Annual Report
and
Consolidated
Financial Statements
2007

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.
Arthur Galea Salomone LL.M. (Toronto), LL.D.
Joseph M. Kenely M.Sc., A.C.M.A., F.I.A., C.P.A. (resigned on 6 October 2007)
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

Chairman's Statement

Introduction

Financial Year 2007 has been a particularly interesting and eventful one. It saw the basic groundwork laid for the launching of APS Funds Sicav p.l.c. and the consolidation of APS Consult Ltd., in particular developments in the sector of agriculture. The three institutions together enable the attainment of the social objectives that the Group will be aiming for.

Besides, in 2007, the Bank handled no less than eight projects simultaneously, whilst competing actively and ensuring that no business opportunity was missed. These undertakings represented a considerable investment. Resources that could have otherwise been directed to income generating activities had to be dedicated to these initiatives.

Notwithstanding, I am pleased to report that the Bank has managed to maintain its pre-tax profits of Lm3.2 million and to increase its total assets to Lm276.9 million as at 31 December 2007. Moreover, the advances portfolio has grown by a further Lm22 million, partially supported by a rise in customer deposits of Lm17 million.

While the three mandatory/regulatory projects, namely, the introduction of the Euro, the implementation of the Markets in Financial Instruments Directive (MiFID) and the Single European Payments Area (SEPA) have now been practically finalised, the ones intended to enhance the Bank's standard of operations and services are at a different stage of completion.

Strategy

The need to extend the Bank's reach is ongoing and the launch of our '365 Online' Internet Banking Service, which was met with remarkable success, is another move in this direction. The Bank is offering both the conventional 'token' and the more innovative 'mobile phone' authentication method, the latter being a new concept on the Island.

Both our Asset Management Division and Advances Division had their own projects. The former was working on the setting up of a Portfolio Management Unit and the implementation of an advanced Treasury Management System, while our Advances Division was introducing a Loan Processing and Collateralisation System which the Bank developed in-house.

Another two major projects, this time undertaken by the Operations Division, are the reconstruction and enlargement of our Gozo Branch and the completion of our operations centre in Swatar. The latter will also house a retail outlet and the Bank's Central Business Unit, rendering our services to the commercial community more accessible and comprehensive. We have been present in Gozo since 1994 and in view of the growth of our operations the total refurbishment of our premises was considered a must.

As mentioned earlier, the year under review was also marked by intensive preparations for the changeover to the Euro as from 1 January 2008. This created additional challenges and mainly involved the adaptation of our IT systems, the logistics of cash movements and training of staff members, which work was concluded successfully.

The provisions in the MiFID were implemented in the Bank's existing framework with effect from 1 November 2007. This regulation laid out various new requirements for the European financial sector with the purpose of establishing a single European financial services market. Changes were aimed at reinforcing consumer protection in investment services. Furthermore, the Bank participated in the SEPA project, whose introduction brought domestic and cross border payments and transfers on the same level.

Chairman's Statement (continued)

Community

The Bank has maintained its role as an integral contributing member of the community in which it operates. By concentrating on key themes and working in partnership with other institutions, we have focused on education, sports and cultural heritage both in the musical and literary scenes. Contributions, publications and events have been various, the ones mentioned below being a representative selection.

The Bank launched an open competition for Maltese composers for the setting of a musical work. This initiative attracted three entries. The results by an international adjudicating panel will be made known in May 2008. In addition, the Bank continued with its current *Grande Messe* cycle. The seventh annual concert and third in this series was dedicated to a *Messa Solenne* by the composer Pietro Paola Bugeja (1772-1828). Once again, the distinctive music and the unique location of St. John's Co-Cathedral provided an exceptional experience to those present. Besides, the Bank is solely sponsoring the restoration works that are being carried out on one of Malta's oldest portable organs held at Cospicua Parish Church.

We were extremely delighted that the Bank's latest publication under the *'Fond ghall-Kittieba tal-Malti'* entitled '*Sa Ma Jasal Godot*' was placed first in the drama translations category of the National Book Council's annual awards. This work was translated into Maltese by Chev. Dr. Anthony Aquilina from the original French text of Samuel Beckett's *'En Attendant Godot'*.

During its eight Annual Seminar on "Safeguarding Water Resources in the Maltese Islands", the Bank has addressed one of the most pressing problems related to the conservation, rational use and management of such an invaluable resource. As is the practice, the proceedings of this event have also been published.

The Way Forward

The current year is a unique and an extremely challenging one for the Bank. The introduction of the Euro poses threats but also gives rise to opportunities. We are currently experiencing phenomena that are totally new in our 'domestic' market and we have to be on our guard to anticipate and adjust to changing situations rapidly. On the other hand the initiatives we have taken over these last years, especially the membership in FEBEA (the European Federation of Ethical and Alternative Financial Institutions), offers the Bank possibilities to actively participate in the setting up of an effective European network of social institutions. These units should stimulate fair trade, develop micro-finance, support the protection of the natural environment, and encourage cultural development. For the Bank, FEBEA reflects the spirit and implementation of the joint-principles of 'subsidiarity and solidarity'.

The projects the Bank has undertaken to improve its infrastructure and level of service, together with other planned initiatives and the strong overseas cooperation will all contribute towards extending the Bank's effective contribution to society; more so when the full extent of their potential has been developed.

In this contest, the importance of our subsidiary, APS Consult Ltd., should not be underestimated. It represents the vehicle through which the Bank can contribute towards the restructuring and assistance of those sectors and entities which are in dire need of advice, expertise and administrative support. In this context I am pleased to announce that APS Consult Ltd. has been licensed by the Authorities to extend Farm Advisory Services in the Maltese Islands.

Chairman's Statement (continued)

A Word of Appreciation

On behalf of the Board, I take this opportunity to express my gratitude to our customers in placing their confidence in our Bank and to our shareholders for their incessant support.

Moreover, my sincere appreciation goes to my fellow Board members for their dedication and the backing they have accorded me. My particular thanks go to Mr. Joseph M. Kenely, who resigned from the Board in October 2007 after more than ten years of invaluable service.

Lastly, I would like to underline that the registered success would not have been possible without the contribution of all the management and staff members, for which I thank them. The Bank is committed to provide a congenial working environment, engaging in open and flexible communications with employees and investing in staff development through training. Now, I call upon them to intensify their efforts in 2008 in order to render the Bank's multifaceted plans realisable.

E. P. Delia
Chairman

DIRECTORS' REPORT

DIRECTORS' REPORT
for the year ended 31 December 2007

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, 1994 and the Investments Services Act, 1994 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 that was registered in June 2006 did not effect material transactions during 2007.

FINANCIAL PERFORMANCE

The profit before tax of the Bank for the year 2007 remained steady at Lm3.2 million, with earnings per share improving marginally to 8c5 from 7c9 the previous year. These results were achieved despite tough market conditions and the implementation of a number of major projects. It is expected that the contribution from these initiatives will be reflected in the Bank's future returns.

Operations

Financial year 2007 saw the Bank reaching new heights with regard to net interest income. At Lm6.4 million, this represented an improvement of 8% over the prior year's figure. This was mainly achieved by a remarkable 36.3% increase in interest from advances to customers; reflecting both a growth in volume and an enhanced margin. An improvement which made up for the drop in revenue from debt securities following the reduction of such holdings. Interest payable rose by Lm1.4 million as a result of the new customer deposits attracted by the Bank during 2007.

The Bank is well aware that more effort is required to boost its non-interest income. This is no easy task as the Bank strives to keep its service charges to customers at very competitive levels in line with its social objective. Further in 2007, non-interest income was negatively affected by the instability in yields of various investments on the global market and the hikes in local interest rates. However, the Bank positively notes the increase in fees and commission income generated by the expansion in the advances portfolio.

