION

The consolidated financial statements have been prepared under the historical cost basis, except for available-for-sale investments which have been measured at fair value. The consolidated financial statements are presented in Maltese Liri (Lm), and all values are rounded to the nearest Lm thousand.

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and comply with the provisions of the Banking Act, Cap. 371 and the Companies Act, Cap. 386 of the laws of Malta.

Basis of consolidation

The consolidated financial statements comprise the financial statements of APS Bank Limited and its subsidiary as at 31 December 2006, which together are referred to as the 'Group'. Intra-group balances, transactions and income and expenses between the Bank and the subsidiary have been eliminated on consolidation. Subsidiaries are fully consolidated from the date on which the Bank achieves control. Control is achieved where the Bank has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

1.2 PRINCIPAL ACCOUNTING POLICIES

During the year the Group has adopted new standards and interpretations which became applicable for December 2006 year-ends. Adoption of these revisions did not have any effect on the financial statements of the Group.

Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for accounting periods beginning on or after 1 January 2007 or later periods but which the Group has not early adopted. These are as follows:

- **IFRS 7, Financial Instruments: Disclosures, and a complementary amendment to IAS 1, Presentation of Financial Statements - Capital Disclosures** *(effective for financial years beginning on or after 1 January 2007)*

IFRS 7 introduces new disclosures to improve the information about financial instruments. It requires the disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk, including sensitivity analysis to market risk. It replaces IAS 30, Disclosures in the Financial Statements of Banks and Similar Financial Institutions, and disclosure requirements in IAS 32, Financial Instruments: Disclosure and Presentation. It is applicable to all entities that report under IFRS.

The amendment to IAS 1 introduces disclosures about the level of an entity's capital and how it manages capital. The Group is still assessing the impact of IFRS 7 and the amendment to IAS 1 and expects that additional disclosures will be necessary to enable users to evaluate the significance of financial instruments and the nature and extent of risks arising from those financial instruments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

1.2 PRINCIPAL ACCOUNTING POLICIES (continued)

- IFRS 8, Operating Segments *(effective for financial years beginning on or after 1 January 2009).* IFRS 8 is not relevant to the Group's operations.

- IFRIC 7, Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies *(effective for financial years beginning on or after 1 March 2006).* IFRIC 7 is not relevant to the Group's operations.

- **IFRIC 8, Scope of IFRS 2** *(effective for financial years beginning on or after 1 May 2006).* IFRIC 8 is not relevant to the Group's operations.

- **IFRIC 9, Reassessment of Embedded Derivatives** *(effective for financial years beginning on or after 1 June 2006).* IFRIC 9 is not relevant to the Group's operations.

- IFRIC 10, Interim Financial Reporting and Impairment *(effective for financial years beginning on or after 1 November 2006).* IFRIC 10 is not relevant to the Group's operations.

- IFRIC 11, IFRS 2, Group and Treasury Share Transactions *(effective for financial years beginning on or after 1 March 2007).* IFRIC 11 is not relevant to the Group's operations.

- IFRIC 12, Service Concession Arrangements *(effective for financial years beginning on or after 1 January 2008).* IFRIC 12 is not relevant to the Group's operations.

The significant accounting policies used in the preparation of these consolidated financial statements are set out below:

Revenue recognition

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

Interest income

Interest income is recognised in the income statement as it accrues, unless collectibility is in doubt, and impairment allowances are recorded as described in the related policy.

Fee and commission income

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

Dividend income

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

1.2 PRINCIPAL ACCOUNTING POLICIES (continued)

Foreign currency translation

These consolidated financial statements are presented in Maltese Lira, which is the Group's functional and presentation currency. Transactions in foreign currencies are initially recorded in the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date, whereas non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Gains and losses arising from such foreign exchange translations are taken to profit or loss, except for gains and losses resulting from the translation of available-for-sale non-monetary assets, that are recognised in equity.

Financial instruments

Financial assets in the scope of IAS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale financial assets, as appropriate. When financial assets or financial liabilities are recognised initially, they are measured at fair value. In the case of financial assets or financial liabilities not at fair value through profit or loss, fair value includes transaction costs that are directly attributable to the acquisition or issue of the financial assets or financial liabilities. The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at each financial year-end.

All regular way purchases and sales of financial assets are recognised on the trade date, which is the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the market place.

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

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

The Group did not include any assets in this category during 2006.

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Group has the positive intention and ability to hold to maturity. Investments intended to be held for an undefined period are not included in this classification. Other long-term investments that are intended to be held-to-maturity, such as bonds, are subsequently measured at amortised cost. This cost is computed as the amount initially recognised minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initially recognised amount and the maturity amount. This calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums and discounts. For investments carried at amortised cost, gains and losses are recognised in income when the investments are derecognised or impaired, as well as through the amortisation process.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

1.2 PRINCIPAL ACCOUNTING POLICIES (continued)

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments and fixed maturities that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not classified as 'Financial assets held for trading', designated as 'Financial investment – available-for-sale' or 'Financial assets designated at fair value through profit or loss'. These comprise loans and advances to bank and customers. After initial measurement, loans and receivables are subsequently measured at amortised cost using the effective interest rate method, less allowance for impairment. Gains and losses are recognised in the income statement when the financial asset is derecognised or impaired or through the amortisation process.

Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified in any of the three preceding categories. After initial recognition available-for sale financial assets are measured at fair value with gains or losses being recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the income statement. The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business on the balance sheet date.

Derecognition of financial assets and financial liabilities

Financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset, or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and
- either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

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

Financial liabilities

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

1.2 PRINCIPAL ACCOUNTING POLICIES (continued)

Impairment of financial assets

The Group assesses at each balance sheet date whether there is evidence that a financial asset or group of financial assets is impaired.

Assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables and held-to-maturity investments carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset shall be reduced either directly or through use of an allowance account. The amount of the loss shall be recognised in profit or loss. The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

Available-for-sale financial assets

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in profit or loss, is transferred from equity to the income statement. Reversals in respect of equity instruments classified as available-for-sale are not recognised in profit. Reversals of impairment losses on debt instruments are reversed through profit or loss, if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognised in profit or loss.

Property, plant and equipment

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

	%
Building	1
Computer equipment	25
Other	5 - 20

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

1.2 PRINCIPAL ACCOUNTING POLICIES (continued)

Property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement in the year the asset is derecognised. The asset's residual value, useful life and method is reviewed, and adjusted if appropriate, at each financial year end.

Impairment of assets

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

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in profit or loss. After such a reversal the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

Dividends payable

Dividends payable on ordinary shares are recognised in the period in which they are approved by the Group's shareholders.

Taxation

Current income tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance sheet date.

Deferred taxation

Deferred taxation is determined under the liability method in respect of all material temporary differences between the carrying amount of an asset or liability in the balance sheet and its tax base. Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Deferred tax is recognised as income or expense and included in the income statement for the period, except to the extent that the tax arises from a transaction or event which is recognised directly in equity.

Deferred tax assets are recognised only to the extent that future taxable profits will be available such that realisation of the related tax benefit is probable.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

1.2 PRINCIPAL ACCOUNTING POLICIES (continued)

Retirement benefit costs

The Group contributes towards the government pension defined contribution plan in accordance with local legislation and to which it has no commitment beyond the payment of fixed contributions. These obligations are recognised as an expense in the income statement as they accrue. The Group does not contribute towards any retirement benefit plans.

Financial guarantees

In the ordinary course of business, the Bank gives financial guarantees, consisting of letters of credit, guarantees and acceptances. Financial guarantees are initially recognised in the consolidated financial statements at fair value, in 'Other liabilities', being the premium received. Subsequent to initial recognition, the Bank's liability under each guarantee is measured at the higher of the amortised premium and the best estimate of expenditure required to settle any financial obligation arising as a result of the financial guarantee.

Any increase in the liability relating to financial guarantees is taken to the income statement. The premium received is recognised in the income statement in 'Fees and commissions receivable' on a straight line basis over the life of the guarantee.

Cash and cash equivalents

For the purpose of the cash flow statement, cash and cash equivalents comprise:

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

2. INTEREST RECEIVABLE AND SIMILAR INCOME

	2006 Lm'000	2005 Lm'000
On loans and advances to banks	**193**	132
On loans and advances to customers	**5,198**	4,138
On balances with Central Bank of Malta	**444**	269
On treasury bills	**50**	73
	5,885	4,612
On debt securities	**7,118**	7,169
Amortisation of premium/discount	**(488)**	(546)
	6,630	6,623
	12,515	11,235

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. INTEREST PAYABLE

	2006	2005
	Lm'000	Lm'000
On deposits by banks	**52**	46
On customer accounts	**6,449**	5,461
On subordinated liabilities	**105**	105
	6,606	5,612

4. DIVIDEND INCOME

	2006	2005
	Lm'000	Lm'000
From equity shares	**98**	90

5. TRADING PROFITS

	2006	2005
	Lm'000	Lm'000
Profit on foreign exchange activities	**370**	400

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

	2006	2005
	Lm'000	Lm'000
Realised gains on disposal of available-for-sale investments	**311**	261

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

7. PERSONNEL EXPENSES

	2006 Lm'000	2005 Lm'000
Wages and salaries:		
- key management personnel	**131**	108
- other	**1,658**	1,454
Social security costs	**123**	111
	1,912	1,673

Wages and salaries in respect of key management personnel do not include long-term employment benefits.

