



Annual Report and Financial Statements
2003

CONTENTS

Chairman's statement	4
Directors' report	6
Report of the Auditors	10
Profit and loss account	14
Balance sheet	15
Statement of changes in equity	16
Cash flow statement	17
Notes to the financial statements	18
Solvency ratio	38
Five year summaries	39



DIRECTORS

Emmanuel P. Delia M.A., M.Litt. (Oxon.)	Chairman
Lawrence Zammit M.A. (Econ.)	Deputy Chairman
Carmel Curmi	
Arthur Galea Salomone LL.M. (Toronto) LL.D.	
Joseph M. Kenely M.Sc., A.C.M.A., F.I.A., C.P.A.A.	
Joseph Pace Ross A.C.I.B.	
Francis H. Stivala M.Sc., B.A. (Hons.) Econ.	

COMPANY SECRETARY

Mario Felice LL.D.

CHIEF EXECUTIVE OFFICER

Edward Cachia A.C.I.B.

REGISTERED OFFICE

APS House,
24, St. Anne Square
Floriana VLT 16
Malta

CHAIRMAN'S STATEMENT

It is once again a great pleasure to report on behalf of the Board of Directors that APS Bank had another successful year. In financial year 2003, the Bank improved its performance in a highly competitive environment. Pre-tax profits grew to Lm1.32million. Loans and advances rose by a further Lm12million to reach Lm62million while customers' deposits amounted to Lm175million, being an increase of Lm28million.

The Board is pleased with the trust that clients consistently show in APS Bank. The Board is also proud of the constant support that our shareholders demonstrate in this institution; paid up capital increased by Lm1million, representing a switching of Lm0.5million from reserves and an injection of another Lm0.5million. It is now Lm5million.

Throughout 2003, APS Bank continued strengthening its branch network and staff complement. A new branch started operations at Mosta in September as preparations were simultaneously going on to open another branch in the south of Malta, at Paola. It is planned to open up this new unit later on this year. At the

same time, the other branches will be enhanced and rendered more client-friendly.

The Bank increased its staff complement, in particular following the setting up of an Investment Services Unit and the enhancement of the Business Systems Unit. Coupled with a continuous training programme, such intake of staff enables the Bank to offer a wider range of services to its clients and, simultaneously, diversify its income base.

The Bank also adopted a new corporate image. It changed its logo to reflect the community spirit that animates all of the Bank's initiatives and introduced new uniforms for its staff. Altogether, these innovations reflect the institution's drive towards professionalism, smartness and the willingness to serve. The Bank's new slogan, *The Bank You Want Us To Be*, has been chosen to emphasise this characteristic. It is the Board's objective to continue developing the Bank's role in this direction.

The Board offers general direction. I am glad that I have had the support of

my fellow directors throughout a challenging year. Their individual and collective inputs are gratefully acknowledged. It was a pleasure working with them. In particular, I would like to thank two directors, Francis Stivala and Lawrence Zammit, for their very positive contribution to the development of APS Bank during the last ten years. Their presence on the Board will be missed. But the dedication they showed to this institution will long be remembered.

Another great 'thank you' goes to the members of staff. They contributed

greatly to the Bank's performance. I am sure the Board can rely on their unreserved support in the coming years. APS Bank relies on their valid input as it adapts to the challenging world of trade and finance in an expanded European Union following May 1, and, eventually, following Malta's adoption of the Euro.

The future is both interesting and demanding. But, I have no doubt whatsoever that APS Bank will be there to contribute its share to the formation of a better world for all.

A handwritten signature in black ink, appearing to read 'E. P. Delia', written over a horizontal line.

E. P. Delia
Chairman

DIRECTORS' REPORT

for the year ended 31 December 2003

Principal activities

APS Bank Limited is registered in Malta as a limited liability company under the Companies Act, 1995. The Bank is licenced to carry out the business of banking and investment services in terms of the Banking Act, 1994 and the Investments Services Act, 1994, respectively.

General overview

During 2003 the Bank continued to implement its strategy of expanding its core banking operations. This was achieved through investment in the Bank's infrastructure, marked by the opening of the new Mosta Branch, and strengthening of the organisation structure. The Bank provided various training opportunities to all the members of staff to pursue the development of their careers. The cost of these activities was more than mitigated by the improvement in the Bank's operating income.

The shareholders continued to show their commitment to the Bank's strategic plan by injecting a further Lm500,000 of fresh capital.

The capitalisation of distributable reserves added a further Lm500,000 to the share capital. This capital is being used to finance the Bank's expansion programme.

The Board's policy is for the Bank to strengthen its commitment in improving and widening the range of the services provided to customers in the most cost effective and efficient manner.

Results for the year

The Bank recorded a profit of Lm1,321,758 on ordinary activities before tax for the year ended 31 December 2003, a very satisfactory increase of 46% over the results for the previous year.

Earnings per share declined marginally from 4c7 in 2002 to 4c6 in 2003. The earnings per share figures were affected by the number

of issued ordinary shares. The Bank's profitability is expected to continue to improve as the application of the fresh capital starts bearing fruit. Prior years' earnings per share have been restated to incorporate the effect of the bonus issue of 2 million shares. Total capital for 2003 increased by 25%.

Net interest income

Net interest income rose to Lm4,220,474, 26% higher than the previous year's figure. This is mainly a result of the growth in the Bank's interest bearing assets and the improvement in interest margin from 39% in 2002 to 44% in 2003.

Non-interest income

Non-interest income increased by 12% to Lm836,882. This was primarily attributable to the net gains on the disposal of non-trading financial instruments, which amounted to Lm178,822. Trading profits on foreign exchange dropped by 23% over the previous year and fees from commissions improved marginally.

Administrative expenses and Depreciation

Both the administrative expenses and the depreciation charge increased by 13%, or Lm343,290 and Lm76,294 respectively, when compared to the previous financial year. These increases were the result of the Bank's investment strategy, particularly the opening of a new branch in Mosta and enhancement of its infrastructure.

Net impairment

Net impairment losses amounted to Lm179,124, being provisions against investments and increases in general provisions for bad and doubtful debts. These charges were partly offset by a write-back in specific provision against loans and advances to customers.

Balance sheet

Total assets as at end of year stood at Lm193million, an improvement of 20% on the previous year, continuing the upward trend. Loans and advances to customers grew

The Directors present their report and the Bank's audited financial statements for the year ended 31 December 2003. This report is prepared in terms of Section 177 of the Companies Act, 1995 and complies with the disclosure requirements of the Sixth Schedule of the same Act.

by a further 23.8%, to Lm62million. Investments rose by 17% or Lm16million when compared to the previous year. This was primarily financed by a sharp rise in customer deposits of Lm28million or 19%.