During 2007, operating expenses increased by 6.9% to Lm4.3 million. Recognising the importance of its human resources, the Bank persisted with the strategy of investing heavily in its staff members. This included a onetime bonus to acknowledge the hard work performed bank-wide to meet deadlines related to the Euro Changeover Project. In fact, personnel expenses accounted for 49% of total operating expenses, compared to 47.8% in 2006. Nonetheless, the Bank managed to keep a tight control on other overheads that when compared to total operating income improved by 14 percentage points.

Balance Sheet

The Bank continued consolidating its position with total assets growing by a further 7.5% over the 2006 results, reaching Lm276.9 million.

Loans and advances to customers stood at Lm135.4 million, a healthy increase of 19% over the preceding year's figure of Lm113.9 million. In relative terms the most noteworthy results were realised in the construction and the education sectors, whilst in absolute terms mortgages and personal lending remain the Bank's forte. These achievements were predominantly backed by a rise of Lm17.3 million in amounts owed to customers.

DIRECTORS' REPORT (continued)
for the year ended 31 December 2007

OUTLOOK

With the recent global economic developments, ever-changing compliance requirements, fading boundaries between banking and other financial services and changes in the traditional competition patterns in the local financial market, the challenges and opportunities that lie ahead are significant. In this scenario our Bank has to make extra efforts to sustain and improve its market position. In order to do so we have and will continue to focus our resources on improving our client service concept.

This concept necessitates that the Bank continues upgrading and widening its distribution channels and diversifying its revenue base through the launching of new services. Naturally, none of this can be achieved unless the right investment in people, technology and infrastructure is maintained. To this end, the ongoing projects are a vital aspect to ensure the future success of the Bank.

In this regard, the prospects for the Bank are encouraging as results indicate that the market continues to show a healthy demand for our services.

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 five 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' remuneration is disclosed in note 9 to the Financial Statements.

A Statement of Directors' Responsibilities in respect of the Financial Statements is set out on pages 5 - 6.

DIRECTORS' REPORT (continued)
for the year ended 31 December 2007

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.

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.

DIRECTORS' REPORT (continued)
for the year ended 31 December 2007

INTERNAL CONTROLS

The Board of Directors is responsible for the Bank's system of internal controls 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 controls 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.

The effectiveness of the Bank's internal controls 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 24 April 2008.

DIRECTORS

The Directors of the Bank are listed on page IV.

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

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RELATION TO FINANCIAL STATEMENTS

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

DIRECTORS' REPORT (continued)
for the year ended 31 December 2007

The Directors are responsible for ensuring that:

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

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

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

During the year ended 31 December 2007, 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

4 April 2008

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'), set on pages 9 to 46, which comprise the balance sheet as at 31 December 2007 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.

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 financial statements give a true and fair view of the financial position of the Group as of 31 December 2007, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF APS BANK LIMITED (continued)

Report on other legal and regulatory requirements

Auditors' Responsibility

We are required by the Banking Act, Cap. 371 of the Laws of Malta, to report whether we have obtained all the information and explanations which to the best of our knowledge and belief are necessary for the purposes of our audit, whether in our opinion proper books of account have been kept by the Group so far as appears from our examination thereof, whether these financial statements are in agreement with the books, and whether in our opinion, and to the best of our knowledge and according to the explanations given to us, these financial statements give the information required by law or regulations in the manner so required and give a true and fair view.

We are also required to state whether the financial statements have been properly prepared in accordance with the provisions of the Companies Act, Cap. 386 of the Laws of Malta.

Opinion

We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit.

In our opinion proper books of account have been kept by the Group so far as appears from our examination thereof and the financial statements are in agreement with the books. Also, the financial statements 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
Anthony Doublet (Partner) for and on behalf of

Ernst & Young
Certified Public Accountants
Regional Business Centre
Achille Ferris Street
Msida MSD 1751
Malta

4 April 2008

INCOME STATEMENT
for the year ended 31 December 2007

	Notes	2007 Lm'000	2006 Lm'000
Interest receivable and similar income:			
On loans and advances, balances with the Central Bank of Malta and treasury bills	(3)	**7,942**	5,885
On debt securities	(3)	**6,406**	6,630
		14,348	12,515
Interest payable	(4)	**(7,965)**	(6,606)
Net interest income		**6,383**	5,909
Dividend income	(5)	**55**	98
Fees and commission income		**455**	472
Trading income	(6)	**257**	370
Net gains on disposal of non-trading financial instruments	(7)	**350**	311
Other operating income		**51**	24
Total operating income		**7,551**	7,184
Personnel expenses	(8)	**(2,095)**	(1,912)
Other administrative expenses	(9)	**(1,795)**	(1,735)
Depreciation of property and equipment	(20)	**(253)**	(252)
Amortisation of intangible assets	(21)	**(133)**	(101)
Operating profit before impairment, reversals and provisions		**3,275**	3,184
Net impairment losses	(10)	**(70)**	(32)
Profit before tax		**3,205**	3,152
Income tax expense	(11)	**(1,005)**	(1,107)
Profit for the year		**2,200**	2,045
Earnings per share	(12)	**8c5**	7c9

The accounting policies and explanatory notes on pages 13 to 46 form an integral part of the consolidated financial statements.

BALANCE SHEET
as at 31 December 2007

	Notes	2007 Lm'000	2006 Lm'000
ASSETS			
Cash and balances with Central Bank of Malta	(14)	**15,695**	13,538
Cheques in course of collection		**755**	651
Loans and advances to banks	(15)	**9,095**	8,008
Loans and advances to customers	(16)	**135,452**	113,867
Debt and other fixed income instruments	(18)	**106,512**	112,200
Equity and other non-fixed income instruments	(19)	**1,080**	1,884
Property and equipment	(20)	**3,876**	3,895
Intangible assets	(21)	**637**	269
Deferred tax assets	(22)	**998**	765
Prepayments and accrued income	(23)	**2,764**	2,492
TOTAL ASSETS		**276,864**	257,569
LIABILITIES			
Amounts owed to banks	(24)	**550**	360
Amounts owed to customers	(25)	**248,632**	231,260
Subordinated liabilities	(26)	**1,400**	1,400
Other liabilities	(27)	**2,084**	1,696
Accruals	(28)	**3,360**	2,507
TOTAL LIABILITIES		**256,026**	237,223
EQUITY			
Issued capital	(29)	**6,500**	6,500
Share premium	(30)	**760**	760
Revaluation reserve	(31)	**2,121**	3,512
Retained earnings	(32)	**11,119**	9,257
Dividend reserve		**338**	317
TOTAL EQUITY		**20,838**	20,346
TOTAL LIABILITIES AND EQUITY		**276,864**	257,569
MEMORANDUM ITEMS			
Contingent liabilities	(33)	**23,481**	2,228
Commitments	(34)	**51,749**	56,545

The accounting policies and explanatory notes on pages 13 to 46 form an integral part of the consolidated financial statements.

The consolidated financial statements on pages 9 to 46 were authorised for issue by the Board of Directors on 4 April 2008 and were signed by:

E. P. DELIA
Chairman

J. C. CARUANA
Director

E. CACHIA
Chief Executive Officer

STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2007

	Issued Capital Lm'000	Share Premium 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 2007							
At 1 January 2007	6,500	760	3,512	-	317	9,257	20,346
Net loss on available-for-sale financial assets and equities not recognised in the income statement	-	-	(1,070)	-	-	-	(1,070)
Released on disposal	-	-	(321)	-	-	-	(321)
Profit for the year	-	-	-	-	-	2,200	2,200
Dividends paid	-	-	-	-	(317)	-	(317)
Dividends, net after tax (Note 13)	-	-	-	-	338	(338)	-
Balance at 31 December 2007	**6,500**	**760**	**2,121**	**-**	**338**	**11,119**	**20,838**
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 32)	-	-	-	(175)	-	175	-
Profit for the year	-	-	-	-	-	2,045	2,045
Dividends paid	-	-	-	-	(316)	-	(316)
Dividends, net after tax (Note 13)	-	-	-	-	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 13 to 46 form an integral part of the consolidated financial statements.