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

	2006 Number of employees	2005 Number of employees
Managerial	**35**	33
Supervisory and clerical	**143**	136
Others	**15**	14
	193	183

8. NET IMPAIRMENT (LOSSES)/REVERSALS

	2006 Lm'000	2005 Lm'000
Write-downs:		
Loans and advances to customers:		
- collective impairment provision	**2**	(144)
- specific provisions	**(275)**	(173)
- bad debts written off	**(13)**	(21)
	(286)	(338)
Reversal of write-downs:		
Loans and advances to customers:		
- specific provisions	**254**	289
Debt and other fixed income instruments:		
- specific provision	**-**	248
	254	537
Net impairment (losses)/reversals	**(32)**	199

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

9. PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

Profit on ordinary activities before taxation is stated after charging:

	2006 Lm'000	2005 Lm'000
Auditors' remuneration	**7**	7
Directors' emoluments:		
- fees	**35**	35
- other emoluments	**2**	2

10. TAXATION

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

	2006 Lm'000	2005 Lm'000
Current taxation: Malta income tax on taxable profit at 35%	**1,050**	861
Net deferred tax movement relating to the origination and reversal of temporary differences	**57**	26
	1,107	887

The taxation on profit on ordinary activities differs from the theoretical taxation expense that would apply on the Group's profit on ordinary activities before taxation using the applicable tax rate in Malta of 35% (2005: 35%) as follows:

	2006 Lm'000	2005 Lm'000
Profit on ordinary activities before taxation	**3,152**	3,155
Theoretical taxation expense at 35%	**1,103**	1,104
Tax effect of:		
- Depreciation charges not deductible by way of capital allowance	**71**	(42)
- Non-taxable income	**(67)**	(175)
Taxation	**1,107**	887

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

11. DIVIDENDS

	2006 Lm'000	2005 Lm'000	**2006 % per 25c share**	2005 % per 25c share
Proposed final gross of income tax	**488**	486	**7.51**	7.48

	2006 Lm'000	2005 Lm'000	**2006 Cents per share**	2005 Cents per share
Proposed final net of income tax	**317**	316	**1.2192**	1.2154

12. EARNINGS PER SHARE

The earnings per share of 7c9 (2005: 9c3) has been calculated by dividing the profit for the financial year after taxation attributable to ordinary shareholders, amounting to Lm2,045,000 (2005: Lm2,268,000) by the weighted average number of ordinary shares outstanding during the year amounting to 26,000,000 (2005: 24,333,333).

13. CASH AND BALANCES WITH CENTRAL BANK OF MALTA

	2006 Lm'000	2005 Lm'000
Cash in hand	**1,119**	1,243
Balances with Central Bank of Malta	**3,243**	2,062
Reserve deposit with Central Bank of Malta	**9,176**	8,317
	13,538	11,622

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

14. TREASURY BILLS

	2006 Lm'000	2005 Lm'000
Available-for-sale:		
Issued by the Government of Malta	**-**	1,180

The treasury bills are all held for investment purposes and are stated at market value.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

15. DEBT AND OTHER FIXED INCOME INSTRUMENTS

	2006 Lm'000	2005 Lm'000
Held-to-maturity	**52,853**	54,760
Available-for-sale	**59,347**	63,622
	112,200	118,382
Held-to-maturity		
Issued by public bodies:		
- Local government	**50,460**	52,073
Issued by other issuers:		
- Local banks	**493**	491
- Foreign banks	**1,295**	1,395
- Foreign others	**439**	635
- Local other	**166**	166
	2,393	2,687
Total	**52,853**	54,760
Available-for-sale		
Issued by public bodies:		
- Local government	**22,778**	23,508
- Foreign government	**1,498**	5,386
	24,276	28,894
Issued by other issuers:		
- Local banks	**854**	606
- Foreign banks	**12,444**	12,057
- Foreign others	**19,222**	19,864
- Local others	**2,551**	2,201
	35,071	34,728
Total	**59,347**	63,622
Total debt and other fixed income instruments	**112,200**	118,382

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

15. DEBT AND OTHER FIXED INCOME INSTRUMENTS (continued)

	2006 Lm'000	2005 Lm'000
Analysed by currency:		
- Maltese Liri	**76,124**	79,045
- Foreign	**36,076**	39,337
	112,200	118,382
Unamortised premiums on debt and other fixed income instruments	**1,783**	1,970
Listing status:		
- Listed on Malta Stock Exchange	**77,302**	79,605
- Listed elsewhere	**34,898**	38,777
	112,200	118,382

Movement in debt and other fixed income instruments:

	2006 Lm'000	2005 Lm'000
Cost and carrying value		
At 1 January	**118,382**	111,592
Redemption and disposals	**(12,336)**	(14,233)
Acquisitions	**7,340**	18,218
Amortisation	**(488)**	(546)
(Decrease)/increase in fair values	**(846)**	2,754
Exchange adjustments	**148**	597
At 31 December	**112,200**	118,382

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

16. EQUITY AND OTHER NON-FIXED INCOME INSTRUMENTS

Available-for-sale

	2006 **Lm'000**	2005 Lm'000
Listed on Malta Stock Exchange	**1,385**	1,733
Listed elsewhere	**499**	473
	1,884	2,206

Movement in equity and other non-fixed income instruments:

	2006 **Lm'000**	2005 Lm'000
Carrying value		
At 1 January	**2,206**	2,105
Disposals	**(636)**	(261)
Exchange adjustments	**(12)**	34
Increase in fair values	**326**	328
At 31 December	**1,884**	2,206

