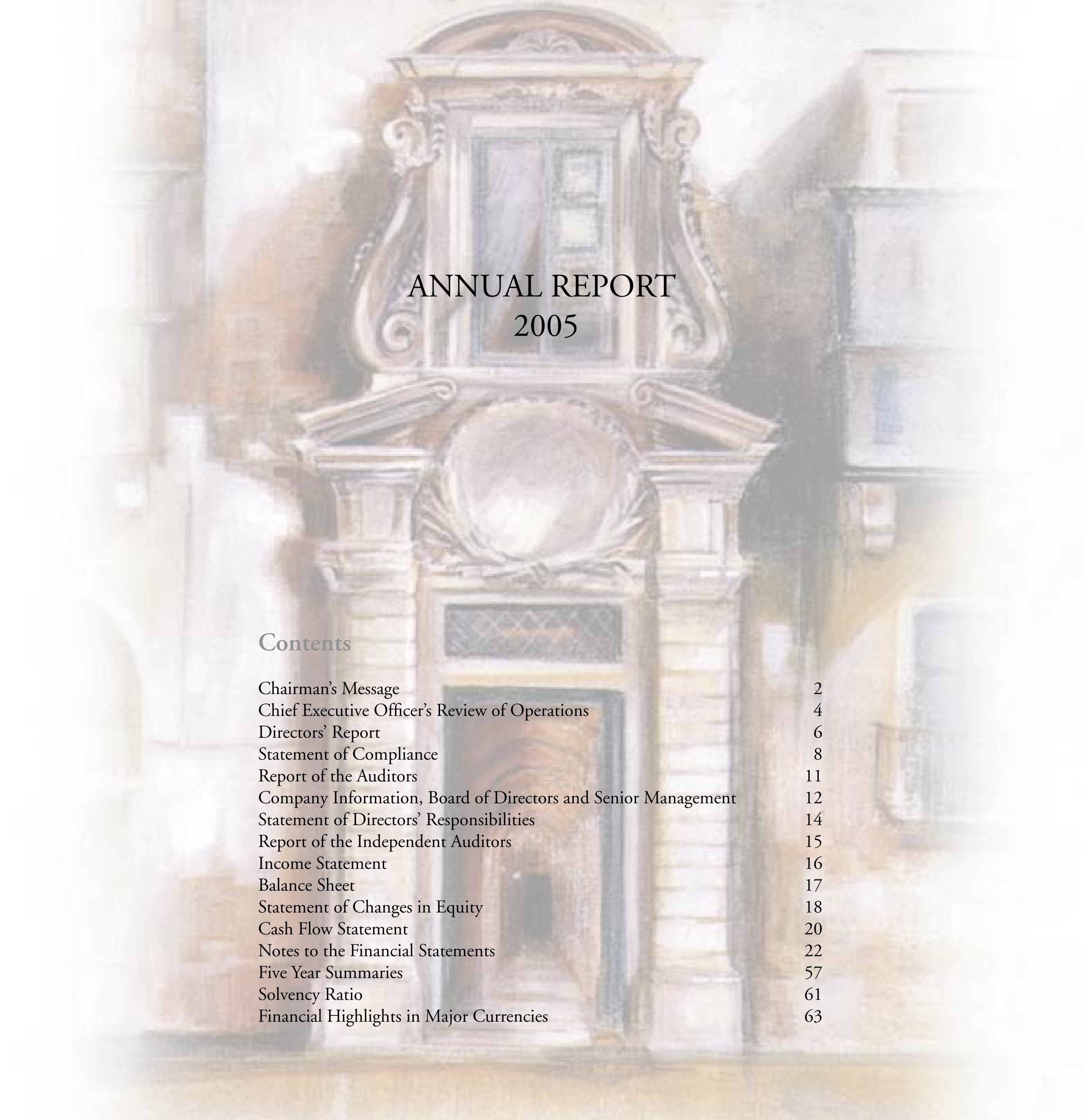
LOMBARD
Lombard Bank Malta p.l.c.

2005
ANNUAL REPORT

LOMBARD

Lombard Bank Malta p.l.c.

HEAD OFFICE
67, Republic Street, Valletta VLT 05 MALTA.
Tel: 25581117 Fax: 25581151 e-mail: mail@lombardmalta.com
www.lombardmalta.com



ANNUAL REPORT 2005

Contents

Chairman's Message
to the Members

It is with pleasure that I report yet another record performance of Lombard Bank. For the financial year ended 31 December 2005 your Bank recorded a profit on ordinary activities before tax of Lm3.666 million. This represents a remarkable increase of 44.2 per cent over that for the previous year. This was achieved during a period characterised by low interest rates and cautious business sentiment.

Malta's accession to the European Union in May 2004 brought about a co-ordinated and well received cultural, economic and regulatory transition towards common European standards. Despite increasing oil prices the economies of the United States of America and a number of emerging market countries continued to be vibrant. To stem potential inflationary pressures (partly caused by the surge of oil prices) the US increased the Fed Funds rate a number of times and the European Central Bank also started raising interest rates. Some European countries show signs of a slight economic upturn and it is hoped that Malta will also benefit from this. The Central Bank of Malta changed the central intervention rate only once by 25 basis points early in the second quarter of the year. Malta joined the Exchange Rate Mechanism II (ERM II) in May 2005 and the Maltese lira was pegged to a central parity rate with the Euro, with the intention of retaining the peg unchanged during the ERM II phase and until 1 January 2008 when Malta is to adopt the Euro as its currency.

The Bank maintained its chosen business strategy of rewarding the loyalty of its customers by providing very competitive interest rates on its deposit products, and at the same time balancing the size of its customer deposit base with the demand for credit thus making efficient use of its liquidity. At the same time, management was able to recognise and take up new business opportunities as these arose, thus ensuring continued growth on a sound basis.

The strong performance of the Bank is evident in its robust financial ratios. The solvency ratio calculated in terms of banking directives stood at 20.4 per cent, against a regulatory minimum requirement of 8 per cent. Cost to Income ratio was a low 38.2 per cent which is enviable for any organisation the size of our Bank. Thus the Bank continues to operate within a strong financial framework and remains well positioned to meet ongoing challenges. Earnings per Share reached 56.6 cents. Return on Equity on a pre-tax basis increased from 20.4 per cent to 24.4 per cent – a most satisfactory ratio, even by international standards. Return on Assets at 1.9 per cent was up on last year's 1.4 per cent while Net Asset Value per share stood at Lm3.96.

It would not be prudent to expect the remarkable rates of growth of the past years to continue unabated into the future. However, the financial position of the Bank has strengthened significantly in the past years and the Board of Directors is confident that the Bank's balance sheet will continue to secure the development of the business. It is therefore proposing for approval of the Annual General Meeting to subdivide the par value of the shares on a two for one basis. This will transform each single Ordinary share of 50 cents into two Ordinary shares of 25 cents each.

The Board of Directors are recommending a gross dividend of 20 cents per share resulting in an increase of 33 per cent over the dividend paid last year. As in previous years, a resolution will be presented to the forthcoming Annual General Meeting requesting approval that shareholders be given the option of receiving the dividend either in cash or by the issue of new shares. The attribution price (at which the new shares to be issued will be determined) has been established as the trade weighted average price of the Bank's shares for the three months up to and including the date of approval of the Accounts, i.e. 28 February 2006, and has been calculated at Lm8.374.

The Bank has maintained high standards of Corporate Governance as declared in the Statement of Compliance. The Bank continues to be committed to ensure maximum transparency and accountability in all its affairs. Risk Management is an integral part of the Bank's organisational

Chairman's Message
to the Members

structure and business strategy. The Bank has a tradition of building quality assets in the lending portfolio which contributed to this year's strong performance. Treasury and investment decisions were also guided by prudent management policies. The Bank remained sensitive to change in market conditions and was thus able to align its strategy with the needs of its customers. This underlines the Bank's commitment to provide financial services that are driven by value. The Bank remains firm in its belief of the need to continue creating value for its shareholders as well as nurture and maximise the relationship with all stakeholders. The Bank is responsive to the needs of society and has, on various occasions, assisted a number of social and philanthropic causes.

As mentioned in the Statement of Compliance the Bank had a number of years ago introduced a clear demarcation between the role and the responsibilities of the Board of Directors and those of the Bank's management. This clear segregation enables the Chief Executive Officer, his management team and the staff to run the Bank's business efficiently and effectively on a day-to-day basis within the delegated authorities and parameters. On behalf of the Board of Directors I congratulate them all on the Bank's achievements over the past years. These achievements have added considerable value to the benefit of all stakeholders of the Bank.

It only remains for me to thank my fellow directors and all staff of the Bank for their hard work and devotion and their support of the efforts of the Bank and their contribution towards another excellent result. I would also like to thank shareholders and customers for their loyalty and trust in Lombard Bank.

Christian Lemmerich
Chairman

Chief Executive Officer's
Review of Operations

These Financial Statements report the consolidated results of Lombard Bank Malta p.l.c., Lombard Stockbrokers Limited and Lombard Asset Managers Limited.

Lombard Stockbrokers Limited (LSL) was the Bank's (51 per cent owned) stockbroking subsidiary. In December 2005 it was decided to terminate the activities of LSL and this as a result of the Bank itself becoming authorised to directly provide to its customers those services that were previously being offered by LSL.

During the year the Bank's share capital was increased by 92,101 Ordinary shares as a result of a number of shareholders opting to receive their dividend (for 2004) in shares rather than cash.

A profit before tax of Lm3.67 million was registered by the Bank for the year ended 31 December 2005 resulting in an increase of 44.2 per cent over 2004.

A main objective during the period was that of consolidating and strengthening the Bank's management and operational capabilities. This gave rise to further efficiencies resulting in an improvement to our Cost to Income Ratio.

The Bank continues to implement a strategy of selectively identifying and building relationships based on providing a bespoke service.

Lombard Asset Managers Limited (LAM) is licensed to provide investment services to collective investment schemes. It is the appointed Manager of Gasan Funds SICAV p.l.c., an open-ended multi-class collective investment scheme licensed in Malta. So far its activity has been a modest one but we now plan to take this company to a higher level by extending its choice and range of services.

Review of Financial Performance

Increased competition in a persisting low interest environment continues. Depositors opted for the less traditional investment products offering higher interest rates with longer maturities. These factors contributed to a decrease in Lm deposit balances. However, customers' balances in foreign currency increased by 19 per cent to Lm40.45 million and resulted in a marginal increase in total customer deposits to Lm165.75 million.

Profitability and Own Funds

Net interest income increased by 30.2 per cent to Lm4.78 million, indicating a market-driven interest rate policy and effective Asset/Liability management. The Bank's core operations continued to enhance the Net Interest Margin, which reached 51.2 per cent.

Administrative Expenses at Lm2.06 million reflect Management's awareness to contain overheads. A Cost/Income ratio of 38.2 per cent was realised and this despite that the Bank does not benefit from economies of scale.

Customer loans and advances increased by 14 per cent while continued high regard to credit quality resulted in a release of Lm0.29 million in related provisions.