CASH FLOW STATEMENT
for the year ended 31 December 2007

	Note	2007 Lm'000	2006 Lm'000
OPERATING ACTIVITIES			
Interest and commission receipts		**11,163**	6,993
Other income		**5**	-
Interest and commission payments		**(7,411)**	(6,196)
Cash paid to employees and suppliers		**(3,082)**	(4,340)
Operating profit/(loss) before changes in operating assets and liabilities		**675**	(3,543)
Decrease in operating assets			
Loans and advances to customers		**(25,444)**	(22,563)
Reserve deposit with Central Bank of Malta		**246**	(859)
Cheques in course of collection		**(103)**	754
Other assets		**(269)**	-
Increase in operating liabilities			
Amounts owed to customers		**17,372**	20,565
Other liabilities		**7**	25
Cash used in operating activities before tax		**(7,516)**	(5,621)
Income tax paid		**(1,307)**	(864)
Income tax refunded		**58**	1
Net cash flows used in operating activities		**(8,765)**	(6,484)
INVESTING ACTIVITIES			
Dividends received		**55**	99
Interest income from debt securities		**6,760**	7,119
Purchase of held-to-maturity debt security instruments		**(43)**	-
Proceeds on maturity of held-to-maturity debt security instruments		**4,652**	1,771
Purchase of available-for-sale debt security instruments		**(13,571)**	(7,340)
Proceeds on disposal of available-for-sale debt security instruments		**10,975**	10,479
Purchase of equity and other non-fixed income instruments		**(43)**	-
Proceeds on disposal of equity and other non-fixed income instruments		**532**	260
Purchase of property and equipment		**(646)**	(1,668)
Proceeds on disposal of property and equipment		**6**	10
Net cash flows from investing activities		**8,677**	10,730
FINANCING ACTIVITIES			
Dividends paid		**(317)**	(316)
Net cash flows used in financing activities		**(317)**	(316)
Net (decrease)/increase in cash and cash equivalents		**(405)**	3,930
Cash and cash equivalents at 1 January		**12,010**	8,080
Cash and cash equivalents at 31 December	(35)	**11,605**	12,010

The accounting policies and explanatory notes on pages 13 to 46 form an integral part of the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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 Lira (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 2007, which together are referred to as the 'Group'. Intra-group balances, transactions, 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.

2.1 CHANGES IN ACCOUNTING POLICIES

Standards, interpretations and amendments to published standards effective in 2007

The accounting policies that have been followed were those followed in the previous year except that the Group has adopted these newly revised standards and interpretations effective for accounting periods beginning on 1 January 2007. Adoption of these revised standards and interpretations did not have any effect on the financial performance or position of the Bank. They did however give rise to additional disclosures.

- IFRS 7 - Financial Instruments: Disclosures
- IAS 1 - Amendment-Presentation of Financial Statements – capital disclosures
- IFRIC 7 - Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies
- IFRIC 8 - Scope of IFRS 2
- IFRIC 9 - Reassessment of Embedded Derivatives
- IFRIC 10 - Interim Financial Reporting and Impairment

IFRS 7 requires disclosures that enable users of the financial statements to evaluate the significance of the Bank's financial instruments and the nature and extent of risks arising from those financial instruments. The new disclosures are included throughout the financial statements. While there has been no effect on the financial position or results, comparative information has been revised where needed.

The amendment to IAS 1 requires the Group to make new disclosures to enable users of the financial statements to evaluate the Group's objectives, policies and processes for managing capital. These new disclosures are shown in Note 38.

IFRIC 7, 8, 9 and 10 are not applicable to the Group's operations and hence did not have any effect on the financial performance and position of the Group neither did they give rise to additional disclosures.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)

2.1 CHANGES IN ACCOUNTING POLICIES (continued)

Standards, interpretations and amendments to published standards that are not yet effective

Up to date of approval of these financial statements, certain new standards, amendments and interpretations to existing standards have been published but are not yet effective for the current reporting period and which the Group has not applied early adoption. These are as follows:

IFRS 8, Operating Segments (*effective for financial years beginning on or after 1 January 2009)*. This IFRS requires segment information to be reported in the manner that management uses internally for evaluating the performance of operating segments and allocating resources to those segments. IFRS 8 is not relevant to the Group's operations.

Amendments to IAS 23, Borrowing Costs – amendment (*effective for annual periods beginning on or after 1 January 2009*). In accordance with the transitional requirements of the Standard, the Group will adopt this as a prospective change. Accordingly, borrowing costs will be capitalised on qualifying assets with a commencement date after 1 January 2009. No changes will be made for borrowing costs incurred to this date that have been expensed.

Amendments to IAS 1, Presentation of Financial Statements (*effective for annual periods beginning on or after 1 January 2009*). IAS 1 has been revised to enhance the usefulness of information presented in the financial statements. Of the main revisions are the requirement that the statement of changes in equity includes only transactions with shareholders; the introduction of a new statement of comprehensive income that combines all items of income and expense recognised in profit or loss together with "other comprehensive income"; and the requirement to present restatements of financial statements or retrospective application or a new accounting policy as at the beginning of the earliest comparative period. The Group will make the necessary changes to the presentation of its financial statements in 2009.

Amendments to IAS 32 and IAS 1, Puttable Financial Instruments (*effective for annual periods beginning on or after 1 January 2009*). The amendment to IAS 32 requires certain puttable financial instruments and obligations arising on liquidation to be classified as equity if certain criteria are met. The amendment to IAS 1 requires disclosure of certain information relating to puttable instruments classified as equity. These amendments are not expected to impact the financial statements of the Group.

Amendments to IFRS 2, Share Based Payment – Vesting Conditions and Cancellations (*effective for annual periods beginning on or after 1 January 2009*). These amendments are not relevant to the Group's operations.

Revisions to IFRS 3, Business Combinations and IAS 27 'Consolidated and Separate Financial Statements' (*effective for annual periods beginning on or after 1 July 2009*). The revisions of IFRS 3 introduces a number of changes in the accounting for business combinations which will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results. The revisions introduced by IFRS 3 and IAS 27 will have no affect on the Group's operations.

IFRIC 11 and IFRS 2, Group and Treasury Share Transactions *(effective for financial years beginning on or after 1 March 2007).* IFRIC 11 requires arrangements whereby an employee is granted options to buy equity shares, to be accounted for as equity-settled schemes by an entity. IFRIC 11 is not relevant to the Group's operations.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS (continued)

2.1 CHANGES IN ACCOUNTING POLICIES (continued)

IFRIC 12, Service Concession Arrangements *(effective for financial years beginning on or after 1 January 2008).* IFRIC 12 outlines an approach to account for contractual (service concession) arrangements arising from entities providing public services. IFRIC 12 is not relevant to the Group's operations.

IFRIC 13, Customer Loyalty Programmes *(effective for annual periods beginning on or after 1 January 2008)*. IFRIC 13 requires customer loyalty award credits to be accounted for as a separate component of the sales transaction in which they are granted. IFRIC 13 will have no impact on the Group's financial statements as no such schemes currently exist.

IFRIC 14 and IAS19, Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction *(effective for annual periods beginning on or after 1 January 2008).* IFRIC 14 provides guidance on how to assess the limit on the amount of surplus in a defined benefit scheme that can be recognised as an asset under IAS 19 Employee Benefits. IFRIC 14 is not relevant to the Group's operations.

2.2 ACCOUNTING POLICIES

Interest income and expense

For all financial instruments measured at amortised cost and interest bearing financial instruments classified as available-for-sale financial instruments, interest income or expense is recorded at the effective interest rate, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorted period, where appropriate, to the net carrying amount.

