Bank of Valletta p.l.c.

Annual Report & Financial Statements

2008

Bank of Valletta

Directors' report as at 30 September 2008

The directors have pleasure in submitting their thirty-fifth report, together with the audited financial statements of the Bank of Valletta Group and the Bank for the year ended 30 September 2008.

Principal Activities

The Bank of Valletta Group comprises Bank of Valletta p.l.c. ("the Bank"), Valletta Fund Management Limited, BOV Investments Limited and Valletta Fund Services Limited. The Group also has an associated company, Middlesea Insurance p.l.c., and a jointly controlled entity, Middlesea Valletta Life Assurance Company Limited.

The Parent Company

Bank of Valletta p.l.c. is licensed to carry out the business of banking and investment services in terms of the Banking Act (Cap.371) and the Investment Services Act (Cap.370). It offers the entire range of retail banking services as well as the sale of financial products such as collective investment schemes and life assurance. The Bank also offers investment banking services, including underwriting, management of IPOs, custodianship and trustee services.

The Subsidiaries

Valletta Fund Management Limited is a venture with Insight Investment Management Holdings (Malta) Limited, a member of the Halifax and Bank of Scotland (HBOS) Group, that provides management services for SICAV companies. Valletta Fund Services Limited provides fund administration services. BOV Investments Limited acts as an investment holding company. Cotswold Developments Ltd ceased to be a subsidiary of the Bank with effect from the 13 June 2008.

The Jointly Controlled Entity and the Associate

Middlesea Valletta Life Assurance Company Limited is a joint venture between Middlesea Insurance p.l.c. and the Bank. It operates as a life assurance company licensed under the Insurance Business Act (Cap.403). Middlesea Insurance p.l.c. is engaged in the business of insurance including group life assurance and of reinsurance.

Operational overview

A review of the business of the Group for the year ended 30 September 2008 and an indication of future developments are given in the Chief Executive Officer's Review on the front section of this annual report.

Dividends

A gross interim dividend of €0.135 per share was paid on 28 May 2008. The directors propose a final gross dividend of €0.0675 per share. Aggregate net dividend for the year is €0.1316 cents per share amounting to €17.5 million (2007: €0.3066 gross per share resulting in a net payout of €33.9 million). The total dividend is analysed as follows:

	The Bank	
	2008	**2007**
	€	€
Gross	27,000,000	52,279,660
Tax at source	(9,450,000)	(18,297,880)
Net	17,550,000	33,981,780

Directors' report as at 30 September 2008 (continued)

Board of Directors

The following directors served on the Board during the period from 1 October 2007:

Roderick E.D. Chalmers (Chairman)
Joseph Borg
Roberto Cassata
James Grech
George Portanier
Norman Rossignaud
George Wells
Paul Testaferrata Moroni Viani (appointed 19 December 2007)
Franco Xuereb (appointed 19 December 2007)
Marlene Mizzi (resigned 19 December 2007)
James Vella (resigned 19 December 2007)

Six vacancies will arise on the Board at the forthcoming annual general meeting. Following a call for nominations of directors, pursuant to Article 60 of the Articles of Association, the Bank received seven valid nominations, including six from incumbent directors. Pursuant to Article 60, an election will be held during the forthcoming annual general meeting.

Directors' responsibilities

Maltese company law requires that the directors prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Group and the Bank as at the end of the financial year and of the results of their operations and cash flows for that year. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- prepare the financial statements on a going concern basis unless it is inappropriate to presume that the Group and the Bank will continue in business.

The directors are responsible for ensuring that proper accounting records are kept which disclose with reasonable accuracy at any time the financial position of the Group and the Bank and to enable them to ensure that the financial statements comply with the Banking Act (Cap.371) and the Companies Act (Cap.386). This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements whether due to fraud or error. They are also responsible for safeguarding the assets of the Group and the Bank and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

After reviewing the Group's plans for the coming financial years, the directors are satisfied that at the time of approving the financial statements, it is appropriate to continue adopting the going concern basis in preparing the financial statements.

Auditors

A resolution to reappoint Deloitte & Touche Malta and Deloitte & Touche LLP U.K. as auditors of the Bank will be proposed at the forthcoming Annual General Meeting.

Approved by the board of directors and authorised for issue on 31 October 2008 and signed on its behalf by:

R.E.D. Chalmers
Chairman

J. Borg
Director

Pursuant to Malta Financial Services Authority Listing Rules 8.36 to 8.38, Bank of Valletta p.l.c. ("the Bank") is hereby reporting on the extent of its adoption of the Code of the Principles of Good Corporate Governance ("the Principles") appended to the said Listing Rules, as well as on the measures adopted to ensure compliance with these Principles.

1. Compliance with the Principles

Good corporate governance is the responsibility of the board of directors of the Bank ("the Board"), and in this regard the Board has carried out a review of the Bank's compliance with the Principles during the period under review. The Board has adopted a corporate decision-making and supervisory structure that is tailored to suit the requirements of the Bank's constitutional documents as well as its operational needs, in that it grants flexibility and an efficient decentralisation of selective decision-making, whilst concurrently providing a system of checks and balances. This structure is characterised by the following:-

- The Board, composed of a Chairman and eight directors (all of whom are non-executive), whose role and responsibility is to set strategy and exercise good oversight and stewardship. Although the Board is composed exclusively of non-executive directors, the Chief Executive Officer attends Board meetings, albeit without a vote, in order to ensure his full understanding and appreciation of the Board's policy and strategy, and so that he can provide direct input to Board deliberations.

- The Executive Committee, the composition of which is set out below, and whose role and responsibilities are to execute agreed strategy, manage the business and deliver results. The members of the Executive Committee report to the Board on a regular basis.

- Delegation by the Board of specific responsibilities to a number of Committees, notably the Executive, ALCO, Audit, Compliance, Credit, Risk Management and Remuneration Committees, each of which operates under formal terms of reference approved by the Board. The composition of these Committees is set out hereunder.

Pursuant to generally accepted practices in Malta, as well as the Bank's Articles of Association, the appointment of directors to the Board is reserved exclusively to the Bank's shareholders. The regulatory regime requires that, prior to being elected directors, nominees undergo a due diligence process by the Malta Financial Services Authority to establish that they are fit and proper persons pursuant to the Banking Act (Cap.371) and the Investment Services Act (Cap.370). During the year an evaluation of Board performance was carried out through the completion of a Board Effectiveness Questionnaire by all Directors. Observations arising from this exercise will be followed upon, and certain changes implemented so as to optimise Board effectiveness.

The Bank's current organisational structure incorporates the position of a Chief Executive Officer, a position which is occupied by Mr Tonio Depasquale. The position of the Chief Executive Officer and that of the Chairman of the Board have been defined with specific roles rendering these positions completely separate from one another.

As noted in the Remuneration Committee report, the Board as a whole, rather than the Remuneration Committee, determines the remuneration of the directors. The maximum aggregate directors' emoluments are established from time to time by the shareholders in General Meeting.

The Board considers that the Bank has been in compliance with the Principles throughout the period under review.

2. Board of Directors

2.1 The Board considers that, apart from two directors who have indefinite contracts of employment with the Bank, all remaining directors, including those appointed directly by shareholders with 10% or more of the shares in issue, are independent.

The Board normally meets twice a month unless further meetings are required. The Board regularly reviews and evaluates corporate strategy, major operational and financial plans, risk policy and performance objectives. The Board considers and determines credit proposals falling within the Board's credit sanctioning limits. The Board also monitors implementation and corporate performance within the parameters of all relevant laws, regulations and codes of best business practice. The Board has a formal schedule of matters reserved to it for decision, and also delegates specific responsibilities to Board Committees.

On joining the Board, a director is provided with briefings by the Chief Executive Officer and the Chief Officers on the activities of their respective business areas. Directors are also provided with a dossier that, apart from incorporating the relevant legislation, rules and bye laws, Memoranda and Articles of Group companies and policy documents, also includes write-ups by the Bank's legal office on the various laws that directors needs to observe in the carrying out of their duties including those under the Professional Secrecy Act (Cap.377).

Members	Meetings held-29 Attended	
Roderick Chalmers (Chairman)	29	
Joseph Borg	27	
Roberto Cassata	7	
James Grech	29	
Marlene Mizzi**	7	(out of 8)
George Portanier	28	
Norman Rossignaud	29	
Paul Testaferrata Moroni Viani*^	12	(out of 13)
James Vella**	8	(out of 8)
George Wells	29	
Franco Xuereb^	21	(out of 21)

* Pursuant to the agreed policy, Paul Testaferrata Moroni Viani did not attend Board meetings during which Credit Proposals were discussed
^ Appointed on the 19 December 2007
** Resigned on the 19 December 2007

Directors have access to the advice and services of the Company Secretary. Directors may, in the furtherance of their duties, take independent professional advice on any matter at the Bank's expense. The Statement of Directors' Responsibilities for preparing the financial statements is set out on page 2.

2.2 Directors' Dealings

The directors are regularly informed of their obligations on dealing in securities of the Bank within the parameters of law and the Principles. The Board has approved the required reporting procedure, through the Compliance Committee, in line with the above mentioned legislation and regulations.

3. Going Concern

The directors, after due consideration of the Bank's profitability, balance sheet, capital adequacy and solvency declare, pursuant to MFSA Listing Rule 9.44e.13, that the Bank is in a position to continue operating as a going concern for the foreseeable future.

4. Committees

4.1 Board Committees

The Board has established the following Committees:-

4.1.1 The Audit Committee's terms of reference are modeled on the Principles laid out in the Listing Rules, primarily to monitor the financial reporting process, the effectiveness of the Bank's internal control, internal audit and the audit of the annual and consolidated financial statements. The Committee is also responsible for managing the Board's relationships with internal and external auditors.

George Wells F.C.M.A., F.I.A., C.P.A. is a director and a qualified accountant who the Board considers as the person competent in accounting.

	Meetings held-10	
Members	**Attended**	
Joseph Borg (Chairman)	10	
Marlene Mizzi*	2	(out of 3)
Norman Rossignaud^	7	(out of 7)
George Wells	10	

* Resigned on the 19 December 2007
^ Appointed on the 25 January 2008

The Chief Executive Officer, the Chief Officers Risk Management and Finance, the Executive Head Internal Audit and a representative of the External Auditors, attend Audit Committee meetings.

4.1.2 The Compliance Committee is responsible for overseeing the BOV Bank's compliance with the obligations imposed by statute, legislation, codes, rules and regulations that are relevant to the Group and its business.

	Meetings held-6
Members	**Attended**
George Portanier (Chairman)	6
Norman Rossignaud	6

The Chief Officers Risk Management, Finance, Legal and Compliance, and the Head Compliance attend Compliance Committee meetings. The Board's external Legal Counsel's attendance is sought as and when required. The Compliance Committee has the Compliance Unit acting as its executive arm.

4.1.3 The Remuneration Committee is responsible for the development and implementation of the remuneration and related policies of the BOV Group, and for ensuring compliance with the relevant provisions and regulations of good corporate governance on remuneration and related matters.

	Meetings held-5	
Members	**Attended**	
Roderick Chalmers (Chairman)	5	
Joseph Borg	4	
Marlene Mizzi*	2	(out of 2)
Paul Testaferrata Moroni Viani^	3	(out of 3)

* Resigned on the 19 December 2007
^ Appointed on the 25 January 2008

The Chief Executive Officer and the Company Secretary attend Remuneration Committee meetings where appropriate.

4.1.4 The Risk Management Committee assists the Board in assessing the different types of risk to which the organisation is exposed. This Committee is responsible for the proper implementation and review of the Group's risk policies, related mainly, but not restricted to, Credit, Market and Operational Risks. It reports to the Board on the adequacy, or otherwise, of such policies. The Risk Committee is also responsible to review delegated limits, together with an oversight of the Group's monitoring and reporting systems, to ensure regular and appropriate monitoring and reporting on the Group's risk positions.

	Meetings held-6	
Members	**Attended**	
George Wells (Chairman)	6	
George Portanier^	4	(out of 4)
Norman Rossignaud*	2	(out of 2)
Paul Testaferrata Moroni Viani^	4	(out of 4)

* Resigned on the 25 January 2008
^ Appointed on the 25 January 2008

The Chief Officer Risk Management, and Finance, the Executive Heads Internal Audit and Risk Management attend Risk Management Committee meetings.

4.2 Management Committees

4.2.1 The Executive Committee meets twice a month, and is responsible for:-

i) Day-to-day management of the Bank's business;
ii) Development and implementation of approved strategy, policies, operational plans and budgets;
iii) Monitoring of operational and financial performance;
iv) Assessment and control of risk;
v) Prioritisation and allocation of resources; and
vi) Monitoring competitive forces in all areas of operation.

The Executive Committee is chaired by the Chief Executive Officer. The other members are all the Chief Officers responsible for Credit, Finance, Financial Markets & Investments, Information Technology, Legal and Compliance, Operations, Risk Management, Fund Management and Fund Services.

4.2.2 The Credit Committee meets on a weekly basis unless further meetings are required. The Credit Committee is composed of representatives from both Risk and Credit functions and it operates within a Board approved credit-sanctioning limit. Proposals falling outside this limit are referred, with the Committee's recommendations, to the Board for consideration and determination. To operate, the Committee needs to be fully constituted, therefore each member has an approved specific alternate. The Credit Committee is chaired by the Chief Officer Risk Management and has as members the Chief Officers Credit, and Financial Markets & Investments, the Executive Heads Corporate Finance, and Risk Management who also acts as deputy chairman.

4.2.3 The Asset and Liability Management Committee (ALCO) is responsible for managing the Group's Balance Sheet so as to achieve an optimal balance between risk and return. This Committee meets once a month to review balance sheet risks and ensures their prudent management. It takes an integrated view of asset and liability cash flows, their uncertainties, and the management of such integrated exposures at a consolidated level, to enable it to give strategic direction to the business. Consideration is given, inter alia, to solvency, liquidity and interest rate risks. ALCO also monitors the credit profile of the Balance Sheet, and sets strategic direction in respect of credit risk, hedging strategies and hedge effectiveness in respect of the risks mentioned above, as well as asset mix, liabilities and balance sheet growth. ALCO is chaired by the Chief Officer Risk Management, and has as members a Board Director, the Chief Executive Officer, Chief Officers Finance and Financial Markets & Investments, the Executive Heads Financial Markets & Investments and Risk Management, and the Head Investment Strategy.

5. Internal Control

Authority to operate the Bank is delegated to the Chief Executive Officer within the limits set by the Board. The Board is ultimately responsible for the Bank's system of internal control and for reviewing its effectiveness. Such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can provide only reasonable, and not absolute, assurance against material misstatement or loss. Through the Audit and the Compliance Committees, the Board reviews the process and procedures to ensure the effectiveness of the Group's system of internal control, which are monitored by the Internal Audit Department. As required by Standard Licence Condition (SLC) 7.35 of the Investment Services Guidelines, the Bank declares that there have been no breaches of the SLCs which were subject to an administrative penalty or other regulatory sanctions during the period under review.

The key features of the BOV Group's system of internal control are as follows:-

5.1 Organisation
The Group operates through boards of directors of subsidiary and associated companies with clear reporting lines and delegation of powers. The Bank's Chairman is the chairman of the Bank's fund management and fund services subsidiaries, and is also the chairman of the jointly controlled company and a member of the board of the associated company.

5.2 Control Environment
The Group is committed to the highest standards of business conduct and seeks to maintain these standards across all of its operations. Group policies and employee procedures are in place for the reporting and resolution of fraudulent activities. The Group has an appropriate organisational structure for planning, executing, controlling and monitoring business operations in order to achieve Group objectives.

5.3 Risk Identification
Group management is responsible for the identification and evaluation of key risks applicable to their areas of business. The Board reviews its risk management policies and strategies and oversees their implementation to ensure that identified key risks are properly assessed and managed.

5.4 Reporting
Functional, operating and financial reporting standards are applicable to all entities of the Group. These are supplemented by operating standards set, as required, by the Bank's Board and Executive Management. Systems and procedures are in place to identify, control and to report on the major risks including credit risk, changes in the market prices of financial instruments, liquidity, operational error and fraud. Exposure to these risks is monitored by the Asset and Liability Management Committee and by the Risk Management Committee. The Board receives periodic management information giving comprehensive analysis of financial and business performance including variances against budgets.

6. Corporate Social Responsibility

The Bank understands that it has an obligation towards society at large to put into practice sound principles of Corporate Social Responsibility (CSR). Therefore, the Bank is committed to playing a leading and effective role in the country's sustainable development, whilst tangibly proving itself to be a responsible and caring citizen of the community in which it operates.

Over the past three years, the Bank has implemented a structured Community Programme, supporting worthy initiatives under seven defined pillars of activity, namely, arts and culture, heritage, the environment, education, sports and the social field. The Bank has also continued to support the valuable work being undertaken by business associations in the promotion of sustainable economic development.

CSR also extends to the way the Bank does business with its customers. The Bank's Brand Promise is based on the principles of supportiveness and mutuality.

In its dealings with its employees the Bank seeks to put into practice good CSR principles. The Bank considers itself to be a good employer encouraging open communication and personal development, whilst creating opportunities based on performance. The Bank values creativity and initiative and champions teamwork and empowerment.

The Bank believes that the principles upheld by its CSR programme are aligned to its long-term strategy, having a direct positive influence on the Bank's performance and yielding positive value to the Bank's various stakeholders.

7. Annual General Meeting and other communications with shareholders

Business at the Bank's Annual General Meeting (AGM) covers the Annual Report and Financial Statements, the declaration of a dividend, the election of directors, the appointment of the auditors, the authorisation of the directors to set the auditors' fees, any proposed amendments to the Memorandum of Articles and Association and any other resolutions that the Board of Directors deem appropriate to bring to the AGM.

Apart from the AGM, the Bank communicates with its shareholders by way of the Annual Report and Financial Statements, by publishing its results on a six-monthly basis, through a quarterly newsletter for shareholders and by notices to the public and company announcements to the market in general. The Bank recognises the importance of maintaining a dialogue with its shareholders to ensure that its strategies and performance are well understood. The Bank's Investor Relations Officer maintains two-way communications between the Bank and investor communities both locally and internationally. In addition, individual shareholders can raise matters relating to their shareholdings and the business of the Group at any time throughout the year and are given the opportunity to ask questions at the AGM or submit written questions in advance. The Bank's presence on the worldwide web (www.bov.com) contains a corporate information section.

8. Strategic Planning

Group business entities participate in periodic strategic reviews, which include consideration of long-term financial projections and the evaluation of business alternatives. Each member of the Group prepares regular budgets and strategic plans, which are incorporated into a Group Strategic Plan for consideration and approval by the Board. Performance against these plans is actively monitored and reported to the Board.

Auditors' report on Corporate Governance

Pursuant to Listing Rules 8.37 and 8.38 issued by the Malta Financial Services Authority, the directors are required to include in their Annual Report a Statement of Compliance to the extent to which they have adopted the Code of Principles of Good Corporate Governance and the effective measures that they have taken to ensure compliance with these principles.

Our responsibility is laid down in Listing Rule 8.39, which requires us to include a report on the Statement of Compliance.

We read the Statement of Compliance and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information included in the annual report.

