

Finansbank (Malta) Limited

Notes to the Financial Statements

For the Year Ended 31 December 2008

11 Earnings per share

The calculation of basic earnings per share at 31 December 2008 was based on the profit attributable to ordinary shareholders of EUR 25,363,284 (2007: EUR 28,901,947) and a weighted average number of ordinary shares outstanding of 10,000,000 (2007: 9,465,753).

12 Balance with Central Bank of Malta

The balance with Central Bank of Malta represents reserve deposits in terms of Article 37 of the Central Bank of Malta Act (Cap. 204).

13 Trading assets and liabilities

	2008	2007
	EUR	EUR
Trading assets		
Derivative assets:		
Currency swaps	16,160	-
Currency forward agreements	87,291	245,404
Currency options	-	5,375,772
	-----	-----
	103,451	5,621,176
	=====	=====
Trading liabilities		
Derivative liabilities:		
Currency swaps	1,040,557	112,545
Currency forward agreements	101,922	75,168
Currency options	-	5,375,772
	-----	-----
	1,142,479	5,563,485
	=====	=====

14 Loans and advances to banks

	2008	2007
	EUR	EUR
Repayable on call and at short notice	8,805,832	5,299,811
Term loans and advances	654,031,457	192,929,211
	-----	-----
	662,837,289	198,229,022
	=====	=====
Amounts include:		
Due from intermediate parent company	659,553,663	186,705,300
Due from other related companies	-	87,482
	=====	=====

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15 Loans and advances to customers

	2008	2007
	EUR	EUR
Term loans and advances	960,720,007	1,159,232,576
Less specific allowances for impairment	(4,536,744)	(2,410,881)
	<u>956,183,263</u>	<u>1,156,821,695</u>
Specific allowances for impairment		
Balance at 1 January	(2,410,881)	(1,094,825)
Charge for the year	(2,125,863)	(1,316,056)
	<u>(4,536,744)</u>	<u>(2,410,881)</u>

16 Investment securities

	Held-to- Maturity 2008	Available-for- sale 2008	Total 2008	Available-for- sale 2007
	EUR	EUR	EUR	EUR
Issuer:				
Foreign government securities	-	161,481,108	161,481,108	204,275,097
Corporate bonds issued by foreign issuers	10,174,084	-	10,174,084	11,111,872
	<u>10,174,084</u>	<u>161,481,108</u>	<u>171,655,192</u>	<u>215,386,969</u>
Listing status:				
Listed on Istanbul stock exchange	-	161,481,108	161,481,108	204,275,097
Listed on Luxembourg stock exchange	10,174,084	-	10,174,084	11,111,872
	<u>10,174,084</u>	<u>161,481,108</u>	<u>171,655,192</u>	<u>215,386,969</u>
As at 01.01.2008	-	215,386,969	215,386,969	205,562,784
Additions	-	142,992,757	142,992,757	133,660,229
Disposal/maturities	-	-159,287,252	-159,287,252	-145,593,278
Reclassification	10,205,783	-10,205,783	0	-
Changes in fair value	-	3,694,602	3,694,602	-
Exchange adjustment	-66,901	-28,789,155	-28,856,056	25,248,542
Amortisation of premia/discounts	35,202	-2,311,030	-2,275,828	-2,454,752
	<u>10,174,084</u>	<u>161,481,108</u>	<u>171,655,192</u>	<u>215,386,969</u>
As at 31.12.2008	<u>10,174,084</u>	<u>161,481,108</u>	<u>171,655,192</u>	<u>215,386,969</u>

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18 Operating leases

At the balance sheet date the company had outstanding commitments under non-cancellable operating leases, which fall due as follows:

	2008	2007
	EUR	EUR
Less than one year	39,308	35,639
Between one and five years	171,961	165,094
Over five years	69,711	115,886
	-----	-----
	280,980	316,619
	=====	=====

The Bank leases the office premises under an operating lease. The lease typically runs for a period of up to 10 years, with an option to renew the lease after that date. Lease payments are to increase every four years to reflect market rates.

