Annual Report
and
Consolidated
Financial Statements
2008

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
Franco Azzopardi M.Sc. Finance (Leicester UK), F.I.A., C.P.A. (appointed 30 September 2008)
Joseph C. Caruana A.C.I.B.
Arthur Galea Salomone LL.M. (Toronto), LL.D.
Franco Masini B.A., L.P. (appointed 25 August 2008)
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

A Challenging Year

The Bank has performed well in 2008 registering a profit of €5.8 million and raising its total assets by a further €23.8 million to €668.7 million. Once again, the most remarkable growth was recorded in loans and advances extended to customers with a net increase of €52.6 million over the previous year's figure. These results are all the more significant as they were partly realised during a period of unprecedented global economic upheaval and financial market instability.

While the results achieved remain indicative of the Bank's prospects, future success is not necessarily guaranteed. Indeed, we shall be confronted with big challenges in the coming years. That said, we must remain focused and capitalise on any arising opportunities. It is during these demanding times amid radically changing market conditions that the Bank – with its prudent risk management practices over the years and the proficiency of its team – can distinguish itself.

The financial year started with the successful changeover to the Euro. The adoption was conducted with a special consideration to our customers' interests. The programme ranged from the restructuring of information systems to other technical, logistic, legal and public information work. The Bank-wide efforts led to a seamless currency transition.

In November the Bank saw the re-opening of the completely reconstructed and enlarged branch in Gozo. We were pleased to note that this has been favourably received by our customers. During 2008 the Bank's overall accessibility improved with the opening of new service delivery outlets in Qormi and Birkirkara. Building on these pilot projects we are considering extending our presence to a number of other localities through automated agencies providing the majority of personal banking services offered in our branches.

Our staff members have responded competently to the changes that the Bank has gone through in 2008. The availability of a knowledgable workforce is a veritable tool for attaining a competitive edge. As in previous years, we will encourage them to further their studies, particularly in those identified prospective niches.

The Bank will continue investing in all these highly indispensable strategic components that play a key role in making it possible to reach new milestones.

Concurrently, the Bank saw important developments involving its subsidiaries. APS Consult Limited has further strengthened its capital base and during 2008 was licensed to provide farm advisory services. Besides, the Bank set up APS Funds SICAV plc which launched its first income fund in April 2008. The performance of this fund is to date encouraging. The subsidiaries keenly support the realisation of the Group's core objectives to keep on building a distinct position in identified sectors and the leveraging of specialisations.

A Prudent Strategy

In these uncertain times, we will persevere with a cautious approach in our investment strategy whilst remaining competitive, operationally efficient and ethically correct.

During the second quarter of 2009 the centralised offices in Swatar will be inaugurated. This centre will make it possible to achieve a much leaner and efficient operational process flow. Needless to say that the Bank's accessibility will gain further ground through the opening of a new Branch located in the same premises.

CHAIRMAN'S STATEMENT (continued)

An apposite specialised team is conducting an extensive reengineering of the Bank's processes. This project shall enhance customer satisfaction, productivity and flexibility. Simultaneously, a suitable product development programme is being implemented. These initiatives will be supported by an upgrade in the core information technology infrastructure. The outcome is a more responsive Bank ready to meet current customer expectations in the face of new economic and social realities.

Through its membership in FEBEA (the European Federation of Ethical and Alternative Financial Institutions), the Bank will participate in the formation of a European network of financial institutions that are inspired by the development of products that contribute directly to sustainable economic development and to the empowerment of distinct groups and individuals. This is a long-term project, but it is gradually taking shape on the lines desired by its members.

The plans of the Bank are ambitious. Notwithstanding the measures being taken, attaining the targets set to weather successfully the test of the coming years requires also a collective effort. We are convinced that the Bank through its enduring determination will make it happen.

Active Participation in the Community

As in previous years the Bank has continued supporting a number of cultural, educational and sport related activities. We are proud of the achievements from these initiatives.

Coinciding with the Pauline festivities, the Bank concluded its four-year concert cycle of Grand Masses of the 19th Century by organising Maestro Anton Nani's *Messa del Naufrago* at St John's Co-Cathedral. As we indicated last year, in May, the winner of the Music Competition for Maltese Composers was announced and presented the award. Next October, the Bank will be sponsoring the first public performance of this original song-cycle.

The Bank's assistance made also possible the restoration works on a distinctive baroque *Lunette* painting depicting the massacre of the knights of Malta at Fort St Elmo in 1565. This seventeenth century masterpiece is located in the Franciscan Friary in Rabat, Malta. Furthermore, we offered our contribution in organising an exhibition of original works by William Apap, one of the most renowned contemporary artists. Later on this year, with the completion of the restoration of a portable organ at the Cospicua Parish Church, the Bank will have saved for posterity a unique work in musical craftsmanship.

Conscious of the relevance that environmental issues have on our islands, the Bank dedicated its ninth annual seminar to 'Waste Management and a Viable Economy'. High profile speakers dealt with various aspects including the implementation of related policies and strategies for the agriculture and fisheries sector. As is the practice, these proceedings were published in the Annual Seminar series.

A Word of Appreciation

During the latter part of the year we welcomed Mr Franco Masini and Mr Franco Azzopardi to the Board of Directors. They bring with them a wealth of experience from which I am certain the Bank will benefit over the coming years. It is opportune to thank my fellow Board members who were required to take bold and responsible decisions in such demanding times.

This year's results would not have been possible without the commitment and support of the management team and staff members to whom I offer my recognition. I confidently rely on their dedication and proficiency for the continued success of the Bank.

CHAIRMAN'S STATEMENT (continued)

Finally, on behalf of the Board, I would like to express my gratitude to our shareholders for their unreserved support and to our customers for their loyalty. Our appreciation for their unwavering trust is limitless.

E. P. Delia
Chairman

DIRECTORS' REPORT

DIRECTORS' REPORT
for the year ended 31 December 2008

The APS Bank Group comprises APS Bank Limited, APS Consult Limited and APS Funds SICAV plc.

PRINCIPAL ACTIVITIES

Parent

APS Bank Limited is registered in Malta as a limited liability company under the Companies Act, Cap.386 of the Laws of Malta. 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.

Subsidiaries

APS Consult Limited is a wholly owned subsidiary of the Bank. Since its incorporation in June 2007, the company provided various advisory services to customers in niche markets.

APS Funds SICAV plc was registered in January 2008 and less than three months later it launched its first fund. The performance of this fund was very satisfactory especially when considering the prevailing market conditions.

FINANCIAL PERFORMANCE

The year under review offered unprecedented challenges. The Bank had to contend with the turbulent international financial market conditions, tougher competition in the local financial industry and the implementation of a number of major projects including the introduction of the Euro. This notwithstanding, the Bank reported a profit before tax of €5.8 million for the year ended 31 December 2008. This represents a decrease of €1.7 million from last year's profit before tax. However, it is worth mentioning that the crisis that broke out in the last quarter of 2008 had a direct negative effect of €1.8 million on the Bank's profitability.

Operations

The Bank improved its net operating income by a further 2.4% to €18.0 million in 2008. More significant was the boost in net interest income amounting to an all time high of €16.0 million. Indeed financial year 2008 was very positive for advances to customers in terms of volume. This more than made up for the competitive rates that the Bank offered to attract deposits.

Due to the drop in the foreign exchange business following the introduction of the Euro and the instability in the financial markets, the Bank did not manage to attain the targeted results with regard to non-interest income. On the other hand the Bank succeeded to improve the fees and commissions derived from advances related business and in increasing its returns from dividends. Whilst being conscious of the challenges that lie ahead, the Bank will be taking measures to boost its non-interest income and at the same time continue providing a quality service at reasonable tariff levels.

At €10.5million, the operating expenses of the Bank increased by 5.8% in 2008. However, a closer look at operating expenses reveals that these mainly represent non-recurring expenditure related to the Euro conversion project and costs directly associated with the implementation of the Single Euro Payment Area (SEPA), the Internet Banking and the Treasury systems. These systems required significant effort by the Bank's resources due to the high degree of customisation and testing. The positive outcome from these projects is expected to be more evident during the coming years.

