Annual Report
and
Consolidated
Financial Statements
2009

APS bank

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APS bank

Mission Statement

To offer personalised financial solutions based on trust and inspired by our social commitment. Customer satisfaction, employee development, quality and innovation are the keys to 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.
Joseph C. Caruana A.C.I.B.
Arthur Galea Salomone LL.M. (Toronto), LL.D.
Franco Masini B.A., L.P.
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

WEBSITE

http://www.apsbank.com.mt

CHAIRMAN'S STATEMENT

CHAIRMAN'S STATEMENT

Performance and Results

As I indicated in my statement last year, regardless of the uncertainties brought about by the global financial meltdown and the demanding local market environment, the Bank resolved to "remain focused and capitalise on any arising opportunities". We pursued our vision relentlessly and attained satisfactory financial results. On the other hand, a positive performance has never been measured solely in monetary terms. It has included broader aspects, such as sound governance, staff development and motivation, improving the workplace and the branch network, implementing innovative systems and delivering new products and services. All these based on inherent values, being our firm social commitment and our fixed mindset of sustainable progress, which have been rooted in the very nature of the Bank for nearly a century.

The achievements of 2009 are evidence of the Bank's resilience in the midst of trying economic conditions, during which a pre-tax profit of EUR6.0 million was recorded. During the same period, assets grew by EUR54.7 million reaching EUR723.5 million. Customer deposits also rose by a further EUR48.4 million to EUR639.2 million, demonstrating the trust that the Maltese community continued to have in the Bank.

An important step towards realising these results was the revision of the Bank's deposits and lending policy. The portfolio has, as a consequence, been further strengthened by extending revenue sources and dispersing risk through a more diversified client base. In parallel, we have kept the level of the service afforded to our clients high on the agenda. A single base interest rate mechanism was therefore adopted to all areas of operations, thus promoting transparency and confidence.

A Far-reaching Scope

From a broader perspective, with Malta's accession to the euro zone, the Bank has entered into the international dimension. The membership of the European Federation of Ethical and Alternative Banks (FEBEA) proved to be a valuable catalyst in participating in opportunities related to sustainable development. The Bank has in fact co-financed several targeted projects concerning renewable energy.

Meanwhile, APS Consult has been engaged in a number of initiatives, including EU funding schemes aimed at a variety of sectors, such as education, heritage, culture and agriculture. This subsidiary is also gradually developing its portfolio of overseas clients by partnering in projects outside Malta. The advisory capabilities of APS Consult are expected to increase in demand as clients strive to restructure and recapitalise during these challenging times.

Concurrently, APS Funds SICAV plc has performed well throughout the year under review. Its first fund, launched in 2008, concentrated on fixed income securities. This is heavily weighted in favour of Government bonds and short term fixed deposits. During 2009, the yield curve of this fund steepened substantially and we are anticipating this trend to persist. In view of these encouraging results, the launch of a second fund is being considered, this time with a strong ethical leaning.

Our Role in Society

From the time of its inception, the Bank has been actively involved in the community. This will remain an essential part of its corporate responsibility, aiming to make a meaningful difference mainly in the educational, literary, cultural and sports-related fields.

CHAIRMAN'S STATEMENT (continued)

Our Role in Society (continued)

The Bank's assistance and its association with St. Monica Choir has made possible a local performance of *The Armed Man: A Mass for Peace* by the renowned composer, Karl Jenkins. Apart from the intensive artistic experience, this occasion was all the more significant since it served as a fund-raising activity in aid of the Augustinian Sisters' Mission in the Philippines. Similarly, the Bank's contribution towards increased awareness of local talent has been also evident in its highly acclaimed annual concert. During this event, Albert Pace's *Għanjiet ta' Bniedem Solitarju* was performed. This composition was the prize-winning entry in the APS Bank 2007 Music Competition.

Our efforts on the educational and literary fronts continue to be of major focus. Over the last two years, the Bank has in fact sponsored extensive works of a research nature which have shed new light on the vicissitudes of the Maltese Diocese dating back as early as the Norman Period until the sixteenth century. Furthermore, as in previous years, the Bank published the proceedings of its annual seminar on Agriculture and Fisheries, which examined the management of ecosystem based fisheries. Throughout the said event, participants discussed the relevant fisheries policy, prevailing issues and the future of Maltese fishermen and their security in the Mediterranean.

The year under review also saw the Bank providing valuable support to *Fondazzjoni Patrimonju Malti* in its pursuit of the development of Palazzo Falson Historic House Museum in Mdina. The Museum is now able to accommodate various remarkable artefacts and is considered as one of Malta's leading cultural attractions.

The Bank has been reaching out to the younger generation by sponsoring sports-related initiatives. Given the widespread appreciation of football, the Bank has been backing the Youth Football Association and the Gozo Youth Football Association for a number of years in order to assist these two entities in enhancing the sportive environment among our youths.

Besides, for the seventh year, the Bank was the main sponsor of the fund-raising campaign organised by RTK Radio in aid of *Id-Dar tal-Providenza*. This support enabled this institution mitigate the enormous yearly financial burden relating to its administration.

A Challenging Vision

In spite of the volatility that the financial services industry is facing, we are confident that the Bank is well positioned to weather these challenging times. Given its relevant business model, for the next three years it is planned to keep on building on the same principles while stepping up endeavours. The initiatives set out in the Business Plan (2010 – 2012) take into consideration arising opportunities in a wider regional context.

The Bank's corporate vision sees the institution as one of the leading drivers of ethical, social and economic development in the banking sector. Locally, the strategy will emphasise on long-lasting customer relationships built on employee development, quality and innovation. During this turbulent period for many households and businesses, the Bank will stand by its customers in order to enable them manage their way through various existing constraints. Abroad, the Bank will seek to support the emergence of a Europe-wide network of social-oriented financial institutions.

In 2009 the refurbishment of the agency in Floriana was completed. This unit is intended to serve as a proof-of-concept exhibiting a modern way of banking rather than the conventional branch. Another development was the restructuring of the Gozo Branch; this will be officially opened in September. Moreover, following the migration of most of the back office operations to APS Centre in Swatar, and the opening of a branch in this promising business area, the new state-of-the-art premises will be officially inaugurated in October. These events will fittingly coincide with the Bank's commemorations of its centenary.

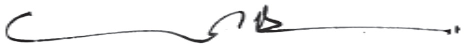
CHAIRMAN'S STATEMENT (continued)

A Challenging Vision (continued)

We believe that one of the most important ways an institution can differentiate itself is through its people. Indeed, the dedication of our members of staff, to whom I wish to offer my appreciation, has played a worthy part in thrusting the Bank to its present standing. In an endeavour to effectively direct the energies of our employees, the Bank has also embarked on a disciplined and rigorous process to reward the most deserving.

All our efforts reflect the Bank's commitment towards operating to a high standard and offering enhanced services to our valued customers. We acknowledge their loyalty and for this I thank them for entrusting us with more of their business.

To conclude, I would also like to express my gratitude to the members of the Board for their close collaboration and guidance during the year, while I extend my recognition to our shareholders for their unwavering confidence and support in the Bank as it commences its 100th year of service to the community.



E. P. Delia
Chairman

APS bank

DIRECTORS' REPORT

DIRECTORS' REPORT
for the year ended 31 December 2009

The APS Bank Group (the "Group") comprises APS Bank Limited (the "Bank"), APS Consult Limited and APS Funds SICAV plc.

PRINCIPAL ACTIVITIES

Parent

APS Bank Limited is registered in Malta as a limited liability company in terms of 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, Cap. 371 and the Investments Services Act, Cap. 370 respectively.

Subsidiaries

APS Consult Limited is a wholly owned subsidiary of the Bank. Since incorporation in June 2006, the company was involved in providing various advisory services relating to issues of an operational nature to customers in particular sectors.

APS Funds SICAV plc was registered in January 2008. At present it is responsible for the APS Income Fund which registered an increase in the number of investors and regular growth.