19 Deferred tax assets

Recognised deferred tax assets

Deferred tax assets are attributable to the following:

	2008	2007
	EUR	EUR
Allowances for loan losses	338,895	180,093
Available-for-sale securities	14,987	121,341
	-----	-----
	353,882	301,434
	=====	=====

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20 Other assets

	2008	2007
	EUR	EUR
Prepayments	25,559	31,744
Accrued income	30,466,045	27,657,038
Other	17,175	15,110
	<u>30,508,779</u>	<u>27,703,892</u>

21 Deposits from banks

	2008	2007
	EUR	EUR
Term deposits	1,064,912,699	598,176,686
<i>Amounts include:</i>		
Due to ultimate parent company	551,806,812	-
Due to intermediate parent company	-	56,907,832
Due to other related companies	-	251,751,794
	<u>1,064,912,699</u>	<u>856,836,312</u>

22 Deposits from customers

	2008	2007
	EUR	EUR
Repayable on demand	18,500,244	24,773,332
Term deposits	543,165,931	849,564,293
	<u>561,666,175</u>	<u>874,337,625</u>
<i>Amounts include:</i>		
Due to other related companies	111,174,833	19,216,993
	<u>111,174,833</u>	<u>19,216,993</u>

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23 Subordinated liabilities

	2008	2007
	EUR	EUR
Dated loan capital	14,000,000	14,000,000
<i>Amounts include:</i>		
Due to intermediate parent company	14,000,000	14,000,000

The subordinated liabilities bear interest at 7% (2007: 7%) per annum. EUR6,000,000 is repayable in full on 22 August 2013 and EUR8,000,000 is repayable in full on 5 January 2014.

24 Other liabilities

	2008	2007
	EUR	EUR
Accrued interest	12,314,660	11,696,967
Deferred income	853,994	658,979
Accrued expenses	20,330	19,558
Others	29,052	216,265
	-----	-----
	13,218,036	12,591,769
	=====	=====

25 Share capital

	2008 and 2007	
	No of shares	EUR
Authorised		
Ordinary shares of EUR 10 each	30,000,000	300,000,000
	-----	-----
Issued, called up and fully paid up		
Ordinary shares of EUR 10 each	10,000,000	100,000,000
	-----	-----

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Bank.

26 Revaluation reserve

The revaluation reserve represents the cumulative net change in the fair value of available-for-sale investments, net of deferred taxation.

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27 Cash and cash equivalents

	2008	2007
	EUR	EUR
Balances of cash and cash equivalents as shown in the cash flow:		
Loans and advances to banks	<u>662,837,289</u>	<u>198,229,022</u>

28 Related parties

Interest receivable from and payable to the intermediate parent company and other related companies are as follows:

2008

	Interest receivable EUR	Total activity EUR	%	Interest payable EUR	Total activity EUR	%
Ultimate parent company	<u>69,341</u>		0.05	<u>16,215,217</u>		14.02
Intermediate parent company	<u>15,832,646</u>		11.18	<u>8,383,460</u>		7.25
Other related companies	<u>-</u>		-	<u>4,387,286</u>		3.79
Total	<u>15,901,987</u>	<u>141,557,186</u>	11.23	<u>28,985,963</u>	<u>115,631,658</u>	25.06

2007

	Interest receivable EUR	Total activity EUR	%	Interest payable EUR	Total activity EUR	%
Ultimate parent company	<u>6,855</u>		0.01	<u>2,727,303</u>		2.88
Intermediate parent company	<u>5,835,579</u>		4.53	<u>3,986,025</u>		4.21
Other related companies	<u>139,762</u>		0.11	<u>22,934,997</u>		24.20
Total	<u>5,982,196</u>	<u>128,734,339</u>	4.65	<u>29,648,325</u>	<u>94,766,280</u>	31.29

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29 Financial risk management

29.1 Introduction and overview

The Bank has exposure to the following risks from its use of financial instruments:

- credit risk;
- liquidity risk;
- market risk; and
- operational risks.

Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the Bank's risk management framework.

The Bank's risk management policies are established to identify and analyse the risks faced by the Bank, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Bank, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

The Internal Audit of the Group, of which the Bank is a member, is responsible for monitoring compliance with the Bank's risk management policies and procedures, and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Bank. The Internal Audit is responsible for both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the Board of Directors.

29.2 Credit risk

Credit risk is the risk of financial loss to the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Bank's loans and advances to customers and other banks and investment securities. For risk management reporting purposes, the Bank considers and consolidates all elements of credit risk exposure (such as individual obligor default risk, country and sector risk).

For risk management purposes, credit risk arising on trading securities is managed independently, but reported as a component of market risk exposure.

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29 Financial risk management (continued)

29.2 Credit risk (continued)

The Board of Directors is responsible of credit risk management which includes:

- *Formulating credit policies*, covering credit assessment, risk grading and reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements.
- *Establishing the authorisation structure* for the approval and renewal of credit facilities. The approval and renewal of credit facilities are under the direct responsibility of the Board of Directors.
- *Reviewing and assessing credit risk*. Group Credit assesses all credit exposures. Renewals and reviews are subject to the same review process.
- *Limiting concentrations of exposure* to counterparties, geographies and industries (for loans and advances), and by issuer, credit rating band, market liquidity and country (for investment securities).