Non-interest income

Fees and commission income

Fees 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

Revenue is recognised when the right to receive payment is established.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

2.2 ACCOUNTING POLICIES (continued)

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, plus, in the case of financial assets or financial liabilities not at fair value through profit or loss, 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 2007.

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.

Loans and receivables

Loans and receivables are non-derivative 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 banks 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

2.2 ACCOUNTING POLICIES (continued)

Financial instruments (continued)

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. Where the Bank holds more than one investment in the same security they are deemed to be disposed of on a first-in first-out basis. 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.

Impairment of financial assets

The Bank assesses at each balance sheet date whether there is evidence that a financial asset or group of financial assets is impaired. A financial asset or group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and the loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy is or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

2.2 ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

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 Bank 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. Loans, together with the associated allowances, are written off when there is no realistic prospect of future recovery and all collateral has been realised or transferred to the Bank.

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. If a future write-off is recovered, the recovery is credited to the income statement.

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.

Renegotiated loans

Where possible, the Bank seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangement and the agreement of new loan conditions. Once the terms have been renegotiated, the loan is no longer considered past due. Management continuously reviews renegotiated loans to ensure that all criteria are met and the future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original effective interest rate.

2.2 ACCOUNTING POLICIES (continued)

Property and equipment

All property 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.

Property 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.

Intangible assets

Intangible assets include the value of computer software. Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

Intangible assets are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset is reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and treated as changes in accounting estimates. The amortisation expense on intangible assets is recognised in the income statement in the expense category consistent with the function of the intangible asset.

Amortisation is calculated using the straight-line method to write down the cost of computer software to its residual value over its estimated useful life of 4 years.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

2.2 ACCOUNTING POLICIES (continued)

Impairment of assets (continued)

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. Current income tax relating to items recognised directly in equity is recognised in equity and not in profit or loss.

Deferred income tax

Deferred income tax is provided using the liability method on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred income tax liabilities are recognised for all taxable temporary differences, except where the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised except:

- where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred income tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

2.2 ACCOUNTING POLICIES (continued)

Taxation (continued)

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised. Unrecognised deferred income tax assets are reassessed at each balance sheet date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered. 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 income tax relating to items recognised directly in equity is recognised in equity and not in profit or loss. Deferred income tax assets and deferred income tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

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 Group gives financial guarantees, consisting of letters of credit, guarantees and acceptances. Financial guarantees are initially recognised in the financial statements at fair value, in 'Other liabilities', being the premium received. Subsequent to initial recognition, the Group'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 commission income' 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. INTEREST RECEIVABLE AND SIMILAR INCOME

	2007 Lm'000	2006 Lm'000
On loans and advances to banks	**372**	193
On loans and advances to customers	**7,085**	5,198
On balances with Central Bank of Malta	**484**	444
On treasury bills	**1**	50
	7,942	5,885
On debt securities	**6,760**	7,118
Amortisation of premium/discount	**(354)**	(488)
On debt securities	**6,406**	6,630
	14,348	12,515

Interest receivable on loans and advances to customers is netted off with Lm74,671 (2006: Lm80,016) in respect of interest accrued on impaired loans and advances to customers (see note 16).

4. INTEREST PAYABLE

	2007 Lm'000	2006 Lm'000
On deposits by banks	**54**	52
On customer accounts	**7,806**	6,449
On subordinated liabilities	**105**	105
	7,965	6,606

5. DIVIDEND INCOME

	2007 Lm'000	2006 Lm'000
From equity shares	**55**	98

6. TRADING INCOME

	2007 Lm'000	2006 Lm'000
Profit on foreign exchange activities	**257**	370

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

	2007 Lm'000	2006 Lm'000
Realised gains on disposal of available-for-sale investments	**350**	311

8. PERSONNEL EXPENSES

	2007 Lm'000	2006 Lm'000
Wages and salaries:		
- key management personnel	**121**	131
- other	**1,836**	1,658
Social security costs	**138**	123
	2,095	1,912

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:

	2007 Number of employees	2006 Number of employees
Managerial	**36**	35
Supervisory and clerical	**156**	143
Others	**14**	15
	206	193

9. OTHER ADMINISTRATIVE EXPENSES

	2007 Lm'000	2006 Lm'000
Auditors' remuneration	**10**	7
Directors' emoluments	**32**	37
Insurance and licences	**161**	106
Professional fees	**99**	113
Repairs and maintenance	**366**	368
Telecommunications	**111**	112
Office operating expenses	**379**	289
Others	**637**	703
	1,795	1,735

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

10. NET IMPAIRMENT LOSSES

	2007	2006
	Lm'000	Lm'000
Charge for the year:		
Loans and advances to customers:		
- collective impairment	**(267)**	2
- individual impairment	**(146)**	(275)
- bad debts written off	**(9)**	(13)
	(422)	(286)
Reversal of write-downs:		
Loans and advances to customers:		
- individual impairment	**352**	254
Net impairment losses	**(70)**	(32)

11. INCOME TAX EXPENSE

The major components of income tax expense for the years ended 31 December 2007 and 2006 are:

	2007	2006
	Lm'000	Lm'000
Current income tax	**1,205**	1,050
Deferred income tax (note 22)	**(200)**	57
Income tax expense reported in the income statement	**1,005**	1,107

A reconciliation between tax expense and the product of accounting profit multiplied by the applicable tax rate in Malta of 35% (2006: 35%) for the years ended 31 December 2007 and 2006 is as follows:

	2007	2006
	Lm'000	Lm'000
Profit before tax	**3,205**	3,152
Theoretical tax expense at 35%	**1,122**	1,103
Tax effect of:		
- Depreciation charges not deductible by way of capital allowance	**(29)**	71
- Non-taxable income	**(88)**	(67)
Income tax expense	**1,005**	1,107

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

12. EARNINGS PER SHARE

Basic earnings per share of 8c5 (2006: 7c9) is calculated by dividing the net profit for the year attributable to ordinary equity holders of APS Bank Limited by the weighted average number of ordinary shares outstanding during the year.

There have been no transactions involving ordinary shares between the reporting date and the date of completion of these financial statements.

13. DIVIDENDS

Proposed for approval at Annual General Meeting (not recognised as a liability as at 31 December):

	2007 Lm'000	2006 Lm'000	**2007 % per 25c share**	2006 % per 25c share
Proposed final gross of income tax	**520**	488	**8.00**	7.51

	2007 Lm'000	2006 Lm'000	**2007 cents per share**	2006 cents per share
Proposed final net of income tax	**338**	**317**	**1.30**	1.22

14. CASH AND BALANCES WITH CENTRAL BANK OF MALTA

	2007 Lm'000	2006 Lm'000
Cash in hand	**1,632**	1,119
Balances with Central Bank of Malta	**5,133**	3,243
Reserve deposit with Central Bank of Malta	**8,930**	9,176
	15,695	13,538

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

15. LOANS AND ADVANCES TO BANKS

	2007 Lm'000	2006 Lm'000
Repayable on call and at short notice	**5,390**	1,517
Term loans and advances	**3,705**	6,491
	9,095	8,008
Analysed by currency:		
- Maltese Lira	**977**	372
- Foreign	**8,118**	7,636
	9,095	8,008

16. LOANS AND ADVANCES TO CUSTOMERS

	2007 Lm'000	2006 Lm'000
Repayable on call and at short notice	**22,790**	18,759
Term loans and advances	**115,160**	97,470
Gross loans and advances	**137,950**	116,229
Less allowance for impairment losses	**(2,498)**	(2,362)
	135,452	113,867

Impairment allowance for loans and advances to customers

A reconciliation of the allowance for impairment losses for loans and advances is as follows:

	2007 Lm'000	2006 Lm'000
At 1 January	**2,362**	2,263
Charge for the year:		
- Collective	**267**	(2)
- Individual	**221**	355
Recoveries	**(352)**	(254)
At 31 December	**2,498**	2,362

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

16. LOANS AND ADVANCES TO CUSTOMERS (continued)

	2007 Lm'000	2006 Lm'000
- Individual	**1,397**	1,528
- Collective impairment	**1,101**	834
	2,498	2,362

	2007 Lm'000	2006 Lm'000
Gross loans and advances analysed by currency:		
- Maltese Lira	**135,917**	114,207
- Foreign	**2,033**	2,022
	137,950	116,229

Included with the individually assessed allowance at balance sheet date is an amount of Lm516,088 (2006: Lm441,417) which has been netted off against interest receivable.

