

Izola Bank Limited

Annual report

2008

Izola Bank Limited

2008

	Page
Annual Report	
Directors' Report	1
Directors' Responsibility for the Financial Statements	3
Financial Statements:	
Balance Sheet	4
Statement of Changes in Equity	5
Income Statement	6
Cash Flow Statement	7
Notes to the Financial Statements	8
Independent Auditors' Report	

Izola Bank Limited

Directors' Report

For the Year Ended 31 December 2008

The directors present their report, together with the financial statements of Izola Bank Limited (the "bank"), for the year ended 31 December 2008

Board of directors

Mr. Carl Van Marcke (Chairman)
Mrs. Magdalena De Roeck (Deputy Chairperson)
Countess Alexis d'Oultremont
Mr. Peter Van Marcke
Mr. Frederick E. Amato-Gauci
Mr. Louis de Spirlet
Mr. John Melillo
Mr. Joseph Caruana

Company secretary

Mr. Stefan Farrugia

Principal activities

Izola Bank Limited is registered in Malta as a limited liability company under the Companies Act, 1995. The bank is licensed by the Malta Financial Services Authority to carry out the business of banking in terms of the Banking Act, 1994. The bank is principally engaged in providing corporate banking services to non-resident customers.

Financial performance

The bank achieved a profit before taxation amounting to EUR 1,573,676, realising a pre-tax return on shareholders' funds of 13%. These results were achieved by continuing to deliver quality products and services to our corporate client base.

Net interest income increased by 17% to EUR 1,600,716 when compared to the net interest income for 2007 of EUR1,369,715, registering a net interest margin of 45%.

Fees and commissions income grew by 7% when compared to the previous year's figure.

At end of 2008 total assets stood at EUR59,310,077 representing an increase of 5% when compared to 2007.

Total customer deposits at EUR 45,196,148 increased by 2% over the previous year.

Events after the balance sheet date

No significant events have occurred after the balance sheet date that require mentioning in this report.

Izola Bank Limited

Directors' Report

For the Year Ended 31 December 2008

Future developments

In 2009, the bank will continue to heavily promote its e-banking services which have been specifically designed for its corporate customer base.

Dividends

No dividends are recommended.

Reserves

After adding the current year's profit to retained profits brought forward, the directors propose that the balance of retained profits amounting to EUR7,099,030 be carried forward to the next financial year.

Auditors

The auditors, KPMG have signified their willingness to continue in office and a resolution to re-appoint them and to authorise the directors to set their remuneration will be proposed at the next Annual General Meeting.

Approved by the Board of Directors on 27 March 2009 and signed on its behalf by:



Mr. Carl Van Marcke
Chairman



Mrs. Magdalena De Roeck
Deputy Chairperson

Registered Office

53-58 East Street
Valletta
Malta

Izola Bank Limited

Directors' Responsibility for the Financial Statements

The Companies Act, 1995 requires the Directors of Izola Bank Limited (the "bank") to prepare financial statements for each financial period which give a true and fair view of the financial position of the bank as at the end of the financial year and of the profit or loss of the bank for that period in accordance with the requirements of International Financial Reporting Standards as adopted by the EU.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy, at any time, the financial position of the bank and to enable them to ensure that the financial statements have been properly prepared in accordance with the provisions of the Companies Act, 1995 and the Banking Act, 1994.

The Directors are also responsible for safeguarding the assets of the bank and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

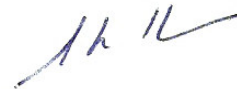
The Directors, through oversight of management, are responsible to ensure that the bank establishes and maintains internal control to provide reasonable assurance with regard to reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations.

Management is responsible, with oversight from the Directors, to establish a control environment and maintain policies and procedures to assist in achieving the objective of ensuring, as far as possible, the orderly and efficient conduct of the bank's business. This responsibility includes establishing and maintaining controls pertaining to the bank's objective of preparing financial statements as required by the Act and managing risks that may give rise to material misstatements in those financial statements. In determining which controls to implement to prevent and detect fraud, management considers the risks that the financial statements may be materially misstated as a result of fraud.

Signed on behalf of the Board of Directors by:



Mr. Carl Van Marcke
Chairman



Mrs. Magdalena De Roeck
Deputy Chairperson

Izola Bank Limited

Balance Sheet

As at 31 December 2008

		2008	2007
	Note	EUR	EUR
ASSETS			
Cash		779	466
Balances with Central Bank of Malta		385,852	1,117,828
Investments	13	26,307,884	25,568,878
Loans and advances to banks	14	9,788,398	9,168,258
Factored receivables	15	4,362,518	2,916,099
Other loans and advances to customers	16	15,030,861	14,255,000
Property and equipment	17	2,009,850	2,106,232
Prepayments and accrued income	18	1,423,935	1,294,187
Total assets		59,310,077	56,426,948
LIABILITIES			
Amounts owed to customers	19	45,196,148	44,510,872
Deferred tax liabilities	20	382,449	372,811
Current tax payable		228,666	201,847
Accruals and deferred income	21	1,756,089	967,703
Total liabilities		47,563,352	46,053,233
EQUITY			
Called up share capital		4,000,000	4,000,000
Property revaluation reserve		647,695	654,907
Retained earnings		7,099,030	5,718,808
Total equity	22	11,746,725	10,373,715
Total equity and liabilities		59,310,077	56,426,948
Memorandum items			
Commitments	23	5,917,759	3,502,027

The notes on pages 8 to 51 are an integral part of these financial statements.

The financial statements on pages 4 to 51 were approved by the Board of Directors on 27 March 2009 and signed on its behalf by:

Mr. Carl Van Marcke
Chairman

Mrs. Magdalena De Roeck
Deputy Chairperson

Izola Bank Limited

Statement of Changes in Equity

For the Year Ended 31 December 2008

	Total	Share capital	Revaluation reserve	Retained earnings
	EUR	EUR	EUR	EUR
Balance at 1 January 2007	9,025,957	4,000,000	420,773	4,605,184
Revaluation of immovable property	368,793	-	368,793	-
Deferred tax on revaluation surplus	(129,078)	-	(129,078)	-
Transfer of depreciation on revaluation surplus net of deferred tax	3,005	-	(5,581)	8,586
Profit for the year	1,105,038	-	-	1,105,038
Balance at 31 December 2007	<u>10,373,715</u>	<u>4,000,000</u>	<u>654,907</u>	<u>5,718,808</u>
Balance at 1 January 2008	10,373,715	4,000,000	654,907	5,718,808
Transfer of depreciation on revaluation surplus net of deferred tax	3,884	-	(7,212)	11,096
Profit for the year	1,369,126	-	-	1,369,126
Balance at 31 December 2008	<u>11,746,725</u>	<u>4,000,000</u>	<u>647,695</u>	<u>7,099,030</u>

The notes on pages 8 to 51 are an integral part of these financial statements.

Izola Bank Limited

Income Statement

For the Year Ended 31 December 2008

		2008	2007
	Note	EUR	EUR
Interest receivable and similar income			
- on loans and advances	5	1,758,814	1,771,686
- on debt securities		1,770,484	1,596,135
Interest expense	6	(1,928,582)	(1,998,106)
Net interest income		1,600,716	1,369,715
Fees and commissions income		865,027	811,706
Fees and commissions expense		(23,921)	(36,442)
Net fees and commissions income	7	841,106	775,264
Net trading gains	8	13,208	15,241
Other operating income		4,193	4,193
Operating income		2,459,223	2,164,413
Administrative expenses		(630,442)	(575,995)
Depreciation		(238,094)	(210,817)
Impairment allowances	9	(17,011)	(83,849)
Profit before income tax	10	1,573,676	1,293,752
Income tax expense	11	(204,550)	(188,714)
Profit for the year		1,369,126	1,105,038
Earnings per share	12	8.56	6.91

The notes on pages 8 to 51 are an integral part of these financial statements.

Izola Bank Limited

Cash Flow Statement

For the Year Ended 31 December 2008

		2008	2007	
	Note	EUR	EUR	
Cash flows from operating activities				
Interest and commission receipts		2,629,871	2,593,722	
Interest and commission payments		(1,322,380)	(1,525,355)	
Payments to employees and suppliers		(528,660)	(531,868)	
		-----	-----	
Operating profit before changes in operating assets/liabilities		778,831	536,499	
(Increase)/decrease in operating assets:				
- loans and advances to customers		(775,861)	1,441,543	
- factored receivables		(1,447,298)	(218,776)	
Increase in operating liabilities:				
- amounts owed to customers		685,276	817,110	
		-----	-----	
Net cash (used in)/generated from operations before income tax	24	(759,052)	2,576,376	
Income tax paid		(164,209)	(162,695)	
		-----	-----	
Net cash (used in)/from operating activities		(923,261)	2,413,681	
		-----	-----	
Cash flows from investing activities				
Payments to acquire property and equipment		(141,712)	(101,655)	
Payments to acquire investments		-	(1,635,000)	
Proceeds from maturity of investments		-	1,636,097	
Interest received from investments		953,450	787,226	
		-----	-----	
Net cash from investing activities		811,738	686,668	
		-----	-----	
Net (decrease)/increase in cash and cash equivalents			(111,523)	3,100,34
Cash and cash equivalents at beginning of year		10,286,552	7,186,203	
		-----	-----	
Cash and cash equivalents at end of year	25	10,175,029	10,286,552	
		=====	=====	

The notes on pages 8 to 51 are an integral part of these financial statements.