Treasury and Market Activity

The Bank's liquidity ratio at 68.6 per cent was well over the statutory minimum of 30 per cent reflecting the high liquidity position that prevails on the Maltese banking market. Loans and advances to banks increased by 19 per cent to reach Lm48.84 million. Fixed income securities held to maturity - largely Malta Government Bonds - decreased by 13.9 per cent as a result of maturities during the year. This coupled with growth in the Bank's lending book led to the

Chief Executive Officer's
Review of Operations

utilisation of balances with the Central Bank of Malta that dropped from Lm10.55 million last year to Lm4.13 million. The credit activity during the 2005 Financial Year resulted in an increase of Lm9.38 million (13.2 per cent) in customer loans and advances, which rose to Lm80.55 million.

Based on a profit after tax of Lm2.37 million for the year Earnings Per Share reached 56.6 cents. Shareholders' Funds are up by 25 per cent to Lm16.62 million and include an increase to Property Revaluation Reserve of Lm0.81 million following a revaluation of the Bank's property as required by International Accounting Standards. Total assets stood at Lm188.03 million.

Return on Equity (pre-tax) increased to 24.4 per cent.

Human Resources

During the year we continued to strengthen the staff complement by the recruitment of Trainee Officers as well as officials holding banking experience.

Importance is given to training and human resources development by providing the necessary programs directed at maximising the individual's potential. The Bank considers its staff to be the single-most important component for a continuation of a successful way forward.

Given our policy of extending a personal service we remain vigilant so as to ensure that the customer is at the centre of all our initiatives and that the necessary human resources are in place to implement this.

Our policy remains that of rewarding the dedication and commitment of staff throughout all grades.

Community Involvement

Lombard Bank well understands its responsibility towards the community. It extends support to a number of voluntary and charitable organisations. The issue of ingots to commemorate events of note has been developed so as to include a philanthropic aspect in that for each ingot sold a predetermined contribution is made to charity. It was gratifying to note that this year's sale of a gold ingot fetched a considerable sum when auctioned for charity.

Such initiatives are set to continue and plans are in hand for us to launch new ones.

Outlook

Maintaining the high rates of performance that the Bank has achieved in recent years shall depend also on favourable economic and market conditions. Nonetheless, Lombard Bank operates from a strong financial base and benefits from the dedication of its staff, loyalty of its customers as well as support of its shareholders. The Bank is thus expected to continue to experience good growth and looks to the future with confidence.

Joseph Said
Chief Executive Officer

Directors' Report

For the Year Ended 31 December 2005

The Group

Lombard Bank Malta p.l.c. ('the Bank') held one subsidiary, Lombard Asset Managers Limited, as at 31st December 2005. Lombard Stockbrokers Limited ceased to form part of the Lombard Group in December 2005.

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.

Lombard Stockbrokers Limited was licensed by the Malta Financial Services Authority as a Category 2 investment services provider and carried on the business of stockbroking. It was 51 per cent owned by the Bank until December 2005 when the shareholding of the Bank was sold to Finco Holdings Limited.

Review of Performance

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

Results for 2005

A profit after taxation of Lm2.363 million was registered for the twelve months ended 31 December 2005.

A gross dividend of 20 cents per share for the twelve months ended 31 December 2005 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.

Capital

During the year under review, the Bank's Ordinary Share capital was increased by 92,101 new Ordinary fully paid shares of Lm0.50 each, after resolutions were adopted at the 2005 Annual General Meeting allowing shareholders the option to receive their dividend either by the issue of new shares or in cash.

Standard Licence Conditions

In accordance with paragraph 10.35 of the Investment Services Guidelines regulated by the Malta Financial Services Authority, licence holders are required to disclose any regulatory breaches of standard licence conditions in this Annual Report. During the period there were no breaches of the standard licence conditions or regulatory sanctions imposed by the Malta Financial Services Authority.

Audit Committee

This committee acts independently of management and is intended to ensure effective internal controls, compliance and accountability. The members on the committee are Christian

Lemmerich, Joseph M. Demajo and Gianfilippo M. Maiga. Members of management and senior officials of the Bank are invited to attend meetings as the need arises. The committee also acts to ensure that high ethical standards are maintained, as explained in the 'Statement of Compliance' 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.

Board of Directors

The following directors served on the Board during the financial period under review.

Joseph M. Demajo, *appointed on 4 April, 2005*
Graham A. Fairclough
Christian Lemmerich, *appointed on 4 April, 2005*
Gianfilippo M. Maiga
Joseph Said
Vittorio Vellano
Michael Zammit

Approved by the Board of Directors on 28 February 2006 and signed on its behalf by:

Christian Lemmerich
Chairman

Joseph Said
Chief Executive Officer

Statement of Compliance

For the Year Ended 31 December 2005

Preamble

The Listing Rules published by the Listing Authority of the Malta Financial Services Authority, require the Board of Directors (the 'Board' or 'Directors') of Lombard Bank Malta p.l.c. ('the Bank') to include a Statement of Compliance providing an explanation of the extent they have adopted the 'Code of Principles of Good Corporate Governance' (the 'Principles').

Compliance

While the Principles are not mandatory, the Board supports initiatives that strengthen corporate governance and has endorsed their adoption except where specific circumstances may not permit such adoption.

The Board of Directors

The Board is made up of five non-executive Directors and two Directors on full-time contracts of service. The Chairman of the Board is elected by the Directors from amongst themselves at the first Board meeting after the Annual General Meeting. As at the date of this Statement the members of the Board are as follows:

	Year when first appointed	No. of shares held in the Bank
Joseph M. Demajo	1999	-
Graham A. Fairclough	2003	-
Christian Lemmerich	1998	-
Gianfilippo M. Maiga	2004	-
Joseph Said	2000	-
Vittorio Vellano	2004	-
Michael Zammit	1995	52

The Directors confirmed Christian Lemmerich, who is a non-executive Director, as Chairman of the Board after the Annual General Meeting in 2005. Joseph Said and Graham A. Fairclough hold the position of Chief Executive Officer and General Manager respectively.

Going Concern

In accordance with the provisions of Listing Rule 9.37.17, the Directors have duly considered the Bank's performance and 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. However, 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 owned by him. Any fractional shareholding in excess of such 15 per cent not applied in appointing a Director shall be entitled to vote for 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. In view of the rules that are provided in the Articles, governing the appointment and retirement of Directors, the Board has so far not considered necessary either the constitution of a Nominations Committee or the applicability of succession planning.

Terms of Appointment

The aggregate maximum amount of remuneration that can be received by the Board for their service is fixed by the shareholders at each Annual General Meeting. This was set at Lm30,000 at the last Annual General Meeting. Since most of the Board is made up of non-executive Directors, the determination of remuneration arrangements for each board member is a matter for the Board as a whole. The Chief Executive Officer and the 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. The remuneration and bonuses of the Chief Executive Officer and the General Manager are approved by the Board of Directors, which effectively carries out the function of Remuneration Committee. The Management approves the remuneration and bonuses of all other members of staff.

Board Meetings

The proceedings of Directors are regulated by the Bank's Articles of Association. The Board normally meets every quarter, but may convene more regularly when it considers this to be necessary. Meetings of the Board follow a formal Agenda that normally includes strategy issues, business performance and credit decisions. Minutes of Board meetings are held by the Company Secretary. It is the practice of the Directors that when a potential conflict of interest may arise in connection with any matter, the potential conflict of interest is declared and the individual concerned refrains from taking part in proceedings relating to the matter or decision. The Board Minutes invariably include a suitable record of such declaration and of the action taken by the individual Director concerned. In the course of discharging his responsibilities, a Director has access to such independent advice as he may deem appropriate for the better performance of his duties. During the 12 months ended 31 December, 2005, the Board met on six occasions.

Internal Control

The Board is responsible for ensuring that adequate processes and procedures exist to ensure effective internal control systems. 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. However, they cannot completely eliminate the risk of material error or fraud. The Board assumes responsibility for:

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

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) Assistant General Managers 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 and the Management to run the Bank with efficiency and effectiveness.

Board Committees

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

Statement of Compliance

For the Year Ended 31 December 2005

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.

The Audit Committee 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 processes. The terms of reference of the Audit Committee ensure that it acts separately and independently of Management. Christian Lemmerich, Gianfilippo M. Maiga and Joseph M. Demajo, all non-executive Directors, sit on the Audit Committee. 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.

Any Directors that may be appointed to these Board 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.

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.

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 information. 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 possibility 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 Accounts 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 28 February 2006 and signed on its behalf by:

Christian Lemmerich
Chairman

Joseph Said
Chief Executive Officer

Report of the Auditors
to the Shareholders of Lombard Bank Malta p.l.c.

Pursuant to Listing Rule 8.28 issued by the Listing Authority

Listing Rules 8.26 and 8.27 issued by the Listing Authority, require the Bank's directors to include in their Annual Report a Statement of Compliance to the extent to which they have adopted the Code of Principles of Good Corporate Governance and the effective measures they have taken to ensure compliance with these Principles.

Our responsibility, as independent auditors of the Bank, is laid down by Listing Rule 8.28, 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 statement on internal control included in the Statement of Compliance covers all risks and controls, or form an opinion on 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 Statement of Compliance set out on pages 8 to 10 provides the disclosures required by the Listing Rules 8.26 and 8.27 issued by the Listing Authority.

Noel Mizzi (Partner) for and on behalf of

KPMG
Certified Public Accountants
Portico Building
Marina Street
Pieta'
Malta

Date

Company Information

Directors' interests in the share capital of the Bank or in any related company at 31 December 2005

Michael Zammit	52 shares

Registered shareholders with 5 per cent or more of the share capital at 31 December 2005

Banca Unione Di Credito	26.55 %
Cramer & Cie SA obo customers	10.01 %
First Gemini p.l.c.	5.15 %

Number of shareholders at 31 December 2005

The total number of registered shareholders is 1,260 of the same class.

Number of shareholders at 31 December 2005 analysed by range:

Range	Total Shareholders	Shares
1 – 500	399	77,255
501 – 1,000	444	300,442
1,001 – 5,000	366	639,438
5,001 – 10,000	24	162,368
10,001 and over	27	3,025,857
Total	**1,260**	**4,205,360**

Board of Directors and Senior Management

Directors
Christian Lemmerich (Chairman)
Joseph M. Demajo
Graham A. Fairclough F.C.I.B.
Gianfilippo M. Maiga
Joseph Said F.C.I.B.
Vittorio Vellano
Michael Zammit

Company Secretary
Graham A. Fairclough F.C.I.B.

Chief Executive Officer
Joseph Said F.C.I.B.

General Manager
Graham A. Fairclough F.C.I.B.

Assistant General Managers
Anthony Bezzina A.C.I.B.
Paul E. Debono M. Jur. (Int. Law), LL.D.
Eugene Farrugia M.B.A. (e-business), B.A. (Hons) Bus. Mangt., A.C.I.B.
George R. Gusman A.C.I.B.
Aurelio Theuma M.B.A. (Henley), B.A. (Hons) Acct., F.I.A., C.P.A.
Carmel Vassallo A.C.I.B., M.I.M.I.S.

