LOMBARD

Lombard Bank Malta p.l.c.

2009

ANNUAL REPORT

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Lombard Bank Malta p.l.c.

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ANNUAL REPORT
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Chairman's Statement to the Members

The financial year 2009 ended for Lombard Bank with an increase in profits of 4 per cent over the previous year. On a Group basis we registered a consolidated after tax profit of just over €8 million. Compared to the year before, this represents a decline of 11 per cent. Given the difficult economic conditions both Lombard Bank Malta p.l.c. and MaltaPost p.l.c. performed well. The Bank registered a net profit of €7.48 million which included for the first time receipt of dividend in respect of our MaltaPost holding. MaltaPost's profit was up 5 per cent at €1.97 million.

The year under review was strongly influenced by the turbulences on the world financial markets witnessed in 2008. This financial crisis led to the worst global recession since decades. Thanks to the decisive actions taken by governments and central banks worldwide the impact of the recession was somewhat reduced and signs of a recovery have become evident. It can only but be hoped that the economic growth, which has been strong in Asia and in parts of South America but relatively weak in the United States of America and in Europe, will continue and that we will not be faced with a return to recession – a 'Douple Dip'.

In any case, it will take some time until economic activities in Europe and in the US will regain the pre-recession levels. Unemployment will remain high for some time and will represent a burden on the budgets of various countries. Lower GDP figures and increased government spending in a considerable number of countries have caused substantial deficits which the European Central Bank and other institutions are very rightly urging countries to curb. Not only will present level of deficits make it increasingly difficult for countries to stimulate the economy should this again become necessary but servicing the governments' debts will become problematic - especially should interest rates rise from their present low levels. Additionally the credit ratings of a number of countries could suffer with adverse effects in the credit markets.

Malta has weathered the global economic downturn reasonably well and the fundamentals appear to be somewhat healthier than elsewhere, yet it would be wrong to assume that it would have been possible for our country to fully escape the impact of the world recession. The various sectors of our economy have been affected to varying degrees. Whilst we at Lombard Bank must ensure that deposits entrusted to us are employed safely we shall continue, as in the past, to assist our borrowing clients to carry on their business even if the economic conditions are more challenging - with our expertise, local knowledge and our intimate knowledge of our customers we feel that we are well equipped to do so.

The prevailing economic conditions are mirrored in the Bank's 2009 accounts. Both deposits and loans and advances to customers only rose by just 1 per cent. Continued record low interest rates worldwide have forced the Bank to employ its funds less profitably than would have been desirable resulting in a reduced net interest margin. Despite a slight increase of the Bank's total assets and lendings the net interest income in fact remained at the same level as in 2008. This is, in a way, the price we pay for maintaining a very strong Loan to Deposit ratio of about 74 per cent. This ratio remains of particular importance during the financial crises and it is significantly more conservative than that of other banks in Europe and enables us to carry out our lending without needing to rely on the interbank money market. Our liquidity position at year-end stood at 80 per cent which is well in excess of the statutory requirement of 30 per cent. Shareholders' funds have grown continuously over past years - and this despite the world financial crisis. This enables the Bank to show a Capital Adequacy Ratio (Basle II) of 17 per cent as at the end of 2009 which is well above the regulatory minimum requirement of 8 per cent.

We believe that with such strong fundamentals we are well placed to take advantage of opportunities in the time ahead. In the recent past the Bank's investment in MaltaPost p.l.c. has been such an opportunity. The Bank has now a shareholding of 65.2 per cent in MaltaPost and this investment has been, as we believe, beneficial to both institutions. Despite subdued economic conditions worldwide the Company achieved an increase in its profitability as is reflected in the Group's consolidated accounts. The cooperation between MaltaPost and Lombard Bank has intensified further and we look with great optimism into the future in this regard.

In view of the economic uncertainty it would not be appropriate at this stage to make any predictions for the further development of the Group's business. 'Cautious optimism' are words that best describe how the Board and the Bank's management look ahead. Again this year the Board is recommending a Gross Dividend of €0.10 per share and as in previous years shareholders will be given the option of taking their dividend either in shares or in cash.

On behalf of Lombard Bank I thank our shareholders and our customers for their loyalty and continuous support. We are fully aware of the value this represents to our Group and we at Lombard Bank do our very best to ensure that you will stay satisfied and will not be disappointed.

A special word of thanks goes to the staff of Lombard Bank Group. Looking at the development of the Group not only in 2009 but also in previous years the Board believes that this would not have been possible without our enthusiastic, highly motivated and well trained staff. Together with and led by the Bank's Chief Executive Officer, Joseph Said, they represent the cornerstone of Lombard Bank.

Christian Lemmerich
Chairman

Chief Executive Officer's Review of Operations

The consolidated results for the financial year ended 31st December 2009 of the Lombard Group include those of Lombard Bank Malta p.l.c. and its subsidiaries: Redbox Limited (the company holding the Group's shares in MaltaPost p.l.c.), Lombard Asset Managers Limited and Lombard Funds SICAV p.l.c..