The aggregate amount of impaired loans and advances at balance sheet amounted to Lm3,069,817 (2006: Lm3,561,878).

The collateral that the Bank holds relating to loans individually determined to be impaired consists of cash, securities, letters of guarantee and properties. For a more detailed description see 'Collateral' in note 38.3.

17. CONCENTRATION OF LOANS AND ADVANCES TO CUSTOMERS

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

	2007 Lm'000	2006 Lm'000
Agriculture	**2,230**	2,026
Fishing	**101**	109
Manufacturing	**4,835**	4,807
Electricity, gas and water supply	**7,959**	9,182
Construction	**22,595**	14,527
Wholesale and retail trade	**8,942**	8,253
Hotels and restaurants, excluding related construction activities	**6,856**	5,509
Transport, storage and communication	**2,279**	2,794
Financial intermediation	**222**	1,750
Real estate, renting and business	**3,959**	3,179
Public administration	**2,005**	2,261
Education	**14,396**	10,417
Health and social work	**103**	103
Community, recreational and personal service activities	**1,166**	1,254
Households and individuals	**60,302**	50,058
	137,950	116,229

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

18. DEBT AND OTHER FIXED INCOME INSTRUMENTS

	2007 Lm'000	2006 Lm'000
Held-to-maturity	**48,006**	52,853
Available-for-sale	**58,506**	59,347
	106,512	112,200
Held-to-maturity		
Issued by public bodies:		
- Local government	**46,041**	50,460
Issued by other issuers:		
- Local banks	**495**	493
- Foreign banks	**1,005**	1,295
- Foreign others	**299**	439
- Local other	**166**	166
	1,965	2,393
Total	**48,006**	52,853
Available-for-sale		
Issued by public bodies:		
- Local government	**21,945**	22,778
- Foreign government	**1,519**	1,498
	23,464	24,276
Issued by other issuers:		
- Local banks	**806**	854
- Foreign banks	**10,614**	12,444
- Foreign others	**20,391**	19,222
- Local others	**3,231**	2,551
	35,042	35,071
Total	**58,506**	59,347
Total debt and other fixed income instruments	**106,512**	112,200

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

18. DEBT AND OTHER FIXED INCOME INSTRUMENTS (continued)

	2007	2006
	Lm'000	Lm'000
Analysed by currency:		
- Maltese Lira	**71,289**	76,124
- Foreign	**35,223**	36,076
	106,512	112,200
Unamortised premiums on debt and other fixed income instruments	**1,379**	1,783
Listing status:		
- Listed on Malta Stock Exchange	**72,684**	77,302
- Listed elsewhere	**33,828**	34,898
	106,512	112,200

Movement in debt and other fixed income instruments:

	2007	2006
	Lm'000	Lm'000
Cost and carrying value		
At 1 January	**112,200**	118,382
Redemption and disposals	**(15,749)**	(12,336)
Acquisitions	**13,614**	7,340
Amortisation	**(261)**	(488)
Decrease in fair values	**(1,080)**	(846)
Exchange adjustments	**(2,212)**	148
At 31 December	**106,512**	112,200

19. EQUITY AND OTHER NON-FIXED INCOME INSTRUMENTS

Available-for-sale

	2007	2006
	Lm'000	Lm'000
Listed on Malta Stock Exchange	**1,037**	1,385
Listed elsewhere	**43**	499
	1,080	1,884

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

19. EQUITY AND OTHER NON-FIXED INCOME INSTRUMENTS (continued)

Movement in equity and other non-fixed income instruments:

	2007 Lm'000	2006 Lm'000
Carrying value		
At 1 January	**1,884**	2,206
Disposals	**(818)**	(636)
Acquisitions	**43**	-
Exchange adjustments	**-**	(12)
(Decrease)/increase in fair values	**(29)**	326
At 31 December	**1,080**	1,884

20. PROPERTY AND EQUIPMENT

	Land and Buildings Lm'000	Computer Equipment Lm'000	Other Lm'000	Total Lm'000
Cost				
At 1 January 2006	2,022	933	2,016	4,971
Additions	1,500	79	88	1,667
Disposals	(12)	-	(8)	(20)
At 31 December 2006	**3,510**	**1,012**	**2,096**	**6,618**
Additions	34	117	86	237
Disposals	-	(2)	(12)	(14)
At 31 December 2007	**3,544**	**1,127**	**2,170**	**6,841**
Depreciation				
At 1 January 2006	274	844	1,361	2,479
Depreciation charge for the year	39	65	148	252
Disposals	-	-	(8)	(8)
At 31 December 2006	**313**	**909**	**1,501**	**2,723**
Depreciation charge for the year	39	69	145	253
Disposals	-	(2)	(9)	(11)
At 31 December 2007	**352**	**976**	**1,637**	**2,965**
Net book value				
At 31 December 2007	**3,192**	**151**	**533**	**3,876**
At 31 December 2006	3,197	103	595	3,895
At 1 January 2006	1,748	89	655	2,492

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

20. PROPERTY AND EQUIPMENT (continued)

	2007 Lm'000	2006 Lm'000
Future capital expenditure:		
- Contracted but not provided for in the consolidated financial statements	**83**	300
- Authorised by the Directors but not contracted	**3,310**	2,776
	3,393	3,076

21. INTANGIBLE ASSETS

	Computer software Lm'000
Cost	
At 1 January 2006	1,461
Additions	235
At 31 December 2006	1,696
Additions	501
At 31 December 2007	**2,197**
Amortisation	
At 1 January 2006	1,326
Amortisation	101
At 31 December 2006	1,427
Amortisation	133
At 31 December 2007	**1,560**
Net book value	
At 31 December 2007	**637**
At 31 December 2006	269
At 1 January 2006	135

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

22. DEFERRED TAX ASSETS

Deferred income tax at 31 December relates to the following:

	2007 Lm'000	2006 Lm'000
Deferred income tax assets		
Fair value movements in investment securities	**72**	39
Impairment allowance for loans and advances to customers	**874**	672
Excess of capital allowances over depreciation	**52**	54
Deferred tax assets net	**998**	765

Deferred tax movements arising on the fair value movements on investment securities, amounting to Lm33,462, were credited directly in equity; other movements, amounting to Lm200,086, were credited in the income statement (note 11).

23. PREPAYMENTS AND ACCRUED INCOME

	2007 Lm'000	2006 Lm'000
Accrued income	**2,407**	2,209
Prepayments and other receivables	**357**	283
	2,764	2,492

24. AMOUNTS OWED TO BANKS

	2007 Lm'000	2006 Lm'000
With agreed maturity dates or periods of notice, by remaining maturity:		
- 3 months or less but not repayable on demand	**550**	360
Analysed by currency:		
- Maltese Lira	**544**	326
- Foreign	**6**	34
	550	360

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

25. AMOUNTS OWED TO CUSTOMERS

	2007 Lm'000	2006 Lm'000
Term deposits	**181,198**	166,984
Repayable on demand	**67,434**	64,276
	248,632	231,260
Analysed by currency:		
- Maltese Lira	**202,377**	185,778
- Foreign	**46,255**	45,482
	248,632	231,260

26. SUBORDINATED LIABILITIES

	2007 Lm'000	2006 Lm'000
7.5% Subordinated Unsecured Loan Stock	**1,400**	1,400

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

27. OTHER LIABILITIES

	2007 Lm'000	2006 Lm'000
Bills payable	**1,858**	1,419
Taxation	**93**	136
Other liabilities	**133**	141
	2,084	1,696

28. ACCRUALS

	2007 Lm'000	2006 Lm'000
Accrued interest payable	**2,730**	2,177
Other accruals	**630**	330
	3,360	2,507

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

29. ISSUED CAPITAL

	2007 Lm'000	2006 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 AROM Holdings Limited and the Diocese of Gozo that hold 83.33% and 16.67% of the share capital, respectively.