As at year end shareholders' funds stood at Lm11,136,083.

Corporate Governance

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

Board of Directors

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

The Board 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 the service industry, government or ecclesiastical organisations. Non-Executive Directors have a responsibility to bring independent, objective judgement to bear on Board decisions. The Board has reviewed the independence of the Non-Executive Directors and has reaffirmed that all Non-Executive Directors are considered by the Board to be independent. It is the practice of the Directors that, when a potential conflict of interest may arise in connection with any matter, the potential conflict of interest is declared and the individual 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 individual Director concerned. In all other circumstances, the Directors play a full and constructive role in the Bank's affairs.

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 of Directors.

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

A Statement of Directors' Responsibilities in respect of the Financial Statements is set out on Page 9.

Board Committee

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

The Audit Committee. The remit of the Audit Committee is to review and report to the Board on the annual financial reporting carried out by the Bank, the accounting policies of the Bank, the scope of the Bank's internal and external auditors and any material issues arising from these audits and the effectiveness of the Bank's system of financial reporting and internal financial controls. The Committee is responsible for the appointment of the Bank's Internal Auditor and recommends to the Board the appointment of the external auditor and the levels of its audit and non-audit remuneration.

The Remuneration Committee. The Board of Directors, being composed solely of Non-Executive Directors, acts as the Remuneration Committee. The Board of Directors determines the remuneration of the Chairman, the Non-Executive Directors, the Chief Executive Officer and Senior Executives.

Directors' remuneration is disclosed in Note 9 to the Financial Statements.

DIRECTORS' REPORT (Cont.)

The Risk Management Committee. The role of the Risk Management Committee is to assist management to identify and assess the main risks faced by the Bank in a co-ordinated manner, to assess, identify 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 Committee. The responsibility of the Investments and Treasury Committee includes the development of new investment and treasury services, interest rate policy, liquidity and the management of the Bank's balance sheet in terms of investments.

The Administration Executive Committee. The role of the Administration Executive Committee is to make recommendations to the Board on significant acquisitions and monitor the administrative policies of the Bank to ensure effective support is provided throughout the Bank.

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

Relations with shareholders and the Annual General Meeting

The Bank maintains good communications with shareholders. Members of the Board, including the Chairman, meet frequently with representatives of the shareholders to discuss their views and to ensure that the strategies and objectives of the Bank are in keeping with these views. Issues discussed include the Bank's performance, the impact of major investments and any corporate governance concerns.

The Annual General Meeting is to be held on 22 April, 2004.

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 how the Bank conducts its business. It covers areas such as complying 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, but not to eliminate, 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
- Bankwide policies for financial reporting, accounting, financial risk management, information security, project appraisal and corporate governance
- 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
- An Internal Audit Unit which reviews key business processes and controls
- An Audit Committee which approves audit plans and deals with significant control issues raised by internal or external audit

The effectiveness of the Bank's internal control system is reviewed regularly by the Board of Directors and the Audit Committee. The Audit

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

Directors

The Directors of the Bank are listed on page 3. In accordance with the Memorandum and Articles of Association of the Bank, all Directors retire at the forthcoming Annual General Meeting and the following, being eligible, offer themselves for re-election:

Emmanuel P. Delia M.A., M.Litt. (Oxon.),
 Carmel Curmi
 Arthur Galea Salomone LL.M. (Toronto) LL.D.
 Joseph M. Kenely M.Sc., A.C.M.A., F.I.A., C.P.A.A.
 Joseph Pace Ross A.C.I.B.

Statement of Directors' Responsibilities

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

The Directors are responsible for ensuring that:

- appropriate accounting policies have been consistently applied and supported by reasonable and prudent judgments and estimates;
- financial statements have been drawn up in accordance with International Financial Reporting Standards;
- the financial statements are prepared on the basis that the Bank must be presumed to be carrying on its business as a going concern; and

- account has been taken of income and charges relating to the accounting period, irrespective of the date of receipt or payment.

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

Disclosure in terms of the Sixth Schedule to the Companies Act, 1995

During the year ended 31 December 2003, no shares in the Bank:

- were purchased by it or acquired by it by forfeiture or surrender or otherwise;
- were 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;
- were made subject to pledge or other privileges, to a hypothec or to any other charge in favour of the Bank.

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



L. Zammit - Deputy Chairman

16 March 2004

REPORT OF THE AUDITORS

to the members of APS BANK LIMITED

We have audited the financial statements of APS Bank Limited for the year ended 31 December 2003 which comprise the income statement, balance sheet, statement of changes in equity, cash flow statement and the related notes set out on pages 14 to 37.

As described on page 9 the Bank's Directors are responsible for the preparation of the financial statements. It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion to you. We are also required to report whether we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purpose of our audit, whether in our opinion proper books of account have been kept by the Bank so far as appears from our examination thereof and whether the financial statements are in agreement with the books.

We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit

includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates and judgements made by the Directors, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

We have obtained all the information and explanations, which to the best of our knowledge and belief were necessary for the purpose of our audit. In our opinion, proper books of account have been kept by the Bank so far as appears from our examination thereof. The financial statements are in agreement with the books.

In our opinion, the financial statements give a true and fair view of the financial position of the Bank as at 31 December 2003 and of the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the Companies Act, 1995 and the Banking Act, 1994.

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

Ernst & Young
Certified Public Accountants and Auditors
Sliema SLM 15
Malta

16 March 2004



THE BANK YOU WANT US TO BE



**Financial Statements
2003**

PROFIT AND LOSS ACCOUNT

for the year ended 31 December 2003

	Notes	2003 Lm	2002 Lm
Interest receivable and similar income			
On loans and advances, balances with the Central Bank of Malta and treasury bills	(2)	3,548,948	3,180,655
On debt securities	(2)	6,052,552	5,508,828
		9,601,500	8,689,483
Interest payable	(3)	(5,381,026)	(5,337,468)
Net interest income		4,220,474	3,352,015
Dividend income	(4)	50,754	46,207
Fees and commissions receivable		266,307	250,776
Trading profits	(5)	313,718	409,260
Net gains on non-trading financial instruments	(6)	178,822	5,716
Other operating income		27,281	33,768
Operating income		5,057,356	4,097,742
Administrative expenses	(7)	(2,897,582)	(2,554,292)
Depreciation	(20)	(658,892)	(582,598)
Net impairment losses	(8)	(179,124)	(53,590)
		(3,735,598)	(3,190,480)
Profit on ordinary activities before taxation	(9)	1,321,758	907,262
Taxation on profit on ordinary activities	(10)	(485,829)	(337,340)
Profit for the financial year		835,929	569,922
Earnings per share	(12)	4c6	4c7

The accounting policies and explanatory notes on pages 18 to 37 form an integral part of the financial statements.