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FINANCIAL STATEMENTS

for the period 1 January 2005 to 31 December 2005

2005

Statement of Directors' Responsibilities

The Companies Act, 1995 requires the Directors to prepare financial statements for each financial period which give a true and fair view of the financial position of the Bank and the Group as at the end of the financial period and of the profit or loss of the Bank and the Group for that period in accordance with the requirement of International Financial Reporting Standards.

In preparing such financial statements, the Directors are required to:

- adopt the going concern basis unless it is inappropriate to presume that the Bank and the Group will continue in business;
- select suitable accounting policies and apply them consistently from one accounting period to another;
- make judgements and estimates that are reasonable and prudent;
- account for income and charges relating to the accounting period on the accruals basis; and
- value separately the components of asset and liability items on a prudent basis.

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 Companies Act, 1995 and the Banking Act, 1994.

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 and Group'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 Companies Act, 1995 and the Banking Act, 1994 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 on 28 February 2006.

Christian Lemmerich
Chairman

Joseph Said
Chief Executive Officer

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

We have audited the financial statements set out on pages 16 to 56. As described on page 14, these financial statements are the responsibility of the Bank's Directors. Our responsibility is to express an opinion on these financial statements based on our audit. We are also required to report whether we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purpose of our audit, whether in our opinion proper books of account have been kept by the Bank so far as appears from our examination thereof and whether these financial statements are in agreement with the books.

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Directors, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion on the financial statements.

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

In our opinion, the financial statements give a true and fair view of the financial position of the Bank and the Group as at 31 December 2005 and of the results of their operations and their cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union, and have been properly prepared in accordance with the provisions of the Companies Act, 1995 and the Banking Act, 1994 enacted in Malta.

Noel Mizzi (Partner) for and on behalf of

KPMG
Certified Public Accountants
Portico Building
Marina Street
Pietà MSD 08

28 February 2006

Income Statement

For the Year Ended 31 December 2005

		Group		Bank	
		2005	2004	**2005**	2004
	Note	**Lm 000**	Lm 000	**Lm 000**	Lm 000
Interest receivable and similar income					
- on loans and advances, balances with Central Bank of Malta and treasury bills	2	**7,801**	6,844	**7,803**	6,844
- on debt and other fixed income instruments	2	**1,530**	1,639	**1,530**	1,638
Interest expense	3	**(4,554)**	(4,814)	**(4,554)**	(4,815)
Net interest income		**4,777**	3,669	**4,779**	3,667
Fees and commissions receivable		**444**	443	**434**	416
Fees and commissions payable		**(16)**	(23)	**(14)**	(12)
Net fees and commission income		**428**	420	**420**	404
Dividend income	4	**27**	40	**27**	40
Net trading income	5	**352**	414	**352**	414
Net gains on disposal of non-trading financial instruments	6	**12**	86	**11**	86
Other operating income		**32**	16	**30**	16
Operating income		**5,628**	4,645	**5,619**	4,627
Administrative expenses	7	**(2,056)**	(1,928)	**(2,021)**	(1,896)
Depreciation		**(93)**	(78)	**(94)**	(76)
Provision for liabilities and other charges	28	**(103)**	(6)	**(103)**	(6)
Net impairment reversals/(losses)	8	**290**	(73)	**290**	(73)
Amortisation of goodwill	20	**-**	(18)	**-**	-
Profit before taxation	9	**3,666**	2,542	**3,691**	2,576
Taxation	10	**(1,303)**	(987)	**(1,303)**	(985)
Profit for the year		**2,363**	1,555	**2,388**	1,591
Attributable to:					
Equity holders of the Bank		**2,369**	1,558	**2,388**	1,591
Minority interest		**(6)**	(3)	**-**	-
		2,363	1,555	**2,388**	1,591
Earnings per share	11	**56c6**	38c0	**57c0**	38c8

Balance Sheet

At 31 December 2005

	Note	Group 2005 Lm 000	Group 2004 Lm 000	Bank 2005 Lm 000	Bank 2004 Lm 000
Assets					
Balances with Central Bank of Malta, Treasury Bills and cash	12	**29,511**	40,312	**29,511**	40,312
Cheques in course of collection		**550**	334	**550**	334
Derivative financial instruments	13	**-**	16	**-**	16
Investments	14	**23,599**	26,794	**23,414**	26,639
Loans and advances to banks	15	**48,839**	41,045	**48,839**	41,045
Loans and advances to customers	16	**78,738**	69,067	**78,785**	69,079
Shares in subsidiary companies	17	**-**	-	**125**	154
Property, plant and equipment	18	**3,057**	1,899	**3,057**	1,898
Investment property	19	**151**	151	**151**	151
Deferred tax asset	20	**291**	602	**291**	602
Other assets		**23**	36	**21**	30
Prepayments and accrued income	21	**3,275**	2,737	**3,275**	2,737
Total assets		**188,034**	182,993	**188,019**	182,997
Liabilities					
Derivative financial instruments	13	**-**	15	**-**	15
Amounts owed to banks	22	**65**	102	**65**	102
Amounts owed to customers	23	**165,752**	164,578	**165,752**	164,636
Current taxation payable		**195**	59	**195**	58
Provisions for liabilities and charges	28	**248**	134	**248**	134
Other liabilities	24	**3,441**	3,023	**3,431**	3,002
Accruals and deferred income	25	**1,680**	1,720	**1,680**	1,720
Total liabilities		**171,381**	169,631	**171,371**	169,667
Equity					
Called up issued share capital	26	**2,103**	2,057	**2,103**	2,057
Share premium		**4,877**	4,537	**4,877**	4,537
Other reserve	27	**111**	111	**111**	111
Property revaluation reserve	27	**932**	126	**932**	126
Investment revaluation reserve	27	**314**	148	**268**	129
Retained earnings		**8,283**	6,321	**8,357**	6,370
Equity attributable to shareholders of the Bank		**16,620**	13,300	**16,648**	13,330
Minority interests		**33**	62	**-**	-
Total equity		**16,653**	13,362	**16,648**	13,330
Total liabilities and equity		**188,034**	182,993	**188,019**	182,997
Memorandum items					
Contingent liabilities	28	**3,261**	2,999	**3,261**	2,999
Commitments	29	**24,023**	22,673	**24,023**	22,673

The financial statements on pages 16 to 56 were approved by the Board of Directors on 28 February 2006 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 2005

Group	Attributable to equity holders of the parent								
	Called up Issued Share Capital Lm 000	Share Premium Lm 000	Other Reserve 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 2004	2,026	4,341	111	126	41	5,000	11,645	61	11,706
Net gains on available-for-sale assets	-	-	-	-	162	-	162	4	166
Release of net gains on disposal of available-for-sale assets	-	-	-	-	(55)	-	(55)	-	(55)
Net gains not recognised in the income statement	-	-	-	-	107	-	107	4	111
Profit for the year	-	-	-	-	-	1,558	1,558	(3)	1,555
Dividends payable	-	-	-	-	-	(237)	(237)	-	(237)
Rights issue of ordinary shares	31	196	-	-	-	-	227	-	227
At 31 December 2004	2,057	4,537	111	126	148	6,321	13,300	62	13,362
At 1 January 2005	**2,057**	**4,537**	**111**	**126**	**148**	**6,321**	**13,300**	**62**	**13,362**
Net gains on available-for-sale assets	-	-	-	-	**175**	-	**175**	**9**	**184**
Release of net gains on disposal of available-for-sale assets	-	-	-	-	**(9)**	-	**(9)**	-	**(9)**
Revaluation of property	-	-	-	**1,017**	-	-	**1,017**	-	**1,017**
Deferred tax on revalued property	-	-	-	**(211)**	-	-	**(211)**	-	**(211)**
Net gains not recognised in the income statement	-	-	-	**806**	**166**	-	**972**	**9**	**981**
Profit for the year	-	-	-	-	-	**2,369**	**2,369**	**(6)**	**2,363**
Disposal of subsidiary	-	-	-	-	-	**(6)**	**(6)**	**(32)**	**(38)**
Dividends payable	-	-	-	-	-	**(401)**	**(401)**	-	**(401)**
Rights issue of ordinary shares	**46**	**340**	-	-	-	-	**386**	-	**386**
At 31 December 2005	**2,103**	**4,877**	**111**	**932**	**314**	**8,283**	**16,620**	**33**	**16,653**

Statement of Changes in Equity

For the Year Ended 31 December 2005

Bank

	Called up Issued Share Capital Lm 000	Share Premium Lm 000	Other Reserve Lm 000	Property Revaluation Reserve Lm 000	Investment Revaluation Reserve Lm 000	Retained Earnings Lm 000	Total Lm 000
At 1 January 2004	2,026	4,341	111	126	36	5,016	11,656
Net gains on available-for-sale assets	-	-	-	-	148	-	148
Release of net gains on disposal of available-for-sale assets	-	-	-	-	(55)	-	(55)
Net gains not recognised in the income statement	-	-	-	-	93	-	93
Profit for the year	-	-	-	-	-	1,591	1,591
Dividends payable	-	-	-	-	-	(237)	(237)
Rights issue of ordinary shares	31	196	-	-	-	-	227
At 31 December 2004	2,057	4,537	111	126	129	6,370	13,330
At 1 January 2005	**2,057**	**4,537**	**111**	**126**	**129**	**6,370**	**13,330**
Net gains on available-for-sale assets	**-**	**-**	**-**	**-**	**148**	**-**	**148**
Release of net gains on disposal of available-for-sale assets	**-**	**-**	**-**	**-**	**(9)**	**-**	**(9)**
Revaluation of property	**-**	**-**	**-**	**1,017**	**-**	**-**	**1,017**
Deferred tax on revalued property	**-**	**-**	**-**	**(211)**	**-**	**-**	**(211)**
Net gains not recognised in income statement	**-**	**-**	**-**	**806**	**139**	**-**	**945**
Profit for the year	**-**	**-**	**-**	**-**	**-**	**2,388**	**2,388**
Dividends payable	**-**	**-**	**-**	**-**	**-**	**(401)**	**(401)**
Rights issue of ordinary shares	**46**	**340**	**-**	**-**	**-**	**-**	**386**
At 31 December 2005	**2,103**	**4,877**	**111**	**932**	**268**	**8,357**	**16,648**

Cash Flow Statement

For the Year Ended 31 December 2005

	Group		Bank	
	2005	2004	**2005**	2004
	Lm 000	Lm 000	**Lm 000**	Lm 000
Cash flows from operating activities				
Interest and commission receipts	**6,888**	6,657	**6,885**	6,635
Interest and commission payments	**(4,626)**	(5,139)	**(4,625)**	(5,129)
Payments to employees and suppliers	**(2,036)**	(1,896)	**(2,007)**	(1,875)
Operating profit/(loss) before changes in operating assets and liabilities	**226**	(378)	**253**	(369)
(Increase)/decrease in operating assets:				
Treasury Bills	**7,928**	(12,831)	**7,928**	(12,831)
Deposits with Central Bank of Malta	**6,417**	(3,716)	**6,417**	(3,716)
Loans and advances to banks and customers	**(9,412)**	(4,212)	**(9,416)**	(4,235)
Other receivables	**(236)**	356	**(236)**	356
Increase/(decrease) in operating liabilities:				
Amounts owed to customers	**1,139**	(3,026)	**1,116**	(3,019)
Other payables	**439**	(736)	**439**	(736)
Net cash from/(used in) operations	**6,501**	(24,543)	**6,501**	(24,550)
Tax paid	**(1,141)**	(1,090)	**(1,141)**	(1,089)
Net cash from/(used in) operating activities c/f	**5,360**	(25,633)	**5,360**	(25,639)