Izola Bank Limited

Notes to the Financial Statements

For the Year Ended 31 December 2008

	Page		
		17 Property and equipment	43
1 Reporting entity	9	18 Prepayments and accrued income	44
2 Basis of preparation	9	19 Amounts owed to customers	44
3 Significant accounting policies	10	20 Deferred tax liabilities	45
4 Financial risk management	17	21 Accruals and deferred income	46
5 Interest receivable and similar income	36	22 Share capital and reserves	46
6 Interest expense	36	23 Commitments	47
7 Net fees and commissions income	36	24 Net cash (used in)/generated from operations	48
8 Net trading gains	37	25 Cash and cash equivalents	48
9 Impairment allowances	37	26 Operating leases	48
10 Profit before income tax	37	27 Related parties	49
11 Income tax expense	38	28 Accounting estimates and judgements	50
12 Earnings per share	39	29 Comparative information	51
13 Investments	39		
14 Loans and advances to banks	41		
15 Factored receivables	41		
16 Other loans and advances to customers	42		

Izola Bank Limited

Notes to the Financial Statements

For the Year Ended 31 December 2008

1 Reporting entity

Izola Bank Limited (the “bank”) is a limited liability company domiciled and incorporated in Malta.

2 Basis of preparation

2.1 Statement of compliance

By virtue of Regulation 3 of Legal Notice 19 of 2009, *Accountancy Profession (Accounting and Auditing Standards) Regulations, 2009* published under the Accountancy Profession Act, compliance with generally accepted accounting principles and practice has been defined as adherence to international accounting standards as adopted by the EU. The legal notice has been deemed to come into force on 1 October 2008, and accordingly these financial statements have been drawn up in accordance with International Financial Reporting Standards as adopted by the EU (“the applicable framework”). All references in these financial statements to IAS, IFRS or SIC/IFRIC interpretations refer to those adopted by the EU.

The change in the applicable framework from IFRS issued by the International Accounting Standards Board, in use for the comparative period, did not result in any changes in the Bank’s accounting policies, and accordingly no adjustment was required to the corresponding figures included in the current year’s financial statements. In addition, this change did not impact the year end financial position and the current year’s financial performance and cash flows.

These financial statements have also been prepared and presented in accordance with the provisions of the Companies Act, 1995 enacted in Malta, to the extent that such provisions do not conflict with the applicable framework.

2.2 Basis of measurement

The financial statements have been prepared on the historical cost basis except that available-for-sale financial assets are stated at fair value.

The methods used to measure fair values are discussed in note 4.

2.3 Functional and presentation currency

These financial statements are presented in Euro, which is the bank’s functional currency.

2 Basis of preparation (continued)

2.4 Use of estimates and judgements

Izola Bank Limited

Notes to the Financial Statements

For the Year Ended 31 December 2008

The preparation of financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are described in note 28.

3 Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

3.1 Financial instruments

3.1.1 Non-derivative financial instruments

Non-derivative financial instruments comprise investments in equity and debt securities, cash equivalents and loans and receivables.

Non-derivative financial instruments are recognised initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs. Subsequent to initial recognition non-derivative financial instruments are measured as described below.

Cash equivalents comprise deposits with contractual maturity of less than three months. Subsequent to initial recognition cash equivalents are measured at amortised cost.

3.1.1.1 Held-to-maturity investments

If the bank has the positive intention and ability to hold debt securities to maturity, then they are classified as held-to-maturity. Held-to-maturity investments are measured at amortised cost using the effective interest method, less any impairment losses.

Izola Bank Limited

Notes to the Financial Statements

For the Year Ended 31 December 2008

3 Significant accounting policies

3.1 Financial instruments

3.1.1.2 Available-for-sale financial assets

The bank's investments in equity securities are classified as available-for-sale financial assets. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses, and foreign exchange gains and losses on available-for-sale monetary items, are recognised directly in equity. When an investment is derecognised, the cumulative gain or loss in equity is transferred to profit or loss.

3.1.1.3 Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These include loans and advances to banks and customers that are recognised on the day the cash is advanced to the borrowers. These are initially recognised at fair value plus transaction costs that are directly attributable to the acquisition of the financial assets. Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest method, less impairment losses.

3.1.2 Derecognition

A financial asset is derecognised when the contractual rights to receive the cash flows from the financial asset expire, have been realised or are transferred and control is not retained by the bank or substantially all the risks and rewards of ownership have been transferred by the bank.

A financial liability is derecognised when it is extinguished, that is when the obligation is discharged, cancelled or expires.

Assets designated by the bank as available-for-sale assets that are sold are derecognised and corresponding receivables from the buyer for the payment are recognised as at the date the bank commits to sell the assets.

Held-to-maturity instruments and loans and receivables are derecognised on the day these are transferred by the bank.

3.2 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

Izola Bank Limited

Notes to the Financial Statements

For the Year Ended 31 December 2008

3 Significant accounting policies (continued)

3.3 Property and equipment

3.3.1 Recognition and measurement

Items of property and equipment are measured at cost or revaluation less accumulated depreciation and accumulated impairment losses.

Freehold property is revalued to fair value on the basis of its existing use every five years or earlier, whenever its fair value differs materially from its carrying amount. Revaluations are performed by a professionally qualified architect. Any surpluses arising on such revaluation are credited to a revaluation reserve. Any deficiencies resulting from decreases in value are deducted from this reserve to the extent that it is sufficient to absorb them, with any excess charged to profit or loss thereafter.

Where parts of an item of property and equipment have different useful lives, they are accounted for as separate items of property and equipment.

3.3.1 Subsequent costs

The cost of replacing part of an item of property and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied with the part will flow to the bank and its cost can be measured reliably. The costs of the day-to-day servicing of property and equipment are recognised in profit or loss as incurred.

3.3.2 Depreciation

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property and equipment.

The estimated useful lives for the current and comparative periods are as follows:

Premises and improvements	100	years
Other assets	5	years

Depreciation methods, useful lives and residual values are reviewed at each reporting date.

3.4 Impairment

The carrying amounts of the bank's assets, other than deferred tax assets, are reviewed at each balance sheet date to determine whether there is objective evidence of impairment.

Izola Bank Limited

Notes to the Financial Statements

For the Year Ended 31 December 2008

3 Significant accounting policies (continued)

3.4 Impairment (continued)

A financial asset or group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset and that loss has an impact on the estimated future cash flows of the financial assets or group of financial assets that can be reliably measured. If there is objective evidence, the asset's recoverable amount is estimated.

In the case of other assets, an impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in profit or loss unless the asset is carried at revalued amount, in which case the impairment is treated as a revaluation decrease, to the extent of the credit balance on the revaluation reserve.

3.4.1 *Assets carried at amortised cost*

The recoverable amount of the bank's investments in held-to-maturity securities and receivables carried at amortised cost is calculated as the present value of estimated future cash flows (excluding future credit losses that have not been incurred), discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition of these financial assets). Receivables with a short duration are not discounted.

Loans and advances are presented net of specific and collective impairment allowances for uncollectibility. The bank assesses at each balance sheet date whether there is any objective evidence that a loan is impaired. Specific impairment allowances are determined by an evaluation of the exposures on a case-by-case basis and are made against the carrying amount of loans and advances that are identified as being impaired based on regular reviews of outstanding balances to reduce these loans and advances to their recoverable amounts.

Collective impairment allowances are maintained to reduce the carrying amount of portfolios of financial assets with similar risk characteristics to their estimated recoverable amounts at the balance sheet date. The expected cash flows for portfolios of financial assets with similar risk characteristics are estimated based on, amongst others, observable data and considering the credit rating of the underlying customers and late payments of interest or penalties.

Increases and decreases in the specific and collective impairment allowances are recognised in profit or loss. When a loan is known to be uncollectible, all the necessary legal procedures have been completed, and the final loss has been determined, the loan is written off.

Izola Bank Limited

Notes to the Financial Statements

For the Year Ended 31 December 2008

3 Significant accounting policies (continued)

3.4 Impairment (continued)

3.4.2 *Financial assets measured at fair value*

The recoverable amount of an equity instrument is its fair value.