Exposure to credit risk

Impaired loans and securities

Impaired loans and securities are loans and securities for which the Bank determines that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the loan / securities agreement(s). These loans are graded as "Doubtful" in the Bank's internal credit risk grading system.

Past due but not impaired loans

Loans and securities where contractual interest or principal payments are past due but the Bank believes that impairment is not appropriate on the basis of the level of security / collateral available and / or the stage of collection of amounts owed to the Bank.

Loans with renegotiated terms

Loans with renegotiated terms are loans that have been restructured due to deterioration in the borrower's financial position and where the Bank has made concessions that it would not otherwise consider. Once the loan is restructured it remains in this category independent of satisfactory performance after restructuring.

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29 Financial risk management (continued)

29.2 Credit risk (continued)

Exposure to credit risk (continued)

The table below shows the Bank's credit exposures, gross of impairment allowances:

	Loans and advances to customers		Loans and advances to banks		Investment securities	
	EUR	EUR	EUR	EUR	EUR	EUR
	2008	2007	2008	2007	2008	2007
Individually impaired						
Grade: Doubtful	4,222,951	2,369,390	-	-	-	-
Past due but not impaired						
Up to 30 days – Grade: Watch	2,322,976	-	-	-	-	-
30 – 60 days – Grade: Watch	832,618	-	-	-	-	-
Neither past due not impaired						
Grade – Regular	953,341,462	1,153,863,186	662,837,289	198,229,022	171,655,192	215,386,969
Renegotiated	-	3,000,000	-	-	-	-
Total gross amount	<u>960,720,007</u>	<u>1,159,232,576</u>	<u>662,837,289</u>	<u>198,229,022</u>	<u>171,655,192</u>	<u>215,386,969</u>

Allowances for impairment

The Bank establishes an allowance for impairment losses that represents its estimate of incurred losses in its loan portfolio. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loan loss allowance for homogeneous assets in respect of losses, if any, that have been incurred but have not been identified on loans subject to individual assessment for impairment.

Write-off policy

The Bank writes off a loan (and any related allowances for impairment losses) when the Bank's Credit department determines that the loans / securities are uncollectible. This determination is reached after considering information such as the occurrence of significant changes in the borrower / issuer's financial position such that the borrower / issuer can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure. For smaller balance standardised loans, charge off decisions generally are based on a product specific past due status.

The Bank holds collateral against loans and advances to customers in the form of mortgage interests over property, other registered securities over assets, and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and generally are not updated except when a loan is individually assessed as impaired. Collateral generally is not held over loans and advances to banks, except when securities are held as part of reverse repurchase and securities borrowing activity. Collateral usually is not held against investment securities, and no such collateral was held at 31 December 2008 or 2007.

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29 Financial risk management (continued)

29.2 Credit risk (continued)

An estimate of the fair value of collateral and other security enhancements held against financial assets is shown below:

	Loans and advances to customers	
	2008 EUR	2007 EUR
Against:		
Individually impaired		
Property		
Past due but not impaired	110,969	139,574
Property	832,618	-
Neither past due nor impaired		
Cash collateral		
Property	14,906,323	29,581,512
Guarantees	309,440,289	332,293,997
Promissory notes	3,932,791	373,979
Others	173,746,564	255,991,410
Renegotiated	22,098,384	13,202,227
Cash collateral	-	3,000,000
Total	<u>525,067,938</u>	<u>634,582,699</u>

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29 Financial risk management (continued)

29.2 Credit risk (continued)

Concentrations of credit risk

The Bank monitors concentrations of credit risk by sector, industry and by geographical location. An analysis of concentrations of credit risk at the reporting date, gross of impairment allowance is shown below:

Concentration by	Loans and advances to customers		Loans and advances to banks		Investment securities	
	2008	2007	2008	2007	2008	2007
	EUR	EUR	EUR	EUR	EUR	EUR
Concentration by sector:						
Corporate	957,216,245	1,159,115,016	-	-	10,174,084	11,111,872
Sovereign	-	-	-	-	161,481,108	204,275,097
Banks	-	-	662,837,289	198,229,022	-	-
Retail	3,503,762	117,560	-	-	-	-
	<u>960,720,007</u>	<u>1,159,232,576</u>	<u>662,837,289</u>	<u>198,229,022</u>	<u>171,655,192</u>	<u>215,386,969</u>
Concentration by location:						
EU Countries	17,477,379	31,346,248	767,439	7,025,892	10,174,084	11,111,872
OECD Countries	941,170,649	1,125,438,465	4,049,220	19,077,688	161,481,108	204,275,097
Others	2,071,979	2,447,863	658,020,630	172,125,442	-	-
	<u>960,720,007</u>	<u>1,159,232,576</u>	<u>662,837,289</u>	<u>198,229,022</u>	<u>171,655,192</u>	<u>215,386,969</u>

Concentration by location for loans and advances is measured based on the location of the Bank entity holding the asset, which has a high correlation with the location of the borrower. Concentration by location for investment securities is measured based on the location of the issuer of the security.