DIRECTORS' REPORT (continued)
for the year ended 31 December 2008

The net impairment charge reflects the realised markdowns on the Bank's investment portfolio during the last quarter of 2008. This has far outweighed the positive outcome generated from recoveries and the general improvement in the credit worthiness of the loans and advances portfolio.

Balance Sheet

Continuing with its prudent growth strategy, the Bank increased its total assets to €668.7 million; an increase of 3.7% over the 2007 results.

The most significant movement on the Bank's balance sheet during 2008 was the 16.7% rise amounting to €52.7 million in loans and advances to customers that stood at €368.2 million as at year end. Similarly to the previous year, the strongest improvements in the portfolio both in relative and absolute terms were registered in mortgages and personal lending, the construction and education sectors. This growth in assets was mainly financed from a reduction in cash balances held with the Central Bank of €19.5 million and increases in both amounts owed to customers and banks of €11.6 million and €13.0 million respectively.

OUTLOOK

Economic indicators are envisaging that market instability will persist throughout 2009. Over the years with its cautious risk profile, the Bank has built a strong capital base and maintained a healthy solvency ratio. Furthermore, through the constant investment in resources, the hardworking staff members, and the commitment of management and support of shareholders, the Bank is well prepared to meet the forthcoming challenges. In this context, the Bank will continue striving to offer the best service possible to its clients as this is deemed critical for its continued success.

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 seven 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.

DIRECTORS' REPORT (continued)
for the year ended 31 December 2008

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

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

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

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 personnel matters. It also monitors 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.

DIRECTORS' REPORT (continued)
for the year ended 31 December 2008

Principles of business conduct

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

INTERNAL CONTROL

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

The key elements of the system are as follows:

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

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

Relations with shareholders and the Annual General Meeting

The Bank maintains good communications with shareholders. The Chairman meets frequently with representatives of the shareholders to exchange views and to ensure that the strategies and objectives of the Bank are in congruence 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 23 April 2009.

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

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

The Directors are responsible for ensuring that:

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

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Bank and which enable them to ensure that the financial statements comply with the Companies Act, Cap. 386 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, Cap. 386

During the year ended 31 December 2008, 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.

DIRECTORS' REPORT (continued)
for the year ended 31 December 2008

AUDITORS

Messrs. Ernst & Young have signified their willingness to continue in office as auditors of the Group 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

20 March 2009

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF APS BANK LIMITED

We have audited the accompanying financial statements of APS Bank Limited and its subsidiaries ('the Group'), set on pages 10 to 49, which comprise the balance sheet as at 31 December 2008 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 as adopted by the EU and the requirements of the Companies Act, Cap. 386 and the Banking Act, Cap. 371 of the Laws of Malta. 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.

Auditor's 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 auditor's 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 2008, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards, as adopted by the EU.

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

Report on other legal and regulatory requirements

Auditor's 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

20 March 2009

INCOME STATEMENT
for the year ended 31 December 2008

	Notes	2008 EUR'000	2007 EUR'000
Interest receivable and similar income:			
On loans and advances, balances with the Central Bank of Malta and treasury bills	(3)	**20,912**	18,500
On debt securities	(3)	**15,299**	14,921
		36,211	33,421
Interest payable	(4)	**(20,254)**	(18,552)
Net interest income		**15,957**	14,869
Dividend income	(5)	**184**	128
Fees and commission income		**1,145**	1,060
Trading income	(6)	**249**	599
Net gains on disposal of non-trading financial instruments	(7)	**463**	815
Other operating income		**13**	119
Total operating income		**18,011**	17,590
Personnel expenses	(8)	**(5,118)**	(4,880)
Other administrative expenses	(9)	**(4,380)**	(4,181)
Amortisation of intangible assets	(19)	**(451)**	(310)
Depreciation of property and equipment	(20)	**(594)**	(590)
Operating profit before impairment, reversals and provisions		**7,468**	7,629
Net impairment losses	(10)	**(1,664)**	(163)
Profit before tax		**5,804**	7,466
Income tax expense	(11)	**(1,742)**	(2,341)
Profit for the year		**4,062**	5,125
Attributable to:			
Equity holders of the parent		**4,041**	5,125
Minority interest		**21**	-
		4,062	5,125

The accounting policies and explanatory notes on pages 14 to 49 form an integral part of the consolidated financial statements.

BALANCE SHEET
as at 31 December 2008

	Notes	2008 EUR'000	2007 EUR'000
ASSETS			
Cash and balances with Central Bank of Malta	(13)	**17,075**	36,560
Cheques in course of collection		**1,411**	1,759
Loans and advances to banks	(14)	**8,543**	21,186
Loans and advances to customers	(15)	**368,198**	315,518
Debt and other fixed income instruments	(17)	**247,295**	248,106
Equity and other non-fixed income instruments	(18)	**1,472**	2,516
Intangible assets	(19)	**1,630**	1,484
Property and equipment	(20)	**13,303**	9,028
Deferred tax assets	(21)	**3,442**	2,325
Other receivables	(22)	**6,358**	6,438
TOTAL ASSETS		**668,727**	644,920
LIABILITIES			
Amounts owed to banks	(23)	**14,312**	1,281
Amounts owed to customers	(24)	**590,717**	579,157
Subordinated liabilities	(25)	**-**	3,261
Other liabilities	(26)	**2,389**	4,855
Accruals	(27)	**9,431**	7,827
TOTAL LIABILITIES		**616,849**	596,381
EQUITY			
Issued capital	(28)	**15,600**	15,141
Share premium	(29)	**1,770**	1,770
Revaluation reserve	(30)	**4,138**	4,941
Retained earnings	(31)	**28,695**	25,900
Dividend reserve		**787**	787
		50,990	48,539
Minority interest		**888**	-
TOTAL EQUITY		**51,878**	48,539
TOTAL LIABILITIES AND EQUITY		**668,727**	644,920
MEMORANDUM ITEMS			
Contingent liabilities	(32)	**5,262**	54,696
Commitments	(33)	**131,812**	120,543

The accounting policies and explanatory notes on pages 14 to 49 form an integral part of the consolidated financial statements.

The consolidated financial statements on pages 10 to 49 were authorised for issue by the Board of Directors on 20 March 2009 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 2008

	Issued capital EUR'000	Share premium EUR'000	Revaluation reserve EUR'000	Dividend reserve EUR'000	Retained earnings EUR'000	Total EUR'000	Minority interest EUR'000	Total equity EUR'000
FINANCIAL YEAR ENDED 31 DECEMBER 2008								
Balance at 1 January 2008	15,141	1,770	4,941	787	25,900	48,539	-	48,539
Net loss on available-for-sale financial assets and equities not recognised in the income statement	-	-	(480)	-	-	(480)	-	(480)
Released on disposal	-	-	(323)	-	-	(323)	-	(323)
Capitalisation of retained earnings (note 28)	459	-	-	-	(459)	-	-	-
Profit for the year	-	-	-	-	4,041	4,041	21	4,062
Dividends paid (note 12)	-	-	-	(787)	-	(787)	-	(787)
Dividends proposed (note 12)	-	-	-	787	(787)	-	-	-
Minority interest arising on formation of new subsidiary company (note 35)	-	-	-	-	-	-	867	867
Balance at 31 December 2008	**15,600**	**1,770**	**4,138**	**787**	**28,695**	**50,990**	**888**	**51,878**
FINANCIAL YEAR ENDED 31 DECEMBER 2007								
Balance at 1 January 2007	15,141	1,770	8,181	738	21,562	47,392	-	47,392
Net loss on available-for-sale financial assets and equities not recognised in the income statement	-	-	(2,492)	-	-	(2,492)	-	(2,492)
Released on disposal	-	-	(748)	-	-	(748)	-	(748)
Profit for the year	-	-	-	-	5,125	5,125	-	5,125
Dividends paid (note 12)	-	-	-	(738)	-	(738)	-	(738)
Dividends proposed (note 12)	-	-	-	787	(787)	-	-	-
Balance at 31 December 2007	**15,141**	**1,770**	**4,941**	**787**	**25,900**	**48,539**	**-**	**48,539**

The accounting policies and explanatory notes on pages 14 to 49 form an integral part of the consolidated financial statements.