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 that had been recognised directly in equity is recognised in the income statement even though the financial asset has not been derecognised. The amount of the cumulative loss that is recognised in profit or loss is the difference between the acquisition cost and current fair value, less any impairment loss on that financial asset previously recognised in profit or loss.

3.4.3 *Other assets*

The recoverable amount of other assets is the greater of their net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

3.4.4 *Reversals of impairment*

An impairment loss in respect of a held-to-maturity asset or receivable carried at amortised cost is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

In respect of other assets, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount and is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar risk characteristics.

All impairment losses are recognised in profit or loss. Any cumulative loss in respect of an available-for-sale financial asset recognised previously in equity is transferred to profit or loss.

An impairment loss can be reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost, the reversal is recognised in profit or loss. For available-for-sale financial assets that are equity securities, the reversal is recognised directly in equity.

Izola Bank Limited

Notes to the Financial Statements

For the Year Ended 31 December 2008

3 Significant accounting policies (continued)

3.5 Provisions

A provision is recognised if, as a result of a past event, the bank has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. 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.

3.6 Interest

Interest income and expense are recognised in profit or loss using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. The effective interest rate is established on initial recognition of the financial asset and liability and is not revised subsequently.

The calculation of the effective interest rate includes all transaction costs, and discounts or premiums that are an integral part of the effective interest rate. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or liability.

Interest income and expense presented in the income statement include interest on financial assets and liabilities at amortised cost on an effective interest rate basis.

3.7 Fees and commissions

Fees and commissions income and expenses that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate.

Other fees and commission income, including account servicing fees, investment management fees, sales commission, placement fees and syndication fees, are recognised as the related services are performed. When a loan commitment is not expected to result in the draw-down of a loan, loan commitment fees are recognised on a straight-line basis over the commitment period.

Other fees and commissions expense relate mainly to transaction service fees, which are expensed as the services are received.

3.8 Trading gains/losses

Trading gains/losses comprises all realised and unrealised foreign exchange differences.

Izola Bank Limited

Notes to the Financial Statements

For the Year Ended 31 December 2008

3 Significant accounting policies (continued)

3.9 Operating lease payments

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease.

3.10 Employee benefits

The bank contributes towards the State pension defined contribution plan in accordance with local legislation and to which it has no commitment beyond the payment of fixed contributions. Obligations for contributions to the defined contribution plan are recognised as an expense in profit or loss as they fall due.

3.11 Foreign currency transactions

Transactions in foreign currencies are recorded in the functional currency at the foreign exchange rate prevailing on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated into the functional currency at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in profit or loss. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated into the functional currency at foreign exchange rates ruling at the dates the fair values were determined. Foreign currency differences arising in retranslation are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments.

3.12 Income tax

Income tax expense comprises current and deferred tax. Income tax is recognised in profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

Izola Bank Limited

Notes to the Financial Statements

For the Year Ended 31 December 2008

3 Significant accounting policies (continued)

3.12 Income tax (continued)

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised. Deferred tax assets are reviewed at each balance sheet date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

3.13 Earnings per share

The bank presents basic earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the bank by the weighted average number of ordinary shares outstanding during the period.

3.14 Unrealised profits

Part II of the Third Schedule to the Act requires that only profits realised at the balance sheet date may be included as part of retained earnings available for distribution. Any unrealised profits at this date, taken to the credit of the income statement, are transferred to non-distributable reserves.

3.15 New standards and interpretations not yet adopted

The Company has not applied IAS 1 *Presentation of Financial Statements* (revised on 6 September 2007) in these financial statements. The revised standard mainly introduces "total comprehensive income". This is applicable for financial periods starting on or after 1 January 2009.

The International Accounting Standards Board made certain amendments to existing standards as part of its first annual improvements project. The effective dates for these amendments vary by standard and most will be applicable to the bank's 2009 financial statements. The bank does not expect these amendments to have any significant impact on the financial statements.

The directors also anticipate that the adoption of other IFRS 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 in the period of initial application.

4 Financial risk management

4.1 Organisation

The Board of Directors has overall responsibility for the establishment and oversight of the bank's risk management framework. The Board has established the Board Committee, the Audit Committee and the Credit Committee, which are responsible for the monitoring of risk in their specified areas. Executive and non-executive directors sit on these Committees and the Committees report regularly to the Board of Directors on their activities.

Risk management policies have been established to identify and analyse the risks faced by the bank, to set out appropriate risk limits and controls, and to monitor risks and adherence to limits.

Izola Bank Limited

Notes to the Financial Statements

For the Year Ended 31 December 2008

4 Financial risk management (continued)

4.1 Organisation (continued)

The risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The bank has developed appropriate risk management training for the needs of the relevant staff members.

4.2 Risk exposure

The bank is exposed to a number of risks, which it manages at different organisational levels.

The main categories of risk are:

- *Credit risk*: Risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. It arises from the lending, treasury and other activities undertaken by the bank.
- *Market risk*: Risk of losses arising from unfavourable changes in the level and volatility of interest rates, foreign exchange rates or investment prices.
- *Liquidity risk*: Liquidity risk is divided into two-categories:
 - *Market (product) liquidity risk*: risk of losses arising from difficulty in accessing a product or market at the required time, price and volume.
 - *Funding liquidity risk*: risk of losses arising from a timing mismatch between investing, placements and fund arising activities resulting in obligations missing the settlement date or satisfied at higher than normal rates.
- *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 risks 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 and are faced by all business entities.

4.3 Capital base

The bank is a licenced financial services provider and must therefore comply with the capital requirements under the relevant capital requirements laws and regulations. The bank has adopted the Standardised Approach to calculate its capital requirements.

4.3.1 Capital management

The bank must have sufficient capital to comply with regulatory capital requirements. The purpose of the bank's capital management is to ensure an efficient use of capital in relation to risk appetite as well as business development.

Izola Bank Limited

Notes to the Financial Statements

For the Year Ended 31 December 2008

4 Financial risk management (continued)

4.3 Capital base (continued)

4.3.1 Capital management (continued)

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

- Tier 1 capital, which includes ordinary share capital, retained earnings, property revaluation reserve, and other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy purposes.
- Tier 2 capital, which includes collective impairment allowances.

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 has complied with all capital requirements directives and rules throughout the year.

There have been no material changes in the bank's management of capital during the year.

4.3.1.1 Calculation of minimum capital requirement and risk-weighted assets

The minimum capital requirements are calculated for the credit, market and operational risk. The capital ratio is calculated using the definition of regulatory capital and risk-weighted assets. The total capital ratio must be no lower than 8%.

Total risk-weighted assets are determined by multiplying the capital requirements for market risk and operational risk by 12.5 (i.e. the reciprocal of the minimum capital ratio of 8%) and adding the resulting figures to the sum of risk-weighted assets for credit risk.

Below is the bank's capital requirements and capital adequacy ratio computation.

	2008	2007
	EUR	EUR
Tier 1 capital		
Ordinary share capital	4,000,000	4,000,000
Retained earnings	7,099,030	5,718,808
Property revaluation reserve	647,695	654,907
	-----	-----
	11,746,725	10,373,715
	-----	-----
Tier 2 capital		
Collective impairment allowance	46,862	29,850
	-----	-----
Total regulatory capital	11,793,587	10,403,565
	=====	=====

Izola Bank Limited

Notes to the Financial Statements

For the Year Ended 31 December 2008

4 Financial risk management (continued)

4.3 Capital Base (continued)

4.3.1 Capital management (continued)

4.3.1.1 Calculation of minimum capital requirement and risk-weighted assets (continued)

Capital Adequacy ratio as at 31 December	Balance sheet value	Exposure value	Balance sheet value	Exposure value
	2008	2008	2007	2007
	EUR	EUR	EUR	EUR
On balance sheet assets				
Cash	779	-	466	-
Balances with Central Bank of Malta	385,852	-	1,117,828	-
Investments	26,307,884	-	25,568,878	-
Loans and advances to banks	9,788,398	1,957,680	9,168,258	1,833,651
Factored receivables	4,362,518	4,362,518	2,916,099	2,916,099
Other loans and advances to customers	15,030,861	-	14,255,000	-
Property and equipment	2,009,853	2,009,853	2,106,232	2,106,232
Prepayments and accrued income	1,423,932	1,423,932	1,294,187	1,294,187
	-----	-----	-----	-----
	59,310,077	9,753,983	56,426,948	8,150,169
	=====	-----	=====	-----
Off-balance sheet items				
Commitments	5,917,759	-	3,502,027	-
	=====	-----	=====	-----
Credit risk capital requirement		788,076		652,013
Foreign exchange risk capital requirement		1,098		3,354
Operational risk capital requirement		319,890		292,480
		-----		-----
Total capital requirement		10,863,047		9,098,016
		=====		=====
Own funds				
Original own funds	11,746,725		10,373,715	
Additional own funds	46,862		29,850	
	-----		-----	
Total own funds	11,793,587		10,403,565	
	=====		=====	
Capital adequacy ratio		92%		87%
		===		===

Izola Bank Limited

Notes to the Financial Statements

For the Year Ended 31 December 2008

4 Financial risk management (continued)

4.4 Credit risk

Credit risk is the risk of financial loss to the bank if a customer or counterparty to the financial instrument fails to meet its contractual obligations, and arises principally from the bank's loans and advances to customers and other 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).