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29 Financial risk management (continued)

29.2 Credit risk (continued)

Concentrations of credit risk (continued)

Concentration of loans and advances to customers by industry, gross of impairment allowance is analysed below:

	%	2008		2007	
		EUR	%	EUR	
Mining and quarrying	1.33	12,754,998	1.26	14,591,973	
Manufacturing	33.68	323,468,065	34.12	395,585,648	
Construction	18.05	173,419,139	16.08	186,462,116	
Wholesale and retail trade	6.60	63,414,845	5.19	60,158,727	
Hotel and restaurants	4.66	44,751,961	4.33	50,211,869	
Transport, storage and communications	4.97	47,776,680	10.37	120,206,227	
Financial intermediation	10.84	104,184,253	13.02	150,949,612	
Real estate, renting and business activities	0.84	8,076,659	0.46	5,370,000	
Production & distribution of electricity	6.72	64,518,622	2.02	23,415,147	
Travel agencies	6.48	62,287,105	3.34	38,696,755	
Community, recreational and personal service activities	1.50	14,446,205	1.88	21,737,560	
Health and social work	2.87	27,591,723	7.05	81,699,458	
Household	0.36	3,503,762	0.01	117,560	
Education	1.10	10,525,990	0.87	10,029,924	
	100	960,720,007	100	1,159,232,576	

29.3 Liquidity risk

Liquidity risk is the risk that the Bank will encounter difficulty in meeting obligations from its financial liabilities.

Management of liquidity risk

The Bank's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Bank's reputation.

Finansbank (Malta) Limited

Notes to the Financial Statements

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29 Financial risk management (continued)

29.3 Liquidity risk (continued)

Management of liquidity risk (continued)

The Bank maintains a portfolio of short-term liquid assets, largely made up of short-term liquid investment securities, loans and advances to banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Bank as a whole. All liquidity policies and procedures are subject to review and approval by the Board of Directors.

The Bank is subject to a liquidity limit imposed by the local regulator. The Bank is responsible for managing its overall liquidity within the regulatory limit in co-ordination with Treasury Department.

Exposure to liquidity risk

The key measure used by the Bank for managing liquidity risk is the same calculation used to measure the Bank's compliance with the liquidity limit established by the Malta Financial Services Authority, that is, the ratio of net liquid assets to deposits from customers and banks. For this purpose net liquid assets are considered as including cash and cash equivalents and investment grade debt securities for which there is an active and liquid market whereas eligible deposits include deposits from banks and other borrowings excluding intra-group borrowings with less than seven days term to maturity and deposits from customers with three months remaining term to maturity. As at 31 December 2008, the Bank's liquidity ratio was 65.44% (2007: 39.82%).

Residual contractual maturities of financial liabilities

The table below shows the undiscounted cash flows on the Bank's financial liabilities and unrecognised loan commitments on the basis of their earliest possible contractual maturity.

The Gross nominal inflow / (outflow) disclosed in the table is the contractual, undiscounted cash flow on the financial liability or commitment. The net inflow/outflow in respect of derivatives is not included in this maturity analysis since the amounts are considered to be immaterial.

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29 Financial risk management (continued)

29.3 Liquidity risk (continued)

Residual contractual maturities of financial liabilities (continued)

2008	Carrying Amount EUR	Gross nominal inflow/ (outflow) EUR	Less than 1 month EUR	1 to 3 months EUR	Over 3 months and up to 1 year EUR	1 to 5 years EUR	Over 5 years EUR
Non-derivative liabilities							
Deposits from banks	1,064,912,699	1,078,296,947	719,583,275	358,189,027	524,645	-	-
Deposits from customers	561,666,175	576,253,042	305,142,161	234,103,446	37,007,435	-	-
Subordinated liabilities	14,000,000	19,017,056	141,555	106,167	743,167	9,869,056	8,157,111
	<u>1,640,578,874</u>	<u>1,673,567,045</u>	<u>1,024,866,991</u>	<u>592,398,640</u>	<u>38,275,247</u>	<u>9,869,056</u>	<u>8,157,111</u>
2007							
2007	Carrying Amount EUR	Gross nominal inflow/ (outflow) EUR	Less than 1 month EUR	1 to 3 months EUR	Over 3 months and up to 1 year EUR	1 to 5 years EUR	Over 5 years EUR
Non-derivative liabilities							
Deposits from banks	598,176,686	607,392,974	364,112,087	217,044,384	26,236,503	-	-
Deposits from customers	874,337,625	893,312,329	394,230,003	471,803,012	27,279,314	-	-
Subordinated liabilities	14,000,000	20,007,945	161,556	106,167	743,167	3,963,555	15,053,500
	<u>1,486,514,311</u>	<u>1,520,713,248</u>	<u>758,503,646</u>	<u>688,953,563</u>	<u>54,258,984</u>	<u>3,963,555</u>	<u>15,053,500</u>