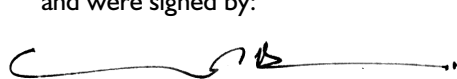
BALANCE SHEET

as at 31 December 2003

	Notes	2003 Lm	2002 Lm
ASSETS			
Cash and balances with Central Bank of Malta	(13)	8,790,096	7,332,249
Cheques in course of collection		172,113	486,849
Treasury bills	(14)	5,548,649	2,081,911
Debt and other fixed income instruments	(15)	106,410,025	91,663,014
Equity and other non fixed income instruments	(16)	2,514,462	1,270,076
Loans and advances to banks	(17)	3,388,328	4,560,088
Loans and advances to customers	(18)	60,204,422	48,173,727
Tangible fixed assets	(20)	2,818,189	2,623,670
Current taxation		-	157,488
Deferred taxation	(21)	769,883	671,378
Other assets	(22)	34,200	-
Prepayments and accrued income	(23)	2,386,995	1,879,578
TOTAL ASSETS		193,037,362	160,900,028
LIABILITIES			
Amounts owed to banks	(24)	2,045,629	221,196
Amounts owed to customers	(25)	175,112,225	147,436,582
Other liabilities	(26)	1,522,515	683,673
Accruals	(27)	1,820,910	1,581,094
Subordinated liabilities	(28)	1,400,000	1,400,000
		181,901,279	151,322,545
SHAREHOLDERS' FUNDS			
Called up share capital	(29)	5,000,000	4,000,000
Share premium account	(30)	759,850	759,850
Other reserves	(31)	175,226	674,926
Revaluation reserve	(32)	580,913	210,908
Profit and loss account		4,403,427	3,784,465
Dividend reserve		216,667	147,334
		11,136,083	9,577,483
TOTAL LIABILITIES		193,037,362	160,900,028
MEMORANDUM ITEMS			
Contingent liabilities	(33)	1,405,934	965,893
Commitments	(34)	39,415,000	27,531,000

The accounting policies and explanatory notes on pages 18 to 37 form an integral part of the financial statements.

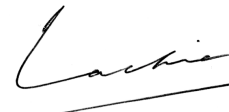
The financial statements on pages 14 to 37 were authorised for issue by the Board of Directors on 16 March 2004 and were signed by:



E. P. Delia
Chairman



L. Zammit
Deputy Chairman



E. Cachia
Chief Executive Officer

STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2003

Note	Called-up Share Capital Lm	Share Premium Account Lm	Revaluation Reserve Lm	Other Reserves Lm	Dividend Reserve Lm	Profit and Loss Account Lm	Total Lm
FINANCIAL YEAR ENDED 31 DECEMBER 2002							
At 1 January 2002	1,500,000	759,850	287,346	674,926	117,000	3,361,877	6,700,999
Increase in ordinary share capital	2,500,000	-	-	-	-	-	2,500,000
Net decrease in unrealised revaluation reserve on available- for-sale assets and equities not recognised in the profit and loss account	-	-	(76,438)	-	-	-	(76,438)
Profit for the year after taxation	-	-	-	-	-	569,922	569,922
Dividends paid	-	-	-	-	(117,000)	-	(117,000)
Dividends, net after taxation (11)	-	-	-	-	147,334	(147,334)	-
Balance at 31 December 2002	4,000,000	759,850	210,908	674,926	147,334	3,784,465	9,577,483
FINANCIAL YEAR ENDED 31 DECEMBER 2003							
At 1 January 2003	4,000,000	759,850	210,908	674,926	147,334	3,784,465	9,577,483
Increase in ordinary share capital	500,000	-	-	-	-	-	500,000
Net increase in unrealised revaluation reserve on available- for-sale assets and equities not recognised in the profit and loss account	-	-	443,850	-	-	-	443,850
Released on disposal	-	-	(73,845)	-	-	-	(73,845)
Transferred to profit and loss account	-	-	-	(500,000)	-	500,000	-
Bonus issue	500,000	-	-	-	-	(500,000)	-
Investment Scheme Reserve	-	-	-	300	-	(300)	-
Profit for the year after taxation	-	-	-	-	-	835,929	835,929
Dividends paid	-	-	-	-	(147,334)	-	(147,334)
Dividends, net after tax (11)	-	-	-	-	216,667	(216,667)	-
Balance at 31 December 2003	5,000,000	759,850	580,913	175,226	216,667	4,403,427	11,136,083

The accounting policies and explanatory notes on pages 18 to 37 form an integral part of the financial statements.

CASH FLOW STATEMENT

for the year ended 31 December 2003

	Note	2003 Lm	2002 Lm
Cash flows from operating activities			
Interest and commission receipts		4,497,785	3,797,255
Interest and commission payments		(5,124,631)	(5,167,957)
Cash paid to employees and suppliers		(2,930,319)	(2,529,391)
Operating loss before changes in operating assets and liabilities		(3,557,165)	(3,900,093)
(Increase)/decrease in operating assets:			
Loans and advances		(11,898,630)	(12,234,813)
Reserve deposit with Central Bank of Malta		(1,031,520)	(1,027,800)
Cheques in course of collection		314,736	61,938
Other assets		(34,200)	-
Increase/(decrease) in operating liabilities:			
Amounts owed to customers		27,675,643	23,218,093
Other liabilities		824,097	(205,497)
Cash generated from operating activities before taxation		12,292,961	5,911,828
Taxation paid		(360,638)	(786,683)
Net cash from operating activities		11,932,323	5,125,145
Cash flows from/(used in) investing activities			
Dividends received		50,754	46,207
Interest income from investment securities		6,395,563	6,162,594
Purchase of debt and other fixed income instruments		(22,631,735)	(12,301,421)
Sales and redemption of debt and other fixed income instruments		6,721,390	4,371,196
Purchase of equity and other non fixed income instruments		(1,024,963)	(327,775)
Sales of equity and other non fixed income instruments		-	81,400
Purchase of tangible fixed assets		(899,216)	(746,349)
Proceeds from sale of tangible fixed assets		90	-
Net cash used in investing activities		(11,388,117)	(2,714,148)
Cash flows from financing activities			
Increase in share capital		500,000	2,500,000
Dividends paid		(147,334)	(117,000)
Net cash from financing activities		352,666	2,383,000
Increase in cash and cash equivalents		896,872	4,793,997
Cash and cash equivalents at beginning of year		7,828,032	3,034,035
Cash and cash equivalents at end of year	(35)	8,724,904	7,828,032

The accounting policies and explanatory notes on pages 18 to 37 form an integral part of the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

I. PRINCIPAL ACCOUNTING POLICIES

The significant accounting policies used in the preparation of these financial statements are summarised below:

Basis of preparation

The financial statements have been prepared under the historical cost convention as modified by the revaluation of certain assets, and are in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board and comply with the Companies Act, 1995.