The bank follows standards, policies and procedures established by the bank's credit committee for the control and monitoring of all risks. The Board of Directors has delegated the responsibility for the management of credit risk to the Board Committee and Credit Committee. The bank's management is responsible for the oversight of the bank's credit risk. The bank's credit risk policies and procedures are reviewed regularly through internal audit.

It is the bank's policy to obtain prime collateral to cover its exposure in case of default. At balance sheet date all loans to customers were cash secured.

4.4.1 Maximum exposure to credit risk

The bank's maximum credit risk exposure to on and off-balance sheet financial instruments, before taking account of any collateral held or other credit enhancements can be classified in the following categories:

- Financial assets recognised on balance sheet comprising balance with Central Bank of Malta, financial investments, factored receivables, loans and advances and acceptances and endorsements. The maximum exposure of these financial assets to credit risk, equals their carrying amount.
- Commitments for factored receivables that are irrevocable over the life of the respective facilities. The maximum exposure to credit risk is the full amount of the committed facilities.

4.4.2 Industry concentration

The following industry concentrations relating to loans and advances to customers are considered significant:

	2008		2007	
	EUR	%	EUR	%
Manufacturing	10,410,000	69	9,300,000	65
Wholesale and retail trade	3,970,000	26	4,000,000	28
Real estate, renting and business activities	650,861	5	955,000	7
	-----	----	-----	----
	15,030,861	100	14,255,000	100
	=====	====	=====	==

4 Financial risk management (continued)

Izola Bank Limited

Notes to the Financial Statements

For the Year Ended 31 December 2008

4.4 Credit risk (continued)

4.4.3 Analysis of collateral

The bank holds collateral against loans and advances to customers and investment securities in the form of pledges over deposits held with the bank. Except for pledges over deposits held with the bank, 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. Factored receivables are unsecured and collateral generally is not held over loans and advances to banks.

The fair value of collateral held as security is as follows:

Type of collateral	Carrying amounts of neither past due nor impaired			
	Loans and advances to customers		Investment debt securities	
	2008	2007	2008	2007
	EUR	EUR	EUR	EUR
Deposits held with the bank	15,030,861	14,225,000	26,304,231	25,561,572
	=====	=====	=====	=====

4.4.4 Impaired factored receivables

These comprise factored receivables 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 factored receivables agreements.

	2008	2007
	EUR	EUR
Factored receivables - gross	4,409,380	3,027,970
	-----	-----
Collectively determined Allowance for impairment	4,409,380 46,862	2,945,950 29,850
Specifically impaired Allowance for impairment	-	82,020
	-	82,020

Izola Bank Limited

Notes to the Financial Statements

For the Year Ended 31 December 2008

4 Financial risk management (continued)

4.4 Credit risk (continued)

4.4.5 Neither past due nor impaired loans and securities

	2008	2007
	EUR	EUR
Loans and advances to customers	15,030,861	14,255,000
Loans and advances to banks	9,788,398	9,168,258
Investment securities	26,307,884	25,568,878
	-----	-----
	-	-
	51,127,143	48,992,136
	=====	=====

4.4.6 Past due but not impaired

Receivables 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.

The Bank does not have any past due not impaired receivables.

4.4.7 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.

The Bank does not have loans with renegotiated terms.

4.4.8 Allowances for impairment

The bank establishes an allowance for impairment losses that represents its estimate of incurred losses in its factored receivables portfolio. The main components of this allowance are a specific loss component that relates to individually impaired receivables, and a collective loss allowance established for groups of factored receivables in respect of losses that have been incurred but have not been identified and subjected to individual assessment for impairment.

	2008	2007
	EUR	EUR
<i>Factored receivables</i>		
Specific allowance for impairment	-	82,020
Collective allowance for impairment	46,862	29,851
	=====	=====

Izola Bank Limited

Notes to the Financial Statements

For the Year Ended 31 December 2008

4 Financial risk management (continued)

4.4 Credit risk (continued)

4.4.9 Write-off policy

The bank writes off a loan, security and/or factored receivable balance (and any related allowance for impairment losses) when management determines that the loan, security and/or factored receivable is uncollectible. This determination is reached after considering information such as 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.

4.4.10 Concentration risk

The bank monitors concentration of credit risk by sector and by geographic location. An analysis of concentrations of credit risk is shown on page 25.

Izola Bank Limited

Notes to the Financial Statements

For the Year Ended 31 December 2008

4 Financial risk management (continued)

4.4 Credit risk (continued)

4.4.10 Concentration risk (continued)

	Loans and advances to customers		Factored receivables		Loans and advances to banks		Investment securities	
	2008	2007	2008	2007	2008	2007	2008	2007
	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR
Carrying amount	15,030,861 =====	14,255,000 =====	4,362,518 =====	2,916,099 =====	9,788,398 =====	9,168,258 =====	26,307,884 =====	25,568,878 =====
Concentration by sector								
Corporate	15,030,861	14,255,000	4,362,518	2,916,099	-	-	26,304,231	25,565,225
Banks	-	-	-	-	9,788,398	9,168,258	-	-
Equity	-	-	-	-	-	-	3,653	3,653
	15,030,861 =====	14,255,000 =====	4,362,518 =====	2,916,099 =====	9,788,398 =====	9,168,258 =====	26,307,884 =====	25,568,878 =====
Concentration by location								
Europe	15,030,861 =====	14,255,000 =====	4,362,518 =====	2,916,099 =====	9,788,398 =====	9,168,258 =====	26,307,884 =====	25,568,878 =====

Izola Bank Limited

Notes to the Financial Statements

For the Year Ended 31 December 2008

4 Financial risk management (continued)

4.4 Credit risk (continued)

4.4.10 Concentration risk (continued)

Concentration by location for loans and advances to customers and banks and investment securities is measured based on the location of the borrower or issuer of the security.

4.5 Market risk

Market risk comprises the risk of losses in value caused by unexpected changes in market prices (interest, share prices, exchange rates, prices of goods) before the affected positions can be closed out or hedged.

Market risk for the bank consists of three elements:

- Interest rate risk, which is the risk of losses because of changes in interest rates.
- Exchange rate risk, which is the risk of losses on the bank's positions in foreign currency because of changes in exchange rates.
- Investment price risk, which is the risk of losses because of changes in investments prices.

4.5.1 Interest rate risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. 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 re-price at different times or at different amounts. The bank accepts deposits from customers at both fixed and floating rates and for varying maturity periods. This risk is managed through the matching of the interest resetting dates on assets and liabilities. However, the bank seeks to maximise the spread over the cost of capital by investing funds in a portfolio of securities and loans and receivables with a longer tenure than the liabilities (therefore carrying a negative maturity gap position) through the efficient management of shorter term liabilities over the medium to longer term. The table on page 27 summarises re-pricing mismatches at balance sheet date together with the effective interest rates where applicable.

Izola Bank Limited

Notes to the Financial Statements

For the Year Ended 31 December 2008

4 Financial risk management (continued)

4.5 Market risk (continued)

4.5.1 Interest rate risk (continued)

2008	Effective Interest Rate	Less than three months	Between three months and one year	Between one year and five years	More than five years	Others
	EUR %	EUR	EUR	EUR	EUR	EUR
Assets						
Cash	779	-	779	-	-	-
Balances with Central Bank of Malta	385,852	2.5	385,852	-	-	-
Investments:						
- Debt securities held-to-maturity	26,304,231	6.7	1,635,000	12,716,574	11,952,657	-
- Equities available-for-sale	3,653	-	-	-	-	3,653
Loans and advances to banks	9,788,398	3.4	9,788,398	-	-	-
Loans and advances to customers	15,030,861	4.9	12,030,861	3,000,000	-	-
Factored receivables	4,362,518	-	4,362,518	-	-	-
Other assets	3,433,785	-	-	-	-	3,433,785
Total assets	59,310,077		28,203,408	15,716,574	11,952,657	3,437,438
Liabilities						
Amounts owed to customers	45,196,148	3.1	32,964,977	90,000	12,141,171	-
Current tax payable	228,666	-	-	-	-	228,666
Other liabilities	2,138,538	-	-	-	-	2,138,538
	47,563,352		32,964,977	90,000	12,141,171	2,367,204
Equity						
Issued capital	4,000,000	-	-	-	-	4,000,000
Property revaluation reserve	647,695	-	-	-	-	647,695
Retained earnings	7,099,030	-	-	-	-	7,099,030
	11,746,725		-	-	-	11,746,725
Total liabilities and equity	59,310,077		32,964,977	90,000	12,141,171	14,113,929
Gap			(4,761,569)	15,626,574	(188,514)	(10,676,491)
Cumulative Gap			(4,761,569)	10,865,005	10,676,491	10,676,491