29.4 Market risks

Market risk is the risk that changes in market prices, such as interest rate, equity prices, foreign exchange rates and credit spreads (not relating to changes in the obligor's / issuer's credit standing) will affect the Bank's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

Exposure to interest rate risk

The Bank's operations are subject to the risk of interest rate fluctuations to the extent that interest-earning assets and interest-bearing liabilities mature or reprice at different times or in different amounts. Risk management activities are aimed at optimising net interest income, given market interest rate levels consistent with the Bank's business strategies.

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29 Financial risk management (continued)

29.4 Market risks (continued)

Exposure to interest rate risk (continued)

Interest rate risk is managed principally through monitoring interest rate gaps and by having pre-approved limits for repricing bands. These interest rate gap analysis are reported to the intermediate parent company's risk management for its day-to-day group monitoring activities. Derivatives are used to manage any interest rate position arising.

The following table sets out the carrying amount, by reference to the earlier of the next contractual interest rate repricing date and maturity:

2008	Effective Interest Rate %	Less than 3 months EUR	Over 3 months and up to 1 year EUR	Over 1 year and up to 5 years EUR	Over 5 years EUR	Non-interest EUR	Total EUR
Financial trading assets							
Financial assets held for trading	-	-	-	-	-	103,451	103,451
Investments	20	161,481,108	-	10,174,084	-	-	171,655,192
Loans and advances to banks	7.57	654,031,457	-	-	-	8,805,832	662,837,289
Loans and advances to customers	7.71	712,012,458	182,441,294	40,634,594	21,094,917	-	956,183,263
Other assets	2.5	13,251,144	-	-	-	30,969,103	44,220,247
		<u>1,540,776,167</u>	<u>182,441,294</u>	<u>50,808,678</u>	<u>21,094,917</u>	<u>39,878,386</u>	<u>1,834,999,442</u>
Financial trading liabilities							
Deposits from banks	7.93	1,064,412,699	500,000	-	-	-	1,064,912,699
Deposits from customers	17.27	507,635,090	35,530,841	-	-	18,500,244	561,666,175
Subordinated liabilities	7	-	-	6,000,000	8,000,000	-	14,000,000
Financial liability held for trading	-	-	-	-	-	1,142,479	1,142,479
Other liabilities	-	-	-	-	-	17,828,379	17,828,379
		<u>1,572,047,789</u>	<u>36,030,841</u>	<u>6,000,000</u>	<u>8,000,000</u>	<u>37,471,102</u>	<u>1,659,549,732</u>
Shareholders' funds	-	-	-	-	-	175,449,710	175,449,710
		<u>1,572,047,789</u>	<u>36,030,841</u>	<u>6,000,000</u>	<u>8,000,000</u>	<u>212,920,812</u>	<u>1,834,999,442</u>
Gap	-	(31,271,622)	146,410,453	44,808,678	13,094,917	(173,042,426)	-
Cumulative gap	-	(31,271,622)	115,138,831	159,947,509	173,042,426	-	-

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29 Financial risk management (continued)

29.4 Market risks (continued)

Exposure to interest rate risk (continued)