FINANCIAL PERFORMANCE

In 2009, the Group delivered positive results in the face of a marked slowdown in the economic environment. Profit before taxation increased by three percentage points to EUR6.0 million when compared to the previous year's figure, reflecting good business momentum. Our risk management is suitably aligned to the Bank's corporate strategy. This entails tightened focus on credit quality, determined expense control and a business support culture. These factors, combined with the realisation of financial objectives and strong solvency, have shaped the Group's resilient performance.

Operations

Operating income went up by a further 2.4% in 2009 reaching EUR18.4 million. The Group experienced a drop in both interest receivable and interest payable, reflecting the challenging market conditions which exerted downward pressure on interest rates. Nevertheless, net interest income, which remained the Group's major revenue stream, improved marginally to EUR16.1 million. This was mainly attributable to an intentional boost in commercial lending.

Non-interest income increased by 14.6%, with the rise in fees and commissions being the main contributor. As was indicated last year, the Group endeavoured, with success, to improve this source of income to EUR1.4 million. Once again, this 24.6% growth in fees and commissions was mainly derived from advances-related business. On the other hand, commission from investment services remained subdued. Looking forward, investors' confidence worldwide is expected to be gradually restored and the Group is taking the necessary measures to prepare for such an eventuality.

At EUR12.0 million, operating expenses increased by 13.4% over the previous year. Overall, this upward movement mirrors the heavy investments made in our infrastructure, including the optimisation of internal processes, product offerings, technology enhancements and the opening of new offices. These are areas which we believe will provide an enhanced customer experience and a broader market share for the years ahead driving our prudent growth ambitions.

DIRECTORS' REPORT (continued)
for the year ended 31 December 2009

Statement of Financial Position

The security and stability offered by the Group in these turbulent times was evidenced by the increase in deposits which financed the steady growth in lending and debt securities. Regardless of the high demands for liquidity and the intense competition in the field, amounts owed to customers stood at EUR639.2 million representing a remarkable improvement of eight percentage points over 2008.

The lending portfolio reached EUR380.9 million in 2009. Notwithstanding that loans and advances improved by a mere three percentage points over the previous year's figures, this represents a net situation following the repayment of a sizeable facility. The loan in question was replaced by commercial-related facilities that rendered higher returns. That said, the greater part of the Group's loan and advances portfolio is made up of households and individuals. Sensitive to the pressures that existing and prospective homeowners are facing, the Group is and will continue to extend its support in this market. Other important categories were the construction sector as well as the electricity, gas and water supply industries. Meanwhile, a notable increase of EUR5.7 million reflecting a rise of 36.8% was recorded in the hotels and restaurants portfolio. Looking ahead, the Group envisages good opportunities to continue building on targeted business segments.

Capital Adequacy

During the past year, the Bank developed an internal capital adequacy assessment process (ICAAP), in compliance with Banking Rule 12. The purpose of the ICAAP is to gauge the Bank's risks on an ongoing basis. It also indicates the measures that mitigate identified risks and quantifies the level of capital that is considered adequate after taking into account other control factors which the Bank has in place.

In 2009, the Bank also prepared a Capital Adequacy and Risk Disclosures Report, which is available on the Bank's website. The objective of this document is to provide information on the implementation of the Basel II framework and risk assessment processes in accordance with the Pillar III requirements, as contemplated in Banking Rule 7.

Outlook

Considering the current economic climate and the ongoing debate on the management of financial institutions, clarity of and confidence in the pursued strategy have become paramount. The positive stance that the Bank has adopted year after year by retaining earnings has fortified its equity base. Moreover, our consistent business direction and achieved initiatives provide the necessary thrust as the Bank approaches its centenary.

The Bank has embarked on a three-year Business Plan spanning from 2010 to 2012. Besides establishing financial objectives, this Plan emphasises other important aspects which are essential to achieve sustainable growth. The Business Plan elaborates on a number of initiatives intended to continue motivating employees as well as building long-lasting customer relationships through improved processes and enhanced services. Furthermore, the Bank's widened multi-channelled distribution infrastructure will be exploited to reach new markets. Concurrently, the Bank is striving to leverage its overseas network by co-financing other projects thereby contributing towards viable economic and social developments.

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.

DIRECTORS' REPORT (continued)
for the year ended 31 December 2009

Board of Directors

The Board of Directors has overall responsibility for leading and controlling the Bank and is accountable to shareholders for financial and operational performance. Regular meetings are held to dispatch a formal schedule of matters reserved to the Board for decision; including the setting of policies and risk parameters, 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.

Procedures are 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 management of the Bank's liquidity, interest rate and credit risk exposures as defined in the investments policy, as well as the development of new investment and treasury services.

DIRECTORS' REPORT (continued)
for the year ended 31 December 2009

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.

Principles of business conduct

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

INTERNAL CONTROL

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

The key elements of the system are as follows:

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

DIRECTORS' REPORT (continued)
for the year ended 31 December 2009

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 meet 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 22 April 2010.

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 as adopted by the European Union;
- 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, Cap. 371. They are also responsible for safeguarding the assets of the Bank and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

DISCLOSURE IN TERMS OF THE SIXTH SCHEDULE TO THE COMPANIES ACT, CAP. 386

During the year ended 31 December 2009, 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.

DIRECTORS' REPORT (continued)
for the year ended 31 December 2009

STANDARD LICENCE CONDITIONS

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

AUDITORS

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

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

E. P. DELIA
Chairman

J. C. CARUANA
Director

18 March 2010

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 48 which comprise the statement of financial position as at 31 December 2009 and the statement of comprehensive income, statement of changes in equity and the statement of cash flows 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 European Union and the requirements of the Companies Act, Cap. 386 and the Banking Act, Cap. 371 of the Laws of Malta. As described in the Director's report on page 6, 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 at 31 December 2009, 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 European Union; and
- have been properly prepared in accordance with the requirements of the Companies Act, Cap. 386 and the Banking Act, Cap. 371 of the Laws of Malta.

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 Bank 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 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 Bank so far as appears from our examination thereof and the financial statements are in agreement with the books.

We also have responsibilities under the Companies Act, Cap. 386 of the Laws of Malta to report to you if in our opinion:

- The information given in the directors' report is not consistent with the financial statements.
- Adequate accounting records have not been kept, or that returns adequate for our audit have not been received from branches not visited by us.
- The financial statements are not in agreement with the accounting records.
- We have not received all the information and explanations we require for our audit.
- If certain disclosures of directors' remuneration specified by law are not made in the financial statements, giving the required particulars in our report.

We have nothing to report to you in respect of these responsibilities.

This copy of the audit report has been signed by
Anthony Doublet (Partner) for and on behalf of

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

18 March 2010

STATEMENT OF COMPREHENISIVE INCOME
for the year ended 31 December 2009

	Notes	2009 EUR'000	2008 EUR'000
Interest receivable and similar income:			
On loans and advances, balances with the Central Bank of Malta and treasury bills	(3)	**16,566**	20,912
On debt securities	(3)	**15,230**	15,299
		31,796	36,211
Interest payable	(4)	**(15,703)**	(20,254)
Net interest income		**16,093**	15,957
Dividend income	(5)	**335**	184
Fees and commission income		**1,427**	1,145
Trading income	(6)	**307**	249
Net gains on disposal of non-trading financial instruments	(7)	**18**	463
Other operating income		**266**	13
Total operating income		**18,446**	18,011
Personnel expenses	(8)	**(5,248)**	(5,118)
Other administrative expenses	(9)	**(4,799)**	(4,380)
Amortisation of intangible assets	(19)	**(684)**	(451)
Depreciation of property and equipment	(20)	**(1,230)**	(594)
Operating profit before impairment, reversals and provisions		**6,485**	7,468
Net impairment losses	(10)	**(483)**	(1,664)
Profit before tax		**6,002**	5,804
Income tax expense	(11)	**(2,022)**	(1,742)
Profit for the year		**3,980**	4,062
Other comprehensive income:			
Net gain/(loss) on available-for-sale financial assets		**4,519**	(976)
Net loss/(gain) released on disposal of available-for-sale financial assets		**404**	(323)
Income tax relating to the components of other comprehensive income		**(1,833)**	485
Other comprehensive income for the year, net of tax		**3,090**	(814)
Total comprehensive income for the year, net of tax		**7,070**	3,248
Profit attributable to:			
Equity holders of the parent		**3,904**	4,041
Minority interest		**76**	21
		3,980	4,062
Total comprehensive income attributable to:			
Equity holders of the parent		**6,973**	3,238
Minority interest		**97**	10
		7,070	3,248

The accounting policies and explanatory notes on pages 14 to 48 form an integral part of the consolidated financial statements.