Izola Bank Limited

Notes to the Financial Statements

For the Year Ended 31 December 2008

4 Financial risk management (continued)

4.5 Market risk (continued)

4.5.1 Interest rate risk (continued)

2007	Effective Interest Rate	Less than three months	Between three months and one year	Between one year and five years	More than five years	Others
	EUR %	EUR	EUR	EUR	EUR	EUR
Assets						
Cash	466	466	-	-	-	-
Balances with Central Bank of Malta	1,117,828	4.0	1,117,828	-	-	-
Investments:						
- Debt securities held-to-maturity	25,565,225	6.3	1,635,000	12,716,574	11,213,651	-
- Equities available-for-sale	3,653		-	-	-	3,653
Loans and advances to banks	9,168,258	4.2	9,168,258	-	-	-
Loans and advances to customers	14,255,000	4.8	11,255,000	-	3,000,000	-
Factored receivables	2,916,099		2,916,099	-	-	-
Other assets	3,400,419		-	-	-	3,400,419
Total assets	56,426,948		26,092,651	12,716,574	14,213,651	3,404,072
Liabilities						
Amounts owed to customers	44,510,872	3.4	14,697,852	-	29,813,020	-
Current tax payable	201,847		-	-	-	201,847
Other liabilities	1,340,514		-	-	-	1,340,514
	46,053,233		14,697,852		29,813,020	1,542,361
Equity						
Issued capital	4,000,000		-	-	-	4,000,000
Property revaluation reserve	654,907		-	-	-	654,907
Retained earnings	5,718,808		-	-	-	5,718,808
	10,373,715		-	-	-	10,373,715
Total liabilities and equity	56,426,948		14,697,852	-	29,813,020	11,916,076
Gap			11,394,799	12,716,574	(15,599,369)	(8,512,004)
Cumulative Gap			11,394,799	24,111,373	8,512,004	8,512,004

Izola Bank Limited

Notes to the Financial Statements

For the Year Ended 31 December 2008

4 Financial risk management (continued)

4.5 Market risk (continued)

4.5.1.1 Interest rate profile

At the reporting date the interest rate profile of the bank's interest bearing financial instruments was:

	2008	2007
	EUR	EUR
Fixed rate instruments		
Investments – Debt securities held-to-maturity	11,952,657	11,213,651
Loans and advances to banks	6,761,350	9,094,045
Loans and advances to customers	12,030,861	11,255,000
Amounts owed to customers	(31,011,171)	(30,204,020)
	-----	-----
	(266,303)	1,358,676
	=====	=====
Variable rate instruments		
Balances with Central Bank of Malta	385,852	1,117,828
Investments – Debt securities held-to-maturity	14,351,574	14,351,574
Loans and advances to banks	3,027,048	74,213
Loans and advances to customers	3,000,000	3,000,000
Amounts owed to customers	(14,184,977)	(14,306,852)
	-----	-----
	6,579,497	4,236,763
	=====	=====

4.5.1.2 Fair value sensitivity analysis for fixed rate instruments

The Bank does not account for any fixed rate financial assets and liabilities at fair value through profit or loss. Therefore, a change in interest rates at the reporting date would not affect profit or loss.

4.5.1.3 Cash flow sensitivity analysis for variable rate instruments

The sensitivity of the interest rate gaps to various interest rate scenarios is also monitored by management. Standard scenarios that are considered on a monthly basis include a 100 basis point (bp) parallel rise or fall in all the yield curves. An analysis of the bank's sensitivity to an increase or decrease in market interest rates is as presented on page 30. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

Izola Bank Limited

Notes to the Financial Statements

For the Year Ended 31 December 2008

4 Financial risk management (continued)

4.5 Market risk (continued)

4.5.1 Interest rate risk (continued)

4.5.1.3 Cash flow sensitivity analysis for variable rate instruments (continued)

	Impact on profit or loss and equity	
	2008	2007
	EUR	EUR
+100 basis points	900	45,189
-100 basis points	(900)	(45,189)

4.5.3 Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to the changes in foreign exchange rates. The bank holds and deals in foreign currency with the aim to service client foreign exchange buying and selling activity. The bank does not speculate on its foreign exchange holdings. The bank's foreign exchange exposure is mainly limited to the United States Dollar and Swiss Francs originating from the bank's corporate banking business. The bank manages this risk by ensuring that its foreign currency denominated liabilities is matched with corresponding assets in the same currency.

Exposure to foreign currencies is maintained at minimum levels and within the prescribed limits set by the bank's Board of Directors. Under the scenario that all foreign currencies fluctuate up or down by 20% against the Euro, the fair values of financial assets and liabilities would fluctuate, up or down by EUR4,572 respectively.

The following table provides an analysis of the financial assets and liabilities of the bank into relevant currency groupings.

Izola Bank Limited

Notes to the Financial Statements

For the Year Ended 31 December 2008

4 Financial risk management (continued)

4.5 Market risk (continued)

4.5.3 Currency risk (continued)

	2008			2007		
	Euro	Other Currencies	Total	Euro	Other Currencies	Total
	EUR	EUR	EUR	EUR	EUR	EUR
Financial Assets						
Cash	779	-	779	-	466	466
Investments:						
- Debt securities held-to-maturity	26,304,231	-	26,304,231	25,565,225	-	25,565,225
- Equities available-for-sale	3,653	-	3,653	3,653	-	3,653
Loans and advances to Banks and balance with Central Bank of Malta	7,624,961	2,549,289	10,174,250	9,144,999	1,141,087	10,286,086
Loans and advances to Customers and Credit Cards	15,030,861	-	15,030,861	14,255,000	-	14,255,000
Factored receivables - gross	4,409,380	-	4,409,380	3,027,970	-	3,027,970
	-----	-----	-----	-----	-----	-----
	53,373,865	2,549,289	55,923,154	51,996,847	1,141,553	53,138,400
	=====	=====	=====	=====	=====	=====
Financial Liabilities						
Amounts owed to customers	42,784,096	2,412,052	45,196,148	43,417,253	1,093,619	44,510,872
	-----	-----	-----	-----	-----	-----
	42,784,096	2,412,052	45,196,148	43,417,253	1,093,619	44,510,872
	=====	=====	=====	=====	=====	=====

At the balance sheet date, the bank was not exposed to any off balance sheet currency risk.

4.5.4 Investment price risk

The exposure of the bank to this risk is not significant. Frequent management reviews are carried out to ensure high quality of the portfolio.

Fair value and price verification control

The majority of the financial assets and liabilities of the bank are carried at cost or amortised cost and not fair value.

Investments – Debt securities held-to-maturity

This category of assets is carried at amortised cost. The instruments are unquoted and no quoted market price for similar instruments is available. There is no other appropriate or workable method of reasonably estimating the fair value of these unquoted investments for disclosure purposes.

Izola Bank Limited

Notes to the Financial Statements

For the Year Ended 31 December 2008

4 Financial risk management (continued)

4.5 Market risk (continued)

4.5.4 Investment price risk (continued)

Investments – Equity instruments available-for-sale

The bank has an interest in an unquoted equity investment as disclosed in note 13.3. The investment is measured at fair value. Fair value has been determined by reference to the amount recoverable which is represented by the notional amount of the investment.

Loans and advances to banks and customers and factored receivables

This category of assets is reported net of impairment allowances to reflect the estimated recoverable amounts. Loans and advances to banks are all repriceable within 3 months. 80% of loans and advances to customers are repriceable within 3 months while 20% are repriceable within one year. 82% of factored receivables are repriceable within 3 months, while 18% are repriceable between 3 months and 1 year. The fact that the majority of this category of financial assets has a short term contractual repricing coupled with the fact that interest rates reflect current market rates, the carrying amounts of these financial assets approximate their fair values.

Amounts owed to customers

This category of liabilities is carried at amortised cost and amounts to €45,196,148 (2007: EUR44,510,872). 73% of the bank's amounts owed to customers have a contractual repricing term of three months or less. The carrying value of these amounts approximates their fair values. In respect of other longer-term fixed-maturity deposits, these being repriceable upon their contractual maturity date, it is not practicable to determine fair value with sufficient reliability. Fair value is therefore taken to be the amount payable at balance sheet date.