CASH FLOW STATEMENT
for the year ended 31 December 2008

	Note	2008 EUR'000	2007 EUR'000
OPERATING ACTIVITIES			
Interest and commission receipts		**33,436**	26,003
Other income		**13**	12
Interest and commission payments		**(19,759)**	(17,263)
Cash paid to employees and suppliers		**(11,707)**	(7,179)
Operating profit before changes in operating assets and liabilities		**1,983**	1,573
(Increase)/decrease in operating assets			
Loans and advances to customers		**(43,982)**	(59,269)
Reserve deposit with Central Bank of Malta		**10,414**	573
Cheques in course of collection		**348**	(240)
Other assets		**337**	(627)
Increase/(decrease) in operating liabilities			
Amounts owed to customers		**11,560**	40,466
Other liabilities		**(3,232)**	16
Cash used in operating activities before tax		**(22,572)**	(17,508)
Income tax paid		**(2,678)**	(3,044)
Income tax refunded		**-**	135
Net cash flows used in operating activities		**(25,250)**	(20,417)
Investing activities			
Dividends received	(5)	**184**	128
Interest income from debt securities		**15,360**	15,747
Purchase of held-to-maturity debt security instruments		**(200)**	(100)
Proceeds on maturity of held-to-maturity debt security instruments		**8,129**	10,836
Purchase of available-for-sale debt security instruments		**(62,361)**	(31,612)
Proceeds on disposal of available-for-sale debt security instruments		**42,680**	25,565
Purchase of equity and other non-fixed income instruments		**(686)**	(100)
Proceeds on disposal of equity and other non-fixed income instruments		**359**	1,239
Purchase of property and equipment		**(4,434)**	(1,505)
Proceeds on disposal of property and equipment		**13**	14
Net cash flows (used in)/from investing activities		**(956)**	20,212
Financing activities			
Dividends paid	(12)	**(787)**	(738)
Proceeds from minority interest for shares in subsidiary		**879**	-
Net cash flows from/(used in) financing activities		**92**	(738)
Net decrease in cash and cash equivalents		**(26,114)**	(943)
Cash and cash equivalents at 1 January		**27,033**	27,976
Cash and cash equivalents at 31 December	(34)	**919**	27,033

The accounting policies and explanatory notes on pages 14 to 49 form an integral part of the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. CORPORATE INFORMATION

APS Bank Group comprises APS Bank Limited, APS Consult Limited and APS Funds SICAV plc.

APS Bank Limited is registered in Malta as a limited liability company under the Companies Act, Cap. 386 of the Laws of Malta. APS Consult Limited was incorporated in June 2007. APS Funds SICAV plc was registered in January 2008.

The principal activities of the Group are described in the Directors' report on page 2.

2.1 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 Euro (EUR), and all values are rounded to the nearest thousand (EUR1,000) except when otherwise indicated.

Malta adopted the Euro as its national currency on 1 January 2008. On this date the Bank's functional currency was changed from Maltese Lira to Euro. Consequently, the results and financial position of the Bank were translated at the Irrevocably Fixed Conversion Rate of EUR1: Lm0.4293 as at that date. Accordingly these financial statements are presented in Euro.

Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU 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 subsidiaries APS Consult Limited and APS Funds SICAV plc, as at 31 December 2008, which together are referred to as the 'Group'. Intra-group balances, transactions, income and expenses between the Bank and the subsidiaries have been eliminated on consolidation. Subsidiaries are fully consolidated from the date on which the Bank achieves control and continue to be consolidated until the date that such control ceases. 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.

The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies.

All intra-group balances, income and expenses and unrealised gains and losses resulting from intra-group transactions are eliminated in full.

Minority interests represent the portion of profit or loss and net assets that is not held by the Group and are presented separately in the consolidated income statement and within equity in the consolidated balance sheet, separately from parent shareholders' equity.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

Standards, interpretations and amendments to published standards as endorsed by the EU effective in 2008

The accounting policies adopted by the Group are consistent with those of the previous financial year except as follows:

The Group has adopted the following new and amended IFRS and IFRIC interpretations during the year. Adoption of these revised standards and interpretations did not have any effect on the financial performance or position of the Group.

- IFRIC 11, IFRS 2 Group and Treasury Share Transactions
- IFRIC 14, IAS 19 The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

IFRIC 11 and 14 are not applicable to the Group's operations and hence had no impact on the financial position or performance of the Group, neither did they give rise to additional disclosures.

Standards, interpretations and amendments to published standards as endorsed by the EU 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 which are not yet effective for the current reporting period and which the Group has not early adopted. These are as follows:

Amendments to IFRS 2, Share Based Payment *(effective for financial years beginning on or after 1 January 2009)*. The amendment restricts the definition of "vesting condition" to a condition that includes an explicit or implicit requirement to provide services. Any other conditions are non-vesting conditions, which have to be taken into account to determine the fair value of the equity instruments granted. These amendments will have no effect on the Group's operations.

IFRS 8, Operating Segments (*effective for financial years beginning on or after 1 January 2009*). IFRS 8 replaces IAS 14 'Segment Reporting' and adopts a management-based approach to segment reporting. The information reported would be that which 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 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. One 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 of a new accounting policy as at the beginning of the earliest comparative period, i.e. a third column on the balance sheet. The Group will make the necessary changes to the presentation of its financial statements in 2009.

Amendments to IAS 23, Borrowing Costs, (*effective for annual periods beginning on or after 1 January 2009*). The amendment requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of the asset. The option of immediately expensing those borrowing costs will be removed. The bank will apply IAS 23 (Amendment) retrospectively from 1 January 2009 but is currently not applicable to the bank as there are no qualifying assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES (continued)

Standards, interpretations and amendments to published standards as endorsed by the EU that are not yet effective (continued)

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.

IFRIC 13, Customer Loyalty Programmes *(effective for annual periods beginning on or after 1 July 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.

Amendment to IFRS 1 'First time adoption of IFRS', and IAS 27 'Consolidated and separate financial statements' *(effective from 1 January 2009).* The amended standard allows first-time adopters to use a deemed cost of either fair value or the carrying amount under previous accounting practice to measure the initial cost of investments in subsidiaries, jointly controlled entities and associates in the separate financial statements. The amendment also removes the definition of the cost method from IAS 27 and replaces it with a requirement to present dividends as income in the separate financial statements of investor. The Group will apply IFRS 1 (Amendment) from 1 January 2009. The amendment will not have any impact on the Group's financial statements.

Improvements to IFRS

In January 2009, the EU endorsed improvements to IFRSs issued by the International Accounting Standards Board. These will become effective for annual periods beginning on or after 1 January 2009. These improvements were issued, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. The Group has not early adopted the amendments arising from the 'Improvement to IFRS' project and anticipates that these changes will have no material effect on the financial statements. These amendments were made to the following standards:

- IFRS 7 Financial Instruments: Disclosures
- IAS 1 Presentation of Financial Statements
- IAS 8 Accounting Policies, Change in Accounting Estimates and Errors
- IAS 10 Events after the Reporting Period
- IAS 16 Property, Plant and Equipment
- IAS 18 Revenue
- IAS 19 Employee Benefits
- IAS 20 Accounting for Government Grants and Disclosures of Government Assistance
- IAS 23 Borrowing Costs
- IAS 27 Consolidated and Separate Financial Statements
- IAS 28 Investment in Associates
- IAS 29 Financial Reporting in Hyperinflationary Economies
- IAS 31 Interest in Joint Ventures
- IAS 34 Interim Financial Reporting
- IAS 36 Impairment of Assets
- IAS 38 Intangible Assets
- IAS 39 Financial Instruments: Recognition and Measurement
- IAS 40 Investment Property
- IAS 41 Agriculture

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES (continued)

Standards, interpretations and amendments issued by the International Accounting Standards Board (IASB) but not yet adopted by the EU:

The following standards, interpretations and amendments have been issued by the IASB but not yet adopted by the EU:

- IFRS 12 – Service Concession Arrangements
- IAS 39 and IFRS 7 Amendments – Reclassification of Financial Assets
- IFRS 1 Revised – First Time Adoption of IFRS
- IFRS 3 Revised – Business Combinations
- IAS 27 Amendment – Consolidated and Separate Financial Statements
- IAS 39 Amendment – Financial Instruments: Recognition and Measurement: Eligible Hedged Items
- IFRIC 15 – Agreements for the Construction of Real Estate
- IFRIC 16 – Hedges of a Net Investment in a Foreign operation
- IFRIC 17 – Distributions of Non-Cash to owners

2.3 SUMMARY OF SIGNIFICANT 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 shorter 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 Euro, 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currency translation (continued)

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

Financial instruments

Financial assets in the scope of IAS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale financial assets, as appropriate. When financial assets or financial liabilities are recognised initially, they are measured at fair value, 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 2008.