STATEMENT OF FINANCIAL POSITION
as at 31 December 2009

	Notes	2009 EUR'000	2008 EUR'000
ASSETS			
Balances with Central Bank of Malta, treasury bills and cash	(13)	**20,209**	17,075
Cheques in course of collection		**1,837**	1,411
Loans and advances to banks	(14)	**28,967**	8,543
Loans and advances to customers	(15)	**380,904**	368,198
Debt and other fixed income instruments	(17)	**262,707**	247,295
Equity and other non-fixed income instruments	(18)	**2,556**	1,472
Investment property		**330**	-
Intangible assets	(19)	**1,351**	1,630
Property and equipment	(20)	**15,065**	13,303
Deferred tax assets	(21)	**1,586**	3,442
Other receivables	(22)	**7,952**	6,358
TOTAL ASSETS		**723,464**	668,727
LIABILITIES			
Amounts owed to banks	(23)	**13,683**	14,312
Amounts owed to customers	(24)	**639,162**	590,717
Other liabilities	(25)	**3,268**	2,389
Accruals	(26)	**6,421**	9,431
TOTAL LIABILITIES		**662,534**	616,849
EQUITY			
Issued capital	(27)	**15,600**	15,600
Share premium	(28)	**1,770**	1,770
Revaluation reserve	(29)	**7,207**	4,138
Retained earnings	(30)	**31,812**	28,695
Dividend reserve		**787**	787
		57,176	50,990
Minority interest		**3,754**	888
TOTAL EQUITY		**60,930**	51,878
TOTAL LIABILITIES AND EQUITY		**723,464**	668,727
MEMORANDUM ITEMS			
Contingent liabilities	(31)	**4,528**	5,262
Commitments	(32)	**114,454**	131,812

The accounting policies and explanatory notes on pages 14 to 48 form an integral part of the consolidated financial statements.

The consolidated financial statements on pages 10 to 48 were authorised for issue by the Board of Directors on 18 March 2010 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 2009

	Attributable to the equity holders of the parent							
	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 2009								
Balance at 1 January 2009	**15,600**	**1,770**	**4,138**	**787**	**28,695**	**50,990**	**888**	**51,878**
Profit for the year	-	-	-	-	3,904	3,904	76	3,980
Other comprehensive income	-	-	3,069	-	-	3,069	21	3,090
Total comprehensive income	-	-	3,069	-	3,904	6,973	97	7,070
Dividends paid (note 12)	-	-	-	(787)	-	(787)	-	(787)
Dividends proposed (note 12)	-	-	-	787	(787)	-	-	-
Dividends of subsidiaries	-	-	-	-	-	-	(44)	(44)
Net share capital issued in subsidiary company	-	-	-	-	-	-	2,813	2,813
Balance at 31 December 2009	**15,600**	**1,770**	**7,207**	**787**	**31,812**	**57,176**	**3,754**	**60,930**
FINANCIAL YEAR ENDED 31 DECEMBER 2008								
Balance at 1 January 2008	**15,141**	**1,770**	**4,941**	**787**	**25,900**	**48,539**	**-**	**48,539**
Profit for the year	-	-	-	-	4,041	4,041	21	4,062
Other comprehensive income	-	-	(803)	-	-	(803)	(11)	(814)
Total comprehensive income	-	-	(803)	-	4,041	3,238	10	3,248
Capitalisation of retained earnings (note 27)	459	-	-	-	(459)	-	-	-
Dividends paid (note 12)	-	-	-	(787)	-	(787)	-	(787)
Dividends proposed (note 12)	-	-	-	787	(787)	-	-	-
Minority interest arising on formation of new subsidiary company	-	-	-	-	-	-	878	878
Balance at 31 December 2008	**15,600**	**1,770**	**4,138**	**787**	**28,695**	**50,990**	**888**	**51,878**

The accounting policies and explanatory notes on pages 14 to 48 form an integral part of the consolidated financial statements.

STATEMENT OF CASH FLOWS
for the year ended 31 December 2009

	Note	2009 EUR'000	2008 EUR'000
OPERATING ACTIVITIES			
Interest and commission receipts		**15,396**	33,436
Interest and commission payments		**(17,645)**	(19,759)
Other income		**-**	13
Cash paid to employees and suppliers		**(9,522)**	(11,707)
Operating cash flows before changes in operating assets and liabilities		**(11,771)**	1,983
(Increase)/decrease in operating assets			
Loans and advances to customers		**(13,424)**	(43,982)
Reserve deposit with Central Bank of Malta		**3,862**	10,414
Cheques in course of collection		**(426)**	348
Treasury bills and term deposits with original maturity of more than three months		**(9,953)**	-
Other assets		**(1,317)**	337
Increase/(decrease) in operating liabilities			
Amounts owed to customers		**48,445**	11,560
Other liabilities		**1,389**	(3,232)
Cash generated from/(used in) operating activities before tax		**16,805**	(22,572)
Income tax paid		**(2,919)**	(2,678)
Net cash flows generated from/(used in) operating activities		**13,886**	(25,250)
INVESTING ACTIVITIES			
Dividends received		**214**	184
Interest income from debt securities		**14,981**	15,360
Purchase of held-to-maturity debt security instruments		**-**	(200)
Proceeds on maturity of held-to-maturity debt security instruments		**10,150**	8,129
Purchase of available-for-sale debt security instruments		**(58,473)**	(62,361)
Proceeds on disposal of available-for-sale debt security instruments		**40,147**	42,680
Purchase of equity and other non-fixed income instruments		**(199)**	(686)
Proceeds on disposal of equity and other non-fixed income instruments		**-**	359
Purchase of property and equipment		**(4,587)**	(4,434)
Proceeds on disposal of property and equipment		**14**	13
Net cash flows generated from/(used in) investing activities		**2,247**	(956)
FINANCING ACTIVITIES			
Dividends paid		**(831)**	(787)
Net proceeds from minority interest for shares in subsidiary		**2,794**	879
Net cash flows from financing activities		**1,963**	92
Net increase/(decrease) in cash and cash equivalents		**18,096**	(26,114)
Cash and cash equivalents at 1 January		**919**	27,033
Cash and cash equivalents at 31 December	(33)	**19,015**	919

The accounting policies and explanatory notes on pages 14 to 48 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 2006. 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.

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 as at 31 December 2009, 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.

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 statement of comprehensive income and within equity in the consolidated statement of financial position, separately from parent shareholders' equity.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The accounting policies adopted are consistent with those of the previous financial period except as included in this section.

The Group has adopted the following new and amended IFRS and IFRIC interpretations as of 1 January 2009:

- IFRIC 13 Customer Loyalty Programmes effective 1 July 2008
- IFRIC 15 Agreements for the Construction of Real Estate effective 1 January 2009
- IFRIC 16 Hedges of a Net Investment in a Foreign Operation effective 1 October 2008
- IFRIC 9 Remeasurement of Embedded Derivatives (Amended) and IAS 39 Financial Instruments: Recognition and Measurement (Amended) effective for periods ending on or after 30 June 2009
- IFRS 1 First-time Adoption of International Financial Reporting Standards (Amended) and IAS 27 Consolidated and Separate Financial Statements (Amended) effective 1 January 2009
- IFRS 2 Share-based Payment: Vesting Conditions and Cancellations (Amended) effective 1 January 2009
- IFRS 8 Operating Segments effective 1 January 2009
- IFRS 7 Financial Instruments: Disclosures (Amended) effective 1 January 2009
- IAS 1 Presentation of Financial Statements (Revised) effective 1 January 2009
- IAS 32 Financial Instruments: Presentation (Amended) and IAS 1 Presentation of Financial Statements : Puttable Financial Instruments and Obligations Arising on Liquidation (Amended) effective 1 January 2009
- IAS 23 Borrowing Costs (Revised) effective 1 January 2009
- Improvements to IFRSs (May 2008)
- IFRIC 18 Transfers of Assets from Customers effective 1 July 2009
- First omnibus of amendments to standards issued by the IASB in May 2008. The effective dates of these improvements are various and the earliest is for the financial year beginning 1 January 2009.