17. LOANS AND ADVANCES TO BANKS

	2006 **Lm'000**	2005 Lm'000
Repayable on call and at short notice	**1,517**	1,789
Term loans and advances	**6,491**	1,991
	8,008	3,780
Analysed by currency:		
- Maltese Liri	**372**	1,337
- Foreign	**7,636**	2,443
	8,008	3,780

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

18. LOANS AND ADVANCES TO CUSTOMERS

	2006 Lm'000	2005 Lm'000
Repayable on call and at short notice	**18,759**	15,231
Term loans and advances	**97,029**	78,019
	115,788	93,250
Less impairment	**(1,921)**	(1,902)
	113,867	91,348
Impairment:		
- Specific	**1,087**	1,066
- Collective	**834**	836
	1,921	1,902
Changes in impairment provisions:		
Opening balance	**1,902**	1,874
Write-downs:		
- Collective	**(2)**	144
- Specific	**275**	173
Reversals	**(254)**	(289)
Closing balance	**1,921**	1,902
Analysed by currency:		
- Maltese Liri	**113,764**	91,502
- Foreign	**2,024**	1,748
	115,788	93,250

The aggregate amount of advances on which interest is reserved is Lm3,561,878 (2005: Lm2,883,500) gross of provisions against which Lm890,211 (2005: Lm988,018) is being provided for after taking into account the extendible value of security backing such loans and advances. Total interest that would have accrued on these advances amounted to Lm441,417 (2005: Lm361,401).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

19. CONCENTRATION OF LOANS AND ADVANCES TO CUSTOMERS

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

	2006 Lm'000	2005 Lm'000
Agriculture	**2,024**	1,468
Fishing	**109**	71
Mining and quarrying	**5**	2
Manufacturing	**4,729**	4,012
Electricity, gas and water supply	**9,182**	5,246
Construction	**14,450**	10,436
Wholesale and retail trade, repairs	**8,075**	8,261
Hotels and restaurants, excluding related construction activities	**5,470**	4,126
Transport, storage and communication	**2,794**	2,678
Financial intermediation	**1,750**	1,792
Real estate, renting and business	**3,143**	2,645
Public administration	**2,261**	1,932
Education	**10,416**	8,249
Health and social work	**103**	105
Community, recreational and personal service activities	**1,252**	1,089
Households and individuals	**50,025**	41,138
	115,788	93,250

20. PROPERTY, PLANT AND EQUIPMENT

	Land and Buildings Lm'000	Computer Equipment Lm'000	Other Lm'000	Total Lm'000
Cost				
At 1 January 2006	2,022	2,394	2,016	6,432
Additions	1,500	314	88	1,902
Disposals	(12)	-	(8)	(20)
At 31 December 2006	**3,510**	**2,708**	**2,096**	**8,314**
Depreciation				
At 1 January 2006	274	2,170	1,361	3,805
Depreciation charge for the year	39	166	148	353
Disposals	-	-	(8)	(8)
At 31 December 2006	**313**	**2,336**	**1,501**	**4,150**
Net book value				
At 31 December 2006	**3,197**	**372**	**595**	**4,164**
At 31 December 2005	1,748	224	655	2,627

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

20. PROPERTY, PLANT AND EQUIPMENT (continued)

	2006 Lm'000	2005 Lm'000
Future capital expenditure:		
- Contracted but not provided for in the consolidated financial statements	**300**	1,274
- Authorised by the Directors but not contracted	**2,776**	1,595
	3,076	2,869

21. DEFERRED TAXATION

	2006 Lm'000	2005 Lm'000
The net deferred tax asset arises as a consequence of temporary differences resulting from:		
Fair value movements in investment securities	**39**	(109)
Impairment allowance for loans and advances to customers	**672**	666
Excess of capital allowances over depreciation	**54**	117
	765	674

Deferred tax movements arising on the fair value movements on investment securities, amounting to Lm148,000, were credited directly in equity; other movements, amounting to Lm57,000, were debited in the income statement.

22. PREPAYMENTS AND ACCRUED INCOME

	2006 Lm'000	2005 Lm'000
Accrued income	**2,209**	2,284
Other	**283**	250
	2,492	2,534

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

23. AMOUNTS OWED TO BANKS

	2006 Lm'000	2005 Lm'000
With agreed maturity dates or periods of notice, by remaining maturity:		
- 3 months or less but not repayable on demand	**360**	185
Analysed by currency:		
- Maltese Liri	**326**	40
- Foreign	**34**	145
	360	185

24. AMOUNTS OWED TO CUSTOMERS

	2006 Lm'000	2005 Lm'000
Term deposits	**166,984**	146,894
Repayable on demand	**64,276**	63,801
	231,260	210,695
Analysed by currency:		
- Maltese Liri	**185,778**	169,179
- Foreign	**45,482**	41,516
	231,260	210,695

25. OTHER LIABILITIES

	2006 Lm'000	2005 Lm'000
Bills payable	**1,419**	1,624
Taxation	**136**	-
Other liabilities	**141**	166
	1,696	1,790

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

26. ACCRUALS

	2006 Lm'000	2005 Lm'000
Accrued interest	**2,177**	1,767
Other accruals	**330**	511
	2,507	2,278

27. SUBORDINATED LIABILITIES

	2006 Lm'000	2005 Lm'000
7.5% Subordinated Unsecured Loan Stock	**1,400**	1,400

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

28. SHARE CAPITAL

	2006 Lm'000	2005 Lm'000
Authorised		
50,000,000 ordinary shares of Lm0.25 each	**12,500**	12,500
Issued and fully paid		
26,000,000 ordinary shares of Lm0.25 each	**6,500**	6,500

The Group's major shareholders are the Archdiocese of Malta and the Diocese of Gozo that hold 83.30% and 16.67% of the share capital, respectively.

