LOMBARD

Lombard Bank Malta p.l.c.

2007

ANNUAL REPORT

LOMBARD
Lombard Bank Malta p.l.c.
HEAD OFFICE
67, Republic Street, Valletta VLT 1117 MALTA.
Tel: 25581117 Fax: 25581151 e-mail: mail@lombardmalta.com
www.lombardmalta.com

ANNUAL REPORT
2007

Contents

Chairman's Statement to the Members

For the financial year ending 31st December 2007 Lombard Bank Group registered a record profit after tax of Lm3.04 million (€7.08 million), an increase of 21.4 per cent on 2006. During the year the Bank positioned itself to continue on a path of solid performances for the benefit of all its stakeholders.

The housing bubble in the United States of America was known to be heading for troubled waters however few realised the disastrous effect that the "subprime crises" would have on world markets when this first erupted in the summer of 2007. The tightening credit conditions remain a major threat to the American and European economies and are bound to impact negatively on economic activity which is set to slow down during 2008. Concurrently we are experiencing record prices for oil and agricultural products which also stand to dampen economic activity.

Another milestone was the introduction of the euro in Malta effective 1st January 2008. Thanks to the excellent preparation for this event the changeover to the euro went extremely well and as a result Malta is now even more than before integrated in the European Union holding also a seat on the Governing Council of the European Central Bank. Also at Lombard Bank the conversion to euro was one of the major tasks involving virtually the entire staff and my special thanks go to them for having contributed to a smooth change-over to a new currency which is now used as legal tender in 15 European countries.

Also in 2007 the Bank increased its stake in MaltaPost p.l.c. from 35 per cent to 60 per cent making MaltaPost a subsidiary of the Bank. As was pointed out on other occasions the Bank views this investment as strategic and not financial. We are sensitive to the role of MaltaPost within the community and are committed to ensure that MaltaPost remains Malta's foremost provider of postal services. We also strongly believe that both organisations will benefit from their cooperation. Early in 2008 the Government of Malta sold by way of an Initial Public Offering its remaining 40 per cent shareholding in MaltaPost to the public. The Bank was afforded the role of Manager and Registrar for this offering which was heavily oversubscribed demonstrating the strong interest of the public in MaltaPost and the confidence it has in this company.

In October of last year we announced that Marfin Popular Bank Public Company Ltd. of Cyprus agreed to acquire from BSI SA and other foreign shareholders a stake of circa 43 per cent in our Bank. This transaction has since received approval by the relevant authorities and was completed in February 2008. Our new single largest shareholder offers a full range of financial services to its one million customers through 415 offices in 13 countries employing a labour force of more than 8,000 employees. Its shares are listed on the Cyprus Stock Exchange and the Athens Stock Exchange. Lombard Bank will be in a position to draw on Marfin's expertise in Retail, Insurance, Corporate Finance and International Business Banking to further develop its activities in Malta while maintaining its own identity. The Board of Directors and Management of Lombard Bank look optimistically to a fruitful cooperation with Marfin Popular Bank and firmly believe that this participation will result in benefits to all stakeholders.

We continue to lend selectively and would only be prepared to entertain transactions which we consider to make banking sense. Our financial ratios remain sound. The Solvency Ratio or Capital Adequacy Ratio calculated in terms of statutory rules is of particular importance. In our case this ratio stood at 15.9 per cent at the end of 2007, comfortably in excess of the regulatory minimum requirement of 8 per cent. As you know cost control has always been of high priority for us and the Cost to Income Ratio now stands at 36.7 per cent for the Group and 32.8 per cent for the Bank compared to 34.9 per cent in 2006. Return on average equity attributable to shareholders was 21.5 per cent on a pre-tax basis. Net Assets Value per share stood at Lm2.54 (€5.92) from Lm2.24 in 2006 while Earnings per Share increased to 35.3 cents (82.2 euro cents) per share.

Chairman's Statement to the Members

To cater for the changeover to euro the Board of Directors is recommending a share split which will increase the number of shares in issue and should create more market liquidity for Lombard Bank shares. We also note with pleasure that our share price has consistently been among the top performers of those listed on the Malta Stock Exchange.

The Board is also recommending a Gross Dividend of €0.40 (Lm0.172) per share which will be followed by the share split and as in previous years shareholders will be given the option of taking their dividend either in shares or in cash.

The Bank does not embrace a policy of seeking short-term gains. Our overriding objective is to add value on an ongoing basis and all decisions and actions continue to be driven by this philosophy.

My sincere thanks go to our shareholders and customers for their support and to my fellow Board members for their valuable contribution. This year very special thanks go to Joseph Said, the Bank's Chief Executive Officer, and to his entire team for commendable achievements both in the day-to-day running of the Bank and also for enhancing the Bank's position strategically. The Board considers the highly motivated, dedicated and committed members of the Lombard Bank team as an asset to be very proud of.

Christian Lemmerich
Chairman

Chief Executive Officer's Review of Operations

These Financial Statements report the consolidated financial results of Lombard Bank Malta p.l.c., Lombard Asset Managers Limited and Redbox Limited (the Group) as at 31 December 2007 and the financial results of MaltaPost p.l.c. as at 30 September 2007 following the latter company becoming a subsidiary of Redbox Limited on 6 September 2007.

The Bank continues to focus on selectively building business relationships and this by extending a personalised and all-round service. We pride ourselves in being our customers' all-weather partners who will go that extra mile to assist and see to their requirements in a business-like fashion yet always within professional and prudent parameters.
Management is aware of the need for constant upgrading of professional skills at all levels and in this regard seeks to engage qualified staff. It also encourages self-development besides providing training where and when considered necessary.

The Bank remains committed to adopt and encourage high professional and ethical standards in all its dealings.

During the year, the Bank's share capital was increased by 94,386 Ordinary shares, as most shareholders opted to receive their dividend for 2006 in shares rather than cash.

Review of Financial Performance

Total operating income for the Group increased by 34.1 per cent producing a higher operating profit of Lm4.4 million.

Net interest income for the Group increased by 26.7 per cent to Lm6.67 million contributing to a Net Interest Margin of 52.8 per cent.

Loans and Advances to Customers at Lm111.74 million (net of Impairment Allowances) increased by Lm21.53 million (23.9 per cent) over the previous year continuing the trend of growth in credit activity established in previous years. Amounts owed to customers stood at Lm179.54 million.

Profitability and Own Funds

Shareholders' Funds rose by Lm2.82 million (14.79 per cent) to Lm21.91 million allowing us to assume larger credit exposures, diversify our investment opportunities and strengthen the Bank's solvency even further. Return on Assets (ROA) increased from last year's 1.9 per cent to 2.1 per cent. The Bank's capital adequacy ratio, computed in accordance with Banking Rule 04 stood at 15.9 per cent (2006: 16.2 per cent) and compares well with the statutory minimum requirement of 8 per cent. Earnings per Share (EPS) for FYE2007 reached 35.3 cents, an increase of 19.7 per cent over 29.5 cents in 2006. Net Asset Value per share at year end stood at Lm2.54 representing a price to book multiple of 2.44 times.

Treasury and Finance

The Central Bank of Malta changed the Central Intervention Rate on three occasions during 2007 in the process of converging official interest rates in Malta with those of the euro area. We monitored these changes during the year and adjusted accordingly.

In circumstances of higher risk in global financial markets following the subprime mortgage crises, we maintained a liquidity ratio at 84 per cent, well over the statutory minimum of 30 per cent. Our liquid position consisted mainly of Reserve Deposit Equalisation, short-term Treasury paper and inter-bank transactions.

In April 2007 we formally adopted the Standardised Approach under the new Capital Requirements Directive for the calculation of minimum capital requirements. The Bank is considered to have sufficient levels of capital in terms of these regulations.

Chief Executive Officer's Review of Operations

Human Resources

Our policy remains that of strengthening our team across all grades and this by ongoing training of staff, engaging experienced professionals as well as recruiting new junior staff members. During the year the average staff complement increased by 18 to 148. Various in-house training courses were organised and some members also attended external courses both locally and abroad. The Bank remains fully aware that quality staff, at all levels, is key to further growth.

Projects

Works on the newly acquired premises in Valletta and Qormi are at an advanced stage and should now be completed during FY 2008. The usual snags that occur when developing or converting premises did cause delays which we are now endeavouring to make up for. The new facilities will considerably enhance the office space at Valletta Head Office as well as provide additional sales outlet potential in both localities.

Operations and processes were successfully prepared to meet with the adoption of the euro as the national currency. This entailed conversion of IT systems, adaptation of reporting mechanisms, accounting and treasury processes, setting up of internal control procedures and meeting with compliance demands set by the authorities. The project for the adoption of the euro was smoothly undertaken and successfully implemented.

MaltaPost p.l.c.

In September 2007 the Government of Malta approved the transfer of 25 per cent of its shareholding in MaltaPost to the Bank raising our stake in the post office to 60 per cent. We consider this to be a strategic investment of significant importance which should result in substantial added value to stakeholders of both the Bank and MaltaPost. In January 2008 the Government sold its remaining 40 per cent shareholding in MaltaPost to the public via an Initial Public Offering (IPO) which sale was heavily oversubscribed. The Bank was appointed Manager and Registrar of the IPO. MaltaPost shares were listed on the Malta Stock Exchange on 24 January 2008.

Community Involvement

We recognise our social responsibility and address this issue with conviction. Support to a number of voluntary and charitable organisations is extended on an ongoing basis although this is carried out on a low-key basis.

During 2007, the second edition of our anti-smoking project in conjunction with the Malta Cancer Foundation was successfully carried out. Electronic media was used to deliver the anti-smoking message to students in about 57 schools around Malta. The project is aimed at secondary school students in Malta and Gozo and has received such a positive response that we are encouraged to keep it running in the years to come.

Outlook

Business sentiment is expected to remain bullish during 2008.

The adoption of the euro is bound to facilitate investment both to and from Malta. Admittedly it also stands to narrow our interest margins given the greater competition that we now face. However we believe that this will be compensated by an increase in our activities.
World economic indicators may not be looking very bright and we do not believe that Malta is completely insulated from the negative impact of rising world prices of fuel and food. Nevertheless experience has shown us that the Maltese

Chief Executive Officer's
Review of Operations

business community has the wherewithal to overcome such obstacles and move forward in spite of such adverse conditions.

As of March 2008 Lombard Bank is also an associate of a major banking and financial services group – Marfin Popular Bank. As a result of this we can now aspire to reach higher levels in the financial services industry in Malta and this by enhancing our operations, increasing both our customer base and also our range of products and services.

In the coming years Lombard Bank shall remain focused on high net worth, private and corporate customers. However the addition of MaltaPost to the Group should now provide new opportunities for expansion into the purely retail sector and this by the creation of a low-cost financial services operation within our subsidiary.

Practically year after year Lombard Bank continues to present its stakeholders with a consistent and robust performance and record profit levels. We believe such performances can be kept up more so now that we are well positioned to benefit from the new alliances that have been forged with Marfin as well as MaltaPost. We look to the future with enthusiasm and confidence.

Joseph Said
Chief Executive Officer

Directors' Report

For the Year Ended 31 December 2007

The Group

The Lombard Group ('the Group') consists of Lombard Bank Malta p.l.c. ('the Bank'), Lombard Asset Managers Limited, Redbox Limited and MaltaPost p.l.c., a subsidiary of Redbox Limited.

Principal Activities

The Bank was registered in Malta in 1969 and listed on the Malta Stock Exchange in 1994. It is licensed as a credit institution under the Banking Act, 1994 and is an authorised currency dealer and financial intermediary. It also holds a Category 2 Investment Services licence issued by the Malta Financial Services Authority in terms of the Investment Services Act, 1994. It is a member of the Deposit Guarantee Scheme and the Investor Compensation Scheme set up under the laws of Malta. The Bank has a network of six branches in Malta and Gozo providing an extensive range of banking and financial services.

Lombard Asset Managers Limited holds a Category 2 Investment Services licence issued by the Malta Financial Services Authority in terms of the Investment Services Act, 1994 and is authorised to provide management and administrative services to Collective Investment Schemes. The Bank holds 75 per cent of the ordinary share capital of the company.

Redbox Limited was registered in 2006 and is fully owned by the Bank. In August 2006 it bought 35 per cent shareholding in MaltaPost p.l.c. from Transend Worldwide Limited. In September 2007 Redbox Limited acquired a further 25 per cent shareholding in MaltaPost p.l.c. from the Government of Malta. Redbox Limited did not undertake any other business during 2007. Redbox Limited owns 60 per cent of the ordinary share capital of MaltaPost p.l.c.; the remaining 40 per cent are held by the general public. MaltaPost p.l.c. was listed on the Malta Stock Exchange on 24 January 2008.

MaltaPost p.l.c. is Malta's leading postal services company, being the sole licensed Universal Service Provider of postal services in Malta.

Review of Performance

The Chief Executive Officer submits a review of operations elsewhere in this Annual Report.

Results for 2007

Profit after taxation of Lm2.873 million and Lm3.041 million for the Bank and the Group respectively, were registered for the twelve months ended 31 December 2007.

A gross dividend of €0.40 per nominal €0.582343 share for the twelve months ended 31 December 2007 is being proposed for approval by the shareholders. The Board of Directors recommends that shareholders be given the option of receiving the dividend either in the form of cash or by the issue of new shares. A resolution to this effect will be proposed to the Annual General Meeting of shareholders.

Capital

At the Annual General Meeting held in 2007, the Bank's Ordinary Share capital was increased by 94,386 new Ordinary fully paid shares of Lm0.25 each, after resolutions were adopted allowing shareholders the option to receive their dividend either by the issue of new shares or in cash. Equity attributable to shareholders as at 31 December 2007 stood at Lm21.9 million.

The Directors will be placing the following resolutions for consideration by shareholders at the next Annual General meeting:

1. The amount of €3,603,849 is transferred from Retained Earnings to the Called Up Share Capital Account in order to increase the Nominal Value of shares in issue from €5,024,879 to €8,628,728, thereby increasing the Nominal Value of each share from €0.582343 to €1.00.

2. With a view to effecting a Share Split on a 4 to 1 basis, whereby every share with a nominal value of €1.00 will be split into 4 shares, each with a nominal value of €0.25, and with effect from 03 May 2008, the text of the current Clause 5 of the Company's Memorandum of Association is deleted and substituted by the following text:
   a. The Authorised Share Capital of the Company is €20,000,000 made up of 80,000,000 Ordinary Shares of a nominal value of €0.25 each.
   b. The Issued and Fully Paid-Up Share Capital of the Company is €8,628,728 split into 34,514,912 Ordinary Shares of a nominal value of €0.25 each, all of one class.

Appointment of Chief Officers

During October 2007 the Bank announced a new organogram and the appointment of a number of Chief Officers. On 29 February 2008 the Bank announced the appointment of a Chief Officer – Private Banking and Corporate Services. The composition of the Board of Directors, Officers and Senior Management is further shown in the section on Company Information.

Change in Majority Shareholder

On 29 February 2008 the Bank announced that Marfin Popular Bank Public Company Ltd of Cyprus had purchased 3,698,509 shares of a nominal value of €0.582343 each in the Bank equivalent to 42.86 per cent of the Issued Share Capital of the Bank.

Transactions in Own Shares

The Bank holds units in a collective investment scheme which scheme invests in the Bank's shares. Through its holding in this fund, the Bank indirectly acquired an additional 1,000 of its own shares during the year, bringing the total number of shares indirectly held at 31 December 2007 to 4,212.

Standard Licence Conditions

In accordance with paragraph 7.35 of the Investment Services Rules for Investment Services Providers regulated by the Malta Financial Services Authority, licence holders are required to disclose any regulatory breaches of standard licence conditions in this Annual Report. Accordingly, the directors confirm that no breaches of the standard licence conditions and no other breach of regulatory requirements, which were subject to an administrative penalty or regulatory sanction, were reported.

Listing Rules - Disclosures

In terms of Listing Rule 8.14, the directors are required to disclose the following information.

Amendments to the Memorandum and Articles of Association of the Bank are effected in conformity with the provisions in the Companies Act, 1995. Furthermore, in terms of the Articles of Association:

a. directors may be authorised by the Company to issue shares subject to the provisions of the Memorandum and Articles of Association and the Companies Act;
b. directors may decline to register the transfer of a share (not being a fully paid share) to a person of whom they shall not approve;
c. directors may decline to recognise any instrument of transfer, unless accompanied by the certificate of the shares to which it relates, and/or such other evidence;

d. no registration of transfers of shares shall be made and no new particulars shall be entered in the register of members when the register is closed for inspection.

Currently there are no matters that require disclosures in relation to:

a. holders of any securities with special rights;
b. employee share schemes;
c. restrictions on voting rights or relevant agreements thereto;
d. agreements pertaining to the change in control of the Bank;
e. agreements providing for compensations on termination of Board Members or employees.

The Bank's capital structure, direct and indirect shareholding in the Bank in excess of 5 per cent and the rules governing the changes to Board members are contained in other parts of this Annual Report.

Audit Committee

This committee is made up of non-executive directors and is intended to ensure effective internal controls, compliance and accountability. The committee also acts to ensure that high ethical standards are maintained, as explained in the 'Statement of Compliance with the Principles of Good Corporate Governance' in another section of this Annual Report.

Auditors

KPMG have expressed willingness to continue in office as auditors of the Bank and a resolution proposing their reappointment will be put to the forthcoming Annual General Meeting.

Approved by the Board of Directors on 13 March 2008 and signed on its behalf by:

Christian Lemmerich
Chairman

Joseph Said
Chief Executive Officer

Pursuant to Listing Rules 8.37 and 8.38 of the Malta Financial Services Authority, Lombard Bank Malta p.l.c. (the Bank) hereby reports on the extent to which the Bank has adopted the 'Code of Principles of Good Corporate Governance' (the Code) appended to the said Listing Rules.

Compliance

Even though the Principles of Good Corporate Governance are not mandatory, the Board of Directors of the Bank has ensured their adoption except where the specific circumstances do not permit their adoption.

The Board of Directors

The Board of Directors is made up of seven members, two of whom are on a full-time contract of service whilst five are non-executive Directors. The Chairman of the Board is elected by the Directors from amongst themselves at the first Board Meeting after the Annual General Meeting. The Directors who served on the Board during the period under review were the following:

	Year when first appointed	*Attendance at Board Meetings (1 January 2007 to 31 December 2007)*
Joseph M Demajo	1999	6
Graham A Fairclough	2003	6
Christian Lemmerich	1998	7
Gianfilippo Maiga	2004	5
Joseph Said	2000	7
Michael Zammit	1995	6
Stefano Loffredi, appointed on 4 January 2007	2007	2

Christian Lemmerich was confirmed as Chairman of the Board during the first Board Meeting following the Annual General Meeting of the Bank. Whilst Joseph Said held the position of Chief Executive Officer, Graham Fairclough retained the position of General Manager.

After reviewing the independence of the Directors, the Board has affirmed that Christian Lemmerich, Stefano Loffredi, Gianfilippo Maiga and Michael Zammit are independent Directors in terms of the Principles of Good Corporate Governance.

Furthermore, the Directors have provided declarations of their beneficial and non-beneficial shareholdings in the Bank together with particulars of any contracts of significance with the Bank or its subsidiaries.

All the appointments and resignations of Directors are shown in the Directors' Report.

Given that the Board's and Directors' performance is under the on-going scrutiny of the shareholders, the Board does not consider it necessary to appoint a committee to carry out a performance evaluation of the Board, its Directors and Committees.

Going Concern

In compliance with Listing Rule 9.40.19 and after having duly considered the Bank's performance, the Directors declare that they expect that the Bank will continue to operate as a going concern for the foreseeable future.