We are not required to perform additional work necessary to, and we do not, express any opinion on the effectiveness of either the Bank's system of internal control or its corporate governance procedures.

In our opinion, the Statement of Compliance, set out on pages 3 to 6 has been properly prepared in accordance with the requirements of Listing Rules 8.37 and 8.38.

S. Paris
Deloitte & Touche
Certified Public Accountants,
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Sliema SLM 1231,
Malta.

C. Rana
Deloitte & Touche LLP
Chartered Accountants,
Hill House
1, Little New Street,
London EC4A 3TR,
United Kingdom.

31 October 2008

Remuneration report

1. Terms of Reference and Membership

The remit of the Remuneration Committee (the Committee) is set out in the Corporate Governance Statement of Compliance. The Committee is composed of Roderick Chalmers (Chairman), Joseph Borg and Paul Testaferrata Moroni Viani, members, all of whom are independent non-executive directors. The Chief Executive Officer is invited to attend meetings of the Committee where appropriate.

2. Remuneration Policy

The Board is composed exclusively of non-executive directors. The independent members of the Board determine the framework of the overall remuneration policy for executive management based on recommendations from the Committee. The Committee then establishes the individual remuneration arrangements of the Bank's executive management. The Committee is also charged with considering and determining any recommendations from management on requests for early retirement. The determination of remuneration arrangements for Board members is a reserved matter for the Board as a whole, following the submission of recommendations by the Committee. The Committee has access to independent external advice on remuneration matters as and when required.

The Committee considers that the current executive management remuneration packages are based upon the appropriate local market equivalents, and are fair and reasonable for the responsibilities involved. The Committee also believes that the remuneration packages are such as to enable the Bank to attract, retain and motivate executives having the appropriate skills and qualities to ensure the proper management of the organisation. No share options are payable to executive management. The Chief Executive Officer is eligible for Performance Pay in the form of an annual bonus entitlement by reference to the attainment of pre-established objectives and targets.

3. Meetings

The Committee held five meetings during the period under review, which meetings were attended as reported in the Corporate Governance Statement of Compliance. The Committee determined and/or made recommendations to the independent non-executive directors of the Board on the following matters:

- 34th AGM Special Business Ordinary Resolution 5 for Directors' remuneration
- Remuneration Report
- Remuneration for Executive Grades
- Promotions to the Executive Grades
- CEO's performance bonus for Financial Year 2007
- Proposed Performance Measures for CEO for Financial Year 2008
- Appointment of Chief Officers and other matters relating to the Chief Officer grade
- Application for early retirement

4. Directors

As at the end of the financial year two directors were full-time Bank employees under indefinite contracts of employment. Otherwise, the Bank's directors have no service contracts with either the Bank or any of the Bank's subsidiaries. The maximum annual aggregate emoluments that may be paid to the directors is approved by the shareholders in General Meeting, and was fixed at an aggregate sum of €225,000 per annum at the 34th Annual General Meeting held on 19th December 2007.

Directors' emoluments are designed to reflect the time committed by them to the Bank's affairs, including the different Board committees of which directors are members, and their responsibilities on such committees. None of the directors, in their capacity as a director of the Bank, is entitled to profit sharing, share options, pension benefits or any other remuneration.

Based on the recommendations of the Committee, the current directors' fees as approved by the Board are as follows:

Directors' Fees	€	**Board Committees Fees**	€
Chairman	34,940	Chairman *	2,329
Other Directors	13,976	Members	1,863

** Roderick Chalmers opted to waive fees due to him as chairman of the Remuneration Committee.*

Directors' emoluments (comprising fees and other benefits) paid for the financial year under review were as follows:-

	€
Emoluments	176,527
Salaries as full-time Bank employees	76,200

Details of Directors' emoluments for the financial year under review were:

Directors' Emoluments including benefits

	€
Roderick Chalmers	39,970
Joseph Borg	19,385
Roberto Cassata	13,976
James Grech	14,743
Marlene Mizzi*	2,940
George Portanier	18,718
Norman Rossignaud **	16,043
Paul Testaferrata Moroni Viani^	14,825
James Vella*	2,940
George Wells	21,668
Franco Xuereb^	11,319
Total	176,527

*** Opted to waive €2,620 from the director's emoluments due to him.*

* Resigned on the 19 December 2007
^ Appointed on the 19 December 2007

Independent auditors' report to the members of Bank of Valletta p.l.c.

Report on the financial statements

We have audited the accompanying financial statements of Bank of Valletta p.l.c and its group set out on pages 12 to 58, which comprise the balance sheets of the Bank and the Group as at 30 September 2008, and the income statements, statements of changes in equity and cash flow statements of the Bank and the Group for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

As also described in the statement of directors' responsibilities on page 2, the directors of the Bank are responsible for the preparation and fair presentation of the Group financial statements in accordance with International Financial Reporting Standards as adopted by the European Union, and of the Bank financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit.

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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 preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control of the Bank and the Group. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the 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:

(a) the Group financial statements give a true and fair view of the financial position of the Group as of 30 September 2008 and of the Group's financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union; and

(b) the Bank financial statements give a true and fair view of the financial position of the Bank as of 30 September 2008 and of the Bank's financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on other legal and regulatory requirements

Auditors' responsibility

The Banking Act (Cap.371) requires us 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 the 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, the financial statements give the information required by law in the manner so required and give a true and fair view.

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

Opinion

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. In our opinion, proper books of account have been kept so far as appears from our examination thereof and the financial statements are in agreement with the books.

In our opinion, the financial statements have been properly prepared in accordance with the Banking Act (Cap.371) and the Companies Act (Cap.386).

S. Paris
Deloitte & Touche
Certified Public Accountants,
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Malta.

31 October 2008

C. Rana
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Chartered Accountants,
Hill House
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United Kingdom.

Income statements for the year ended 30 September 2008

	Note	The Group 2008 €000	The Group 2007 €000	The Bank 2008 €000	The Bank 2007 €000
Interest receivable and similar income:					
- on loans and advances, balances with Central Bank of Malta and treasury bills	2	188,787	178,224	188,787	178,224
- on debt and other fixed income instruments	2	102,337	100,940	102,337	100,940
Interest payable	3	(164,997)	(149,623)	(165,005)	(149,639)
Net interest income		126,127	129,541	126,119	129,525
Fee and commission income		40,303	45,402	32,586	34,792
Fee and commission expense		(7,337)	(10,915)	(5,344)	(5,807)
Net fee and commission income	4	32,966	34,487	27,242	28,985
Dividend income		860	829	5,448	6,140
Trading (losses)/profits	5	(39,338)	4,798	(39,347)	4,731
Net loss on investment securities and hedging instruments	6	(854)	(154)	(873)	(154)
Operating income		**119,761**	**169,501**	**118,589**	**169,227**
Staff costs	7	(47,288)	(45,027)	(46,485)	(44,309)
General administrative expenses	7	(24,128)	(21,915)	(23,048)	(20,867)
Depreciation and amortisation		(6,354)	(6,976)	(6,238)	(6,867)
Net impairment (losses)/gains	8	(3,093)	352	(3,093)	352
Operating profit		**38,898**	**95,935**	**39,725**	**97,536**
Share of profits of associate and jointly controlled entity	18	1,705	5,795	-	-
Profit before tax	9	**40,603**	**101,730**	**39,725**	**97,536**
Income tax expense	10	(13,821)	(33,195)	(13,442)	(32,721)
Profit for the year		**26,782**	**68,535**	**26,283**	**64,815**
Attributable to:					
Shareholders of the Bank		26,132	67,855	26,283	64,815
Minority interest		650	680	-	-
		26,782	68,535	26,283	64,815
Earnings per share	11	19c6	50c9	19c7	48c6

Balance sheets as at 30 September 2008

	Note	The Group 2008 €000	The Group 2007 €000	The Bank 2008 €000	The Bank 2007 €000
ASSETS					
Balances with Central Bank of Malta, treasury bills and cash	13	191,251	361,857	191,251	361,857
Financial assets at fair value through profit or loss	14	1,391,619	1,130,382	1,388,784	1,126,718
Investments	15	909,985	836,799	909,913	836,643
Loans and advances to banks	16	441,526	492,926	441,526	492,926
Loans and advances to customers	17	3,039,184	2,621,232	3,039,184	2,621,337
Investments in associate and jointly controlled entity	18	63,026	60,941	31,271	29,075
Investments in subsidiary companies	19	-	-	1,307	1,540
Intangible assets	20	4,016	4,242	4,016	4,242
Property, plant and equipment	21	79,737	80,906	79,390	80,391
Current tax		19,775	11,794	20,970	13,044
Deferred tax	22	35,429	37,242	35,429	37,242
Other assets		13,433	8,239	12,771	7,469
Prepayments and accrued income	23	42,187	40,613	42,164	40,589
Total Assets		**6,231,168**	**5,687,173**	**6,197,976**	**5,653,073**
LIABILITIES					
Financial liabilities at fair value through profit or loss	14	5,207	18,011	5,207	18,011
Amounts owed to banks	24	999,307	759,970	999,307	759,970
Amounts owed to customers	25	4,625,384	4,303,736	4,626,923	4,304,267
Debt securities in issue	26	25,501	25,779	25,501	25,779
Other liabilities	27	60,949	74,915	60,601	74,477
Accruals and deferred income	28	64,802	52,474	64,156	52,136
Financial liabilities designated for hedge accounting	29	10,061	4,663	10,061	4,663
Subordinated liabilities	30	46,567	46,567	46,567	46,567
Total Liabilities		**5,837,778**	**5,286,115**	**5,838,323**	**5,285,870**
EQUITY					
Equity attributable to shareholders of the Bank					
Called up share capital	31	100,000	64,543	100,000	64,543
Share premium account		988	988	988	988
Revaluation reserves	32	20,010	19,527	19,888	19,366
Retained earnings		271,675	315,327	238,777	282,306
		392,673	400,385	359,653	367,203
Minority interest		717	673	-	-
Total Equity		**393,390**	**401,058**	**359,653**	**367,203**
Total Liabilities and Equity		**6,231,168**	**5,687,173**	**6,197,976**	**5,653,073**
MEMORANDUM ITEMS					
Contingent liabilities	33	134,777	136,714	134,777	136,714
Commitments	34	993,749	938,070	993,749	938,070

These financial statements were approved by the board of directors and authorised for issue on 31 October 2008 and signed on its behalf by:

R.E.D. Chalmers
Chairman

J. Borg
Director

T. Depasquale
Chief Executive Officer

Statement of changes in equity for the year ended 30 September 2008

The Group

	Attributable to Shareholders of the Bank							
	Share Capital €000	**Share Premium Account €000**	**Revaluation Reserves €000**	**Other Reserve €000**	**Retained Earnings €000**	**Total €000**	**Minority Interest €000**	**Total Equity €000**
At 30 September 2006	**64,543**	**988**	**25,141**	**2,250**	**275,488**	**368,410**	**692**	**369,102**
Net fair value adjustments on financial instruments (note 32)	-	-	(10,445)	-	-	(10,445)	-	**(10,445)**
Revaluation of property, net of deferred tax (note 32)	-	-	4,328	-	-	4,328	-	**4,328**
Net expense recognised directly in equity	-	-	(6,117)	-	-	(6,117)	-	**(6,117)**
Profit for the year	-	-	-	-	67,855	67,855	680	**68,535**
Total recognised income and expense for the year	-	-	(6,117)	-	67,855	61,738	680	**62,418**
Transfer to retained earnings	-	-	503	(2,250)	1,770	23	-	**23**
Dividends - final 2006	-	-	-	-	(18,458)	(18,458)	(699)	**(19,157)**
- interim 2007 (note 12)	-	-	-	-	(11,328)	(11,328)	-	**(11,328)**
	-	-	503	(2,250)	(28,016)	(29,763)	(699)	**(30,462)**
At 30 September 2007	**64,543**	**988**	**19,527**	**-**	**315,327**	**400,385**	**673**	**401,058**
Net fair value adjustments on financial instruments (note 32)	-	-	511	-	-	511	-	**511**
Transfer of former subsidiary's revaluation reserve	-	-	(28)	-	28	-	-	**-**
Net income recognised directly in equity	-	-	483	-	28	511	-	**511**
Profit for the year	-	-	-	-	26,132	26,132	650	**26,782**
Total recognised income for the year	-	-	483	-	26,160	26,643	650	**27,293**
Bonus issue	16,875	-	-		(16,875)	-	-	**-**
Increase in paid up value	18,582	-	-	-	(18,582)	-	-	**-**
Dividends - final 2007	-	-	-	-	(22,655)	(22,655)	(606)	**(23,261)**
- interim 2008 (note 12)	-	-	-	-	(11,700)	(11,700)	-	**(11,700)**
	35,457	-	-	-	(69,812)	(34,355)	(606)	**(34,961)**
At 30 September 2008	**100,000**	**988**	**20,010**	**-**	**271,675**	**392,673**	**717**	**393,390**

Statement of changes in equity for the year ended 30 September 2008 (continued)

The Bank

	Share Capital €000	Share Premium Account €000	Revaluation Reserves €000	Other Reserve €000	Retained Earnings €000	Total €000
At 30 September 2006	**64,543**	**988**	**25,476**	**-**	**247,277**	**338,284**
Net fair value adjustments on financial instruments (note 32)	-	-	(10,438)	-	-	**(10,438)**
Revaluation of property, net of deferred tax (note 32)	-	-	4,328	-	-	**4,328**
Net expense recognised directly in equity	-	-	(6,110)	-	-	**(6,110)**
Profit for the year	-	-	-	-	64,815	**64,815**
Total recognised income and expense for the year	-	-	(6,110)	-	64,815	**58,705**
Dividends - final 2006	-	-	-	-	(18,458)	**(18,458)**
- interim 2007 (note 12)	-	-	-	-	(11,328)	**(11,328)**
	-	-	-	-	(29,786)	**(29,786)**
At 30 September 2007	**64,543**	**988**	**19,366**	**-**	**282,306**	**367,203**
Net fair value adjustments on financial instruments (note 32)	-	-	522	-	-	**522**
Net income recognised directly in equity	-	-	522	-	-	**522**
Profit for the year	-	-	-	-	26,283	**26,283**
Total recognised income for the year	-	-	522	-	26,283	**26,805**
Bonus issue	16,875	-	-	-	(16,875)	**-**
Increase in paid up value	18,582	-	-	-	(18,582)	**-**
Dividends - final 2007	-	-	-	-	(22,655)	**(22,655)**
- interim 2008 (note 12)	-	-	-	-	(11,700)	**(11,700)**
	35,457	-	-	-	(69,812)	**(34,355)**
At 30 September 2008	**100,000**	**988**	**19,888**	**-**	**238,777**	**359,653**

The share premium account and the revaluation reserves are non-distributable.

Cash flow statements For the year ended 30 September 2008

	Note	The Group 2008 €000	The Group 2007 €000	The Bank 2008 €000	The Bank 2007 €000
Cash flows from operating activities					
Interest and commission receipts		342,747	361,944	334,992	351,267
Interest and commission payments		(160,006)	(155,424)	(158,329)	(150,279)
Payments to employees and suppliers		(71,347)	(66,285)	(69,464)	(64,519)
Operating profit before changes in operating assets and liabilities		111,394	140,235	107,199	136,469
(Increase)/decrease in operating assets:					
Loans and advances		(414,421)	(292,816)	(414,315)	(292,921)
Reserve deposit with Central Bank of Malta		86,251	(13,687)	86,251	(13,687)
Fair value through profit or loss financial assets		(345,858)	154,749	(345,858)	154,749
Fair value through profit or loss equity instruments		(887)	(1,561)	(1,725)	(73)
Treasury bills with original maturity of more than 3 months		67,902	(5,751)	67,902	(5,751)
Other assets		(5,194)	2,253	(5,304)	2,336
Increase/(decrease) in operating liabilities:					
Customer accounts and deposits by banks		412,352	212,022	413,360	210,988
Other liabilities		(27,072)	6,918	(27,007)	6,848
Net cash (used in)/from operating activities before tax		(115,533)	202,362	(119,497)	198,958
Tax paid		(20,273)	(33,774)	(19,839)	(33,473)
Net cash (used in)/from operating activities		(135,806)	168,588	(139,336)	165,485
Cash flows from investing activities					
Dividends received from equity shares		860	829	856	829
Dividends received from associate and jointly controlled entity		1,818	2,898	1,818	2,898
Dividends received from subsidiary companies		-	-	2,773	2,416
Interest received from held-to-maturity debt and other fixed income instruments		49,203	36,650	49,203	36,650
Investment in associate and jointly controlled entity		(2,197)	(5,448)	(2,197)	(5,448)
Proceeds from sale of investment in subsidiary		-	-	292	-
Purchase of equity instruments		-	(217)	-	(217)
Proceeds from sale of equity instruments		84	461	-	461
Purchase of debt instruments		(269,690)	(244,543)	(269,690)	(244,543)
Proceeds from sale or maturity of debt instruments		185,780	113,720	185,780	113,720
Purchase of property, plant and equipment		(5,139)	(5,183)	(5,011)	(5,136)
Proceeds from sale of property, plant and equipment		187	58	6	-
Net cash used in investing activities		(39,094)	(100,775)	(36,170)	(98,370)
Cash flows from financing activities					
Dividends paid to bank's shareholders		(34,355)	(29,785)	(34,355)	(29,785)
Dividends paid to minority interests		(606)	(698)	-	-
Net cash used in financing activities		(34,961)	(30,483)	(34,355)	(29,785)
Net change in cash and cash equivalents		(209,861)	37,330	(209,861)	37,330
Effect of exchange rate changes on cash and cash equivalents		(1,238)	(2,879)	(1,238)	(2,879)
Net change in cash and cash equivalents		(208,623)	40,209	(208,623)	40,209
		(209,861)	37,330	(209,861)	37,330
Cash and cash equivalents at 1 October		491,740	454,410	491,740	454,410
Cash and cash equivalents at 30 September	36	**281,879**	**491,740**	**281,879**	**491,740**

1. SIGNIFICANT ACCOUNTING POLICIES

a. Basis of preparation

The Bank's financial statements have been prepared in accordance with the provisions of the Banking Act (Cap.371) and the Companies Act (Cap.386), which requires adherence to International Financial Reporting Standards (IFRS).

Article 4 of Regulation 1606/2002/EC requires that, for each financial year starting on or after 1 January 2005, companies governed by the law of an EU Member State shall prepare their consolidated financial statements in conformity with International Financial Reporting Standards as adopted by the EU if, at their balance sheet date, their securities are admitted to trading on a regulated market of any EU Member State. This Regulation prevails over the provisions of the Companies Act (Cap.386) to the extent that the said provisions of the Companies Act are incompatible with the provisions of the Regulation.

The consolidated financial statements are prepared in conformity with International Financial Reporting Standards as adopted by the EU. They also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board and therefore there were no incompatibilities between the provisions of the Companies Act (Cap.386) and the requirements of Regulation 1606/2002/EC in relation to the preparation of these consolidated financial statements.

The financial statements have been prepared on the historical cost basis, except for available-for-sale financial assets, financial instruments classified as at fair value through profit or loss and all derivative instruments, which are stated at their fair values, and land and buildings which are stated at their revalued amounts. The significant accounting policies adopted are set out below.