The financial performance of the Bank in 2009 reflects the cautious strategy that was adopted in the light of the recessionary pressures that followed the international financial crisis of 2008.

The Bank continued with its emphasis on enhancing existing and selectively establishing new business relationships that provide added value to stakeholders. We believe that a responsive and personalised service offered to customers, especially in these challenging times, is the hallmark of an institution that places personal relationships at the heart of its business.

The main subsidiary of the Bank, MaltaPost p.l.c., closed its financial year in September 2009 and reported further growth in its business and increased profitability despite the economic headwinds.

During the year, the Bank continued to benefit from its association with Marfin Popular Bank Public Co Ltd, its major shareholder and sought to establish new business opportunities that would provide growth in areas in which it would be difficult for the Bank to venture on its own.

Review of Financial Performance

Total Operating Income at €36.44 million was marginally lower than that of the previous year. This decrease was principally due to lower commission income since business opportunities from the adoption of the euro as our currency and the General Elections in 2008 were not repeated. Cost containment continued to be well managed within the Group and in line with targets established.

Loans and advances to customers at €327.80 million were at the same level of the previous year, reflecting the more subdued local economic climate and reduced appropriate lending opportunities. The Group Loan to Deposit ratio of 73.5 per cent at the year end was in line with the previous year and remained within the parameters set by the Bank.

Despite increased competition for deposits in the local market, the Bank's customer deposit base remained at the same level as last year. This position was actively managed by the Bank to strike a balance between maintaining above-average levels of liquidity whilst avoiding the temptation to merely build market share. Emphasis continued to be placed on long-term deposit products, underlining the Bank's strategy of building long-term business relationships with customers.

Group Profit before Taxation was down by 9 per cent from the previous year to €12.93 million. However one should note that the result of the previous year included a material write-back to profits in respect of credit facilities. In this context, profitability for 2009 remained much in line with that of the previous year, which, in itself was a record year in our history.

Group Earnings per Share (EPS) for 2009 amounted to 20.8 cents, while Net Asset Value per share stood at €1.81 representing a price to book multiple of 1.66 times. Return on Assets (ROA) decreased marginally from last year's 1.7 per cent to 1.5 per cent. Pre-tax Return on Capital Employed (ROCE) was maintained at 20 per cent.

Own Funds and Liquidity

During 2009, the Share Capital of the Bank increased by a further 565,373 Ordinary Shares, as a number of the Bank's shareholders opted to receive their dividend for 2008 in shares rather than cash. Group Equity Attributable to Shareholders rose by €6.60 million (11 per cent) to €64.28

million, further strengthening the Bank's capital base and increasing its ability to take advantage of new business proposals while maintaining strong solvency levels.

The Bank remained highly liquid with eligible liquid assets at 80 per cent of short-term liabilities as defined in Banking Rule 5 and well in excess of the statutory minimum of 30 per cent. The Capital Adequacy ratio as computed in terms of Banking Rule 8 stood at 17 per cent compared to a minimum requirement of 8 per cent.

Treasury

The European Central Bank continued to loosen its monetary policy during 2009 by reducing interest rates by 50 bps in January, followed by three further reductions during the year bringing the ECB intervention rate to an unprecedented 1 per cent p.a. The Bank consequently experienced pressure on its net interest spread. Money market participants remained very risk averse during 2009 reflecting continued subdued confidence in major economies.

Trading money market deposits with selected counterparty banks was maintained predominantly on a short-term basis. The Bank stressed capital security as the main priority in all its transactions during the year. Malta Government Treasury paper and inter-bank deposits remained the preferred Treasury short-term instruments.

Risk Management

The Internal Capital Adequacy Assessment Process (ICAAP) was carried out in the first half of the year in line with requirements under Pillar II of the Capital Requirements Directive. This involved the use of risk management techniques to ensure an adequate capital base. The exercise confirmed that the Bank maintained sufficient liquidity and a comfortable capital buffer to be able to attain its strategic objectives even under difficult market conditions. All identified risks within the Bank continue to be measured, assessed and monitored so that the impact of any adverse effects is mitigated and ensuring adequate return to shareholders.

Human Resources

The Bank recognises that its staff is the single most important factor that allows it to maintain its position as a leading organisation and to be able to continue to offer its customers the levels of service they have come to expect. Its human resources policies aim to provide opportunities for all staff to develop their career in an interesting and challenging work environment. Career development is encouraged through staff taking the initiative to undertake personal and professional development. In-house training courses were held during the year, which were supplemented by local external training when necessary. At the year end the staff complement of the Bank and Group reached 156 and 761 respectively.

Projects

The Bank inaugurated a new branch in Qormi in June 2009. Works on another office in Valletta are almost complete and it is expected to be operational during Q2 of 2010. This will allow the Bank to consolidate its Head Office functions and improve the working environment for both customers and staff. Plans are in hand to start works on another site in Sliema during 2010.

The Bank has successfully implemented, in conjunction with MaltaPost, a hybrid branch in St Julians. Both postal services and banking facilities are offered from the same location but through separately branded outlets. In future, this format may be used selectively as business circumstances require.