The format of the financial statements conforms with the Banking Directive on the publication of audited financial statements of credit institutions authorised under the Banking Act, 1994.

Revenue recognition

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

Interest income

Interest income is recognised in the profit and loss account as it accrues, unless collectibility is in doubt. Interest on doubtful loans and advances is classified as interest in suspense when there is uncertainty about its collectibility and is excluded from income until it is received.

Fee income

Fee income is accounted for in the period when receivable, except where the fee 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, the fee is recognised on an appropriate basis over the relevant period.

Dividend income

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

Foreign currency translation

Transactions denominated in foreign currencies are translated into Maltese Liri at the rates of exchange ruling on the transaction date. Monetary assets and liabilities denominated in foreign currencies are translated into Maltese Liri at the rates of exchange ruling at the balance sheet date. Gains and losses arising from such translation are dealt with in the profit and loss account.

Loans and advances and doubtful debts

Loans and advances are stated after deduction of specific and general provisions for doubtful debts. Specific provisions have been made in respect of all identified impaired advances. The amount of specific allowances represents the difference between the carrying amount and the estimated recoverable amount. The general provision is maintained in respect of losses which, although not yet specifically identified, are known from experience to be present and are inherent in any portfolio of bank loans and advances.

The aggregate provisions which are made during the year are charged against profit before income tax, while amounts realised and recoveries of debts previously written off are added to profit.

Bad debts are written off in whole or in part when the extent of the loss incurred has been confirmed and where appropriate are then removed from the amount included in the specific provision.

Financial instruments

Originated loans and receivables are loans and receivables created by the Bank providing money directly to a debtor, other than those created with the intention of short-term profit taking.

Held-to-maturity assets are financial assets with fixed or determinable payments and fixed maturity that the Bank has the intent and ability to hold to maturity.

Available-for-sale assets are financial assets that are not held for trading purposes, originated by the Bank, or held-to-maturity.

All investments are initially recognised at cost, being the fair value of the consideration given and includes acquisition charges associated with the investment.

After initial recognition, investments which are classified as “available-for-sale” are measured at fair value, without any deduction for transaction costs that it may incur on sale or other disposal. Unrealised gains or losses on available-for-sale securities are reported as a separate component of equity until the investment is sold, collected or otherwise disposed of, or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the income statement.

Originated loans and receivables and held-to-maturity assets, are subsequently measured at amortised cost. Amortised cost is calculated by taking into account any discount or premium on acquisition, over the period to maturity. For investments carried at amortised cost, any gain or loss is recognised in the income statement when the investment is derecognised or impaired, as well as through the amortisation process.

For investments actively traded in organised financial markets, fair value is generally determined by reference to Stock Exchange quoted market bid prices at the close of business on the balance sheet date.

For investments where there is no quoted market price, a reasonable estimate of the fair value is determined by reference to the current market value of another instrument which is substantially the same or is calculated based on the expected cash flows of the underlying net asset base of the instrument. Unlisted investments are carried at cost net of provision for diminution in value where fair value cannot be reliably measured.

Trade and settlement date accounting

All “regular way” purchases and sales of financial assets are recognised on the “trade date”, i.e. the date that the entity 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 time frame generally established by regulation or convention in the market place.

Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost less accumulated depreciation. Depreciation is calculated on the straight line basis so as to write off the cost of each asset over its estimated useful economic life. The annual rates used for this purpose are:

	%
Building	1
Computer equipment	25
Other	5 - 20

NOTES TO THE FINANCIAL STATEMENTS (Cont.)**I. PRINCIPAL ACCOUNTING POLICIES (Cont.)**

Leasehold properties are amortised over the period of the leases.

In the case of freehold premises, it is the Bank's policy to maintain properties in such condition, that their value taken as a whole, is not impaired by the passage of time. Such expenditure is charged to the profit and loss account in the year in which it is committed.

Dividends payable

Dividends payable on ordinary shares are recognised in the period in which they are declared.

Deferred taxation

In accordance with IAS 12 Income Taxes, deferred taxation is determined under the liability method in respect of all material temporary differences between the carrying amount of an asset or liability in the balance sheet and its tax base. Deferred tax assets are recognised only to the extent that future taxable profits will be available such that realisation of the related tax benefit is probable.

Retirement benefit costs

The Bank contributes towards the government pension in accordance with local legislation. These costs are charged to the profit and loss account as they accrue. The Bank does not contribute towards defined contribution or retirement benefit plans.

Cash and cash equivalents

Cash and cash equivalents comprise:

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

2. INTEREST RECEIVABLE AND SIMILAR INCOME

	2003 Lm	2002 Lm
On loans and advances to banks	61,578	92,979
On loans and advances to customers	2,992,075	2,641,428
On balances with Central Bank of Malta	261,147	286,660
On treasury bills	234,148	159,588
	3,548,948	3,180,655
On debt securities	6,477,766	5,789,547
Amortisation of premium	(425,214)	(280,719)
	6,052,552	5,508,828
	9,601,500	8,689,483



3. INTEREST PAYABLE

	2003 Lm	2002 Lm
On deposits by banks	57,703	27,419
On customer accounts	5,218,323	5,205,049
On subordinated liabilities	105,000	105,000
	5,381,026	5,337,468

4. DIVIDEND INCOME

	2003 Lm	2002 Lm
From equity shares	50,754	46,207
	50,754	46,207

5. TRADING PROFITS

	2003 Lm	2002 Lm
Profit on foreign exchange activities	313,718	409,260
	313,718	409,260

6. NET GAINS ON NON-TRADING FINANCIAL INSTRUMENTS

	2003 Lm	2002 Lm
Realised gains on disposal of available for sale debt and other fixed income instruments	178,822	5,716
	178,822	5,716

7. ADMINISTRATIVE EXPENSES

	2003 Lm	2002 Lm
Staff costs:		
- wages and salaries	1,257,514	1,218,917
- social security costs	87,816	80,017
Other administrative expenses	1,552,252	1,255,358
	2,897,582	2,554,292