29. SHARE PREMIUM ACCOUNT

	2006 Lm'000	2005 Lm'000
Balance at beginning and end of year	**760**	760

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

30. OTHER RESERVES

i. In accordance with the Central Bank of Malta directive, a gain of Lm174,926 arising on the translation of its net foreign currency holding following the devaluation of the Maltese Lira on 25 November 1992, has been set aside as a non-distributable reserve. As of this year, the Malta Financial Services Authority has removed the regulatory restrictions imposed on distribution of these foreign currency exchange gains. Accordingly, these reserves were transferred to retained earnings.

ii. Included with 'other reserves' is an investment compensation scheme reserve, amounting to Lm300 which is held in a savings account with a commercial bank. This account is pledged in favour of the Scheme in accordance with the provisions of the Investor Compensation Scheme Regulations, 2003 issued under the Investment Services Act, 1994.

31. REVALUATION RESERVE

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

32. CONTINGENT LIABILITIES

	2006	2005
	Lm'000	Lm'000
Guarantees	**1,915**	2,391
Other contingent liabilities	**313**	106
	2,228	2,497

There were no significant lawsuits against the Group as at 31 December 2006 and 31 December 2005.

33. COMMITMENTS

	2006	2005
	Lm'000	Lm'000
Undrawn formal standby facilities, credit facilities and other commitments to lend	**56,545**	44,962

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

34. CASH AND CASH EQUIVALENTS

	2006 Lm'000	2005 Lm'000
Analysis of balances of cash and cash equivalents as shown in the cash flow statement:		
Cash in hand	**1,119**	1,243
Balances with Central Bank of Malta (excluding reserve deposits)	**3,243**	2,062
Treasury bills	**-**	1,180
Loans and advances to banks	**8,008**	3,780
Amounts owed to banks	**(360)**	(185)
	12,010	8,080

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

	2006				
	Euro Lm'000	**USD Lm'000**	**GBP Lm'000**	**Other Lm'000**	**Total Lm'000**
Assets	**17,715**	**4,308**	**22,365**	**2,824**	**47,212**
Liabilities	**16,938**	**4,241**	**22,109**	**2,780**	**46,068**

	2005				
	Euro Lm'000	USD Lm'000	GBP Lm'000	Other Lm'000	Total Lm'000
Assets	18,800	3,529	19,905	2,722	44,956
Liabilities	16,194	3,554	20,059	2,677	42,484

36. SEGMENTAL INFORMATION

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

37. RELATED PARTY DISCLOSURES

Consolidated subsidiary

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

Name	Country of incorporation	% equity interest 2006	2005
APS Consult Limited	Malta	**99.9**	-

Transactions with related parties

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

Transactions with key management personnel of the Group

(a) Transactions with directors
The Group enters into transactions, arrangements and agreements involving directors in the ordinary course of business at commercial interest and commission rates.

	2006 Lm'000	2005 Lm'000
Loans and advances	**225**	202
Commitments	**30**	49

(b) Transactions with executives and other staff

	2006 Lm'000	2005 Lm'000
Loans and advances	**1,033**	954
Commitments	**45**	155

Transactions with other related parties

	2006 Lm'000	2005 Lm'000
Amounts due from other related parties		
Shareholders	**107**	116
Entities with common directorship	**3,073**	3,000
	3,180	3,116

Amounts due from shareholders are secured by cash and Malta Government Securities.

	2006 Lm'000	2005 Lm'000
Amounts due to other related parties		
Shareholders	12,354	12,206

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

37. RELATED PARTY DISCLOSURES (continued)

Included in the amounts due to the shareholders is an amount of Lm175,000 (2005: Lm175,000) which is pledged against overdraft facilities granted to third parties.

Interest on the above balances was as follows:

	2006 Lm'000	2005 Lm'000
Interest receivable		
Shareholders	**4**	5
Entities with common directorship	**146**	142
	150	147
Interest payable		
Shareholders	**362**	361

For the year ended 31 December 2006, the Group has not made any provision for doubtful debts relating to amounts owed by related parties (2005: Nil).

38. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Financial risk management

The Group's main activities are subject to a combination of financial risks which are inherent in the business of banking. Financial risks are managed by the Group within statutory limits and within internal parameters established by the Board of Directors.

The Group did not deal with any material derivative financial instruments during the year, including forward foreign exchange contracts, currency swaps and cross-currency interest rate swaps.