Appointment and Election of Directors

The Articles of Association of the Bank provide that at every general meeting, one-third of the serving Directors retire from office by rotation and, being eligible, may offer themselves for re-election as regulated by the same Articles. Every shareholder holding in the aggregate at least 15 per cent of the Bank's Ordinary Issued Share Capital is entitled to appoint one Director for each and every 15 per cent of the Ordinary Issued Capital owned by him. Any fractional shareholding in excess of 15 per cent not applied in appointing a Director, and only that fraction, shall be entitled to vote in the election of the remaining Directors together with the remaining general body of shareholders. The Board shall consist of not more than seven Directors, and any person proposed for appointment as Director at an Annual General Meeting shall be either recommended by the serving Directors or nominated by a shareholder in terms of the Articles.

The aggregate amount of Directors' emoluments is disclosed in note 12 to the Financial Statements. No disclosure is made of the remuneration of each Director separately.

Terms of Appointment

During the last Annual General Meeting, the aggregate maximum amount of remuneration that may be received by the Board for their service was set at Lm30,000. Since the majority of the Board is made up of non-executive Directors, the determination of remuneration arrangements for each Board member is established collectively by the Board of Directors.

The Chief Executive Officer and General Manager are on a contract of employment with the Bank and their remuneration as employees, as well as their employment, is independent of their office as Directors of the Bank. Whilst the remuneration and bonuses of the Chief Executive Officer and the General Manager are approved by the Board of Directors, Management approves the remuneration and bonuses of all the other staff members. It is considered that the particular circumstances of the Bank do not justify the setting up of a separate Remuneration Committee.

Board Meetings

The Board meets regularly during the year and each member is provided with all the documentation, well ahead of the meeting, and which is required in order that informed decisions are reached. Meetings of the Board follow a formal Agenda which focuses mainly on strategic issues, credit matters as well as business performance. The documentation includes the Minutes of the previous meeting together with a full report on the more important operational matters.

Upon joining the Board, a new member is provided not only with information relative to the Bank and its subsidiaries, but is also referred to the relevant legislation, rules and by-laws as well as Memorandum and Articles of Association of the Bank and its subsidiaries. The Directors may also seek independent professional advice at the Bank's expense, in the furtherance of their duties. Additionally, the Directors have access to the services of the Company Secretary who, amongst other matters, also regularly informs them of the obligations when dealing in securities of the Bank.

When a potential conflict of interest may arise in connection with any matter under discussion, it is the established practice of the Directors to declare such conflict and the Director concerned refrains from the proceedings in relation to the matter or decision. The Minutes will record such a declaration, together with the action taken by the Director concerned.

During the twelve month period ending 31 December 2007, the Board met on seven occasions.

Internal Control

The Board is ultimately responsible for the Bank's internal controls and for ensuring the effectiveness thereof. Although the relative systems are designed to manage all the risks in the most appropriate manner, they certainly cannot completely eliminate the possibility of material error or fraud. The Board assumes responsibility for executing the four basic roles of corporate governance, i.e. accountability, monitoring, strategy formulation and policy development.

The Board, therefore, is responsible for:

1. reviewing the Bank's strategy on an on-going basis as well as setting the appropriate business objectives in order to enhance value for all stakeholders;
2. appointing and monitoring the Chief Executive Officer whose function it is to manage the operations of the Bank;
3. identifying and ensuring that significant risks are managed satisfactorily; and
4. given the fiduciary responsibility involved, the Board of Directors also sets high business and ethical standards for adoption right across the organisation.

In deciding how best to discharge its responsibilities, the Board upholds a policy of clear demarcation between its role and responsibilities and those of Management. It has defined the level of authority that it retains over strategy formulation and policy determination, and delegated authority and vested accountability for the Bank's day-to-day business in the Assets and Liabilities Management Committee, Credit Committee and in a Management team comprising the:

a. Chief Executive Officer;
b. General Manager; and
c. Chief Officers and other Senior Managers

However, given the limited scope of the Bank's asset spread, the Board itself frequently actively participates in asset allocation decisions as well as credit proposals above a certain amount, after appropriate recommendations from Management. This method of governance enables the Directors to exercise a more independent policy making and monitoring function to enable Management run the Bank with efficiency and effectiveness.

During the year under review, an updated organogram was put into effect and this was structured to better reflect the Bank's positioning in the market place as well as its goals and aspirations.

Board Committees

In order to better delegate its powers, the Board has appointed and established terms of reference for a number of committees.

Asset-Liability Committee

The Asset-Liability Committee (ALCO) monitors the Bank's financial performance, considers investment policy and overseas counterparty limits. It also oversees risk management practices in the Bank's Finance, Treasury and International Divisions, amongst others. Membership consists of senior management including managers from Finance and Treasury. The Chief Executive Officer retains primary responsibility for asset and liability management.

Credit Committee

The Credit Committee considers the development of general lending principles and oversees risk management practices in lending operations. It also takes individual loan decisions within limits delegated by the Board. Membership consists of the Chief Executive Officer and General Manager as well as senior managers engaged in customer lending.

Directors appointed to the Asset-Liability and Credit Committees will become involved in the Bank's decision-making process by virtue of their appointment and are therefore vested with executive powers in those areas that fall within the scope of the particular committee.

Audit Committee

The Audit Committee as approved by the Listing Authority, inter alia, assists the Board in fulfilling its supervisory and monitoring responsibilities by reviewing the financial statements and disclosures, the systems of internal control established by Management and the external and internal audit process. The terms of reference of the Audit Committee ensure that it acts separately and independently of Management. The terms of reference of the Audit Committee comply with the requirements of the Listing

Rules. The Audit Committee is made up of all the non-executive Directors and met six times during 2007. At meetings of the Audit Committee the Bank's Internal Auditor and the External Auditors, KPMG, are requested to attend if considered advisable by the Committee. Members of Management are also invited to attend Audit Committee meetings as deemed necessary by the Committee.

Training

The Bank continues with its programme of training and developing its staff members right across the board since it appreciates the importance of so doing particularly given the fast changing characteristics of the market as well as the attendant regulatory requirements.

Corporate Social Responsibility

The Directors are aware of their obligations towards the community in which the Bank operates. In this regard the Bank takes initiatives from time to time to discharge its corporate social responsibility by contributions to the wellbeing of Maltese society. The Bank's policies and day-to-day operations are continuously monitored in order to ensure integrity of good corporate social responsibility.

Commitment to Shareholders and an Informed Market

The Bank has in place formal procedures for dealing with potentially price-sensitive information and ensuring the proper conduct of its officers and staff in that regard. The procedures are included in a 'Code of Conduct for dealings in securities by Directors, Executives and Employees' which was adopted by the Bank in April 2001 and kept up-to-date since.

The Bank is guided by the relevant Legislation when it comes to the rights of the Minority shareholders.

There are also formal procedures in place for the timely dissemination and publication of information that is potentially price-sensitive, including the publication of the Bank's financial statements. Directors and employees are periodically reminded of their obligations when dealing in securities of the Bank to observe the regulations stipulated by law and as laid down in the Listing Rules of the Listing Authority of the Malta Financial Services Authority.

Communication with shareholders takes place during the Bank's Annual General Meeting or if required at Extraordinary General meetings. Notice for these meetings is provided to shareholders at least fourteen days prior to the meetings and provides the opportunity for shareholders to participate by the use of proxies. A Notice for a shareholders' meeting would contain all resolutions proposed for approval by that meeting. Moreover, business at the Annual General Meeting would include the approval of Annual Report and Audited Financial Statements for the preceding financial year, which would have been circulated to the shareholders with the Notice for the meeting. Other items normally discussed during the Annual General Meeting would include the appointment of Directors and approval of their fees, the appointment of auditors and approval of their fees and the approval of the final dividend to shareholders.

Approved by the Board of Directors on 13 March 2008 and signed on its behalf by:

Christian Lemmerich
Chairman

Joseph Said
Chief Executive Officer

Company Information

Directors' beneficial and non beneficial interests in the share capital of the Bank or in any related company at:

	31 December 2007	4 March 2008	
Michael Zammit	108 shares	108 shares	(Lombard Bank Malta p.l.c.)
Christian Lemmerich	-	1,900 shares	(MaltaPost p.l.c.)

Registered shareholders with 5 per cent or more of the share capital of the Bank:

	31 December 2007	4 March 2008
Marfin Popular Bank Public Co Ltd	-	42.86%
BSI SA	26.69%	-
Societe Bancaire Privee SA	10.07%	-
First Gemini p.l.c.	5.17%	5.17%

Number of shareholders at 31 December 2007 analysed by range:

Range	Total Shareholders	Shares
1 – 500	330	65,269
501 – 1000	159	116,033
1001 – 5000	701	1,417,937
5001 and over	104	7,029,489
Total	**1,294**	**8,628,728**

Number of shareholders at 4 March 2008 analysed by range:

Range	Total Shareholders	Shares
1 – 500	334	66,841
501 – 1000	161	116,714
1001 – 5000	703	1,428,126
5001 and over	98	7,017,047
Total	**1,296**	**8,628,728**

The Bank has one class of shares and each share is entitled to one vote.

Company Information

Board Of Directors

Christian Lemmerich (Chairman)
Joseph M Demajo
Graham A Fairclough
Stefano Loffredi
Gianfilippo Maiga
Joseph Said
Michael Zammit

Company Secretary

Graham A Fairclough

Senior Management

Joseph Said	Chief Executive Officer
Graham A Fairclough	General Manager
Joan Aquilina	Head - Internal Audit
Joseph P Azzopardi	Chief Operating Officer
Victoria Azzopardi	Head - Human Resources
Moira Balzan	Head - Finance
Stefan Berry	Head - Compliance & Risk Management
Anthony Bezzina	Chief Officer - Credit
Anthony Bezzina	Head - Gozo Operations
Peter Bonnici	Head - Organisation & Methods
Julius M Bozzino with effect from May 2008	Chief Officer - Private Banking & Corporate Services
Paul Debono	Head - Legal Services
Eugenio Farrugia	Chief Officer - ICT
George Gusman	Head - Support Services
Edward Pirotta	Head - Premises
Geoffrey Tedesco Triccas	Head - Information Technology
Aurelio Theuma	Chief Financial Officer
Carmel Vassallo	Head - Data Processing Management
Joseph Zammit	Head - Treasury

Registered Office

67 Republic Street, Valletta VLT 1117
Tel: 25581 117

Branches

67 Republic Street, Valletta VLT 1117
Tel: 25581 100

Graham Street, Sliema SLM 1711
Tel: 25581 200

Balzan Valley Road, Balzan BZN 1409
Tel: 25581 500

Paceville Avenue, Paceville STJ 3103
Tel: 25581 400

4 Main Street, Qormi QRM 1100
Tel: 25581 300

Ninu Cremona Street, Victoria Gozo VCT 2561
Tel: 25581 600

Directors' Responsibility for the Financial Statements

The Companies Act, 1995 (the 'Act') requires the directors of Lombard Bank Malta p.l.c. (the 'Bank') to prepare financial statements for each financial year which give a true and fair view of the financial position of the Bank and the Group as at the end of the financial year and of the profit or loss of the Bank and the Group for that period in accordance with the requirements of International Financial Reporting Standards.

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

The Directors are also responsible for safeguarding the assets of the Bank and the Group 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 and the Group establish and maintain 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 and Group'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:

Christian Lemmerich
Chairman

Joseph Said
Chief Executive Officer

LOMBARD

FINANCIAL STATEMENTS

for the period 1 January 2007 to 31 December 2007

2007

Balance Sheet

At 31 December 2007

	Note	Group 2007 Lm 000	Group 2006 Lm 000	Bank 2007 Lm 000	Bank 2006 Lm 000
Assets					
Balances with Central Bank of Malta, treasury bills and cash	15	**32,276**	44,199	**32,276**	44,199
Cheques in course of collection		**957**	592	**957**	592
Derivative financial instruments	16	**-**	2	**-**	2
Investments	17	**23,566**	23,473	**21,929**	23,375
Loans and advances to banks	18	**38,197**	41,206	**35,603**	41,206
Loans and advances to customers	19	**111,740**	90,214	**111,740**	90,214
Investment in equity accounted investee	20	**-**	1,143	**-**	-
Investment in subsidiaries	21	**-**	-	**2,526**	1,275
Intangible assets	22	**553**	-	**-**	-
Property and equipment	23	**4,492**	3,032	**3,319**	3,032
Investment property	24	**320**	151	**320**	151
Assets held-for-sale		**-**	106	**-**	106
Deferred tax assets	25	**882**	398	**797**	398
Inventories	26	**345**	46	**101**	46
Trade receivables and other assets	27	**1,690**	2	**3**	-
Prepayments and accrued income	28	**1,548**	1,256	**1,392**	1,256
Total assets		**216,566**	205,820	**210,963**	205,852
Liabilities					
Amounts owed to banks	29	**316**	218	**316**	218
Amounts owed to customers	30	**179,536**	180,598	**180,167**	180,633
Current tax payable		**704**	489	**512**	489
Provisions for liabilities and other charges	35	**971**	238	**226**	238
Other liabilities	31	**8,771**	3,434	**5,902**	3,424
Accruals and deferred income	32	**2,871**	1,726	**2,055**	1,726
Total liabilities		**193,169**	186,703	**189,178**	186,728

The notes on pages 27 to 91 are an integral part of these financial statements.

Balance Sheet

At 31 December 2007

	Note	Group 2007 Lm 000	Group 2006 Lm 000	Bank 2007 Lm 000	Bank 2006 Lm 000
Equity					
Called up share capital	33	**2,157**	2,133	**2,157**	2,133
Share premium	34	**5,834**	5,364	**5,834**	5,364
Property revaluation reserve	34	**982**	982	**982**	982
Investment revaluation reserve	34	**252**	266	**222**	235
Retained earnings	34	**12,686**	10,343	**12,590**	10,410
Equity attributable to equity holders of the Bank		**21,911**	19,088	**21,785**	19,124
Minority interest		**1,486**	29	**-**	-
Total equity		**23,397**	19,117	**21,785**	19,124
Total liabilities and equity		**216,566**	205,820	**210,963**	205,852
Memorandum items					
Contingent liabilities	35	**2,794**	3,229	**2,794**	3,229
Commitments	36	**26,012**	34,557	**26,012**	34,557

The notes on pages 27 to 91 are an integral part of these financial statements.

The financial statements on pages 18 to 91 were approved by the Board of Directors on 13 March 2008 and signed on its behalf by:

Christian Lemmerich
Chairman

Joseph Said
Chief Executive Officer

Statement of Changes in Equity

For the Year Ended 31 December 2007

Group

	Attributable to equity holders of the Bank								
	Called Up Issued Share Capital Lm 000	Share Premium Lm 000	Other Reserves Lm 000	Property Revaluation Reserve Lm 000	Investment Revaluation Reserve Lm 000	Retained Earnings Lm 000	Total Lm 000	Minority Interest Lm 000	Total Equity Lm 000
At 1 January 2006	2,103	4,877	111	932	314	8,283	16,620	33	16,653
Net gains on available-for-sale assets	-	-	-	-	(21)	-	(21)	1	(20)
Release of net gains on disposal of available-for-sale assets	-	-	-	-	(27)	-	(27)	(6)	(33)
Deferred tax on revalued property	-	-	-	50	-	-	50	-	50
Income and expenses recognised directly in equity	-	-	-	50	(48)	-	2	(5)	(3)
Profit for the year	-	-	-	-	-	2,504	2,504	1	2,505
Transfer of other reserve to retained earnings	-	-	(111)	-	-	111	-	-	-
Dividends payable	-	-	-	-	-	(555)	(555)	-	(555)
Rights issue of ordinary shares	30	487	-	-	-	-	517	-	517
At 31 December 2006	2,133	5,364	-	982	266	10,343	19,088	29	19,117

The notes on pages 27 to 91 are an integral part of these financial statements.

Statement of Changes in Equity

For the Year Ended 31 December 2007

Group

	Attributable to equity holders of the Bank							
	Called Up Issued Share Capital Lm 000	Share Premium Lm 000	Property Revaluation Reserve Lm 000	Investment Revaluation Reserve Lm 000	Retained Earnings Lm 000	Total Lm 000	Minority Interest Lm 000	Total Equity Lm 000
At 1 January 2007	2,133	5,364	982	266	10,343	19,088	29	19,117
Consolidation adjustment	-	-	-	(2)	3	1	-	1
Acquistion of subsidiary	-	-	-	-	-	-	1,450	1,450
Net losses on available-for-sale assets	-	-	-	(10)	-	(10)	(1)	(11)
Release of net gains on disposal of available-for-sale assets	-	-	-	(2)	-	(2)	-	(2)
Income and expenses recognised directly in equity	-	-	-	(14)	3	(11)	1,449	1,438
Profit for the year	-	-	-	-	3,033	3,033	8	3,041
Dividends payable	-	-	-	-	(693)	(693)	-	(693)
Rights issue of ordinary shares	24	470	-	-	-	494	-	494
At 31 December 2007	2,157	5,834	982	252	12,686	21,911	1,486	23,397

The notes on pages 27 to 91 are an integral part of these financial statements.

LOMBARD

Statement of Changes in Equity

For the Year Ended 31 December 2007

Bank

	Called Up Issued Share Capital Lm 000	Share Premium Lm 000	Other Reserves Lm 000	Property Revaluation Reserve Lm 000	Investment Revaluation Reserve Lm 000	Retained Earnings Lm 000	Total Lm 000
At 1 January 2006	2,103	4,877	111	932	268	8,357	16,648
Net gains on available-for-sale assets	-	-	-	-	(23)	-	(23)
Release of net gains on disposal of available-for-sale assets	-	-	-	-	(10)	-	(10)
Deferred tax on revalued property	-	-	-	50	-	-	50
Income and expenses recognised directly in equity	-	-	-	50	(33)	-	17
Profit for the year	-	-	-	-	-	2,497	2,497
Transfer of other reserve to retained earnings	-	-	(111)	-	-	111	-
Dividends payable	-	-	-	-	-	(555)	(555)
Rights issue of ordinary shares	30	487	-	-	-	-	517
At 31 December 2006	2,133	5,364	-	982	235	10,410	19,124

The notes on pages 27 to 91 are an integral part of these financial statements.

Statement of Changes in Equity

For the Year Ended 31 December 2007

Bank

	Called Up Issued Share Capital Lm 000	Share Premium Lm 000	Property Revaluation Reserve Lm 000	Investment Revaluation Reserve Lm 000	Retained Earnings Lm 000	Total Lm 000
At 1 January 2007	**2,133**	**5,364**	**982**	**235**	**10,410**	**19,124**
Net losses on available-for-sale assets	-	-	-	(11)	-	(11)
Release of net gains on disposal of available-for-sale assets	-	-	-	(2)	-	(2)
Income and expenses recognised directly in equity	-	-	-	(13)	-	(13)
Profit for the year	-	-	-	-	2,873	2,873
Dividends payable	-	-	-	-	(693)	(693)
Rights issue of ordinary shares	24	470	-	-	-	494
At 31 December 2007	**2,157**	**5,834**	**982**	**222**	**12,590**	**21,785**

The notes on pages 27 to 91 are an integral part of these financial statements.