When the adoption of the standard or interpretation is deemed to have an impact on the financial statements or performance of the Group, its impact is described below:

- **IFRS 7 Financial Instruments: Disclosures (Amended)**

  The amended standard requires additional disclosures about fair value measurement and liquidity risk. Fair value measurements related to items recorded at fair value are to be disclosed by the source of inputs, using a three-level hierarchy, by class, for all financial instruments recognised at fair value, as presented in notes 17 and 18. In addition, a reconciliation between the beginning and ending balance for level 3 fair value measurements is now required, as well as significant transfers between the levels in the fair value hierarchy. The amendments also clarify the requirements for liquidity risk disclosures with respect to derivative transactions and assets used for liquidity management. The liquidity risk disclosures are not significantly impacted by the amendments and are presented in note 35.4.

- **IAS 1 Presentation of Financial Statements (Revised)**

  The revised standard requires that the statement of changes in equity includes only transactions with shareholders; introduces a new statement of comprehensive income that combines all items of income and expense recognised in profit or loss together with “other comprehensive income” (either in one single statement or in two linked statements); and requires the inclusion of a third column on the statement of financial position to present the effect of restatements of financial statements or retrospective application of a new accounting policy as at the beginning of the earliest comparative period. The Group made the necessary changes to the presentation of its financial statements in 2009 and has elected to present a single statement for the statement of comprehensive income.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

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

Up to the date of approval of these financial statements, certain new standards, amendments and interpretations to existing standards have been published but are not yet effective for the current reporting period and which have not been adopted early. None of these standards, interpretations and amendments are expected to have an impact on the financial position or performance of the Group. These are as follows:

- IFRIC 17 Distributions of Non-cash Assets to Owners
- IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments - This interpretation has not yet been endorsed by the EU.
- IFRIC 14 Prepayments of a Minimum Funding Requirement (Amended) - This amendment has not yet been endorsed by the EU
- IFRS 3 Business Combinations (Revised) and IAS 27 Consolidated and Separate Financial Statements (Amended)
- IAS 39 Financial Instruments: Recognition and Measurement (Amended) - eligible hedged items
- IFRS 9 Financial Instruments - Phase 1 financial assets, classification and measurement - This standard has not yet been endorsed by the EU.
- IFRS 2 Group Cash-settled Share-based Payment Transactions (Amended) - This interpretation has not yet been endorsed by the EU.
- IAS 32 Classification on Rights Issues (Amended).
- IAS 24 Related Party Disclosures (Revised) - This interpretation has not yet been endorsed by the EU.
- IFRS 1 Additional Exemptions for First-time Adopters (Amended) - This interpretation has not yet been endorsed by the EU.
- IFRS 1 Amendments – Limited exemption from comparative IFRS 7 disclosure for first-time adopters. This interpretation has not yet been endorsed by the EU.
- In April 2009 the IASB issued its second omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. The effective dates of the improvements are various and the earliest is for the financial year beginning 1 July 2009. This annual improvements project has not yet been endorsed by the EU.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 financial position date, whereas non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

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

Financial instruments

Financial assets in the scope of IAS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale financial assets, as appropriate. When financial assets or financial liabilities are recognised initially, they are measured at fair value, 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 statement of financial position 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 2009.

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. Long-term investments that are intended to be held-to-maturity, such as bonds, are subsequently measured at amortised cost. This cost is computed as the amount initially recognised minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initially recognised amount and the maturity amount. This calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums and discounts. For investments carried at amortised cost, gains and losses are recognised in income when the investments are derecognised or impaired, as well as through the amortisation process.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

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 statement of comprehensive income when the financial asset is either derecognised or impaired or through the amortisation process.

Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified in any of the three preceding categories. After initial recognition available-for-sale financial assets are measured at fair value with gains or losses being recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the statement of comprehensive income. 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 financial position 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets

The Group assesses at each financial position 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.

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 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 statement of comprehensive income, 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 statement of comprehensive income.

Available-for-sale financial assets

For available-for-sale financial investments, the Group assesses at each financial position 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 statement of comprehensive income, is removed from equity and recognised in the statement of comprehensive income. Impairment losses on equity investments are not reversed through the statement of comprehensive income; 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 statement of comprehensive income the impairment loss is reversed through the statement of comprehensive income.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

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.

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 from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of comprehensive income 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 statement of comprehensive income 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment property

Investment property is stated initially at cost, including transaction costs less accumulated depreciation and accumulated impairment. Buildings held as investment property is depreciated at 1% p.a. whilst land is not depreciated. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met; and excludes the costs of day to day servicing of an investment property.

Investment property is derecognised when either it has been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognised in the statement of comprehensive income in the period of derecognition.

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 statement of comprehensive income in those expense categories consistent with the function of the impaired asset.

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

Dividends payable

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

Taxation

Current income tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the financial position date. Current income tax relating to items recognised directly in equity is recognised in equity and not in profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Taxation (continued)

Deferred income tax

Deferred income tax is provided using the liability method on temporary differences at the financial position 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.

The carrying amount of deferred income tax assets is reviewed at each financial position date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised. Unrecognised deferred income tax assets are reassessed at each financial position 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 financial position 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 statement of comprehensive income 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial guarantees (continued)

Any increase in the liability relating to financial guarantees is taken to the statement of comprehensive income. The premium received is recognised in the statement of comprehensive income 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:

- 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;

- 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

- 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.

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 statement of comprehensive income. 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'.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. INTEREST RECEIVABLE AND SIMILAR INCOME

	2009 EUR'000	2008 EUR'000
On loans and advances to banks	**62**	652
On loans and advances to customers	**16,077**	19,686
On balances with Central Bank of Malta	**202**	460
On treasury bills	**225**	114
	16,566	20,912
On debt securities	**15,605**	15,770
Amortisation of premium	**(375)**	(471)
On debt securities	**15,230**	15,299
	31,796	36,211

Interest receivable on loans and advances to customers is netted-off with EUR303,729 (2008: EUR166,173) in respect of interest accrued on impaired loans and advances to customers (note 15).

4. INTEREST PAYABLE

	2009 EUR'000	2008 EUR'000
On deposits by banks	**103**	308
On customer accounts	**15,600**	19,926
On subordinated liabilities	**-**	20
	15,703	20,254

5. DIVIDEND INCOME

	2009 EUR'000	2008 EUR'000
From equity shares	**335**	184

6. TRADING INCOME

	2009 EUR'000	2008 EUR'000
Profit on foreign exchange activities	**307**	249

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

	2009 EUR'000	2008 EUR'000
Realised gains on disposal of available-for-sale investments	**18**	463

8. PERSONNEL EXPENSES

	2009 EUR'000	2008 EUR'000
Wages and salaries:		
- key management personnel	**368**	274
- other staff	**4,554**	4,527
Social security costs	**326**	317
	5,248	5,118

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

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

	2009 Number of employees	2008 Number of employees
Managerial	**32**	36
Supervisory and clerical	**152**	155
Others	**11**	14
	195	205

9. OTHER ADMINISTRATIVE EXPENSES

	2009 EUR'000	2008 EUR'000
Remuneration payable to the parent company's auditors for:		
- the audit of financial statements	**32**	32
- tax compliance	**1**	1
Directors' emoluments	**92**	82
Insurance and licences	**224**	196
Professional fees	**303**	279
Repairs and maintenance	**927**	1,094
Telecommunications	**237**	226
Office operating expenses	**1,311**	948
Others	**1,672**	1,522
	4,799	4,380

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

10. NET IMPAIRMENT LOSSES

	2009 EUR'000	2008 EUR'000
Charge for the year:		
Loans and advances to customers:		
- collective impairment (note 15)	**(405)**	244
- individual impairment	**(545)**	(291)
- bad debts written off	**(1)**	(85)
On investments (note 17)	**(96)**	(1,812)
	(1,047)	(1,944)
Reversal of write-downs:		
Loans and advances to customers:		
- individual impairment	**564**	280
Net impairment losses	**(483)**	(1,664)