Cash Flow Statement

For the Year Ended 31 December 2005

	Note	Group 2005 Lm 000	Group 2004 Lm 000	Bank 2005 Lm 000	Bank 2004 Lm 000
Net cash from/(used in) operating activities b/f		**5,360**	(25,633)	**5,360**	(25,639)
Cash flows from investing activities					
Dividends received		**27**	40	**27**	40
Interest received from investments		**2,710**	2,208	**2,710**	2,207
Proceeds on maturity/disposal of investments		**3,468**	383	**3,468**	363
Purchase of investments		-	(1,456)	-	(1,429)
Proceeds from disposal of property, plant and equipment		-	1	-	1
Purchase of property, plant and equipment		**(237)**	(445)	**(237)**	(445)
Proceeds from disposal of subsidiary		**31**	-	**31**	-
Net cash flows from investing activities		**5,999**	731	**5,999**	737
Cash flows from financing activities					
Dividends paid		**(15)**	(10)	**(15)**	(10)
Cash used in financing activities		**(15)**	(10)	**(15)**	(10)
Net increase/(decrease) in cash and cash equivalents		**11,344**	(24,912)	**11,344**	(24,912)
Cash and cash equivalents at beginning of year		**54,172**	79,084	**54,172**	79,084
Cash and cash equivalents at end of year	30	**65,516**	54,172	**65,516**	54,172

Notes to the Financial Statements

For the Year Ended 31 December 2005

1 Significant accounting policies

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

1.1 *Statement of compliance*

The financial statements have been prepared and presented in accordance with the provisions of the Banking Act, 1994 and the Companies Act, 1995 (the 'Act') enacted in Malta, which requires adherence to International Financial Reporting Standards (IFRSs) and their interpretations adopted by the European Union.

The Act specifies that in the event that any one of its provisions is in conflict or not compatible with IFRSs and their interpretation adopted by the European Union or its application is incompatible with the obligation for the financial statements to give a true and fair view, that provision shall be departed from in order to give a true and fair view.

On 1 January 2005 the Group adopted the revisions to IFRSs that were effective from this date. The adoption of these revisions did not result in substantial changes to the Group's accounting policies with the exception of IAS 39 (revised): Financial Instruments: Recognition and Measurement, which has resulted in a change in the accounting policy relating to the classification of financial assets. Revisions to this standard were applied by the Group retrospectively.

1.2 *Basis of preparation*

The financial statements are presented in Maltese Lira, which currency is the functional currency of the Bank and its subsidiary. They are prepared on the historical cost basis except that derivative financial instruments and financial instruments classified as available-for-sale are stated at their fair value.

The preparation of financial statements in conformity with IFRSs as adopted for use in the European Union requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The 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 if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of IFRSs that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 35.

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

1.3 *Basis of consolidation*

The consolidated financial statements of the Bank for the year ended 31 December 2005 comprise the financial statements of Lombard Bank Malta p.l.c. ('the Bank') and its subsidiary company, Lombard Asset Managers Limited and the results of operation of Lombard Stockbrokers Limited up to the date of disposal (collectively referred to as 'the Group') (see note 17).

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

1.3.1 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.

1.3.2 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.

1.4 *Financial instruments*

1.4.1 Classification

Financial assets or financial liabilities at fair value through profit or loss are financial assets or liabilities 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. These include derivative contracts, and liabilities from short sales of financial instruments. All trading derivatives in a net receivable position (positive fair value) are reported as trading assets. All trading derivatives in a net payable position (negative fair value) are reported as trading liabilities.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than those that the Group intends to sell immediately or in the near term which are classified as held-for-trading and those that the Group upon initial recognition designates as at fair value through profit or loss, those that the Group upon initial recognition designates as available-for-sale or those for which the holder may not recover substantially all of its initial investments, other than because of credit deterioration, which are classified as available-for-sale.

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Group has the positive intention and ability to hold to maturity, other than those that the Group upon initial recognition designates as at fair value through profit or loss, those that the Group designates as available-for-sale and those that meet the definition of loans and receivables. These include certain debt investments. If the Group were to sell other than an insignificant amount of held-to-maturity assets, the entire category would be tainted and reclassified as available-for-sale.

Available-for-sale assets are those non-derivative financial assets that are designated as available-for-sale or are not classified as loans and receivables, held-to-maturity investments or financial assets at fair value through profit or loss.

1.4.2 Recognition

The Group recognises financial assets at fair value through profit or loss and available-for-sale assets on the date it commits to purchase the assets. From this date, any gains or losses arising from changes in fair value of the assets are recognised. In the case of derivative financial instruments, this is on the date on which the derivative contract is entered into.

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

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

1.4.3 Measurement

Financial assets and financial liabilities are recognised initially at their fair value plus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

Subsequent to initial recognition all financial assets, including derivative financial assets, are measured at fair value, without any deduction for transaction costs that may occur on sale or other disposal, except for loans and receivables and held-to-maturity investments which are measured at amortised cost using the effective interest method and investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, which are measured at cost.

Subsequent to initial recognition all financial liabilities are measured at amortised cost using the effective interest method, except for financial liabilities at fair value through profit or loss which are measured at fair value. Premia and discounts, including initial transactions costs, are included in the carrying amount of the related instrument and amortised over the period to maturity based on the effective interest rate of the instrument.

1.4.4 Fair value measurement principles

The fair value of financial instruments is based on their quoted market price at the balance sheet date without any deduction for transaction costs. If a quoted market price is not available, the fair value of the instrument is estimated using pricing models or discounted cash flow techniques.

Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimate and the discount rate is a market related rate at the balance sheet date for an instrument with similar terms and conditions. Where pricing models are used, inputs are based on market related measures at the balance sheet date.

The fair value of derivatives that are not exchange traded is estimated at the amount that the Group would receive or pay to terminate the contract at the balance sheet date taking into account current market conditions and the current credit worthiness of the counter parties.

1.4.5 Gains and losses on subsequent measurement

Gains or losses arising from a change in the fair value of a financial asset or financial liability that is not part of a hedging relationship is recognised as follows:

- a gain or loss on a financial asset or liability classified as at fair value through profit or loss is recognised in the income statement;

- a gain or loss on an available-for-sale financial asset shall be recognised directly in equity, except for impairment losses and foreign exchange gains and losses, until the financial asset is derecognised, at which time the cumulative gain or loss previously recognised in equity is recognised the income statement. However, interest on available-for-sale debt securities calculated using the effective interest method is recognised in the income statement.

For financial assets and financial liabilities carried at amortised cost, a gain or loss is recognised in the income statement when the financial asset or liability is derecognised or impaired, and through the amortisation process.

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

1.4.6 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.

1.4.7 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.

1.5 *Investments in subsidiaries*

Investments in subsidiaries are shown in the balance sheet of the Bank at cost less impairment losses (see accounting policy 1.8).

1.6 *Property, plant and equipment*

1.6.1 Owned assets

Items of property, plant and equipment are initially measured at cost.

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 the income statement thereafter.

Items of property, plant and equipment are stated net of accumulated depreciation (see note 1.6.3) and impairment losses (see note 1.8).

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

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

1.6.2 Subsequent costs

The Group recognises in the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item when that cost is incurred if it is probable that the future economic benefits embodied with the item will flow to the Group and the cost of the item can be measured reliably. All other costs are recognised in the income statement as an expense as incurred.

1.6.3 Depreciation

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment which vary as follows:

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

The residual value, if not insignificant, is reassessed annually.

At balance sheet date, the carrying amounts of property, plant and equipment are reviewed for indication of impairment.

1.7 *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. Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset as determined by the directors of the Bank.

Changes in fair value are recognised in the income statement.

1.8 *Impairment*

The carrying amounts of the Group's assets, other than deferred tax assets (see accounting policy 1.15), 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). 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 the income statement 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.

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

1.8.1 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 the income statement. 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.

1.8.2 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 the income statement is the difference between the acquisition cost and current fair value, less any impairment loss on that financial asset previously recognised in the income statement.

1.8.3 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.

1.8.4 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.

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

An impairment loss in respect of an investment in an equity instrument classified as available-for-sale is not reversed through income statement. 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 the income statement, the impairment loss shall be reversed, with the amount of the reversal recognised in the income statement.

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.

1.9 *Cash and cash equivalents*

Cash and cash equivalents for the purpose of the cash flow statement include highly liquid assets that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value. Such assets are normally those with less than three months' maturity from the date of purchase and comprise the following:

- cash in hand and deposits repayable on demand or with a contractual period to maturity of less than three months with any Bank or financial institution; and
- advances from Banks repayable within three months from the date of the advance.

1.10 *Provisions*

A provision is recognised in the balance sheet when the Group has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

1.11 *Revenue recognition*

1.11.1 Interest income

Interest income for all interest-bearing financial assets is recognised in the income statement as it accrues using the effective interest rates of the financial assets to which they relate. Interest on impaired financial assets is recognised at the original effective interest rate of the financial asset applied to the carrying amount as reduced by any allowance for impairment.

1.11.2 Fee and commission income

Fee and commission income is accounted for in the period when receivable, except where the fee is charged to cover the cost of a continuing service to, or risk borne for, the customer, or is interest in nature. In these cases, the fee is recognised on an appropriate basis over the relevant period.

1.11.3 Dividend income

Dividend income from equity shares is recognised in the income statement on the date the entity's right to receive payments is established.

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

1.12 *Employee benefits*

The Bank contributes towards the State pension defined contribution plan in accordance with local legislation and to which it has no commitment beyond the payment of fixed contributions. Obligations for contributions to the defined contribution plan are recognised as an expense during the year in which these are incurred.

1.13 *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 the income statement. 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.

1.14 *Operating lease payments*

Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease and are included within administrative expenses.

1.15 *Income tax*

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the income statement 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 substantially 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 liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

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 reduced to the extent that it is no longer probable that the related tax benefit will be realised.

1.16 *Segment reporting*

A segment is a distinguishable component of the Group that is engaged either in providing products or services to a particular customer Group (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 other segments.