In the current year, the Group and the Bank have applied the following:

International Financial Reporting Standard 7, Financial Instruments: Disclosures (IFRS 7). IFRS 7 supersedes IAS 30, Disclosures in the Financial Statements of Banks and Similar Financial Institutions and the disclosure requirements of IAS 32, Financial Instruments: Disclosure and Presentation. This Standard is applicable for annual periods beginning on or after 1 January 2007. The impact of IFRS 7 has been to expand the disclosures provided in these financial statements regarding financial instruments.

International Accounting Standard 1 Amendment, Capital Disclosures (The Amendment). This Amendment is applicable for annual periods beginning on or after 1 January 2007. These financial statements present information regarding the objectives, policies and processes for managing capital as required by this Amendment.

The directors anticipate that the adoption of International Financial Reporting standards that were in issue at the date of authorisation of these financial statements, but not yet effective, will have no material impact on the financial statements of the Bank and the Group in the period of initial application.

b. Basis of consolidation

The Group financial statements comprise the financial statements of Bank of Valletta p.l.c., a limited liability company domiciled and incorporated in Malta, and its subsidiaries. Subsidiaries are those entities that are controlled by the Bank. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Bank has the power to govern the financial and operating policies of another entity. The results of subsidiaries are included in the Group financial statements from the date that control commences until the date that control ceases. Intragroup balances, transactions, income and expenses are eliminated on consolidation. The interest of minority shareholders is stated at the minority's proportion of the fair value of net assets recognised.

The results and assets and liabilities of associates and jointly-controlled entities are incorporated in the Group financial statements using the equity method of accounting from the date that significant influence or joint control commences until the date that significant influence or joint control ceases. An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies. A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity that is subject to joint control. Joint venture arrangements which involve the establishment of a separate entity in which each venturer has an interest are referred to as jointly controlled entities. The excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities acquired is recognised as goodwill and is included within the carrying amount of the investment and assessed for impairment as part of the investment. If the cost of acquisition is less than the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities acquired, the difference is recognised directly in profit or loss after reassessment.

c. Financial assets at fair value through profit or loss, investment securities and loans and receivables
The Group classifies its financial assets in the following categories: (i) financial assets at fair value through profit or loss; (ii) investment securities; and (iii) loans and receivables. The classification depends on the purpose for which the investments were acquired.

(i) Financial assets at fair value through profit or loss
This classification includes financial assets classified as held for trading, and those designated at fair value through profit or loss upon initial recognition. Derivatives are categorised as held for trading unless they are designated as effective hedging instruments.

Financial assets at fair value through profit or loss are initially recognised and are subsequently measured at fair value based on quoted bid prices. If the market for a financial asset is not active, the Group establishes fair value by using valuation techniques. These include the use of discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants. Interest receivable on financial assets at fair value through profit or loss is included with interest receivable and similar income. All related realised and unrealised gains and losses are included in trading profits in the year in which they arise.

(ii) Investment securities
Investment securities are classified into two sub-categories: held-to-maturity and available-for-sale financial assets. Non-derivative investment securities, with fixed or determinable payments and fixed maturity, where the Group has both the positive intent and the ability to hold them to maturity, other than those that upon initial recognition are designated as at fair value through profit or loss, those that are designated as available-for-sale financial assets and those that meet the definition of loans and receivables, are classified as held-to-maturity financial assets. Investment securities intended to be held for an indefinite period of time, but which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or market prices are classified as available-for-sale financial assets. All investment securities are initially measured at fair value plus transaction costs, if any, that are directly attributable to their acquisition.

Those investment securities classified as available-for-sale financial assets are subsequently measured at fair value based on quoted bid prices in an active market, or by reference to a valuation technique if the market is not active, with the exception of equity instruments that do not have a quoted market price in an active market, which are measured at cost less any impairment losses, as their fair value cannot be reliably measured. Gains and losses arising from changes in the fair value of securities classified as available-for-sale that are not designated as hedged items in a fair value hedge are recognised in equity, except for impairment losses and foreign exchange gains and losses on monetary items, until the security is derecognised, at which time the related accumulated fair value adjustments previously recognised in equity are included in profit or loss as net gains or losses on investment securities. With respect to available-for-sale securities that are designated as hedged items in a fair value hedge, gains and losses arising from changes in fair value attributable to the hedged risk are accounted for in profit or loss. Fair value movements attributable to other factors, such as changes in credit status, are recognised in equity, except for impairment losses and foreign exchange gains and losses on monetary items. Interest calculated using the effective interest method is recognised in profit or loss.

Those investment securities classified as held-to-maturity financial assets are subsequently measured at amortised cost using the effective interest method, less any impairment losses. Interest calculated using the effective interest method and impairment losses are recognised in profit or loss.

(iii) Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than those that are held for trading or are designated upon initial recognition as at fair value through profit or loss or as available-for-sale financial assets or those for which the Group may not recover substantially all of its initial investment other than because of credit deterioration. These mainly comprise loans and advances to banks and customers.

Loans and receivables are initially measured at fair value plus transaction costs, if any, that are directly attributable to their acquisition, and are subsequently measured at amortised cost using the effective interest method, less any impairment losses. Gains and losses are recognised in profit or loss when the financial asset is derecognised or impaired and through the amortisation process using the effective interest rate.

Impairment
The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

(i) Financial assets carried at amortised cost
There are two components to the Group's impairment allowances on financial assets carried at amortised cost: specific and collective allowances. 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. Specific impairment allowances are determined on a case-by-case basis after taking into account the cash-generating potential and the financial state of

the borrower and the realisable value of collateral held against borrowings. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them 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.

For loans and receivables or held-to-maturity securities carried at amortised cost, if there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in profit or loss.

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 through an allowance account, but so that the reversal does not result in a carrying amount that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in profit or loss.

(ii) Available-for-sale financial assets
When a decline in the fair value of an available-for-sale financial asset has been recognised directly in equity and there is objective evidence that the asset is impaired, the cumulative loss is removed from equity and recognised in profit or loss. The cumulative loss is measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss.

Impairment losses recognised in profit or loss on equity instruments are not reversed through profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases, and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed, with the amount of the reversal recognised in profit or loss. The impairment loss on investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured is recognised in profit or loss and is not reversed in a subsequent period.

d. Financial liabilities and equity instruments
Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into, and the definitions of a financial liability and an equity instrument.

Financial liabilities are initially measured at fair value plus, in the case of financial liabilities not at fair value through profit or loss, transaction costs that are directly attributable to their issue. Financial liabilities are subsequently measured at amortised cost using the effective interest method, except for financial liabilities at fair value through profit or loss, which are measured at fair value.

Financial liabilities at fair value through profit or loss include financial liabilities classified as held for trading and those designated at fair value through profit or loss upon initial recognition. During the current and the previous year, the Group did not designate any financial liabilities as at fair value through profit or loss upon initial recognition. Derivatives are categorised as held for trading, unless they are designated as effective hedging instruments.

Financial liabilities that are measured at amortised cost using the effective interest method include amounts owed to banks, amounts owed to customers, debt securities in issue and subordinated liabilities.

The gain or loss on financial liabilities classified as at fair value through profit or loss is recognised in profit or loss. For financial liabilities carried at amortised cost, the gain or loss is recognised in profit or loss when the financial liability is derecognised and through the amortisation process whereby any difference between the proceeds, net of transaction costs, and the settlement or redemption is recognised over the term of the financial liability.

Equity instruments are recorded at the proceeds received, net of direct issue costs.

e. Recognition, derecognition and offsetting of financial assets and financial liabilities
Financial assets and financial liabilities are recognised when a Group entity becomes a party to the contractual provisions of the instrument.

All loans and receivables are recognised when cash is advanced to borrowers. All purchases and sales of securities are recognised and derecognised on settlement date, which is the date that an asset is delivered to or by the Group.

A financial asset is derecognised when the contractual rights to the cash flows from the financial asset expire, or when the Group transfers the financial asset and the transfer qualifies for derecognition. A financial liability is derecognised when it is extinguished. This occurs when the obligation specified in the contract is discharged, cancelled or expires.

Financial assets and financial liabilities are offset and the net amount presented in the balance sheet when the Group has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

f. Classification of financial assets and financial liabilities as at fair value through profit or loss upon initial recognition
The Group considers the income statement to be the primary report of performance within the annual financial statements and ensures that, as far as practicable, all aspects of its performance are wholly and fairly reflected in profit or loss.

Financial assets and liabilities are designated as at fair value through profit or loss on initial recognition where such designation results in more relevant information because either
- it eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as an “accounting mismatch”) that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases; or
- a group of financial assets, financial liabilities or both, is managed and its performance is evaluated on a fair value basis, in accordance with the Group’s documented risk management and investment strategy, and information about the Group is provided internally on that basis to key management personnel, including the Board of Directors and Chief Executive Officer.

g. Derivative financial instruments
Derivative financial instruments are initially recognised and subsequently measured at fair value. Fair values are obtained from quoted market prices in active markets and from discounted cash flow models where an active market does not exist. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

The method of recognising the fair value gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged.

Certain derivative instruments are not designated in a hedge relationship for accounting purposes. The Group classifies forward exchange contracts, options and certain interest rate swaps as at fair value through profit or loss, and accordingly any changes in their fair value are included in trading profits.

The Group designates certain interest rate swaps as hedges of the exposure to variability in the fair value of certain available-for-sale financial assets, which arises from interest rate movements. Changes in the fair value of interest rate swaps that are designated and qualify as fair value hedging instruments, together with any changes in the fair value of the hedged items that are attributable to the hedged risk, are recognised in profit or loss.

h. Sale and repurchase agreements
Securities sold subject to a linked repurchase agreement ("repos") are retained in the financial statements as at fair value through profit or loss or as investment securities as appropriate, and the counterparty liability is included in amounts owed to banks. Securities purchased under agreements to resell ("reverse repos") are not recognised but the amounts paid are recorded as loans and advances to banks. The difference between sale and repurchase price or purchase and subsequent sale price is recognised over the life of the repo/reverse repo agreements using the effective interest method and is treated as interest.

i. Investments in subsidiaries, associates and jointly-controlled entities

Investments in subsidiaries, associates and jointly-controlled entities are included in the Bank's balance sheet at cost less any impairment loss which may have arisen. Income from the investments is recognised only to the extent of distributions received by the Bank from post-acquisition profits. Distributions received in excess of such profits are regarded as a recovery of the investment and are recognised as a reduction of the cost of the investment.

Impairment
At each balance sheet date, the Bank reviews the carrying amount of its investments in subsidiaries, associates and jointly-controlled entities to determine whether there is any indication of impairment and if any such indication exists, the recoverable amount of the asset is estimated.

An impairment loss is the amount by which the carrying amount of an asset exceeds its recoverable amount. The recoverable amount is the higher of fair value less costs to sell and value in use. An impairment loss recognised in a prior year is reversed if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, provided that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. Impairment losses and reversals are recognised immediately in profit or loss.

j. Property, plant and equipment

Property, plant and equipment are classified into the following classes - land and buildings, IT infrastructure and equipment and office furniture and fittings.

Property, plant and equipment are initially measured at cost. Subsequent costs are included in the asset's carrying amount when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. Expenditure on repairs and maintenance of property, plant and equipment is recognised as an expense when incurred.

Property, plant and equipment are derecognised on disposal or when no future economic benefits are expected from their use or disposal. Gains or losses arising from derecognition represent the difference between the net disposal proceeds, if any, and the carrying amount, and are included in profit or loss in the period of derecognition.

Subsequent to initial recognition, freehold and long-term leasehold properties are stated in the balance sheet at revalued amounts, being the fair value at the date of revaluation, less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

Revaluations are performed by a professionally qualified architect with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the balance sheet date. Any surpluses arising on such revaluation are credited to a revaluation reserve unless they reverse a revaluation decrease for the same asset previously recognised in profit or loss, in which case the increase is credited to profit or loss to the extent of the decrease previously charged. Any deficiencies resulting from decreases in value are deducted from this revaluation reserve to the extent that the balance held in this reserve relating to a previous revaluation of that asset is sufficient to absorb these, and charged to profit or loss thereafter.

Other tangible assets are stated at cost less any accumulated depreciation and any accumulated impairment losses.

k. Intangible assets

Intangible assets comprise computer software. In determining the classification of an asset that incorporates both intangible and tangible elements, judgement is used in assessing which element is more significant. Computer software which is an integral part of the related hardware is classified as property, plant and equipment and accounted for in accordance with the Group's accounting policy on property, plant and equipment. Where the software is not an integral part of the related hardware, this is classified as an intangible asset.

Computer software is recognised if it is probable that the expected future economic benefits that are attributable to the asset will flow to the Group and the cost of the asset can be measured reliably.

Computer software is derecognised on disposal or when no future economic benefits are expected from its use or disposal. Gains or losses arising from derecognition represent the difference between the net disposal proceeds, if any, and the carrying amount, and are included in profit or loss in the period of derecognition.

Computer software is initially measured at cost. After initial recognition, it is carried at cost less any accumulated amortisation and any accumulated impairment losses.

l. Depreciation and amortisation

Depreciation on property, plant and equipment and amortisation on intangible assets commence when these assets are available for use and are charged to profit or loss so as to write off the cost or revalued amount of assets, other than land, less any estimated residual value, over their estimated useful life, using the straight line method, on the following bases:

Property, plant and equipment	
Freehold and long-term leasehold buildings	2% per annum
IT infrastructure and equipment	10%-25% per annum
Office furniture and fittings	5%-10% per annum
Intangible assets	
Computer software	10%-20% per annum

The depreciation or amortisation method applied, the residual value and the useful life are reviewed at each balance sheet date.

m. Impairment of property, plant and equipment and intangible assets

At each balance sheet date the Group reviews the carrying amount of its property, plant and equipment and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If such indication exists the recoverable amount is estimated in order to determine the extent of the impairment loss and the carrying amount of the asset is reduced to its recoverable amount, as calculated. The recoverable amount is the higher of fair value less costs to sell and value in use.

An impairment loss is recognised immediately in profit or loss, unless the asset is carried at a revalued amount, in which case the loss shall be treated as a revaluation decrease to the extent that it does not exceed the amount in the revaluation surplus for that asset.

An impairment loss recognised in a prior year is reversed if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. When an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, to the extent that it does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. Impairment reversals are recognised immediately in profit or loss, unless the asset is carried at a revalued amount, in which case the impairment reversal is recognised directly in equity, unless an impairment loss on the same asset was previously recognised in profit or loss.

n. Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Provisions are measured at the directors' best estimate of the expenditure required to settle the present obligation at the balance sheet date. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Provisions are not recognised for future operating losses.

o. Taxation

Current and deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to equity, in which case it is also dealt with in equity.

Current tax is based on the taxable result for the year. The taxable result for the year differs from the result as reported in the income statement because it excludes items which are non-assessable or disallowed and it further excludes items that are taxable or deductible in other periods. It is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is determined under the balance sheet liability method in respect of all temporary differences between the carrying amount of an asset or liability in the balance sheet and its tax base. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled based on tax rates that have been enacted or substantively enacted by the balance sheet date.

p. Revenue recognition

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the instrument or, when appropriate, a shorter period to that instrument's net carrying amount. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the instrument but not future credit losses. The calculation includes payments and receipts that are an integral part of the effective interest rate, transaction costs and all other discounts or premiums.

Fees and commissions that are earned on the execution of a significant act are recognised as revenue when the significant act has been completed. Fees and commissions that are earned as services provided to the customer are recognised as revenue as the services are provided. Where fees are charged to cover the cost of a continuing service, these are recognised on an appropriate basis over the relevant period.

Dividend income from investments is recognised when the right to receive payment has been established.

q. Foreign currency translation

For the purpose of the consolidated and separate financial statements, the presentation currency is the EURO. Following Malta's adoption of the euro as its national currency on 1 January 2008, the functional currency of the Bank and of all its subsidiaries changed from Maltese lira to Euro. Consequently, the results and financial position were translated at the Irrevocably Fixed Conversion rate of €1:Lm0.4293.

In preparing the financial statements of the individual group entities, transactions denominated in currencies other than the functional currency are translated at the exchange rates ruling on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated to Euro at the rates of exchange ruling at the balance sheet date. Gains and losses arising from such translation are dealt with in profit or loss. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to Euro at the exchange rate ruling on the date the fair value was determined. Non-monetary assets and liabilities denominated in foreign currencies that are measured in terms of historical cost are not retranslated.

r. Employee benefits

The Group contributes towards the state pension in accordance with local legislation. The costs of retirement benefits are charged to profit or loss as they accrue. Any other employee benefits are recognised as a liability by matching the expected cost of such benefit with the economic benefit that is being derived by the Group. The liability at the balance sheet date represents the obligation of the Group discounted to the net present value after considering the average life expectancy of such employees, where applicable.

s. Cash and cash equivalents
Cash and cash equivalents comprise cash in hand and deposits repayable on demand or with a contractual period to maturity of less than 90 days; advances to banks repayable within 90 days from the date of the advance; balances with the Central Bank of Malta, excluding reserve deposit requirements and treasury bills with an original maturity of less than 90 days. Amounts owed to banks that are repayable on demand or with a contractual period to maturity of less than 90 days and which form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the cash flow statement.

t. Dividends payable
Dividends payable on ordinary shares are recognised as liabilities on the date on which they are declared.

u. Segment reporting
A business segment is a distinguishable component of an entity that is engaged in providing an individual (or a group of) product/s or service/s and that is subject to risks and returns that are different from those of other business segments. The Group's activities are carried out within Malta and therefore there are no identifiable geographical segments.

v. Judgements in applying accounting policies and key sources of estimation uncertainty
The amounts recognised in the financial statements are sensitive to the accounting policies, assumptions and estimates that underlie the preparation of financial statements. The judgements made by management in applying the Group's accounting policies that have the most significant effect on the amounts recognised in the financial statements, together with information about the key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are either disclosed below or in the remaining notes to the financial statements.

(i) Impairment losses on loans and advances
The Group reviews its loan portfolio on an ongoing basis to assess whether there is any objective evidence of impairment. Objective evidence that individual loans and advances are impaired includes observable data that comes to the attention of the Group about loss events, such as repayments falling into arrears, a deterioration in the financial situation of the principal debtor or guarantor, economic conditions which may adversely affect the borrower's business activity or market, technological change and changes in the fair value of collateral. With respect to a group of loans and receivables, loss events include probabilities of default associated with the credit status of that group and measurable economic conditions which may influence future cash flows from the assessed loans. Management uses estimates based on historical loss experience for assets with credit risk characteristics similar to those in the assessed group when forecasting future cash flows. The methodology and assumptions for estimating the amount and timing of future cash flows are reviewed regularly in the light of actual loss experience.

(ii) Fair value of financial instruments not quoted in active markets
The fair value of financial instruments that are not quoted in active markets is determined by using valuation techniques. Periodically, the Group calibrates these valuation techniques and tests them for validity. The valuation techniques used by the Group make use of observable data and incorporate all factors that market participants would consider in setting a price and are consistent with accepted economic methodologies for pricing financial instruments. Management is required to make estimates regarding factors such as counterparty credit risk. A change in assumptions could affect the reported fair value of these financial instruments.