Fair values

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

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

All the Group's listed equities are carried in the balance sheet at market value. Debt securities which are classified as available-for-sale investments are also carried in the balance sheet at market value. However, debt securities classified as held-to-maturity investments are carried in the balance sheet at amortised cost. At the balance sheet date the amortised cost of these assets amounted to Lm52.9 million (2005: Lm54.8 million). Their market value amounted to Lm60.4 million (2005: Lm63.4 million), whilst their nominal value amounted to Lm51.7 million (2005: Lm53.5 million).

Loans and advances to customers are stated at the amounts contractually due less provisions to reflect the expected recoverable amounts. Their carrying amount is not deemed to differ materially from their fair value.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

38. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

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

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

Currency risk

Currency risk is the risk of the exposure of the Group's financial position and cash flow to adverse movements in foreign exchange rates.

The Group's financial assets and liabilities are substantially held in Maltese Liri. The Directors set limits on the level of exposure by currency and in total, which are monitored daily.

Interest rate risk

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

Changes in local interest rates are monitored constantly by management and corrective action taken by realigning the maturities of and re-pricing the assets and liabilities. The following table discloses that 45.7% (2005: 45.8%) of the Bank's assets and 30.3% (2005: 47.6%) of its liabilities and equity are contractually repriceable within a three month timeframe from the current financial period end.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

38. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

	Effective Interest Rate %	Less Than Three Months Lm'000	Between Three Months And One Year Lm'000	Between One And Five Years Lm'000	More Than Five Years Lm'000	Others Lm'000	Total Lm'000
At 31 December 2006							
Assets							
Balances with Central Bank of Malta, Treasury bills and cash	3.28	-	-	-	-	13,538	13,538
Cheques in course of collection	-	-	-	-	-	651	651
Debt and other fixed income financial instruments	5.76	4,445	509	24,145	83,101	-	112,200
Equity and other non-fixed income instruments	-	-	-	-	-	1,884	1,884
Loans and advances to banks	2.75	8,008	-	-	-	-	8,008
Loans and advances to customers	4.94	105,321	-	8,546	-	-	113,867
Other assets	-	-	-	-	-	7,421	7,421
Total 2006		**117,774**	**509**	**32,691**	**83,101**	**23,494**	**257,569**
Total 2005		107,913	8,765	52,341	56,050	10,740	235,809
Liabilities and shareholders' funds							
Amounts owed to banks	2.29	360	-	-	-	-	360
Amounts owed to customers	2.89	77,591	36,838	97,881	18,950	-	231,260
Subordinated liabilities	7.50	-	-	1,400	-	-	1,400
Other liabilities	-	-	-	-	-	4,203	4,203
Shareholders' funds	-	-	-	-	-	20,346	20,346
Total 2006		**77,951**	**36,838**	**99,281**	**18,950**	**24,549**	**257,569**
Total 2005		112,194	54,434	32,026	13,626	23,529	235,809
Gap 2006		**39,823**	**(36,329)**	**(66,590)**	**64,151**	**(1,055)**	**-**
Gap 2005		(4,281)	(45,669)	20,315	42,424	(12,789)	-
Cumulative Gap 2006		**39,823**	**3,494**	**(63,096)**	**1,055**	**-**	**-**
Cumulative Gap 2005		(4,281)	(49,950)	(29,635)	12,789	-	-

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

38. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

Credit risk

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

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

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

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

Management's assessments of potential default on loans and advances to customers and interest related thereto is reflected in provisions which are netted off against the amounts of loans and advances to customers, as explained in note 1.2.

With respect to credit risk arising for the components of the balance sheet, which comprise cash and balances with Central Bank of Malta (excluding cash in hand), cheques in course of collection, financial investments, loans and advances to banks and customers, prepayments and accrued income, guarantees and commitments, the Group's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

Liquidity risk

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

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

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

The table on page 38 analyses the Group's assets and liabilities into relevant maturity groupings, based on the remaining period at balance sheet date to the contractual maturity data.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

38. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

	Less Than Three Months Lm'000	Between Three Months And One Year Lm'000	Between One And Five Years Lm'000	More Than Five Years Lm'000	Others Lm'000	Total Lm'000
At 31 December 2006						
Assets						
Balances with Central Bank of Malta, Treasury bills and cash	-	-	-	-	13,538	13,538
Cheques in course of collection	-	-	-	-	651	651
Debt and other fixed income financial instruments	-	509	24,145	87,546	-	112,200
Equity and other non-fixed income instruments	-	-	-	-	1,884	1,884
Loans and advances to banks	8,008	-	-	-	-	8,008
Loans and advances to customers	19,961	4,191	21,706	68,009	-	113,867
Other assets	-	-	-	-	7,421	7,421
	27,969	**4,700**	**45,851**	**155,555**	**23,494**	**257,569**
Liabilities and shareholders' funds						
Amounts owed to banks	360	-	-	-	-	360
Amounts owed to customers	77,591	36,838	97,881	18,950	-	231,260
Subordinated liabilities	-	-	1,400	-	-	1,400
Other liabilities	-	-	-	-	4,203	4,203
Shareholders' funds	-	-	-	-	20,346	20,346
	77,951	**36,838**	**99,281**	**18,950**	**24,549**	**257,569**
At 31 December 2005						
Assets						
Balances with Central Bank of Malta, Treasury bills and cash	1,180	-	-	-	11,622	12,802
Cheques in course of collection	-	-	-	-	1,405	1,405
Debt and other fixed income financial instruments	1,791	8,465	52,076	56,050	-	118,382
Equity and other non-fixed income instruments	-	-	-	-	2,206	2,206
Loans and advances to banks	3,780	-	-	-	-	3,780
Loans and advances to customers	20,362	15,283	27,921	27,782	-	91,348
Other assets	-	-	-	-	5,886	5,886
	27,113	23,748	79,997	83,832	21,119	235,809
Liabilities and shareholders' funds						
Amounts owed to banks	185	-	-	-	-	185
Amounts owed to customers	112,009	54,434	30,626	13,626	-	210,695
Subordinated liabilities	-	-	1,400	-	-	1,400
Other liabilities	-	-	-	-	4,068	4,068
Shareholders' funds	-	-	-	-	19,461	19,461
	112,194	54,434	32,026	13,626	23,529	235,809

GROUP SOLVENCY RATIO - AS AT 31 DECEMBER 2006

	Book Value Lm'000	Weighted Amount Lm'000
ON - BALANCE SHEET ASSETS		
Cash and balances with Central Bank of Malta	4,362	-
Reserve deposit with Central Bank of Malta	9,176	-
Cheques in course of collection	651	130
Debt and other fixed income instruments	112,200	20,811
Equity and other non-fixed income instruments	1,884	1,884
Loans and advances to banks	8,008	1,602
Loans and advances to customers *	114,701	69,100
Property, plant and equipment	4,164	4,164
Deferred taxation	765	765
Prepayments and accrued income	2,492	1,246
Total assets	258,403	99,702

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

	Book Value Lm'000	Weighted Amount Lm'000
OFF - BALANCE SHEET ITEMS		
Contingent liabilities		
- Guarantees	1,915	1,915
- Other contingent liabilities	313	313
Commitments	56,545	-
	58,773	2,228

OWN FUNDS	**Lm'000**	
Original own funds	16,342	
Additional own funds	834	
Subordinated liabilities	350	
Total own funds	**17,526**	
Solvency ratio		**17.19%**

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

GROUP FIVE YEAR SUMMARY - INCOME STATEMENTS

	2006 Lm'000	2005 Lm'000	2004 Lm'000	2003 Lm'000	2002 Lm'000
Interest receivable and similar income	**12,515**	11,235	10,276	9,602	8,689
Interest payable	**(6,606)**	(5,612)	(5,086)	(5,381)	(5,337)
Net interest income	**5,909**	5,623	5,190	4,221	3,352
Other operating income	**1,275**	1,209	1,022	837	746
Total operating income	**7,184**	6,832	6,212	5,058	4,098
Other operating charges	**(4,000)**	(3,876)	(3,702)	(3,557)	(3,137)
Net impairment (losses)/reversals	**(32)**	199	(483)	(179)	(54)
Profit on ordinary activities before taxation	**3,152**	3,155	2,027	1,322	907
Taxation	**(1,107)**	(887)	(755)	(486)	(337)
Profit on ordinary activities after taxation	**2,045**	2,268	1,272	836	570
Earnings per share *	**7c9**	9c3	6c1	4c6	4c7

* The earnings per share figure in respect of the year 2002 has been adjusted retrospectively to reflect the increase in the number of ordinary shares following a bonus issue, which occurred during 2003.

GROUP FIVE YEAR SUMMARY - BALANCE SHEETS

	2006 Lm'000	2005 Lm'000	2004 Lm'000	2003 Lm'000	2002 Lm'000
ASSETS					
Cash and balances with Central Bank of Malta	**4,362**	3,305	1,244	1,833	1,407
Reserve deposit with Central Bank of Malta	**9,176**	8,317	7,421	6,957	5,925
Cheques in course of collection	**651**	1,405	518	172	487
Treasury bills	**-**	1,180	-	5,550	2,082
Debt and other fixed income instruments	**112,200**	118,382	111,592	106,410	91,663
Equity and other non-fixed income instruments	**1,884**	2,206	2,105	2,514	1,270
Loans and advances to banks	**8,008**	3,780	6,975	3,388	4,560
Loans and advances to customers	**113,867**	91,348	76,443	60,204	48,174
Property, plant and equipment	**4,164**	2,627	2,765	2,818	2,624
Current and deferred taxation	**765**	725	737	770	829
Other assets	**-**	-	-	34	-
Prepayments and accrued income	**2,492**	2,534	2,300	2,387	1,879
	257,569	235,809	212,100	193,037	160,900
LIABILITIES					
Amounts owed to banks	**360**	185	3,851	2,046	221
Amounts owed to customers	**231,260**	210,695	189,186	175,112	147,437
Other liabilities	**1,696**	1,790	2,044	1,522	684
Accruals and deferred income	**2,507**	2,278	1,698	1,821	1,581
Subordinated liabilities	**1,400**	1,400	1,400	1,400	1,400
	237,223	216,348	198,179	181,901	151,323
SHAREHOLDERS' FUNDS					
Called up share capital	**6,500**	6,500	6,000	5,000	4,000
Share premium account	**760**	760	760	760	760
Other reserves	**-**	175	175	175	675
Revaluation reserve	**3,512**	4,356	1,311	581	211
Retained earnings	**9,257**	7,354	5,402	4,403	3,784
Dividend reserve	**317**	316	273	217	147
	20,346	19,461	13,921	11,136	9,577
TOTAL LIABILITIES AND SHAREHOLDERS' FUNDS	**257,569**	235,809	212,100	193,037	160,900
MEMORANDUM ITEMS					
Contingent liabilities	**2,228**	2,497	967	1,406	966
Commitments	**56,545**	44,962	39,462	39,415	27,531