2007	Effective Interest Rate %	Less than 3 months EUR	Over 3 months and up to 1 year EUR	Over 1 year and up to 5 years EUR	Over 5 years EUR	Non-interest EUR	
Financial trading assets							
Financial Assets held for trading	-	-	-	-	-	5,621,176	5,621,176
Investments	19.19	83,686,430	121,947,912	9,752,627	-	-	215,386,969
Loans & advances to banks	14.70	192,929,211	-	-	-	5,299,811	198,229,022
Loans & advances to customers	7.76	823,489,640	259,440,428	58,172,844	15,718,783	-	1,156,821,695
Other assets	4.00	53,500,000	-	-	-	28,088,619	81,588,619
		<u>1,153,605,281</u>	<u>381,388,340</u>	<u>67,925,471</u>	<u>15,718,783</u>	<u>39,009,606</u>	<u>1,657,647,480</u>
Financial trading liabilities							
Deposits from banks	10.85	361,335,145	236,841,541	-	-	-	598,176,686
Deposits from customers	7.79	368,232,199	481,332,094	-	-	24,773,332	874,337,625
Subordinated liabilities	7.00	-	-	-	14,000,000	-	14,000,000
Financial liability held for trading	-	-	-	-	-	5,563,485	5,563,485
Other liabilities	-	-	-	-	-	16,800,691	16,800,691
		<u>729,567,344</u>	<u>718,173,635</u>	<u>-</u>	<u>14,000,000</u>	<u>47,137,508</u>	<u>1,508,871,618</u>
Shareholders' funds	-	-	-	-	-	148,768,994	148,768,994
		<u>729,567,344</u>	<u>718,173,635</u>	<u>-</u>	<u>14,000,000</u>	<u>195,906,502</u>	<u>1,657,647,480</u>
Gap	-	424,037,937	(336,785,295)	67,925,471	1,718,783	(156,896,896)	
Cumulative gap	-	424,037,937	87,252,642	155,178,113	156,896,896	-	

Finansbank (Malta) Limited

Notes to the Financial Statements

For the Year Ended 31 December 2008

29 Financial risk management (continued)

29.4 Market risks (continued)

Exposure to foreign currency risk

The Bank is exposed to currency risk through transactions in foreign currencies. These transactional exposures give rise to foreign currency gains and losses that are recognised in the income statement. These exposures comprise the monetary assets and liabilities of the Bank that are not denominated in the functional currency.

The Bank through its treasury function continually assesses its currency risk on a daily basis. Treasury manages its foreign currency positions by matching its assets and liabilities and by entering into overnight and short-term currency swap transactions.

The following table provides an analysis of the financial assets and liabilities of the Bank into relevant currency rankings:

2008	Functional Currency	USD	TRL	GBP	CHF	Others	Total
Derivatives	103,451	-	-	-	-	-	103,451
Investments	-	10,174,084	161,481,108	-	-	-	171,655,192
Loans to banks	386,162,910	173,279,740	102,665,198	504,000	218,131	7,310	662,837,289
Loans to customers	537,725,752	384,573,209	16,127,237	-	17,757,065	-	956,183,263
Other assets	24,151,338	5,175,317	14,819,299	-	74,293	-	44,220,247
	<u>948,143,451</u>	<u>573,202,350</u>	<u>295,092,842</u>	<u>504,000</u>	<u>18,049,489</u>	<u>7,310</u>	<u>1,834,999,442</u>

Finansbank (Malta) Limited

Notes to the Financial Statements

For the Year Ended 31 December 2008

29 Financial risk management (continued)

29.4 Market risks (continued)

Exposure to foreign currency risk (continued)

2008	Functional Currency	USD	TRL	GBP	CHF	Others	Total
Derivatives	1,142,479	-	-	-	-	-	1,142,479
Deposits from banks	583,001,596	343,093,334	138,470,809	-	346,960	-	1,064,912,699
Deposits from customers	74,953,197	85,673,048	400,253,644	636,782	149,504	-	561,666,175
Subordinated liabilities	14,000,000	-	-	-	-	-	14,000,000
Other liabilities	10,732,244	1,150,525	5,844,350	1,544	99,716	-	17,828,379
Equity	175,449,710	-	-	-	-	-	175,449,710
	<u>859,279,226</u>	<u>429,916,907</u>	<u>544,568,803</u>	<u>638,326</u>	<u>596,180</u>	<u>-</u>	<u>1,834,999,442</u>
Net balance sheet position	88,864,225	143,285,443	(249,475,961)	(134,326)	17,453,309	7,310	
Net off-balance sheet position	(90,900,000)	(141,160,161)	252,145,757	-	(16,904,077)	-	
	<u>(2,035,775)</u>	<u>2,125,282</u>	<u>2,669,796</u>	<u>(134,326)</u>	<u>549,232</u>	<u>7,310</u>	

An analysis of the bank's sensitivity to an increase or decrease in foreign exchange rates to the functional currency (assuming no movement in other variables and a constant balance sheet position) is as follows:

2008	Functional Currency	USD	TRL	GBP	CHF	Others	Effect on P/L
Market Value							
change:							
+10%	-	212,528	266,980	(13,433)	54,923	-	520,998
-10%	-	(212,528)	(266,980)	13,433	(54,923)	-	(520,998)

Finansbank (Malta) Limited

Notes to the Financial Statements

For the Year Ended 31 December 2008

29 Financial risk management (continued)

29.4 Market risks (continued)

Exposure to foreign currency risk (continued)