(iii) Impairment losses on available-for-sale investments and held-to-maturity investments
In the case of financial assets that are either classified as held-to-maturity investments or as available-for-sale investments, objective evidence of impairment includes observable data about the following loss events, as applicable: significant financial difficulty of the issuer (or counterparty), a breach of contract, it becoming probable that the borrower will enter bankruptcy or other financial reorganisation, the disappearance of an active market for that financial asset because of financial difficulties or observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets. In addition to the above loss events, objective evidence of impairment for an investment in an equity instrument includes information about significant changes with an adverse effect that have taken place in the technological, market, economic or legal environment in which the issuer operates or a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost. The determination of these loss events requires judgement.

(iv) Held-to-maturity investments
The Group follows the guidance in IAS 39, Financial Instruments: Recognition and Measurement when classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity. This classification requires significant judgement regarding the Group's intention and ability to hold such instruments to maturity.

(v) Post-employment benefits
In estimating the fair value of post-employment benefits towards eligible employees, management exercises judgement in respect of life expectancies, the level of salary at termination of employment dates, and rates applied to discount future cash flows to net present value.

	The Group		The Bank	
	2008	2007	2008	2007
	€000	€000	€000	€000
2. INTEREST RECEIVABLE AND SIMILAR INCOME				
On loans and advances to banks	11,843	14,266	11,843	14,266
On loans and advances to customers	166,984	150,459	166,984	150,459
On balances with Central Bank of Malta	4,658	6,758	4,658	6,758
On treasury bills	5,302	6,741	5,302	6,741
	188,787	178,224	188,787	178,224
On debt and other fixed income instruments				
- available-for-sale	30,737	31,294	30,737	31,294
- held-to-maturity	16,258	10,038	16,258	10,038
- fair value through profit or loss	57,270	62,329	57,270	62,329
Other non-fixed income instruments	56	51	56	51
	104,321	103,712	104,321	103,712
Amortisation of discounts and premiums				
- available-for-sale	(3,277)	(3,121)	(3,277)	(3,121)
- held-to-maturity	1,293	349	1,293	349
	(1,984)	(2,772)	(1,984)	(2,772)
	102,337	100,940	102,337	100,940
	291,124	279,164	291,124	279,164
3. INTEREST PAYABLE				
On amounts owed to banks	28,978	39,211	28,986	39,227
On amounts owed to customers	131,219	105,362	131,219	105,362
On debt securities in issue	1,937	2,187	1,937	2,187
On subordinated liabilities	2,863	2,863	2,863	2,863
	164,997	149,623	165,005	149,639
4. NET FEE AND COMMISSION INCOME				
On loans and advances, similar activities and local business	13,312	13,217	13,011	12,993
On trust, life assurance, fund management and similar activities	15,251	15,044	6,424	8,007
On other activities	4,403	6,226	7,807	7,985
	32,966	34,487	27,242	28,985
5. TRADING (LOSSES)/PROFITS				
Profit on foreign exchange activities	13,159	23,263	13,159	23,263
Fair value movements and net gains/(losses) on sale of financial instruments at fair value through profit or loss	(52,497)	(18,465)	(52,506)	(18,532)
	(39,338)	4,798	(39,347)	4,731
6. NET LOSS ON INVESTMENT SECURITIES AND HEDGING INSTRUMENTS				
Available-for-sale assets				
- net gain on disposal	19	-	-	-
- net revaluation gain/(loss) attributable to hedged risk	4,575	(1,137)	4,575	(1,137)
	4,594	(1,137)	4,575	(1,137)
Derivative financial instruments				
- net (loss)/gain on derivative financial instruments held for hedging	(5,448)	983	(5,448)	983
	(854)	(154)	(873)	(154)

7. ADMINISTRATIVE EXPENSES

	The Group 2008 €000	The Group 2007 €000	The Bank 2008 €000	The Bank 2007 €000
Staff costs:				
- wages and salaries	38,501	35,565	37,698	34,915
- social security costs	2,303	2,150	2,303	2,150
- retirement benefits	3,502	3,140	3,502	3,140
- other staff costs	2,982	4,172	2,982	4,104
	47,288	45,027	46,485	44,309
General administrative expenses	24,128	21,915	23,048	20,867
	71,416	66,942	69,533	65,176

The average number of employees:	The Group 2008 No. of persons	The Group 2007 No. of persons	The Bank 2008 No. of persons	The Bank 2007 No. of persons
Managerial	480	474	473	463
Supervisory and clerical	944	849	923	829
Others	59	72	58	68
	1,483	1,395	1,454	1,360

8. NET IMPAIRMENT LOSSES/(GAINS)

	The Group 2008 €000	The Group 2007 €000	The Bank 2008 €000	The Bank 2007 €000
Write-downs:				
Loans and advances to customers				
- specific allowances	9,248	8,216	9,248	8,216
- collective allowances	1,818	-	1,818	-
- bad debts written off	8,263	23,678	8,263	23,678
	19,329	31,894	19,329	31,894
Reversals of write-downs:				
Loans and advances to customers				
- specific allowances	(12,937)	(29,884)	(12,937)	(29,884)
- collective allowances	(450)	(547)	(450)	(547)
- bad debts recovered	(2,849)	(1,815)	(2,849)	(1,815)
	(16,236)	(32,246)	(16,236)	(32,246)
Net impairment losses/(gains)	3,093	(352)	3,093	(352)

9. PROFIT BEFORE TAX

	The Group 2008 €000	The Group 2007 €000	The Bank 2008 €000	The Bank 2007 €000
Profit before tax is stated after charging:				
Auditors' remuneration	126	126	115	115
Directors' emoluments				
- fees	177	165	177	165
- directors' salaries as full-time bank employees	76	61	76	61
	253	226	253	226
Compensation to other key management personnel is analysed as follows:				
- short term employee benefits	785	610	699	610
- post employment benefits	180	116	180	116
	965	726	879	726
Total remuneration for directors and other key management personnel	1,218	952	1,132	952

Loans to and commitments on behalf of directors, other key management personnel and other officers (including connected persons):	Loans and advances €000	Commitments €000	Loans and advances €000	Commitments €000
Directors				
At 1 October 2006	592	23	592	23
Additions	529	-	529	-
	1,121	23	1,121	23
Less reductions	(478)	-	(478)	-
At 30 September 2007	643	23	643	23
Additions	161	-	161	-
	804	23	804	23
Less reductions	(573)	(15)	(573)	(15)
At 30 September 2008	231	8	231	8
Other key management personnel (chief officers)				
At 1 October 2006	687	12	540	12
Additions	354	19	354	19
	1,041	31	894	31
Less reductions	(116)	-	(116)	-
At 30 September 2007	925	31	778	31
Additions	689	88	566	65
	1,614	119	1,344	96
Less reductions	(358)	(13)	(276)	(19)
At 30 September 2008	1,256	106	1,068	77
Other officers (executives)				
At 1 October 2006	1,712	37	1,712	37
Additions	913	16	913	16
	2,625	53	2,625	53
Less reductions	(482)	-	(482)	-
At 30 September 2007	2,143	53	2,143	53
Additions	706	280	706	280
	2,849	333	2,849	333
Less reductions	(744)	(20)	(744)	-
At 30 September 2008	2,105	313	2,105	333

The above facilities do not involve more than the normal risk of repayment or present other unfavourable features and were made in the ordinary course of business on substantially the same terms as for comparable transactions with persons of a similar standing, or where applicable, other employees.

10. INCOME TAX EXPENSE

	The Group 2008 €000	The Group 2007 €000	The Bank 2008 €000	The Bank 2007 €000
Current	12,292	24,590	11,913	24,065
Deferred	1,529	8,605	1,529	8,656
	13,821	33,195	13,442	32,721

The charge for income tax is based on the taxable profit for the year at a rate of 35%. The income tax expense and the product of accounting profit multiplied by the statutory domestic income tax rate are reconciled as follows:

	The Group 2008 €000	The Group 2007 €000	The Bank 2008 €000	The Bank 2007 €000
Profit before tax	40,603	101,730	39,725	97,536
Tax at the applicable rate of 35%	14,211	35,606	13,904	34,138
Tax effect of:				
Exempt and untaxed dividends	(188)	(42)	(847)	(1,139)
Share of results of associate and jointly controlled entity	(597)	(2,029)	-	-
Other differences	395	(340)	385	(278)
Tax charge for the year	13,821	33,195	13,442	32,721

11. EARNINGS PER SHARE

	The Group 2008 cents per share	The Group 2007 cents per share	The Bank 2008 cents per share	The Bank 2007 cents per share
Earnings per share	19c6	50c9	19c7	48c6

The earnings per share for the Group and for the Bank has been calculated on the profits attributable to shareholders, as shown in the income statements, divided by the number of shares in issue. The calculation of the earnings per share for all periods presented was adjusted retrospectively in view of the increase in the number of ordinary shares outstanding as a result of the capitalisation of reserves and the bonus issue of shares, as disclosed in note 31.

12. DIVIDENDS

The amount of dividends recognised as distributions to equity holders during the year, and the related amount per share, are as follows:

	The Group & The Bank			
	2008 % per share	2007 % per share (Restated)	2008 €000	2007 €000
Gross of income tax				
- prior year's final paid	35	28	34,853	28,400
- interim paid	18	17	18,000	17,426
	53	45	52,853	45,826
	cents per share	cents per share	2008 €000	2007 €000
Net of income tax				
- prior year's final paid	20.4	16.7	22,655	18,458
- interim paid	8.8	10.2	11,700	11,328
	29.2	26.9	34,355	29,786

For tax purposes, the dividend is being paid out of profits taxed at 35% (2007 - 35%).

In respect of the current year, the directors propose that a final gross ordinary dividend of €0.0675 per share amounting to €8.9 million (net ordinary dividend of €0.0439 per share - €5.8 million) be paid to shareholders. This dividend is subject to approval by shareholders at the Annual General Meeting and has not been included as a liability in these financial statements. The proposed dividend is payable to all shareholders on the register of members on 10 November 2008.

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

	The Group 2008 €000	The Group 2007 €000	The Bank 2008 €000	The Bank 2007 €000
Balances with Central Bank of Malta	99,713	185,964	99,713	185,964
Malta Government Treasury Bills	54,253	142,222	54,253	142,222
Cash	37,285	33,671	37,285	33,671
	191,251	361,857	191,251	361,857

Balances with Central Bank of Malta represent reserve deposits amounting to €99,713,582 (2007: reserve deposits amounted to €185,964,293) in respect of both the Group and the Bank, in terms of Article 37 of the Central Bank of Malta Act (Cap. 204).

14. FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	The Group 2008 €000	The Group 2007 €000	The Bank 2008 €000	The Bank 2007 €000
Financial assets at fair value through profit or loss				
Financial assets classified as held for trading:				
Derivative financial instruments	4,771	10,990	4,771	10,990
Financial assets designated at fair value through profit or loss:				
Debt and other fixed income instruments	1,359,030	1,088,081	1,359,030	1,088,081
Equity and other non-fixed income instruments	27,818	31,311	24,983	27,647
	1,386,848	1,119,392	1,384,013	1,115,728
	1,391,619	1,130,382	1,388,784	1,126,718
Financial liabilities at fair value through profit or loss				
Financial liabilities classified as held for trading:				
Derivative financial instruments	5,207	18,011	5,207	18,011
a. Debt and other fixed income instruments				
Issued by public bodies:				
- local government	137,841	-	137,841	-
- foreign government	61,752	41,686	61,752	41,686
- foreign public sector	27,335	31,032	27,335	31,032
	226,928	72,718	226,928	72,718
Issued by other issuers:				
- local banks	3,125	233	3,125	233
- foreign banks	830,194	870,983	830,194	870,983
- others - foreign	283,712	130,762	283,712	130,762
- others - local	15,071	13,385	15,071	13,385
	1,132,102	1,015,363	1,132,102	1,015,363
	1,359,030	1,088,081	1,359,030	1,088,081
Listing status:				
- listed on Malta Stock Exchange	156,036	14,689	156,036	14,689
- listed elsewhere	1,028,006	876,226	1,028,006	876,226
- local unlisted	-	231	-	231
- foreign unlisted	174,988	196,935	174,988	196,935
	1,359,030	1,088,081	1,359,030	1,088,081
Summary of movements during the year:				
At the beginning of the year	1,088,081	1,304,927	1,088,081	1,304,927
Acquisitions	539,252	216,771	539,252	216,771
Disposals	(187,175)	(378,427)	(187,175)	(378,427)
Movement in fair value	(51,754)	(24,511)	(51,754)	(24,511)
Exchange adjustment	(29,374)	(30,679)	(29,374)	(30,679)
At the end of the year	1,359,030	1,088,081	1,359,030	1,088,081

	The Group 2008 €000	The Group 2007 €000	The Bank 2008 €000	The Bank 2007 €000
14. FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS (continued)				
b. Equity and other non-fixed income instruments				
Issued by other issuers:				
- local banks	2,300	1,987	2,300	1,987
- others - foreign	4,825	9,557	4,825	9,557
- others - local	20,693	19,767	17,858	16,103
	27,818	31,311	24,983	27,647
Listing status:				
- listed on Malta Stock Exchange	22,993	21,753	20,158	18,089
- listed elsewhere	425	2,162	425	2,162
- foreign unlisted	4,400	7,396	4,400	7,396
	27,818	31,311	24,983	27,647
Summary of movements during the year:				
At the beginning of the year	31,311	31,542	27,647	29,366
Acquisitions	4,932	6,401	2,754	4,913
Disposals	(4,045)	(4,840)	(1,029)	(4,840)
Movement in fair value	(4,515)	(170)	(4,524)	(170)
Exchange adjustment	135	(1,622)	135	(1,622)
At the end of the year	27,818	31,311	24,983	27,647
c. Derivative financial instruments				
Fair value of assets	4,771	10,990	4,771	10,990
Fair value of liabilities	5,207	18,011	5,207	18,011

The above comprise over-the-counter forward exchange contracts and interest rate swaps that have not been designated as hedging instruments stated at fair value with notional amounts analysed with remaining life as follows:

	The Group 2008 €000	The Group 2007 €000	The Bank 2008 €000	The Bank 2007 €000
- less than 3 months	255,431	367,121	255,431	367,121
- between 3 months and 1 year	88,736	175,104	88,736	175,104
- more than 1 year	379,354	376,532	379,354	376,532
	723,521	918,757	723,521	918,757

15. INVESTMENTS

	The Group 2008 €000	The Group 2007 €000	The Bank 2008 €000	The Bank 2007 €000
Debt and other fixed income instruments:				
- available-for-sale	522,336	559,329	522,336	559,329
- held-to-maturity	383,936	273,673	383,936	273,673
Equity and other non-fixed income instruments:				
- available-for-sale	3,713	3,797	3,641	3,641
	909,985	836,799	909,913	836,643

Investment securities with a nominal value of €502 million (2007: €338 million) have been pledged against the provision of credit lines by the Central Bank of Malta.

a. Debt and other fixed income instruments available-for-sale

	The Group 2008 €000	The Group 2007 €000	The Bank 2008 €000	The Bank 2007 €000
Issued by public bodies:				
- local government	466,543	505,723	466,543	505,723
- local public sector	55,793	53,606	55,793	53,606
	522,336	559,329	522,336	559,329
Listing status:				
- listed on Malta Stock Exchange	466,543	505,723	466,543	505,723
- listed elsewhere	55,793	53,606	55,793	53,606
	522,336	559,329	522,336	559,329

	The Group 2008 €000	The Group 2007 €000	The Bank 2008 €000	The Bank 2007 €000
15. INVESTMENTS (continued)				
Amounts include:				
- debt securities sold under agreements to repurchase	219,717	323,496	219,717	323,496
Summary of movements during the year:				
At the beginning of the year	559,329	557,598	559,329	557,598
Acquisitions	223	93,527	223	93,527
Disposals	-	(98)	-	(98)
Redemptions	(38,626)	(76,013)	(38,626)	(76,013)
Amortisation	(3,277)	(3,121)	(3,277)	(3,121)
Movement in fair value	5,333	(16,831)	5,333	(16,831)
Exchange adjustment	(646)	4,267	(646)	4,267
At the end of the year	522,336	559,329	522,336	559,329
b. Debt and other fixed income instruments held-to-maturity				
Issued by public bodies:				
- local government	66,585	-	66,585	-
- foreign government	12,366	-	12,366	-
- foreign public sector securities	9,785	10,156	9,785	10,156
	88,736	10,156	88,736	10,156
Issued by other issuers:				
- foreign banks	190,462	252,439	190,462	252,439
- others - foreign	104,738	11,078	104,738	11,078
	295,200	263,517	295,200	263,517
	383,936	273,673	383,936	273,673
Listing status:				
- listed on Malta Stock Exchange	66,585	-	66,585	-
- listed elsewhere	245,389	159,700	245,389	159,700
- foreign unlisted	71,962	113,973	71,962	113,973
	383,936	273,673	383,936	273,673

At 30 September 2008, the fair value of held-to-maturity securities, without deducting transaction costs, amounted to €376.4 million (2007: €271.6 million).

	The Group 2008 €000	The Group 2007 €000	The Bank 2008 €000	The Bank 2007 €000
Summary of movements during the year:				
At the beginning of the year	273,673	175,407	273,673	175,407
Acquisitions	269,467	151,016	269,467	151,016
Redemptions	(147,154)	(36,839)	(147,154)	(36,839)
Amortisation	1,293	349	1,293	349
Exchange adjustment	(13,343)	(16,260)	(13,343)	(16,260)
At the end of the year	383,936	273,673	383,936	273,673
c. Equity and other non-fixed income instruments available-for-sale				
Issued by other issuers:				
- others - local	3,713	3,797	3,641	3,641
Listing status:				
- local unlisted	3,713	3,797	3,641	3,641
Summary of movements during the year:				
At the beginning of the year	3,797	4,041	3,641	3,885
Acquisitions	-	217	-	217
Disposals	(84)	(461)	-	(461)
At the end of the year	3,713	3,797	3,641	3,641
16. LOANS AND ADVANCES TO BANKS				
Repayable on call and at short notice	20,115	31,656	20,115	31,656
Term loans and advances	410,884	451,133	410,884	451,133
Cheques in course of collection	10,527	10,137	10,527	10,137
	441,526	492,926	441,526	492,926

	The Group 2008 €000	The Group 2007 €000	The Bank 2008 €000	The Bank 2007 €000
17. LOANS AND ADVANCES TO CUSTOMERS				
Repayable on call and at short notice	624,441	463,077	624,441	463,182
Term loans and advances	2,469,110	2,214,843	2,469,110	2,214,843
	3,093,551	2,677,920	3,093,551	2,678,025
Less impairment losses	(54,367)	(56,688)	(54,367)	(56,688)
	3,039,184	2,621,232	3,039,184	2,621,337
Impairment losses				
- specific allowances	33,577	37,266	33,577	37,266
- collective allowances	20,790	19,422	20,790	19,422
	54,367	56,688	54,367	56,688

The aggregate amount of advances on which interest has been suspended during the year is €122,784,293 (2007: €129,185,651).