The upgrading of the ATM network is almost complete and is expected to go live early in Q2 of 2010. Another project, started in 2009, will allow the Bank to provide internet banking to its customers during Q3 of 2010. We believe this service will complement, and not substitute, transactions at our branches which we consider to be essential in allowing the Bank to continue to focus on customer needs.

Community Involvement

Our responsibility towards the community is taken seriously and we continue to adopt the policy that this should be fulfilled by the discreet support of projects and causes which have a practical benefit to society over the medium to long-term. As such we continue to direct our Anti-Smoking project for all secondary schools (a project endorsed by the Directorate for Educational Services and supported by the Malta Cancer Foundation). The Bank also supports a number of other organisations carrying out voluntary work locally.

Outlook

The Bank's results for the financial year 2009 attest to the resilience of our institution in the face of economic and financial challenges and reflect the measured approach the Bank has always taken in conducting its business, even when the economy was more buoyant and the outlook more positive. All stakeholders of the Bank are benefiting from the results of such stewardship.

Economic recovery is expected to continue to be slow and there remains considerable uncertainty as to the likely degree of any significant upturn in economic growth for 2010. Nonetheless, local business sentiment seems to be generally positive for the year ahead.

We look forward to participating in new investment opportunities, particularly in the growing sectors of the economy. Our projects, particularly our new premises in Valletta and internet banking, will improve our customers' contact with the Bank. Our relationship with our largest shareholder, Marfin Popular Bank, will continue to develop and give us access to a financial institution which shares our business philosophy. Additionally, we expect to work more closely with MaltaPost to assist them in fulfilling their potential and, particularly, in the provision of financial services through their branch network.

We are looking to the year ahead with our usual cautious optimism, remaining fully aware of the realities of the global economic environment. We shall therefore remain vigilant in the management of our resources while continuing to focus on meeting our customers' requirements and adding value for all our stakeholders.

Joseph Said
Chief Executive Officer

Directors' Report

For the Year Ended 31 December 2009

The Group

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

Principal Activities

The Bank was registered in Malta in 1969 and listed on the Malta Stock Exchange in 1994. It is licensed as a credit institution under the Banking Act, 1994 and is an authorised currency dealer and financial intermediary. It also holds a Category 2 Investment Services licence issued by the Malta Financial Services Authority in terms of the Investment Services Act, 1994. It is a member of the Depositor Compensation Scheme and the Investor Compensation Scheme set up under the laws of Malta. The Bank has also been accepted as a member of the Malta Stock Exchange (MSE) for the purpose of the carrying out of stockbroking on the MSE.The Bank has a network of seven 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 100 per cent of the ordinary share capital of the company.

Redbox Limited was registered in 2006 and is fully owned by the Bank. Redbox Limited did not undertake any other business during 2009. Redbox Limited owns 66.5 per cent of the ordinary share capital of MaltaPost p.l.c.; the remaining 33.5 per cent are held by the general public. MaltaPost p.l.c. was listed on the Malta Stock Exchange on 24 January 2008. MaltaPost p.l.c. is Malta's leading postal services company, being the sole licensed Universal Service Provider of postal services in Malta.

Review of Performance

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

Results for 2009

Profit after taxation of €8.064 million and €7.481 million for the Group and the Bank respectively, were registered for the twelve months ended 31 December 2009.

A gross dividend of €0.10 per nominal €0.25 share for the twelve months ended 31 December 2009 is being proposed for approval by the shareholders. The Board of Directors recommends that shareholders be given the option of receiving the dividend either in the form of cash or by the issue of new shares. A resolution to this effect will be proposed to the Annual General Meeting of shareholders.

Capital

As at the Annual General Meeting held on the 23 April 2009, the Authorised Share Capital of the Bank is Euro twenty million (€20,000,000) made up of 80,000,000 Ordinary Shares of a nominal value of €0.25 each. The Issued and Fully Paid-Up Share Capital of the Bank was Euro eight million, seven hundred and sixty two thousand and fifty two (€8,762,052) divided into thirty five million, forty eight thousand, two hundred and eight (35,048,208) Ordinary Shares of a nominal value of €0.25 each, all of one class.

On the 28 April 2009 an additional five hundred and sixty five thousand, three hundred and seventy three (565,373) Ordinary Shares of €0.25 each were admitted to listing on the Malta Stock Exchange. This addition was in respect of the Scrip Dividend approved at the said Annual General Meeting. The Issued and Paid-Up Share Capital is now therefore made up of thirty five million, six hundred and thirteen thousand, five hundred and eighty one (35,613,581) Ordinary Shares of €0.25 each all of which carry the same voting rights. Equity attributable to shareholders as at 31 December 2009 stood at €64.2 million.

Board of Directors, Officers and Senior Management

The composition of the Board of Directors, Officers and Senior Management is further shown in the section on Company Information.

Transactions in Own Shares

The Bank holds units in a collective investment scheme which scheme invests in the Bank's shares. Through its holding in this fund, the Bank indirectly acquired an additional 447 of its own shares during the year, bringing the total number of shares indirectly held at 31 December 2009 to 17,643.