Income Statement

For the Year Ended 31 December 2007

	Note	Group 2007 Lm 000	Group 2006 Lm 000	Bank 2007 Lm 000	Bank 2006 Lm 000
Interest receivable and similar income					
- on loans and advances, balances with Central Bank of Malta and treasury bills	5	**11,251**	8,642	**11,248**	8,645
- on debt and other fixed income instruments	5	**1,372**	1,392	**1,372**	1,392
Interest expense		**(5,955)**	(4,770)	**(5,957)**	(4,770)
Net interest income		**6,668**	5,264	**6,663**	5,267
Fee and commission receivable		**515**	487	**506**	480
Fee and commission payable		**(17)**	(14)	**(17)**	(13)
Net fee and commission income		**498**	473	**489**	467
Postal sales and service revenues	6	**521**	-	-	-
Dividend income	7	**40**	34	**40**	34
Net trading income	8	**305**	326	**305**	326
Net gains on disposal of non-trading financial instruments	9	**3**	36	**3**	10
Other operating income		**221**	22	**221**	22
Total operating income		**8,256**	6,155	**7,721**	6,126
Employee compensation and benefits	10	**(1,755)**	(1,275)	**(1,478)**	(1,275)
Other operating costs		**(1,134)**	(778)	**(933)**	(752)
Depreciation and amortisation		**(144)**	(108)	**(119)**	(108)
Provision for liabilities and other charges	35	**(14)**	(10)	**(9)**	(10)
Net impairment losses	11	**(800)**	(122)	**(800)**	(122)
Operating profit		**4,409**	3,862	**4,382**	3,859
Share of profit of equity accounted investee (net of tax)		**157**	5	-	-
Profit before taxation	12	**4,566**	3,867	**4,382**	3,859
Taxation	13	**(1,525)**	(1,362)	**(1,509)**	(1,362)
Profit for the year		**3,041**	2,505	**2,873**	2,497
Attributable to:					
Equity holders of the Bank		**3,033**	2,504	**2,873**	2,497
Minority interest		**8**	1	-	-
		3,041	2,505	**2,873**	2,497
Earnings per share	14	**35c3**	29c5	**33c4**	29c4

The notes on pages 27 to 91 are an integral part of these financial statements.

LOMBARD

Cash Flow Statement

For the Year Ended 31 December 2007

	Group		Bank	
	2007	2006	**2007**	2006
	Lm 000	Lm 000	**Lm 000**	Lm 000
Cash flows from operating activities				
Interest and commission receipts	**10,853**	10,975	**10,853**	10,971
Interest and commission payments	**(5,761)**	(4,722)	**(5,761)**	(4,722)
Payments to employees and suppliers	**(2,329)**	(2,074)	**(2,309)**	(2,047)
Operating profit before changes in operating assets and liabilities	**2,763**	4,179	**2,783**	4,202
(Increase)/decrease in operating assets:				
Treasury bills	**(977)**	7,826	**(977)**	7,826
Deposits with Central Bank of Malta	**(1,904)**	(3,591)	**(1,904)**	(3,591)
Loans and advances to banks and customers	**(19,736)**	(13,747)	**(19,736)**	(13,700)
Other receivables	**(317)**	(164)	**(317)**	(164)
Increase/(decrease) in operating liabilities:				
Amounts owed to customers	**(462)**	14,846	**(466)**	14,881
Other payables	**2,477**	(6)	**2,477**	(6)
Net cash (used in)/from operations	**(18,156)**	9,343	**(18,140)**	9,448
Tax paid	**(1,878)**	(1,097)	**(1,878)**	(1,097)
Net cash (used in)/from operating activities c/f	**(20,034)**	8,246	**(20,018)**	8,351

Cash Flow Statement

For the Year Ended 31 December 2007

		Group		Bank	
	Note	**2007 Lm 000**	2006 Lm 000	**2007 Lm 000**	2006 Lm 000
Net cash (used in)/from operating activities b/f		**(20,034)**	8,246	**(20,018)**	8,351
Cash flows from investing activities					
Dividends received		**40**	22	**40**	22
Interest received from investments		**1,915**	2,067	**1,916**	2,067
Proceeds on maturity/disposal of investments		**1,990**	1,827	**1,990**	1,734
Purchase of investments		**(635)**	(1,800)	**(635)**	(1,800)
Investment in equity accounted investee		**-**	(1,138)	**-**	-
Investment in subsidiary		**-**	-	**(1,250)**	(1,150)
Purchase of property and equipment		**(405)**	(84)	**(405)**	(84)
Acquisition of interest in subsidiary (net of cash acquired)	37	**1,130**	-	**-**	-
Net cash flows from investing activities		**4,035**	894	**1,656**	789
Cash flows from financing activities					
Dividends paid		**(199)**	(38)	**(199)**	(38)
Cash used in financing activities		**(199)**	(38)	**(199)**	(38)
Net (decrease)/ increase in cash and cash equivalents		**(16,198)**	9,102	**(18,561)**	9,102
Cash and cash equivalents at beginning of year		**74,608**	65,506	**74,608**	65,506
Cash and cash equivalents at end of year	38	**58,410**	74,608	**56,047**	74,608

The notes on pages 27 to 91 are an integral part of these financial statements.

Notes to the Financial Statements

For the Year Ended 31 December 2007

1 **Reporting entity**

Lombard Bank Malta p.l.c. ('the Bank') is a limited liability company domiciled and incorporated in Malta.

The consolidated financial statements of the Bank as at and for the year ended 31 December 2007 comprise the Bank and its subsidiary undertakings (together referred to as 'the Group' and individually as 'Group entities') as disclosed in note 21.

2 **Basis of preparation**

2.1 *Statement of compliance*

The consolidated and separate financial statements have been prepared in accordance with the provisions of the Banking Act, 1994 and Companies Act, 1995 enacted in Malta, which requires adherence to International Financial Reporting Standards. In the case of the Group, Article 4 of Regulation 1606/2202/EC ('the Regulation') requires that, for each financial year, companies that at balance sheet date have their securities trading on a regulated market of any EU member state shall prepare consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the EU (EU-endorsed IFRSs). The Regulation prevails over the relevant provisions of the Companies Act, 1995 to the extent that the said provisions are incompatible with the requirements of the Regulation.

EU-endorsed IFRSs may differ from IFRSs as published by the International Accounting Standards Board (IASB) if, at any point in time, new or amended IFRSs have not been endorsed by the EU. At 31 December 2007, there were no unendorsed standards effective for the year ended 31 December 2007 affecting these consolidated and separate financial statements, and there is no difference between IFRSs as endorsed by the EU and IFRSs as issued by the IASB in terms of their application to the Group.

2.2 *Functional and presentation currency and basis of measurement*

The financial statements are presented in Maltese Lira, which currency was the functional currency of the Bank and its subsidiaries at balance sheet date. On 1 January 2008 the functional currency of the Bank and its subsidiaries became the euro consequent upon the adoption of the euro as the currency of Malta. The financial statements are prepared on the historical cost basis except that derivative financial instruments and financial instruments classified as available-for-sale and investment property are stated at their fair value. The methods used to measure fair values are discussed further in note 4.

2.3 *Use of estimates and judgments*

The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and reported amounts of assets and 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 estimate is revised and in any future periods affected.

2 **Basis of preparation** *(continued)*
2.3 *Use of estimates and judgments (continued)*

In particular, information about significant areas of estimated, uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described in note 42.

3 **Significant accounting policies**

3.1 *Basis of consolidation*

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

3.1.1 Subsidiaries

Subsidiaries are those entities controlled by the Bank. Control exists when the Bank has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Bank.

3.1.2 Associates

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the Group holds between 20 and 50 per cent of the voting power of another entity. Associates are accounted for using the equity method (equity accounted investees) and are initially recognised at cost. The Group's investment includes goodwill identified on acquisition, net of any accumulated impairment losses. The consolidated financial statements include the Group's share of the income and expenses and equity movements of equity accounted investees, after adjustments to align the accounting policies with those of the Group, from the date that significant influence commences until the date that significant influence ceases. When the Group's share of losses exceeds its interest in equity accounted investee, the carrying amount of that interest (including any long-term investments) is reduced to nil and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investee.

3.1.3 Fund management

The Group manages and administers investment vehicles on behalf of investors. The financial statements of these entities are not included in these financial statements, except when the Group controls the entity.

3 **Significant accounting policies** *(continued)*
3.1 *Basis of consolidation (continued)*

3.1.4 Transactions eliminated on consolidation

Intra-Group balances and any unrealised gains and losses or income and expenses arising from intra-Group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with associates are eliminated to the extent of the Group's interest in the entity. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

3.2 *Financial instruments*

3.2.1 Non-derivative financial instruments

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 and cash equivalents comprise cash balances and deposits with contractual maturity of less than three months. Amounts owed to banks that are repayable on demand or have a contractual maturity of three months or less and which form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the cash flow statement. Subsequent to initial recognition cash equivalents are measured at amortised cost. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

Accounting for finance income and expense is discussed in accounting policy 3.14.

3.2.1.1 Held-to-maturity investments

If the Group has the positive intent 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.

3.2.1.2 Available-for-sale financial assets

The Group's investments in equity securities and certain debt 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 (see accounting policy 3.10) and foreign exchange gains and losses on available-for-sale monetary items (see accounting policy 3.21) are recognised directly in equity. When an investment is derecognised, the cumulative gain or loss in equity is transferred to profit or loss.

3 **Significant accounting policies** *(continued)*
3.2 *Financial instruments (continued)*
3.2.1 Non-derivative financial instruments *(continued)*

3.2.1.3 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 (see accounting policy 3.10).

3.2.1.4 Financial assets at fair value through profit or loss

Financial assets or financial liabilities at fair value through profit or loss are financial assets that are either classified as held for trading or upon initial recognition are designated by the Group at fair value through profit or loss, except for investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured.

Financial instruments are designated at fair value through profit or loss if the Group manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Group's documented risk management or investment strategy. Upon initial recognition attributable transaction costs are recognised in profit or loss when incurred. Financial instruments at fair value through profit or loss are measured at fair value, and changes therein are recognised in profit or loss. Fair values obtained from quoted market prices in active markets, or by using valuation techniques, including recent market transactions, where an active market does not exist. Valuation techniques include discounted cash flow models and option pricing models as appropriate. All derivatives are classified as assets when their fair value is positive or as liabilities when their fair value is negative.

3.2.2 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 Group or substantially all the risks and rewards of ownership have been transferred by the Group.

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

Assets designated by the Group at fair value through profit or loss and 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 Group commits to sell the assets.

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

3 **Significant accounting policies** *(continued)*

3.3 *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.

Income and expenses are presented on a net basis only when permitted by the accounting standards or for gains and losses arising from a Group of similar transactions.

3.4 *Investments in subsidiaries and associates*

Investments in subsidiaries and associates are shown in the separate balance sheet at cost less impairment losses (see accounting policy 3.10).

3.5 *Property and equipment*

3.5.1 Recognition and measurement

Items of property and equipment are measured at cost or fair value less accumulated depreciation (see accounting policy 3.5.3) and accumulated impairment losses (see accounting policy 3.10).

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.

3.5.2 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 Group 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 **Significant accounting policies** *(continued)*
3.5 *Property and equipment (continued)*

3.5.3 Depreciation

Depreciation is charged to profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property and equipment. Land is not depreciated. The estimated useful lives are as follows:

	Years
Buildings	100
Leasehold property	over period of lease
Computer equipment	4
Other	4 – 8

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

3.6 *Intangible assets*

3.6.1 Goodwill

Goodwill arises on the acquisition of subsidiary and represents the excess of the cost of the acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquiree. When the excess is negative (negative goodwill), it is recognised immediately in profit or loss.

Subsequent measurement

Goodwill is measured at cost less any accumulated impairment losses (see accounting policy 3.10). In respect of equity accounted investees, the carrying amount of goodwill is included in the carrying amount of the investment.

3.6.2 Other intangible assets

Other intangible assets of the Group comprise postal licence. Intangible assets that are acquired by the Group and which have a definite useful life are measured at cost less accumulated amortisation and accumulated impairment losses. Amortisation is calculated using the straight-line method to allocate the cost of intangible assets over their estimated useful life.

3.7 *Investment property*

Property held for long-term rental yields that is not occupied by the Group is classified as investment property.

Investment property comprises leasehold land and buildings and is carried at fair value with changes therein recognised in profit or loss in the period of change. Fair value is based on active market rent prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. The valuation is based on the aggregate of the net annual rents receivable from the properties and, where relevant associated costs. Valuations are reviewed annually by the Bank's legal department.

3 **Significant accounting policies** *(continued)*

3.8 *Trade receivables*

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the company will not be able to collect all amounts due according to the original terms of debts. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in profit or loss.

3.9 *Inventories*

Inventories are measured at the lower of cost and net realisable value. The cost of postal stationery is determined by the standard cost method, inventories for resale at actual cost, and other inventory items at cost on a first-in first-out method. Net realisable value is the estimate of the selling price in the ordinary course of business, less the costs of completion and selling expenses.

3.10 *Impairment*

The carrying amounts of the Group's assets, other than investment property (see accounting policy 3.7) and deferred tax assets (see accounting policy 3.22), are reviewed at each balance sheet date to determine whether there is objective evidence of impairment.

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 (see below).

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 **Significant accounting policies** *(continued)*

3.10 *Impairment (continued)*

3.10.1 Assets carried at amortised cost

The recoverable amount of the Group'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 Group 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.

3.10.2 Financial assets remeasured to fair value

The recoverable amount of an equity instrument is its fair value. The recoverable amount of debt instruments remeasured to fair value represents the present value of expected future cash flows discounted at the current market rate of interest.

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 **Significant accounting policies** *(continued)*
3.10 *Impairment (continued)*

3.10.3 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.

3.10.4 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.

An impairment loss in respect of an investment in an equity instrument classified as available-for-sale is not reversed through profit or loss. If the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss shall be reversed, with the amount of the reversal recognised in profit or loss.

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.

An impairment loss 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.

3.11 *Amounts owed to bank and customers*

Amounts owed to banks and customers are initially measured at fair value plus transaction costs, and subsequently measured at their amortised cost using the effective interest method.

3.12 *Provisions*

A provision is recognised if, as a result of a past event, the Group 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 **Significant accounting policies** *(continued)*

3.13 *Financial guarantees*

Financial guarantees are contracts that require the Group to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Financial guarantee liabilities are initially recognised at their fair value, and the initial fair value is amortised over the life of the financial guarantee. The guarantee liability is subsequently carried at the higher of this amortised amount and the present value of any expected payment (when a payment under the guarantee has become probable). Financial guarantees are included within other liabilities.

3.14 *Interest*

Interest income and expense are recognised in profit or loss using the effective interest method. The effective interest rate is that 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 fees and basis points paid or received, 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 basis; and
- interest on available-for-sale investment securities on an effective interest basis.

All borrowing costs are recognised in profit or loss using the effective interest method.

3.15 *Fee and commission*

Fee and commission income and expense 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 fee 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 fee and commission expense relates mainly to transaction and service fees, which are expensed as the services are received.

3 **Significant accounting policies** *(continued)*

3.16 *Postal sales and service revenue*

Revenue comprises the fair value of the consideration received or receivable for the sale of services in the ordinary course of a subsidiary's activities. Revenue is shown net of sales taxes and discounts. It comprises revenue directly received from customers, commissions earned on postal and non-postal transactions and income from foreign outbound mail receivable from overseas postal administrations.

Income from sale of stamps, commission earned on postal and non-postal transactions and from foreign outbound mail from overseas postal administrations is recognised when the service is rendered. Allowance is made for the assessed amount of revenue from prepaid product sales at balance sheet date for which the service has not yet been provided. In the case of services rendered to postal administrations in countries subject to severe exchange control restrictions and undue delays in settlement, revenue is not recognised until the Group is in a position to ensure that the economic benefits associated with the transaction will flow to it, which is often upon or shortly before actual receipt.

3.17 *Net trading income*

Net trading income comprises fair value movements on derivative financial instruments and foreign exchange differences which are recognised in profit or loss.

3.18 *Dividends*

Dividend income is recognised in profit or loss on the date that the Group's right to receive payment is established, which in the case of quoted securities is the ex-dividend date.

3.19 *Lease payments*

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Contingent lease payment are accounted for by revising the minimum lease payments over the remaining term of the lease when the lease adjustment is confirmed.

3.20 *Employee benefits*

3.20.1 Defined contribution plan

The Group 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 **Significant accounting policies** *(continued)*
3.20 *Employee benefits (continued)*

3.20.2 Defined benefit plan

For defined benefit plans, the pension accounting costs are assessed using the projected unit credit method. Under this method, the cost of providing pensions is charged to profit or loss so as to spread the regular cost over the years of service giving rise to entitlement to benefits in accordance with actuarial techniques. The pension obligation is measured as the present value of the estimated future cash outflows using interest rates of long term government bonds which have terms to maturity approximating the terms of the related liability. All actuarial gains and losses are spread forward over the average remaining service lives of employees.

3.21 *Foreign currency transactions*

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to Maltese Lira 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 to Maltese Lira at foreign exchange rates ruling at the dates the fair values were determined.

3.22 *Income tax*

Income tax 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 provided 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 a 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.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised and/or sufficient taxable temporary differences are available. Deferred tax assets are reviewed at each reporting date and reduced to the extent that it is no longer probable that the related tax benefit will be realised. Additional income taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend is recognised.

3 **Significant accounting policies** *(continued)*

3.23 *Segment reporting*

A segment is a distinguishable component of the Group that is engaged either in providing products or services to certain customer groups (business segment), or in providing products or services within a particular economic environment (geographic segment), which is subject to risks and rewards that are different from those of other segments.

3.24 *Non-current assets held-for-sale*

Immediately before classification as held-for-sale, the measurement of the assets is brought up to date in accordance with applicable IFRS. Upon initial classification as held-for-sale, non-current assets and disposal groups are recognised at the lower of carrying amount and fair value less cost to sell.

Impairment losses on initial classification as held-for-sale are charged to profit or loss. Gains and losses on subsequent re-measurement are also included in profit or loss.

3.25 *Future accounting developments*

A number of new standards, amendments to standards and interpretations were not yet effective for the year ended 31 December 2007 and have not been applied in preparing these financial statements.

Standards and interpretations issued by the IASB

- IFRS 8 *Operating Segments* is effective for annual periods beginning on or after 1 January 2009. This standard specifies how an entity should report information about its operating segments, based on information about the components of the entity that management uses to make operating decisions. The Group currently presents two segments which reflect the way the business of the Group is managed. The Group currently expects to adopt IFRS 8 with effect from 1 January 2009, and will accordingly present segmental information which reflects the operating segments used to make operating decisions at the time.

3 **Significant accounting policies** *(continued)*

3.25 *Future accounting developments (continued)*

- IAS 1 *Presentation of Financial Statements* (as revised in 2007) requires all owner changes in equity to be presented in a statement of changes in equity and all non-owner changes in equity to be presented either in one statement of comprehensive income or in two statements (a separate income statement and statement of comprehensive income). It requires the presentation of a statement of financial position as at the beginning of the earliest comparative period in a complete set of financial statements when an entity applies an accounting policy retrospectively or makes a retrospective restatement, or when an entity reclassifies items in the financial statements. Revised IAS 1, which becomes mandatory for the Group's 2009 financial statements, also requires the disclosure of reclassification adjustments and income tax relating to each component of other comprehensive income and the presentation of dividends recognised as distributions to owners and related amounts per share in the statement of changes in equity or in the notes.

- IAS 23 *Borrowing Costs* removes the option to expense borrowing costs and requires that an entity capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. The revised IAS 23 will become mandatory for the Group's 2009 financial statements and will constitute a change in accounting policy for the Group. In accordance with the transitional provisions the Group will apply the revised IAS 23 to qualifying assets for which capitalisation of borrowing costs commences on or after the effective date.