	The Group 2008 €000	The Group 2007 €000	The Bank 2008 €000	The Bank 2007 €000
18. INVESTMENTS IN ASSOCIATE AND JOINTLY CONTROLLED ENTITY				
At the beginning of the year	60,941	52,593	29,074	23,627
Additions	2,197	5,448	2,197	5,448
Share of profit after tax	1,705	5,795	-	-
Dividend received	(1,817)	(2,895)	-	-
At the end of the year	63,026	60,941	31,271	29,075
Amounts include:				
Local listed	17,712	17,461	8,205	7,133
Local unlisted	45,314	43,480	23,066	21,942
	63,026	60,941	31,271	29,075

On the historical cost basis, shares in associate and jointly controlled entity of the group, would have been included at a cost of €31.2 million (2007: €29.1 million).

The fair value of associated undertaking that is publicly quoted amounted to €17.2 million at 30 September 2008 (2007: €22.8 million).

Name of company	Incorporated in	Nature of Business	Equity Interest 2008	Equity Interest 2007	Class	Group's share of results 2008 €000	Group's share of results 2007 €000
Middlesea Insurance p.l.c.	Malta	Insurance	22.95%	21.65%	Ordinary	(130)	1,777
Middlesea Valletta Life Assurance Co Ltd *	Malta	Life Assurance	50.00%	50.00%	Ordinary	1,835	4,018
						1,705	5,795

*In addition, a further 11.475% (2007: 10.825%) is held indirectly via an associated company. Although the Bank has an effective interest of 61.475% (2007: 60.825%), it does not exercise control over the financial and operating decisions of the entity as it only has the right for equal representation on the board of directors of the company together with the other shareholder.

The financial statements of the associate and the jointly controlled entity are prepared to 31 December. For the purpose of applying the equity method of accounting, figures for the year ended 30 June have been used. No significant transactions or events occurred between that date and 30 September.

The registered address of the above undertakings is as follows: Middlesea House, Floriana, Malta.

18. INVESTMENTS IN ASSOCIATE AND JOINTLY CONTROLLED ENTITY (continued)

	2008 €000	2007 €000
Summarised financial information in respect of the associate:		
Total assets	313,819	294,200
Total liabilities	215,047	212,811
Revenues	4,443	9,824
(Loss)/Profit for the year	(1,612)	2,843
Summarised financial information in respect of the jointly controlled entity:		
Current assets	22,675	16,674
Non-current assets	813,873	756,475
Current liabilities	5,272	8,067
Non-current liabilities	740,644	678,118
Income	34,530	68,105
Expenses	31,992	65,255

The Group	**2008 €000**	**2007 €000**
Share of Net Assets of associate and jointly controlled entity	63,026	60,941
Share of Profits of associate and jointly controlled entity	1,705	5,795

The share of profits of associate and jointly controlled entity comprises the Group's share of profits of associate and jointly controlled entity and the Group's share of the movement in the valuation of the in-force business of the jointly controlled entity.

The judgements made by the associate and the jointly controlled entity and the key sources of estimation uncertainties are disclosed below:

Estimate of in-force business

The value of in-force business is determined by the directors of the jointly controlled entity based on the advice of the entity's consulting actuaries. The valuation represents the discounted value of projected future transfers to shareholders from policies in force at the year end, after making provision for taxation. In determining this valuation, assumptions relating to future mortality, persistence and levels of expenses are based on experience of the type of business concerned. Gross investment returns assumed vary depending upon the mix of investments held by the entity and expected market conditions. The value depends on assumptions made regarding future economic and demographic experience.

This valuation assumes a margin of 2% between the weighted average projected investment return and the discount factor applied. The calculation also assumes lapse rates varying from 2% to 10% per annum (2007- 3% to 5% per annum) and an expense inflation rate of 3.5%.

Ultimate liability arising from claims made under insurance contracts

There are several sources of uncertainty that need to be considered in the estimate of the liability that the associate will ultimately pay for such claims. In particular insurance risks including exposure to liability can span over more than one accounting year, and this increases the uncertainty surrounding the estimate for final settlement.

The associate applies conventional statistical or actuarial models in order to determine the ultimate liability of claims. The Bornhuetter-Ferguson Paid model uses a combination of a benchmark or market-based estimate and an estimate based on claims experience. The initial loss ratio estimate is an important assumption in the estimation technique and is based on previous years' experience, adjusted for factors such as premium rate changes, anticipated market experience and historical claims inflation. The associate believes that the liability arising from claims under insurance contracts is adequately reserved as at the financial year end of the associate.

19. INVESTMENTS IN SUBSIDIARY COMPANIES

Name of company	Incorporated in	Nature of Business	Equity Interest 2008	Equity Interest 2007	Class	Bank's Investment 2008 €000	Bank's Investment 2007 €000
Cotswold Developments Limited	Malta	Property	-	100%	Ordinary	-	233
Valletta Fund Management Limited	Malta	Fund Management	60%	60%	Ordinary	446	446
Valletta Fund Services Limited	Malta	Fund Administration	100%	100%	Ordinary	698	698
BOV Investments Limited	Malta	Holding Company	100%	100%	Ordinary	163	163
						1,307	1,540

On 13 June 2008, the Bank disposed of its entire holding in Cotswold Developments Limited.

The registered address of the above unlisted undertakings is as follows:

Valletta Fund Management Limited	Level 6, The Mall Offices, The Mall, Floriana FRN 1470.
Valletta Fund Services Limited	Level 6, The Mall Offices, The Mall, Floriana FRN 1470.
BOV Investments Limited	58, Zachary Street, Valletta VLT 1330.

All subsidiaries prepare their financial statements to the same date, 30 September.

20. INTANGIBLE ASSETS

	The Group 2008 €000	The Group 2007 €000	The Bank 2008 €000	The Bank 2007 €000
Software				
Cost				
1 October	11,303	19,967	11,303	19,967
Additions	1,198	1,254	1,198	1,254
Assets retired from active use	-	(9,918)	-	(9,918)
30 September	12,501	11,303	12,501	11,303
Accumulated amortisation				
1 October	7,061	15,663	7,061	15,663
Charge for the year	1,424	1,316	1,424	1,316
Accumulated amortisation on assets retired from active use	-	(9,918)	-	(9,918)
30 September	8,485	7,061	8,485	7,061
Carrying amount				
30 September	4,016	4,242	4,016	4,242

21. PROPERTY, PLANT AND EQUIPMENT

The Group	Land and buildings €000	IT infrastructure and equipment €000	Other €000	Total €000
Cost or valuation				
1 October 2006	69,872	31,787	39,567	141,226
Additions	310	1,866	1,754	3,930
Assets retired from active use	(2,628)	(19,620)	(19,709)	(41,957)
Revaluation	5,844	-	-	5,844
Disposals	(58)	-	-	(58)
30 September 2007	73,340	14,033	21,612	108,985
Additions	525	1,612	1,804	3,941
Disposals	(181)	-	(52)	(233)
30 September 2008	73,684	15,645	23,364	112,693
Comprising:				
At cost	-	15,645	23,364	39,009
At valuation	73,684	-	-	73,684
30 September 2008	73,684	15,645	23,364	112,693
Accumulated depreciation				
1 October 2006	9,865	27,400	27,110	64,375
Provision for the year	1,074	1,796	2,791	5,661
Accumulated depreciation on assets retired from active use	(2,628)	(19,620)	(19,709)	(41,957)
30 September 2007	8,311	9,576	10,192	28,079
Provision for the year	1,013	1,512	2,404	4,929
Disposals	-	-	(52)	(52)
30 September 2008	9,324	11,088	12,544	32,956
Carrying amount:				
30 September 2007	65,029	4,457	11,420	80,906
30 September 2008	64,360	4,557	10,820	79,737
The Bank				
Cost or valuation				
1 October 2006	69,543	31,204	38,712	139,459
Additions	310	1,866	1,707	3,883
Assets retired from active use	(2,628)	(19,620)	(19,709)	(41,957)
Revaluation	5,844	-	-	5,844
30 September 2007	73,069	13,450	20,710	107,229
Additions	524	1,612	1,677	3,813
Disposals	-	-	(52)	(52)
30 September 2008	73,593	15,062	22,335	110,990
Comprising:				
At cost	-	15,062	22,335	37,397
At valuation	73,593	-	-	73,593
30 September 2008	73,593	15,062	22,335	110,990
Accumulated depreciation				
1 October 2006	9,776	26,762	26,706	63,244
Provision for the year	1,057	1,717	2,777	5,551
Accumulated depreciation on assets retired from active use	(2,628)	(19,620)	(19,709)	(41,957)
30 September 2007	8,205	8,859	9,774	26,838
Provision for the year	995	1,506	2,313	4,814
Disposals	-	-	(52)	(52)
30 September 2008	9,200	10,365	12,035	31,600
Carrying amount:				
30 September 2007	64,864	4,591	10,936	80,391
30 September 2008	64,393	4,697	10,300	79,390

21. PROPERTY, PLANT AND EQUIPMENT (continued)

	The Group 2008 €000	The Group 2007 €000	The Bank 2008 €000	The Bank 2007 €000
Carrying amount of land and buildings occupied for own activities	64,360	65,029	64,393	64,864
Future capital expenditure:				
- contracted but not provided for in the financial statements	2,329	517	2,329	517
- authorised by the directors but not contracted	9,023	9,974	9,023	9,974

Land and buildings were revalued by a professionally qualified architect on an open market value basis as at 30 September 2007. The carrying amounts of land and buildings that would have been included in the financial statements had these assets been carried at cost less accumulated depreciation are: 2008: Group - €40.7 million (2007: €41.2 million) and Bank - €40.5 million (2007: €40.9 million)

22. DEFERRED TAX

	The Group 2008 €000	The Group 2007 €000	The Bank 2008 €000	The Bank 2007 €000
Deferred taxation	35,429	37,242	35,429	37,242
The balance on the deferred taxation account arises as a consequence of temporary differences arising on:				
Property revaluation	(4,391)	(4,391)	(4,391)	(4,391)
Fair value remeasurement of financial instruments	(280)	2	(280)	2
Impairment losses	33,497	34,694	33,497	34,694
Allowance for employee benefits	8,146	8,241	8,146	8,241
Fixed assets and other temporary differences	(1,543)	(1,304)	(1,543)	(1,304)
	35,429	37,242	35,429	37,242
The following is an analysis of the deferred tax balances:				
Deferred tax liabilities	(6,214)	(5,695)	(6,214)	(5,695)
Deferred tax assets	41,643	42,937	41,643	42,937
	35,429	37,242	35,429	37,242

23. PREPAYMENTS AND ACCRUED INCOME

	The Group 2008 €000	The Group 2007 €000	The Bank 2008 €000	The Bank 2007 €000
Accrued income	41,366	40,007	41,366	40,007
Prepayments	821	606	798	582
	42,187	40,613	42,164	40,589

24. AMOUNTS OWED TO BANKS

	The Group 2008 €000	The Group 2007 €000	The Bank 2008 €000	The Bank 2007 €000
Term deposits	954,293	718,787	954,293	718,787
Repayable on demand	45,014	41,183	45,014	41,183
	999,307	759,970	999,307	759,970
Amounts include:				
- owed under repurchase agreements	219,717	321,293	219,717	321,293

25. AMOUNTS OWED TO CUSTOMERS

	The Group 2008 €000	The Group 2007 €000	The Bank 2008 €000	The Bank 2007 €000
Term deposits	2,788,964	2,480,533	2,788,964	2,480,533
Repayable on demand	1,836,420	1,823,203	1,837,959	1,823,734
	4,625,384	4,303,736	4,626,923	4,304,267

	The Group		The Bank	
	2008	2007	2008	2007
	€000	€000	€000	€000
26. DEBT SECURITIES IN ISSUE				
Debt securities in issue	25,501	25,779	25,501	25,779

The debt securities, which are unsecured, are denominated in US dollars, mature on 2 October 2010 and are listed on the Malta Stock Exchange. The interest payable is fixed at 8% per annum. The fair value of these debt securities as at 30 September 2008 is €26.9m (2007: €26.9m).

27. OTHER LIABILITIES

	The Group 2008 €000	The Group 2007 €000	The Bank 2008 €000	The Bank 2007 €000
Post employment liabilities	23,276	23,547	23,276	23,547
Cash collateral for commitments	6,431	12,781	6,431	12,781
Deposits from companies in formation	3,051	2,388	3,051	2,388
Bills payable	24,834	24,312	24,834	24,312
Other	3,357	11,887	3,009	11,449
	60,949	74,915	60,601	74,477

28. ACCRUALS AND DEFERRED INCOME

	The Group 2008 €000	The Group 2007 €000	The Bank 2008 €000	The Bank 2007 €000
Accrued interest	64,802	52,474	64,156	52,136

29. FINANCIAL LIABILITIES DESIGNATED FOR HEDGE ACCOUNTING

	The Group 2008 €000	The Group 2007 €000	The Bank 2008 €000	The Bank 2007 €000
Derivative financial instruments designated as fair value hedges	10,061	4,663	10,061	4,663

The above comprise over-the-counter interest rate swaps stated at fair value with notional amounts analysed by remaining life as follows:

	The Group 2008 €000	The Group 2007 €000	The Bank 2008 €000	The Bank 2007 €000
- more than 1 year	45,359	45,851	45,359	45,851

30. SUBORDINATED LIABILITIES

	The Group 2008 €000	The Group 2007 €000	The Bank 2008 €000	The Bank 2007 €000
6.15% Euro subordinated unsecured bonds	46,567	46,567	46,567	46,567

The Euro subordinated bonds are redeemable at par on 15 March 2010 and are listed on the Malta Stock Exchange. The fair value of these unsecured bonds as at 30 September 2008 is €46.8m (2007: €47m).

	The Bank	
	2008	2007
	€000	€000
31. SHARE CAPITAL		
Authorised:		
200,000,000 Ordinary shares of €0.75 each (2007: 200,000,000 Ordinary shares of €0.58234 each)	150,000	116,469
Issued and paid up:		
133,333,333 Ordinary shares of €0.75 each, fully paid (2007: 110,832,882 Ordinary shares of €0.58234 each fully paid)	100,000	64,543

On 15 January 2008 the Bank increased its issued share capital by €18,581,908 via a capitalisation of retained earnings. On the same date, it made a bonus issue of 22,500,451 fully paid ordinary shares of a nominal value of €0.75 per share, representing one bonus share for every 4.92581 shares held, thereby increasing the issued share capital from 110,832,882 shares to 133,333,333 shares, resulting in a paid up capital of €100,000,000.

32. REVALUATION RESERVES

	The Group €000	The Bank €000
On land and buildings:		
1 October 2006	15,073	15,043
Property revaluation	5,844	5,844
Deferred tax	(1,516)	(1,516)
30 September 2007/2008	**19,401**	**19,371**
On available for sale investments:		
1 October 2006	10,068	10,433
Fair value adjustments	(16,068)	(16,061)
Transfer to retained earnings	503	-
Deferred tax	5,623	5,623
30 September 2007	126	(5)
Fair value adjustments	792	803
Transfer to retained earnings	(28)	-
Deferred tax	(281)	(281)
30 September 2008	**609**	**517**
Total	**20,010**	**19,888**

33. CONTINGENT LIABILITIES

	The Group 2008 €000	The Group 2007 €000	The Bank 2008 €000	The Bank 2007 €000
Acceptances and endorsements	3,688	3,140	3,688	3,140
Guarantees	123,091	124,114	123,091	124,114
Other contingent liabilities	7,998	9,460	7,998	9,460
	134,777	136,714	134,777	136,714

The majority of contingent liabilities are backed by corresponding obligations from third parties.

34. COMMITMENTS

	The Group 2008 €000	The Group 2007 €000	The Bank 2008 €000	The Bank 2007 €000
Documentary credits	35,938	25,515	35,938	25,515
Undrawn formal standby facilities, credit facilities and other commitments to lend	951,101	910,759	951,101	910,759
Capital expenditure contracted but not provided for in the financial statements	2,329	517	2,329	517
Commitments to financial institutions	4,381	1,279	4,381	1,279
	993,749	938,070	993,749	938,070

35. POST EMPLOYMENT PLANS

The Group operates an early retirement scheme whereby accepted applicants are given a lump sum payment of three times their terminal salary, or are paid two thirds of their terminal salary on a monthly basis until reaching retirement age. The Group makes payments to certain eligible employees in consideration of the liquidation of a defunct pension scheme.

The charge for the year, which amounts to €3.4 million (2007: €3.0 million), is included under staff costs.

The Group's obligation in respect of the above amounts to circa €23.3 million (2007: €23.5 million) and represents the Group's obligation discounted to the net present value at the rate of 5% after considering the average life expectancy of such employees and expected increases in salaries, where applicable, and is included with other liabilities.

36. NOTES TO THE CASH FLOW STATEMENTS

	The Group 2008 €000	The Group 2007 €000	The Bank 2008 €000	The Bank 2007 €000
Cash in hand	37,285	33,671	37,285	33,671
Balances with Central Bank of Malta (excluding Reserve Deposit), Treasury bills (with original maturity of less than 3 months) and cash	16,791	36,858	16,791	36,858
Money at call and short notice	417,317	462,092	417,317	462,092
Amounts owed to banks	(189,514)	(40,881)	(189,514)	(40,881)
Cash and cash equivalents included in the cash flow statement	281,879	491,740	281,879	491,740
Balances with contractual maturity of more than three months	(728,243)	(582,892)	(728,243)	(582,892)
	(446,364)	(91,152)	(446,364)	(91,152)
Equivalent items reported in the balance sheet:				
Balances with Central Bank of Malta, Treasury bills and cash (excluding Reserve Deposit)	111,417	175,892	111,417	175,892
Loans and advances to banks	441,526	492,926	441,526	492,926
Amounts owed to banks	(999,307)	(759,970)	(999,307)	(759,970)
	(446,364)	(91,152)	(446,364)	(91,152)

37. RELATED PARTY TRANSACTIONS

During the current and the prior year, the Group and the Bank entered into transactions during the course of their normal business, with the associate, the jointly controlled entity, the Government (which has a 25.23% holding in the Bank) and other related parties, including entities that are controlled, jointly controlled or significantly influenced by, or for which significant voting power in such entities resides with, directly or indirectly, any of the key management personnel or their close family members. Transactions with these related parties are made on an arm's length basis.

The Bank also entered into related party transactions on an arm's length basis with its subsidiaries. Transactions between the Bank and its subsidiaries have been eliminated on consolidation.

Key management personnel compensation and loans to and commitments on behalf of key management personnel are disclosed in more detail in note 9.

The amounts due to or from related parties will be settled in cash. There were no provisions for bad or doubtful debts in respect of amounts due by related parties at the beginning and the end of the period presented and no expense has been recognised for bad or doubtful debts in respect of such amounts in the current and the prior year.