30. SHARE PREMIUM

	2007 Lm'000	2006 Lm'000
Balance at beginning and end of year	**760**	760

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. RETAINED EARNINGS AND 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.

   During 2006, 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' as at 31 December 2007 and 31 December 2006 there was an investment compensation scheme reserve, amounting to Lm300 which was held in a savings account with a commercial bank. This account was 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

33. CONTINGENT LIABILITIES

	2007 Lm'000	2006 Lm'000
Guarantees (note i)	**23,371**	1,915
Other contingent liabilities	**110**	313
	23,481	2,228

i. Included in guarantees is an amount of Lm21,500,000 which is pledged in favour of the Central Bank of Malta in connection with the Euro frontloading.

There were no significant lawsuits against the Group as at 31 December 2007 and 31 December 2006.

34. COMMITMENTS

	2007 Lm'000	2006 Lm'000
Undrawn formal standby facilities, credit facilities and other commitments to lend	**51,749**	56,545

35. CASH AND CASH EQUIVALENTS

	2007 Lm'000	2006 Lm'000
Analysis of balances of cash and cash equivalents as shown in the cash flow statement:		
Cash in hand (note 14)	**1,632**	1,119
Balances with Central Bank of Malta (note 14)	**5,133**	3,243
Loans and advances to banks (repayable within 3 months) (note 15)	**5,390**	8,008
Amounts owed to banks (note 24)	**(550)**	(360)
	11,605	12,010

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 2007	2006
APS Consult Limited	Malta	**99.9**	99.9

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

Transactions with key management personnel of the Bank

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

	2007 Lm'000	2006 Lm'000
Loans and advances	**3**	225
Commitments	**7**	30

(b) Transactions with executives and other staff:

	2007 Lm'000	2006 Lm'000
Loans and advances	**942**	1,033
Commitments	**144**	45

Transactions with other related parties

	Balances as at 2007 Lm'000	**Interest receivable 2007 Lm'000**	Balances as at 2006 Lm'000	Interest receivable 2006 Lm'000
Amounts due from other related parties				
Individuals related to directors	**274**	**11**	107	4
Entities with common directorship	**4,656**	**158**	3,073	146
	4,930	**169**	3,180	150

The above mentioned outstanding balances represent amounts for loans and advances which arose from the ordinary course of business. The interest charged to related parties are at normal commercial rates.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

37. RELATED PARTY DISCLOSURES (continued)

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

	Balances as at 2007 Lm'000	**Interest payable 2007 Lm'000**	Balances as at 2006 Lm'000	Interest payable 2006 Lm'000
Amounts due to other related parties				
Shareholders	**11,775**	**447**	12,354	362

Included in the amounts due to the shareholders is an amount of Lm175,000 (2006: Lm175,000) which is pledged against overdraft facilities granted to third parties.

For the year ended 31 December 2007, the Bank has not made any provision for impairment of receivables relating to amounts due from related parties (2006: Nil).

38. RISK MANAGEMENT

38.1 Introduction

The Bank'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 Bank within statutory limits and within internal parameters established by the Board of Directors.

The Bank 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.

38.2 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 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 Bank's listed equities are carried in the balance sheet at market value. Debt securities which are classified as available-for-sale investments are also carried in the balance sheet at market value. However, 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 Lm48 million (2006: Lm52.9 million). Their market value amounted to Lm53.5 million (2006: Lm60.4 million), whilst their nominal value amounted to Lm47.1 million (2006: Lm51.7 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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

38. RISK MANAGEMENT (continued)

38.2 Fair values (continued)

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

38.3 Credit risk

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

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

Decisions on loans and advances to customers are subject to approval limits involving various levels of management of the Bank. It is the Bank's policy to establish that loans are within the customer's capacity to repay rather than to over rely on security. Nevertheless, 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 2.2.

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 Bank's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

Maximum exposures to credit risks without taking account of any collateral and other credit enhancements.

Credit risk exposures relating to on-balance sheet assets are as follows:

	Gross maximum exposure	
	2007	2006
	Lm'000	Lm'000
Cash and balances with Central Bank of Malta (excluding cash in hand)	**14,063**	12,419
Loans and advances to banks	**9,095**	8,008
Loans and advances to customers	**60,844**	50,888
Loans and advances to corporate entities	**74,608**	62,979
Cheques in course of collection	**755**	651
Debt and other fixed income instruments	**106,512**	112,200
Equity and other non-fixed income instruments	**1,080**	1,884
Prepayments and accrued income	**2,764**	2,492
Total	**269,721**	251,521

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

38. RISK MANAGEMENT (continued)

38.3 Credit risk (continued)

	Gross maximum exposure 2007 Lm'000	2006 Lm'000
Credit risk exposures relating to off-balance sheet items are as follows:		
Financial guarantees (note i)	**1,981**	2,228
Commitments	**51,749**	56,545
	53,730	58,773

(i) The Bank has other guarantees amounting to Lm21,500,000 which are pledged in favour of the Central Bank of Malta in connection with the Euro front loading. Since there is no credit risk exposure on these guarantees, it has not been included in the above table.

Concentrations of risk

	Financial Institutions Lm'000	Manu-facturing Lm'000	Real Estate Lm'000	Wholesale and Retail Trade Lm'000	Public Sector Lm'000	Other Industries Lm'000	Individuals Lm'000	**Total Lm'000**
Cash and balances with Central Bank of Malta (excluding cash in hand)	14,063	-	-	-	-	-	-	14,063
Loans and advances to banks	9,095	-	-	-	-	-	-	9,095
Cheques in course of collection	755	-	-	-	-	-	-	755
Prepayments and accrued income	-	-	-	-	-	2,764	-	2,764
Loans and advances to customers	-	4,781	3,959	8,943	21,810	37,613	58,346	135,452
Debt and other fixed income instruments	20,898	5,013	82	2,913	70,254	7,352	-	106,512
Equity and other non-fixed income instruments	1,080	-	-	-	-	-	-	1,080
At 31 December 2007	**45,891**	**9,794**	**4,041**	**11,856**	**92,064**	**47,729**	**58,346**	**269,721**
At 31 December 2006	43,293	7,535	2,865	8,444	98,100	42,758	48,526	251,521
Financial guarantees	17	187	62	252	6	1,085	372	1,981
Commitments	303	357	2,273	2,476	715	27,555	18,070	51,749
As at 31 December 2007	**320**	**544**	**2,335**	**2,728**	**721**	**28,640**	**18,442**	**53,730**
As at 31 December 2006	284	513	858	3,702	2,612	31,677	19,127	58,773

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

38. RISK MANAGEMENT (continued)

38.3 Credit risk (continued)

Collateral

Of the total loans and advances to customers, 93.26% (2006: 92.24%) were collateralised. The amount and type of collateral required depends on an assessment of the credit risk of the counter party. The main types of collateral obtained are as follows:

- Cash and securities;
- Government guarantees;
- Mortgages over residential properties;
- Charges over real estate properties.

Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral obtained during its review of the adequacy of the allowance for impairment losses.

It is the Bank's policy to dispose of repossessed properties in an orderly fashion. The proceeds are used to reduce or repay the outstanding claim. In general, the Bank does not occupy repossessed properties for business use.

The Bank also makes use of master netting agreements with counter parties.