2 **Interest income**

	Group		Bank	
	2005	2004	**2005**	2004
	Lm 000	Lm 000	**Lm 000**	Lm 000
On loans and advances to banks	**1,320**	786	**1,323**	787
On loans and advances to customers	**5,314**	4,324	**5,313**	4,323
On balances with Central Bank of Malta	**362**	1,164	**362**	1,164
On Treasury Bills	**805**	570	**805**	570
	7,801	6,844	**7,803**	6,844
On debt and other fixed income instruments	**1,565**	1,665	**1,565**	1,664
Net amortisation of premia and discounts	**(35)**	(26)	**(35)**	(26)
	1,530	1,639	**1,530**	1,638

3 **Interest expense**

	Group		Bank	
	2005	2004	**2005**	2004
	Lm 000	Lm 000	**Lm 000**	Lm 000
On amounts owed to banks	**8**	4	**5**	4
On amounts owed to customers	**4,546**	4,810	**4,549**	4,811
	4,554	4,814	**4,554**	4,815

4 **Dividend income**

	Group		Bank	
	2005	2004	**2005**	2004
	Lm 000	Lm 000	**Lm 000**	Lm 000
From available-for-sale equity shares	**27**	40	**27**	40

5 **Net trading income**

	Group		Bank	
	2005	2004	**2005**	2004
	Lm 000	Lm 000	**Lm 000**	Lm 000
Profit on foreign exchange activities	**352**	413	**352**	413
Fair value movements on derivative financial instruments	-	1	-	1
	352	414	**352**	414

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

	Group		Bank	
	2005	2004	**2005**	2004
	Lm 000	Lm 000	**Lm 000**	Lm 000
Net revaluation gains on available-for-sale assets transferred from equity	**10**	86	**9**	86
Profit on disposal of investment in subsidiary	**2**	-	**2**	-
	12	86	**11**	86

7 **Administrative expenses**

7.1

	Group		Bank	
	2005	2004	**2005**	2004
	Lm 000	Lm 000	**Lm 000**	Lm 000
Staff costs:				
- wages, salaries and allowances	**1,136**	1,109	**1,136**	1,109
- defined contribution social security costs	**75**	56	**75**	56
Other administrative expenses	**845**	763	**810**	731
	2,056	1,928	**2,021**	1,896

7 **Administrative expenses** *(continued)*

7.2

	Group		Bank	
	2005 Number	2004 Number	**2005 Number**	2004 Number
Average number of employees				
Executive and senior managerial	**11**	13	**11**	13
Other managerial, supervisory and clerical	**112**	98	**112**	98
Others	**7**	7	**7**	7
	130	118	**130**	118

8 **Net impairment reversals/(losses)**

	Group		Bank	
	2005 Lm 000	2004 Lm 000	**2005 Lm 000**	2004 Lm 000
Write downs:				
Loans and advances to customers				
- specific allowances	**(283)**	(226)	**(283)**	(226)
- collective allowances	**(104)**	(31)	**(104)**	(31)
	(387)	(257)	**(387)**	(257)
Reversal of write downs:				
Loans and advances to customers				
- specific allowances	**677**	204	**677**	204
	677	204	**677**	204
Bad debts written off	-	(20)	-	(20)
Net impairment reversals/(losses)	**290**	(73)	**290**	(73)

9 Profit before taxation

	Group		Bank	
	2005	2004	**2005**	2004
	Lm 000	Lm 000	**Lm 000**	Lm 000
Profit before taxation is stated after charging and crediting the following:				
After charging				
Auditors' remuneration	**11**	10	**9**	8
Rental charge	**41**	29	**41**	29
After crediting				
Directors' emoluments:				
- Fees	**24**	16	**24**	16
- Other emoluments	**107**	87	**107**	87
Rental income	**16**	16	**16**	16

10 Tax on profit

10.1 Recognised in the income statement

	Group		Bank	
	2005	2004	**2005**	2004
	Lm 000	Lm 000	**Lm 000**	Lm 000
Current taxation				
Current tax expense	**1,279**	906	**1,279**	904
Under provision in prior year	**-**	19	**-**	19
	1,279	925	**1,279**	923
Deferred taxation				
Origination and reversal of temporary differences	**24**	62	**24**	62
	1,303	987	**1,303**	985

10 **Tax on profit** *(continued)*

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

	Group		Bank	
	2005	2004	**2005**	2004
	Lm 000	Lm 000	**Lm 000**	Lm 000
Profit before taxation	**3,666**	2,542	**3,691**	2,576
Tax at the applicable rate of 35%	**1,283**	890	**1,292**	902
Tax effect of non-taxable income	-	(2)	-	(1)
Tax effect of non-deductible expenses	**12**	21	**2**	6
Tax effect of income taxed at different tax rates	**(1)**	-	-	-
Tax effect of depreciation charges not deductible by way of capital allowances	**6**	8	**6**	8
Tax effect of temporary differences previously not recognised	**3**	51	**3**	51
Tax effect of under provision in prior year	-	19	-	19
Taxation	**1,303**	987	**1,303**	985

11 **Earnings per share**

Earnings per share is calculated on profit attributable to the equity holders of the Bank for the year ended 31 December 2005 amounting to Lm2,369,000 for the Group (2004: Lm1,558,000) and Lm2,388,000 for the Bank (2004: Lm1,591,000) divided by 4,188,484 (2004: 4,095,990), being the weighted average number of shares in issue during the year.

12 **Balances with Central Bank of Malta, Treasury Bills and cash**

	Group		Bank	
	2005	2004	**2005**	2004
	Lm 000	Lm 000	**Lm 000**	Lm 000
Balances with Central Bank of Malta	**4,130**	10,547	**4,130**	10,547
Malta Government Treasury Bills	**24,807**	29,120	**24,807**	29,120
Cash in hand	**574**	645	**574**	645
	29,511	40,312	**29,511**	40,312

The balance with the Central Bank of Malta includes a reserve deposit amounting to Lm4,130,000 held in terms of Section 37 of the Central Bank of Malta Act, Cap 204.

13 Derivative financial instruments

	Group		Bank	
	2005	2004	**2005**	2004
	Lm 000	Lm 000	**Lm 000**	Lm 000
Financial assets				
Derivative financial instruments	-	16	-	16
Financial liabilities				
Derivative financial instruments	-	15	-	15

Group/Bank

	Notional amount with remaining life of:			Fair values	
	Less than three months	**Between three months and one year**	**Total**	**Assets**	**Liabilities**
	Lm 000	**Lm 000**	**Lm 000**	**Lm 000**	**Lm 000**
Forward exchange contracts:					
At 31 December 2005	**121**	**-**	**121**	**-**	**-**
At 31 December 2004	151	2,680	2,831	16	15

14 Investments

14.1 *Investments comprise:*

	Group		Bank	
	2005	2004	**2005**	2004
	Lm 000	Lm 000	**Lm 000**	Lm 000
Debt and other fixed income instruments				
- available-for-sale	**1,682**	1,712	**1,682**	1,706
- held-to-maturity	**21,055**	24,440	**21,055**	24,440
Equity instruments available-for-sale	**862**	642	**677**	493
	23,599	26,794	**23,414**	26,639

14 **Investments** *(continued)*

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

	Group		Bank	
	2005	2004	**2005**	2004
	Lm 000	Lm 000	**Lm 000**	Lm 000
Issued by public bodies:				
- local government	**-**	55	**-**	55
Issued by public issuers:				
- local banks	**397**	368	**397**	368
- local others	**1,285**	1,283	**1,285**	1,283
- foreign others	**-**	6	**-**	-
	1,682	1,712	**1,682**	1,706

Debt and other fixed income instruments				
- listed on the Malta Stock Exchange	**1,682**	1,706	**1,682**	1,706
- foreign listed	**-**	6	**-**	-
	1,682	1,712	**1,682**	1,706

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

The Bank has pledged Lm2,000,000 (2004: 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.

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

14.5 *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 2005	2,354	24,440	26,794	2,199	24,440	26,639
Foreign exchange movement	49	-	49	49	-	49
Amortisation	-	(35)	(35)	-	(35)	(35)
Acquisitions	17	-	17	-	-	-
Redemptions/disposals	(139)	(3,350)	(3,489)	(115)	(3,350)	(3,465)
Fair value movement	263	-	263	226	-	226
At 31 December 2005	**2,544**	**21,055**	**23,599**	**2,359**	**21,055**	**23,414**

15 **Loans and advances to banks**

	Group		Bank	
	2005	2004	**2005**	2004
	Lm 000	Lm 000	**Lm 000**	Lm 000
Repayable on call and at short notice	**48,027**	11,887	**48,027**	11,887
Term loans and advances	**812**	29,158	**812**	29,158
	48,839	41,045	**48,839**	41,045

16 **Loans and advances to customers**

16.1

	Group		Bank	
	2005	2004	**2005**	2004
	Lm 000	Lm 000	**Lm 000**	Lm 000
Repayable on call and at short notice	**35,357**	31,236	**36,006**	31,248
Term loans and advances	**45,189**	39,929	**44,587**	39,929
Gross loans and advances to customers	**80,546**	71,165	**80,593**	71,177
Allowance for uncollectibility	**(1,808)**	(2,098)	**(1,808)**	(2,098)
Net loans and advances to customers	**78,738**	69,067	**78,785**	69,079
Allowances for uncollectibility				
Specific allowances	**1,400**	1,794	**1,400**	1,794
Collective allowances	**408**	304	**408**	304
	1,808	2,098	**1,808**	2,098

16 **Loans and advances to customers** *(continued)*

16.2 *The following industry concentrations, gross of impairment allowance, are considered significant:*

	Group		**Bank**	
	2005 Lm 000	2004 Lm 000	**2005 Lm 000**	2004 Lm 000
Electricity, gas and water supply	**-**	100	-	100
Transport, storage and communication	**2,221**	3,617	**2,221**	3,617
Financial intermediation	**325**	129	**372**	141
Agriculture	**191**	192	**191**	192
Manufacturing	**3,932**	3,896	**3,932**	3,896
Construction	**15,686**	15,585	**15,686**	15,585
Hotel and restaurants, excluding related construction activities	**2,340**	3,626	**2,340**	3,626
Wholesale and retail trade; repairs	**14,731**	12,446	**14,731**	12,446
Community, recreational and personal service activities	**5,169**	4,591	**5,169**	4,591
Education	**1,936**	151	**1,936**	151
Health and social work	**81**	229	**81**	229
Mining and quarrying	**331**	101	**331**	101
Real estate, renting and business activities	**23,156**	14,757	**23,156**	14,757
Households and individuals	**10,447**	11,745	**10,447**	11,745
	80,546	71,165	**80,593**	71,177

16.3

	Group/Bank		
	Specific allowances Lm 000	**Collective allowances Lm 000**	**Total Lm 000**
1 January 2005	1,794	304	2,098
Additions	(677)	-	(677)
Reversals	283	104	387
At 31 December 2005	**1,400**	**408**	**1,808**

16 **Loans and advances to customers** *(continued)*

16.4 *Further disclosures as required by the Publication of Audited Financial Statements of Credit Institutions Directive authorised under the Banking Act, 1994:*

The aggregate amount of impaired loans and advances to customers amounted to Lm12,383,000 (2004: Lm11,810,000). No further specific allowances for uncollectibility were required in terms of Banking Directive/09/2002.

Total interest that would have accrued on the impaired loans in the current and preceding financial years would have amounted to Lm1,230,000 (2004: Lm1,261,000).

17 **Shares in subsidiary companies**

Name of Company	**Incorp. In**	**Nature of Business**	**Equity Interest**		**The Bank**	
			2005 %	2004 %	**2005 Lm 000**	2004 Lm 000
Lombard Asset Managers Limited	Malta	Management of Collective Investments Schemes	**75**	75	**125**	125
FSL Limited (formerly Lombard Stockbrokers Limited) (in liquidation)	Malta	Stockbroking	-	51	-	29
					125	154

On 23 December 2005, the Bank disposed of its investment in FSL Limited.