The amount of related party transactions and outstanding balances are disclosed below:

The Group	2008 Related party activity/ balance €000	2008 Total activity/ balance €000	2008 %	2007 Related party activity/ balance €000	2007 Total activity/ balance €000	2007 %
Interest receivable and similar income:						
- on loans and advances, balances with Central Bank of Malta and treasury bills						
Related party transactions with:						
Associate	883			766		
Jointly controlled entity	-			5		
The Government	9,960			6,740		
Key management personnel	18			14		
Other related parties	1,787			233		
	12,648	188,787	7%	7,758	178,224	4%
Interest receivable and similar income:						
- on debt and other fixed income instruments						
Related party transactions with:						
The Government	25,693	102,337	25%	24,742	100,940	25%

The Group	2008 Related party activity/ balance €000	2008 Total activity/ balance €000	2008 %	2007 Related party activity/ balance €000	2007 Total activity/ balance €000	2007 %
37. RELATED PARTY TRANSACTIONS (continued)						
Interest payable						
Related party transactions with:						
Associate	173			114		
Jointly controlled entity	4,168			2,124		
The Government	843			1,363		
Key management personnel	18			9		
Other related parties	125			47		
	5,327	164,997	3%	3,657	149,623	2%
Fee and commission income						
Related party transactions with:						
Associate	2,879			3,505		
Jointly controlled entity	27			5		
The Government	2			5		
Key management personnel	2			5		
Other related parties	18			9		
	2,928	40,303	7%	3,529	45,402	8%
Trading (losses)/profits						
Related party transactions with:						
Associate	-	(39,338)	0%	124	4,798	3%
Staff costs						
Related party transactions with:						
Key management personnel	965	47,288	2%	726	45,027	2%
Balances with Central Bank of Malta, treasury bills and cash						
Related party transactions with:						
The Government	54,253	191,251	28%	142,221	361,857	39%
Investments						
Related party transactions with:						
The Government	466,542	909,985	51%	505,724	836,799	60%
Loans and advances to customers						
Related party transactions with:						
Associate	16,803			14,747		
Jointly controlled entity	12			5		
Key management personnel	1,509			710		
Other related parties	28,819			3,611		
	47,143	3,039,184	2%	19,073	2,621,232	1%
Amounts owed to customers						
Related party transactions with:						
Associate	2,946			21,526		
Jointly controlled entity	100,627			68,351		
The Government	13,513			27,782		
Key management personnel	824			559		
Other related parties	6,299			2,141		
	124,209	4,625,384	3%	120,359	4,303,736	3%

	2008 Related party activity/ balance €000	2008 Total activity/ balance €000	2008 %	2007 Related party activity/ balance €000	2007 Total activity/ balance €000	2007 %
37. RELATED PARTY TRANSACTIONS (continued)						
The Bank						
Interest receivable and similar income:						
- on loans and advances, balances with Central Bank of Malta and treasury bills						
Related party transactions with:						
Associate	883			766		
Jointly controlled entity	-			5		
The Government	9,960			6,740		
Key management personnel	18			12		
Other related parties	1,787			233		
	12,648	188,787	7%	7,756	178,224	4%
Interest receivable and similar income:						
- on debt and other fixed income instruments						
Related party transactions with:						
The Government	25,693	102,337	25%	24,742	100,940	25%
Interest payable						
Related party transactions with:						
Associate	173			114		
Jointly controlled entity	4,168			2,124		
Subsidiaries	7			35		
The Government	843			1,363		
Key management personnel	18			9		
Other related parties	124			47		
	5,333	165,005	3%	3,692	149,639	2%
Fee and commission income						
Related party transactions with:						
Associate	2,879			3,505		
Jointly controlled entity	27			5		
Subsidiaries	1,845			2,998		
The Government	2			5		
Key management personnel	2			2		
Other related parties	18			9		
	4,773	32,586	15%	6,524	34,792	19%
Dividend income						
Related party transactions with:						
Associate	693			566		
Jointly controlled entity	1,125			2,329		
Subsidiaries	2,322			2,416		
	4,140	5,448	76%	5,311	6,140	86%
Trading (losses)/profits						
Related party transactions with:						
Associate	-	(39,347)	0%	124	4,731	3%
Staff costs						
Related party transactions with:						
Key management personnel	879	46,485	2%	726	44,309	2%

37. RELATED PARTY TRANSACTIONS (continued)

The Bank

	2008 Related party activity/ balance €000	2008 Total activity/ balance €000	2008 %	2007 Related party activity/ balance €000	2007 Total activity/ balance €000	2007 %
Balances with Central Bank of Malta treasury bills and cash						
Related party transactions with:						
The Government	54,253	191,251	28%	142,221	361,857	39%
Investments						
Related party transactions with:						
The Government	466,542	909,913	51%	505,724	836,643	60%
Loans and advances to customers						
Related party transactions with:						
Associate	16,803			14,747		
Jointly controlled entity	12			5		
Key management personnel	1,323			710		
Other related parties	28,819			3,611		
	46,957	3,039,184	2%	19,073	2,621,337	1%
Other assets						
Related party transactions with:						
Subsidiaries	154	12,771	1%	200	7,469	3%
Amounts owed to customers						
Related party transactions with:						
Associate	2,946			21,526		
Jointly controlled entity	100,627			68,351		
Subsidiaries	1,539			531		
The Government	13,513			27,782		
Key management personnel	721			533		
Other related parties	4,217			2,141		
	123,563	4,626,923	3%	120,864	4,304,267	3%

	The Group 2008 €000	The Group 2007 €000	The Bank 2008 €000	The Bank 2007 €000
All outstanding balances are secured except for the following:				
Loans and advances to customers:				
Associate	16,688	14,654	16,688	14,654
Key management personnel	203	49	203	44
Other related parties	280	1,204	280	1,204
	17,171	15,907	17,171	15,902
Details of guarantees received are disclosed below:				
Loans and advances to customers:				
Amounts guaranteed by:				
The Government	195,526	92,723	195,526	92,723

38. SEGMENTAL INFORMATION BY CLASSES OF BUSINESS

	Credit, deposit-taking and other retail		Financial markets, investments and non-retail		Group Total	
	2008	2007	2008	2007	2008	2007
	€000	€000	€000	€000	€000	€000
GROUP PROFIT BEFORE TAX						
Segment revenue (net)	146,749	165,579	(27,079)	3,943	119,670	169,522
Segment depreciation/amortisation	(3,978)	(6,671)	(2,376)	(307)	(6,354)	(6,978)
Other segment costs	(66,628)	(60,538)	(887)	(2,795)	(67,515)	(63,333)
Segment operating profit/(loss)	76,143	98,370	(30,342)	841	45,801	99,211
Group share of the profit after tax of associate and jointly-controlled entity	-	-	1,705	5,795		
Impairment (losses)/gain	(3,093)	352	-	-		
	(3,093)	352	1,705	5,795	(1,388)	6,147
Common costs					(3,810)	(3,628)
Group profit before tax					40,603	101,730
GROUP ASSETS						
Segment total assets	3,079,359	2,660,878	2,941,068	2,822,080	6,020,427	5,482,958
Unallocated assets					147,715	143,274
Carrying value of associate and jointly-controlled entity	-	-	63,026	60,941	63,026	60,941
Total Group Assets					6,231,168	5,687,173
GROUP LIABILITIES						
Segment total liabilities	4,683,953	4,351,001	1,153,825	935,113	5,837,778	5,286,115
Total Group Liabilities					5,837,778	5,286,115

39. FINANCIAL RISK MANAGEMENT

a. Use of financial instruments

By their nature, the Group's activities are principally related to the use of financial instruments including derivatives. The Group accepts deposits from customers at both fixed and floating rates and for various periods, and seeks to earn interest margins by investing these funds in high-quality assets. The Group seeks to increase these margins by consolidating short-term funds and lending for longer periods at higher rates, while maintaining sufficient liquidity to meet all claims that might fall due.

The Group also seeks to increase its interest margins through lending to commercial and retail borrowers with a range of credit standings. Such exposures involve both on-balance sheet loans and advances, as well as guarantees and other commitments such as letters of credit and performance and other bonds.

The Board places trading limits on the level of exposure that can be taken in relation to both overnight and intra-day market positions. Foreign exchange and interest rate exposures are normally offset by entering into counterbalancing positions, thereby controlling the variability in the net cash amounts required to liquidate market positions.

Given that the difference between the Group and the Bank balances in respect of financial instruments, and the corresponding effect on the income statement and reserves in respect thereof, are not material, references in this note to the Group are to be construed as references to the Bank, unless otherwise stated.

The principal areas of financial risk are detailed below:

b. Credit risk

Credit Risk is the risk that one party to a financial instrument will cause a financial loss to the other party by failing to discharge an obligation.

Financial assets which could potentially expose the Group to credit risk, mainly include balances with Central Bank of Malta, treasury bills and cash, derivative financial assets, debt and other fixed income instruments, and loans and advances to banks and customers.

(i) Credit risk management and exposure

- *Loans and advances:*

The purpose of credit risk management is to keep credit risk exposure to a permissible level relative to capital, to maintain the soundness of assets, and to ensure returns commensurate with risk. This leads to a loan portfolio that achieves high returns on capital and assets.

Credit Risk is managed and controlled throughout the Bank on the basis of established credit processes, and within a framework of credit policy and delegated authorities based on responsibility, skill and experience. In this respect, the Bank has set up a Credit Risk Monitoring Unit (CRMU) as a separate department within the Risk Management function.

Credit grading and monitoring systems are in place to accommodate the early identification and management of deterioration in loan quality. In addition, the credit management process is underpinned by an independent system of credit review.

Credit risk analysis is carried out on two levels: the single name and the bank's lending portfolio review. The Bank uses a number of tools to limit its exposure to undue credit risk. These include the application of:

- High-level credit policies designed to ensure a balanced and managed approach to the identification and mitigation of credit risk.
- Lending guidelines defining the responsibilities of lending officers that seek to provide a disciplined and focused benchmark for credit decisions.
- Independent reviews of credit exposures.
- Sector caps, encompassing both industry and specific product types, to communicate the Board's risk appetite for specific types of business.
- Establishment and maintenance of large exposures and provisioning policies in accordance with regulatory reporting requirement.
- Communication and provision of general guidance on all credit-related risk issues, including regulatory changes to promote consistent and best practice throughout the Bank.

Broadly stated, concentration results when the Bank has a high level of exposure to a single or related group of borrowers, credit exposures secured by a single security, or credit exposures with common characteristics within an industry, such that adverse developments in this exposure would be damaging to the Bank.

The Bank has systems in place to identify material concentrations in the loan portfolio, and to ensure adherence to prudential limits set by the Board of Directors and/or the regulators (MFSA) to single borrowers or groups of related borrowers and other significant

39. FINANCIAL RISK MANAGEMENT (continued)

risk concentrations. The CEO and the Board of Directors are regularly informed on the concentration of the Bank's portfolio through reports prepared at least on a quarterly basis.

Presently there is an across the board limit per industry/economic sector on the Group's Loan Portfolio. This is being evolved through the introduction of a more risk-sensitive approach by the setting up of specific limits for each industry/sector. This approach should optimise the risk return trade-off of the Bank's loan portfolio. To address concentration risk in any one particular sector, the loan portfolio is also being monitored by computing the Herfindahl Index and the Lorenz Curve as part of regular credit risk reporting.

The following industry concentrations in connection with loans and advances to banks and customers are considered significant:

	The Group	
	2008	**2007**
	€000	**€000**
Agriculture, Hunting and Forestry	5,976	6,271
Banks	441,526	492,926
Community, Social and Personal Service	33,803	34,258
Construction	134,466	125,966
Education	13,231	9,548
Electricity, Gas and Water Supply	223,874	105,413
Financial Intermediation	25,759	22,912
Fishing	946	489
Health and Social work	11,354	7,563
Hotels and Restaurants	228,299	244,535
Manufacturing	156,721	109,823
Mining and Quarrying	2,338	1,992
Private Households/Personal	1,161,876	1,068,749
Public Sector, Social Security	8,151	31,314
Real Estate, Rent and Business Activities	575,747	441,106
Transport, Storage and Communication	219,388	193,110
Wholesale and Retail Trade, Repair Service	291,622	274,871
	3,535,077	3,170,846
Analysed as:		
- loans and advances to banks	441,526	492,926
- loans and advances to customers	3,093,551	2,677,920
	3,535,077	3,170,846

- *Other financial assets:*
The credit risk in respect of other financial assets is mitigated through limits set in the Treasury Management Policy. The Bank assigns limits on the level of credit risk undertaken in relation to any single counterparty or sovereign exposure in accordance with external ratings based on Fitch's ratings or on those of other major rating agencies.

Changes in credit ratings are monitored on a daily basis and are subject to frequent review, when considered necessary. The limits on the level of credit risk are reviewed consistently and approved by the Board of Directors at regular intervals. Actual exposures are monitored against limits on an ongoing basis. The Bank enters into security transactions only with such authorised counterparties and it invests only in securities or paper with credit quality that falls within specific parameters stated in the Treasury Management Policy.

The level of concentration in respect of other significant financial assets is disclosed in the remaining notes to the financial statements.

Maximum exposure:
The carrying amount of financial assets recorded in the financial statements, which is net of impairment losses, represents the maximum exposure to credit risk without taking account of the value of any collateral obtained, except as disclosed below:

Financial guarantees:
The maximum exposure to credit risk is the full amount that the Group would have to pay if the guarantees are called upon.

Loan commitments:
The maximum exposure to credit risk arising on loan commitments and other credit related commitments that are irrevocable over the life of the respective facilities is the full amount of the committed facilities.

Collateral and other credit enhancements:
Credit risk mitigation includes the requirement to obtain collateral, depending on the nature of the product and local market practice, as set out in the Group's policies and procedures. The nature and level of security required depends on a number of factors, including but not limited to the amount of the exposure, the type of facility provided, the term of the facility, the amount of the borrower's own cash input and an evaluation of the level of risk or probability of default.

39. FINANCIAL RISK MANAGEMENT (continued)

A variety of types of collateral are accepted including property, securities, cash, guarantees and insurance, grouped broadly as follows:
- Financial collateral (pledge over deposits, shares, etc.)
- Residential and commercial real estate
- Other collateral (bills, guarantees, insurance, etc.)

The Bank's requirements on applicable margins (haircut), frequency of valuation, and perfection of security are set out in the Bank's credit policy.

Settlement Risk:
The Group's activity may give rise to risk at the time of settlement of transactions and trades. Settlement risk is the risk of loss due to failure of a company to honour its obligations to deliver cash, securities or other assets as contractually agreed. Settlement risk in respect of security transactions is mitigated through settlement limits assigned to counterparties based on external credit ratings or by effecting payment on a delivery versus payment (DVP) basis.

(ii) Credit Quality

Debt securities and other bills by rating agency (Fitch) designation:

Group	Balances with CBM and Treasury Bills €000	Debt Securities €000	Loans and Advances to Banks €000	Derivatives €000	Total €000
As at 30 September 2008					
AAA	-	111,982	187	-	112,169
AA- to AA+	-	579,681	303,951	4,388	888,020
A- to A+	153,966	1,338,788	130,663	2,054	1,625,471
Lower than A-	-	208,495	4,557	43	213,095
Unrated	-	26,356	2,169	801	29,326
	153,966	**2,265,302**	**441,527**	**7,286**	**2,868,081**
As at 30 September 2007					
AAA	-	205,290	203	-	205,493
AA- to AA+	-	616,321	318,939	3,055	938,315
A- to A+	328,186	982,250	165,132	2,190	1,477,758
Lower than A-	-	94,045	1,394	-	95,439
Unrated	-	23,177	7,257	7,348	37,782
	328,186	**1,921,083**	**492,925**	**12,593**	**2,754,787**

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

The following tables provide a detailed analysis of the credit quality of the Group's lending portfolio:

Group	Loans and Advances to customers 2008 €000	2007 €000
Neither past due nor impaired	2,917,017	2,431,624
Past due but not impaired	53,750	117,111
Impaired	122,784	129,185
	3,093,551	**2,677,920**

39. FINANCIAL RISK MANAGEMENT (continued)

Group	Loans and Advances to customers 2008 €000	2007 €000
Neither past due nor impaired:		
Regular	2,683,367	2,252,794
Watch list	196,146	134,008
Sub-Standard	24,934	30,177
Doubtful	12,570	14,645
	2,917,017	2,431,624
Loans and advances that are past due but not impaired:		
Past due up to 29 days	19,490	50,605
Past due 30 - 59 days	22,922	49,745
Past due 60 - 89 days	11,338	16,761
	53,750	117,111

A financial asset is past due when a counterparty has failed to make a payment when contractually due.

Renegotiated loans that would otherwise be past due or impaired totalled €13,109,838 (2007: €14,166,826).

Individually impaired gross loans by industry sector:	2008 €000	2007 €000
Personal	47,655	47,936
Business	75,129	81,249
	122,784	129,185

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.

39. FINANCIAL RISK MANAGEMENT (continued)

Collateral for impaired loans
As detailed above, a variety of types of collateral are accepted including property, securities, cash, guarantees and insurance.

(iii) Movement in allowance accounts for loans and advances to customers

	The Group			
	Individually assessed allowances	Collective allowances	Individually assessed allowances	Collective allowances
	2008 €000	2008 €000	2007 €000	2007 €000
Change in allowances for uncollectability:				
At 1 October	37,266	19,423	58,933	19,969
Additions	9,248	1,817	8,216	-
Reversals	(12,937)	(450)	(29,883)	(547)
	(3,689)	1,367	(21,667)	(547)
At 30 September	33,577	20,790	37,266	19,422

c. Liquidity Risk

Liquidity risk is the risk that an entity will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from an inability to sell a financial asset quickly at close to its fair value. The Group monitors and manages this risk by maintaining sufficient cash and, where possible, financial assets for which there is a liquid market and that are readily saleable to meet liquidity needs. The Group is exposed to daily calls on its available cash resources from overnight deposits, current and call deposits, maturing term deposits, loan drawdowns, guarantees and from margin and other calls on cash-settled derivatives. In order to ensure that maturing funds are always available to meet expected demand for cash, the Board sets parameters within which maturities of assets and liabilities may be mismatched. Unmatched positions potentially enhance profitability, but also increase the risk of losses. In addition, the Group manages its risk to a shortage of funds by monitoring forecast and actual cashflows, by monitoring the availability of raising funds to meet commitments associated with financial instruments and by holding financial assets which are expected to generate cash inflows that will be available to meet cash outflows on liabilities.

The table below analyses Group financial liabilities into relevant maturity groupings, based on the remaining period at balance sheet date to the contractual maturity date. The balances in this table will not agree directly to the balances in the balance sheet as the table incorporates all cash flows, on an undiscounted basis, related to both principal as well as those associated with all future coupon payments. Furthermore, loan commitments do not meet the criteria for recognition on the balance sheet.

Financial liabilities at fair value through profit or loss and those designated for hedge accounting, disclosed below, represent amounts for which net cash flows are exchanged.