11. INCOME TAX EXPENSE

The major components of income tax expense for the years ended 31 December 2009 and 2008 are:

	2009 EUR'000	2008 EUR'000
Current income tax	**1,999**	2,374
Deferred income tax (note 21)	**23**	(632)
Income tax expense reported in the statement of comprehensive income	**2,022**	1,742

A reconciliation between tax expense and the product of accounting profit multiplied by the applicable tax rate in Malta of 35% (2008: 35%) for the years ended 31 December 2009 and 2008 is as follows:

	2009 EUR'000	2008 EUR'000
Profit before tax	**6,002**	5,804
Theoretical tax expense at 35%	**2,101**	2,031
Tax effect of:		
- Differences between depreciation and capital allowances	**43**	(116)
- Non-taxable income	**(83)**	(173)
- Non-deductable expenses	**4**	-
- Tax losses surrendered by a group company	**(43)**	-
Income tax expense	**2,022**	1,742

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

12. DIVIDENDS

Disclosed and paid during the year:

	2009 EUR'000	2008 EUR'000
Dividends on ordinary shares:		
Final gross of income tax for 2008: 4.66 cents per share (2007: 4.37 cents per share)	**1,212**	1,212
Final net of income tax for 2008: 3.03 cents per share (2007: 2.84 cents per share)	**787**	787

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

	2009 EUR'000	2008 EUR'000
Proposed final gross of income tax for 2009: 4.66 cents per share (2008: 4.66 cents per share)	**1,212**	1,212
Proposed final net of income tax for 2009: 3.03 cents per share (2008: 3.03 cents per share)	**787**	787

13. BALANCES WITH CENTRAL BANK OF MALTA, TREASURY BILLS AND CASH

	2009 EUR'000	2008 EUR'000
Cash in hand (note 33)	**4,781**	3,854
Balances with Central Bank of Malta (note 33)	**-**	2,834
Reserve deposit with Central Bank of Malta	**6,525**	10,387
Malta Government Treasury Bills	**8,903**	-
	20,209	17,075

Reserve deposit with the Central Bank of Malta is held in terms of Article 32 of the Central Bank of Malta Act, Cap. 204 of the Laws of Malta.

14. LOANS AND ADVANCES TO BANKS

	2009 EUR'000	2008 EUR'000
Repayable on call and at short notice (note 33)	**26,917**	8,543
Term loans and advances (note 33)	**2,050**	-
	28,967	8,543
Analysed by currency:		
- Euro	**23,813**	925
- Foreign	**5,154**	7,618
	28,967	8,543

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

15. LOANS AND ADVANCES TO CUSTOMERS

	2009	2008
	EUR'000	EUR'000
Repayable on call and at short notice	**50,251**	58,601
Term loans and advances	**336,487**	315,349
Gross loans and advances	**386,738**	373,950
Less allowance for impairment losses	**(5,834)**	(5,752)
	380,904	368,198

Impairment allowance for loans and advances to customers

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

	2009	2008
	EUR'000	EUR'000
At 1 January	**5,752**	5,819
Charge for the year:		
- Collective (note 10)	**405**	(244)
- Individual (note 10)	**(323)**	177
At 31 December	**5,834**	5,752

Included in the movement of the individual impairment allowance is an amount of EUR303,729 (2008: EUR166,173) in respect of accrued interest on impaired loans and advances to customers.

Impairment losses:		
- Individual	**3,108**	3,431
- Collective	**2,726**	2,321
	5,834	5,752
Gross loans and advances analysed by currency:		
- Euro	**385,572**	373,567
- Foreign	**1,166**	383
	386,738	373,950

Included with the individually assessed allowance at financial position date is an amount of EUR1,064,605 (2008: EUR1,368,335) whose movement for the year has been netted-off against interest receivable.

The aggregate amount of impaired loans and advances at year end amounted to EUR7,081,831 (2008: EUR6,617,773).

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 35.3.

Collateral repossessed

During the year the Bank took possession of property with a carrying value of EUR330,000 at year end. The fair value of the property which is disclosed within investment property is not significantly different to its carrying value.

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:

	2009 EUR'000	2008 EUR'000
Agriculture	**8,213**	6,417
Fishing	**4,453**	1,512
Mining and quarrying	**28**	17
Manufacturing	**13,641**	12,513
Electricity, gas and water supply	**19,712**	12,917
Construction	**76,992**	68,890
Wholesale and retail trade	**28,191**	25,556
Hotels and restaurants, excluding related construction activities	**21,189**	15,492
Transport, storage and communication	**3,084**	4,921
Financial intermediation	**338**	471
Real estate, renting and business	**10,731**	9,520
Public administration	**2,025**	4,189
Education	**2,855**	42,271
Health and social work	**513**	261
Community, recreational and personal service activities	**2,810**	2,418
Households and individuals	**191,963**	166,585
	386,738	373,950

17. DEBT AND OTHER FIXED INCOME INSTRUMENTS

	2009 EUR'000	2008 EUR'000
Held-to-maturity	**93,342**	103,512
Available-for-sale	**169,365**	143,783
	262,707	247,295

Held-to-maturity

	2009 EUR'000	2008 EUR'000
Issued by public bodies:		
- Local government	**91,873**	101,436
Issued by other issuers:		
- Local banks	**1,163**	1,158
- Foreign others	**300**	532
- Local other	**6**	386
	1,469	2,076
Total	**93,342**	103,512

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

17. DEBT AND OTHER FIXED INCOME INSTRUMENTS (continued)

	2009 EUR'000	2008 EUR'000
Available-for-sale		
Issued by public bodies:		
- Local government	**45,861**	53,387
- Foreign government	**12,548**	5,611
	58,409	58,998
Issued by other issuers:		
- Local banks	**2,119**	1,402
- Foreign banks	**29,542**	30,345
- Foreign others	**69,504**	47,809
- Local others	**9,791**	5,229
	110,956	84,785
Total	**169,365**	143,783
Total debt and other fixed income instruments	**262,707**	247,295
Analysed by currency:		
- Euro	**203,005**	205,381
- Foreign	**59,702**	41,914
	262,707	247,295
Unamortised premiums on debt and other fixed income instruments	**2,732**	2,222
Listing status:		
- Listed on Malta Stock Exchange	**150,813**	162,999
- Listed elsewhere	**111,894**	84,296
	262,707	247,295

Debt instruments issued by the local government with a nominal value of EUR74,539,952 (2008: EUR85,022,133) 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:

	2009 EUR'000	2008 EUR'000
Cost and carrying value		
At 1 January	**247,295**	248,106
Redemption and disposals	**(50,285)**	(50,900)
Acquisitions	**58,512**	62,561
Amortisation	**(375)**	(388)
Increase in fair values	**4,154**	131
Impairment (note 10)	**(96)**	(1,812)
Exchange adjustments	**3,502**	(10,403)
At 31 December	**262,707**	247,295

18. EQUITY AND OTHER NON-FIXED INCOME INSTRUMENTS

Available-for-sale

	2009 EUR'000	2008 EUR'000
Listed on Malta Stock Exchange	**2,460**	1,390
Listed elsewhere	**96**	82
	2,556	1,472

Movement in equity and other non-fixed income instruments:

	2009 EUR'000	2008 EUR'000
Carrying value		
At 1 January	**1,472**	2,516
Disposals	**-**	(409)
Acquisitions	**719**	461
Increase/(decrease) in fair values	**365**	(1,096)
At 31 December	**2,556**	1,472

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

19. INTANGIBLE ASSETS

	Computer software EUR'000
Cost	
At 1 January 2008	5,118
Additions	597
At 31 December 2008	5,715
Additions	405
At 31 December 2009	**6,120**
Amortisation	
At 1 January 2008	3,634
Amortisation	451
At 31 December 2008	4,085
Amortisation	684
At 31 December 2009	**4,769**
Net book value	
At 31 December 2009	**1,351**
At 31 December 2008	1,630
At 1 January 2008	1,484