NOTES TO THE FINANCIAL STATEMENTS (Cont.)**8. NET IMPAIRMENT LOSSES**

	2003	2002
	Lm	Lm
Write-downs:		
Investments in available for sale debt and other fixed income instruments	249,316	-
Loans and advances to customers:		
- general provision	99,520	132,000
- specific provisions	328,566	207,212
- bad debts written off	53,243	46,807
	730,645	386,019
Reversal of write-downs:		
Loans and advances to customers:		
- specific provisions	(551,521)	(332,429)
Net impairment losses	179,124	53,590

9. PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

	2003	2002
	Lm	Lm
Profit before taxation is stated after charging:		
Auditors' remuneration	6,500	6,500
Directors' emoluments		
- fees	34,085	18,900
- other emoluments	3,670	14,204



10. TAXATION

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

	2003 Lm	2002 Lm
Current taxation: Malta income taxation on taxable profit at 35%	532,871	342,812
Net deferred taxation movement relating to the origination and reversal of temporary differences	(47,042)	(5,472)
	485,829	337,340

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

	2003 Lm	2002 Lm
Profit on ordinary activities before taxation	1,321,758	907,262
Theoretical taxation expense at 35%	462,615	317,542
Tax effect of:		
- Depreciation charges not deductible by way of capital allowance	14,110	14,923
- Taxation saving on tax-exempt local dividend income	-	(1,484)
- Expenses not allowed for taxation purposes	32,932	6,953
- Non deductible expenses	(23,828)	(594)
Taxation on profit on ordinary activities	485,829	337,340

11. DIVIDENDS

	2003 Lm	2002 Lm	2003 %	2002 %
Proposed final gross of income taxation	333,333	226,668	6.7	5.7

	2003 Lm	2002 Lm	2003 Cents per share	2002 Cents per share
Proposed final net of income taxation	216,667	147,334	1.1	0.9

12. EARNINGS PER SHARE

The earnings per share of 4c6 (2002 - 4c7 restated) have been calculated on the profits attributable to shareholders after taxation as shown in the income statements, divided by the number of shares in issue during the year. The earnings per share have been adjusted retrospectively to reflect the increase in the number of ordinary shares following a bonus issue which occurred during the year.

NOTES TO THE FINANCIAL STATEMENTS (Cont.)**13. CASH AND BALANCES WITH CENTRAL BANK OF MALTA**

	2003 Lm	2002 Lm
Cash in hand	1,039,353	890,991
Balances with Central Bank of Malta	794,203	516,238
Reserve deposit with Central Bank of Malta	6,956,540	5,925,020
	8,790,096	7,332,249

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

14. TREASURY BILLS

	2003 Lm	2002 Lm
Issued by the Government of Malta	5,548,649	2,081,911

The treasury bills are all held for investment purposes. The market value of the treasury bills does not differ significantly from their carrying value.

15. DEBT AND OTHER FIXED INCOME INSTRUMENTS

	2003 Lm	2002 Lm
Loans and receivables		
Issued by public bodies:		
- local government securities	45,446,976	43,953,544
Issued by other issuers:		
- local banks	688,874	500,000
- local others	2,233,159	2,023,900
- foreign others	-	219,649
	2,922,033	2,743,549
Total	48,369,009	46,697,093
Held-to-maturity		
Issued by public bodies:		
- local government	27,567,045	28,632,382
- foreign government	-	100,407
	27,567,045	28,732,789

15. DEBT AND OTHER FIXED INCOME INSTRUMENTS (continued)

	2003 Lm	2002 Lm
Issued by other issuers:		
- local banks	996,731	999,756
- foreign banks	2,790,617	1,573,276
- foreign others	1,340,586	2,464,204
- local other	165,900	-
	5,293,834	5,037,236
Total	32,860,879	33,770,025
Available-for-sale		
Issued by public bodies:		
- local government	4,570,787	2,717,571
- foreign government	655,190	254,360
	5,225,977	2,971,931
Issued by other issuers:		
- local banks	160,698	131,520
- foreign banks	6,627,221	1,738,366
- foreign others	12,993,423	6,354,079
- local others	172,818	-
	19,954,160	8,223,965
Total	25,180,137	11,195,896
Total debt securities	106,410,025	91,663,014
Analysed by remaining period to maturity:		
- over 5 years	68,597,508	66,199,858
- 5 years or less but over 1 year	32,298,147	22,213,565
- 1 year or less but over 3 months	4,912,794	1,387,595
- 3 months or less	601,576	1,861,996
	106,410,025	91,663,014

NOTES TO THE FINANCIAL STATEMENTS (Cont.)**15. DEBT AND OTHER FIXED INCOME INSTRUMENTS (continued)**

	2003	2002
	Lm	Lm
Analysed by currency:		
- Maltese Liri	81,491,431	78,887,640
- foreign	24,918,594	12,775,374
	106,410,025	91,663,014
Unamortised premiums on debt and other fixed income instruments	2,778,565	2,024,154
Listing status:		
- listed on Malta Stock Exchange	82,002,988	79,166,776
- listed elsewhere	24,407,037	12,496,238
	106,410,025	91,663,014
 Movement in debt and other fixed income instruments		 Cost and carrying value Lm
At 1 January 2003		91,663,014
Redemption and disposals		(6,761,677)
Acquisitions		22,632,498
Amortisation		(425,214)
Revaluation		94,485
Exchange adjustments		(543,765)
Impairment		(249,316)
At 31 December 2003		106,410,025



16. EQUITY AND OTHER NON FIXED INCOME INSTRUMENTS

Available-for-sale

	2003 Lm	2002 Lm
Listed on Malta Stock Exchange	2,514,462	1,270,076

Movement in equity and other non fixed income instruments

	Carrying value Lm
At 1 January 2003	1,270,076
Acquisitions	1,024,963
Exchange adjustments	(4,634)
Increase in fair values	224,057
At 31 December 2003	2,514,462

17. LOANS AND ADVANCES TO BANKS

	2003 Lm	2002 Lm
Repayable on call and at short notice	3,388,328	4,560,088
Analysed by currency:		
- Maltese Liri	553,486	511,373
- foreign	2,834,842	4,048,715
	3,388,328	4,560,088

NOTES TO THE FINANCIAL STATEMENTS (Cont.)**18. LOANS AND ADVANCES TO CUSTOMERS**

	2003 Lm	2002 Lm
Repayable on call and at short notice	18,015,889	13,819,146
Term loans and advances	43,916,095	36,191,650
	61,931,984	50,010,796
Less impairment	(1,435,973)	(1,559,408)
Less interest in suspense	(291,589)	(277,661)
	60,204,422	48,173,727
Remaining maturity of term loans and advances:		
- over 5 years	14,337,906	10,774,412
- 5 years or less but over 1 year	16,838,889	19,889,525
- 1 year or less but over 3 months	3,309,978	3,533,278
- 3 months or less	9,429,322	1,994,435
	43,916,095	36,191,650
Impairment		
- specific	769,453	992,408
- general	666,520	567,000
	1,435,973	1,559,408
Analysed by currency:		
- Maltese Liri	61,494,716	49,458,331
- foreign	437,268	552,465
	61,931,984	50,010,796

The aggregate amount of advances on which interest is reserved is Lm2,530,666 (2002 - Lm1,640,925) gross of provisions against which Lm644,306 (2002 - Lm783,695) is being provided for after taking into account the extendible value of security backing such loans and advances.