	Due within 3 months €000	Due between 3 & 12 months €000	Due between 1 & 5 years €000	Due after 5 years €000	Total outflow €000
Group					
At 30 September 2008					
Financial liabilities at fair value through profit or loss	3,093	403	5,561	1,191	10,248
Amounts owed to banks	725,003	253,763	-	-	978,766
Amounts owed to customers	3,170,583	1,316,828	241,177	1,043	4,729,631
Debt securities in issue	2,040	-	29,582	-	31,622
Subordinated liabilities	-	2,864	49,429	-	52,293
Financial liabilities designated for hedge accounting	614	202	2,779	6,279	9,874
Other financial liabilities	33,563	1,726	9,220	22,486	66,995
	3,934,896	1,575,786	337,748	30,999	5,879,429
Loan commitments	987,039				

39. FINANCIAL RISK MANAGEMENT (continued)

Group	Due within 3 months €000	Due between 3 & 12 months €000	Due between 1 & 5 years €000	Due after 5 years €000	Total outflow €000
At 30 September 2007					
Financial liabilities at fair value through profit or loss	10,959	4,526	6,777	37	22,299
Amounts owed to banks	375,305	206,480	166,123	-	747,908
Amounts owed to customers	3,028,019	1,221,399	230,836	7,523	4,487,777
Debt securities in issue	2,062	-	31,965	-	34,027
Subordinated liabilities	-	2,864	52,294	-	55,158
Financial liabilities designated for hedge accounting	314	147	1,809	2,793	5,063
Other financial liabilities	51,537	1,758	9,465	25,293	88,053
	3,468,196	1,437,174	499,269	35,646	5,440,285
Loan commitments	936,274				

Assets available to meet these liabilities, and to cover outstanding commitments, include balances with Central Bank of Malta, treasury bills and cash, cheques in course of collection, loans to banks and to customers and marketable securities and undrawn credit lines.

The table below analyses the assets and liabilities that are recognised in the balance sheet into relevant maturity groupings, based on the remaining period at balance sheet date to their contractual maturity date.

The Group	Less than three months €000	Between three months and one year €000	Between one and five years €000	More than five years €000	Other €000	Total €000
At 30 September 2008						
Assets						
Balances with Central Bank of Malta, treasury bills and cash	32,882	21,371	-	-	136,998	**191,251**
Fair value through profit or loss						
- Debt and other fixed income instruments	75,379	195,043	641,286	447,322	-	**1,359,030**
- Equity and other non fixed income instruments	-	-	-	-	27,818	**27,818**
- Derivative financial instruments	-	-	-	-	4,771	**4,771**
Investments						
- Debt and other fixed income financial instruments						
- available-for-sale	-	84,819	260,702	176,815	-	**522,336**
- held-to-maturiy	28,012	60,870	288,573	6,481	-	**383,936**
- Equity and other non fixed income instruments						
- available-for-sale	-	-	-	-	3,713	**3,713**
Loans and advances to banks	409,599	11,400	10,000	-	10,527	**441,526**
Loans and advances to customers	778,817	301,731	783,218	1,175,418	-	**3,039,184**
Investments in subsidiary and associated companies	-	-	-	-	63,026	**63,026**
Other assets	-	-	-	-	194,577	**194,577**
	1,324,689	**675,234**	**1,983,779**	**1,806,036**	**441,430**	**6,231,168**
Liabilities and Equity						
Financial liabilities held for trading	-	-	-	-	5,207	**5,207**
Amounts owed to banks	732,038	244,745	-	22,524	-	**999,307**
Amounts owed to customers	3,149,377	1,260,095	215,912	-	-	**4,625,384**
Debt securities in issue	-	-	25,501	-	-	**25,501**
Other liabilities	-	-	-	-	125,751	**125,751**
Financial liabilities held for hedging	-	-	-	-	10,061	**10,061**
Subordinated liabilities	-	-	46,567	-	-	**46,567**
Minority interest	-	-	-	-	717	**717**
Shareholders' funds	-	-	-	-	392,673	**392,673**
	3,881,415	**1,504,840**	**287,980**	**22,524**	**534,409**	**6,231,168**

39. FINANCIAL RISK MANAGEMENT (continued)

	Less than three months €000	Between three months and one year €000	Between one and five years €000	More than five years €000	Other €000	Total €000
Group						
At 30 September 2007						
Assets						
Balances with Central Bank of Malta, treasury bills and cash	50,927	91,293	-	-	219,637	**361,857**
Financial assets at fair value through profit or loss						
- Debt and other fixed income instruments	43,071	93,317	552,916	398,777	-	**1,088,081**
- Equity and other non fixed income instruments	-	-	-	-	31,311	**31,311**
- Derivative financial instruments	-	-	-	-	10,990	**10,990**
Investments						
- Debt and other fixed income financial instruments						
- available-for-sale	14,484	24,649	198,793	321,403	-	**559,329**
- held-to-maturity	715	35,104	232,329	5,525	-	**273,673**
- Equity and other non fixed income instruments						
- available-for-sale	-	-	-	-	3,797	**3,797**
Loans and advances to banks	460,815	21,974	-	-	10,137	**492,926**
Loans and advances to customers	582,940	295,430	735,933	1,006,929	-	**2,621,232**
Investments in associate and jointly controlled entity	-	-	-	-	60,941	**60,941**
Other assets	-	-	-	-	183,036	**183,036**
	1,152,952	**561,767**	**1,719,971**	**1,732,634**	**519,849**	**5,687,173**
Liabilities and Equity						
Financial liabilities held for trading	-	-	-	-	18,011	**18,011**
Amounts owed to banks	408,383	192,120	159,467	-	-	**759,970**
Amounts owed to customers	3,006,853	1,086,349	180,655	29,879	-	**4,303,736**
Debt securities in issue	-	-	25,779	-	-	**25,779**
Other liabilities	-	-	-	-	127,389	**127,389**
Financial liabilities held for hedging	-	-	-	-	4,663	**4,663**
Subordinated liabilities	-	-	46,567	-	-	**46,567**
Minority interest	-	-	-	-	673	**673**
Shareholders' funds	-	-	-	-	400,385	**400,385**
	3,415,236	**1,278,469**	**412,468**	**29,879**	**551,121**	**5,687,173**

39. FINANCIAL RISK MANAGEMENT (continued)

The Bank	Less than three months €000	Between three months and one year €000	Between one and five years €000	More than five years €000	Other €000	Total €000
At 30 September 2008						
Assets						
Balances with Central Bank of Malta,						
treasury bills and cash	32,882	21,371	-	-	136,998	**191,251**
Fair value through profit or loss						
- Debt and other fixed income instruments	75,379	195,043	641,286	447,322	-	**1,359,030**
- Equity and other non fixed income instruments	-	-	-	-	24,983	**24,983**
- Derivative financial instruments	-	-	-	-	4,771	**4,771**
Investments						
- Debt and other fixed income financial instruments						
- available-for-sale	-	84,819	260,702	176,815	-	**522,336**
- held-to-maturiy	28,012	60,870	288,573	6,481	-	**383,936**
- Equity and other non fixed income instruments						
- available-for-sale	-	-	-	-	3,641	**3,641**
Loans and advances to banks	409,599	11,400	10,000	-	10,527	**441,526**
Loans and advances to customers	778,817	301,731	783,218	1,175,418	-	**3,039,184**
Investments in subsidiary and associated companies	-	-	-	-	32,578	**32,578**
Other assets	-	-	-	-	194,740	**194,740**
	1,324,689	**675,234**	**1,983,779**	**1,806,036**	**408,238**	**6,197,976**
Liabilities and Equity						
Financial liabilities held for trading	-	-	-	-	5,207	**5,207**
Amounts owed to banks	732,038	244,745	-	22,524	-	**999,307**
Amounts owed to customers	3,150,916	1,260,095	215,912	-	-	**4,626,923**
Debt securities in issue	-	-	25,501	-	-	**25,501**
Other liabilities	-	-	-	-	124,757	**124,757**
Financial liabilities held for hedging	-	-	-	-	10,061	**10,061**
Subordinated liabilities	-	-	46,567	-	-	**46,567**
Shareholders' funds	-	-	-	-	359,653	**359,653**
	3,882,954	**1,504,840**	**287,980**	**22,524**	**499,678**	**6,197,976**

	Less than three months €000	Between three months and one year €000	Between one and five years €000	More than five years €000	Other €000	Total €000
At 30 September 2007						
Assets						
Balances with Central Bank of Malta,						
treasury bills and cash	50,927	91,293	-	-	219,637	**361,857**
Fair value through profit or loss						
- Debt and other fixed income instruments	43,071	93,317	552,916	398,777	-	**1,088,081**
- Equity and other non fixed income instruments	-	-	-	-	27,647	**27,647**
- Derivative financial instruments	-	-	-	-	10,990	**10,990**
Investments						
- Debt and other fixed income financial instruments						
- available-for-sale	14,484	24,649	198,793	321,403	-	**559,329**
- held-to-maturiy	715	35,104	232,329	5,525	-	**273,673**
- available-for-sale	-	-	-	-	3,641	**3,641**
Loans and advances to banks	460,815	21,974	-	-	10,137	**492,926**
Loans and advances to customers	583,044	295,430	735,933	1,006,930	-	**2,621,337**
Investments in subsidiary and associated companies	-	-	-	-	30,617	**30,617**
Other assets	-	-	-	-	182,975	**182,975**
	1,153,056	**561,767**	**1,719,971**	**1,732,635**	**485,644**	**5,653,073**

39. FINANCIAL RISK MANAGEMENT (continued)

	Less than three months €000	Between three months and one year €000	Between one and five years €000	More than five years €000	Other €000	Total €000
Liabilities and Equity						
Financial liabilities held for trading	-	-	-	-	18,011	**18,011**
Amounts owed to banks	408,383	192,120	159,467	-	-	**759,970**
Amounts owed to customers	3,007,384	1,086,349	180,655	29,879	-	**4,304,267**
Debt securities in issue	-	-	25,779	-	-	**25,779**
Other liabilities	-	-	-	-	126,613	**126,613**
Financial liabilities held for hedging	-	-	-	-	4,663	**4,663**
Subordinated liabilities	-	-	46,567	-	-	**46,567**
Shareholders' funds	-	-	-	-	367,203	**367,203**
	3,415,767	**1,278,469**	**412,468**	**29,879**	**516,490**	**5,653,073**

d. Market Risk

Market Risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk. It arises in all areas of the Group's activities and is managed by a variety of different techniques as detailed below.

The objective of the Group is to manage and control market risk exposures in order to optimise return on risk while maintaining a market profile consistent with the Bank's status as a leading Bank in providing financial products and services.

The market risk appetite is articulated in the Treasury Management Policy. It is defined as the quantum and composition of market risk that the Bank is currently exposed to and the direction in which the Bank desires to manage this risk. Market risk is managed through limits set in the Treasury Management Policy. The Policy is reviewed at least annually by Financial Markets & Investments in co-ordination with Market Risk Unit and Finance Department and is approved by the Asset and Liability Management Committee (ALCO) and the Board of Directors. The individual members of the executive committee ensure that market risk appetite is further delegated to an appropriate level within their areas of responsibility.

(i) Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Group is exposed to fair value interest rate risk arising from financial assets and liabilities with fixed interest rates and to cash flow interest rate risk arising from financial assets and liabilities with floating interest rates. The Group is not directly exposed to interest rate risk on investment in equity instruments. The Group uses interest rate swaps to hedge the interest rate risk of certain financial instruments.

The Group manages this risk by using a variety of techniques, including Value at Risk, sensitivity analysis using modified duration and interest rate repricing gaps.

For financial instruments held or issued, the Group has used techniques that measure the change in the fair value and cash flows of the Group's financial instruments at the reporting date for hypothetical changes in the relevant market risk variables. The sensitivity of profit or loss and equity due to changes in the relevant risk variables is set out below. The amounts generated from the analyses are forward-looking estimates of market risk assuming certain market conditions. Actual results in the future may differ materially from those projected results due to the inherent uncertainty of global financial markets. The sensitivity analyses are for illustrative purposes only, as in practice market rates rarely change in isolation and are likely to be interdependent.

39. FINANCIAL RISK MANAGEMENT (continued)

Value at Risk (VaR)

This methodology, which incorporates the volatility of relevant market prices and the correlation of their movements is used to measure interest rate risk for internal purposes on the Group's unhedged foreign investment portfolios held on a mark-to-market basis i.e. those unhedged financial assets categorised as at 'Fair Value through Profit or Loss' and 'Available-for-Sale' in accordance with IAS 39. The VaR model used by the Group is the variance/co-variance approach which assumes a normal probability distribution. In order to calculate VaR, the Group makes use of 'Risk Metrics' obtained from JP Morgan Chase. Although in itself an important measure of risk, VaR has limitations as a result of its dependence on historical data, assumed distribution, holding periods and frequency of calculation. The use of confidence levels does not convey any information about potential loss when the confidence level is exceeded. VaR can also be less well suited to non-linear positions. The Group recognises these limitations and supplements the use of VaR with a variety of other techniques. These mainly include interest rate repricing gaps, and sensitivity analysis using modified duration.

The risk of loss measured by the VaR model is the potential loss in earnings. The total and average trading VaR does not assume any diversification benefit.

Based on the 95 per cent confidence level and assuming a fourteen-day horizon period, the VaR for the reporting period is as detailed in the table below:

	2008 €000	2007 €000
At reporting date	1,066	257
Average	588	286
Max	1,066	400
Min	182	236

Sensitivity analysis - Modified Duration

Modified duration is a technique used to measure the potential loss in market value arising from a 100 basis-point upward parallel shift in the yield curve. The estimated impact of this increase in yields on economic value at the reporting date is shown below. Economic value is defined as the present value of the non-trading portfolios concerned. Impacts have only been shown in one direction but can be assumed to be reasonably symmetrical. These calculations are made monthly using the assumption that advances in Euro are all linked to the ECB base rate and will be repriced upon change in base rate.

Internal reporting shows this sensitivity as a percentage of the Group's regulatory capital base, and as at 30 September 2008 the relevant percentage reads 3.16% (2007: 3.32%). This is a risk based disclosure and the amounts below would be amortised in the income statement over the duration of the portfolio, where applicable.

The Group	2008 €000	2007 €000
Increase/(reduction) in profit	3,152	(4,581)
Reduction in reserves	(15,600)	(8,327)

39. FINANCIAL RISK MANAGEMENT (continued)

Interest rate repricing gap

The table below summarises the Group's exposure to interest rate risk. Included in the the table are Group assets and liabilities, including derivative financial instruments which are principally used to reduce exposure to interest rate risk, categorised by repricing date.

The Group's assets and liabilites are set to reprice as follows:

GROUP CONTRACTUAL REPRICING TABLE

	Effective Interest Rate %	Up to 1 Month €000	3 months or less but over 1 month €000	1 year or less but over 3 months €000	Over 1 year €000	Others €000	Total €000
ASSETS							
Balances with Central Bank of Malta, treasury bills and cash	3.60	115,718	16,877	21,371	-	37,285	**191,251**
Fair Value through Profit or Loss							
- Debt and other fixed income instruments	4.92	215,377	569,485	87,919	486,249	-	**1,359,030**
- Equity and other non fixed income instruments	-	-	-	-	-	27,818	**27,818**
Derivative Financial Instruments	-	-	-	-	-	4,771	**4,771**
Investments							
- Debt and other fixed income financial instruments							
- available-for-sale	5.08	-	-	84,819	437,517	-	**522,336**
- held-to-maturity	4.18	50,561	115,355	41,507	176,513	-	**383,936**
- Equity and other non fixed income instruments							
- available-for-sale		-	-	-	-	3,713	**3,713**
Loans and advances to banks	2.54	370,782	18,703	11,400	10,000	30,641	**441,526**
Loans and advances to customers	5.90	2,930,112	59,231	37,113	12,728	-	**3,039,184**
Investment in associated companies		-	-	-	-	63,026	**63,026**
Other assets		-	-	-	-	194,577	**194,577**
Total 2008		**3,682,550**	**779,651**	**284,129**	**1,123,007**	**361,831**	**6,231,168**
Total 2007		**3,240,601**	**777,792**	**313,044**	**990,193**	**365,543**	**5,687,173**
LIABILITIES and EQUITY							
Financial liabilities at fair value through profit or loss		-	-	-	-	5,207	**5,207**
Amounts owed to banks	3.18	454,617	253,186	246,490	-	45,014	**999,307**
Amounts owed to customers	2.94	2,246,740	558,629	1,264,051	168,227	387,737	**4,625,384**
Debt securities in issue	7.96	-	-	-	25,501	-	**25,501**
Other liabilities		-	-	-	-	125,751	**125,751**
Financial liabilities held for hedging		-	-	-	-	10,061	**10,061**
Subordinated liabilities	6.15	-	-	-	46,567	-	**46,567**
Minority interests		-	-	-	-	717	**717**
Shareholders' funds		-	-	-	-	392,673	**392,673**
Total 2008		**2,701,357**	**811,815**	**1,510,541**	**240,295**	**967,160**	**6,231,168**
Total 2007		**2,491,596**	**670,594**	**1,382,557**	**282,879**	**859,547**	**5,687,173**
Interest rate swaps - 2008		**15,682**	**125,012**	**68,522**	**(209,216)**	**-**	
Interest rate swaps - 2007		**47,342**	**134,188**	**108,558**	**(290,089)**	**-**	
Gap - 2008		**996,875**	**92,848**	**(1,157,890)**	**673,496**	**(605,329)**	
Gap - 2007		**796,348**	**241,386**	**(960,955)**	**417,226**	**(494,004)**	
Cumulative Gap - 2008		**996,875**	**1,089,723**	**(68,167)**	**605,329**		
Cumulative Gap - 2007		**796,348**	**1,037,734**	**76,778**	**494,004**		

39. FINANCIAL RISK MANAGEMENT (continued)

(ii) Currency Risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Board of Directors sets limits on the level of exposure by currency and in total, which levels are monitored daily.

The following table summarises the Group's exposure to foreign currency exchange rate risk at 30 September. Included in the table are the Group's assets and liabilities at carrying amounts, analysed into relevant currency groupings.

	2008			2007		
	Euro	Other Currencies	Total	Euro	Other Currencies	Total
The Group	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**
Assets						
Balances with Central Bank of Malta treasury bills and cash	188,581	2,670	191,251	359,776	2,081	361,857
Financial assets at fair value through profit or loss						
- Debt and other fixed income instruments	927,143	431,887	1,359,030	619,567	468,515	1,088,082
- Equity and other non fixed income instruments	24,771	3,047	27,818	27,684	3,626	31,310
- Derivative financial instruments	346	4,425	4,771	1,124	9,866	10,990
Investments						
-Debt and other fixed income financial instruments						
- available for sale	466,614	55,794	522,408	505,721	53,607	559,328
- held-to-maturity	242,293	141,642	383,935	47,539	226,135	273,674
- Equity and other non fixed income instruments						
- available for sale	3,642	-	3,642	3,797	-	3,797
Loans and advances to banks	243,935	197,591	441,526	260,271	232,655	492,926
Loans and advances to customers	2,998,982	40,202	3,039,184	2,602,145	19,087	2,621,232
Other assets	253,882	3,721	257,603	233,637	10,340	243,977
	5,350,189	**880,979**	**6,231,168**	**4,661,261**	**1,025,912**	**5,687,173**
Liabilities and Equity						
Financial liabilities at fair value through profit or loss	683	4,524	5,207	1,611	16,400	18,011
Amounts owed to banks	832,739	166,568	999,307	518,053	241,917	759,970
Amounts owed to customers	3,926,027	699,357	4,625,384	3,605,070	698,666	4,303,736
Debt securities in issue	-	25,501	25,501	-	25,779	25,779
Other liabilities	106,233	19,518	125,751	114,566	12,823	127,389
Financial liabilities held for hedging	-	10,061	10,061	4,663	-	4,663
Subordinated liabilities	46,567	-	46,567	46,567	-	46,567
Equity	393,390	-	393,390	401,058	-	401,058
	5,305,639	**925,529**	**6,231,168**	**4,691,588**	**995,585**	**5,687,173**

(iii) Other Price Risk

Other Price Risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

The Group is exposed to equity price risks arising from the holding of equity instruments classified either as available for sale or at fair value through profit or loss.