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 2008	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
Additions	393	137	2,469	2,999
Disposals	-	-	(143)	(143)
At 31 December 2009	**10,234**	**3,156**	**10,203**	**23,593**
Depreciation				
At 1 January 2008	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
Depreciation charge for the year	135	219	876	1,230
Disposals	-	-	(136)	(136)
At 31 December 2009	**1,055**	**2,647**	**4,826**	**8,528**
Net book value				
At 31 December 2009	**9,179**	**509**	**5,377**	**15,065**
At 31 December 2008	8,921	591	3,791	13,303
At 1 January 2008	7,435	352	1,241	9,028

	2009 EUR'000	2008 EUR'000
Future capital expenditure:		
- Authorised by the Directors but not contracted	**2,691**	790

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

21. DEFERRED TAX ASSETS

Deferred income tax at 31 December relates to the following:

	2009 EUR'000	2008 EUR'000
Deferred income tax assets		
Fair value movements in investment securities	**(1,180)**	653
Impairment allowance for loans and advances to customers	**2,710**	2,648
Excess of capital allowances over depreciation	**56**	141
Deferred tax assets net	**1,586**	3,442

Deferred tax arising on the fair value movements on investment securities, amounting to EUR1,832,915 was debited directly in equity; (2008: credited by EUR484,901); other movements, amounting to EUR22,736 were debited (2008: credited by EUR631,875) in the statement of comprehensive income (note 11).

22. OTHER RECEIVABLES

	2009 EUR'000	2008 EUR'000
Accrued income	**6,222**	5,495
Prepayments and other receivables	**575**	737
Taxation	**1,155**	126
	7,952	6,358

23. AMOUNTS OWED TO BANKS

	2009 EUR'000	2008 EUR'000
With agreed maturity dates or periods of notice, by remaining maturity:		
- 3 months or less but not repayable on demand (note 33)	**13,683**	14,312
Analysed by currency:		
- Euro	**13,010**	14,175
- Foreign	**673**	137
	13,683	14,312

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

24. AMOUNTS OWED TO CUSTOMERS

	2009 EUR'000	2008 EUR'000
Term deposits	**450,747**	428,676
Repayable on demand	**188,415**	162,041
	639,162	590,717
Analysed by currency:		
- Euro	**582,620**	538,077
- Foreign	**56,542**	52,640
	639,162	590,717

25. OTHER LIABILITIES

	2009 EUR'000	2008 EUR'000
Bills payable	**2,923**	1,990
Other liabilities	**345**	399
	3,268	2,389

26. ACCRUALS

	2009 EUR'000	2008 EUR'000
Accrued interest payable	**4,912**	6,854
Other accruals	**1,509**	2,577
	6,421	9,431

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

27. ISSUED CAPITAL

	2009 EUR'000	2008 EUR'000
Authorised		
50,000,000 ordinary shares of EUR0.60 each (2008: EUR0.582343 each)	**30,000**	30,000
Issued and fully paid		
26,000,000 ordinary shares of EUR0.60 each (2008: EUR0.582343 each)	**15,600**	15,600

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.

28. SHARE PREMIUM

	2009 EUR'000	2008 EUR'000
Balance at beginning and end of year	**1,770**	1,770

29. 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.

30. 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.

31. CONTINGENT LIABILITIES

	2009 EUR'000	2008 EUR'000
Guarantees	**4,217**	4,129
Other contingent liabilities	**311**	1,133
	4,528	5,262

The majority of contingent liabilities are backed by corresponding obligations from third parties. There were no significant law suits against the Group as at 31 December 2009 and 31 December 2008.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

32. COMMITMENTS

	2009 EUR'000	2008 EUR'000
Undrawn formal standby facilities, credit facilities and other commitments to lend	**114,454**	131,812

33. NOTES TO THE STATEMENT OF CASH FLOWS

	2009 EUR'000	2008 EUR'000
Cash in hand (note 13)	**4,781**	3,854
Balances with Central Bank of Malta (excluding reserve deposit) (note 13)	**-**	2,834
Treasury bills (with original maturity of less than 3 months)	**1,000**	-
Loans and advances to banks (repayable within 3 months) (note 14)	**26,917**	8,543
Amounts owed to banks (note 23)	**(13,683)**	(14,312)
Cash and cash equivalents included in the cash flow statement	**19,015**	919
Balances with contractual maturity of more than three months	**9,953**	-
Central Bank of Malta (reserve deposit)	**6,525**	10,387
	35,493	11,306
Equivalent items reported in the statement of financial position:		
Balances with Central Bank of Malta, Treasury bills and cash (note 13)	**20,209**	17,075
Loans and advances to banks (note 14)	**28,967**	8,543
Amounts owed to banks (note 23)	**(13,683)**	(14,312)
	35,493	11,306

34. RELATED PARTY DISCLOSURES

Consolidated subsidiaries

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

Name	Country of incorporation	% equity interest 2009	2008
APS Consult Limited	Malta	**99.9**	99.9
APS Funds SICAV plc	Malta	**74.4**	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)

34. 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.

	2009 EUR'000	2008 EUR'000
Loans and advances	**4**	3
Commitments	**12**	15

(b) Transactions with executives and other staff:

	2009 EUR'000	2008 EUR'000
Loans and advances	**3,176**	2,883
Commitments	**123**	112

Transactions with other related parties

	Balances as at 31.12.2009 EUR'000	**Interest receivable 2009 EUR'000**	**Other income 2009 EUR'000**	Balances as at 31.12.2008 EUR'000	Interest receivable 2008 EUR'000	Other income 2008 EUR'000
Amounts due from other related parties:						
Individuals related to directors	**85**	**4**	**-**	121	29	-
Entities with common directorship	**9,918**	**471**	**-**	10,831	537	38
Shareholders	**5**	**-**	9	-	-	2
	10,008	**475**	**9**	10,952	566	40

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.

	Balances as at 31.12.2009 EUR'000	**Interest payable 2009 EUR'000**	Balances as at 31.12.2008 EUR'000	Interest payable 2008 EUR'000
Amounts due to other related parties:				
Shareholders	**20,579**	**244**	22,410	775

Included in the amounts due to the shareholders is an amount of EUR385,768 (2008: EUR250,000) which is pledged against overdraft facilities granted to third parties.

For the year ended 31 December 2009, the Bank has not made any provision for impairment of receivables relating to amounts due from related parties (2008: Nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

35. RISK MANAGEMENT

35.1 Introduction

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

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

35.2 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 statement of financial position for these items as reflecting their fair value in that these assets will be realised for cash in the immediate future.

All the Group's listed equities are carried in the statement of financial position at market value. Debt securities which are classified as available-for-sale investments are also carried in the statement of financial position at market value. However, debt securities classified as held-to-maturity investments are carried in the statement of financial position at amortised cost.

At the financial position date the amortised cost of these assets amounted to EUR93.3 million (2008: EUR103.5 million). Their market value amounted to EUR106.9 million (2008: EUR119.6 million), whilst their nominal value amounted to EUR91.4 million (2008: EUR101.6 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 financial position 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.

Fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted prices in active markets for identical assets;

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market.

All available-for-sale financial assets held by the Group as at 31 December 2009 and 31 December 2008 are all classified under level 1 in the above hierarchy.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

35. RISK MANAGEMENT (continued)

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

Decisions on loans and advances to customers are subject to approval limits involving various levels of management of the Group. It is the Group's policy to establish that loans are within the customer's capacity to repay rather than to over rely on security. Nevertheless, loans and advances to customers are generally backed by security usually in the form of property, personal or bank guarantees. The security held is subject to periodic review to ensure that it remains adequate and valid.

Management's assessments of potential default on loans and advances to customers and interest related thereto is reflected in provisions which are netted off against the amounts of loans and advances to customers, as explained in note 2.2.