GROUP FIVE YEAR SUMMARY - CASH FLOW STATEMENTS

	2006 Lm'000	2005 Lm'000	2004 Lm'000	2003 Lm'000	2002 Lm'000
Net cash flows (used in)/from operating activities	**(6,795)**	1,216	(7,483)	11,932	5,125
Cash flows from investing activities					
Dividends received from equity shares	**99**	90	82	51	46
Interest income from investment securities	**7,119**	6,616	7,457	6,396	6,163
Purchase of debt and other fixed income instruments	**(7,340)**	(18,218)	(14,120)	(22,632)	(12,301)
Proceeds on maturity and disposal of debt and other fixed income instruments	**12,276**	14,032	8,478	6,721	4,371
Purchase of equity and other non-fixed income instruments	**-**	-	(165)	(1,025)	(328)
Proceeds on disposal of equity and other non-fixed income instruments	**545**	261	1,154	-	81
Purchase of property, plant and equipment	**(1,668)**	(370)	(708)	(899)	(746)
Proceeds on disposal of property, plant and equipment	**10**	3	20	-	-
Net cash from/(used in) investing activities	**11,041**	2,414	2,198	(11,388)	(2,714)
Cash flows from financing activities					
Increase in share capital	**-**	500	1,000	500	2,500
Dividends paid	**(316)**	(273)	(217)	(147)	(117)
Net cash (used in)/from financing activities	**(316)**	227	783	353	2,383
Increase/(decrease) in cash and cash equivalents	**3,930**	3,857	(4,502)	897	4,794
Cash and cash equivalents at beginning of year	**8,080**	4,223	8,725	7,828	3,034
Cash and cash equivalents at end of year	**12,010**	8,080	4,223	8,725	7,828

GROUP FIVE YEAR SUMMARY - ACCOUNTING RATIOS

	2006 %	2005 %	2004 %	2003 %	2002 %
Net interest income and other operating income to total assets	**2.8**	2.9	2.9	2.6	2.5
Operating expenses to total assets	**1.6**	1.5	2.0	1.9	2.0
Profit on ordinary activities before taxation to total assets	**1.2**	1.3	1.0	0.7	0.6
Return on capital employed before taxation *	**18.7**	20.9	16.1	12.5	9.7
Profit after taxation to equity *	**12.1**	15.0	10.1	7.9	6.1

	2006	2005	2004	2003	2002
Shares in issue of 25c each (thousands)	**26,000**	26,000	24,000	20,000	16,000
Net assets per share *	**65c**	58c	53c	53c	59c
Earnings per share **	**7c9**	9c3	6c1	4c6	4c7
Dividends per share					
Gross	**1c9**	1c9	1c8	1c7	1c4
Net	**1c2**	1c2	1c1	1c1	0c9
Dividend cover	**6.5**	7.2	4.7	3.9	3.9

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

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

GROUP FINANCIAL HIGHLIGHTS IN EUROS AND US DOLLARS

Year ended 31 December 2006

The following figures were converted from Lm to Euro and US Dollars using the rates of exchange ruling on 31 December 2006. The rates used were Lm1:Euro2.3294 or Euro1:Lm0.4293 and Lm1:USD3.0705. Comparative results have also been translated at these rates.

These highlights do not reflect the effect of the change in the rates of exchange since 31 December 2006.

	2006 Euro'000	2005 Euro'000	**2006 USD'000**	2005 USD'000
Net interest income	**13,764**	13,098	**18,144**	17,265
Operating income	**16,734**	15,914	**22,058**	20,978
Operating profit before impairment, losses and reversals	**7,417**	6,886	**9,776**	9,076
Profit on ordinary activities before taxation	**7,342**	7,349	**9,678**	9,687
Profit for the financial year after taxation	**4,764**	5,283	**6,279**	6,964
Total assets	**599,974**	549,287	**790,866**	724,052
Liquid funds	**33,051**	30,345	**43,567**	40,000
Securities	**265,744**	283,643	**350,295**	373,889
Advances	**283,892**	221,589	**374,217**	292,091
Shareholders' funds	**47,393**	45,332	**62,472**	59,755