4 **Financial risk management**

4.1 *Organisation*

The Board of Directors is responsible for ensuring that adequate processes and procedures exist to ensure effective internal control systems for the Group. These internal control systems ensure that decision-making capability and the accuracy of the reporting and financial results are maintained at a high level at all times. The Board assumes responsibility for:

- setting business objectives, goals and the general strategic direction for Management with a view to maximise value;
- selecting and appointing the Chief Executive Officer who is entrusted with the day-to-day operations of the Group;
- management of the Group's operations, as well as members of Management;
- ensuring that significant business risks are identified and appropriately managed; and
- setting the highest business standards and code for ethical behaviour, and monitoring their performance.

4 **Financial risk management** *(continued)*

4.1 *Organisation (continued)*

In deciding how best to discharge its responsibilities, the Board upholds a policy of clear demarcation between its role and responsibilities and those of Management. It has defined the level of authority that it retains over strategy formulation and policy determination, and delegated authority and vested accountability for the Bank's day-to-day business in the Asset-Liability Committee, Credit Committee and, for the Group's day to day operations, in an Executive Team comprising the Chief Executive Officer, General Manager and Chief Officers.

In order to better delegate its powers, the Board has appointed and established terms of reference for a number of committees.

The Asset-Liability Committee (ALCO) monitors the Bank's financial performance, considers investment policy and oversees counterparty limits. It also oversees risk management practices in the Bank's Finance, Treasury and International Divisions, amongst others. Membership consists of senior management including managers from Finance and Treasury. The Chief Executive Officer retains primary responsibility for asset and liability management.

The Credit Committee considers the development of general lending principles and oversees risk management practices in lending operations. It also takes individual loan decisions within limits delegated by the Board. Membership consists of the Chief Executive Officer and General Manager as well as senior managers engaged in customer lending.

The Audit Committee, inter alia, assists the Board in fulfilling its supervisory and monitoring responsibilities by reviewing the Group's financial statements and disclosures, the systems of internal control established by Management and the external and internal audit processes. The terms of reference of the Audit Committee ensure that it acts separately and independently of Management. The Audit Committee is made up of all the non-executive Directors. At meetings of the Audit Committee the Bank's Internal Auditor and the External Auditors are requested to attend if considered advisable by the Committee. Members of Management are also invited to attend Audit Committee meetings as deemed necessary by the Committee.

4.1.1 Internal control

Authority to operate the Bank and its subsidiaries is delegated to the Chief Executive Officer within the limits set by the Board. The Board is ultimately responsible for the Group's system of internal control and for reviewing its effectiveness. Such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can provide only reasonable, and not absolute, assurance against material misstatement or loss. Through the Board Committees, the Board reviews the processes and procedures to ensure the effectiveness of the Group's system of internal control.

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

4 **Financial risk management** *(continued)*
4.1 *Organisation (continued)*
4.1.1 Internal control *(continued)*

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

4.1.2 Reporting

The Group allocates considerable resources in ensuring the ongoing compliance with approved credit limits and to monitor its credit portfolio. In particular, the Bank has a fixed reporting cycle to ensure that the relevant management bodies, including the Board of Directors and the Executive Team, are kept informed on an ongoing basis of developments in the credit portfolio, non-performing loans and other relevant information.

4.1.3 Risk appetite

Risk appetite is basically the maximum risk that Lombard Group is willing to assume to meet business targets. To ensure coherence between the Group's strategic considerations regarding risk-taking and day-to-day decisions, from time to time, the Group will be establishing risk appetite as a strategic tool. The Group's risk appetite is set in a process based on a thorough analysis of its current risk profile. The Group identifies a number of key risk components and for each, determines a target that represents the Group's perception of the component in question. These are the key risk components:

- Financial strength
- External ratings
- Earnings robustness
- Core markets
- Credit risk
- Concentration risk
- Market risk
- Liquidity risk
- Operational risk
- Compliance

4.2 *Risk exposure*

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

The main categories of risk are:

- *Credit risk:* Risk that deterioration in the financial condition of a borrower will cause the asset value to decrease or be extinguished. Country risk and settlement risk are included in this category. Country risk refers to the risk of losses arising from economic or political changes that affect the country in which the loan is booked. Settlement risk refers to the risk of losses through failure of the counter-party to settle outstanding dues on the settlement date owing to bankruptcy or other causes.

- *Market risk:* Risk of losses arising from unfavourable changes in the level and volatility of interest rates, foreign exchange rates or investment prices.

4 **Financial risk management** *(continued)*
4.2 *Risk exposure (continued)*

- *Liquidity risk:* Liquidity risk is divided into two sub-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 raising activities resulting in obligations missing the settlement date or satisfied at higher than normal rates.

- *Operational risk:* Risk of damage resulting from the lack of skillful management or good governance within the Group and the inadequacy of proper control, which might involve internal operations, personnel, the system or external occurrences that in turn affect the income and capital funds of financial institutions.

4.3 *Capital base*

The Bank is a licensed financial services provider and must therefore comply with the capital requirements under the relevant capital requirements laws and regulations. Maltese law and regulations on capital adequacy are largely based on EU capital requirements directives.

4.3.1 Capital management

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

The Group's capital management is based on the regulatory requirements established by local laws and regulations which are modelled on the requisites of the European Union Directive on Capital Requirements ('CRD'). The Standardised Approach under the new CRD to calculate the capital requirement was formally adopted by the Group on 1 April 2007. The CRD consists of three pillars: Pillar I contains a set of rules for a mathematical calculation of the capital requirement; Pillar II describes the supervisory review process and contains requirements for the internal calculation of the capital requirement whilst Pillar III deals with market discipline and sets forth disclosure requirements for risk and capital management. The sum of the capital requirement calculated under Pillar I and the additional requirement identified under Pillar II represents the total capital required under the CRD. The following is the Bank's Capital Base in accordance with CRD rules:

4 **Financial risk management** *(continued)*
4.3 *Capital base (continued)*
4.3.1 Capital management *(continued)*

Bank

	2007	2006
	Lm 000	Lm 000
Total original own funds	**20,581**	17,907
Additional own funds:		
Property revaluation reserve	**982**	982
Collective impairment allowances	**575**	528
Total own funds	**22,138**	19,417

4.3.1.1 Calculation of minimum capital requirements 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 per cent.

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 per cent) and adding the resulting figures to the sum of risk-weighted assets for credit risk.

4 **Financial risk management** *(continued)*
4.3 *Capital base (continued)*
4.3.1 Capital management *(continued)*
4.3.1.1 Calculation of minimum capital requirements and risk-weighted assets *(continued)*

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

Bank

	Balance sheet value 2007 Lm 000	Weighted amount 2007 Lm 000	Capital requirement 2007 Lm 000
On-balance sheet assets			
Balances with Central Bank of Malta, treasury bills and cash	32,276	-	-
Cheques in course of collection	957	191	15
Loans and advances to banks	35,603	7,121	570
Loans and advances to customers	111,740	101,551	8,124
Equity securities	944	557	45
Debt and other fixed income instruments	20,985	2,822	226
Shares in subsidiary companies	2,526	2,526	202
Property and equipment	3,319	3,319	266
Other assets	1,221	1,221	97
Prepayments and accrued income	1,392	1,392	111
	210,963	120,700	9,656
Off-balance sheet assets			
Contingent liabilities and commitments	28,806	8,184	655
Credit risk capital requirements		128,884	10,311
Foreign exchange risk capital requirement		275	22
Operational risk capital requirement		10,237	819
Total capital requirement		139,396	11,152
Original own funds			20,581
Additional own funds			1,557
Gross own funds			22,138
Deductions			-
Total own funds			22,138
Capital adequacy ratio			15.9%

4 **Financial risk management** *(continued)*
4.3 *Capital base (continued)*
4.3.1 Capital management *(continued)*
4.3.1.1 Calculation of minimum capital requirements and risk-weighted assets *(continued)*

Bank

	Balance sheet value 2006 Lm 000	Weighted amount 2006 Lm 000	Capital requirement 2006 Lm 000
On-balance sheet assets			
Balances with Central Bank of Malta, treasury bills and cash	44,199	-	-
Cheques in course of collection	592	118	9
Derivative financial instruments	2	2	-
Loans and advances to banks	41,206	8,436	675
Loans and advances to customers	90,214	81,917	6,553
Equity securities	747	350	28
Debt and other fixed income instruments	22,628	2,431	194
Shares in subsidiary companies	1,275	1,275	102
Property and equipment	3,032	3,032	244
Other assets	701	701	56
Prepayments and accrued income	1,256	1,256	100
	205,852	99,518	7,961
Off-balance sheet assets			
Contingent liabilities and commitments	37,786	10,488	839
Credit risk capital requirements		110,006	8,800
Foreign exchange risk capital requirement		388	31
Operational risk capital requirement		9,350	748
Total capital requirement		119,744	9,579
Original own funds			17,907
Additional own funds			1,510
Gross own funds			19,417
Deductions			-
Total own funds			19,417
Capital adequacy ratio			16.2%

4 **Financial risk management** *(continued)*

4.4 *Credit risk*

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss.

Credit risk constitutes the Group's largest risk in view of its significant lending and securities portfolios, which are monitored in several ways. The Group aims to develop long-term relationships with its customers. The granting of a credit facility is based on the Group's insight into the customer's financial position, which is reviewed regularly to assess whether the basis for the granting of credit has changed. Furthermore, the customer must be able to demonstrate, in all probability, the ability to repay the debt. Approval limits are graded starting from branch managers and leading up to the Credit Committee and the Board of Directors depending on the size and the particular risk attached to the loan. All loans are adequately secured either by property and/or guarantees and are reviewed periodically by management both in terms of the exposure to the Group and to ensure that security is still valid.

4.4.1 Maximum exposure to credit risk

The Group's maximum exposure to credit risk 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 balances with Central Bank of Malta, treasury bills and cash, cheques in course of collection, financial assets at fair value through profit or loss, financial investments, loans and advances and acceptances and endorsements. The maximum exposure of these financial assets to credit risk, equals their carrying amount.
- Financial guarantees granted. The maximum exposure to credit risk is the full amount that the Group would have to pay if the guarantees are called upon.
- Loan commitments and other credit related commitments 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 Exposure analysed by industry

The Bank ensures that it has a reasonable sectorial mix of loans, mitigating the higher risk industries by charging higher interest rates thereto. The following industry concentrations relating to loans and advances to customers, gross of impairment allowances, are considered significant.

4 **Financial risk management** *(continued)*
4.4 *Credit risk (continued)*

Group/Bank

	2007	2006
	Lm 000	Lm 000
Transport, storage and communication	**2,258**	1,669
Financial intermediation	**291**	213
Agriculture	**404**	199
Manufacturing	**2,496**	2,915
Construction	**33,276**	24,723
Hotel and restaurants, excluding related construction activities	**2,113**	3,117
Wholesale and retail trade; repairs	**19,653**	14,692
Community, recreational and personal service activities	**5,948**	5,393
Education	**1,464**	1,777
Health and social work	**76**	98
Mining and quarrying	**359**	273
Electricity, gas and water supply	**11**	20
Real estate, renting and business activities	**33,699**	27,699
Households and individuals	**12,845**	10,688
Gross loans and advances to customers	**114,893**	93,476

4.4.3 Exposure on debt securities, other fixed income instruments and equity instruments

The Group holds debt instruments that are either issued by local government, local banks or other financially strong corporate entities. All such counterparties are listed on the Malta Stock Exchange. Similarly, all of the equity instruments held by the Group comprise securities that are listed locally.

4.4.4 Collateral

The Group applies various measures to reduce the risk on individual transactions, including collateral in the form of physical assets and guarantees. The most important instruments utilised to reduce risk are charges against real property and personal guarantees.

4 **Financial risk management** *(continued)*
4.4 *Credit risk (continued)*
4.4.4 Collateral *(continued)*

The following is an analysis of the fair value of collateral held as security and other credit enhancements:

Group/Bank

	2007 **Lm 000**	2006 Lm 000
Against individually impaired		
Immovable property	**6,659**	5,322
Cash or quasi cash	**125**	116
Personal guarantees	**16**	16
Other security	**7**	21
	6,807	5,475
Against neither past due nor impaired		
Immovable property	**50,744**	40,281
Cash or quasi cash	**3,971**	4,650
Prime bank guarantees	**940**	833
Personal guarantees	**3,511**	170
Other security	**1,128**	879
	60,294	46,813
Against past due but not impaired		
Immovable property	**17,303**	16,429
Cash or quasi cash	**503**	546
Personal guarantees	**2,305**	248
Other security	**33**	68
	20,144	17,291
	87,245	69,579

4.4.5 Impaired loans and advances

Impaired loans and advances are advances 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 loans and advances agreement(s). These loans and advances are graded Regular, Watch, Substandard, Doubtful and Loss.

4 **Financial risk management** *(continued)*
4.4 *Credit risk (continued)*
4.4.5 Impaired loans and advances *(continued)*

The following table provides a detailed analysis of the credit quality of the Group's lending portfolio.

Group/Bank

Analisis by credit quality

	2007	2006
	Lm 000	Lm 000
Gross loans and advances		
Impaired	**7,771**	6,870
Past due but not impaired	**21,478**	19,834
Neither past due nor impaired	**85,644**	66,772
	114,893	93,476
Analysis of neither past due nor impaired		
Regular	**85,644**	66,772
Analysis of past due but not impaired		
Watch	**5,418**	5,735
Substandard	**16,060**	14,099
	21,478	19,834

4.4.6 Past due but not impaired loans

Past due but not impaired loans comprise loans and advances where interest or principal payments are past due, but the Bank believes that impairment is not appropriate on the basis of the level of security available and/or the stage of collection of amounts owed to the Bank.

The past due ageing analysis is shown in the table below. Related credit losses which may arise are partly covered by collective impairment allowances.

Group/Bank

	2007	2006
	Lm 000	Lm 000
Past due up to 29 days	**969**	3,222
Past due 30 to 59 days	**5,590**	5,735
Past due 60 to 89 days	**2,976**	2,598
Past due 90 to 179 days	**2,815**	-
Past due over 180 days	**9,128**	8,279
	21,478	19,834

4 **Financial risk management** *(continued)*
4.4 *Credit risk (continued)*

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.

4.4.8 Allowances for impairment

The Bank establishes an allowance for impairment losses that represents its estimate of incurred losses on its loans and advances portfolio. The main components of this allowance are specific loss allowances that relate to individually significant exposures, and a collective loss allowance established for Groups of loans and advances in respect of losses that have not been identified and subjected to individual assessment for impairment.

4.4.9 Write-off policy

The Bank writes-off loans or advances balances (and any related allowances for impairment losses) when it determines that these are uncollectible. This decision is reached after considering information such as the occurrence of significant changes in the borrower's financial position such that the borrower can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure.

4.5 *Market risk*

Market risk for the Group consists of four 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 Group's positions in foreign currency because of changes in exchange rates.
- Investments price risk, which is the risk of losses because of changes in investments prices.
- Credit spread risk, which is the risk of losses because of changes in credit spreads.

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 Group'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 Group 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 Group 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 below summarises re-pricing mismatches at balance sheet date together with the effective interest rates where applicable.

4 **Financial risk management** *(continued)*
4.5 *Market risk (continued)*
4.5.1 Interest rate risk *(continued)*

Group

	2007 Lm 000	Effective interest rate %	Less than 3 months Lm 000	Between 3 months and 1 year Lm 000	Between 1 year and 5 years Lm 000	More than 5 years Lm 000	Others Lm 000
Assets							
Balances with Central Bank of Malta, treasury bills and cash	**32,276**	4.17	29,111	1,882	-	-	1,283
Cheques in course of collection	**957**	-	-	-	-	-	957
Derivative financial instruments	**-**	-	-	-	-	-	-
Debt and other fixed income instruments							
- available-for-sale	**2,491**	5.81	-	-	156	2,335	-
- held-to-maturity	**20,029**	6.20	-	-	1,700	18,329	-
Equity instruments							
- available-for-sale	**1,046**	-	-	-	-	-	1,046
Loans and advances to banks	**38,197**	4.70	37,282	915	-	-	-
Loans and advances to customers	**111,740**	7.05	40,848	3,456	36,285	31,151	-
Other assets	**9,830**	-	-	-	-	-	9,830
Total assets	**216,566**		107,241	6,253	38,141	51,815	13,116
Liabilities							
Amounts owed to banks	**316**	-	-	-	-	-	316
Amounts owed to customers	**179,536**	4.41	66,370	73,927	29,608	4,234	5,397
Other liabilities	**13,317**	-	-	-	-	-	13,317
Total liabilities	**193,169**		66,370	73,927	29,608	4,234	19,030
Called up share capital	**2,157**	-	-	-	-	-	2,157
Share premium	**5,834**	-	-	-	-	-	5,834
Property revaluation reserve	**982**	-	-	-	-	-	982
Investment reserve	**252**	-	-	-	-	-	252
Retained earnings	**12,686**	-	-	-	-	-	12,686
Equity attributable to equity holders of the Bank	**21,911**		-	-	-	-	21,911
Minority interest	**1,486**		-	-	-	-	1,486
Total equity	**23,397**		-	-	-	-	23,397
Total liabilites and equity	**216,566**		66,370	73,927	29,608	4,234	42,427
Gap			40,871	(67,674)	8,533	47,581	(29,311)
Cumulative Gap			40,871	(26,803)	(18,270)	29,311	-

4 **Financial risk management** *(continued)*
4.5 *Market risk (continued)*
4.5.1 Interest rate risk *(continued)*

Group

	2006 Lm 000	Effective interest rate %	Less than 3 months Lm 000	Between 3 months and 1 year Lm 000	Between 1 year and 5 years Lm 000	More than 5 years Lm 000	Others Lm 000
Assets							
Balances with Central Bank of Malta, treasury bills and cash	44,223	3.71	43,411	-	-	-	812
Cheques in course of collection	592	-	-	-	-	-	592
Derivative financial instruments	2	-	-	2	-	-	-
Debt and other fixed income instruments							
- available-for-sale	1,009	6.23	-	-	-	1,009	-
- held-to-maturity	21,619	6.48	-	-	1,700	19,919	-
Equity instruments							
- available-for-sale	845	-	-	-	-	-	845
Loans and advances to banks	41,206	4.48	38,347	2,859	-	-	-
Loans and advances to customers	90,214	6.71	42,728	877	20,664	25,945	-
Other assets	6,110	-	-	-	-	-	6,110
Total assets	205,820		124,486	3,738	22,364	46,873	8,359
Liabilities							
Amounts owed to banks	218	-	-	-	-	-	218
Amounts owed to customers	180,598	2.92	81,434	58,194	34,457	1,667	4,846
Other liabilities	5,887	-	-	-	-	-	5,887
Total liabilities	186,703		81,434	58,194	34,457	1,667	10,951
Called up share capital	2,133	-	-	-	-	-	2,133
Share premium	5,364	-	-	-	-	-	5,364
Other reserves	-	-	-	-	-	-	-
Property revaluation reserve	982	-	-	-	-	-	982
Investment reserve	266	-	-	-	-	-	266
Retained Earnings	10,343	-	-	-	-	-	10,343
Equity attributable to equity holders of the Bank	19,088		-	-	-	-	19,088
Minority interest	29		-	-	-	-	29
Total equity	19,117		-	-	-	-	19,117
Total liabilities and equity	205,820		81,434	58,194	34,457	1,667	30,068
Gap			43,052	(54,456)	(12,093)	45,206	(21,709)
Cumulative Gap			43,052	(11,404)	(23,497)	21,709	-

4 **Financial risk management** *(continued)*
4.5 *Market risk (continued)*
4.5.1 Interest rate risk *(continued)*

4.5.1.1 Interest rate profile

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

Group

	2007	2006
	Lm 000	Lm 000
Fixed rate instruments		
Financial assets	**21,614**	20,661
Financial liabilities	**(23,617)**	(23,658)
	(2,003)	(2,997)
Variable rate instruments		
Financial assets	**181,836**	176,799
Financial liabilities	**(150,919)**	(152,093)
	(30,917)	(24,706)

4.5.1.2 Fair value sensitivity analysis for fixed rate instruments

The Group does not account for any fixed rate financial assets and liabilities at fair value through profit or loss, and the Group does not designate derivatives (forwards) as hedging instruments under a hedge accounting model. 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

A change of 100 basis points in interest rates at the reporting date would have increased/(decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis for 2006.