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 either derecognised or impaired or through the amortisation process.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (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 Group holds more than one investment in the same security they are deemed to be disposed of on an average cost 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 either 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 the profit or loss.

Impairment of financial assets

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

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (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 Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment. 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 Group.

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

For available-for-sale financial investments, the Group assesses at each balance sheet date whether there is objective evidence that an investment or a group of investments is impaired.

In the case of equity investments classified as available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of the investments below its cost. Where there is evidence of impairment, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the income statement, is removed from equity and recognised in the income statement. Impairment losses on equity investments are not reversed through the income statement; increases in their fair value after impairment are recognised directly in equity.

In the case of debt instruments classified as available-for-sale, impairment is assessed based on the same criteria as financial assets carried at amortised cost. Interest continues to be accrued at the original effective interest rate on the reduced carrying amount of the asset and is recorded as part of 'Interest and similar income'. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the income statement the impairment loss is reversed through the income statement.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Amounts owed to banks

Financial liabilities are classified according to the substance of the contractual arrangements entered into. These are initially measured at fair value and subsequently measured at amortised cost using the effective interest rate method.

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 rom 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)

2.3 SUMMARY OF SIGNIFICANT 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)

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Taxation (continued)

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and educed 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 defined 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, 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

(ii) advances to/from banks repayable within three months from the date of the advance.

Other liabilities

Liabilities for other amounts payable are carried at cost which is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Related parties

In these financial statements, related parties include any company that, directly or indirectly controls, or is under common control with the Group.

Significant accounting judgments, estimates and assumptions

In preparing the financial statements, management is required to make judgements, estimates and assumptions that affect reported income, expenses, assets, liabilities and disclosure of contingent assets and liabilities. Use of available information and application of judgement are inherent in the formation of estimates. Actual results in the future could differ from such estimates and the differences may be material to the financial statements. These estimates are reviewed on a regular basis and if a change is needed, it is accounted in the period the changes become known.

The most significant use of judgements and estimates is as follows:

Impairment losses on financial assets

The Bank reviews its problem loans and advances at each reporting date to assess whether an allowance for impairment should be recorded in the income statement. In particular, judgement by management is required in the estimation of the amount and timing of future cash flows when determining the level of allowance required. Such estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance. Factors such as any deterioration in industry risk or deterioration in cash flows are taken into consideration when assessing impairment.

In the opinion of the management, except for the above, the accounting estimates, assumptions and judgements made in the course of preparing these financial statements are not difficult, subjective or complex to a degree which would warrant their description as critical in terms of the requirements of IAS 1 (revised) 'Presentation of financial statements'.

3. INTEREST RECEIVABLE AND SIMILAR INCOME

	2008	2007
	EUR'000	EUR'000
On loans and advances to banks	**652**	867
On loans and advances to customers	**19,686**	16,504
On balances with Central Bank of Malta	**460**	1,127
On treasury bills	**114**	2
	20,912	18,500
On debt securities	**15,770**	15,746
Amortisation of premium	**(471)**	(825)
On debt securities	**15,299**	14,921
	36,211	33,421

Interest receivable on loans and advances to customers is netted-off with EUR166,173 (2007: EUR173,937) in respect of interest accrued on impaired loans and advances to customers (note 15).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

4. INTEREST PAYABLE

	2008 EUR'000	2007 EUR'000
On deposits by banks	**308**	125
On customer accounts	**19,926**	18,182
On subordinated liabilities	**20**	245
	20,254	18,552

5. DIVIDEND INCOME

	2008 EUR'000	2007 EUR'000
From equity shares	**184**	128

6. TRADING INCOME

	2008 EUR'000	2007 EUR'000
Profit on foreign exchange activities	**249**	599

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

	2008 EUR'000	2007 EUR'000
Realised gains on disposal of available-for-sale investments	**463**	815

8. PERSONNEL EXPENSES

	2008 EUR'000	2007 EUR'000
Wages and salaries:		
- key management personnel	**274**	282
- other staff	**4,527**	4,277
Social security costs	**317**	321
	5,118	4,880

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

8. PERSONNEL EXPENSES (continued)

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

	2008 Number of employees	2007 Number of employees
Managerial	**36**	36
Supervisory and clerical	**155**	156
Others	**14**	14
	205	206

9. OTHER ADMINISTRATIVE EXPENSES

	2008 EUR'000	2007 EUR'000
Auditor's remuneration	**26**	23
Directors' emoluments	**82**	75
Insurance and licences	**196**	375
Professional fees	**280**	231
Repairs and maintenance	**1,094**	853
Telecommunications	**226**	259
Office operating expenses	**948**	883
Others	**1,528**	1,482
	4,380	4,181

10. NET IMPAIRMENT LOSSES

	2008 EUR'000	2007 EUR'000
Charge for the year:		
Loans and advances to customers:		
- collective impairment (note 15)	**244**	(622)
- individual impairment (note 15)	**(291)**	(340)
- bad debts written off	**(85)**	(21)
On investments (note 17)	**(1,812)**	-
	(1,944)	(983)
Reversal of write-downs:		
Loans and advances to customers:		
- individual impairment (note 15)	**280**	820
Net impairment losses	**(1,664)**	(163)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

11. INCOME TAX EXPENSE

The major components of income tax expense for the years ended 31 December 2008 and 2007 are:

	2008 EUR'000	2007 EUR'000
Current income tax	**2,374**	2,807
Deferred income tax (note 21)	**(632)**	(466)
Income tax expense reported in the income statement	**1,742**	2,341

A reconciliation between tax expense and the product of accounting profit multiplied by the applicable tax rate in Malta of 35% (2007: 35%) for the years ended 31 December 2008 and 2007 is as follows:

	2008 EUR'000	2007 EUR'000
Profit before tax	**5,804**	7,466
Theoretical tax expense at 35%	**2,031**	2,613
Tax effect of:		
- Differences between depreciation and capital allowances	**(116)**	(67)
- Non-taxable income	**(173)**	(205)
Income tax expense	**1,742**	2,341

12. DIVIDENDS

Disclosed and paid during the year:

	2008 EUR'000	2007 EUR'000
Dividends on ordinary shares:		
Final gross of income tax for 2007: 4.66 cents per share (2006: 4.37 cents per share)	**1,212**	1,137
Final net of income tax for 2007: 3.03 cents per share (2006: 2.84 cents per share)	**787**	738

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

	2008 EUR'000	2007 EUR'000
Proposed final gross of income tax for 2008: 4.66 cents per share (2007: 4.66 cents per share)	**1,212**	1,212
Proposed final net of income tax for 2008: 3.03 cents per share (2007: 3.03 cents per share)	**787**	787

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

13. CASH AND BALANCES WITH CENTRAL BANK OF MALTA

	2008 EUR'000	2007 EUR'000
Cash in hand (note 34)	**3,854**	3,802
Balances with Central Bank of Malta (note 34)	**2,834**	11,957
Reserve deposit with Central Bank of Malta	**10,387**	20,801
	17,075	36,560