19. CONCENTRATION OF LOANS AND ADVANCES

	2003 Lm'000	2002 Lm'000
The following industry concentrations, gross of provisions, are considered significant:		
Energy and water	2,431	1,604
Transport, storage and communications	3,981	3,673
Agriculture and fisheries	1,288	751
Manufacturing	3,403	1,645
Building and construction	3,964	3,055
Hotel, restaurant and tourist trade	2,016	2,552
Wholesale and retail trade	7,827	7,477
Personal	25,863	19,920
Other services	4,788	3,309
All other	6,371	6,025
	61,932	50,011

20. TANGIBLE FIXED ASSETS

	Land and buildings Lm	Computer equipment Lm	Other Lm	Total Lm
Year ended 31 December 2003				
Opening net book amount	1,361,206	903,942	358,522	2,623,670
Additions	307,471	264,248	281,904	853,623
Disposals	-	(1,180)	-	(1,180)
Depreciation charge	(33,192)	(481,844)	(143,856)	(658,892)
Depreciation released on disposal	-	968	-	968
Closing net book amount	1,635,485	686,134	496,570	2,818,189
As at 31 December 2003				
Cost	1,828,886	2,159,834	1,566,996	5,555,716
Provision for depreciation	(193,401)	(1,473,700)	(1,070,426)	(2,737,527)
Net book amount	1,635,485	686,134	496,570	2,818,189
As at 31 December 2002				
Cost	1,521,415	1,896,766	1,285,092	4,703,273
Provision for depreciation	(160,209)	(992,824)	(926,570)	(2,079,603)
Net book amount	1,361,206	903,942	358,522	2,623,670
		2003		2002
		Lm		Lm
Future capital expenditure:				
- contracted but not provided for in the financial statements		-		199,843
- authorised by the directors but not contracted		4,379,500		1,563,657
		4,379,500		1,763,500

NOTES TO THE FINANCIAL STATEMENTS (Cont.)**21. DEFERRED TAXATION**

	2003 Lm	2002 Lm
The deferred tax asset arises as a consequence of temporary differences resulting from:		
Fair value movements in investment securities	16,317	(35,146)
Provisions for bad and doubtful debts	627,077	594,145
Excess of capital allowances over depreciation	126,489	112,379
	769,883	671,378

22. OTHER ASSETS

	2003 Lm	2002 Lm
Property held for resale	34,200	-

23. PREPAYMENTS AND ACCRUED INCOME

	2003 Lm	2002 Lm
Accrued income	2,282,825	1,810,601
Other	104,170	68,977
	2,386,995	1,879,578

24. AMOUNTS OWED TO BANKS

	2003 Lm	2002 Lm
With agreed maturity dates or periods of notice, by remaining maturity:		
- 3 months or less but not repayable on demand	2,045,629	221,196
Analysed by currency:		
- Maltese Liri	1,928,812	27,224
- foreign	116,817	193,972
	2,045,629	221,196

25. AMOUNTS OWED TO CUSTOMERS

	2003 Lm	2002 Lm
With agreed maturity dates or periods of notice, by remaining maturity:		
- over 5 years	2,805,351	-
- 5 years or less but over 1 year	34,311,792	14,381,044
- 1 year or less but over 3 months	45,283,859	49,287,390
- 3 months or less but not repayable on demand	37,250,085	31,645,101
	119,651,087	95,313,535
Repayable on demand	55,461,138	52,123,047
	175,112,225	147,436,582
Analysed by currency:		
- Maltese Liri	147,822,443	131,573,115
- foreign	27,289,782	15,863,467
	175,112,225	147,436,582

26. OTHER LIABILITIES

	2003 Lm	2002 Lm
Bills payable	1,383,950	538,820
Taxation	14,745	-
Other liabilities	123,820	144,853
	1,522,515	683,673

27. ACCRUALS

	2003 Lm	2002 Lm
Accrued interest	1,401,948	1,145,554
Other accruals	418,962	435,540
	1,820,910	1,581,094

NOTES TO THE FINANCIAL STATEMENTS (Cont.)**28. SUBORDINATED LIABILITIES**

	2003 Lm	2002 Lm
7.5% Subordinated Unsecured Loan Stock	1,400,000	1,400,000

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

29. SHARE CAPITAL

	2003 Lm	2002 Lm
Authorised 50,000,000 (2002: 50,000,000) ordinary shares of Lm0.25 each	12,500,000	12,500,000
Issued, called up and fully paid up 20,000,000 (2002: 16,000,000) ordinary shares of Lm0.25 each	5,000,000	4,000,000

30. SHARE PREMIUM ACCOUNT

	2003 Lm	2002 Lm
Balance at beginning and end of year	759,850	759,850

31. OTHER RESERVES

	2003 Lm	2002 Lm
Non-distributable reserve	174,926	174,926
In accordance with a Central Bank of Malta directive, gains on devaluation of the Maltese Lira on 25 November 1992 have been set aside as a non-distributable reserve.		
Asset Funding Reserve*	-	500,000
The Asset Funding Reserve had been created to provide for the purchase of tangible fixed assets.		
Investment Compensation Scheme Reserve	300	-
	175,226	674,926

*The asset funding reserve was transferred to distributable reserves. During the year the Board approved a bonus issue of the same amount.

32. REVALUATION RESERVE

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

33. CONTINGENT LIABILITIES

	2003 Lm	2002 Lm
Guarantees	1,024,842	798,918
Other contingent liabilities	381,092	166,975
	1,405,934	965,893

34. COMMITMENTS

	2003 Lm	2002 Lm
Undrawn formal standby facilities, credit facilities and other commitments to lend	39,415,000	27,531,000

35. CASH AND CASH EQUIVALENTS

	2003 Lm	2002 Lm
Analysis of balances of cash and cash equivalents as shown in the cash flow statement		
Cash in hand	1,039,353	890,991
Balances with Central Bank of Malta (excluding reserve deposits)	794,203	516,238
Treasury bills	5,548,649	2,081,911
Loans and advances to banks	3,388,328	4,560,088
Amounts owed to banks	(2,045,629)	(221,196)
	8,724,904	7,828,032

NOTES TO THE FINANCIAL STATEMENTS (Cont.)**36. THE AGGREGATE AMOUNT OF ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES TRANSLATED INTO MALTESE LIRI**

	2003 Lm	2002 Lm
Assets	29,303,341	18,107,757
Liabilities	27,585,829	16,220,848

37. SEGMENTAL INFORMATION

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

38. RELATED PARTY TRANSACTIONS

During the course of its normal banking business, the Bank conducts business on commercial terms with the Archdiocese of Malta and the Diocese of Gozo, the major shareholders of the Bank.