Standard Licence Conditions

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

Listing Rules - Disclosures

In terms of Listing Rule 9.43, the directors are required to disclose the following information.

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

a. directors may be authorised by the Company to issue shares subject to the provisions of the Memorandum and Articles of Association and the Companies Act;
b. directors may decline to register the transfer of a share (not being a fully paid share) to a person of whom they shall not approve;
c. directors may decline to recognise any instrument of transfer, unless accompanied by the certificate of the shares to which it relates, and/or such other evidence;
d. no registration of transfers of shares shall be made and no new particulars shall be entered in the register of members when the register is closed for inspection;
e. the Company may, from time to time, by extraordinary resolution reduce the Share Capital, any Capital Reserve Fund, or any Share Premium Account in any manner.

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

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

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

Directors' Interest in Group Companies

Joseph Said who is a director of the Bank is also a director of the following companies that have a shareholding in the Group as follows:

	Shares in Lombard Bank Malta p.l.c. at 31 December 2009	at 10 March 2010
Safaco Ltd	33,657	33,657
First Gemini p.l.c.	1,870,139	1,870,139

	Shares in MaltaPost p.l.c. at 31 December 2009	at 10 March 2010
Safaco Ltd	32,787	32,787
First Gemini p.l.c.	26,629	26,629

In addition Joseph Said has a minority shareholding in Safaco Ltd.

Audit Committee

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

Auditors

KPMG have expressed willingness to continue in office as auditors of the Bank.

Approved by the Board of Directors on 11 March 2010 and signed on its behalf by:

Christian Lemmerich
Chairman

Joseph Said
Chief Executive Officer

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Statement of Compliance with the Principles of Good Corporate Governance

For the Year Ended 31 December 2009

Introduction

Pursuant to the Malta Financial Services Authority (MFSA) Listing Rules, the Bank hereby reports on the extent to which the Principles of Good Corporate Governance have been adopted.

In this statement, the Bank indicates the effective measures that have been taken to ensure compliance throughout the accounting period with the Principles.

Board of Directors

The Board of Directors is made up of seven (7) members, who are considered fit and proper to direct the business of the company and who are therefore competent and solvent individuals. The Chairman of the Board is elected by the Directors from amongst themselves at the first Board meeting after the Annual General Meeting. The offices of the Chairman and that of the Chief Executive are occupied by separate individuals.

During the period under review, the Board was composed of executive and non-executive Directors (including independent non-executives), as listed below:

		First appointed:
Executive:	Joseph Said (Chief Executive Officer)	2000
Non-Executive:	Joseph M Demajo	1999
	Graham A Fairclough	2003
	Christian Lemmerich (Chairman)	1998
	Dimitris Spanodimos	2008
	Christos J Stylianides	2008
	Michael Zammit	1995

The non-executive Directors are able to bring an independent judgement to bear on the various issues brought before the Bank. They are free from any business or other relationship which could interfere materially with the exercise of their independent and impartial judgement.

Distinct roles

The Board has the first level responsibility of executing the following basic roles: accountability, monitoring, strategy formulation and policy development. A clear division of responsibilities between the functions of the Board and the executive responsibility for the running of the Bank's business exists and no one individual or small group of individuals has unfettered powers of decision. Every Director plays a constructive role in the affairs of the Bank.

There is a clear separation of the positions, duties and responsibilities of the Chairman and the Chief Executive Officer. Given that the Board's and Directors' performance is under the scrutiny of the competent authorities and shareholders, the Board does not consider it necessary to appoint a committee to carry out a performance evaluation of the Board, its Directors and Committees.

The Board is primarily engaged in the review and evaluation of corporate strategy, budget, major operational and financial plans, risk policy, performance objectives and the performance within the parameters of all relevant laws, regulations and codes of best business practice. This is achieved by the Board performing the following tasks:

1. defining in clear and concise terms, the Bank's strategy, policies, management performance criteria and business policies;
2. establishing a clear internal and external reporting system so that the Board has continuous access to accurate, relevant and timely information;
3. continuously assess and monitor the present and future operations' opportunities, threats and risks;
4. recognising and supporting enterprise and innovation within the management;

5. seeking to establish an effective decision-making process in order to develop the Bank's business efficiently;
6. evaluating the management's implementation of corporate strategy and financial objectives;
7. ensuring that the Bank has appropriate policies and procedures in place to assure that the Bank and its employees maintain the highest standards of corporate conduct;
8. recognising that the Bank's success depends upon its relationship with all groups of its stakeholders, including employees, suppliers, customers and the wider community in which the Bank operates;
9. striking a balance between enterprise and control in the Bank; and
10. developing a succession policy for the future composition of the Board and particularly the executive component thereof.

Practices

Regular Board meetings are held in order to ensure that the Directors are able to review, inter alia, corporate strategy, the Budget and the results of the Bank and its subsidiaries, acquisitions, major capital and other important transactions.