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

14. LOANS AND ADVANCES TO BANKS

	2008 EUR'000	2007 EUR'000
Repayable on call and at short notice	**8,543**	12,555
Term loans and advances	**-**	8,631
	8,543	21,186
Analysed by currency:		
- Euro	**925**	2,276
- Foreign	**7,618**	18,910
	8,543	21,186

15. LOANS AND ADVANCES TO CUSTOMERS

	2008 EUR'000	2007 EUR'000
Repayable on call and at short notice	**58,601**	53,086
Term loans and advances	**315,349**	268,251
Gross loans and advances	**373,950**	321,337
Less allowance for impairment losses	**(5,752)**	(5,819)
	368,198	315,518

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

15. LOANS AND ADVANCES TO CUSTOMERS (continued)

Impairment allowance for loans and advances to customers

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

	2008	2007
	EUR'000	EUR'000
At 1 January	**5,819**	5,502
Charge for the year:		
- Collective (note 10)	**(244)**	622
- Individual (note 10)	**11**	515
Recoveries	**166**	(820)
At 31 December	**5,752**	5,819
Impairment losses:		
- Individual	**3,431**	3,254
- Collective	**2,321**	2,565
	5,752	5,819
Gross loans and advances analysed by currency:		
- Euro	**373,567**	316,601
- Foreign	**383**	4,736
	373,950	321,337

Included with the individually assessed allowance at balance sheet date is an amount of EUR1,368,335 (2007: EUR1,202,162) which movement has been netted-off against interest receivable.

The aggregate amount of impaired loans and advances at balance sheet amounted to EUR6,617,773 (2007: EUR7,150,750).

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 36.3.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

16. CONCENTRATION OF LOANS AND ADVANCES TO CUSTOMERS

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

	2008	2007
	EUR'000	EUR'000
Agriculture	**6,417**	5,195
Fishing	**1,512**	235
Mining and quarrying	**17**	-
Manufacturing	**12,513**	11,263
Electricity, gas and water supply	**12,917**	18,539
Construction	**68,890**	52,632
Wholesale and retail trade	**25,556**	20,829
Hotels and restaurants, excluding related construction activities	**15,492**	15,970
Transport, storage and communication	**4,921**	5,309
Financial intermediation	**471**	517
Real estate, renting and business	**9,520**	9,222
Public administration	**4,189**	4,670
Education	**42,271**	33,534
Health and social work	**261**	240
Community, recreational and personal service activities	**2,418**	2,716
Households and individuals	**166,585**	140,466
	373,950	321,337

17. DEBT AND OTHER FIXED INCOME INSTRUMENTS

	2008	2007
	EUR'000	EUR'000
Held-to-maturity	**103,512**	111,824
Available-for-sale	**143,783**	136,282
	247,295	248,106

Held-to-maturity

Issued by public bodies:		
- Local government	**101,436**	107,247
Issued by other issuers:		
- Local banks	**1,158**	1,153
- Foreign banks	**-**	2,341
- Foreign others	**532**	696
- Local other	**386**	387
	2,076	4,577
Total	**103,512**	111,824

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

17. DEBT AND OTHER FIXED INCOME INSTRUMENTS (continued)

	2008 EUR'000	2007 EUR'000
Available-for-sale		
Issued by public bodies:		
- Local government	**53,387**	51,118
- Foreign government	**5,611**	3,538
	58,998	54,656
Issued by other issuers:		
- Local banks	**1,402**	1,877
- Foreign banks	**30,345**	24,724
- Foreign others	**47,809**	47,499
- Local others	**5,229**	7,526
	84,785	81,626
Total	**143,783**	136,282
Total debt and other fixed income instruments	**247,295**	248,106
Analysed by currency:		
- Euro	**205,381**	166,058
- Foreign	**41,914**	82,048
	247,295	248,106
Unamortised premiums on debt and other fixed income instruments	**2,222**	3,212
Listing status:		
- Listed on Malta Stock Exchange	**162,999**	169,308
- Listed elsewhere	**84,296**	78,798
	247,295	248,106

Debt instruments issued by the local government with a nominal value of EUR85,022,133 (2007: Nil) have been pledged against the provision of credit lines by the Central Bank of Malta.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

17. DEBT AND OTHER FIXED INCOME INSTRUMENTS (continued)

Movement in debt and other fixed income instruments:

	2008 EUR'000	2007 EUR'000
Cost and carrying value		
At 1 January	**248,106**	261,356
Redemption and disposals	**(50,900)**	(36,685)
Acquisitions	**62,561**	31,712
Amortisation	**(388)**	(608)
Increase/(decrease) in fair values	**131**	(2,516)
Impairment (note 10)	**(1,812)**	-
Exchange adjustments	**(10,403)**	(5,153)
At 31 December	**247,295**	248,106

18. EQUITY AND OTHER NON-FIXED INCOME INSTRUMENTS

Available-for-sale

	2008 EUR'000	2007 EUR'000
Listed on Malta Stock Exchange	**1,390**	2,416
Listed elsewhere	**82**	100
	1,472	2,516

Movement in equity and other non-fixed income instruments:

	2008 EUR'000	2007 EUR'000
Carrying value		
At 1 January	**2,516**	4,389
Disposals	**(409)**	(1,905)
Acquisitions	**461**	100
Decrease in fair values	**(1,096)**	(68)
At 31 December	**1,472**	2,516

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

19. INTANGIBLE ASSETS

	Computer software EUR'000
Cost	
At 1 January 2007	3,951
Additions	1,167
At 31 December 2007	5,118
Additions	597
At 31 December 2008	**5,715**
Amortisation	
At 1 January 2007	3,324
Amortisation	310
At 31 December 2007	3,634
Amortisation	451
At 31 December 2008	**4,085**
Net book value	
At 31 December 2008	**1,630**
At 31 December 2007	1,484
At 1 January 2007	627

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

20. PROPERTY AND EQUIPMENT

	Land and Buildings EUR'000	Computer Equipment EUR'000	Other EUR'000	Total EUR'000
Cost				
At 1 January 2007	8,176	2,357	4,882	15,415
Additions	79	273	200	552
Disposals	-	(5)	(28)	(33)
At 31 December 2007	8,255	2,625	5,054	15,934
Additions	1,586	402	2,890	4,878
Disposals	-	(8)	(67)	(75)
At 31 December 2008	**9,841**	**3,019**	**7,877**	**20,737**
Depreciation				
At 1 January 2007	729	2,117	3,496	6,342
Depreciation charge for the year	91	161	338	590
Disposals	-	(5)	(21)	(26)
At 31 December 2007	820	2,273	3,813	6,906
Depreciation charge for the year	100	162	332	594
Disposals	-	(7)	(59)	(66)
At 31 December 2008	**920**	**2,428**	**4,086**	**7,434**
Net book value				
At 31 December 2008	**8,921**	**591**	**3,791**	**13,303**
At 31 December 2007	7,435	352	1,241	9,028
At 1 January 2007	7,447	240	1,386	9,073

	2008 EUR'000	2007 EUR'000
Future capital expenditure:		
- Contracted but not provided for in the consolidated financial statements	**-**	193
- Authorised by the Directors but not contracted	**790**	7,710
	790	7,903

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

21. DEFERRED TAX ASSETS

Deferred income tax at 31 December relates to the following:

	2008 EUR'000	2007 EUR'000
Deferred income tax assets		
Fair value movements in investment securities	**653**	168
Impairment allowance for loans and advances to customers	**2,648**	2,036
Excess of capital allowances over depreciation	**141**	121
Deferred tax assets net	**3,442**	2,325

Deferred tax movements arising on the fair value movements on investment securities, amounting to EUR484,901 (2007: EUR77,945), were credited directly in equity; other movements, amounting to EUR631,875 (2007: EUR466,075), were credited in the income statement (note 11).