Group

	Profit or loss		**Equity**	
	100 bp increase Lm 000	**100 bp decrease Lm 000**	**100 bp increase Lm 000**	**100 bp decrease Lm 000**
At 31 December 2007	**519**	**(519)**	**519**	**(519)**
At 31 December 2006	450	(450)	450	(450)

4 **Financial risk management** *(continued)*
4.5 *Market risk (continued)*

4.5.2 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 Group manages this risk using various techniques. In the majority of cases, the Group covers this risk by ensuring that its foreign currency denominated liabilities are matched with corresponding assets in the same currency.

Following the adoption of the euro as the national currency in Malta on 1 January 2008, at the central parity rate of €1 = Lm0.4293, the net open position of the Maltese Lira does not exist as from this date. As a result the open positions in Maltese Lira and euro are offset.

The Group maintains its exposure to foreign currencies within prescribed limits set by the Bank's ALCO. Any changes in foreign currency exchange rates on the positions at 31 December 2007 will not have any material impact on the Group's profit or loss and equity.

Under the scenario that all currencies move adversely against the Maltese Lira and the euro by 20 per cent the effect would be a decrease of Lm5,000 in the fair value of financial instruments. Under a scenario that all currencies move in favour of the Maltese Lira and the euro by 20 per cent the effect would be a gain of Lm5,000 in the fair value of financial instruments.

The following tables summarise the Group's exposure to currency risk. Included in the tables are the Group's assets and liabilities at carrying amounts categorised by currency.

4 **Financial risk management** *(continued)*
4.5 *Market risk (continued)*
4.5.2 Currency risk *(continued)*

Group

	2007 Total Lm 000	**2007 Lm 000**	**2007 € 000**	**2007 £ 000**	**2007 $ 000**	**2007 Other 000**
Assets						
Balances with Central Bank of Malta, treasury bills and cash	**32,276**	31,963	264	19	25	5
Cheques in course of collection	**957**	957	-	-	-	-
Investments	**23,566**	23,145	105	-	316	-
Loans and advances to banks	**38,197**	2,737	9,023	9,767	11,557	5,113
Loans and advances to customers	**111,740**	103,478	6,726	73	1,463	-
Intangible assets	**553**	553	-	-	-	-
Property and equipment	**4,492**	4,492	-	-	-	-
Investment property	**320**	320	-	-	-	-
Deferred tax assets	**882**	882	-	-	-	-
Inventories	**345**	345	-	-	-	-
Trade Receivables and other assets	**1,690**	1,690	-	-	-	-
Prepayments and accrued income	**1,548**	1,342	123	41	41	1
Total assets	**216,566**	171,904	16,241	9,900	13,402	5,119
Liabilities						
Amounts owed to banks	**316**	316	-	-	-	-
Amounts owed to customers	**179,536**	135,575	16,033	9,729	13,093	5,106
Current tax payable	**704**	704	-	-	-	-
Provisions for liabilities and other charges	**971**	793	-	-	178	-
Other liabilities	**8,771**	8,512	103	97	36	23
Accruals and deferred income	**2,871**	2,645	46	127	48	5
Total liabilities	**193,169**	148,545	16,182	9,953	13,355	5,134
Equity						
Called up share capital	**2,157**	2,157	-	-	-	-
Share premium	**5,834**	5,834	-	-	-	-
Property revaluation reserve	**982**	982	-	-	-	-
Investment revaluation reserve	**252**	252	-	-	-	-
Retained earnings	**12,686**	12,686	-	-	-	-
Equity attributable to equity holders of the Bank	**21,911**	21,911	-	-	-	-
Minority interest	**1,486**	1,486	-	-	-	-
Total equity	**23,397**	23,397	-	-	-	-
Total liabilities and equity	**216,566**	171,942	16,182	9,953	13,355	5,134
Net currency position		(38)	59	(53)	47	(15)

	2006 Total Lm 000	2006 Lm 000	2006 € 000	2006 £ 000	2006 $ 000	2006 Other 000
Total assets	205,820	161,949	17,304	10,695	12,340	3,532
Total liabilities and equity	205,820	162,487	17,220	10,720	11,856	3,537
Net currency position		(538)	84	(25)	484	(5)

4 **Financial risk management** *(continued)*
4.5 *Market risk (continued)*

4.5.3 Investment price risk

The exposure of the Group to this risk is not significant given the minimal equity holding by the Group. Such holdings are limited to local well known corporate issuers. Frequent management reviews are carried out to ensure high quality of the portfolio.

4.5.3.1 Fair value and price verification control

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

4.5.3.2 Investments – Debt and other fixed income instruments held-to-maturity

This category of assets is carried at amortised cost and amounts to Lm20,029,000 as at 31 December 2007. Fair value based on quoted market prices at balance sheet date without any deduction for transaction costs amounts to Lm21,070,000.

4.5.3.3 Loans and advances to banks and customers

This category of assets is reported net of impairment allowances to reflect the estimated recoverable amounts. As at 31 December 2007, the Group's carrying amount was Lm149,937,000. The loans and advances to customers category of assets amounts to Lm111,740,000. This carrying value approximates to fair value in the case of loans, which are repriceable at the Group's discretion. These loans constitute a significant element of the total loan portfolio. The loans and advances to banks category of assets amounts to Lm38,197,000.

As at 31 December 2007, a significant element of loans and advances to banks had a short-term contractual re-pricing. Interest rates on these advances reflect current market rates, and therefore the carrying amount approximates to fair value.

4.5.3.4 Trade receivables and other assets

This category of assets represents short-term trade receivables and the carrying amount of such category is a reasonable approximation of its fair value.

4.5.3.5 Amounts owed to banks and customers

This category of liabilities is carried at amortised cost and amounts to Lm179,852,000 as at 31 December 2007. 40.1 per cent of this liability has contractual re-pricing within the 'less than three months' band, 41.1 per cent re-prices within the 'between three months and one year' band whilst 16.5 per cent re-prices within the 'between one year and five years' band whilst 2.3 per cent is repriceable within the 'more than five years 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. 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.

4 **Financial risk management** *(continued)*
4.5 *Market risk (continued)*

4.5.4 Credit spread risk

Credit spread is the difference in yield between different securities due to different credit quality. The credit spread reflects the additional net yield an investor can earn from a security with more credit risk relative to one with less credit risk. The Group maintains a high proportion of its investments in government securities. Most of the remaining investments are liquid securities quoted on the Malta Stock Exchange and regularly monitored by management.

Group

	2007	2006
Investments are analysed as follows:	**%**	%
Issued by local government	**80**	85
Issued by corporates	**20**	15
	100	100

Group

	2007	2006
Debt and other fixed income instruments are analysed as follows:	**%**	%
Listed on the Malta Stock Exchange	**93**	93
Not listed	**7**	7
	100	100

4.6 *Liquidity risk*

Liquidity risk is defined as the risk of losses due to:
- the Group's funding costs increasing disproportionately;
- lack of funding prevents the Group from establishing new business; and
- lack of funding will ultimately prevent the Group from meeting its obligations.

The Group manages this risk by ensuring that its assets and liabilities are matched in terms of maturities, thereby allowing it to raise funds to meet its commitments, predominantly through deposits. The Group holds significant liquid assets in the form of treasury bills and money market placements as part of its liquidity risk management strategy.

4 **Financial risk management** *(continued)*

4.6 *Liquidity risk (continued)*

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

Group **At 31 December 2007**	Fair Value Adjustments Lm 000	Between 1 and 3 months Lm 000	Between 3 months and 1 year Lm 000	Between 1 and 5 years Lm 000	More than 5 years Lm 000	Total Lm 000
Financial assets						
Debt and other fixed income instruments						
- available-for-sale	**(79)**	**-**	**176**	**1,053**	**1,341**	**2,491**
- held-to-maturity	**-**	**-**	**1,569**	**9,486**	**8,974**	**20,029**
Loans and advances to banks	**-**	**37,382**	**815**	**-**	**-**	**38,197**
Loans and advances to customers - gross	**-**	**45,848**	**7,941**	**31,717**	**29,387**	**114,893**
	(79)	**83,230**	**10,501**	**42,256**	**39,702**	**175,610**
Financial liabilities						
Amounts owed to banks	**-**	**316**	**-**	**-**	**-**	**316**
Amounts owed to customers	**-**	**102,654**	**53,265**	**20,119**	**3,498**	**179,536**
	-	**102,970**	**53,265**	**20,119**	**3,498**	**179,852**

Group At 31 December 2006	Fair Value Adjustments Lm 000	Between 1 and 3 months Lm 000	Between 3 months and 1 year Lm 000	Between 1 and 5 years Lm 000	More than 5 years Lm 000	Total Lm 000
Financial assets						
Derivative financial instruments	-	-	2	-	-	2
Debt and other fixed income instruments						
- available-for-sale	(9)	-	-	988	30	1,009
- held-to-maturity	-	-	1,967	8,305	11,347	21,619
Loans and advances to banks	-	38,998	2,208	-	-	41,206
Loans and advances to customers - gross	-	40,706	3,832	21,106	26,500	92,144
	(9)	79,704	8,009	30,399	37,877	155,980
Financial liabilities						
Amounts owed to banks	-	218	-	-	-	218
Amounts owed to customers	-	105,415	51,525	22,151	1,507	180,598
	-	105,633	51,525	22,151	1,507	180,816

4 **Financial risk management** *(continued)*

4.7 *Operational risk*

Operational risk is the risk of losses owing to
- deficient or erroneous internal procedures;
- human or system errors; and
- external events, including legal events.

Operational risk is thus often associated with specific and one-off events, such as failure to observe business or working procedures, defects or breakdowns of the technical infrastructure, criminal acts, fire and storm damage or litigation. Operational risks are, thus, non-financial risks. Operational risk management relies on a framework of policies overseen by the Risk Management Department.

A financial measurement of this risk is arrived at by the Group for the purpose of allocating risk capital using the Basic Indicator Approach under the CRD rules. The capital requirement for operational risk under this method was calculated at Lm819,000 (2006: Lm748,000).

4.8 *Derivative financial instruments*

The Group enters into forward foreign currency exchange contracts with customers in the normal course of its business. Generally, it is the Group's policy to cover these contracts immediately by buying or selling a corresponding amount of the contracted currency on the money market. As a result, the Group is not open to any significant exchange risk. The Group also takes a deposit margin of the nominal value from the customer thereby reducing its credit risk should the client default. Details of the Group's exposure to derivative financial instruments at the balance sheet date are disclosed in note 16 to the financial statements.

5 **Interest income**

	Group		**Bank**	
	2007	2006	**2007**	2006
	Lm 000	Lm 000	**Lm 000**	Lm 000
On loans and advances to banks	**1,924**	1,722	**1,921**	1,722
On loans and advances to customers	**8,011**	5,780	**8,011**	5,783
On balances with Central Bank of Malta	**756**	663	**756**	663
On treasury bills	**560**	477	**560**	477
	11,251	8,642	**11,248**	8,645
On debt and other fixed income instruments	**1,410**	1,428	**1,410**	1,428
Net amortisation of premia and discounts	**(38)**	(36)	**(38)**	(36)
	1,372	1,392	**1,372**	1,392

6 **Postal sales and service revenues**

	Group		Bank	
	2007	2006	**2007**	2006
	Lm 000	Lm 000	**Lm 000**	Lm 000
Stamps, parcel post and postal stationery including income from foreign inbound mail	**447**	-	**-**	-
Philatelic sales	**17**	-	**-**	-
Other	**57**	-	**-**	-
	521	-	**-**	-

7 **Dividend income**

Group/Bank

	2007	2006
	Lm 000	Lm 000
Available-for-sale equity shares	**40**	34

8 **Net trading income**

Group/Bank

	2007	2006
	Lm 000	Lm 000
Profit on foreign exchange activities	**305**	324
Fair value movements on derivative financial instruments	**-**	2
	305	326

9 **Net gains on disposal of non-trading financial instruments**

	Group		Bank	
	2007	2006	**2007**	2006
	Lm 000	Lm 000	**Lm 000**	Lm 000
Net revaluation gains on available-for-sale assets transferred from equity	**3**	36	**3**	10

10 **Employee compensation and benefits**

10.1

	Group		Bank	
	2007	2006	**2007**	2006
	Lm 000	Lm 000	**Lm 000**	Lm 000
Staff costs				
- wages, salaries and allowances	**1,646**	1,198	**1,391**	1,198
- defined contribution social security costs	**109**	77	**87**	77
	1,755	1,275	**1,478**	1,275

10.2

	Group		Bank	
	2007	2006	**2007**	2006
Average number of employees				
Managerial	**37**	33	**35**	33
Supervisory	**43**	38	**41**	38
Clerical	**69**	50	**61**	50
Others	**39**	9	**11**	9
	188	130	**148**	130

11 **Net impairment losses**

Group/Bank

	2007	2006
	Lm 000	Lm 000
Write-downs		
Loans and advances to customers		
- specific allowances	**(700)**	(335)
- collective allowances	**(47)**	(120)
- bad debts written off	**(264)**	-
	(1,011)	(455)
Reversals of write-downs		
Loans and advances to customers		
- specific allowances	**211**	333
	211	333
Net impairment losses	**(800)**	(122)

12 **Profit before taxation**

	Group		Bank	
	2007 Lm 000	2006 Lm 000	**2007 Lm 000**	2006 Lm 000
Profit before taxation is stated:				
After charging				
Directors' emoluments				
- fees	**34**	23	**24**	23
- other emoluments	**147**	124	**147**	124
Operating lease rental charge	**54**	41	**44**	41
After crediting				
Rental income from investment property	**16**	16	**16**	16

Profit before tax for the Bank is also stated after charging auditors' remuneration in relation to statutory audit amounting to Lm13,000.

13 **Taxation**

13.1 *Recognised in income statement*

	Group		Bank	
	2007 Lm 000	2006 Lm 000	**2007 Lm 000**	2006 Lm 000
Current taxation				
Current tax expense	**1,919**	1,400	**1,900**	1,400
	1,919	1,400	**1,900**	1,400
Deferred taxation				
Origination and reversal of temporary differences	**(394)**	(38)	**(391)**	(38)
	1,525	1,362	**1,509**	1,362

13 **Taxation** *(continued)*

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

	Group		Bank	
	2007	2006	**2007**	2006
	Lm 000	Lm 000	**Lm 000**	Lm 000
Profit before taxation	**4,566**	3,867	**4,382**	3,859
Tax at the applicable rate of 35%	**(1,598)**	(1,353)	**(1,534)**	(1,351)
Tax effect of non-taxable income	**-**	10	**-**	-
Tax effect of non-deductible expenses	**(3)**	(11)	**(3)**	(3)
Tax effect of income taxed at different tax rates	**41**	2	**41**	2
Tax effect of current year losses for which no deferred tax asset was recognised	**(7)**	-	**-**	-
Tax effect of share in associate accounted for on a net basis	**55**	-	**-**	-
Tax effect of depreciation charges not deductible by way of capital allowances	**(12)**	(9)	**(12)**	(9)
Tax effect of temporary differences previously not recognised	**(1)**	(1)	**(1)**	(1)
Taxation	**(1,525)**	(1,362)	**(1,509)**	(1,362)

14 **Earnings per share**

Earnings per share is calculated on profit attributable to the equity holders of the Bank for the year ended 31 December 2007 amounting to Lm3,033,000 for the Group (2006: Lm2,504,000) and Lm2,873,000 for the Bank (2006: Lm2,497,000) divided by 8,595,887 (2006: 8,488,620), being the weighted average number of shares in issue during the year.

15 **Balances with Central Bank of Malta, treasury bills and cash**

Group/Bank

	2007	2006
	Lm 000	Lm 000
Balances with Central Bank of Malta	**20,125**	42,421
Malta Government treasury bills	**10,868**	990
Cash in hand	**1,283**	788
	32,276	44,199

The balance with the Central Bank of Malta includes a reserve deposit amounting to Lm6,043,000 (2006: Lm6,798,000) held in terms of Article 37 (1) of the Central Bank of Malta Act.

16 **Derivative financial instruments**

Group/Bank

	2007 Lm 000	2006 Lm 000
Financial assets		
Derivative financial instruments	-	2

Group/Bank

	Notional amount with remaining life of:			**Fair values**	
	Less than 3 months Lm 000	**Between 3 months and 1 year Lm 000**	**Total Lm 000**	**Assets Lm 000**	**Liabilities Lm 000**
Forward exchange contracts					
At 31 December 2007	**41**	**29**	**70**	**-**	**-**
At 31 December 2006	32	326	358	2	-

17 **Investments**

17.1

	Group		**Bank**	
	2007 Lm 000	2006 Lm 000	**2007 Lm 000**	2006 Lm 000
Debt and other fixed income instruments				
- available-for-sale	**2,491**	1,009	**956**	1,009
- held-to-maturity	**20,029**	21,619	**20,029**	21,619
Equity instruments available-for-sale	**1,046**	845	**944**	747
	23,566	23,473	**21,929**	23,375

17 **Investments** *(continued)*

17.2 *Debt and other fixed income instruments available-for-sale comprise instruments:*

	Group		Bank	
	2007 **Lm 000**	2006 Lm 000	**2007** **Lm 000**	2006 Lm 000
Issued by public bodies				
- local government	**913**	-	-	-
Issued by public issuers				
- local banks	**674**	349	**311**	349
- local others	**904**	660	**645**	660
	2,491	1,009	**956**	1,009
Listing status				
- listed on the Malta Stock Exchange	**2,491**	1,009	**956**	1,009

17.3 Debt and other fixed income instruments held-to-maturity comprise local government stock listed on the Malta Stock Exchange and local listed and unlisted corporate debt.

The Bank has pledged Lm2,000,000 (2006: Lm2,000,000) worth of Malta Government Stocks to the Central Bank of Malta as security for a facility which was not utilised at balance sheet date. A further Lm3,630,000 (2006: nil) worth of Malta Government Stocks were pledged to the Central Bank of Malta as security covering the Bank's euro cash front loading.