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

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

Credit risk exposures relating to the statement of financial position assets are as follows:

	Gross maximum exposure	
	2009	2008
	EUR'000	EUR'000
Treasury Bills	**8,903**	-
Cash and balances with Central Bank of Malta (excluding cash in hand)	**6,525**	13,221
Cheques in course of collection	**1,837**	1,411
Loans and advances to banks	**28,967**	8,543
Loans and advances to customers	**222,627**	165,626
Loans and advances to corporate entities	**158,277**	202,572
Debt and other fixed income instruments	**262,707**	247,295
Equity and other non-fixed income instruments	**2,556**	1,472
Other receivables	**7,952**	6,358
Total	**700,351**	646,498

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

Financial guarantees	**4,528**	5,262
Commitments	**114,454**	131,812
	118,982	137,074

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

35. RISK MANAGEMENT (continued)

35.3 Credit risk (continued)

Collateral

Of the total loans and advances to customers, 93.26% (2008: 93.75%) 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:

- 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 Group'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 Group does not occupy repossessed properties for business use.

The Group 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
Treasury bills	-	-	-	-	8,903	-	-	8,903
Cash and balances with Central Bank of Malta (excluding cash in hand)	6,525	-	-	-	-	-	-	6,525
Cheques in course of collection	1,837	-	-	-	-	-	-	1,837
Loans and advances to banks	28,967	-	-	-	-	-	-	28,967
Loans and advances to customers	-	12,563	84,737	26,449	5,126	59,211	192,818	380,904
Debt and other fixed income instruments	58,640	6,656	2,973	23,187	150,184	21,067	-	262,707
Equity and other non-fixed income instruments	2,269	-	-	-	-	287	-	2,556
Other receivables	-	-	-	-	-	7,952	-	7,952
At 31 December 2009	**98,238**	**19,219**	**87,710**	**49,636**	**164,213**	**88,517**	**192,818**	**700,351**
At 31 December 2008	79,877	16,578	10,187	34,998	210,049	129,183	165,626	646,498
Financial guarantees	-	304	944	754	52	1,209	1,265	4,528
Commitments	-	2,411	35,869	6,616	6,027	10,756	52,775	114,454
As at 31 December 2009	**-**	**2,715**	**36,813**	**7,370**	**6,079**	**11,965**	**54,040**	**118,982**
As at 31 December 2008	-	2,186	5,957	8,818	24,141	43,593	52,379	137,074

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

35. RISK MANAGEMENT (continued)

35.3 Credit risk (continued)

Credit quality

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

Group
As at 31 December 2009

	Balance with CBM and Treasury bills EUR'000	Debt securities EUR'000	Loans and advances to banks EUR'000	Total EUR'000
AAA	-	10,754	-	10,754
AA+ to AA-	-	21,744	1,070	22,814
A+ to A-	15,428	179,546	23,879	218,853
Lower than A-	-	31,793	162	31,955
Unrated	-	18,870	3,856	22,726
	15,428	**262,707**	**28,967**	**307,102**
As at 31 December 2008				
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	**247,295**	**8,543**	**269,059**

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:

	2009 EUR'000	2008 EUR'000
Neither past due nor impaired	**350,465**	348,848
Past due but not impaired	**28,127**	17,116
Impaired	**8,146**	7,986
	386,738	373,950

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

35. RISK MANAGEMENT (continued)

35.3 Credit risk (continued)

Analysis of financial assets that are past due but not impaired

Past due loans and advances include those that are only past due by a few days. Analysis of past due loans by age but not specifically impaired is provided below.

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

	2009	2008
	EUR'000	EUR'000
Past due up to 29 days	**346**	1,243
Past due 30-59 days	**6,617**	6,614
Past due 60-89 days	**14,990**	4,787
Past due over 90 days	**6,174**	4,472
	28,127	17,116

Impaired facilities are those credit facilities with payments of interest and/or capital overdue by 90 days or where the Group has reasons to doubt the eventual recoverability of funds.

Renegotiated loans and advances to customers that would otherwise be past due totalled EUR13,235,000 (2008: EUR8,109,000).

35.4 Liquidity risk

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

The Group 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)

35. RISK MANAGEMENT (continued)

35.4 Liquidity risk (continued)

The table below analyses the Group's assets and liabilities into relevant maturity groupings, based on the remaining period at financial position 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 2009						
Assets						
Treasury bills	7,915	988	-	-	-	8,903
Cash and balances with Central Bank of Malta	11,306	-	-	-	-	11,306
Cheques in course of collection	1,837	-	-	-	-	1,837
Loans and advances to banks	27,267	1,700	-	-	-	28,967
Loans and advances to customers	57,049	22,445	73,375	228,035	-	380,904
Debt and other fixed income financial instruments	13,554	30,545	127,199	91,409	-	262,707
Equity and other non-fixed income instruments	-	-	-	-	2,556	2,556
Other assets	1,995	862	2,853	1,929	18,645	26,284
	120,923	**56,540**	**203,427**	**321,373**	**21,201**	**723,464**
Liabilities and equity						
Amounts owed to banks	13,683	-	-	-	-	13,683
Amounts owed to customers	341,264	195,697	88,503	13,698	-	639,162
Other liabilities	1,850	1,796	1,194	121	4,728	9,689
Equity	-	-	-	-	60,930	60,930
	356,797	**197,493**	**89,697**	**13,819**	**65,658**	**723,464**
Net	**(235,874)**	**(140,953)**	**113,730**	**307,554**	**(44,457)**	**-**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

35. RISK MANAGEMENT (continued)

35.4 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 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)**	**-**

Analysis of financial liabilities by remaining contractual maturities

The table below summarises the maturity profile of the Group's financial liabilities at 31 December 2009 and 31 December 2008 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 2009					
Liabilities					
Amounts owed to banks	13,683	-	-	-	13,683
Amounts owed to customers	193,754	102,597	319,081	40,071	655,503
	207,437	**102,597**	**319,081**	**40,071**	**669,186**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

35. RISK MANAGEMENT (continued)

35.4 Liquidity risk (continued)

At 31 December 2008	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
Liabilities					
Amounts owed to banks	14,312	-	-	-	14,312
Amounts owed to customers	304,315	210,541	74,271	21,202	610,329
	318,627	**210,541**	**74,271**	**21,202**	**624,641**

Off–balance sheet items

	2009 Not later than one year EUR'000	2008 Not later than one year EUR'000
Guarantees, acceptance and other financial facilities	**4,528**	5,262
Loan commitments	**114,454**	131,812
Total	**118,982**	137,074

35.5 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 Group has no significant concentration of market risk.

Currency risk

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

The Group's financial assets and liabilities are substantially held in 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)

35. RISK MANAGEMENT (continued)

35.5 Market risk (continued)

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

	2009			
	USD EUR'000	**GBP EUR'000**	**Other EUR'000**	**Total EUR'000**
Assets	**8,745**	**43,813**	**6,613**	**59,171**
Liabilities	**8,667**	**43,807**	**6,477**	**58,951**

	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

This minimal currency exposure is not expected to leave any significant impact on the Group's income.

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 financial position/risk profiles:

	Increase/ decrease in basis points	**Effect on profit before tax EUR'000**
2009	**+25**	**41**
	-25	**(41)**
2008	+25	76
	-25	(218)

35.6 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 Group cannot expect to eliminate all operational risks, but through control framework and by monitoring and responding to potential risks, it 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)

35. RISK MANAGEMENT (continued)

35.7 Capital management

The primary objective of the Group's capital management is to ensure that the Group complies with regulatory capital requirements and has adequate capital to support its business and to maximise shareholder value. The Group 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 Group 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.

During the current financial year, the Group developed an internal capital adequacy assessment process (ICAAP), and became compliant with the Pillar II requirements of Banking Rule BR/12/2008 - The Supervisory Review Process of Credit Institutions Authorised Under the Banking Act, Cap. 371. The objective of the ICAAP was to inform the Board of Directors of the ongoing assessment of the Group's risks, how the Group mitigates those risks and how much capital is necessary having considered other mitigating factors. The ICAAP demonstrated that the Group is well capitalised. This document was approved by the Board of Directors in July 2009.

In the current financial year the Group also prepared a Capital Adequacy and Disclosures Report to provide detailed information on the Group's implementation of the Basel II framework and risk assessment process in accordance with the Pillar III requirements of Banking Rule BR/07/2009 – Publication of Annual Report and Audited Financial Statements of Credit Institutions Authorised Under the Banking Act, Cap. 371. This report will be made available on the Bank's website.