39. GENERAL

(a) Loans to and commitments on behalf of directors and officers

	2003 Loans and advances Lm	2003 Commitments Lm	2002 Loans and advances Lm	2002 Commitments Lm
Directors				
1 January	32,228	12,900	37,494	13,026
Additions	18,667	1,000	951	874
	50,895	13,900	38,445	13,900
Less repayments/cancellations	(4,961)	(2,708)	(6,217)	(1,000)
31 December	45,934	11,192	32,228	12,900
Officers				
1 January	326,403	42,042	285,053	32,974
Additions	259,617	2,959	124,166	12,668
	586,020	45,001	409,219	45,642
Less repayments/cancellations	(80,696)	(700)	(82,816)	(3,600)
31 December	505,324	44,301	326,403	42,042

(b) The average number of persons employed by the Bank during the year was as follows:

	2003 Number of employees	2002 Number of employees
Managerial	28	23
Supervisory and clerical	109	105
Others	13	12
	150	140

NOTES TO THE FINANCIAL STATEMENTS (Cont.)

40. FINANCIAL INSTRUMENTS

Financial risk management

APS Bank Limited is subject to a combination of financial risks which are inherent in the business of banking. Financial risks are managed by the Bank within statutory limits and within internal parameters established by the Board of Directors.

Fair values

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

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

All the Bank's listed equities are carried in the balance sheet at market value. Debt securities which are classified as "available-for-sale" investments are also carried in the balance sheet at market value. However, investments classified as "loans and receivables" and debt securities classified as "held-to-maturity" investments are carried in the balance sheet at amortised cost. At the balance sheet date the amortised cost of these assets amounted to Lm81,229,888, whereas their market value amounted to Lm89,117,329.

Loans and advances to customers are stated at the amounts contractually due less provisions to reflect the expected recoverable amounts.

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

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

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

Currency risk

Currency risk is the risk of the exposure of the Bank's financial position and cashflow to adverse movements in foreign exchange rates. The Bank's financial assets and liabilities are substantially held in Maltese Liri.

Financial assets denominated in foreign currencies are invested in such manner as to reflect the foreign currency composition of the basket of the Maltese Lira, thereby hedging against exchange losses. Any deviations are subject to monitoring by the Bank's management. Local banks are exposed to currency risk in the event that the Central Bank of Malta changes the value of the Maltese Lira.

Interest rate risk

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

40. FINANCIAL INSTRUMENTS (Cont.)

Changes in local interest rates are monitored constantly by management and corrective action taken by realigning the maturities of and re-pricing the assets and liabilities. The Bank does not have significant exposure to foreign interest rate movements.

Credit risk

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

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

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

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

Management's assessments of potential default on loans and advances to customers and interest related thereto is reflected in provisions which are netted off against the amounts of loans and advances to customers, as explained in note 1.

Liquidity risk

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

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

41. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with the current year's presentation.

SOLVENCY RATIO*as at 31 December 2003*

	Book Value Lm	Weighted Amount Lm
ON - BALANCE SHEET ASSETS		
Cash and balances with Central Bank of Malta	1,833,556	-
Reserve deposit with Central Bank of Malta	6,956,540	-
Cheques in course of collection	172,113	34,423
Treasury bills	5,548,649	-
Debt and other fixed income instruments	106,410,025	18,857,068
Equity and other non fixed income instruments	2,514,462	2,256,243
Loans and advances to banks	3,388,328	677,666
Loans and advances to customers*	60,870,942	39,358,342
Tangible fixed assets	2,818,189	2,818,189
Deferred taxation	769,883	769,883
Other assets	34,200	34,200
Prepayments and accrued income	2,386,995	2,386,995
Total Assets	193,703,882	67,193,009

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

	Book Value Lm	Weighted Amount Lm
OFF - BALANCE SHEET ITEMS		
Contingent liabilities		
- Guarantees	1,024,842	1,024,842
- Other contingent liabilities	381,092	352,450
Commitments	39,415,000	-
	40,820,934	1,377,292

OWN FUNDS

Original own funds	Lm
Additional own funds	10,338,503
Subordinated liabilities	666,520
	1,050,000
Total own funds	12,055,023

Solvency Ratio

17.58

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



THE BANK'S FIVE YEAR SUMMARY – PROFIT AND LOSS ACCOUNTS

	2003 Lm	2002 Lm	2001 Lm	2000 Lm	1999 Lm
INTEREST RECEIVABLE AND SIMILAR INCOME	9,601,500	8,689,483	7,966,267	6,684,308	5,138,698
INTEREST PAYABLE	(5,381,026)	(5,337,468)	(5,070,977)	(4,346,070)	(3,940,756)
NET INTEREST INCOME	4,220,474	3,352,015	2,895,290	2,338,238	1,197,942
OTHER OPERATING INCOME	836,882	745,727	1,439,700	1,578,170	1,245,819
OTHER OPERATING CHARGES	(3,556,474)	(3,136,890)	(2,598,434)	(2,079,468)	(1,507,770)
NET IMPAIRMENT LOSSES	(179,124)	(53,590)	(584,041)	(529,724)	(163,375)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	1,321,758	907,262	1,152,515	1,307,216	772,616
TAXATION	(485,829)	(337,340)	(121,081)	(375,004)	7,421
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION	835,929	569,922	1,031,434	932,212	780,037
EARNINGS PER SHARE*	4c6	4c7	12c9	11c7	9c8

*The earnings per share figures have been adjusted retrospectively to reflect the increase in the number of ordinary shares following a bonus issue which occurred during 2003.