2007	Functional Currency	USD	TRL	GBP	CHF	Others	Total
Derivatives	5,621,176	-	-	-	-	-	5,621,176
Investments	-	11,111,870	204,275,099	-	-	-	215,386,969
Loans to banks	667,624	24,198,102	171,993,420	1,152,369	206,396	11,111	198,229,022
Loans to customers	404,222,468	692,233,368	43,616,851	-	16,749,008	-	1,156,821,695
Other assets	57,423,568	8,227,475	15,873,296	-	64,280	-	81,588,619
	467,934,836	735,770,815	435,758,666	1,152,369	17,019,684	11,111	1,657,647,481
Derivatives	5,563,485	-	-	-	-	-	5,563,485
Deposits from banks	70,180,723	229,643,024	287,969,748	-	10,383,191	-	598,176,686
Deposits from customers	80,971,883	639,349,283	154,016,459	-	-	-	874,337,625
Subordinated liabilities	14,000,000	-	-	-	-	-	14,000,000
Other liabilities	5,384,088	2,815,720	8,480,333	-	120,550	-	16,800,691
Equity	148,768,994	-	-	-	-	-	148,768,994
	324,869,173	871,808,027	450,466,540	-	10,503,741	-	1,657,647,481
Net balance sheet position	143,065,663	(136,037,212)	(14,707,874)	1,152,369	6,515,943	11,111	
Net off-balance sheet position	(141,944,378)	137,632,899	12,284,271	(1,168,871)	(6,356,979)	-	
	1,121,285	1,595,687	(2,423,603)	(16,502)	158,964	11,111	

Finansbank (Malta) Limited

Notes to the Financial Statements

For the Year Ended 31 December 2008

29 Financial risk management (continued)

29.4 Market risks (continued)

Exposure to foreign currency risk (continued)

An analysis of the bank's sensitivity to an increase or decrease in foreign exchange rates to the functional currency (assuming no movement in other variables and a constant balance sheet position) is as follows:

2007	Functional Currency	USD	TRL	GBP	CHF	Others	Effect on P/L
Market Value							
change:							
+10%	-	159,569	(242,360)	(1,650)	15,896	-	(68,545)
-10%	-	(159,569)	242,360	1,650	(15,896)	-	68,545

29.5 Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Bank's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risk such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of the Bank's operations.

The Bank's objective is to manage Bank's operational risk so as to balance the avoidance of financial losses and damage to the Bank's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management. This responsibility is supported by the development of overall Group standards for the management of operational risk in the following areas:

- requirements for appropriate segregation of duties, including the independent authorisation of transactions
- requirements for the reconciliation and monitoring of transactions
- compliance with regulatory and other legal requirements
- documentation of controls and procedures
- requirements for the periodic assessment of operational risks faced and the adequacy of controls and procedures to address the risks identified
- requirements for the reporting of operational losses and proposed remedial action
- development of contingency plans
- training and professional development
- ethical and business standards
- risk mitigation, including insurance where this is effective.

Finansbank (Malta) Limited

Notes to the Financial Statements

For the Year Ended 31 December 2008

29 Financial risk management (continued)

29.6 Capital management

Regulatory capital

In implementing current capital requirements the Malta Financial Services Authority requires the Bank to maintain a prescribed ratio of total capital to total risk-weighted assets.

The Group's regulatory capital is analysed into two tiers:

- Tier 1 capital, which includes ordinary share capital and retained earnings; and
- Tier 2 capital, which includes qualifying subordinated liabilities, collective impairment allowances and the element of the fair value reserve relating to unrealised gains on investments classified as available-for-sale.

Regulatory capital

Various limits are applied to elements of the capital base. The amount of qualifying tier 2 capital cannot exceed tier 1 capital; and qualifying term subordinated loan capital may not exceed 50 percent of tier 1 capital.

Banking operations are categorised as either trading book or banking book, and risk-weighted assets are determined according to specified requirements that seek to reflect the varying levels of risk attached to assets and off-balance sheet exposures.

The Bank's policy is to maintain a strong capital base so as to maintain creditor confidence and to sustain future development of the business. The impact of the level of capital on shareholders' return is also recognised and the Bank recognises the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position.

The Bank has complied with all externally imposed capital requirements throughout the period. As at 31 December 2008, the capital adequacy ratio was 8.65% (2007: 12.13%).

Capital allocation

The allocation of capital between specific operations and activities is, to a large extent, driven by optimisation of the return achieved on the capital allocated whilst the amount of capital allocated to each operation or activity is based primarily upon the regulatory capital.

The Group's policies in respect of capital management and allocation are reviewed regularly by the Board of Directors.

Finansbank (Malta) Limited

Notes to the Financial Statements

For the Year Ended 31 December 2008

30 Fair values

30.1 Investments

Fair value of available-for-sale investments is based on bid published market price quotations.