17.4 Equity instruments available-for-sale comprise equities listed on the Malta Stock Exchange.

17 **Investments** *(continued)*

17.5 *The movement in investments may be summarised as follows:*

	Group			Bank		
	Available-for-sale Lm 000	**Held-to-maturity Lm 000**	**Total Lm 000**	**Available-for-sale Lm 000**	**Held-to-maturity Lm 000**	**Total Lm 000**
At 1 January 2007	1,854	21,619	23,473	1,756	21,619	23,375
Foreign exchange movement	(38)	-	(38)	(38)	-	(38)
Amortisation	-	(38)	(38)	-	(38)	(38)
Acquisitions	220	415	635	220	415	635
Redemptions/disposals	(22)	(1,966)	(1,988)	(22)	(1,967)	(1,989)
Fair value movement	(13)	-	(13)	(16)	-	(16)
Acquisition through business combination	1,535	-	1,535	-	-	-
At 31 December 2007	**3,536**	**20,030**	**23,566**	**1,900**	**20,029**	**21,929**

	Group			Bank		
	Available-for-sale Lm 000	**Held-to-maturity Lm 000**	**Total Lm 000**	**Available-for-sale Lm 000**	**Held-to-maturity Lm 000**	**Total Lm 000**
At 1 January 2006	2,544	21,055	23,599	2,359	21,055	23,414
Foreign exchange movement	(39)	-	(39)	(39)	-	(39)
Amortisation	-	(36)	(36)	-	(36)	(36)
Acquisitions	105	1,700	1,805	105	1,700	1,805
Redemptions/disposals	(726)	(1,100)	(1,826)	(636)	(1,100)	(1,736)
Fair value movement	(30)	-	(30)	(33)	-	(33)
At 31 December 2006	1,854	21,619	23,473	1,756	21,619	23,375

18 **Loans and advances to banks**

	Group		Bank	
	2007 Lm 000	2006 Lm 000	**2007 Lm 000**	2006 Lm 000
Repayable on call and at short notice	**4,328**	1,436	**1,965**	1,436
Term loans and advances	**33,869**	39,770	**33,638**	39,770
	38,197	41,206	**35,603**	41,206

19 **Loans and advances to customers**

19.1

Group/Bank

	2007 Lm 000	2006 Lm 000
Repayable on call and at short notice	**40,955**	34,957
Term loans and advances	**73,938**	58,519
Gross loans and advances to customers	**114,893**	93,476
Allowance for uncollectibility	**(3,153)**	(3,262)
Net loans and advances to customers	**111,740**	90,214
Allowances for uncollectibility		
Specific allowances	**2,578**	2,734
Collective allowances	**575**	528
	3,153	3,262

19.2

Group/Bank

	Specific allowances Lm 000	**Collective allowances Lm 000**	**Total Lm 000**
At 1 January 2007	2,734	528	3,262
Additions	700	47	747
Reversals	(856)	-	(856)
At 31 December 2007	**2,578**	**575**	**3,153**

19.3 The specific allowances includes interest in suspense amounting to Lm686,000 that has been netted off against interest receivable.

19.4 The aggregate amount of impaired loans and advances to customers amounted to Lm7,771,000 (2006: Lm6,870,000). No further specific allowances for uncollectibility were required in terms of Banking Directive 09.

19.5 No assets in settlement of debt and classified as assets held-for-sale were held by the Bank at balance sheet date (2006: Lm106,000).

20 **Investment in equity accounted investee**

20.1

Name of Company	Incorp. In	Nature of Business	Ownership Interest 2007 %	2006 %
Group				
MaltaPost p.l.c.	Malta	Postal services	-	35

The shares in MaltaPost p.l.c. are held by Redbox Limited which is a fully owned subsidiary of the Bank. MaltaPost p.l.c. became a subsidiary during 2007 (note 21).

20.2

Group

	2007 Lm 000	2006 Lm 000
At 1 January	**1,143**	-
Additions	**-**	1,138
Share of profit of associate	**157**	5
Transfer to subsidiary	**(1,300)**	-
At 31 December	**-**	**1,143**

21 **Investment in subsidiaries**

Name of Company	Incorp. In	Nature of Business	Equity Interest 2007 %	2006 %	2007 Lm 000	2006 Lm 000
Bank						
Lombard Asset Managers Limited	Malta	Management of Collective Investment Schemes	**75**	75	**126**	125
Redbox Limited	Malta	Holding Company	**100**	100	**2,400**	1,150
					2,526	1,275

The subsidiary companies are not listed.

Lombard Asset Managers Limited is the investment manager of Lombard Enterprise Fund. At balance sheet date the subsidiary owned 20% of the units in the Fund. The Bank is also the unit holder of another 65% of the units in the Fund. As a result, by virtue of the Bank's 75% holding of the equity of Lombard Asset Managers Limited, the Group

21 **Investment in subsidiaries** *(continued)*

is the owner of 80% of the total units in Lombard Enterprise Fund. The investment in Lombard Enterprise Fund is not consolidated on the basis of materiality.

On 6 September 2007, Redbox Limited acquired an additional 25% shareholding in MaltaPost p.l.c. from the Government of Malta, increasing its total holding to 60% of the voting share capital of MaltaPost p.l.c.. The remaining 40% is held by the general public. MaltaPost p.l.c. was listed on the Malta Stock Exchange on 24 January 2008.

The reporting date of the financial statements of MaltaPost p.l.c. used in the preparation of consolidated financial statements is 30 September 2007.

22 **Intangible assets**

22.1

Group

	Goodwill Lm 000	Postal licence Lm 000	Total Lm 000
Cost or fair value			
Acquisition through business combination during the year	368	187	555
At 31 December 2007	368	187	555
Amortisation			
Amortisation for the year	-	(2)	(2)
	-	(2)	(2)
Carrying amounts			
At 31 December 2007	**368**	**185**	**553**

The intangible asset represents the amount paid for the right to operate the postal services in Malta by MaltaPost p.l.c.. This right has a useful life of 15 years and is amortised over this definite period.

22.2 *Impairment test for the cash-generating units containing goodwill*

The goodwill acquired represents payments made by the Group in anticipation of future economic benefits, from assets that are not capable of being individually identified and separately recognised. As at 31 December 2007 these amounted to Lm368,000 and related to the acquisition of MaltaPost p.l.c..

In applying the requirements of IAS 36, *Impairment of Assets*, in relation to goodwill acquired in business combinations, the Directors carried out an impairment test at the balance sheet date to provide comfort that the recoverable amount of the cash-generating unit is at least equal to its carrying amount.

The recoverable amount of the cash-generating unit is based on fair value less costs to sell calculations.

22 **Intangible assets** *(continued)*
22.2 *Impairment test for the cash-generating units containing goodwill (continued)*

This calculation takes into account the share offer price of Lm0.21465 (€0.50) per share at which the Government of Malta and Malta Government Investments Limited offered 11,200,000 shares of Lm0.107325 (€0.25) each to the public on 2 January 2008. The recoverable amount of the cash generating unit is higher than its carrying amount.

23 **Property and equipment**

Group

	Land and buildings Lm 000	Computer equipment Lm 000	Other Lm 000	Total Lm 000
Cost/revaluation				
At 1 January 2006	2,926	1,030	890	4,846
Acquisitions	19	7	58	84
Disposals	-	(65)	(35)	(100)
At 31 December 2006	2,945	972	913	4,830
At 1 January 2007	2,945	972	913	4,830
Acquisitions	294	18	93	405
Disposals	-	(2)	(1)	(3)
Acquisition through business combination during the year	1,053	1,083	738	2,874
At 31 December 2007	**4,292**	**2,071**	**1,743**	**8,106**
Depreciation				
At 1 January 2006	124	894	771	1,789
Charge for the year	25	55	28	108
Released on disposals	-	(65)	(34)	(99)
At 31 December 2006	149	884	765	1,798
At 1 January 2007	149	884	765	1,798
Charge for the year	33	63	46	142
Released on disposals	-	(2)	(1)	(3)
Acquisition through business combination during the year	475	854	348	1,677
At 31 December 2007	**657**	**1,799**	**1,158**	**3,614**
Carrying amount				
At 1 January 2006	2,802	136	119	3,057
At 31 December 2006	2,796	88	148	3,032
At 1 January 2007	**2,796**	**88**	**148**	**3,032**
At 31 December 2007	**3,635**	**272**	**585**	**4,492**

23 **Property and equipment** *(continued)*

Bank

	Land and buildings Lm 000	Computer equipment Lm 000	Other Lm 000	Total Lm 000
Cost/revaluation				
At 1 January 2006	2,926	1,025	890	4,841
Acquisitions	19	7	58	84
Disposals	-	(65)	(35)	(100)
At 31 December 2006	2,945	967	913	4,825
At 1 January 2007	2,945	967	913	4,825
Acquisitions	294	19	93	406
Disposals	-	(2)	(1)	(3)
At 31 December 2007	**3,239**	**984**	**1,005**	**5,228**
Depreciation				
At 1 January 2006	124	889	771	1,784
Charge for the year	25	55	28	108
Released on disposals	-	(65)	(34)	(99)
At 31 December 2006	149	879	765	1,793
At 1 January 2007	149	879	765	1,793
Charge for the year	27	52	40	119
Released on disposals	-	(2)	(1)	(3)
At 31 December 2007	**176**	**929**	**804**	**1,909**
Carrying amount				
At 1 January 2006	2,802	136	119	3,057
At 31 December 2006	2,796	88	148	3,032
At 1 January 2007	**2,796**	**88**	**148**	**3,032**
At 31 December 2007	**3,063**	**55**	**201**	**3,319**

23 **Property and equipment** *(continued)*

	Group		Bank	
	2007	2006	**2007**	2006
	Lm 000	Lm 000	**Lm 000**	Lm 000
Carrying amount of property occupied for own activities	**3,635**	2,796	**3,063**	2,796
Future capital expenditure				
Contracted but not provided for in the financial statements	**1,617**	360	**1,617**	360
Authorised by the directors but not yet contracted	**-**	891	**-**	891
	1,617	1,251	**1,617**	1,251

The carrying amount of land and buildings that would have been included in the financial statements had these assets been carried at cost less depreciation is Lm1,874,000 (2006: Lm1,604,000) for the Group and the Bank.

24 **Investment property**

Investment property comprise assets acquired in settlement of an advance to a customer and is analysed as follows:

Group/Bank	**Fair Value**	Fair Value
	2007	2006
	Lm 000	Lm 000
Leasehold land and buildings		
At 1 January	**151**	151
Change in fair value	**169**	-
At 31 December	**320**	151

The fair value of investment property is determined by the capitalization of the sub-ground rent receivable from the investment property at the rate of five per cent by reference to Article 1501 (2) of Chapter 16 of the Laws of Malta.

25 **Deferred tax assets**

25.1 *Recognised deferred tax assets and liabilities*

Deferred tax assets and liabilities are attributable to the following:

Group

	Assets 2007 Lm 000	**Liabilities 2007 Lm 000**	**Net 2007 Lm 000**	Assets 2006 Lm 000	Liabilities 2006 Lm 000	Net 2006 Lm 000
Excess of depreciation over capital allowances	**78**	**-**	**78**	24	-	24
Provision for liabilities and charges	**84**	**-**	**84**	90	-	90
Impairment allowances	**1,102**	**-**	**1,102**	676	-	676
Revaluation of property	**-**	**(248)**	**(248)**	-	(228)	(228)
Fair value movements in investments	**22**	**(156)**	**(134)**	-	(164)	(164)
	1,286	**(404)**	**882**	790	(392)	398

Bank

	Assets 2007 Lm 000	**Liabilities 2007 Lm 000**	**Net 2007 Lm 000**	Assets 2006 Lm 000	Liabilities 2006 Lm 000	Net 2006 Lm 000
Excess of depreciation over capital allowances	**20**	**-**	**20**	24	-	24
Provision for liabilities and charges	**79**	**-**	**79**	90	-	90
Impairment allowances	**1,102**	**-**	**1,102**	676	-	676
Revaluation of property	**-**	**(248)**	**(248)**	-	(228)	(228)
Fair value movements in investments	**-**	**(156)**	**(156)**	-	(164)	(164)
	1,201	**(404)**	**797**	790	(392)	398

25 **Deferred tax assets** *(continued)*

25.2 *Unrecognised deferred tax assets*

Deferred tax assets have not been recognised in the Group in respect of the following items:

	2007 Lm 000	2006 Lm 000
Tax losses	**80**	80
Capital allowances	**-**	1
	80	81

25.3 *Movement in temporary differences relating to:*

Group

	At 1 January 2007 Lm 000	**Acquisition through business combination Lm 000**	**Recognised in income Lm 000**	**Recognised in equity Lm 000**	**At 31 December 2007 Lm 000**	At 1 January 2006 Lm 000	Recognised in income Lm 000	Recognised in equity Lm 000	At 31 December 2006 Lm 000
Excess of depreciation over capital allowances	**24**	**55**	**(1)**	**-**	**78**	31	(7)	-	24
Provision for liabilities and charges	**90**	**5**	**(11)**	**-**	**84**	87	3	-	90
Impairment allowances	**676**	**-**	**426**	**-**	**1,102**	633	43	-	676
Revaluation of property	**(228)**	**-**	**(20)**	**-**	**(248)**	(278)	-	50	(228)
Fair value movements in investments	**(164)**	**21**	**-**	**9**	**(134)**	(182)	-	18	(164)
	398	**81**	**394**	**9**	**882**	291	39	68	398

Bank

	At 1 January 2007 Lm 000	**Recognised in income Lm 000**	**Recognised in equity Lm 000**	**At 31 December 2007 Lm 000**	At 1 January 2006 Lm 000	Recognised in income Lm 000	Recognised in equity Lm 000	At 31 December 2006 Lm 000
Excess of depreciation over capital allowances	**24**	**(4)**	**-**	**20**	31	(7)	-	24
Provision for liabilities and charges	**90**	**(11)**	**-**	**79**	87	3	-	90
Impairment allowances	**676**	**426**	**-**	**1,102**	633	43	-	676
Revaluation of property	**(228)**	**(20)**	**-**	**(248)**	(278)	-	50	(228)
Fair value movements in investments	**(164)**	**-**	**8**	**(156)**	(182)	-	18	(164)
	398	**391**	**8**	**797**	291	39	68	398

26 **Inventories**

	Group		Bank	
	2007	2006	**2007**	2006
	Lm 000	Lm 000	**Lm 000**	Lm 000
Supplies and materials	**66**	22	**21**	22
Merchandise	**279**	24	**80**	24
	345	46	**101**	46

27 **Trade receivables and other assets**

	Group		Bank	
	2007	2006	**2007**	2006
	Lm 000	Lm 000	**Lm 000**	Lm 000
Trade receivables - net of impairment allowance	**1,687**	-	**-**	-
Other	**3**	2	**3**	-
	1,690	2	**3**	-

The movement in the allowance for impairment in respect of trade receivables during the year was as follows:

	Group		Bank	
	2007	2006	**2007**	2006
	Lm 000	Lm 000	**Lm 000**	Lm 000
Acquisition through business combination during the year	**13**	-	**-**	-
At 31 December	**13**	-	**-**	-

28 **Prepayments and accrued income**

	Group		Bank	
	2007	2006	**2007**	2006
	Lm 000	Lm 000	**Lm 000**	Lm 000
Prepayments	**69**	51	**65**	51
Accrued income	**1,479**	1,205	**1,327**	1,205
	1,548	1,256	**1,392**	1,256

29 **Amounts owed to banks**

Group/Bank

	2007	2006
	Lm 000	Lm 000
Term deposits	**200**	-
Repayable on demand	**116**	218
	316	218

30 **Amounts owed to customers**

	Group		Bank	
	2007	2006	**2007**	2006
	Lm 000	Lm 000	**Lm 000**	Lm 000
Term deposits	**129,873**	134,262	**130,492**	134,262
Repayable on demand	**49,663**	46,336	**49,675**	46,371
	179,536	180,598	**180,167**	180,633

31 **Other liabilities**

	Group		Bank	
	2007	2006	**2007**	2006
	Lm 000	Lm 000	**Lm 000**	Lm 000
Trade payables	**1,171**	-	**-**	-
Bills payable	**991**	1,031	**991**	1,031
Cash collateral	**728**	131	**728**	131
Other payables	**5,881**	2,272	**4,183**	2,262
	8,771	3,434	**5,902**	3,424

32 **Accruals and deferred income**

	Group		Bank	
	2007	2006	**2007**	2006
	Lm 000	Lm 000	**Lm 000**	Lm 000
Accrued interest	**1,713**	1,501	**1,713**	1,501
Other	**1,158**	225	**342**	225
	2,871	1,726	**2,055**	1,726

33 **Share capital**

33.1

Bank

	2007	**2007**	2006	2006
	No. of shares 000s	**Lm 000**	No. of shares 000s	Lm 000
Authorised				
Ordinary shares of 25 cents each	**20,000**	**5,000**	20,000	5,000
Issued				
Ordinary shares of 25 cents each	**8,629**	**2,157**	8,534	2,133

33 **Share capital** *(continued)*

33.2

Bank

	No. of Ordinary shares	
	2007	2006
	000's	000's
Issued for cash		
On issue at 1 January	**8,534**	4,205
Sub division of the par value of shares	**-**	4,205
Rights issue	**95**	124
On issue at 31 December	**8,629**	8,534

33.3 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. All shares rank equally with regard to the Bank's residual assets.

34 **Reserves**

34.1 *Share premium*

The increase in the share premium account represents the premium on the rights issue of shares approved by the shareholders during the Annual General Meeting held on 26 April 2007.

34.2 *Property revaluation reserve*

This represents the surplus arising on the revaluation of the Group's freehold property net of related deferred tax effects. The revaluation reserve is not available for distribution.

34.3 *Investment revaluation reserve*

This represents the cumulative net change in fair values of available-for-sale assets held by the Group, net of related deferred tax effects.

34.4 *Retained earnings*

34.4.1 Dividends

A gross dividend of €0.40 per nominal €0.582343 per share for the twelve months ended 31 December 2007 is being proposed for approval by the shareholders. The Board of Directors recommends that shareholders be given the option of receiving the dividend either in the form of cash or by the issue of new shares. A resolution to that effect will be proposed to the Annual General Meeting of shareholders.

34 **Reserves** *(continued)*
34.4 *Retained earnings (continued)*
34.4.1 Dividends *(continued)*

The following dividends were declared and paid by the Group during the year.

	2007 Lm 000	2006 Lm 000
Lm0.081 (2006: Lm0.065) per ordinary share	**693**	555

35 **Provisions and contingent liabilities**

35.1 *Provisions*

	Group		**Bank**	
	2007 Lm 000	2006 Lm 000	**2007 Lm 000**	2006 Lm 000
Pension obligation	**745**	-	**-**	-
Legal	**226**	238	**226**	238
	971	238	**226**	238

35.2 The pension obligation has arisen due to the option taken by ex-Government employees to become full time employees of the MaltaPost p.l.c.. Upon exercising this option, certain of these employees continued to be entitled to pension rights which go beyond the National Insurance Scheme. The difference between the cost of pensions payable at the time of an employee's expected retirement from MaltaPost p.l.c. and the cost of the pension computed at the time of that employee's termination of service with the Government, will be borne by MaltaPost p.l.c., as long as the said employees are employed with MaltaPost p.l.c. up to their retirement date.

35.3

Group

	Pension Obligation 2007 Lm 000	**Legal 2007 Lm 000**	**Total 2007 Lm 000**	Pension Obligation 2006 Lm 000	Legal 2006 Lm 000	Total 2006 Lm 000
At 1 January	**-**	**238**	**238**	-	248	248
Acquisition through business combinations during the	**740**	**-**	**740**	-	-	-
Exchange differences recognised in profit or loss	**-**	**(21)**	**(21)**	-	(20)	(20)
Charge for the period	**5**	**9**	**14**	-	10	10
At 31 December	**745**	**226**	**971**	-	238	238

35 **Provisions and contingent liabilities** *(continued)*
35.3 *(continued)*

Bank

Legal	**2007 Lm 000**	2006 Lm 000
At 1 January	**238**	248
Exchange differences recognised in profit or loss	**(21)**	(20)
Charge for the period	**9**	10
At 31 December	**226**	238

35.4 *Pension obligation is made up of:*

Group

	2007 Lm 000
Present value of unfunded obligations	**1,020**
Fair value of obligations to be reimbursed by Government	**(275)**
Present value of unfunded obligations	**745**

35.5 *The amount for pension obligation recognised in profit or loss is as follows:*

Group

	2007 Lm 000
Interest	**(3)**
Net actuarial losses	**(2)**
	(5)
Made up of:	
Movement in present value of unfunded obligations	**(8)**
Interest received	**3**
	(5)

35.6 In computing the pension obligation, the Group used a discount rate of 5.1%, whereas the future salary increases were based on inflation rates and past salary increases.