The Directors are informed in time for all Board meetings in writing and have at their disposal all necessary documents for each meeting. The Company Secretary provides his advice and services to all Directors. The Directors acknowledge that it is their duty to acquire a broad knowledge of the business of the Bank, be aware of and be conversant with the statutory and regulatory requirements, allocate sufficient time to perform their responsibilities and regularly attend board (and committee) meetings.

Board Meetings

During the calendar year 2009, the Board met seven (7) times and at least once every quarter to discharge its duties effectively. Attendance of the Board members during said year was as follows:

Joseph M Demajo	7
Graham A Fairclough	6
Christian Lemmerich	7
Joseph Said	7
Dimitris Spanodimos	1
Christos J Stylianides	6
Michael Zammit	6

During meetings, all board members were given ample opportunity and time to convey their opinions and to discuss issues set on the board agenda to enable them to fulfill their responsibilities. The Directors were served with notice of the dates of meetings together with the supporting material well in advance thus enabling them to consider the information prior to the board meeting. All Directors were given an equal and fair opportunity to discuss matters affecting the business.

Board meetings follow a formal agenda which focuses mainly on long-term strategic issues, credit matters and shorter-term business performance issues.

After each Board meeting and before the next meeting, minutes that faithfully recorded attendance and decisions were prepared and made available to all Directors. The documentation includes the Minutes of the previous meeting together with a full report on the more important operational matters.

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

It is the established practice of the Board that in situations of potential conflict of interest by any member, such member declares his conflict and refrains from the proceedings in relation to the matter or decision. Such declaration and action is duly recorded in the minutes.

Appointment and Election of the Board Directors

The process of appointment of the Directors is transparent and usually conducted at properly constituted general meetings. The Bank's Articles of Association 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 at regular intervals. All the appointments and resignations of the Directors are shown in the Directors' Report.

The regulatory regime requires that, prior to being elected directors, nominees undergo a due diligence process by the Malta Financial Services Authority to establish that they are fit and proper persons pursuant to the Banking Act, 1994 (Chapter 371) and the Investment Services Act, 1994 (Chapter 370).

In terms of the said Articles of Association, every shareholder holding in the aggregate at least fifteen (15%) per cent of the Bank's Ordinary Issued Share Capital is entitled to appoint one (1) Director for each and every fifteen (15%) per cent of the Ordinary Issued Capital owned by him. Any fractional shareholding in excess of fifteen (15%) per cent not applied in appointing a Director, and only that fraction, shall be entitled to vote in the election of the remaining Directors together with the remaining general body of shareholders.

Emoluments

The aggregate amount of the Directors' emoluments is disclosed in note 12 to the Financial Statements. No disclosure is made of the remuneration of each Director separately. The maximum aggregate Directors' emoluments are established from time to time by the shareholders in General Meeting. During the Annual General Meeting held in 2009, the aggregate maximum amount of remuneration that may be received by the Board for their service was set at €70,000. Since the majority of the Board is made up of non-executive Directors, the determination of remuneration arrangements for each Board member is established collectively by the Board of Directors.

The Chief Executive Officer is on a contract of employment with the Bank and his remuneration as employee, as well as his employment, is independent of his office as Director of the Bank. Whilst the remuneration and bonuses of the Chief Executive Officer are approved by the Board of Directors, Management approves the remuneration and bonuses of all the other staff members.

Although consideration has been had of the relevant provisions contained in the Listing Rules, it has been decided that the particular circumstances of the Bank do not justify the setting up of a separate Remuneration Committee as set out by the Code of Principles of Good Corporate Governance. Nevertheless, it is declared that the remuneration of the Directors is such that it is intended to attract and retain the Directors needed to run the Bank successfully as required by the said Code.

Involvements

All Directors have provided declarations of their beneficial and non-beneficial shareholdings in the Bank together with particulars of any material interest, directly or indirectly, in any contract of significance with the Bank or any of its subsidiaries.

Going Concern

As required by Listing Rule 9.44e.13, after having duly considered the Bank's performance, the Directors declare that they expect that the Bank will continue to operate as a going concern for the foreseeable future.

Internal Control System

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

The Board, therefore, is responsible for:

1. reviewing the Bank's strategy on an on-going basis as well as setting the appropriate business objectives in order to enhance value for all stakeholders;

2. appointing and monitoring the Chief Executive Officer whose function it is to manage the operations of the Bank;

3. identifying and ensuring that significant risks are managed satisfactorily; and

4. given the fiduciary responsibility involved, the Board of Directors also sets high business and ethical standards for adoption right across the organisation.

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

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

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

An internal control system aims at mitigating, but not eliminating, the various risks faced by the entity, and provides reasonable but not absolute assurance that material loss will not be incurred.

Board Committees

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

Asset-Liability Committee

The Asset-Liability Committee (ALCO) monitors the Bank's financial performance, considers investment policy and overseas counterparty limits. It also oversees risk management practices in the Bank's Finance, Treasury and International Divisions, amongst others. Membership consists of a number of Chief Officers and Senior Management including managers from Finance and Treasury. The Chief Executive Officer retains primary responsibility for asset and liability management. ALCO met 5 times during 2009.