During the year the Bank classified a debt security from the Available-for-sale category to Held-to-maturity. The fair value as at the date of transfer became the new amortised cost basis for the Held-to-maturity asset. The difference between the new amortised cost amount and the maturity amount is being amortised over the remaining life of the investment using the effective interest method. The fair value of the Held-to-maturity investment as at 31 December 2008 was € 7,389,009.

30.2 Loans and advances to banks and customers

This category of assets is reported net of allowances to reflect the estimated recoverable amount. For loans to banks and customers within “less than three months” and “less than one year” contractual repricing or maturity bands, fair value is taken to be the amount carried at balance sheet date.

Interest rates on these loans reflect current market rates, and therefore the carrying amount approximates to fair value.

As at 31 December 2008, the bank’s carrying amount of loans to customers was € 956,183,263 of which € 712,012,458 (74.5%) are repriceable at current market rates within 3 months, € 132,673,583 (13.9%) repriceable within three to six months whilst € 49,767,711 (5.2%) are repriceable within one year.

The loans and advances to banks category of assets which amount to € 662,837,289 comprise primarily of money market lending amounting to € 197,489,279 (29.8%) which are repriceable within seven days and € 456,542,178 (68.9%) which are repriceable within three months.

30.3 Amounts owed to banks and customers

This category of liability is carried at amortised cost and amounts to € 561,666,175. Of these liabilities, € 18,500,244 are repayable on demand, € 507,635,090 (90.4%), has contractual repricing within the “less than three months” band whilst € 35,530,841 (6.3%) reprices within the “over three months and up to one year” band. For demand deposits and deposits maturing within one year, fair value is taken to be the amount payable on demand at balance sheet date.

30.4 Subordinated liabilities

This category of liability is carried at amortised cost and amounts to €14,000,000. The fair value thereof as at 31 December 2008 amounted to € 13,647,255 (2007: €12,559,014). This fair value has been calculated by discounting the expected future cash flows using current market interest rates.

31 Use of estimates and judgements

The directors considered the development, selection and disclosure of the Bank’s critical accounting policies and estimates and the application of these policies and estimates. Estimates and judgements are continually evaluated and are based on historical and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Finansbank (Malta) Limited

Notes to the Financial Statements

For the Year Ended 31 December 2008

31 Use of estimates and judgements (continued)

Impairment losses on loans and advances

The specific counterparty component of the total allowances for impairment applies to claims evaluated individually for impairment and is based upon management's best estimate of the present value of the cash flows that are expected to be received. In estimating these cash flows, management makes judgements about a counterparty's financial situation and the net realisable value of any underlying collateral. Each impaired asset is assessed on its merits, and the workout strategy and estimate of cash flows considered recoverable are independently approved by the Credit Risk function.

Collectively assessed impairment allowances cover credit losses inherent in portfolios of claims with similar economic characteristics when there is objective evidence to suggest that they contain impaired claims, but the individual impaired items cannot yet be identified. A component of collectively assessed allowances is for country risks. In assessing the need for collective loan loss allowances, management considers factors such as credit quality, portfolio size, concentrations, and economic factors. In order to estimate the required allowance, assumptions are made to define the way inherent losses are modelled and to determine the required input parameters, based on historical experience and current economic conditions. The accuracy of the allowances depends on how well these estimate future cash flows for specific counterparty allowances and the model assumptions and parameters used in determining collective allowances.

32 Parent company

The immediate parent company of Finansbank (Malta) Limited is Finans (Malta) Holdings Limited a company incorporated and registered in Malta, the registered address of which is Strand Towers, No 36, 2nd Floor, The Strand, Sliema. The ultimate parent company is National Bank of Greece which is incorporated and registered in Greece, the registered address of which is 86, Eolou Street, Athens, Greece.

Copies of the Annual Report and Accounts of the immediate and ultimate parent companies may be obtained from their registered address.

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Report of the Independent Auditors

To the Members of

Finansbank (Malta) Limited

Report on the financial statements

We have audited the accompanying financial statements of Finansbank (Malta) Limited set out on pages 5 to 46, which comprise the balance sheet of the company as at 31 December 2008, and the income statement, statement of changes in equity and cash flow statement of the company 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 3, the directors of the company are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted by the EU. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

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

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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 company. 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.

Report of the Independent Auditors (continued)

To the Members of

Finansbank (Malta) Limited

Opinion

In our opinion, the Bank financial statements give a true and fair view of the financial position of the Bank as of 31 December 2008 and of the Bank's financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

Report on other legal and regulatory requirements

Auditor's 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).



Stephen Paris

Partner

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20 February 2009