22. OTHER RECEIVABLES

	2008 EUR'000	2007 EUR'000
Accrued income	**5,495**	5,607
Prepayments and other receivables	**737**	831
Taxation	**126**	-
	6,358	6,438

23. AMOUNTS OWED TO BANKS

	2008 EUR'000	2007 EUR'000
With agreed maturity dates or periods of notice, by remaining maturity:		
- 3 months or less but not repayable on demand	**14,312**	1,281
Analysed by currency:		
- Euro	**14,175**	1,267
- Foreign	**137**	14
	14,312	1,281

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

24. AMOUNTS OWED TO CUSTOMERS

	2008 EUR'000	2007 EUR'000
Term deposits	**428,676**	422,078
Repayable on demand	**162,041**	157,079
	590,717	579,157
Analysed by currency:		
- Euro	**538,077**	471,412
- Foreign	**52,640**	107,745
	590,717	579,157

25. SUBORDINATED LIABILITIES

	2008 EUR'000	2007 EUR'000
7.5% Subordinated Unsecured Loan Stock	**-**	3,261

The loan stock was redeemed at par on 30 January 2008.

26. OTHER LIABILITIES

	2008 EUR'000	2007 EUR'000
Bills payable	**1,990**	4,328
Taxation	**-**	217
Other liabilities	**399**	310
	2,389	4,855

27. ACCRUALS

	2008 EUR'000	2007 EUR'000
Accrued interest payable	**6,854**	6,359
Other accruals	**2,577**	1,468
	9,431	7,827

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

28. ISSUED CAPITAL

	2008 EUR'000	2007 EUR'000
Authorised		
50,000,000 ordinary shares of EUR0.60 each (2007: EUR0.582343 each)	**30,000**	29,115
Issued and fully paid		
26,000,000 ordinary shares of EUR0.60 each (2007: EUR0.582343 each)	**15,600**	15,141

On 17 December 2008, the Group increased its issued ordinary share capital by EUR459,073 through a capitalisation of the Bank's retained earnings for the purpose of increasing the current nominal and paid value of 26,000,000 shares in issue from EUR0.582343 each share up to the new nominal and paid up value of EUR0.60 each share.

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.

In accordance with the Group's Memorandum and Articles of Association, each ordinary share gives the right to one voting right, participates equally in profits distributed by the Group and carries equal rights upon the distribution of assets by the Group in the event of a winding up.

29. SHARE PREMIUM

	2008 EUR'000	2007 EUR'000
Balance at beginning and end of year	**1,770**	1,770

30. REVALUATION RESERVE

The revaluation reserve is used to record movements in the fair value of available-for-sale equity shares and debt securities, net of deferred taxation thereon. The revaluation reserve is not available for distribution.

31. RETAINED EARNINGS

The retained earnings represent retained profits. The amount is available for distribution to shareholders subject to qualification as realised profits in accordance with the requirements of the Companies Act, Cap. 386 of the Laws of Malta.

32. CONTINGENT LIABILITIES

	2008 EUR'000	2007 EUR'000
Guarantees (note i)	**4,129**	54,440
Other contingent liabilities	**1,133**	256
	5,262	54,696

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

32. CONTINGENT LIABILITIES (continued)

i. Included in the guarantees amount for 2007 is an amount of EUR50,081,528 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 2008 and 31 December 2007.

33. COMMITMENTS

	2008	2007
	EUR'000	EUR'000
Undrawn formal standby facilities, credit facilities and other commitments to lend	**131,812**	120,543

34. CASH AND CASH EQUIVALENTS

	2008	2007
	EUR'000	EUR'000
Analysis of balances of cash and cash equivalents as shown in the cash flow statement:		
Cash in hand (note 13)	**3,854**	3,802
Balances with Central Bank of Malta (note 13)	**2,834**	11,957
Loans and advances to banks (repayable within 3 months) (note 14)	**8,543**	12,555
Amounts owed to banks (note 23)	**(14,312)**	(1,281)
	919	27,033

35. RELATED PARTY DISCLOSURES

Consolidated subsidiaries

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

	Country of	% equity interest	
Name	**incorporation**	**2008**	2007
APS Consult Limited	Malta	**99.9**	99.9
APS Funds SICAV plc	Malta	**91.8**	-

The registered office of APS Consult Limited and APS Funds SICAV plc is APS House, 20, St. Anne Square, Floriana, FRN 9020.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

35. RELATED PARTY DISCLOSURES (continued)

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.

	2008	2007
	EUR'000	EUR'000
Loans and advances	**3**	7
Commitments	**15**	16

(b) Transactions with executives and other staff:

	2008	2007
	EUR'000	EUR'000
Loans and advances	**2,883**	2,194
Commitments	**112**	335

Transactions with other related parties

	Balances as at 31.12.2008 EUR'000	**Interest receivable 2008 EUR'000**	**Other income 2008 EUR'000**	Balances as at 31.12.2007 EUR'000	Interest receivable 2007 EUR'000	Other income 2007 EUR'000
Amounts due from other related parties:						
Individuals related to directors	**121**	**29**	**-**	638	26	-
Entities with common directorship	**10,831**	**537**	**38**	10,846	368	56
	10,952	**566**	**38**	11,484	394	56

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.

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

	Balances as at 31.12.2008 EUR'000	**Interest payable 2008 EUR'000**	Balances as at 31.12.2007 EUR'000	Interest payable 2007 EUR'000
Amounts due to other related parties:				
Shareholders	**22,410**	**775**	27,428	1,041

Included in the amounts due to the shareholders is an amount of EUR250,000 (2007: EUR407,640) which is pledged against overdraft facilities granted to third parties.

For the year ended 31 December 2008, the Bank has not made any provision for impairment of receivables relating to amounts due from related parties (2007: Nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

36. RISK MANAGEMENT

36.1 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.

36.2 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 EUR103.5 million (2007: EUR111.8 million). Their market value amounted to EUR119.6 million (2007: EUR124.6 million), whilst their nominal value amounted to EUR101.6 million (2007: EUR110 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.

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

36.3 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

36. RISK MANAGEMENT (continued)

36.3 Credit risk (continued)

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	
	2008	2007
	EUR'000	EUR'000
Cash and balances with Central Bank of Malta (excluding cash in hand)	**13,221**	32,758
Cheques in course of collection	**1,411**	1,759
Loans and advances to banks	**8,543**	21,186
Loans and advances to customers	**165,626**	141,728
Loans and advances to corporate entities	**202,572**	173,790
Debt and other fixed income instruments	**247,295**	248,106
Equity and other non-fixed income instruments	**1,472**	2,516
Other receivables	**6,358**	6,438
Total	**646,498**	628,281

Credit risk exposures relating to off-balance sheet items are as follows:

Financial guarantees (note i)	**5,262**	4,614
Commitments	**131,812**	120,543
	137,074	125,157

i. Included in the guarantees amount for 2007 is an amount of EUR50,081,528 which are pledged in favour of the Central Bank of Malta in connection with the Euro frontloading. Since there is no liquidity risk exposure on these guarantees, it has not been included in the above table.

Collateral

Of the total loans and advances to customers, 93.75% (2007: 93.26%) are 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:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

36. RISK MANAGEMENT (continued)

36.3 Credit risk (continued)

Collateral (continued)

- 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.