4.6 Liquidity risk

Liquidity risk is the risk that the bank's obligations to repay liabilities or fund new loans exceeds the bank's ability to raise funds from either the liquidation of assets or the acceptance of new deposits. Liquidity risk arises because a bank does not exactly match the maturity of assets with the maturity of liabilities but must always be able to meet its liabilities as they fall due. Liquidity risk may also be affected by the depth of the market in which a bank has its assets and liabilities.

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.

The bank's liquidity risk management focuses on structuring both the asset and liability portfolio so as to maintain diversity of funding sources and a spread of asset and liability maturities. It is bank's policy to reduce exposure to liquidity risk by matching, as much as possible, assets and liabilities in different maturity periods. A significant proportion of deposits are pledged, which contributes to the reduction of liquidity risk.

Izola Bank Limited

Notes to the Financial Statements

For the Year Ended 31 December 2008

4 Financial risk management (continued)

4.6 Liquidity risk (continued)

Liquidity policies and procedures are reviewed regularly through Internal Audit reporting. All liquidity policies are subject to the review and approval of the Board of Directors.

The following table provides an analysis of the financial assets and liabilities of the bank into relevant maturity groupings based on the remaining periods to repayment.

At 31 December 2008	Less than one month	Between one and three months	Between three months and one year	Between one and five years	More than five years	Total
	EUR	EUR	EUR	EUR	EUR	EUR
Financial assets						
Investments:						
Debt securities held-to-maturity	-	-	4,615,000	12,944,231	8,745,000	26,304,231
Loans and advances to Banks and balance with Central Bank of Malta	9,607,900	566,350	-	-	-	10,174,250
Loans and advances to customers	12,030,861	-	3,000,000	-	-	15,030,861
Factored receivables – gross	404,361	3,200,922	804,097	-	-	4,409,380
	-----	-----	-----	-----	-----	-----
	22,043,122	3,767,272	8,419,097	12,944,231	8,745,000	55,918,722
	=====	=====	=====	=====	=====	=====
Financial liabilities						
Amounts owed to customers	14,699,977	18,265,000	90,000	12,141,171	-	45,196,148
	=====	=====	=====	=====	=====	=====

Izola Bank Limited

Notes to the Financial Statements

For the Year Ended 31 December 2008

4 Financial risk management (continued)

4.6 Liquidity risk (continued)

At 31 December 2007	Less than one month	Between one and three months	Between three months and one year	Between one and five years	More than five years	Total
	EUR	EUR	EUR	EUR	EUR	EUR
Financial assets						
Investments:						
Debt securities held-to-maturity	-	-	-	15,828,651	9,736,574	25,565,225
Loans and advances to Banks and balance with Central Bank of Malta	9,739,525	546,560	-	-	-	10,286,086
Loans and advances to customers	11,255,000	-	-	3,000,000	-	14,255,000
Factored receivables – gross	1,031,749	1,855,887	140,335	-	-	3,027,970
	-----	-----	-----	-----	-----	-----
	22,026,274	2,402,447	140,335	18,828,651	9,736,574	53,134,281
	=====	=====	=====	=====	=====	=====
Financial liabilities						
Amounts owed to customers	14,697,852	-	-	29,813,020	-	44,510,872
	=====	=====	=====	=====	=====	=====

4.6.1 Exposure to liquidity risk

The key measure used by the bank for managing liquidity risk is the ratio of net liquid assets to customer deposits. 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 less any deposits from banks, debt securities issued, other borrowings and commitments maturing within the next month. This calculation is used to measure the bank's compliance with the liquidity limit established by the Malta Financial Services Authority. Details of the bank's ratio of net liquid assets to deposits at the reporting date and during the reported period are as follows:

	2008	2007
As at 31 December	241%	184%
Average for the year	356%	207%
Maximum for the year	795%	325%
Minimum for the year	204%	118%

Izola Bank Limited

Notes to the Financial Statements

For the Year Ended 31 December 2008

4 Financial risk management (continued)

4.6 Liquidity risk (continued)

4.6.2 Residual contractual maturities of financial liabilities

The table below shows a maturity analysis for financial liabilities by remaining contractual maturities of cash flows.

	Carrying amount	Gross nominal inflow / (outflow)	Less than one month	Between one and three months	Between three months and one year	Between one and five years	More than five years
	EUR	EUR	EUR	EUR	EUR	EUR	EUR
At 31 December 2008							
Amounts owed to customers	45,196,148	(47,703,707)	(14,714,077)	(19,509,901)	(93,478)	(13,386,251)	-
	=====	=====	=====	=====	=====	=====	=====
At 31 December 2007							
Amounts owed to customers	44,510,872	(47,612,999)	(14,732,028)	-	-	(32,880,971)	-
	=====	=====	=====	===	===	=====	===

4.7 Operational risks

4.7.1 Management of operational risk

The bank's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the bank's reputation with overall cost effectiveness. To manage this risk in an appropriate manner the following policies have been adopted:

- To adopt policies, processes and procedures to control and/or mitigate material operational risks.
- To identify and assess the operational risk inherent in all material products, activities, processes and systems. Before new products, activities, processes and systems are introduced or undertaken, the operational risk inherent in them is subject to adequate assessment.
- To monitor all potential operational risks and material exposures to losses.
- To monitor whether there is motive, means and opportunity, within the overall control environment to commit fraudulent acts.
- To adopt contingency and business continuity plans to ensure ability to operate on an ongoing basis and limit losses in the event of severe business disruption.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management. Periodic internal audit reports are submitted to the bank's Audit Committee.

Izola Bank Limited

Notes to the Financial Statements

For the Year Ended 31 December 2008

4 Financial risk management (continued)

4.7 Operational risks (continued)

4.7.1 Management of operational risk (continued)

A financial measurement of this risk is arrived at by the bank for the purpose of allocating risk capital using the Basic Indicator Approach under the Capital Requirements Directive rules. The capital requirement for operational risk under this method was calculated at EUR319,890 as at 31 December 2008 (2007: EUR 292,480).

5 Interest receivable and similar income

	2008	2007
	EUR	EUR
On loans and advances to banks	365,740	354,742
On loans and advances to customers	1,393,074	1,416,944
	-----	-----
	1,758,814	1,771,686
	=====	=====

6 Interest expense

	2008	2007
	EUR	EUR
On amounts owed to banks	21	3,331
On amounts owed to customers	1,928,561	1,994,775
	-----	-----
	1,928,582	1,998,106
	=====	=====

7 Net fees and commissions income

	2008	2007
	EUR	EUR
Straight-through-processing fees	617,283	607,728
Commissions from factoring services	247,744	203,978
	-----	-----
Fees and commissions income	865,027	811,706
	-----	-----
Commissions payable	-	151
SWIFT and bank charges	23,921	36,291
	-----	-----
Fees and commissions expense	23,921	36,442
	-----	-----
	841,106	775,264
	=====	=====

Izola Bank Limited

Notes to the Financial Statements

For the Year Ended 31 December 2008

8 Net trading gains

Net trading gains comprise exchange rate differences.

9 Impairment allowances

	2008	2007
	EUR	EUR
Write downs		
Factored receivables		
- specific allowances	-	(82,020)
- collective allowances	(17,011)	(1,829)
- bad debts written off	(82,020)	-
	-----	-----
	(99,031)	(83,849)
	-----	-----
Reversals of write downs		
Factored receivables		
- specific allowances	82,020	-
	-----	-----
	(17,011)	(83,849)
	=====	=====

10 Profit before income tax

10.1 Profit before income tax is stated after charging fees to the bank's auditors as follows:

	Audit	Tax advisory services
	EUR	EUR
	22,953	7,552
	=====	=====

Apart from the fees disclosed above, no other fees were charged to the bank by its auditors.

Izola Bank Limited

Notes to the Financial Statements

For the Year Ended 31 December 2008

10 Profit before income tax (continued)

10.2 Staff costs incurred by the bank during the year are analysed as follows:

	2008	2007
	EUR	EUR
Directors' fees	14,957	23,671
Staff costs:		
- wages, salaries and allowances	192,802	151,735
- defined contribution social security costs	10,206	8,196
	-----	-----
	217,965	183,602
	=====	=====

10.3 The weekly average number of persons employed by the bank during the year was as follows:

	2008	2007
	No.	No.
Managerial	3	2
Supervisory and clerical	4	4
	---	---
	7	6
	==	==

11 Income tax expense

11.1 Recognised in the income statement

		2008	2007
	Note	EUR	EUR
Current income tax expense			
Current tax charge		191,028	177,874
Deferred tax expense			
Origination and reversal of temporary differences	20.2	13,522	10,840
		-----	-----
		204,550	188,714
		=====	=====

Izola Bank Limited

Notes to the Financial Statements

For the Year Ended 31 December 2008

11 Income tax expense (continued)

11.2 The income tax expense for the year and the result of the accounting profit multiplied by the tax rate applicable in Malta, the bank's country of incorporation, are reconciled as follows:

	2008	2007
	EUR	EUR
Profit before income tax	1,573,676	1,293,752
Income tax at the applicable tax rate of 35%	(550,787)	(452,813)
Income tax effect of:		
Flat rate foreign tax credit	356,820	279,484
Different tax rates	(2,465)	(9,143)
Depreciation charges not deductible by way of capital allowances	(5,742)	(4,978)
Non-taxable income	137	137
Non-deductible expenses	(2,513)	(1,401)
Income tax expense	(204,550)	(188,714)

12 Earnings per share

Earnings per share is calculated on the profit after tax of the bank for the year ended 31 December 2008 amounting to EUR1,369,126 (2007: EUR1,105,038) divided by 160,000 (2007: 160,000), being the number of ordinary shares in issue and ranking for dividend during the year.