The remaining subsidiary company is not listed.

18 **Property, plant and equipment**

Group

	Land and Buildings Lm 000	Computer Equipment Lm 000	Other Lm 000	Total Lm 000
Cost/revaluation				
At 1 January 2004	1,549	913	785	3,247
Acquisitions	287	115	43	445
Disposals	-	(48)	-	(48)
At 31 December 2004	1,836	980	828	3,644
At 1 January 2005	1,836	980	828	3,644
Acquisitions	113	58	65	236
Disposals	-	(12)	(3)	(15)
Revaluation	1,017	-	-	1,017
Release of depreciation on revaluation	(40)	-	-	(40)
At 31 December 2005	**2,926**	**1,026**	**890**	**4,842**
Depreciation				
At 1 January 2004	124	860	731	1,715
Charge for the year	22	38	18	78
Release on disposals	-	(48)	-	(48)
At 31 December 2004	146	850	749	1,745
At 1 January 2005	146	850	749	1,745
Charge for the year	18	52	23	93
Release on disposals	-	(12)	(1)	(13)
Release of depreciation on revaluation	(40)	-	-	(40)
At 31 December 2005	**124**	**890**	**771**	**1,785**
Carrying amount				
At 1 January 2004	1,425	53	54	1,532
At 31 December 2004	1,690	130	79	1,899
At 1 January 2005	**1,690**	**130**	**79**	**1,899**
At 31 December 2005	**2,802**	**136**	**119**	**3,057**

18 **Property, plant and equipment** *(continued)*

Bank

	Land and Buildings Lm 000	Computer Equipment Lm 000	Other Lm 000	Total Lm 000
Cost/revaluation				
At 1 January 2004	1,549	913	781	3,243
Acquisitions	287	114	44	445
Disposals	-	(48)	-	(48)
At 31 December 2004	1,836	979	825	3,640
At 1 January 2005	1,836	979	825	3,640
Acquisitions	113	58	65	236
Disposals	-	(12)	-	(12)
Revaluation	1,017	-	-	1,017
Release of depreciation on revaluation	(40)	-	-	(40)
At 31 December 2005	**2,926**	**1,025**	**890**	**4,841**
Depreciation				
At 1 January 2004	124	860	730	1,714
Charge for the year	22	36	18	76
Release on disposal	-	(48)	-	(48)
At 31 December 2004	146	848	748	1,742
At 1 January 2005	146	848	748	1,742
Charge for the year	18	53	23	94
Release on disposals	-	(12)	-	(12)
Release of depreciation on revaluation	(40)	-	-	(40)
At 31 December 2005	**124**	**889**	**771**	**1,784**
Carrying amount				
At 1 January 2004	1,425	53	51	1,529
At 31 December 2004	1,690	131	77	1,898
At 1 January 2005	**1,690**	**131**	**77**	**1,898**
At 31 December 2005	**2,802**	**136**	**119**	**3,057**

18 Property, plant and equipment *(continued)*

	Group		Bank	
	2005	2004	**2005**	2004
	Lm 000	Lm 000	**Lm 000**	Lm 000
Carrying amount of property occupied for own activities	**2,802**	1,690	**2,802**	1,690
Future capital expenditure				
Authorised by the directors but not yet contracted	-	108	-	108
	-	108	-	108

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 Lm1,607,000 (2004: Lm1,510,000).

19 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	**Fair Value**	Fair Value
	2005	2004	**2005**	2004
	Lm 000	Lm 000	**Lm 000**	Lm 000
Leasehold land and buildings				
Balance at 1 January	**151**	151	**151**	151
Balance at 31 December	**151**	151	**151**	151

20 **Deferred tax asset**

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

Group/Bank

Deferred tax assets and (liabilities) are attributable to the following:

	Assets 2005 Lm 000	**Liabilities 2005 Lm 000**	**Net 2005 Lm 000**	Assets 2004 Lm 000	Liabilities 2004 Lm 000	Net 2004 Lm 000
Excess of depreciation over capital allowances	**31**	**-**	**31**	39	-	39
Provision for liabilities and charges	**87**	**-**	**87**	2	-	2
Impairment allowances	**633**	**-**	**633**	735	-	735
Revaluation of property	**-**	**(278)**	**(278)**	-	(68)	(68)
Fair value movements in investments	**-**	**(182)**	**(182)**	-	(106)	(106)
	751	**(460)**	**291**	776	(174)	602

Group/Bank

Movement in temporary differences relating to:

	At 1 January 2004 Lm 000	Recognised in Income Lm 000	Recognised in Equity Lm 000	At 31 December 2004 Lm 000
Excess of depreciation over capital allowances	75	(36)	-	39
Provision for liabilities and charges	47	(45)	-	2
Impairment allowances	715	19	-	734
Revaluation of property	(67)	-	-	(67)
Fair value movements in investments	(56)	-	(50)	(106)
	714	(62)	(50)	602

20 **Deferred tax asset** *(continued)*

Group/Bank

Movement in temporary differences relating to:

	At 1 January 2005 Lm 000	Recognised in Income Lm 000	Recognised in Equity Lm 000	At 31 December 2005 Lm 000
Excess of depreciation over capital allowances	**39**	**(8)**	**-**	**31**
Provision for liabilities and charges	**2**	**85**	**-**	**87**
Impairment allowances	**734**	**(101)**	**-**	**633**
Revaluation of property	**(67)**	**-**	**(211)**	**(278)**
Fair value movements in investments	**(106)**	**-**	**(76)**	**(182)**
	602	**(24)**	**(287)**	**291**

A deferred tax asset amounting to Lm81,000 has not been recognised by the Group due to the uncertainty of the realisation of the tax benefits through future taxable profits.

21 **Prepayments and accrued income**

	Group		Bank	
	2005 Lm 000	2004 Lm 000	**2005 Lm 000**	2004 Lm 000
Accrued income	**3,220**	2,689	**3,220**	2,689
Prepayments	**55**	48	**55**	48
	3,275	2,737	**3,275**	2,737

22 **Amounts owed to banks**

	Group		Bank	
	2005 Lm 000	2004 Lm 000	**2005 Lm 000**	2004 Lm 000
Repayable on demand	**65**	102	**65**	102

23 Amounts owed to customers

	Group		Bank	
	2005	2004	**2005**	2004
	Lm 000	Lm 000	**Lm 000**	Lm 000
Term deposits	**116,758**	117,665	**116,758**	117,691
Repayable on demand	**48,994**	46,913	**48,994**	46,945
	165,752	164,578	**165,752**	164,636

24 Other liabilities

	Group		Bank	
	2005	2004	**2005**	2004
	Lm 000	Lm 000	**Lm 000**	Lm 000
Bills payable	**875**	1,228	**875**	1,228
Cash collateral	**182**	-	**182**	-
Other	**2,384**	1,795	**2,374**	1,774
	3,441	3,023	**3,431**	3,002

25 Accruals and deferred income

	Group		Bank	
	2005	2004	**2005**	2004
	Lm 000	Lm 000	**Lm 000**	Lm 000
Accrued interest	**1,440**	1,496	**1,440**	1,496
Other	**240**	224	**240**	224
	1,680	1,720	**1,680**	1,720

26 **Share capital**

26.1 **Group/Bank**

	2005 No. of Shares 000s	**2005 Lm 000**	2004 No. of Shares 000s	2004 Lm 000
Authorised				
Ordinary shares of 50 cents each	**10,000**	**5,000**	10,000	5,000
Issued and fully paid up				
Ordinary shares of 50 cents each	**4,205**	**2,103**	4,114	2,057

26.2 The Board of Directors of Lombard Bank Malta p.l.c. has resolved to recommend to the general meeting of shareholders a sub-division of the par value of the Bank's shares on a 'two-for-one' basis. As a result, the number of authorised and issued shares will double and will bring down the par value of each share from 50 cents to 25 cents.

27 **Reserves**

27.1 *Share premium*

The increase in the share premium account represents the premium on the rights issue of shares approved by the General Meeting dated 4 April 2005.

27.2 *Other reserve*

This represents the remaining unrealised gain registered by the Bank on the translation of its net foreign currency holding following the devaluation of the Maltese Lira on 25 November 1992. By virtue of a communication from the Malta Financial Services Authority dated 13 February 2006, this reserve has become available for distribution.

27.3 *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.

27.4 *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.

27 **Reserves** *(continued)*

27.5 *Retained earnings*

27.5.1 Dividends

A gross dividend of 20 cents per share for the twelve months ended 31 December 2005 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.

28 Provisions and contingent liabilities

28.1 *Provisions*

During the year, the Bank provided Lm103,000 (2004: Lm6,000) against claims by customers. 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.

28.2 *Contingent liabilities*

Group/Bank

	2005	2004
	Lm 000	Lm 000
Guarantee obligations incurred on behalf of third parties	**3,261**	2,999

29 Commitments

Group/Bank

	2005	2004
	Lm 000	Lm 000
Documentary credits	**92**	258
Credit facilities and other commitments to lend	**23,931**	22,415
	24,023	22,673

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.

30 **Cash and cash equivalents**

Balances of cash and cash equivalents as shown in the balance sheet are analysed below:

	Group		Bank	
	2005	2004	**2005**	2004
	Lm 000	Lm 000	**Lm 000**	Lm 000
Treasury Bills	**16,981**	13,365	**16,981**	13,365
Loans and advances to banks	**48,026**	40,264	**48,026**	40,264
Cash	**574**	645	**574**	645
Amounts owed to banks	**(65)**	(102)	**(65)**	(102)
Cash and cash equivalents	**65,516**	54,172	**65,516**	54,172
Adjustment to reflect balances with contractual maturity of more than 3 months	**12,769**	27,083	**12,769**	27,083
Per balance sheet	**78,285**	81,255	**78,285**	81,255
Analysed as follows:				
Balances with Central Bank of Malta, treasury bills and cash	**29,511**	40,312	**29,511**	40,312
Loans and advances to banks	**48,839**	41,045	**48,839**	41,045
Amounts owed to banks	**(65)**	(102)	**(65)**	(102)
	78,285	81,255	**78,285**	81,255

31 **Segmental information**

No segmental information is relevant as the Group primarily provides corporate banking and related retail services to resident and non-resident customers who are subject to the same risks and returns in the domestic market.

32 **Related parties**

32.1 *Identity of related parties*

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

32 **Related parties** *(continued)*

32.2 *Transactions arrangements and agreements involving key management personnel*

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

Group/Bank

	2005 Loans and advances Lm 000	**2005 Commitments Lm 000**	2004 Loans and advances Lm 000	2004 Commitments Lm 000
Key management personnel:				
Directors				
At beginning of year	**324**	**1**	316	7
Additions	**-**	**-**	20	-
Repayments	**(74)**	**(1)**	(12)	(6)
At balance sheet date	**250**	**-**	324	1

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.

32.3 *Compensation to key management personnel*

Details of Directors' fees and emoluments are stated in note 9.