35.7 In addition, the Bank is also a defendant in legal actions by other customers as a result of which the directors are of the opinion that no liability will be incurred.

35 **Provisions and contingent liabilities** *(continued)*

35.8 *Contingent liabilities*

Group/Bank

	2007 **Lm 000**	2006 Lm 000
Guarantee obligations incurred on behalf of third parties	**2,794**	3,229

36 **Commitments**

36.1

Group/Bank

	2007 **Lm 000**	2006 Lm 000
Documentary credits	**234**	435
Credit facilities and other commitments to lend	**25,778**	34,122
	26,012	34,557

Credit facilities and commitments to lend funds to customers are granted at prevailing market interest rates at drawdown date.

At balance sheet date, the Bank held fiduciary placements from which it is envisaged that no liability will arise.

36.2 *The future minimum lease payments for the Group under non-cancellable operating leases are as follows:*

Group

	2007 **Lm 000**	2006 Lm 000
Within 1 year	**85**	-
Between 2 and 5 years	**313**	-
After 5 years	**19**	-
	417	-

The Group is also committed to pay a licence fee of 0.75% of its total gross revenue from postal services within the scope of the universal services.

37 **Acquisition of subsidiary**

The consideration paid by the Group to acquire control in MaltaPost p.l.c. is analysed below:

Group

	2007 Lm 000
Fair value of assets acquired and liabilities assumed	
Property and equipment	1,197
Intangible assets	187
Financial assets	1,535
Deferred taxation	81
Inventories	245
Trade receivables	1,785
Cash and cash equivalents	2,372
Term deposits	830
Trade and other payables	(3,675)
Current taxation	(192)
Provisions	(740)
Net assets	3,625
Goodwill on consolidation	368
	3,993
Reclassification from an associate to subsidiary	(1,301)
Minority interest	(1,450)
Consideration paid to acquire control	1,242
Cash and cash equivalents of subsidiary acquired	2,372
Less purchase consideration	(1,242)
Acquisition of subsidiary, net of cash acquired	1,130

The fair value of assets acquired and liabilities assumed reflect their carrying amounts.

The results of MaltaPost p.l.c. for the year ended 30 September 2007 were as follows:

	Lm 000
Postal sales and revenue	7,946
Profit for the year	468

The profits generated by MaltaPost p.l.c. since date of acquisition and included in the consolidated income statement amount to Lm30,800.

38 **Cash and cash equivalents**

	Group		Bank	
	2007	2006	**2007**	2006
	Lm 000	Lm 000	**Lm 000**	Lm 000
Treasury bills	**9,891**	990	**9,891**	990
Loans and advances to banks	**47,535**	73,048	**45,188**	73,048
Cash	**1,300**	788	**1,284**	788
Amounts owed to banks	**(316)**	(218)	**(316)**	(218)
Cash and cash equivalents	**58,410**	74,608	**56,047**	74,608
Adjustment to reflect balances with contractual maturity of more than 3 months	**11,747**	10,579	**11,516**	10,579
Per balance sheet	**70,157**	85,187	**67,563**	85,187
Analysed as follows:				
Balances with Central Bank of Malta, treasury bills and cash	**32,276**	44,199	**32,276**	44,199
Loans and advances to banks	**38,197**	41,206	**35,603**	41,206
Amounts owed to banks	**(316)**	(218)	**(316)**	(218)
	70,157	85,187	**67,563**	85,187

39 **Segmental information**

	Banking services		Postal services		Total	
	2007	2006	**2007**	2006	**2007**	2006
	Lm 000	Lm 000	**Lm 000**	Lm 000	**Lm 000**	Lm 000
Segment operating income	**7,729**	6,155	**527**	-	**8,256**	6,155
Depreciation	**(119)**	(108)	**(23)**	-	**(142)**	(108)
Amortisation	**-**	-	**(2)**	-	**(2)**	-
Impairment allowances	**(800)**	(122)	**-**	-	**(800)**	(122)
Other segment costs	**(2,447)**	(2,063)	**(456)**	-	**(2,903)**	(2,063)
Segment result	**4,363**	3,862	**46**	-	**4,409**	3,862
Share of profit of regulatory accounted investment					**157**	5
					4,566	3,867
Segment total assets	**207,916**	205,820	**8,650**	-	**216,566**	205,820
Segment total liabilities	**186,156**	186,703	**7,013**	-	**193,169**	186,703
Segment total equity	**21,760**	19,117	**1,637**	-	**23,397**	19,117

The Group mainly provides services that are subject to risks and returns pertaining to the domestic economic and social environment. Moreover, from a customers' perspective, MaltaPost p.l.c. generated 11.9% of its revenue for 2007 internationally.

40 **Related parties**

40.1 *Identity of related parties*

The Bank has a related party relationship with its major shareholder, its subsidiaries, its directors and executive officers and other related parties.

40 **Related parties** *(continued)*

40.2 *Transaction arrangements and agreements involving key management personnel*

Particulars of transactions, arrangements and agreements entered into with key management personnel:

	Loans and advances 2007 Lm 000	**Commitments 2007 Lm 000**	Loans and advances 2006 Lm 000	Commitments 2006 Lm 000
Key management personnel:				
Directors				
At 1 January	**227**	**7**	250	-
Additions	**32**	**-**	-	7
Repayments	**(49)**	**-**	(23)	-
Drawn Commitments	**-**	**(5)**	-	-
At 31 December	**210**	**2**	227	7

The above banking facilities are part of long-term commercial relationships and were made in the ordinary course of business and on substantially the same terms, including rates and security, as for comparable transactions with persons of a similar standing or, where applicable, with other employees. The transactions did not involve more than the normal risk of repayment or present other unfavourable features.

40.3 *Compensation to key management personnel*

Details of directors' fees and emoluments are stated in note 12.

40.4 *Transactions with other related parties*

40.4.1 Subsidiaries

Information relating to transactions undertaken by the Bank with its subsidiary companies during the year:

	2007 Lm 000	2006 Lm 000
Income statement		
Interest receivable and similar income	**-**	13
Interest payable	**1**	-
Administrative expenses	**18**	-
Balance sheet		
Amounts owed to customers	**992**	35

40 **Related parties** *(continued)*
40.4 *Transactions with other related parties (continued)*

40.4.2 Associate

Information relating to transactions undertaken by the Bank with its associate company during the year:

	2007 Lm 000	2006 Lm 000
Income statement		
Interest payable and similar income	-	8
Balance sheet		
Amounts owed to customers	-	500

Information relating to transactions undertaken by the Group with other related parties during the year:

	2007 Lm 000	2006 Lm 000
Income statement		
Fees and commissions receivable	**240**	7
Administrative expenses	**53**	21
Employee compensation and benefits	**103**	-
Balance sheet		
Other assets	**791**	2
Other liabilities	**1,073**	8

40.4.3 Major Shareholder

The following transactions were conducted by the major shareholder with Lombard Bank Malta p.l.c. during the year:

	2007 Lm 000	2006 Lm 000
Income statement		
Interest receivable and similar income	-	28
Interest payable	-	1
Balance sheet		
Loans and advances to banks	-	221

41 **Investor compensation scheme**

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

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

42 **Accounting estimates and judgments**

The Directors considered the development, selection and disclosure of the Group's critical accounting policies and estimates and the application of these policies and estimates. Estimates and judgments 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.

42.1 *Critical accounting judgment in applying the Group's accounting policies*

42.1.1 Impairment losses on loans and advances

The Group reviews its loans portfolio to assess impairment on an on-going basis as relevant generic data is observed concerning risks associated with Groups of loans with similar risk characteristics. As a result, the Group 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, before the decrease is actually identified with an individual loan in that portfolio. The evidence may include observable data indicating that there has been an adverse change in the relative economic situation of an asset group or in the credit status of borrowers in a group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objectives evidence of impairment similar to those in the portfolio when scheduling its future cash flows. 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.

42.1.2 Impairment of available-for-sale equity investments

The Group determines that available-for-sale equity investments are impaired when there has been a significant or prolonged decline in the fair value below cost. The determination of what is significant or prolonged requires judgement. In making this judgement, the Group evaluates amongst other factors, the normal volatility in share price. In addition, impairment may be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology, operational and financial cash flows.

42 **Accounting estimates and judgments** *(continued)*
42.1 *Critical accounting judgment in applying the Group's accounting policies (continued)*

42.1.3 Classification of held-to-maturity investments

The Group classifies non-derivative financial assets with fixed or determinable payments and fixed maturity for which it has the positive intent and ability to hold to maturity as held-to-maturity assets. This classification requires significant judgment. In making this judgment, the Group evaluates its intention and ability to hold such investments to maturity. If the Group fails to keep these investments to maturity other than for the specific circumstances, it will be required to reclassify the entire class as available-for-sale.

43 **Comparative amounts**

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

44 **Post balance sheet events**

44.1 With the introduction of the euro as the official currency of Malta as from 1 January 2008, the functional currency of the Bank and the Group has changed from Maltese Lira to euro. As a result, the financial position in Maltese Lira of the Bank and the Group at 1 January 2008 has been converted into euro based on the definite fixing of the exchange rate €1 = Lm0.4293.

Moreover by virtue of the application of the Euro Adoption Act (Cap. 485) any financial amounts expressed in the Company's Memorandum and Articles of Association were on euro adoption date, i.e. 1 January 2008, automatically changed into euro at the irrevocably fixed conversion rate of €1 = Lm0.4293. Therefore, the nominal value of each share of Lm0.25 changed to a nominal value of €0.582343.

44.2 On 29 February 2008 the Bank announced that Marfin Popular Bank Public Company Ltd of Cyprus had purchased 3,698,509 shares of a nominal value of €0.582343 each in Lombard Bank Malta p.l.c. equivalent to 42.86 per cent of the issued share capital of the Bank.

44.3 The Directors are recommending, for approval by the shareholders at the next Annual General Meeting of the Bank to be held on Thursday 24 April 2008, the following matters:

1. To increase the nominal value of each share from €0.582343 to €1.00 through the capitalization of distributable reserves.

2. To sub-divide the par value of the Bank's shares on a 'four-for-one' basis. As a result, the number of authorised shares will increase from 20,000,000 ordinary shares to 80,000,000 ordinary shares bringing down the par value of each share from €1 to €0.25.

44 **Post balance sheet events** *(continued)*
44.3 *(continued)*

Explanation of Effect of Proposed Resolutions

The effect of the foregoing resolutions will be to increase the Authorised, Issued and Paid-Up Share Capital of the Bank as detailed below:

Lombard Bank Malta p.l.c. Proposed Changes to Share Capital	Position at 31 December 2007	On Adoption of euro on 1 January 2008	Increase in Nominal Value to €1.00 per Share	4 for 1 Share Split	Position Following Share Split
Number of Authorised Shares	20,000,000 of Lm0.25 each	20,000,000 of €0.582343 each	20,000,000 of €1.00 each	80,000,000 of €0.25 each	80,000,000 of €0.25 each
Value per Share	Lm0.25	€0.582343	€1.00	€0.25	€0.25
Value of Authorised Share Capital	Lm5,000,000	€11,646,860	€20,000,000	€20,000,000	€20,000,000
Number of Issued and Paid Up Shares	8,628,728 of Lm0.25 each	8,628,728 of €0.582343 each	8,628,728 of €1.00 each	34,514,912 of €0.25 each	34,514,912 of €0.25 each
Value of Issued and Paid Up Capital	Lm2,157,182	€5,024,879	€8,628,728	€8,628,728	€8,628,728
Amount of Capitalisation of Retained Profits	-	-	€3,603,849	-	-

As a result of the increase in the permanent paid-up share capital of the Bank to €8,628,728, the balance sheet of the Bank will be further strengthened and the share split will bring about greater affordability as well as liquidity of the Bank's shares.

Statement of the Directors pursuant to Listing Rule 9.40.5

For the Year Ended 31 December 2007

We, the undersigned declare that to the best of our knowledge, the financial statements set out on pages 18 to 91 are prepared in accordance with the requirements of International Financial Reporting Standards as adopted by the EU give a true and fair view of the assets, liabilities, financial position and profit or loss of the Bank and its subsidiaries included in the consolidation taken as a whole and that this report includes a fair review of the development and performance of the business and the position of the Bank and its subsidiaries included in the consolidation taken as a whole, together with a description of the principle risks and uncertainties that they face.

Signed on behalf of the Board of Directors on 13 March 2008 by:

Christian Lemmerich
Chairman

Joseph Said
Chief Executive Officer

Independent Auditors' Report
to the Members of Lombard Bank Malta p.l.c.
Pursuant to Listing Rule 8.39 issued by the Listing Authority

Listing Rules 8.37 and 8.38 issued by the Listing Authority, require the directors of Lombard Bank Malta p.l.c. (the 'Bank') to include in their annual report a statement of compliance to the extent to which they have adopted the Code of Principles of Good Corporate Governance (the 'Statement of Compliance'), and the effective measures they have taken to ensure compliance with these Principles.

Our responsibility, as independent auditors of the Bank, is laid down by Listing Rule 8.39, which requires us to include a report on this Statement of Compliance.

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

We are not required to, and we do not, consider whether the Board's statements on internal control included in the Statement of Compliance cover all risks and controls, or form an opinion of the effectiveness of the Bank's corporate governance procedures or its risk and control procedures, nor on the ability of the Bank to continue in operational existence.

In our opinion, the accompanying Statement of Compliance provides the disclosures required by the Listing Rules 8.37 and 8.38 issued by the Listing Authority.

Joseph C Schembri (Partner) for and on behalf of

KPMG
Registered Auditors
Portico Building
Marina Street
Pietà PTA 9044
Malta

13 March 2008

Independent Auditors' Report
to the Members of Lombard Bank Malta p.l.c.

Report on the Financial Statements

We have audited the financial statements of Lombard Bank Malta p.l.c. ('the Bank') and of the Group of which the Bank is the parent ('the financial statements') set out on pages 18 to 91, which comprise the balance sheets as at 31 December 2007, and the income statements, statements of changes in equity and cash flow statements 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 16, the directors are responsible for the preparation and fair presentation of the financial statements of the Group in accordance with International Financial Reporting Standards as adopted by the EU and of the Bank in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material 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 policies 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 audit opinion.

Opinion

In our opinion the financial statements give a true and fair view:

- of the consolidated financial position of the Group as at 31 December 2007, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU; and

- of the financial position of the Bank as at 31 December 2007, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Independent Auditors' Report
to the Members of Lombard Bank Malta p.l.c.

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 ('the Act'). 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 Lombard Bank Malta p.l.c. 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
Portico Building
Marina Street
Pietà PTA 9044
Malta

13 March 2008

Five Year Summary
Balance Sheet

Group

	31/12/07 Lm 000	31/12/06 Lm 000	31/12/05 Lm 000	31/12/04 Lm 000	31/12/03 Lm 000
Assets					
Balances with Central Bank of Malta, treasury bills and cash	**32,276**	44,199	29,502	40,312	60,711
Cheques in course of collection	**957**	592	550	334	699
Derivative financial instruments	**-**	2	-	16	44
Investments	**23,566**	23,473	23,599	26,794	25,530
Loans and advances to banks	**38,197**	41,206	48,839	41,045	36,628
Loans and advances to customers	**111,740**	90,214	78,738	69,067	57,344
Investment in equity accounted investee	**-**	1,143	-	-	-
Intangible assets	**553**	-	-	-	18
Assets held-for-sale	**-**	106	-	-	-
Property and equipment	**4,492**	3,032	3,057	1,899	1,532
Investment property	**320**	151	151	151	151
Deferred tax assets	**882**	398	291	602	714
Trade receivables and other assets	**1,690**	2	23	29	21
Inventories	**345**	46	9	7	6
Prepayments and accrued income	**1,548**	1,256	3,275	2,737	2,238
Total assets	**216,566**	205,820	188,034	182,993	185,636
Liabilities					
Derivative financial instruments	**-**	-	-	15	85
Amounts owed to banks	**316**	218	65	102	150
Amounts owed to customers	**179,536**	180,598	165,752	164,578	167,595
Current tax payable	**704**	489	195	59	224
Provision for liabilities and other charges	**971**	238	248	134	134
Other liabilities	**8,771**	3,434	3,441	3,023	3,742
Accruals and deferred income	**2,871**	1,726	1,680	1,720	2,000
Total liabilities	**193,169**	186,703	171,381	169,631	173,930
Equity					
Called up share capital	**2,157**	2,133	2,103	2,057	2,026
Share premium	**5,834**	5,364	4,877	4,537	4,341
Other reserve	**-**	-	111	111	111
Property revaluation reserve	**982**	982	932	126	126
Investment revaluation reserve	**252**	266	314	148	41
Retained earnings	**12,686**	10,343	8,283	5,920	4,763
Dividend reserve	**-**	-	-	401	237
Equity attributable to equity holders of the Bank	**21,911**	19,088	16,620	13,300	11,645
Minority interest	**1,486**	29	33	62	61
Total equity	**23,397**	19,117	16,653	13,362	11,706
Total liabilities and equity	**216,566**	205,820	188,034	182,993	185,636
Memorandum items					
Contingent liabilities	**2,794**	3,229	3,261	2,999	3,524
Commitments	**26,012**	34,557	24,023	22,673	17,201

Five Year Summary
Income Statement

Group

	01/01/07 to 31/12/07 Lm 000	01/01/06 to 31/12/06 Lm 000	01/01/05 to 31/12/05 Lm 000	01/01/04 to 31/12/04 Lm 000	01/10/02 to 31/12/03 Lm 000
Interest receivable and similar income	**12,623**	10,034	9,331	8,483	10,692
Interest expense	**(5,955)**	(4,770)	(4,554)	(4,814)	(7,070)
Net interest income	**6,668**	5,264	4,777	3,669	3,622
Other operating income	**1,588**	891	851	976	1,115
Other operating charges	**(3,047)**	(2,171)	(2,252)	(2,030)	(2,473)
Net impairment (losses)/reversals	**(800)**	(122)	290	(73)	(102)
Share of profit of equity accounted investee (net of tax)	**157**	5	-	3	4
Profit before taxation	**4,566**	3,867	3,666	2,545	2,166
Taxation	**(1,525)**	(1,362)	(1,303)	(987)	(773)
Profit for the year	**3,041**	2,505	2,363	1,558	1,393
Attributable to:					
Equity holders of the Bank	**3,033**	2,504	2,369	1,555	1,389
Minority interest	**8**	1	(6)	3	4
	3,041	2,505	2,363	1,558	1,393
Earnings per share	**35c3**	29c5	28c3	19c0	17c4