13 Investments

13.1 Investments comprise:	2008	2007
	EUR	EUR
Debt securities held-to-maturity	26,304,231	25,565,225
Equity instruments available-for-sale	3,653	3,653
	26,307,884	25,568,878

13.2 Debt securities held-to-maturity comprise unquoted non-convertible nominative bonds amounting to EUR 26,304,231 (2007: EUR25,565,225) issued by related parties and acquired on issuance by the bank. The debt securities are cash secured by amounts owed to customers held by the bank.

Izola Bank Limited

Notes to the Financial Statements

For the Year Ended 31 December 2008

13 Investments (continued)

13.3 Equity instruments available-for-sale comprise:

	2008	2007
	EUR	EUR
Unquoted equity holding		
- Society for Worldwide Interbank Financial Telecommunications sc		
2 ordinary shares fully paid up	3,653	3,653
	=====	=====

13.4 The movement in investments may be summarised as follows:

	Held-to- maturity	Available- for-sale	Total
	EUR	EUR	EUR
At 1 January 2007	24,872,999	3,653	24,876,652
Acquisitions	1,635,000	-	1,635,000
Redemptions	(1,636,097)	-	(1,636,097)
Capitalisation of interest	693,323	-	693,323
	-----	-----	-----
At 31 December 2007	25,565,225	3,653	25,568,878
	=====	=====	=====
At 1 January 2008	25,565,225	3,653	25,568,878
Capitalisation of interest	739,006	-	739,006
	-----	-----	-----
At 31 December 2008	26,304,231	3,653	26,307,884
	=====	=====	=====

Izola Bank Limited

Notes to the Financial Statements

For the Year Ended 31 December 2008

14	Loans and advances to banks		
		2008	2007
		EUR	EUR
	Repayable on call and at short notice	3,027,048	74,213
	Term loans and advances	6,761,350	9,094,045
		-----	-----
		9,788,398	9,168,258
		=====	=====
15	Factored receivables		
15.1		2008	2007
		EUR	EUR
	Receivables factored without recourse	4,409,380	3,027,970
	Allowance for uncollectibility	(46,862)	(111,871)
		-----	-----
		4,362,518	2,916,099
		=====	=====
	Allowances for uncollectibility		
	Specific allowances	-	82,020
	Collective allowances	46,862	29,851
		-----	-----
		46,862	111,871
		=====	=====
15.2			
		Specific allowances	Collective allowances
		EUR	EUR
	At 1 January 2008	82,020	29,851
	Additions	-	17,011
	Amounts written-off	(82,020)	-
		-----	-----
	At 31 December 2008	-	46,862
		=====	=====
15.3	The aggregate amount of impaired factored receivables amounted to Nil (2007: EUR82,020). No specific allowances for uncollectibility were required in terms of Banking Rule 09.		
15.4	An allowance for uncollectibility is provided against receivables factored without recourse, other than exposures to European governmental agencies.		

Izola Bank Limited

Notes to the Financial Statements

For the Year Ended 31 December 2008

16 Other loans and advances to customers

16.1

	2008	2007
	EUR	EUR
Term loans and advances	15,030,861 =====	14,255,000 =====

16.2 Loans and advances to customers represent amounts due by related parties.

16.3 All loans are cash secured by amounts owed to customers held by the bank and no specific or collective allowance for uncollectibility is necessary.

Izola Bank Limited

Notes to the Financial Statements

For the Year Ended 31 December 2008

17 Property and equipment

17.1		Revalued amount		Cost		
		Total	Premises and improvements	Computer hardware and software	Other equipment	Motor vehicles
	EUR	EUR	EUR	EUR	EUR	
	Cost/revaluation					
	At 1 January 2007	2,810,490	1,242,214	1,261,787	300,666	5,823
	Acquisitions	101,655	-	81,359	20,296	-
	Revaluation	368,793	368,793	-	-	-
	At 31 December 2007	3,280,938	1,611,007	1,343,146	320,962	5,823
	At 1 January 2008	3,280,938	1,611,007	1,343,146	320,962	5,823
	Acquisitions	141,712	-	122,957	18,755	-
	At 31 December 2008	3,422,650	1,611,007	1,466,103	339,717	5,823
	Depreciation					
	At 1 January 2007	963,889	90,900	610,263	262,213	513
	Charge for the year	210,817	14,222	179,806	15,626	1,163
	At 31 December 2007	1,174,706	105,122	790,069	277,839	1,676
	At 1 January 2008	1,174,706	105,122	790,069	277,839	1,676
	Depreciation the year	238,094	16,407	202,716	17,805	1,167
	At 31 December 2008	1,412,800	121,529	992,785	295,644	2,843
	Carrying amount					
	At 1 January 2007	1,846,601	1,151,314	651,522	38,455	5,310
	At 31 December 2007	2,106,232	1,505,885	553,077	43,123	4,147
	At 1 January 2008	2,106,232	1,505,885	553,077	43,123	4,147
	At 31 December 2008	2,009,850	1,489,478	473,318	44,073	2,980

Izola Bank Limited

Notes to the Financial Statements

For the Year Ended 31 December 2008

17 Property and equipment (continued)

17.2 Revaluation of premises

The carrying amount of premises and improvements that would have been included in the financial statements had these assets been carried at cost less depreciation is EUR491,399 (2007: EUR497,047).

17.3 Capital commitments

At balance sheet date capital expenditure contracted but not provided for in the accounts amounted to EUR21,490 (2007: EUR Nil).

18 Prepayments and accrued income

18.1	2008	2007
	EUR	EUR
Accrued income	1,234,068	1,144,662
Prepayments and other receivables	189,867	149,525
	-----	-----
	1,423,935	1,294,187
	=====	=====

18.2 Accrued income on bonds issued by foreign related parties amounted to EUR1,234,068 (2007 EUR1,142,694).

19 Amounts owed to customers

19.1	2008	2007
	EUR	EUR
Repayable on demand	14,184,977	14,306,852
Term deposits	31,011,171	30,204,020
	-----	-----
	45,196,148	44,510,872
	=====	=====

19.2 Amounts owed to customers include an amount of EUR38,111,237 (2007: EUR34,915,956) owing by the bank to related parties.

Izola Bank Limited

Notes to the Financial Statements

For the Year Ended 31 December 2008

20 Deferred tax liabilities

20.1 Deferred income taxes are calculated on all temporary differences under the balance sheet liability method using rates substantively enacted at balance sheet date. The deferred income tax balance composition is as follows:

	Assets	Liabilities	Net	Assets	Liabilities	Net
	2008	2008	2008	2007	2007	2007
	EUR	EUR	EUR	EUR	EUR	EUR
Excess of capital allowances over depreciation	-	(36,147)	(36,147)	-	(26,038)	(26,038)
Collective impairment allowances	2,459	-	2,459	1,566	-	1,566
Specific impairment allowances	-	-	-	4,306	-	4,306
Revaluation of property	-	(348,761)	(348,761)	-	(352,645)	(352,645)
	-----	-----	-----	-----	-----	-----
	--	--	--			
	2,459	(384,908)	(382,449)	5,872	(378,682)	(372,811)
	=====	=====	=====	=====	=====	=====

20.2 Movement in temporary differences relating to:

	At 1 January 2008	Recognised in income	Recognised in equity	At 31 December 2008
	EUR	EUR	EUR	EUR
Excess of capital allowances over depreciation	(26,038)	(10,109)	-	(36,147)
Collective impairment allowances	1,566	893	-	2,459
Specific impairment allowances	4,306	(4,306)	-	-
Revaluation of property	(352,645)	-	3,884	(348,761)
	-----	-----	-----	-----
	(372,811)	(13,522)	3,884	(382,449)
	=====	=====	=====	=====

Izola Bank Limited

Notes to the Financial Statements

For the Year Ended 31 December 2008

20 Deferred tax liabilities (continued)

	At 1 January 2007 EUR	Recognised in income EUR	Recognised in equity EUR	At 31 December 2007 EUR
Excess of capital allowances over depreciation	(10,797)	(15,241)	-	(26,038)
Collective impairment allowances	1,472	95	-	1,566
Specific impairment allowances	-	4,306	-	4,306
Revaluation of property	(226,572)	-	(126,073)	(352,645)
	-----	-----	-----	-----
	(235,898)	(10,840)	(126,073)	(372,811)
	=====	=====	=====	=====

21 Accruals and deferred income

21.1	2008	2007
	EUR	EUR
Accrued interest payable	1,438,331	808,208
Deferred factoring commissions	45,190	29,057
Other accrued expenses	272,568	130,438
	-----	-----
	1,756,089	967,703
	=====	=====

21.2 Accruals and deferred income includes amounts due to related parties amounting to EUR784,393 (2007: EUR704,611).

22 Share capital and reserves

22.1 Share capital

	Ordinary shares	
	2008	2007
	No.	No.
On issue at 1 January:		
Issued for cash	54,762	54,762
Issued in lieu of dividend payment	105,238	105,238
	-----	-----
On issue at 31 December – fully paid	160,000	160,000
	=====	=====

Izola Bank Limited

Notes to the Financial Statements

For the Year Ended 31 December 2008

22 Share capital and reserves (continued)

22.1 Share capital (continued)

At 31 December 2008, the authorised and issued share capital comprised 160,000 ordinary shares (2007: 160,000) of EUR25 each.