Concentrations of risk

	Financial Institutions EUR'000	Manu-facturing EUR'000	Real Estate EUR'000	Wholesale and Retail Trade EUR'000	Public Sector EUR'000	Other Industries EUR'000	Individuals EUR'000	Total EUR'000
Cash and balances with Central Bank of Malta (excluding cash in hand)	13,221	-	-	-	-	-	-	13,221
Cheques in course of collection	1,411	-	-	-	-	-	-	1,411
Loans and advances to banks	8,543	-	-	-	-	-	-	8,543
Loans and advances to customers	-	11,616	8,904	24,212	58,042	99,798	165,626	368,198
Debt and other fixed income instruments	55,556	4,962	1,283	10,786	151,898	22,810	-	247,295
Equity and other non-fixed income instruments	1,146	-	-	-	109	217	-	1,472
Other receivables	-	-	-	-	-	6,358	-	6,358
At 31 December 2008	**79,877**	**16,578**	**10,187**	**34,998**	**210,049**	**129,183**	**165,626**	**646,498**
At 31 December 2007	106,897	22,814	9,413	27,617	214,451	111,179	135,910	628,281
Financial guarantees	-	329	58	742	169	2,380	1,584	5,262
Commitments	-	1,857	5,899	8,076	23,972	41,213	50,795	131,812
As at 31 December 2008	**-**	**2,186**	**5,957**	**8,818**	**24,141**	**43,593**	**52,379**	**137,074**
As at 31 December 2007	745	1,267	5,439	6,355	1,680	66,713	42,958	125,157

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

36. RISK MANAGEMENT (continued)

36.3 Credit risk (continued)

Credit quality

Debt Securities and other bills by rating agency (Standards & Poor) designation:

Group
As at 31 December 2008

	Balance with CBM and Treasury bills EUR'000	Debt securities EUR'000	Loans and advances to banks EUR'000	Total EUR'000
AAA	-	13,322	-	13,322
AA+ to AA-	-	19,875	-	19,875
A+ to A-	13,221	188,093	5,809	207,123
Lower than A-	-	17,296	-	17,296
Unrated	-	8,709	2,734	11,443
	13,221	**245,483**	**8,543**	**269,059**

As at 31 December 2007

	Balance with CBM and Treasury bills EUR'000	Debt securities EUR'000	Loans and advances to banks EUR'000	Total EUR'000
AAA	-	11,976	-	11,976
AA+ to AA-	-	27,203	5,863	33,066
A+ to A-	32,760	184,414	2,767	219,941
Lower than A-	-	13,028	-	13,028
Unrated	-	11,485	12,556	24,041
	32,760	**248,106**	**21,186**	**302,052**

Loans and advances to customers by internal rating based on the banking directives/rules:

The following table provides a detailed analysis of the credit quality of the group's lending portfolio:

	2008 EUR'000	2007 EUR'000
Neither past due nor impaired	**348,848**	291,067
Past due but not impaired	**17,116**	21,917
Impaired	**7,986**	8,353
	373,950	321,337

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

36. RISK MANAGEMENT (continued)

36.3 Credit risk (continued)

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:

	2008 EUR'000	2007 EUR'000
Past due up to 29 days	**1,243**	1,810
Past due 30-59 days	**6,614**	4,792
Past due 60-89 days	**4,787**	11,442
Past due over 90 days	**4,472**	3,874
	17,116	21,918

Renegotiated loans and advances to customers that would otherwise be past due totalled EUR8,109,000 (2007: EUR2,494,759).

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

36. RISK MANAGEMENT (continued)

36.4 Liquidity risk (continued)

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 EUR'000	Between Three Months And One Year EUR'000	Between One And Five Years EUR'000	More Than Five Years EUR'000	Others EUR'000	Total EUR'000
At 31 December 2008						
Assets						
Cash and balances with Central Bank of Malta	17,075	-	-	-	-	17,075
Cheques in course of collection	1,411	-	-	-	-	1,411
Loans and advances to banks	8,543	-	-	-	-	8,543
Loans and advances to customers	62,402	13,878	71,057	220,861	-	368,198
Debt and other fixed income financial instruments	10,300	31,790	93,133	112,072	-	247,295
Equity and other non-fixed income instruments	-	-	-	-	1,472	1,472
Other assets	254	5,241	-	-	19,238	24,733
	99,985	**50,909**	**164,190**	**332,933**	**20,710**	**668,727**
Liabilities and equity						
Amounts owed to banks	14,312	-	-	-	-	14,312
Amounts owed to customers	303,661	205,030	66,288	15,738	-	590,717
Subordinated liabilities	-	-	-	-	-	-
Other liabilities	2,601	2,894	1,229	130	4,966	11,820
Equity	-	-	-	-	51,878	51,878
	320,574	**207,924**	**67,517**	**15,868**	**56,844**	**668,727**
Net	**(220,589)**	**(157,015)**	**96,673**	**317,065**	**(36,134)**	**-**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

36. RISK MANAGEMENT (continued)

36.4 Liquidity risk (continued)

	Less Than Three Months EUR'000	Between Three Months And One Year EUR'000	Between One And Five Years EUR'000	More Than Five Years EUR'000	Others EUR'000	Total EUR'000
At 31 December 2007						
Assets						
Cash and balances with Central Bank of Malta	36,560	-	-	-	-	36,560
Cheques in course of collection	1,759	-	-	-	-	1,759
Loans and advances to banks	12,555	8,631	-	-	-	21,186
Loans and advances to customers	57,647	13,659	64,722	179,490	-	315,518
Debt and other fixed income financial instruments	6,196	33,664	90,818	117,428	-	248,106
Equity and other non-fixed income instruments	-	-	-	-	2,516	2,516
Other assets	470	5,075	-	-	13,730	19,275
	115,187	**61,029**	**155,540**	**296,918**	**16,246**	**644,920**
Liabilities and equity						
Amounts owed to banks	1,281	-	-	-	-	1,281
Amounts owed to customers	321,388	183,487	68,728	5,554	-	579,157
Subordinated liabilities	-	-	3,261	-	-	3,261
Other liabilities	2,214	2,404	1,601	140	6,323	12,682
Equity	-	-	-	-	48,539	48,539
	324,883	**185,891**	**73,590**	**5,694**	**54,862**	**644,920**
Net	**(209,696)**	**(124,862)**	**81,950**	**291,224**	**(38,616)**	**-**

Analysis of financial liabilities by remaining contractual maturities

The table below summarises the maturity profile of the Bank's financial liabilities at 31 December 2008 and 31 December 2007 based on contractual undiscounted repayment obligations.

	Less Than Three Months EUR'000	Between Three Months and One Year EUR'000	Between One and Five Years EUR'000	More Than Five Years EUR'000	Total EUR'000
At 31 December 2008					
Liabilities					
Amounts owed to banks	14,313	-	-	-	14,313
Amounts owed to customers	304,315	210,541	74,271	21,202	610,329
	318,628	**210,541**	**74,271**	**21,202**	**624,642**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

36. RISK MANAGEMENT (continued)

36.4 Liquidity risk (continued)

	Less Than Three Months EUR'000	Between Three Months and One Year EUR'000	Between One and Five Years EUR'000	More Than Five Years EUR'000	Total EUR'000
At 31 December 2007					
Liabilities					
Amounts owed to banks	1,321	-	-	-	1,321
Amounts owed to customers	322,379	189,110	81,051	12,123	604,663
Subordinated liabilities	3,506	-	-	-	3,506
	327,206	**189,110**	**81,051**	**12,123**	**609,490**

Off - Balance sheet items

	2008 Not later than 1 year EUR'000	2007 Not later than 1 year EUR'000
Loan commitments	**5,262**	120,543
Guarantees, acceptance and other financial facilities (note i)	**131,812**	4,614
Total	**137,074**	125,157

i. Included in the guarantees for 2007 is an amount of EUR50,081,528 which is pledged in favour of the Central Bank of Malta in connection with Euro frontloading. Since there is no liquidity risk exposure on these guarantees, it has not been included in the above table.

36.5 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.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

36. RISK MANAGEMENT (continued)

36.5 Market risk (continued)

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

	2008			
	USD EUR'000	**GBP EUR'000**	**Other EUR'000**	**Total EUR'000**
Assets	**8,639**	**38,423**	**6,248**	**53,310**
Liabilities	**8,615**	**38,716**	**6,161**	**53,492**

	2007			
	USD EUR'000	GBP EUR'000	Other EUR'000	Total EUR'000
Assets	2,916	29,236	1,801	33,953
Liabilities	2,926	29,015	1,754	33,695

Interest rate risk

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

Changes in local interest rates are monitored constantly by management and corrective action taken by realigning the maturities of and re-pricing the assets and liabilities.

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 EUR'000**
2008	**+25**	**76**
	-25	**(218)**
2007	+25	51
	-25	(51)

36.6 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

36. RISK MANAGEMENT (continued)

36.7 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 ratios 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. The solvency ratio for the year under review and the comparative figures have been prepared in compliance with Banking Rule BR/04/2008 - Solvency Ratio of Credit Institutions Authorised Under Banking Act 1994 - and Basel II with respect to Pillar I requirements.