Analysis of financial assets that are past due but not impaired

Loans and advances to customers and banks which were past due but not specifically impaired were as follows:

	2007	2006
	Lm'000	Lm'000
Past due up to 29 days	**777**	1,460
Past due 30-59 days	**2,057**	1,394
Past due 60-89 days	**4,912**	651
Past due over 90 days	**1,663**	2,243
	9,409	5,748

Renegotiated loans and advances to customers that would otherwise be past due totalled Lm1,071,000 (2006: Lm1,099,000).

Analysis of financial assets that are neither past due nor impaired.

The amount of Lm134,050,000 (2006: Lm114,486,000) consist of loans and advances to customers and banks that are considered of good standard grade.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

38. RISK MANAGEMENT (continued)

38.4 Liquidity risk

Liquidity risk is the risk of the exposure of the Bank's mismatches of maturities in its portfolio of assets, liabilities and commitments. The Bank manages this risk by matching the maturities of assets and liabilities. Investments are mostly quoted on local or foreign stock exchanges and therefore enjoy a high degree of marketability and liquidity.

The Bank maintains a portfolio of highly marketable and diverse assets that can be easily liquidated in the event of an unforeseen interruption of cash flow.

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

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

	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 2007						
Assets						
Cash and balances with Central Bank of Malta	-	-	-	-	15,695	15,695
Cheques in course of collection	-	-	-	-	755	755
Debt and other fixed income financial instruments	2,660	14,452	38,988	50,412	-	106,512
Equity and other non-fixed income instruments	-	-	-	-	1,080	1,080
Loans and advances	5,390	3,705	-	-	-	9,095
Loans and advances to customers	24,748	5,864	27,785	77,055	-	135,452
Other assets	-	-	-	-	8,275	8,275
	32,798	**24,021**	**66,773**	**127,467**	**25,805**	**276,864**
Liabilities and equity						
Amounts owed to banks	550	-	-	-	-	550
Amounts owed to customers	137,972	78,771	29,505	2,384	-	248,632
Subordinated liabilities	-	-	1,400	-	-	1,400
Other liabilities	-	-	-	-	5,444	5,444
Equity	-	-	-	-	20,838	20,838
	138,522	**78,771**	**30,905**	**2,384**	**26,282**	**276,864**
Net	**(105,724)**	**(54,750)**	**35,868**	**125,083**	**(477)**	**-**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

38. RISK MANAGEMENT (continued)

38.4 Liquidity risk (continued)

At 31 December 2006	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
Assets						
Cash and balances with Central Bank of Malta	-	-	-	-	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 equity						
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
Equity	-	-	-	-	20,346	20,346
	77,951	**36,838**	**99,281**	**18,950**	**24,549**	**257,569**
Net	**(49,982)**	**(32,138)**	**(53,430)**	**136,605**	**(1,055)**	**-**

Analysis of financial liabilities by remaining contractual maturities

The table below summarises the maturity profile of the Bank's financial liabilities at 31 December 2007 and 31 December 2006 based on contractual undiscounted repayment obligations.

At 31 December 2007	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
Liabilities						
Amounts owed to banks	567	-	-	-	-	567
Amounts owed to customers	139,100	80,703	33,364	2,735	-	255,902
Subordinated liabilities	1,505	-	-	-	-	1,505
Other liabilities	-	-	-	-	5,444	5,444
	141,172	**80,703**	**33,364**	**2,735**	**5,444**	**263,418**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

38. RISK MANAGEMENT (continued)

38.4 Liquidity risk (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						
Liabilities						
Amounts owed to banks	368	-	-	-	-	368
Amounts owed to customers	78,152	37,636	109,196	21,414	-	246,398
Subordinated liabilities	1,505	-	-	-	-	1,505
Other liabilities	-	-	-	-	4,203	4,203
	80,025	**37,636**	**109,196**	**21,414**	**4,203**	**252,474**

Off - Balance sheet items

	2007 Not later than 1 year Lm'000	2006 Not later than 1 year Lm'000
Loan commitments	**51,749**	56,545
Guarantees, acceptance and other financial facilities (note i)	**1,981**	2,228
Total	**53,730**	58,773

i. The Bank has other guarantees amounting to Lm21,500,000 which are pledged in favour of the Central Bank of Malta in connection with the Euro front loading. Since there is no liquidity risk exposure on these guarantees, it has not been included in the above table.

38.5 Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchange rates, and equity prices.

Except for the concentrations within interest rate risk and currency risk, the Bank has no significant concentration of market risk.

Currency risk

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

38. RISK MANAGEMENT (continued)

38.5 Market risk (continued)

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

The aggregate amount of assets and liabilities denominated in foreign currencies translated into Maltese Lira are as follows:

	2007				
	Euro Lm'000	**USD Lm'000**	**GBP Lm'000**	**Other Lm'000**	**Total Lm'000**
Assets	**15,708**	**1,252**	**12,551**	**773**	**30,284**
Liabilities	**15,911**	**1,256**	**12,456**	**753**	**30,376**

	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

Interest rate risk

Interest rate risk is the risk of the exposure of the Bank'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.

A principal part of all Group's management of market risk is to monitor the sensitivity of projected net interest income under varying interest rate scenarios (simulation modelling). For simulation modelling, the business uses a combination of scenarios relevant to local businesses and local markets.

The table below sets out the impact on future net income of an incremental 25 basis points parallel fall or rise in all yield curves worldwide on the first day of the following year based on current balance sheet position/risk profiles:

	Increase/ decrease in basis points	**Effect on profit before tax Lm'000**
2007	+25	22
	-25	(22)
2006	+25	37
	-25	(37)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

38. RISK MANAGEMENT (continued)

38.6 Operational risk

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Bank cannot expect to eliminate all operational risks, but through control framework and by monitoring and responding to potential risks, the Bank is able to manage the risks. Controls include effective segregation of duties, access, authorisation and reconciliation procedures, staff education and assessment processes, including the use of internal audit.

38.7 Capital management

The primary objectives of the Bank's capital management are to ensure that the Bank complies with externally imposed capital requirements and that the Bank maintains healthy capital ratios in order to support its business and to maximise shareholders' value.

The Bank manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Bank may adjust the amount of dividend payment to shareholders, return capital to shareholders or issue capital securities. No changes were made in the objectives, policies and processes from the previous years.

The table below summarises the composition of regulatory capital and the ratio of the Bank as at the balance sheet date.

The solvency ratio is a measure of the Bank's capital adequacy and is the ratio of own funds to total risk-weighted assets and off-balance sheet items in terms of the Capital Requirements of Credit Institution Rule BR/04/2007 issued in accordance with Section 17 (1) of the Banking Act, 1994.

	Adjusted Book Value Lm'000	Weighted Amount Lm'000
Credit risk calculation - standardised approach		
Total assets and off-balance items	363,239	96,900
Operational risk - basic indication approach		
15% of the three year adjusted average operating income	945,750	11,822
Total credit and operational risk	1,308,989	108,722

Own funds

	Lm'000
Original own funds	18,385
Additional own funds	1,483
Total own funds	19,868
Solvency ratio	18.27%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

39. KEY FINANCIALS IN EURO

Following Malta's adoption of the Euro as its national currency on 1 January 2008, the Bank's functional currency was changed from Maltese lira to Euro at the Irrevocably Fixed Conversion Rate of €1 : Lm0.4293 as of that date.