All shares in issue are fully paid up.

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 shareholders' meetings of the bank.

22.2 Property revaluation reserve

The property revaluation reserve represents the surplus arising on the revaluation of the bank's premises and improvements, net of related deferred tax effects, and net of that part of the surplus realised through use or disposal of the revalued property. This reserve is not distributable except on realisation of the assets through sale.

23 Commitments

	2008	2007
	EUR	EUR
Unutilised factoring and credit card commitments	5,917,759 =====	3,502,027 =====

The bank may unconditionally cancel factoring commitments at its discretion, other than amounts being currently utilised by customers.

Factoring commitments are granted to customers at prevailing market rates at transfer date.

Izola Bank Limited

Notes to the Financial Statements

For the Year Ended 31 December 2008

24 Net cash (used in)/generated from operations

	2008	2007
	EUR	EUR
Profit for the year:	1,369,126	1,105,038
Adjustments for:		
Depreciation	238,094	210,817
Income tax expense	204,550	188,714
Impairment allowance	17,011	83,849
Interest receivable on debt securities	(1,770,484)	(1,596,135)
	58,297	(7,717)
Working capital changes:		
Loans and advances to banks and customers and factored receivables	(2,234,531)	1,213,663
Amounts owed to customers and accruals and deferred income	1,417,182	1,370,430
	(759,052)	2,576,376
	=====	=====

25 Cash and cash equivalents

	2008	2007
	EUR	EUR
Cash	779	466
Balances with Central Bank of Malta	385,852	1,117,828
Loans and advances to banks with contractual maturity of three months or less	9,788,398	9,168,258
	10,175,029	10,286,552
	=====	=====

26 Operating leases

The future minimum lease payments for the bank under non-cancellable operating lease rentals payable to a third party are as follows:

	2008	2007
	EUR	EUR
Less than one year	11,808	11,808
Between one and five years	26,127	37,932
	37,935	49,740
	=====	=====

Izola Bank Limited

Notes to the Financial Statements

For the Year Ended 31 December 2008

26 Operating leases (continued)

The bank leases two motor vehicles under operating leases. During the year ended 31 December 2008 EUR 11,808 was recognised as an expense in the income statement in respect of operating leases (2007: EUR6,564).

In case of termination of the lease contract, the bank is entitled to pay liquidation damages equivalent to 50% of the rental charges due from the date of termination for the period of all unexpired leases including all rental charges due to the termination of the contract.

27 Related parties

27.1 Identity of related parties

Related parties are related by virtue of having common directors. Transactions with related parties are carried out entirely on an arm's length basis.

27.2 Related party transactions

Interest, fees and other income/charges in respect of related parties in the income statement comprise:

	2008	2007
	EUR	EUR
Interest receivable and similar income	3,155,292	3,012,496
Fees and commissions receivable	860,899	789,731
Other operating income	4,193	4,193
	=====	=====
Interest expense	1,206,668	1,623,800
	=====	=====

27.3 Related party balances

The balance sheet includes outstanding transactions and balances in respect of related parties as follows:

	2008	2007
	EUR	EUR
Assets		
Loans and advances to customers	15,030,861	14,255,000
Investments	26,304,231	25,565,225
Prepayments and accrued income	1,234,068	1,142,694
	=====	=====

Izola Bank Limited

Notes to the Financial Statements

For the Year Ended 31 December 2008

27 Related parties (continued)

27.3 Related party balances (continued)

	2008	2007
	EUR	EUR
Liabilities		
Amounts owed to customers	38,111,237	34,915,956
Accruals and deferred income	784,393	704,611
	=====	=====

27.4 Compensation to key management personnel

	2008	2007
	EUR	EUR
Compensation to key management personnel	112,793	97,433
	=====	=====

27.5 Ultimate controlling party

The financial results and assets and liabilities of the bank are included in the consolidated financial statements of VMKG, the registered office of which is Bruulstraat 77, 1130 Brussels, Belgium.

28 Accounting estimates and judgements

28.1 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.

28.2 Critical accounting judgements in applying the bank's accounting policies

Certain critical accounting judgements in applying the bank's accounting policies are described below.

28.2.1 Classification of held-to-maturity investments

The bank follows the guidance in IAS 39 on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity. The classification requires significant judgement. In making this judgment, the bank evaluates its intention and ability to hold such investments to maturity. If the bank fails to keep these investments to maturity other than for specific circumstances, for example, selling an insignificant amount close to maturity, it will be required to reclassify the entire class as available-for-sale. The investments would therefore be measured at fair value instead of at amortised cost.

Izola Bank Limited

Notes to the Financial Statements

For the Year Ended 31 December 2008

28 Accounting estimates and judgements (continued)

28.2 Critical accounting judgements in applying the bank's accounting policies (continued)

28.2.2 Impairment losses on loans and advances and factored receivables

The bank reviews its loan portfolio to assess impairment on an ongoing basis as relevant generic data is observed concerning risks associated with loans and factored receivables with similar risk characteristics. As a result, the bank makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans and factored receivables, before the decrease is actually identified with an individual loan or factored receivable in that portfolio. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

28.2.3 Revaluation of premises

The bank's premises are measured at revaluation amount less accumulated depreciation. The revaluation amount is determined on the basis of open market values provided periodically, but at least every five years, by independent valuers. The open market valuation provided by independent valuers in August 2007 of the property disclosed in note 17 is EUR1,747,030. The directors applied a downward adjustment of EUR232,937 to limit the revaluation to what they believe is the lower range of the fair open market value.

29 Comparative information

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

Independent Auditors' Report

To the shareholders of Izola Bank Limited

Report on the Financial Statements

We have audited the financial statements of Izola Bank Limited (the "bank") as set out on pages 4 to 51 ("the financial statements"), which comprise the balance sheet as at 31 December 2008 and the statement of changes in equity, income statement and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' Responsibility for the Financial Statements

As described on page 3, the directors are responsible for the preparation and fair presentation of the 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 the financial statements that are free from material misstatements, 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. This report, including the opinion, has been prepared for and only for the bank's members as a body in accordance with Article 179 of the Companies Act 1995 and Article 31 of the Banking Act, 1994 enacted in Malta and may not be appropriate for any other purpose.

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 our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of accounting estimates made by management, 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 opinion.

Opinion

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

Independent Auditors' Report (continued)

To the Shareholder's of

Izola Bank Limited

Report on Other Legal and Regulatory Requirements

The Banking Act, 1994 requires us to report:

- whether we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purpose of our audit;
- whether in our opinion, proper books of account have been kept by the bank so far as appears from our examination thereof;
- whether the financial statements are in agreement with the books; and
- whether these give the information required by any law in force in the manner so required and give a true and fair view.

We also report to you our opinion as to whether the financial statements are properly prepared in accordance with the Companies Act, 1995. In addition, we report to you if, in our opinion:

- the information given in the Directors' Report is not consistent with the financial statements; or
- the bank has not kept proper accounting records; or
- the bank's financial statements are not in agreement with the accounting records; or
- we have not received all the information and explanations for our audit, or if the information specified by Article 31(o) of the Third Schedule to the Act regarding directors' emoluments is not disclosed, in which case we are required to include a statement in our report giving the required particulars.

We read the Directors' Report and consider the implications for our report if we become aware of any material misstatements of fact within it.

Opinion

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

Also, in our opinion, the financial statements have been properly prepared in accordance with the provisions of the Companies Act, 1995 and the Banking Act, 1994 enacted in Malta.



Joseph C Schembri (Partner) for and on behalf of

KPMG
Registered Auditors

27 March 2009