During the next financial year, the Bank shall be developing the internal capital adequacy assessment process (ICAAP), in compliance with Banking Rule BR/12/2008 - The Supervisory Review Process of Credit Institutions Authorised Under the Banking Act 1994.

	Adjusted Book Value EUR'000	Weighted Amount EUR'000
Credit risk calculation - standardised approach		
Total assets and off-balance items	811,636	**265,193**
Operational risk - basic indication approach		
15% of the three year adjusted average operating income		**30,573**
Foreign exchange risk		
8% of the capital requirement of the net short or long position, whichever is the higher		**314**
Total credit, operational and foreign exchange risk		**296,080**
Own funds		
Original own funds		**46,195**
Additional own funds		**2,321**
Total own funds		**48,516**
Solvency ratio		**16.4%**

GROUP FIVE YEAR SUMMARY - INCOME STATEMENTS

	2008 EUR'000	2007 EUR'000	2006 EUR'000	2005 EUR'000	2004 EUR'000
Interest receivable and similar income	**36,211**	33,421	29,152	26,171	23,937
Interest payable	**(20,254)**	(18,552)	(15,388)	(13,072)	(11,847)
Net interest income	**15,957**	14,869	13,764	13,099	12,090
Other operating income	**2,054**	2,721	2,970	2,816	2,381
Total operating income	**18,011**	17,590	16,734	15,915	14,471
Other operating charges	**(10,543)**	(9,961)	(9,317)	(9,029)	(8,623)
Net impairment (losses)/reversals	**(1,664)**	(163)	(75)	464	(1,125)
Profit before tax	**5,804**	7,466	7,342	7,350	4,723
Income tax expense	**(1,742)**	(2,341)	(2,579)	(2,066)	(1,759)
Profit for the year	**4,062**	5,125	4,763	5,284	2,964

GROUP FIVE YEAR SUMMARY - BALANCE SHEETS

	2008 EUR'000	2007 EUR'000	2006 EUR'000	2005 EUR'000	2004 EUR'000
ASSETS					
Cash and balances with Central Bank of Malta	**6,688**	15,759	10,161	7,699	2,898
Reserve deposit with Central Bank of Malta	**10,387**	20,801	21,374	19,373	17,286
Cheques in course of collection	**1,411**	1,759	1,516	3,273	1,207
Treasury bills	**-**	-	-	2,749	-
Loans and advances to banks	**8,543**	21,186	18,654	8,805	16,247
Loans and advances to customers	**368,198**	315,518	265,239	212,784	178,064
Debt and other fixed income instruments	**247,295**	248,106	261,355	275,756	259,939
Equity and other non-fixed income instruments	**1,472**	2,516	4,389	5,139	4,903
Intangible assets	**1,630**	1,484	627	-	-
Property and equipment	**13,303**	9,028	9,073	6,119	6,441
Deferred tax assets	**3,442**	2,325	1,782	1,570	1,717
Current tax asset	**-**	-	-	119	-
Other receivables	**6,358**	6,438	5,804	5,901	5,358
TOTAL ASSETS	**668,727**	644,920	599,974	549,287	494,060
LIABILITIES					
Amounts owed to banks	**14,312**	1,281	839	431	8,970
Amounts owed to customers	**590,717**	579,157	538,691	490,787	440,685
Subordinated liabilities	**-**	3,261	3,261	3,261	3,261
Other liabilities	**2,389**	4,855	3,950	4,170	4,762
Accruals	**9,431**	7,827	5,840	5,306	3,955
TOTAL LIABILITIES	**616,849**	596,381	552,581	503,955	461,633
EQUITY					
Issued capital	**15,600**	15,141	15,141	15,141	13,976
Share premium	**1,770**	1,770	1,770	1,770	1,770
Other reserves	**-**	-	-	408	408
Revaluation reserve	**4,138**	4,941	8,181	10,147	3,054
Retained earnings	**28,695**	25,900	21,563	17,130	12,583
Dividend reserve	**787**	787	738	736	636
Minority interest	**888**	-	-	-	-
TOTAL EQUITY	**51,878**	48,539	47,393	45,332	32,427
TOTAL LIABILITIES AND EQUITY	**668,727**	644,920	599,974	549,287	494,060
MEMORANDUM ITEMS					
Contingent liabilities	**5,262**	54,696	5,190	5,816	2,253
Commitments	**131,812**	120,543	131,714	104,733	91,922

GROUP FIVE YEAR SUMMARY - CASH FLOW STATEMENTS

	2008 EUR'000	2007 EUR'000	2006 EUR'000	2005 EUR'000	2004 EUR'000
Net cash flows used in operating activities	**(25,250)**	(20,417)	(15,104)	2,833	(17,431)
Investing activities					
Dividends received	**184**	128	231	210	191
Interest income from debt securities	**15,360**	15,747	16,583	15,411	17,370
Purchase of debt and other fixed income instruments	**(62,561)**	(31,712)	(17,098)	(42,437)	(32,891)
Proceeds on maturity and disposal of debt and other fixed income instruments	**50,809**	36,401	28,535	32,686	19,748
Purchase of equity and other non-fixed income instruments	**(686)**	(100)	-	-	(384)
Proceeds on disposal of equity and other non-fixed income instruments	**359**	1,239	606	608	2,688
Purchase of property and equipment	**(4,434)**	(1,505)	(3,885)	(862)	(1,649)
Proceeds on disposal of property and equipment	**13**	14	23	7	47
Net cash flows (used in)/from investing activities	**(956)**	20,212	24,995	5,623	5,120
Financing activities					
Increase in issued capital	**-**	-	-	1,165	2,329
Dividends paid	**(787)**	(738)	(736)	(636)	(505)
Proceeds from minority interest for shares in subsidiary	**879**	-	-	-	-
Net cash flows from/(used in) financing activities	**92**	(738)	(736)	529	1,824
Net (decrease)/increase in cash and cash equivalents	**(26,114)**	(943)	9,155	8,985	(10,487)
Cash and cash equivalents at 1 January	**27,033**	27,976	18,821	9,837	20,324
Cash and cash equivalents at 31 December	**919**	**27,033**	**27,976**	**18,822**	**9,837**

GROUP FIVE YEAR SUMMARY - ACCOUNTING RATIOS

	2008	2007	2006	2005	2004
	%	%	%	%	%
Net interest income and other operating income to total assets	**2.4**	2.7	2.8	2.9	2.9
Operating expenses to total assets	**1.6**	1.5	1.6	1.5	2.0
Profit before tax to total assets	**0.9**	1.2	1.2	1.3	1.0
Return on capital employed before tax *	**12.2**	17.1	18.7	20.9	16.1
Profit after tax to equity *	**8.5**	11.8	12.1	15.0	10.1

	2008	**2007**	**2006**	**2005**	**2004**
Shares in issue (thousands)	**26,000**	26,000	26,000	26,000	24,000
Net assets per share *	**184c**	168c	151c	135c	123c
Earnings per share	**15c6**	19c7	18c4	21c7	14c2
Dividends per share					
Gross	**4c7**	4c6	4c4	4c4	4c2
Net	**3c**	3c	2c7	2c7	2c5
Dividend cover	**5.2**	6.5	6.5	7.2	4.7

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

GROUP FINANCIAL HIGHLIGHTS IN US DOLLARS

Year ended 31 December 2008

The following figures were converted from Euro to US Dollars using the rates of exchange ruling on 31 December 2008. The rate used was EUR1: USD1.3917. 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 2008.

	2008	2007
	USD'000	USD'000
Net interest income	**22,207**	20,692
Operating income	**25,066**	24,479
Operating profit before impairment, reversals and provisions	**10,393**	10,617
Profit before tax	**8,077**	10,390
Profit for the year	**5,653**	7,132
Total assets	**930,667**	897,535
Liquid funds	**25,727**	53,327
Advances	**524,310**	468,591
Securities	**346,209**	348,791
Equity	**72,199**	67,552