Credit Committee

The Credit Committee considers the development of general lending principles and oversees risk management practices in lending operations. It also takes individual loan decisions within limits delegated by the Board. Membership consists of the Chief Executive Officer and other Chief Officers as well as senior managers engaged in customer lending. Directors appointed to the Asset-Liability and Credit Committees will become involved in the Bank's decision-making process by virtue of their appointment and are therefore vested with executive powers in those areas that fall within the scope of the particular committee. The Credit Committee met 6 times during 2009.

Audit Committee

The Audit Committee, as approved by the Listing Authority, inter alia, assists the Board in fulfilling its supervisory and monitoring responsibilities by reviewing the financial statements and disclosures, the systems of internal control established by Management and the external and internal audit process. The adequacy and proper operation of internal controls in individual areas of operation are reviewed periodically by the Bank's independent Internal Audit Department and its findings reported to the Audit Committee. The terms of reference of the Audit Committee comply with the requirements of the Listing Rules and ensure that it acts separately and independently of Management. The Audit Committee, which met 6 times during 2009, was made up of the following members (all non-executive Board directors):

Christian Lemmerich (Chairman)
Joseph M Demajo
Dimitris Spanodimos
Christos J Stylianides
Michael Zammit

Christian Lemmerich is an independent member who is competent in accounting and/or auditing in terms of the Listing Rules, having served for a good many years as Internal Auditor with HSBC.

The Bank's Internal Auditor attends all meetings of the Audit Committee, while the External Auditors are always invited to attend. Members of Senior Management are also invited to attend Audit Committee meetings, as deemed necessary by the Committee.

The main role and responsibilities of the Audit Committee include:

1. the monitoring of the financial reporting process;

2. the monitoring of the effectiveness of the Bank's internal control, internal audit where applicable, and risk management systems;

3. the monitoring of the audit of the annual and consolidated accounts;

4. the maintenance of communication on such matters between the Board, management, the independent External Auditors and the internal Auditors;

5. the making of recommendations to the Board in relation to the appointment of the external Auditor and the approval of the remuneration and terms of engagement of the external Auditor following appointment by the shareholders in general meeting;

6. the monitoring and reviewing of the external Auditor's independence, and in particular the provision of additional services to the Bank; and

7. the development and implementation of a policy on the engagement of the external Auditor to supply non-audit services.

Relationships with Shareholders

The Board serves the legitimate interests of the Bank, accounts to shareholders fully and ensures that the Bank communicates with the market effectively. Where it is deemed necessary, the Board may enter into a meaningful dialogue with institutional shareholders and market intermediaries based on the mutual understanding of objectives.

As a listed company, the Bank provides the market with regular, timely, accurate, comprehensive and comparable information in sufficient detail to enable investors to make informed investment decisions. It is the Bank's policy to inform investors, analysts and other interested parties openly and fully about Lombard's circumstances in accordance with legal requirements and on the basis of corporate governance standards and recommendations from relevant organisations. Lombard strives to meet the highest standards in this area and places an emphasis on the quality, consistency and continuity of the information disclosed. It is the Bank's policy:

- to publish information (that can have a significant effect on the Bank's share price) through the Malta Stock Exchange and immediately afterwards on the website;
- to make other published information available to the public on the website;
- to strive for open, transparent communications;
- to ensure continuity and high quality in the information disclosed; and
- to be accessible to all stakeholders.

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 shareholders may participate through the use of proxies. The Notice for a shareholders' meeting may contain all resolutions proposed for approval by that meeting. Moreover, business at the Annual General Meeting would include the approval of the Annual Report and Audited Financial Statements for the preceding financial year, which would have been circulated to the shareholders with the Notice for the meeting. Other items normally discussed during the Annual General Meeting may include the appointment of Directors and approval of their fees, the appointment of External Auditors and approval of their fees and the approval of the final dividend to shareholders.

The Bank is guided by the relevant Legislation when it comes to the rights of the minority shareholders. Minority shareholders are granted the power to call special meetings on matters of importance to the Bank, should a minimum threshold of share ownership be established according to the Memorandum or Articles of Association. Also, minority shareholders may formally present an issue to the Board if they own the predefined minimum threshold of shares.

Conflicts of Interest

A Director is not considered independent if he has any involvement or relationship with a Company or business or other relationship with a significant shareholder of the Bank, which could materially impede the exercise of impartial and objective judgement.

It is recognised that the Directors' primary responsibility is always to act in the interest of the Bank and its stakeholders as a whole irrespective of who appointed them to the Board. Directors are to avoid conflicts of interest at all times and not accept a nomination if aware that there is an actual conflict of interest. Personal interests are not to take precedence over Bank interests and should a Director having a continuing material interest that conflicts with the interests of the Bank, should take effective steps to eliminate the grounds for conflict.