32.4 *Transactions with other related parties*

Subsidiaries

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

	2005 Lm 000	2004 Lm 000
Income statement		
Interest payable	**2**	1
Balance sheet		
Loans and advances to customers	**47**	12

32 **Related parties** *(continued)*

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

	2005	2004
	Lm 000	Lm 000
Income statement		
Interest receivable and similar income	**6**	8
Administrative expenses	**23**	23
Balance sheet		
Investments	**185**	149
Other assets	**2**	4
Other liabilities	**-**	4

Major Shareholder

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

	2005	2004
	Lm 000	Lm 000
Income statement		
Interest receivable	**5**	25
Balance Sheet		
Loans and advances to banks	**417**	1,328

33 **Investor compensation scheme**

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

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

34 **Financial instruments**

Exposure to credit, interest rate and currency risks arises in the normal course of the Group's business. By their nature, the Group's activities are related to the use of financial instruments. The Group accepts deposits from customers at both fixed and floating rates and for varying maturity periods. The Group seeks to maximise the spread over the cost of capital by investing these 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 most important types of financial risk to which the Group is therefore exposed are credit risk, liquidity risk and market risk. Market risk includes currency and interest rate risks.

34 **Financial instruments** *(continued)*

34.1 *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.

This is the Group's largest risk in view of its significant lending and securities portfolios, which is monitored in several ways. Approval limits are graded starting from branch managers and leading up to the Board of Directors depending on the size and the particular risk attached to the loan. All loans are adequately secured either by property or by personal and bank guarantees and are reviewed periodically by management both in terms of the exposure to the Group and to ensure that security is still valid.

The Bank also ensures that it has a reasonable sectorial mix of loans, mitigating the higher risk industries by charging higher interest rates thereto.

With respect to securities, the Group deals in investment grade securities. The Bank monitors its risk on balances held with other banks by establishing bank and country limits.

34.2 *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. Accordingly this risk is managed through the matching of the interest resetting dates on assets and liabilities. The domestic environment offers relatively more stability in market rates whereas foreign rates tend to be more volatile. The table below summarises re-pricing mismatches at balance sheet date together with the effective interest rates where applicable.

Group

	2005	Effective Interest Rate	Less than Three Months	Between Three Months and One Year	Between One Year and Five Years	More than Five Years	Others
	Lm 000	**%**	**Lm 000**	**Lm 000**	**Lm 000**	**Lm 000**	**Lm 000**
Assets							
Balances with Central Bank of Malta, treasury bills and cash	**29,511**	3.31	21,111	7,827	-	-	573
Cheques in course of collection	**550**	-	-	-	-	-	550
Investments							
Debt and other fixed income financial instruments							
- available-for-sale	**1,682**	6.76	-	-	-	1,682	-
- held-to-maturity	**21,055**	6.41	-	-	-	21,055	-
Equity financial instruments							
- available-for-sale	**862**	-	-	-	-	-	862
Loans and advances to banks	**48,839**	3.43	45,965	2,874	-	-	-
Loans and advances to customers	**78,738**	6.81	36,968	873	16,958	23,939	-
Other assets	**6,797**	-	-	-	-	-	6,797
Total assets	**188,034**		104,044	11,574	16,958	46,676	8,782

LOMBARD

34 **Financial instruments** *(continued)*

Group

	2005 Lm 000	Effective Interest Rate %	Less than Three Months Lm 000	Between Three Months and One Year Lm 000	Between One Year and Five Years Lm 000	More than Five Years Lm 000	Others Lm 000
Liabilities							
Amounts owed to banks	**65**	-	-	-	-	-	65
Amounts owed to customers	**165,752**	2.66	71,777	54,603	34,516	160	4,696
Other liabilities	**5,564**	-	-	-	-	-	5,564
	171,381		71,777	54,603	34,516	160	10,325
Called up share capital	**2,103**	-	-	-	-	-	2,103
Share premium	**4,877**	-	-	-	-	-	4,877
Other reserve	**111**	-	-	-	-	-	111
Property revaluation reserve	**932**	-	-	-	-	-	932
Investment revaluation reserve	**314**	-	-	-	-	-	314
Profit and loss account	**8,283**	-	-	-	-	-	8,283
Equity attributable to shareholders	**16,620**	-	-	-	-	-	16,620
Minority interest	**33**	-	-	-	-	-	33
Total equity	**16,653**		-	-	-	-	16,653
Total liabilities and equity	**188,034**		71,777	54,603	34,516	160	26,978
Gap			32,267	(43,029)	(17,558)	46,516	(18,196)
Cumulative gap			32,267	(10,762)	(28,320)	18,196	-

34.3 *Currency risk*

Currency risk is the risk that the value of a financial instrument will fluctuate due to the changes in foreign exchange rates. The Group manages this risk using various techniques. In the majority of cases, the Group covers the risk by ensuring that its foreign currency denominated liabilities are matched with corresponding assets in the same currency.

34 **Financial instruments** *(continued)*

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

Group	**2005 Maltese Liri Lm 000**	**2005 Other Currencies Lm 000**	**2005 Total Lm 000**	2004 Maltese Liri Lm 000	2004 Other Currencies Lm 000	2004 Total Lm 000
Financial assets						
Balances with Central Bank of Malta, treasury bills and cash	**29,393**	**118**	**29,511**	40,171	141	40,312
Cheques in course of collection	**540**	**10**	**550**	334	-	334
Investments						
Debt and other fixed income financial instruments						
-available-for-sale	**1,285**	**397**	**1,682**	1,338	374	1,712
-held-to-maturity	**21,055**	**-**	**21,055**	24,440	-	24,440
Equity financial instruments						
-available-for-sale	**823**	**39**	**862**	610	32	642
Loans and advances to banks	**10,112**	**38,727**	**48,839**	9,072	31,973	41,045
Loans and advances to customers – gross	**78,351**	**2,195**	**80,546**	68,932	2,233	71,165
Derivative financial instruments	**-**	**-**	**-**	-	16	16
	141,559	**41,486**	**183,045**	144,897	34,769	179,666
Financial liabilities						
Derivative financial instruments	**-**	**-**	**-**	-	15	15
Amounts owed to banks	**65**	**-**	**65**	101	1	102
Amounts owed to customers	**125,306**	**40,446**	**165,752**	130,593	33,985	164,578
	125,371	**40,446**	**165,817**	130,694	34,001	164,695

34.4 *Liquidity risk*

Liquidity risk is the risk that an enterprise will encounter difficulty in raising funds to meet commitments associated with financial instruments. The Bank 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.

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.

Notes to the Financial Statements

For the Year Ended 31 December 2005

34 **Financial instruments** *(continued)*

Group
At 31 December 2005

	Fair Value Adjustment	Between One and Three Months	Between Three Months and One Year	Between One and Five Years	More Than Five Years	Total
	Lm 000	**Lm 000**	**Lm 000**	**Lm 000**	**Lm 000**	**Lm 000**
Financial assets						
Investments						
Debt and other fixed income financial instruments						
- available-for-sale	**(18)**	**-**	**639**	**1,061**	**-**	**1,682**
- held-to-maturity	**-**	**-**	**1,098**	**11,462**	**8,495**	**21,055**
Loans and advances to banks	**-**	**45,965**	**2,874**	**-**	**-**	**48,839**
Loans and advances to customers – gross	**-**	**41,730**	**1,427**	**15,450**	**21,939**	**80,546**
	(18)	**87,695**	**6,038**	**27,973**	**30,434**	**152,122**
Financial liabilities						
Amounts owed to banks	**-**	**65**	**-**	**-**	**-**	**65**
Amounts owed to customers	**-**	**94,790**	**46,406**	**24,556**	**-**	**165,752**
	-	**94,855**	**46,406**	**24,556**	**-**	**165,817**

At 31 December 2004

	Fair Value Adjustment	Between One and Three Months	Between Three Months and One Year	Between One and Five Years	More Than Five Years	Total
	Lm 000	Lm 000	Lm 000	Lm 000	Lm 000	Lm 000
Financial assets						
Derivative financial instruments	-	16	-	-	-	16
Investments						
Debt and other fixed income						
financial instruments	81	-	53	932	646	1,712
-available-for-sale	-	-	-	-	-	-
-held-to-maturity	-	-	3,351	6,520	14,569	24,440
Loans and advances to banks	-	40,264	781	-	-	41,045
Loans and advances to customers – gross	-	45,358	1,648	5,693	18,466	71,165
	81	85,638	5,833	13,145	33,681	138,378

34 **Financial instruments** *(continued)*

	Fair Value Adjustment Lm 000	Between One and Three Months Lm 000	Between Three Months and One Year Lm 000	Between One and Five Years Lm 000	More Than Five Years Lm 000	Total Lm 000
Financial liabilities						
Derivative financial instruments	-	-	15	-	-	15
Amounts owed to banks	-	102	-	-	-	102
Amounts owed to customers	-	88,598	47,650	28,330	-	164,578
	-	88,700	47,665	28,330	-	164,695

34.5 *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 13 to the financial statements.

34.6 *Fair values*

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

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

This category of assets is carried at amortised cost and amounts to Lm21,055,000 as at 31 December 2005. Fair value based on quoted market prices at balance sheet date without any deduction for transaction costs amounts to Lm23,427,000.

34.6.2 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 2005, the Group's carrying amount was Lm127,576,000. The loans and advances to customers category of assets amounts to Lm78,737,000. 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 Lm48,839,000. As at 31 December 2005, 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.

34.6.3 Amounts owed to banks and customers

This category of liabilities is carried at amortised cost and amounts to Lm165,818,000 as at 31 December 2005. 46.2% of this liability has contractual re-pricing within the 'less than three months' band, 32.9% re-prices within the 'between three months and one year' band whilst 20.8% is repriceable within the 'between one year and five years'

34 **Financial instruments** *(continued)*

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.

35 Accounting estimates and judgements

35.1 *Critical accounting judgement in applying the Group's accounting policies*

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 judgements are continually evaluated and are based on historical and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

35.1.1 Impairment losses on loans and advances

The Group reviews its loan portfolio to assess impairment on an ongoing basis as relevant generic data is observed concerning risks associated with Groups of loans with similar risk characteristics. As a result, the Group makes judgements 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 objective 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.

35.1.2 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.

35.1.3 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 judgement. In making this judgement, 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.