THE BANK'S FIVE YEAR SUMMARY - BALANCE SHEETS

	2003 Lm	2002 Lm	2001 Lm	2000 Lm	1999 Lm
ASSETS					
Cash and balances with Central Bank of Malta	1,833,556	1,407,229	3,497,008	1,527,336	1,268,671
Reserve deposit with Central Bank of Malta	6,956,540	5,925,020	4,897,220	5,259,100	4,704,800
Cheques in course of collection	172,113	486,849	548,787	952,333	729,142
Treasury bills	5,548,649	2,081,911	963,686	3,427,830	-
Debt and other fixed income instruments	106,410,025	91,663,014	84,201,963	62,831,050	50,769,513
Equity and other non fixed income instruments	2,514,462	1,270,076	1,233,925	5,786,851	5,694,756
Loans and advances to banks	3,388,328	4,560,088	2,910,146	6,286,155	7,499,004
Loans and advances to customers	60,204,422	48,173,727	35,992,505	31,151,327	30,410,048
Tangible fixed assets	2,818,189	2,623,670	2,697,161	2,375,219	2,157,830
Current and Deferred taxation	769,883	828,866	701,052	480,395	266,192
Other assets	34,200	-	-	-	-
Prepayments and accrued income	2,386,995	1,879,578	1,812,318	1,350,078	1,177,320
TOTAL ASSETS	193,037,362	160,900,028	139,455,771	121,427,674	104,677,276
LIABILITIES					
Amounts owed to banks	2,045,629	221,196	4,336,805	-	-
Amounts owed to customers	175,112,225	147,436,582	124,218,489	109,485,553	94,089,958
Other liabilities	1,522,515	683,673	1,175,553	1,315,831	972,811
Accruals and deferred income	1,820,910	1,581,094	1,623,925	1,547,173	1,373,011
Subordinated liabilities	1,400,000	1,400,000	1,400,000	1,900,000	1,900,000
	181,901,279	151,322,545	132,754,772	114,248,557	98,335,780
SHAREHOLDERS' FUNDS					
Called up share capital	5,000,000	4,000,000	1,500,000	1,500,000	1,500,000
Share premium account	759,850	759,850	759,850	759,850	759,850
Other reserves	175,226	674,926	674,926	674,926	674,926
Revaluation reserve	580,913	210,908	287,346	1,679,898	1,774,489
Profit and loss account	4,403,427	3,784,465	3,361,877	2,564,443	1,632,231
Dividend reserve	216,667	147,334	117,000	-	-
	11,136,083	9,577,483	6,700,999	7,179,117	6,341,496
TOTAL LIABILITIES	193,037,362	160,900,028	139,455,771	121,427,674	104,677,276
MEMORANDUM ITEMS					
Contingent liabilities	1,405,934	965,893	839,626	727,830	1,376,000
Commitments	39,415,000	27,531,000	18,584,036	8,775,000	15,775,000
	40,820,934	28,496,893	19,423,662	9,502,830	17,151,000

THE BANK'S FIVE YEAR SUMMARY – CASH FLOW STATEMENTS

	2003 Lm	2002 Lm	2001 Lm	2000 Lm	1999 Lm
Net cash flows from operating activities	11,932,323	5,125,145	6,138,382	10,969,580	13,786,990
Cash flows from/(used in) investing activities					
Dividends received from equity shares	50,754	46,207	27,481	22,976	26,041
Interest income from investment securities	6,395,563	6,162,594	4,155,002	3,198,932	2,603,309
Purchase of debt and other fixed income instruments	(22,631,735)	(12,301,421)	(26,187,296)	(15,395,928)	(23,996,653)
Sales and redemption of debt and other fixed income instruments	6,721,390	4,371,196	4,749,333	3,437,591	4,278,038
Purchase of equity and other non fixed income instruments	(1,024,963)	(327,775)	-	(1,484,284)	-
Sales of equity and other non fixed income instruments	-	81,400	3,911,402	2,288,712	7,467,778
Purchase of tangible fixed assets	(899,216)	(746,349)	(374,590)	(446,933)	(442,295)
Sale of tangible fixed assets	90	-	-	-	14,257
Net cash used in investing activities	(11,388,117)	(2,714,148)	(13,718,668)	(8,378,934)	(10,049,525)
Cash flows from financing activities					
Increase in share capital	500,000	2,500,000	-	-	-
Ordinary dividends paid	(147,334)	(117,000)	(117,000)	(117,000)	(117,000)
Repayment of subordinated loan stock	-	-	(510,000)	-	-
Net cash from/(used in) financing activities	352,666	2,383,000	(627,000)	(117,000)	(117,000)
Increase/(decrease) in cash and cash equivalents	896,872	4,793,997	(8,207,286)	2,473,646	3,620,465
Cash and cash equivalents at 1 January	7,828,032	3,034,035	11,241,321	8,767,675	5,147,210
Cash and cash equivalents at 31 December	8,724,904	7,828,032	3,034,035	11,241,321	8,767,675

THE BANK'S FIVE YEAR SUMMARY - ACCOUNTING RATIOS

	2003	2002	2001	2000	1999
	%	%	%	%	%
Net interest income and other operating income to total assets	2.6	2.5	3.1	3.2	2.3
Operating expenses to total assets	1.9	2.0	2.3	2.1	1.6
Profit before taxation to total assets	0.7	0.6	0.8	1.1	0.7
Return on capital employed before taxation*	12.5	9.7	18.0	23.8	16.9
Profit after taxation to equity*	7.9	6.1	16.1	16.9	17.1
	2003	2002	2001	2000	1999
Shares in issue of 25c each (thousands)	20,000	16,000	6,000	6,000	6,000
Net assets per share (cents)*	53	59	107	92	76
Earnings per share (cents)**	4c6	4c7	12c9	11c7	9c8
Dividends per share (cents)					
Gross	1c7	1c4	3c	3c	3c
Net	1c1	0c9	1c9	1c9	1c9
Dividend cover	3.9	3.9	8.8	8.0	6.7

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

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



Finance Unit



Central Foreign Unit



Marketing Unit



Internal Audit Unit



Gozo Branch



Customer Care Unit



Legal Unit



Human Resources Unit



Investment Services Unit



Commercial Business Unit



IT Unit (Business Systems)



NOTES



HEAD OFFICE

24 APS House,
St. Anne Square,
Floriana VLT 16, Malta
Tel: (356) 21 226 644
Fax: (356) 21 226 202
E-mail: headoffice@apsbank.com.mt
Website: <http://www.apsbank.com.mt>
Swift: APSBMTMT

BRANCHES

Attard

Pitkali Markets,
Ta' Qali BZN 09
Tel: 21 419 429 Fax: 21 419 745

Floriana

21/22, St. Anne Square,
Floriana VLT 16
Tel: 2560 3520 Fax: 21 222 934

Mosta

9, Rotunda Square,
Mosta MST 06
Tel: 2331 9000 Fax: 21 422 800

Valletta

17, Republic Street,
Valletta VLT 04
Tel: 2559 3333 Fax: 2559 3164

Victoria

10, Main Gate Street,
Victoria, Gozo VCT 103
Tel: 21 563 512 Fax: 21 559 200