Five Year Summary
Cash Flow Statement

Group

	01/01/07 to 31/12/07 Lm 000	01/01/06 to 31/12/06 Lm 000	01/01/05 to 31/12/05 Lm 000	01/01/04 to 31/12/04 Lm 000	01/10/02 to 31/12/03 Lm 000
Net cash (used in)/from operating activities	**(20,034)**	8,246	5,360	(25,633)	19,667
Cash flows from investing activities					
Dividends received	**40**	22	27	40	37
Interest received from investments	**1,915**	2,067	2,710	2,208	2,384
Proceeds from maturity/disposal of investments	**1,990**	1,827	3,468	383	2,046
Purchase of investments	**(635)**	(1,800)	-	(1,456)	(383)
Investment in equity accounted investee	-	(1,138)	-	-	-
Proceeds from disposal of property and equipment	-	-	-	1	3
Purchase of property and equipment	**(405)**	(84)	(237)	(445)	(191)
Acquisition of interest in subsidiary (net of cash acquired)	**1,130**	-	-	-	-
Proceeds from disposal of subsidiary	-	-	31	-	-
Net cash flows from investing activities	**4,035**	894	5,999	731	3,896
Cash flows from financing activities					
Dividends paid	**(199)**	(38)	(15)	(10)	(81)
Minority interest in newly formed subsidiary	-	-	-	-	15
Cash used in financing activities	**(199)**	(38)	(15)	(10)	(66)
Net (decrease)/increase in cash and cash equivalents	**(16,198)**	9,102	11,344	(24,912)	23,497

Five Year Summary
Accounting Ratios

Group

	01/01/07 to 31/12/07 %	01/01/06 to 31/12/06 %	01/01/05 to 31/12/05 %	01/01/04 to 31/12/04 %	01/10/02 to 31/12/03 %
Net interest income and other operating income to total assets	**3.8**	3.0	3.0	2.5	2.6
Operating expenses to total assets	**1.4**	1.0	1.1	1.1	1.3
Profit before tax to total assets	**2.1**	1.9	1.9	1.4	1.2
Profit before tax to equity	**21.5**	21.6	24.5	20.4	19.8
Profit after tax to equity	**14.3**	14.0	15.8	12.5	12.7

	31/12/07	31/12/06	31/12/05	31/12/04	31/12/03
Shares in issue of 25c each (thousands)	**8,629**	8,534	8,410	8,228	8,104
Net assets per share (cents)	**254**	224	198	162	144
Earnings per share (cents)	**35.3**	29.5	28.3	19.0	17.4

Financial Highlights in Major Currencies

Group

	Euro 000's	US Dollars 000's	Pounds Sterling 000's
For the year ended 31 December 2007			
Net interest income	15,532	22,901	11,461
Profit before income tax	10,636	15,681	7,848
Profit after income tax	7,084	10,444	5,227
At balance sheet date			
Shareholders' funds	51,039	75,251	37,661
Loans and advances to customers	260,284	383,760	192,059
Amounts owed to customers	418,206	616,598	308,586
Total assets	504,463	743,774	372,234
Per share			
Earnings	0.82	1.21	0.61
Net asset value	5.92	8.72	4.37

At currency rates of exchange ruling on 31 December 2007:

EUR 1 = MTL 0.4293
USD 3.4344 = MTL 1
GBP 1.7188 = MTL 1

Supplementary Information

The Income Statement and the Balance Sheet and the Statement of Changes in Equity as well as Statement for the year ended 31 December 2007 and 31 December 2006 respectively in euro, constitute supplementary information. According to paragraph 57 of IAS 21 'The Effects of Changes in Foreign Exchange Rates', the supplementary information is displayed in euro by applying an exchange rate to both current year and comparative amounts that equals to the exchange rate issued by the Central Bank of Malta as at the balance sheet date of the current year (that is €1 = Lm0.4293 on 31 December 2007).

Supplementary Information
Balance Sheet
At 31 December 2007

	Group		Bank	
	2007	2006	**2007**	2006
	€ 000	€ 000	**€ 000**	€ 000
Assets				
Balances with Central Bank of Malta, treasury bills and cash	**75,181**	102,956	**75,183**	102,955
Cheques in course of collection	**2,229**	1,379	**2,229**	1,379
Derivative financial instruments	**-**	5	**-**	5
Investments	**54,894**	54,677	**51,081**	54,449
Loans and advances to banks	**88,975**	95,984	**82,933**	95,984
Loans and advances to customers	**260,284**	210,142	**260,284**	210,142
Investment in equity accounted investee	**-**	2,662	**-**	-
Investment in subsidiaries	**-**	-	**5,884**	2,970
Intangible assets	**1,288**	-	**-**	-
Property and equipment	**10,464**	7,063	**7,731**	7,063
Investment property	**745**	352	**745**	352
Assets held-for-sale	**-**	247	**-**	247
Deferred tax assets	**2,055**	927	**1,857**	927
Inventories	**804**	107	**235**	107
Trade receivables and other assets	**3,937**	5	**7**	-
Prepayments and accrued income	**3,606**	2,926	**3,242**	2,926
Total assets	**504,462**	479,432	**491,411**	479,506
Liabilities				
Amounts owed to banks	**736**	508	**736**	508
Amounts owed to customers	**418,206**	420,680	**419,676**	420,762
Current tax payable	**1,640**	1,139	**1,193**	1,139
Provisions for liabilities and other charges	**2,262**	554	**526**	554
Other liabilities	**20,431**	7,999	**13,748**	7,976
Accruals and deferred income	**6,688**	4,020	**4,787**	4,020
Total liabilities	**449,963**	434,900	**440,666**	434,959
Equity				
Called up share capital	**5,024**	4,969	**5,024**	4,969
Share premium	**13,590**	12,495	**13,590**	12,495
Property revaluation reserve	**2,287**	2,287	**2,287**	2,287
Investment revaluation reserve	**587**	620	**517**	547
Retained earnings	**29,550**	24,093	**29,327**	24,249
Equity attributable to equity holders of the Bank	**51,038**	44,464	**50,745**	44,547
Minority interest	**3,461**	68	**-**	-
Total equity	**54,499**	44,532	**50,745**	44,547
Total liabilities and equity	**504,462**	479,432	**491,411**	479,506
Memorandum items				
Contingent liabilities	**6,508**	7,522	**6,508**	7,522
Commitments	**60,592**	80,496	**60,592**	80,496

Supplementary Information
Statement of Changes in Equity
For the Year Ended 31 December 2007

Group

	Attributable to equity holders of the Bank								
	Called Up Issued Share Capital € 000	**Share Premium € 000**	**Other Reserves € 000**	**Property Revaluation Reserve € 000**	**Investment Revaluation Reserve € 000**	**Retained Earnings € 000**	**Total € 000**	**Minority Interest € 000**	**Total Equity € 000**
At 1 January 2006	4,899	11,360	259	2,171	731	19,294	38,714	77	38,791
Net gains on available-for-sale assets	-	-	-	-	(49)	-	(49)	2	(47)
Release of net gains on disposal of available-for-sale assets	-	-	-	-	(62)	-	(62)	(14)	(76)
Deferred tax on revalued property	-	-	-	116	-	-	116	-	116
Income and expenses recognised directly in equity	-	-	-	116	(111)	-	5	(12)	(7)
Profit for the year	-	-	-	-	-	5,833	5,833	3	5,836
Transfer of other reserves to retained earnings	-	-	(259)	-	-	259	-	-	-
Dividends payable	-	-	-	-	-	(1,293)	(1,293)	-	(1,293)
Rights issue of ordinary shares	70	1,135	-	-	-	-	1,205	-	1,205
At 31 December 2006	4,969	12,495	-	2,287	620	24,093	44,464	68	44,532
At 1 January 2007	**4,969**	**12,495**	**-**	**2,287**	**620**	**24,093**	**44,464**	**68**	**44,532**
Consolidation adjustment	**-**	**-**	**-**	**-**	**(5)**	**7**	**2**	**-**	**2**
Acquisition of subsidiary	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**3,375**	**3,375**
Net losses on available-for-sale assets	**-**	**-**	**-**	**-**	**(23)**	**-**	**(23)**	**(2)**	**(25)**
Release of net gains on disposal of available-for-sale assets	**-**	**-**	**-**	**-**	**(5)**	**-**	**(5)**	**-**	**(5)**
Income and expenses recognised directly in equity	**-**	**-**	**-**	**-**	**(33)**	**7**	**(26)**	**3,373**	**3,347**
Profit for the year	**-**	**-**	**-**	**-**	**-**	**7,065**	**7,065**	**19**	**7,084**
Dividends payable	**-**	**-**	**-**	**-**	**-**	**(1,615)**	**(1,615)**	**-**	**(1,615)**
Rights issue of ordinary shares	**55**	**1,095**	**-**	**-**	**-**	**-**	**1,150**	**-**	**1,150**
At 31 December 2007	**5,024**	**13,590**	**-**	**2,287**	**587**	**29,550**	**51,038**	**3,460**	**54,498**

Supplementary Information
Statement of Changes in Equity
For the Year Ended 31 December 2007

Bank

	Called Up Issued Share Capital € 000	Share Premium € 000	Other Reserves € 000	Property Revaluation Reserve € 000	Investment Revaluation Reserve € 000	Retained Earnings € 000	Total € 000
At 1 January 2006	4,899	11,360	259	2,171	624	19,467	38,780
Net gains on available-for-sale assets	-	-	-	-	(54)	-	(54)
Release of net gains on disposal of available-for-sale assets	-	-	-	-	(23)	-	(23)
Deferred tax on revalued property	-	-	-	116	-	-	116
Income and expenses recognised directly in equity	-	-	-	116	(77)	-	39
Profit for the year	-	-	-	-	-	5,816	5,816
Transfer of other reserve to retained earnings	-	-	(259)	-	-	259	-
Dividends payable	-	-	-	-	-	(1,293)	(1,293)
Rights issue of ordinary shares	70	1,135	-	-	-	-	1,205
At 31 December 2006	4,969	12,495	-	2,287	547	24,249	44,547
At 1 January 2007	**4,969**	**12,495**	**-**	**2,287**	**547**	**24,249**	**44,547**
Net losses on available-for-sale assets	**-**	**-**	**-**	**-**	**(25)**	**-**	**(25)**
Release of net gains on disposal of available-for-sale assets	**-**	**-**	**-**	**-**	**(5)**	**-**	**(5)**
Income and expenses recognised directly in equity	**-**	**-**	**-**	**-**	**(30)**	**-**	**(30)**
Profit for the year	**-**	**-**	**-**	**-**	**-**	**6,692**	**6,692**
Dividends payable	**-**	**-**	**-**	**-**	**-**	**(1,614)**	**(1,614)**
Rights issue of ordinary shares	**55**	**1,095**	**-**	**-**	**-**	**-**	**1,150**
At 31 December 2007	**5,024**	**13,590**	**-**	**2,287**	**517**	**29,327**	**50,745**

Supplementary Information
Income Statement
For the Year Ended 31 December 2007

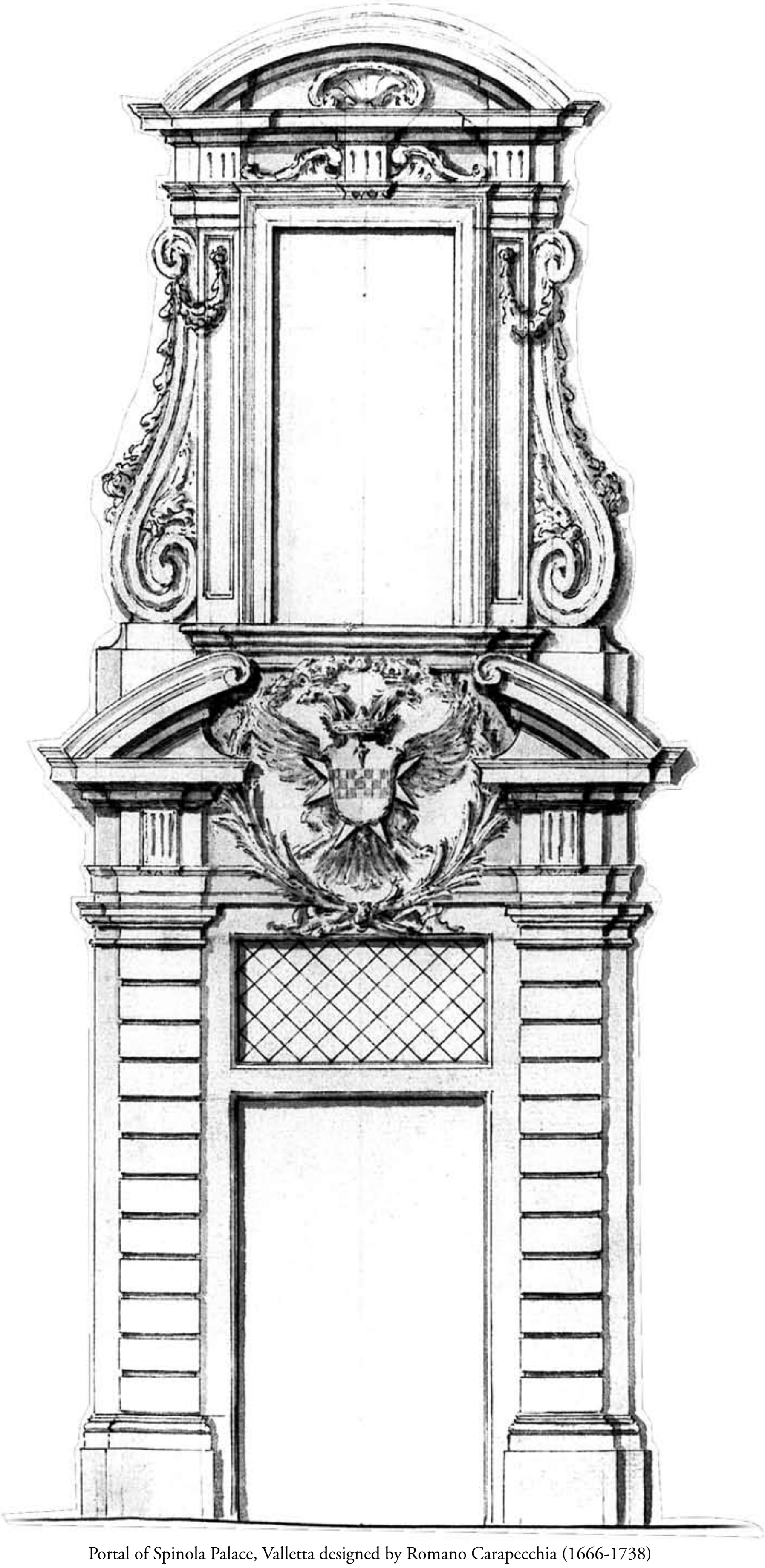
	Group		Bank	
	2007	2006	**2007**	2006
	€ 000	€ 000	**€ 000**	€ 000
Interest receivable and similar income				
- on loans and advances, balances with Central Bank of Malta and treasury bills	**26,208**	20,130	**26,201**	20,137
- on debt and other fixed income instruments	**3,196**	3,242	**3,196**	3,242
Interest expense	**(13,871)**	(11,111)	**(13,876)**	(11,111)
Net interest income	**15,533**	12,261	**15,521**	12,268
Fee and commission receivable	**1,200**	1,134	**1,179**	1,118
Fee and commission payable	**(40)**	(33)	**(40)**	(30)
Net fee and commission income	**1,160**	1,101	**1,139**	1,088
Postal sales and service revenues	**1,214**	-	**-**	-
Dividend income	**93**	79	**93**	79
Net trading income	**710**	759	**710**	759
Net gains on disposal of non-trading financial instruments	**7**	84	**7**	23
Other operating income	**515**	51	**515**	51
Total operating income	**19,232**	14,335	**17,985**	14,268
Employee compensation and benefits	**(4,100)**	(2,970)	**(3,443)**	(2,970)
Other operating costs	**(2,646)**	(1,812)	**(2,173)**	(1,752)
Depreciation	**(331)**	(252)	**(277)**	(252)
Provision for liabilities and other charges	**(21)**	(23)	**(21)**	(23)
Net impairment losses	**(1,863)**	(284)	**(1,863)**	(284)
Operating profit	**10,271**	8,994	**10,208**	8,987
Share of profit of equity accounted investee (net of tax)	**366**	12	**-**	-
Profit before taxation	**10,637**	9,006	**10,208**	8,987
Taxation	**(3,552)**	(3,174)	**(3,515)**	(3,172)
Profit for the year	**7,085**	5,832	**6,693**	5,815
Attributable to:				
Equity holders of the Bank	**7,066**	5,830	**6,693**	5,815
Minority interest	**19**	2	**-**	-
	7,085	5,832	**6,693**	5,815
Earnings per share	**82c2**	68c7	**77c8**	68c5

Supplementary Information
Cash Flow Statement
For the Year Ended 31 December 2007

	Group		Bank	
	2007	2006	**2007**	2006
	€ 000	€ 000	**€ 000**	€ 000
Cash flows from operating activities				
Interest and commission receipts	**25,281**	25,565	**25,281**	25,556
Interest and commission payments	**(13,420)**	(10,999)	**(13,420)**	(10,999)
Payments to employees and suppliers	**(5,425)**	(4,831)	**(5,378)**	(4,768)
Operating profit before changes in operating assets and liabilities	**6,436**	9,735	**6,483**	9,789
(Increase)/decrease in operating assets:				
Treasury bills	**(2,276)**	18,230	**(2,276)**	18,230
Deposits with Central Bank of Malta	**(4,435)**	(8,365)	**(4,435)**	(8,365)
Loans and advances to banks and customers	**(45,973)**	(32,022)	**(45,973)**	(31,912)
Other receivables	**(738)**	(382)	**(738)**	(382)
Increase/(decrease) in operating liabilities:				
Amounts owed to customers	**(1,076)**	34,582	**(1,085)**	34,663
Other payables	**5,770**	(14)	**5,770**	(14)
Net cash (used in)/from operations	**(42,292)**	21,764	**(42,254)**	22,009
Tax paid	**(4,375)**	(2,555)	**(4,375)**	(2,555)
Net cash (used in)/from operating activities c/f	**(46,667)**	19,209	**(46,629)**	19,454

Supplementary Information
Cash Flow Statement
For the Year Ended 31 December 2007

	Group		Bank	
	2007	2006	**2007**	2006
	€ 000	€ 000	**€ 000**	€ 000
Net cash (used in)/from operating activities b/f	**(46,667)**	19,209	**(46,629)**	19,454
Cash flows from investing activities				
Dividends received	**93**	51	**93**	51
Interest received from investments	**4,461**	4,815	**4,463**	4,815
Proceeds on maturity/disposal of investments	**4,635**	4,256	**4,635**	4,039
Purchase of investments	**(1,479)**	(4,193)	**(1,479)**	(4,193)
Investment in equity accounted investee	**-**	(2,651)	**-**	-
Investment in subsidiary	**-**	-	**(2,912)**	(2,679)
Purchase of property and equipment	**(943)**	(196)	**(943)**	(196)
Acquisition of interests in subsidiaries (net of cash acquired)	**2,632**	-	**-**	-
Net cash flows from investing activities	**9,399**	2,082	**3,857**	1,837
Cash flows from financing activities				
Dividends paid	**(464)**	(89)	**(464)**	(89)
Cash used in financing activities	**(464)**	(89)	**(464)**	(89)
Net (decrease)/increase in cash and cash equivalents	**(37,732)**	21,202	**(43,236)**	21,203
Cash and cash equivalents at beginning of year	**173,790**	152,588	**173,790**	152,588
Cash and cash equivalents at end of year	**136,058**	173,790	**130,554**	173,790



Portal of Spinola Palace, Valletta designed by Romano Carapecchia (1666-1738)
(Sources: The Courtauld Gallery - London & Denis De Lucca -
Carapecchia: Master of Baroque Architecture in Early Eighteenth Century Malta, Malta, 1999)

LOMBARD

Lombard Bank Malta p.l.c.

Head Office
67 Republic Street Valletta VLT 05 MALTA Tel: 25581117 Fax: 25581151
Branches at: Balzan 25581500; Qormi: 25581300; Sliema: 25581200;
St. Julian's 25581400; Valletta: 25581100; Victoria Gozo 25581600
www.lombardmalta.com