36 Comparative amounts

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

Five Year Summary
Income Statement

Bank

	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	01/10/01 to 30/09/02 Lm 000	01/10/00 to 30/09/01 Lm 000
Interest receivable and other income	**9,333**	8,482	10,693	7,519	7,553
Interest payable	**(4,554)**	(4,815)	(7,072)	(4,654)	(5,006)
Net interest income	**4,779**	3,667	3,621	2,865	2,547
Other operating income	**840**	960	1,101	936	427
Other operating charges	**(2,218)**	(1,978)	(2,437)	(1,748)	(1,824)
Net impairment losses	**290**	(73)	(102)	(650)	(30)
Profit before taxation	**3,691**	2,576	2,183	1,403	1,120
Taxation	**(1,303)**	(985)	(773)	(492)	(394)
Profit for the year	**2,388**	1,591	1,410	911	726
Earnings per share	**57c0**	38c8	35c2	23c1	18c7

Five Year Summary
Balance Sheet

Bank

	31/12/05	31/12/04	31/12/03	30/09/02	30/09/01
	Lm 000	Lm 000	Lm 000	Lm 000	Lm 000
Assets					
Balances with Central Bank of Malta, treasury bills and cash	**29,511**	40,312	60,711	50,430	13,113
Cheques in course of collection	**550**	334	699	831	733
Derivative financial instruments	-	16	44	73	-
Investments	**23,414**	26,639	25,399	26,997	27,831
Loans and advances to banks	**48,839**	41,045	36,628	19,641	23,782
Loans and advances to customers	**78,785**	69,079	57,347	58,076	51,284
Shares in subsidiary companies	**125**	154	154	138	-
Property, plant and equipment	**3,057**	1,898	1,529	1,432	1,625
Investment property	**151**	151	151	151	151
Deferred tax	**291**	602	714	703	351
Other assets	**21**	30	21	66	25
Prepayments and accrued income	**3,275**	2,737	2,238	1,981	2,880
Total assets	**188,019**	182,997	185,635	160,519	121,775
Liabilities					
Derivative financial instruments	-	15	85	90	-
Amounts owed to banks	**65**	102	150	229	296
Amounts owed to customers	**165,752**	164,636	167,654	145,070	107,510
Current taxation payable	**195**	58	224	146	267
Provision for liabilities and charges	**248**	134	134	-	-
Other liabilities	**3,431**	3,002	3,732	2,576	2,312
Accruals and deferred income	**1,680**	1,720	2,000	2,174	1,872
Called up issued share capital	**2,103**	2,057	2,026	1,980	1,953
Share premium	**4,877**	4,537	4,341	4,055	3,880
Other reserve	**111**	111	111	111	111
Property revaluation reserve	**932**	126	126	126	126
Investment revaluation reserve	**268**	129	36	(57)	-
Retained earnings	**8,357**	6,370	4,779	3,762	3,220
Dividend reserve	-	-	237	257	228
Total liabilities and equity	**188,019**	182,997	185,635	160,519	121,775
Memorandum items					
Contingent liabilities	**3,261**	2,999	3,524	3,416	3,970
Commitments	**24,023**	22,673	17,201	21,542	16,165

Five Year Summary
Cash Flow Statement

Bank

	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	01/10/01 to 30/09/02 Lm 000	01/10/00 to 30/09/01 Lm 000
Net cash from/(used in) operating activities	**5,360**	(25,639)	19,708	24,977	4,016
Investing activities					
Dividends received	**27**	40	37	40	36
Interest received from investments	**2,710**	2,207	2,384	1,825	1,905
Proceeds from maturity/disposal of investments	**3,468**	363	2,034	2,299	3,922
Purchase of investments	**-**	(1,429)	(383)	(1,577)	(5,819)
Proceeds from disposal of property, plant and equipment	**-**	1	3	13	3
Purchase of property, plant and equipment	**(237)**	(445)	(190)	(21)	(95)
Purchase of shares issued by subsidiary company	**-**	-	(15)	(13)	-
Payment to acquire subsidiary	**-**	-	-	(125)	-
Proceeds from disposal of subsidiary	**31**	-	-	-	-
Net cash from/(used in) investing activities	**5,999**	737	3,870	2,441	(48)
Financing activities					
Dividends paid	**(15)**	(10)	(81)	(26)	(21)
Net cash used in financing activities	**(15)**	(10)	(81)	(26)	(21)
Increase/(decrease) in cash and cash equivalents	**11,344**	(24,912)	23,497	27,392	3,947

Five Year Summary
Accounting Ratios

Bank

	01/01/05 to 31/12/05 %	01/01/04 to 31/12/04 %	01/10/02 to 31/12/03 %	01/10/01 to 30/09/02 %	01/10/00 to 30/09/01 %
Net interest income and other operating income to total assets	**3.0**	2.5	2.5	2.4	2.4
Operating expenses to total assets	**1.1**	1.1	1.2	1.1	1.5
Profit before tax to total assets	**2.0**	1.4	1.2	0.9	0.9
Profit before tax to equity	**22.2**	19.2	18.7	13.7	11.8
Profit after tax to equity	**14.3**	11.9	12.1	8.9	7.6

	31/12/05	31/12/04	31/12/03	30/09/02	30/09/01
Shares in issue of 50c each (thousands)	**4,205**	4,114	4,052	3,959	3,905
Net assets per share (cents)	**396**	324	288	258	244
Earnings per share (cents)	**57.0**	38.8	35.2	23.1	18.7

Solvency Ratio
At 31 December 2005

Bank

	Note	Balance sheet value Lm 000	Weighted amount Lm 000
On-balance sheet assets			
Balances with Central Bank of Malta, Treasury Bills and Cash	(a)	29,511	-
Cheques in course of collection		550	110
Investments		23,414	2,041
Loans and advances to banks		48,839	9,768
Loans and advances to customers	(b)	79,193	66,618
Shares in subsidiary companies		125	125
Property, plant and equipment		3,057	3,057
Investment property		151	151
Deferred tax asset		291	291
Other assets		21	21
Prepayments and accrued income		3,275	1,638
		188,427	**83,820**
Off-balance sheet assets	(c)		
Contingent liabilities and commitments		27,284	-
Total adjusted assets and off-balance sheet items			**83,820**
Own funds			
Original own funds	(d)		15,448
Additional own funds	(e)		1,608
Gross own funds			**17,056**
Deductions	(f)		-
Total own funds			**17,056**
Solvency ratio	(g)		**20.35%**

Solvency Ratio
At 31 December 2005

Notes

(a) For on-balance sheet assets four basic scales of risk weighting are applied based primarily on the credit rating of the counterparty (0%, 20%, 50% and 100%).

(b) Loans and advances to customers are grossed up with collective allowances.

(c) For off-balance sheet items a system of credit conversion factors is used. The resultant credit equivalent is weighted according to the category of the counterparty.

(d) Original own funds comprise called up issued share capital, reserves and the share premium account and exclude property and investment revaluation reserve and dividend reserve.

(e) Additional own funds comprise the collective allowances for loans and advances to customers and property and investment revaluation reserve.

(f) Deductions from gross own funds comprise holdings in other financial institutions, which exceed 10% of the Bank's total gross own funds.

(g) The solvency ratio is a measure of the Bank's capital adequacy and is the ratio of own funds to total risk-weighted assets and off-balance sheet items in terms of the Solvency Ratio Directive Banking Directive/04/2002 issued by the Central Bank of Malta.

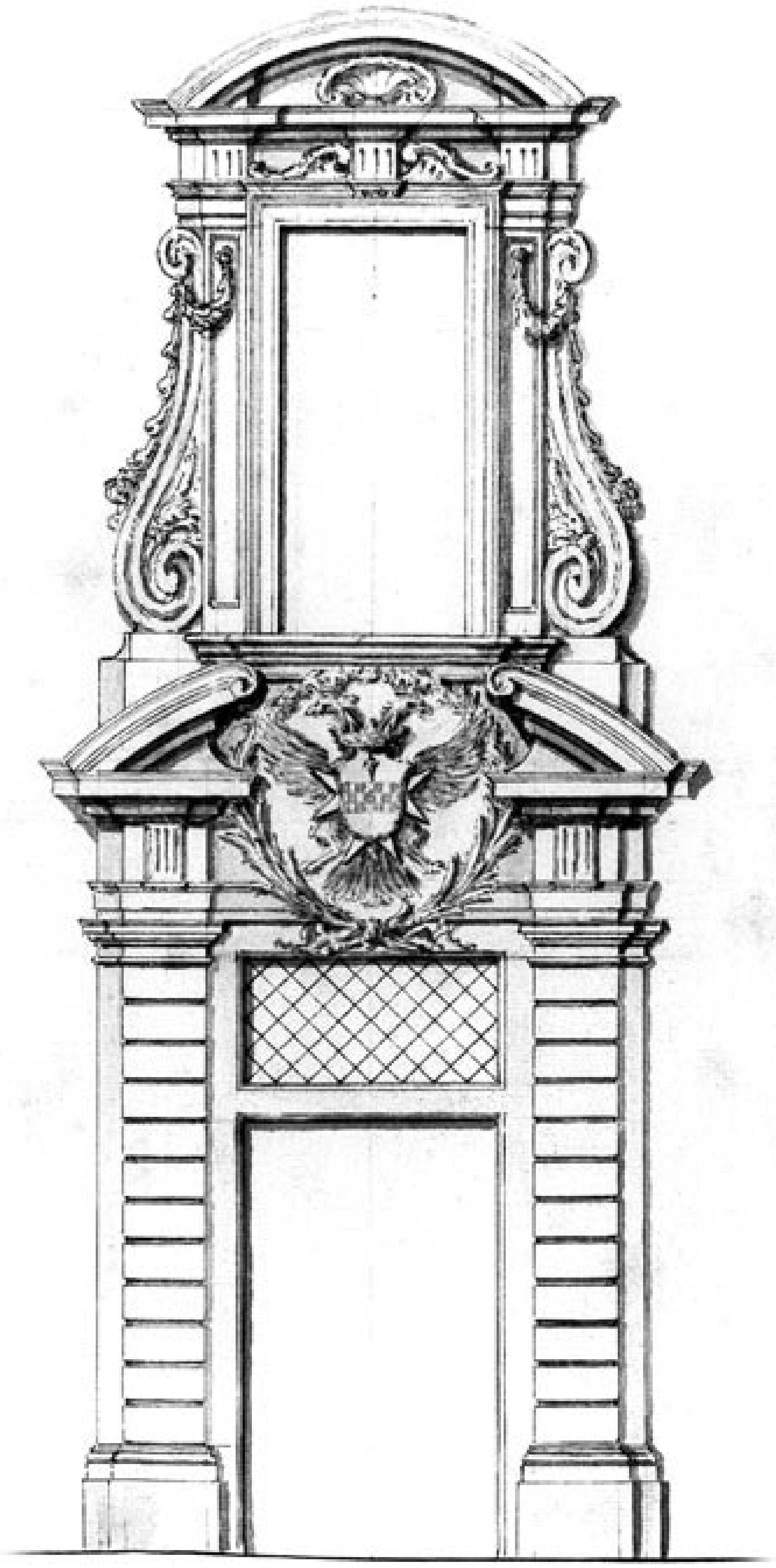
Financial Highlights in Major Currencies

Bank

	EURO €000's	US Dollar $000's	Pound Sterling £000's
For the year ended 31 December 2005			
Net interest income	11,131	13,227	7,651
Profit before income tax	8,596	10,216	5,909
Profit after income tax	5,562	6,609	3,823
At balance sheet date			
Shareholders' funds	38,780	46,084	26,657
Loans and advances to customers	183,519	218,083	126,150
Amounts owed to customers	386,098	458,818	265,402
Total assets	437,967	520,456	301,056
Per share			
Earnings	1.33	1.58	0.91
Net asset value	9.22	10.96	6.34

At currency rates of exchange ruling on 31 December 2005:

EURO €1 = Lm0.4293
US Dollar $2.7681 = Lm1
Pound Sterling £1.6012 = Lm1



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
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