It is in this context that 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 and implemented in line with the Prevention of Financial Markets Abuse Legislation. The Bank also has in place formal procedures to ensure the timely dissemination and publication of information that is potentially price-sensitive, including the publication of the Bank's financial statements. Directors and employees are periodically reminded of their obligations when dealing in securities of the Bank to observe the regulations stipulated by law and as laid down by the Listing Authority of the Malta Financial Services Authority.

Training and Development

The Bank acknowledges that it is operating in a fast-changing market. For this reason, the Bank continues to implement its programme of training and developing of staff right across the board, thus ensuring that there is adequate training in the Bank for management and employees. The Bank recognises that adequate and relevant training and development, at all levels, assist the Bank in retaining a competitive edge. Special attention is also given to the monitoring of management and staff morale.

Corporate Social Responsibility

The Board seeks to adhere to accepted principles of corporate social responsibility in their day-to-day management practices of the Bank. Corporate Social Responsibility is the continuing commitment by business entities to behave ethically and contribute to economic development while improving the quality of life of the work force and their families as well as of the local community and society at large. Work on stakeholder interests is a logical extension of Lombard's core values, and it lays the foundation for the Bank's ongoing opportunities to attract investors, customers and staff. Good relations with stakeholders are a basis for long-term development and value creation. Important stakeholder groups consist primarily of investors, customers, staff and public authorities.

Public Authorities and Society

The Bank is aware of the social responsibility incumbent upon it as a leading financial institution. The Bank may perform its social duties both independently and in co-operation with others, in the private and public sectors. These activities involve environmental, ethical and social issues, among others. Lombard's activities involve - often in co-operation with relevant industry organisations - contact with a large number of public authorities that perform supervisory or similar functions in the various areas in which legislation and regulations empower them. Lombard has adopted core values that urge all employees to conduct themselves properly and with integrity.

Approved by the Board of Directors on 11 March 2010 and signed on its behalf by:

Christian Lemmerich
Chairman

Joseph Said
Chief Executive Officer

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

	31 December 2009	10 March 2010	
Michael Zammit	432 shares	432 shares	(Lombard Bank Malta p.l.c.)

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

	31 December 2009	10 March 2010
Marfin Popular Bank Public Co Ltd	44.90%	44.90%
First Gemini p.l.c.	5.25%	5.25%

Number of shareholders at 31 December 2009 analysed by range:

Range	Total Shareholders	Shares
1 – 500	163	31,123
501 – 1000	106	83,273
1001 – 5000	514	1,539,361
5001 and over	640	33,959,824
Total	**1,423**	**35,613,581**

Number of shareholders at 10 March 2010 analysed by range:

Range	Total Shareholders	Shares
1 – 500	171	34,564
501 – 1000	108	86,143
1001 – 5000	516	1,539,613
5001 and over	640	33,953,261
Total	**1,435**	**35,613,581**

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

Company Information

Board Of Directors

Christian Lemmerich (Chairman)
Joseph M Demajo
Graham A Fairclough
Joseph Said
Dimitris Spanodimos
Christos J Stylianides
Michael Zammit

Company Secretary

Graham A Fairclough

Senior Management

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

Company Information

Registered Office

67 Republic Street, Valletta VLT 1117
Tel: 25581 117

Branches

67 Republic Street, Valletta VLT 1117
Tel: 25581 150

Graham Street, Sliema SLM 1711
Tel: 25581 200

Balzan Valley Road, Balzan BZN 1409
Tel: 25581 500

Paceville Avenue, Paceville STJ 3103
Tel: 25581 400

4 Main Street, Qormi QRM 1100
Tel: 25581 300

82 St Sebastian Street, Qormi QRM 2335
Tel: 25581 360

Ninu Cremona Street, Victoria VCT 2561
Tel: 25581 600

Wealth Management

59 Republic Street, Valletta VLT 1117
Tel: 25581 114

Directors' Responsibility for the Financial Statements

The Companies Act, 1995 (Chapter 386, Laws of Malta) (the "Act") requires the directors of Lombard Bank Malta p.l.c. (the "Bank") 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 requirements of International Financial Reporting Standards as adopted by the EU.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy, at any time, the financial position of the Bank and 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 (Chapter 386, Laws of Malta) and Banking Act, 1994 (Chapter 371, Laws of Malta). The directors are also responsible for safeguarding the assets of 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 by 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 group's business. This responsibility includes establishing and maintaining controls pertaining to the Bank's and the Group's objective of preparing financial statements as required by the Act and managing risks that may give rise to material misstatements in those financial statements. In determining which controls to implement to prevent and detect fraud, management considers the risks that the financial statements may be materially misstated as a result of fraud.