The capital adequacy ratio measures the Group 's own funds as a percentage of the total risk-weighted assets and off-balance sheet items. The ratio for the year under review has been prepared in compliance with the Pillar I requirements of Banking Rule BR/04/2007 – Capital Requirements of Credit Institutions Authorised under Banking Act, Cap. 371. During the year under review, the Group has complied with the externally imposed capital requirements. The table below summarises the composition of regulatory capital and the ratios of the Group as at the financial position date.

The Group

	Adjusted Book Value EUR'000	Weighted Amount EUR'000
Credit risk calculation - standardised approach		
Total assets and off-balance sheet items	**844,994**	307,023
Operational risk - basic indication approach		
15% of the three year adjusted average operating income		30,651
Foreign exchange risk		
8% of the capital requirement of the net short or long position, whichever is the higher		223
Total credit, operational and foreign exchange risk		**337,897**
Own funds		
Original own funds		49,182
Additional own funds		9,933
Total own funds		**59,115**
Capital Adequacy		**17.5%**

GROUP FIVE YEAR SUMMARY – STATEMENTS OF COMPREHENSIVE INCOME

	2009 EUR'000	2008 EUR'000	2007 EUR'000	2006 EUR'000	2005 EUR'000
Interest receivable and similar income	**31,796**	36,211	33,421	29,152	26,171
Interest payable	**(15,703)**	(20,254)	(18,552)	(15,388)	(13,072)
Net interest income	**16,093**	15,957	14,869	13,764	13,099
Other operating income	**2,353**	2,054	2,721	2,970	2,816
Total operating income	**18,446**	18,011	17,590	16,734	15,915
Other operating charges	**(11,961)**	(10,543)	(9,961)	(9,317)	(9,029)
Net impairment (losses)/reversals	**(483)**	(1,664)	(163)	(75)	464
Profit before tax	**6,002**	5,804	7,466	7,342	7,350
Income tax expense	**(2,022)**	(1,742)	(2,341)	(2,579)	(2,066)
Profit for the year	**3,980**	4,062	5,125	4,763	5,284

GROUP FIVE YEAR SUMMARY – STATEMENTS OF FINANCIAL POSITION

	2009 EUR'000	2008 EUR'000	2007 EUR'000	2006 EUR'000	2005 EUR'000
ASSETS					
Cash, treasury bills and balances with Central Bank of Malta	**13,684**	6,688	15,759	10,161	10,448
Reserve deposit with Central Bank of Malta	**6,525**	10,387	20,801	21,374	19,373
Cheques in course of collection	**1,837**	1,411	1,759	1,516	3,273
Loans and advances to banks	**28,967**	8,543	21,186	18,654	8,805
Loans and advances to customers	**380,904**	368,198	315,518	265,239	212,784
Debt and other fixed income instruments	**262,707**	247,295	248,106	261,355	275,756
Equity and other non-fixed income instruments	**2,556**	1,472	2,516	4,389	5,139
Investment property	**330**	-	-	-	-
Intangible assets	**1,351**	1,630	1,484	627	-
Property and equipment	**15,065**	13,303	9,028	9,073	6,119
Deferred tax assets	**1,586**	3,442	2,325	1,782	1,570
Current tax asset	**-**	-	-	-	119
Other receivables	**7,952**	6,358	6,438	5,804	5,901
TOTAL ASSETS	**723,464**	668,727	644,920	599,974	549,287
LIABILITIES					
Amounts owed to banks	**13,683**	14,312	1,281	839	431
Amounts owed to customers	**639,162**	590,717	579,157	538,691	490,787
Subordinated liabilities	**-**	-	3,261	3,261	3,261
Other liabilities	**3,268**	2,389	4,855	3,950	4,170
Accruals and deferred income	**6,421**	9,431	7,827	5,840	5,306
TOTAL LIABILITIES	**662,534**	616,849	596,381	552,581	503,955
EQUITY					
Issued capital	**15,600**	15,600	15,141	15,141	15,141
Share premium	**1,770**	1,770	1,770	1,770	1,770
Other reserves	**-**	-	-	-	408
Revaluation reserve	**7,207**	4,138	4,941	8,181	10,147
Retained earnings	**31,812**	28,695	25,900	21,563	17,130
Dividend reserve	**787**	787	787	738	736
Minority interest	**3,754**	888	-	-	-
	60,930	51,878	48,539	47,393	45,332
TOTAL LIABILITIES AND EQUITY	**723,464**	668,727	644,920	599,974	549,287
MEMORANDUM ITEMS					
Contingent liabilities	**4,528**	5,262	54,696	5,190	5,816
Commitments	**114,454**	131,812	120,543	131,714	104,733

GROUP FIVE YEAR SUMMARY - STATEMENTS OF CASH FLOWS

	2009 EUR'000	2008 EUR'000	2007 EUR'000	2006 EUR'000	2005 EUR'000
Net cash flows from/(used in) operating activities	**13,886**	(25,250)	(20,417)	(15,104)	2,833
Investing activities					
Dividends received	**214**	184	128	231	210
Interest income from debt securities	**14,981**	15,360	15,747	16,583	15,411
Purchase of debt and other fixed income instruments	**(58,473)**	(62,561)	(31,712)	(17,098)	(42,437)
Proceeds on maturity and disposal of debt and other fixed income instruments	**50,297**	50,809	36,401	28,535	32,686
Purchase of equity and other non-fixed income instruments	**(199)**	(686)	(100)	-	-
Proceeds on disposal of equity and other non-fixed income instruments	**-**	359	1,239	606	608
Purchase of property and equipment	**(4,587)**	(4,434)	(1,505)	(3,885)	(862)
Proceeds on disposal of property and equipment	**14**	13	14	23	7
Net cash flows from/(used in) investing activities	**2,247**	(956)	20,212	24,995	5,623
Financing activities					
Increase in issued capital	-	-	-	-	1,165
Dividends paid	**(831)**	(787)	(738)	(736)	(636)
Net proceeds from minority interest for shares in subsidiary	**2,794**	879	-	-	-
Net cash flows from/(used in) financing activities	**1,963**	92	(738)	(736)	529
Net increase/(decrease) in cash and cash equivalents	**18,096**	(26,114)	(943)	9,155	8,985
Cash and cash equivalents at 1 January	**919**	27,033	27,976	18,821	9,837
Cash and cash equivalents at 31 December	**19,015**	919	27,033	27,976	18,822

GROUP FIVE YEAR SUMMARY - ACCOUNTING RATIOS

	2009 %	2008 %	2007 %	2006 %	2005 %
Net interest income and other operating income to total assets	**2.6**	2.4	2.7	2.8	2.9
Operating expenses to total assets	**1.7**	1.6	1.5	1.6	1.5
Profit before tax to total assets	**0.8**	0.9	1.2	1.2	1.3
Return on capital employed before tax *	**11.2**	12.2	17.1	18.7	20.9
Profit after tax to equity *	**7.4**	8.5	11.8	12.1	15.0

	2009	2008	2007	2006	2005
Shares in issue (thousands)	**26,000**	26,000	26,000	26,000	26,000
Net assets per share *	**207c**	184c	168c	151c	135c
Earnings per share	**15c3**	15c6	19c7	18c4	21c7
Dividends per share					
Gross	**4c7**	4c7	4c6	4c4	4c4
Net	**3c**	3c	3c	2c7	2c7
Dividend cover	**5.1**	5.2	6.5	6.5	7.2

* 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 2009

The following figures were converted from Euro to US Dollars using the rates of exchange ruling on 31 December 2009. The rates used were EUR1 : USD1.4389. 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 2009.

	2009	2008
	USD'000	USD'000
Net interest income	**23,156**	22,961
Operating income	**26,542**	25,916
Operating profit before impairment reversals and provisions	**9,331**	10,746
Profit before tax	**8,636**	8,351
Profit for the year	**5,727**	5,845
Total assets	**1,040,992**	962,231
Liquid funds	**27,361**	1,322
Debt and other fixed income instruments	**378,009**	355,833
Loans and advances to customer	**548,083**	529,800
Equity	**87,672**	74,647