The carrying amounts of financial instruments at the balance sheet date which could potentially subject the Group to equity price risk are disclosed in the notes to the financial statements.

This risk is monitored and managed by the Risk management function of the Bank, as disclosed in more detail above.

39. FINANCIAL RISK MANAGEMENT (continued)

e. Fair value of financial instruments

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. A market price, where an active market (such as a recognised stock exchange) exists, is the best evidence of the fair value of a financial instrument. However, market prices are not available for a number of financial instruments. The fair value of such instruments is determined by using valuation techniques. Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are stated at cost since the range of reasonable fair value estimates is significant and the probabilities of the various estimates cannot be reasonably assessed. It is not possible to disclose the range of estimates within which the fair value of these instruments is highly likely to lie.

Financial instruments at fair value through profit or loss and financial assets which are held for investment purposes as available-for-sale are carried at their fair value.

(i) Investments - Debt and other fixed income instruments held to maturity

This category of asset is carried at amortised cost. Their fair value is disclosed separately in the respective note to the financial statements.

(ii) Loans and advances to customers

Loans and advances to customers are the largest financial asset held by the Group, and are reported net of allowances to reflect the estimated recoverable amounts, which are not deemed to differ materially from their fair value.

The carrying value approximates the fair value in the case of loans which are repriceable at the Group's discretion. These loans constitute a significant element of the total loan portfolio.

(iii) Loans and advances to banks, balances with Central Bank and Treasury Bills

The majority of these assets reprice or mature in less than one year. Hence their fair value is not deemed to differ materially from their carrying amount at the respective reporting dates.

(iv) Amounts owed to banks and customers

These liabilities are carried at amortised cost. The majority of these liabilities reprice or mature in less than one year. Hence their fair value is not deemed to differ materially from their carrying amount at the respective reporting dates.

(v) Debt Securities in issue and Subordinated liabilities

These liabilities are carried at amortised cost. Their fair value is disclosed separately in the respective notes to the financial statements.

(vi) Other Financial liabilities

The fair value of other financial liabilities is not deemed to differ materially from their carrying amount at the respective reporting dates.

39. FINANCIAL RISK MANAGEMENT (continued)

f. Capital risk management

The Group's capital management approach ensures a sufficient level of capitalisation to manage the risk exposures whilst supporting business growth and providing adequate returns to the shareholders. Risk capital management does not in any way substitute risk mitigation measures. It is vital that the structure of limits and thresholds should be able to prevent concentrations of risk from building up in such a way as to compromise a significant proportion of the Group's capital resources.

The Group ensures that it complies with the capital requirements set by the regulator. During the prior financial year, the Group was calculating its risk capital requirements using the principles of Basel I but was already preparing for the implementation of the Pillar I requirements under Basel II. On 1 October 2007, the Group implemented Banking Rule BR/04/2007 - Capital Requirements of Credit Institutions Authorised Under the Banking Act 1994. The Group thereby became Basel II-compliant with respect to Pillar I requirements, allocating regulatory capital against credit risk (using the standardised approach), operational risk (using the basic indicator approach) and market risk. During the coming financial year, the Group expects to adopt Pillar II requirements, which comprise an internal capital adequacy assessment process. This process will help to measure the amount of regulatory capital which the Group requires to cover risks assumed in the course of its business, including risks not covered under Pillar I. BOV believes in the rationale behind the ICAAP embedded in Pillar II, and it was decided to engage in a fully-fledged implementation programme that will ensure a better alignment between material risks and regulatory capital, in order to strengthen capital deployment and improve the risk management and mitigation techniques adopted by the institution.

In line with the EU Capital Requirements Directive 2006/48/EC, the Group decided to embark on a comprehensive and dynamic enterprise-wide implementation programme, with the aim of benefiting from a more risk-sensitive capital allocation and a better alignment of the Group's material risks with the capital position, in order to ensure that BOV remains one of the best capitalised credit institutions operating domestically.

Capital management is under the direct control of the Asset and Liability Committee (ALCO). During the financial year, ALCO has monitored adequacy of Group capital, gave strategic direction on the most efficient use of capital and identified and quantified changes to risk capital requirements arising from the implementation of Pillar II.

ALCO is supported by the Asset & Liability Management (ALM) Unit in the management of capital. The ALM Unit monitors and forecasts Group capital, including the capital mix and the level and nature of subordinated debt.

The Basel II implementation programme was entrusted to the Chief Officer Risk Management, assisted by the Group Risk Consultant who chairs the Regulatory and Economic Capital (REC) Working Group.

The REC Working Group, which was set up by, and reports to, ALCO, is responsible for the implementation of the Capital Requirements Directive and for increasing awareness across the Group on Basel II. It is also responsible for the development of the economic capital model to assist ALCO in its capital allocation decisions. REC meetings are held every two months with membership from cross functional units.

An ICAAP Executive was entrusted with coordinating the production of the ICAAP submission, and a number of internal task forces were formed to deal with specific risk issues. The Board of Directors will be constantly involved in this on-going process, with the ICAAP Executive reporting directly to the Board.

During the year under review and during the comparative period, the Group has complied with the externally imposed capital requirements.

39. FINANCIAL RISK MANAGEMENT (continued)

The following table shows the components and basis of calculation of the Group and the Bank Capital Adequacy ratios:

	The Group Face Value €000	The Group Risk Weighted Amounts €000	The Bank Face Value €000	The Bank Risk Weighted Amounts €000
Own Funds				
Tier 1				
- Ordinary shares	100,000		100,000	
- Share Premuim	988		988	
- Retained Earnings	239,920		238,777	
- Available for Sale Reserve	527		517	
Total Tier 1 Capital	341,435		340,282	
Tier 2				
- Property Revaluation Reserves	19,371		19,371	
- Collective Impairment Allowances	20,790		20,790	
- Subordinated Loan Capital	13,197		13,197	
Total Tier 2 Capital	53,358		53,358	
Total Own Funds	394,793		393,640	
Assets				
Balances with the Central Bank of Malta treasury bills and cash	191,251	-	191,251	-
Financial assets at fair value through profit or loss	1,391,619	563,156	1,388,784	560,321
Investments	909,985	94,614	909,913	94,614
Loans and advances to banks	441,526	65,577	441,526	65,505
Loans and advances to customers	3,059,974	1,873,835	3,059,974	1,873,835
Other assets	225,848	225,848	227,318	227,318
	6,220,203	2,823,030	6,218,766	2,821,593
Off-Balance Sheet Items	1,128,526	277,672	1,128,526	277,672
Operational Risk		341,243		321,746
Total risk weighted assets		3,441,945		3,421,011
Capital Adequacy Ratio				
30 September 2008				
Tier 1 Ratio		9.9%		9.9%
Total Capital Ratio		11.5%		11.5%
30 September 2007				
Tier 1 Ratio		10.8%		10.8%
Total Capital Ratio		12.8%		12.9%

40. REGISTERED OFFICE

The registered and principal office of the Bank is Bank of Valletta p.l.c., 58, Zachary Street, Valletta VLT 1130, Malta.

41. TRUST ACTIVITIES

The Group acts as trustee and provides trust activities that result in the holding and placing of assets on behalf of third parties. Trust assets are not assets of the Group and therefore they are not included in its balance sheet.

Income derived from trust assets is excluded from revenue. Fees arising from the rendering of trustee services are recognised in the Group's profit or loss.

At 30 September 2008, the total assets held by the Group on behalf of its customers amounted to €125.6m (2007: €78.9m).

42. INVESTOR COMPENSATION SCHEME

In accordance with the provisions of the Investor Compensation Scheme Regulations, 2003, issued under the Investment Services Act, 1994, licence holders are required to transfer a variable contribution to an Investor Compensation Scheme Reserve and place the equivalent amount with a bank, pledged in favour of the Scheme. Alternatively licence holders can elect to pay the amount of variable contribution directly to the Scheme.

Bank of Valletta p.l.c. has elected to pay the amount of the variable contribution directly to the Scheme.

The group's five year summary - extracted from the respective audited financial statements

A. INCOME STATEMENTS

For the year ended 30 September

	2008 €000	2007 €000	2006 €000	2005 €000	2004 €000
Interest receivable and similar income	291,124	279,164	233,187	207,025	198,977
Interest payable	(164,997)	(149,623)	(118,798)	(103,222)	(103,711)
Net interest income	126,127	129,541	114,389	103,803	95,266
Other operating income	(6,366)	39,960	48,591	51,162	47,869
Other operating charges	(77,770)	(73,918)	(72,388)	(71,468)	(69,371)
Net impairment losses	(3,093)	352	(10,741)	(27,333)	(31,323)
Share of profits of associate and jointly controlled entity	1,705	5,795	9,499	5,749	3,275
Profit before tax	40,603	101,730	89,350	61,913	45,716
Income tax expense	(13,821)	(33,195)	(28,337)	(19,678)	(16,047)
Profit for the year	26,782	68,535	61,013	42,235	29,669
Attributable to:					
Shareholders of the Bank	26,132	67,855	60,079	41,505	29,129
Minority interest	650	680	934	731	540
	26,782	68,535	61,013	42,236	29,669
Earnings per share	**19c6**	**50c9**	**45c1**	**31c2**	**21c9**

The earnings per share figures have been adjusted retrospectively to reflect the increase in the number of ordinary shares following capitalisation of retained earnings and a bonus issue which occurred on 15 January 2008.

The group's five year summary - extracted from the respective audited financial statements (continued)

B. BALANCE SHEETS

As at 30 September

	2008 €000	2007 €000	2006 €000	2005 €000	2004 €000
ASSETS					
Balances with Central Bank of Malta, treasury bills and cash	191,251	361,857	368,754	404,328	451,321
Investments and financial assets at fair value through profit or loss	2,301,604	1,967,181	2,077,598	2,104,156	1,984,573
Loans and advances to banks	441,526	492,926	444,738	264,205	185,768
Loans and advances to customers	3,039,184	2,621,232	2,299,377	1,951,029	1,952,342
Investments in associate and jointly controlled entity	63,026	60,941	52,593	43,585	29,383
Property, plant and equipment	83,753	85,148	81,155	81,230	74,628
Current tax	19,775	11,794	2,609	15,080	5,069
Deferred tax	35,429	37,242	41,735	22,113	27,720
Other assets	13,433	8,239	10,491	8,712	5,134
Prepayments and accrued income	42,187	40,613	39,187	29,769	32,278
Total Assets	**6,231,168**	**5,687,173**	**5,418,237**	**4,924,207**	**4,748,216**
LIABILITIES					
Financial liabilities at fair value through profit or loss and held for hedging	15,268	22,674	13,690	28,791	22,718
Amounts owed to banks	999,307	759,970	939,774	846,951	805,779
Amounts owed to customers	4,625,384	4,303,736	3,898,694	3,515,027	3,397,409
Debt securities in issue	25,501	25,779	28,852	30,384	29,406
Other liabilities	60,949	74,915	73,923	75,052	64,451
Accruals and deferred income	64,802	52,474	47,638	40,596	36,518
Subordinated liabilities	46,567	46,567	46,567	46,567	81,167
Total Liabilities	**5,837,778**	**5,286,115**	**5,049,138**	**4,583,368**	**4,437,448**
EQUITY					
Equity attributable to shareholders of the Bank					
Called up share capital	100,000	64,543	64,542	32,271	32,271
Share premium account	988	988	988	988	988
Revaluation reserve	20,010	19,527	25,141	33,979	32,690
Other reserves	-	-	2,250	8,605	8,605
Retained earnings	271,675	315,327	275,486	263,842	234,861
	392,673	400,385	368,407	339,685	309,415
Minority interest	717	673	692	1,154	1,353
Total Equity	**393,390**	**401,058**	**369,099**	**340,839**	**310,768**
Total Liabilities and Equity	**6,231,168**	**5,687,173**	**5,418,237**	**4,924,207**	**4,748,216**
MEMORANDUM ITEMS					
Contingent liabilities	134,777	136,714	141,591	144,717	160,342
Commitments	993,749	938,070	1,006,098	903,333	790,990

C. CASH FLOW STATEMENTS

For the year ended 30 September

	2008 €000	2007 €000	2006 €000	2005 €000	2004 €000
Net cash (used in)/from operating activities	(135,806)	168,588	163,438	125,888	4,775
Cash flows from investing activities					
Dividends received from equity shares	860	829	1,179	608	599
Dividends received from associate and jointly controlled entity	1,818	2,898	2,597	825	1,495
Interest received from investing securities	49,203	36,080	48,672	89,695	77,505
Investment in associate and jointly controlled entity	(2,197)	(5,448)	(2,798)	(7,582)	(1,181)
Purchase of equity investments	-	(217)	(743)	(757)	(1,989)
Proceeds on sale of equity investment	84	461	-	263	475
Net (increase)/decrease in investment securities	(83,910)	(130,823)	31,514	(113,949)	(101,258)
Purchase of property, plant and equipment	(5,139)	(5,183)	(10,547)	(11,533)	(7,293)
Proceeds on disposal of property, plant and equipment	187	58	21	33	77
Net cash (used in)/from investing activities	(39,094)	(100,775)	69,895	(42,397)	(31,570)
Cash flows from financing activities					
Repayment of subordinated funds	-	-	-	(34,601)	-
Dividends paid	(34,961)	(30,483)	(23,212)	(15,616)	(14,263)
Net cash used in financing activities	(34,961)	(30,483)	(23,212)	(50,217)	(14,263)
Net change in cash and cash equivalents	(209,861)	37,330	210,121	33,274	(41,058)

D. PERFORMANCE EXPRESSED IN RELATION TO AVERAGE TOTAL ASSETS AND AVERAGE CAPITAL EMPLOYED

For the year ended 30th September	2008 %	2007 %	2006 %	2005 %	2004 %
Operating income to total assets	2.01	3.05	3.15	3.20	3.05
Operating expenses to total assets	1.31	1.33	1.40	1.48	1.40
Profit before tax to total assets	0.68	1.83	1.73	1.28	0.97
Profit before tax to capital employed	10.24	26.47	25.24	19.08	15.11
Profit attributable to shareholders to total assets	0.44	1.22	1.16	0.86	0.62
Profit attributable to shareholders to capital employed	6.59	17.65	16.97	12.79	9.63

Group financial highlights in euros & us dollars year ended 30 September 2008

The following figures were converted from Euro to US Dollars using the rates of exchange ruling on 30 September 2008. The rates used were €1 = US$ 1.433. This does not reflect the effect of the change in the rates of exchange since 30 September 2007 which were €1 = US$ 1.417.

	2008 US$'000	**2007 US$'000**
Net income attributable to shareholders of the Bank	37,447	97,236
Net income per share	28c	73c
Gross dividend	75,738	65,669
Net dividend	49,231	42,685
Gross dividend per share	76c	64c
Total assets	8,929,264	8,149,719
Liquid funds	274,063	518,541
Investments and financial assets at fair value through profit or loss	3,298,199	2,818,970
Loans and advances	4,987,857	4,462,588
Investments in associate and jointly controlled entity	90,316	87,328
Share capital	143,300	92,490
Capital reserves	30,090	29,398
Retained earnings	389,310	451,864

Share register information required by the Malta Financial Services Authority Listing Rules

PURSUANT TO LISTING RULE 9.43

The authorised share capital of Bank of Valletta p.l.c. ("the Bank") is €150,000,000. The issued and fully paid up capital is €100,000,000 divided into 133,333,333 Ordinary Shares of a nominal value of €0.75 each. The issued share capital consists of one class of ordinary shares with equal voting rights attached.

Clause 4 of the Bank's Memorandum of Association provides that, with the exception of existing large shareholders, presently the Government of Malta (25.23%) and UniCredit S.p.A. (14.55%), no person may at any time, whether directly or indirectly and in any manner whatsoever acquire such number of shares in the Bank as would in aggregate be in excess of 3% of the issued share capital of the Bank. As at the 30th September 2008, Malta Government Investments Ltd., a fully Government owned entity, has a shareholding in the Bank of 0.48%.

Any shareholder holding in excess of 50% of the issued share capital of the Bank or if none exist, the shareholder holding the highest number of shares not being less than 25% of the issued share capital, may appoint the Chairman.

Shareholders holding at least 10% of the issued share capital of the Bank, having voting rights on the "Effective Date"[1] shall be entitled to appoint one director, for every 10% holding. However, such shareholders are not entitled to vote or aggregate any excess of votes over 10% unutilised to vote at the election of directors at an Annual General Meeting.

The rules governing the appointment of Board members are contained in the Bank's Articles of Association Clauses 60 to 62. An extraordinary resolution approved by the shareholders in the general meeting is required to amend the Articles of Association.

The shareholders in the general meeting authorised the Board to exercise during the "Prescribed Period"[2] all the powers of the Bank to issue and allot relevant securities up to an aggregate nominal amount equal to the "Prescribed Amount"[3]. The Directors have been authorised by the shareholders in the 34th Annual General Meeting to undertake a share buy back of up to 10% of the issued share capital namely 13,333,333 ordinary shares within the price range defined in the extraordinary resolution. This authorisation lapses on the 19 June 2009.

The Bank has contracts with thirty-seven employees on a definite contract that include severance payment clause. There are no contracts between the Bank and the directors on the Bank's Board.

Pursuant to Listing Rules 9.43.5, 9.43.7 and 9.43.10 it is hereby declared that, as at the 30 September 2008, none of the requirements apply to the Bank.

1 As defined in the Bank's Articles of Association.

2 "Prescribed period" renewed for five years expiring on the 17 December 2012 approved during AGM held on 19 December 2007.

3 "Prescribed amount" established as €50 million approved during AGM held on 19 December 2007.

Share register information required by the Malta Financial Services Authority Listing Rules (continued)

PURSUANT TO LISTING RULES 9.44e.5, 9.44e.6 AND 9.44e.14

Directors' interests in the share capital of the Bank as at 30 September 2008

	Beneficial interest		Non-Beneficial interest	
George Portanier	2,887	shares	-	-
Norman Rossignaud	33,376	shares	-	-
Paul Testaferrata Moroni Viani	3,139	shares	-	-
George Wells	2,406	shares	-	-
Franco Xuereb*	-	-	4,000,000	shares

* Franco Xuereb's non-beneficial interest arises from his position as one of the four trustees of the BOV Employees' Foundation.

No director has any other beneficial or non-beneficial interest in the Bank's share capital. There were no changes to the Directors' interests as at the 29 October 2008.

Shareholders holding 5% or more of the equity capital as at 30 September 2008

Government of Malta	25.23%
UniCredit S.p.A	14.55%

There were no further changes in shareholders' holding 5% or more of the equity share capital as at the 29th October 2008.

Number of shareholders and shareholding details

Range	No. of shareholders 30 September 2008	No. of shareholders 29 October 2008
1 - 1000	5,842	5,851
1001 - 5000	8,889	8,892
5001 & over	2,688	2,694

As at 30th September 2008 the Bank's issued share capital was held by 17,419 shareholders. As at 29 October 2008, the issued share capital was held by 17,437 shareholders. The issued share capital consists of one class of ordinary shares with equal voting rights attached.

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Bank of Valletta

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