	2007	2006	**2007**	2006
	Euro'000	Euro'000	**Lm'000**	Lm'000
Income statement				
Net interest income	**14,868**	13,764	**6,383**	5,909
Profit for the year after tax	**5,125**	4,764	**2,200**	2,045
Earnings per share	**19.71c**	18.32c	**8.46c**	7.87c
Dividends	**787**	738	**338**	317
Balance Sheet				
Equity	**48,539**	47,393	**20,838**	20,346
Equity per share	**1.87c**	1.82c	**0.80c**	0.78c
Cash flow statement				
Cash flows used in operating activities	**20,417**	15,104	**8,765**	6,484
Cash flows from investing activities	**20,212**	24,994	**8,677**	10,730
Cash flows used in financing activities	**738**	736	**317**	316

40. COMPARATIVE FIGURES

Comparative figures have been adjusted to conform with the current year's presentation. Software capital expenditure was previously classified with property and equipment. As of this year, such software expenditure was classified under intangible assets.

GROUP FIVE YEAR SUMMARY - INCOME STATEMENTS

	2007 Lm'000	2006 Lm'000	2005 Lm'000	2004 Lm'000	2003 Lm'000
Interest receivable and similar income	**14,348**	12,515	11,235	10,276	9,602
Interest payable	**(7,965)**	(6,606)	(5,612)	(5,086)	(5,381)
Net interest income	**6,383**	5,909	5,623	5,190	4,221
Other operating income	**1,168**	1,275	1,209	1,022	837
Total operating income	**7,551**	7,184	6,832	6,212	5,058
Other operating charges	**(4,276)**	(4,000)	(3,876)	(3,702)	(3,557)
Net impairment (losses)/reversals	**(70)**	(32)	199	(483)	(179)
Profit before tax	**3,205**	3,152	3,155	2,027	1,322
Income tax expense	**(1,005)**	(1,107)	(887)	(755)	(486)
Profit for the year	**2,200**	2,045	2,268	1,272	836
Earnings per share	**8c5**	7c9	9c3	6c1	4c6

GROUP FIVE YEAR SUMMARY - BALANCE SHEETS

	2007 Lm'000	2006 Lm'000	2005 Lm'000	2004 Lm'000	2003 Lm'000
ASSETS					
Cash and balances with Central Bank of Malta	**6,765**	4,362	3,305	1,244	1,833
Reserve deposit with Central Bank of Malta	**8,930**	9,176	8,317	7,421	6,957
Cheques in course of collection	**755**	651	1,405	518	172
Treasury bills	**-**	-	1,180	-	5,550
Debt and other fixed income instruments	**106,512**	112,200	118,382	111,592	106,410
Equity and other non-fixed income instruments	**1,080**	1,884	2,206	2,105	2,514
Loans and advances to banks	**9,095**	8,008	3,780	6,975	3,388
Loans and advances to customers	**135,452**	113,867	91,348	76,443	60,204
Property and equipment	**3,876**	3,895	2,627	2,765	2,818
Intangible assets	**637**	269	-	-	-
Deferred tax assets	**998**	765	674	737	770
Current tax asset	**-**	-	51	-	34
Prepayments and accrued income	**2,764**	2,492	2,534	2,300	2,387
TOTAL ASSETS	**276,864**	257,569	235,809	212,100	193,037
LIABILITIES					
Amounts owed to banks	**550**	360	185	3,851	2,046
Amounts owed to customers	**248,632**	231,260	210,695	189,186	175,112
Other liabilities	**2,084**	1,696	1,790	2,044	1,522
Accruals	**3,360**	2,507	2,278	1,698	1,821
Subordinated liabilities	**1,400**	1,400	1,400	1,400	1,400
TOTAL LIABILITIES	**256,026**	237,223	216,348	198,179	181,901
EQUITY					
Issued capital	**6,500**	6,500	6,500	6,000	5,000
Share premium	**760**	760	760	760	760
Other reserves	**-**	-	175	175	175
Revaluation reserve	**2,121**	3,512	4,356	1,311	581
Retained earnings	**11,119**	9,257	7,354	5,402	4,403
Dividend reserve	**338**	317	316	273	217
TOTAL EQUITY	**20,838**	20,346	19,461	13,921	11,136
TOTAL LIABILITIES AND EQUITY	**276,864**	257,569	235,809	212,100	193,037
MEMORANDUM ITEMS					
Contingent liabilities	**23,481**	2,228	2,497	967	1,406
Commitments	**51,749**	56,545	44,962	39,462	39,415

GROUP FIVE YEAR SUMMARY - CASH FLOW STATEMENTS

	2007 Lm'000	2006 Lm'000	2005 Lm'000	2004 Lm'000	2003 Lm'000
Net cash flows (used in)/from operating activities	**(8,765)**	(6,484)	1,216	(7,483)	11,932
Investing activities					
Dividends received	**55**	99	90	82	51
Interest income from debt securities	**6,760**	7,119	6,616	7,457	6,396
Purchase of debt and other fixed income instruments	**(13,614)**	(7,340)	(18,218)	(14,120)	(22,632)
Proceeds on maturity and disposal of debt and other fixed income instruments	**15,627**	12,250	14,032	8,478	6,721
Purchase of equity and other non-fixed income instruments	**(43)**	-	-	(165)	(1,025)
Proceeds on disposal of equity and other non-fixed income instruments	**532**	260	261	1,154	-
Purchase of property and equipment	**(646)**	(1,668)	(370)	(708)	(899)
Proceeds on disposal of property and equipment	**6**	10	3	20	-
Net cash from/(used in) investing activities	**8,677**	10,730	2,414	2,198	(11,388)
Financing activities					
Increase in issued capital	**-**	-	500	1,000	500
Dividends paid	**(317)**	(316)	(273)	(217)	(147)
Net cash (used in)/from financing activities	**(317)**	(316)	227	783	353
Net (decrease)/increase in cash and cash equivalents	**(405)**	3,930	3,857	(4,502)	897
Cash and cash equivalents at 1 January	**12,010**	8,080	4,223	8,725	7,828
Cash and cash equivalents at 31 December	**11,605**	12,010	8,080	4,223	8,725

GROUP FIVE YEAR SUMMARY - ACCOUNTING RATIOS

	2007 %	2006 %	2005 %	2004 %	2003 %
Net interest income and other operating income to total assets	**2.7**	2.8	2.9	2.9	2.6
Operating expenses to total assets	**1.5**	1.6	1.5	2.0	1.9
Profit before tax to total assets	**1.2**	1.2	1.3	1.0	0.7
Return on capital employed before tax *	**17.1**	18.7	20.9	16.1	12.5
Profit after tax to equity *	**11.8**	12.1	15.0	10.1	7.9

	2007	2006	2005	2004	2003
Shares in issue of 25c each (thousands)	**26,000**	26,000	26,000	24,000	20,000
Net assets per share *	**72c**	65c	58c	53c	53c
Earnings per share	**8c5**	7c9	9c3	6c1	4c6
Dividends per share					
Gross	**2c**	1c9	1c9	1c8	1c7
Net	**1c3**	1c2	1c2	1c1	1c1
Dividend cover	**6.5**	6.5	7.2	4.7	3.9

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

GROUP FINANCIAL HIGHLIGHTS IN EURO AND US DOLLARS

Year ended 31 December 2007

The following figures were converted from Lm to Euro and US Dollars using the rates of exchange ruling on 31 December 2007. The rates used were Lm1 : Euro2.3294 or Euro1 : Lm0.4293 and Lm1 : USD3.4347. 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 2007.

	2007 Euro'000	2006 Euro'000	**2007 USD'000**	2006 USD'000
Net interest income	**14,868**	13,764	**21,924**	20,296
Operating income	**17,589**	16,734	**25,935**	24,675
Operating profit before impairment, reversals and provisions	**7,629**	7,417	**11,249**	10,936
Profit before tax	**7,466**	7,342	**11,008**	10,826
Profit for the year	**5,125**	4,764	**7,556**	7,024
Total assets	**644,920**	599,974	**950,945**	884,672
Liquid funds	**38,318**	33,051	**56,501**	48,735
Securities	**250,622**	265,744	**369,546**	391,844
Advances	**336,704**	283,892	**496,476**	418,604
Equity	**48,539**	47,393	**71,572**	69,882