Signed on behalf of the Board of Directors by:

Christian Lemmerich
Chairman

Joseph Said
Chief Executive Officer

LOMBARD

FINANCIAL STATEMENTS

for the period 1 January 2009 to 31 December 2009

2009

Statements of Financial Position

At 31 December 2009

	Note	Group 2009 € 000	Group 2008 € 000	Bank 2009 € 000	Bank 2008 € 000
Assets					
Balances with Central Bank of Malta, treasury bills and cash	15	**116,357**	68,576	**115,993**	68,457
Cheques in course of collection		**811**	2,748	**811**	2,748
Investments	17	**45,025**	51,627	**39,357**	47,099
Loans and advances to banks	18	**22,383**	49,214	**18,460**	44,315
Loans and advances to customers	19	**327,802**	325,025	**327,956**	325,025
Investments in subsidiaries	20	**-**	-	**7,634**	6,920
Intangible assets	21	**1,238**	1,302	**3**	13
Current tax assets		**1,171**	234	**1,731**	1,077
Property and equipment	22	**13,878**	13,009	**11,654**	10,539
Investment property	23	**745**	745	**745**	745
Assets held for sale	19	**109**	-	**109**	-
Deferred tax assets	24	**1,993**	1,973	**1,551**	1,634
Inventories	25	**671**	821	**247**	338
Trade and other receivables	26	**6,545**	4,438	**31**	61
Prepayments and accrued income	27	**4,113**	5,022	**4,622**	3,518
Total assets		**542,841**	524,734	**530,904**	512,489
Liabilities					
Amounts owed to banks	28	**3,675**	130	**3,675**	130
Amounts owed to customers	29	**446,209**	439,860	**449,436**	443,379
Provisions for liabilities and other charges	30	**2,520**	2,413	**577**	566
Other liabilities	31	**12,586**	12,416	**8,594**	6,471
Accruals and deferred income	32	**9,649**	8,786	**4,975**	5,075
Total liabilities		**474,639**	463,605	**467,257**	455,621

Statements of Financial Position *(continued)*

At 31 December 2009

	Note	Group 2009 € 000	Group 2008 € 000	Bank 2009 € 000	Bank 2008 € 000
Equity					
Called up share capital	33	**8,903**	8,762	**8,903**	8,762
Share premium	34	**16,409**	15,137	**16,409**	15,137
Property revaluation reserve	34	**2,288**	2,288	**2,288**	2,288
Investment revaluation reserve	34	**290**	23	**186**	23
Retained earnings	34	**36,395**	31,518	**35,861**	30,658
Equity attributable to equity holders of the Bank		**64,285**	57,728	**63,647**	56,868
Non-controlling interest		**3,917**	3,401	**-**	-
Total equity		**68,202**	61,129	**63,647**	56,868
Total liabilities and equity		**542,841**	524,734	**530,904**	512,489
Memorandum items					
Contingent liabilities	35	**10,484**	6,624	**10,484**	6,624
Commitments	35	**98,611**	79,948	**98,611**	79,948

The notes on pages 33 to 96 are an integral part of these financial statements.

These financial statements on pages 24 to 96 are approved and authorised for issue by the Board of Directors on 11 March 2010 and signed on its behalf by:

Christian Lemmerich
Chairman

Joseph Said
Chief Executive Officer

Income Statements

For the Year Ended 31 December 2009

	Note	Group 2009 € 000	Group 2008 € 000	Bank 2009 € 000	Bank 2008 € 000
Interest receivable and similar income					
- on loans and advances, balances with Central Bank of Malta and treasury bills	5	**25,404**	25,912	**25,347**	25,815
- on debt and other fixed income instruments	5	**2,746**	3,149	**2,553**	2,962
Interest expense	5	**(13,560)**	(14,493)	**(13,632)**	(14,559)
Net interest income		**14,590**	14,568	**14,268**	14,218
Fee and commission income	6	**2,157**	2,398	**1,220**	1,364
Fee and commission expense	6	**(67)**	(82)	**(66)**	(81)
Net fee and commission income		**2,090**	2,316	**1,154**	1,283
Postal sales and other revenues	7	**19,393**	19,516	**122**	130
Dividend income	8	**122**	65	**1,941**	65
Net trading income	9	**266**	345	**262**	355
Net (losses)/gains on disposal of non-trading financial instruments		**(53)**	73	**(53)**	4
Other operating income		**33**	44	**37**	44
Operating income		**36,441**	36,927	**17,731**	16,099
Employee compensation and benefits	10	**(13,643)**	(13,885)	**(4,039)**	(3,760)
Other operating costs		**(8,758)**	(8,873)	**(2,025)**	(2,278)
Depreciation and amortisation		**(1,065)**	(1,119)	**(227)**	(250)
Provision for liabilities and other charges	30	**(173)**	(297)	**(20)**	(21)
Net impairment gains	11	**125**	1,387	**190**	1,429
Profit before income tax	12	**12,927**	14,140	**11,610**	11,219
Income tax expense	13	**(4,863)**	(5,057)	**(4,129)**	(4,041)
Profit for the year		**8,064**	9,083	**7,481**	7,178
Attributable to:					
Equity holders of the Bank		**7,377**	8,402	**7,481**	7,178
Non-controlling interest		**687**	681	**-**	-
Profit for the year		**8,064**	9,083	**7,481**	7,178
Earnings per share	14	**20c8**	24c1	**21c1**	20c6

The notes on pages 33 to 96 are an integral part of these financial statements.

Statements of Comprehensive Income

For the Year Ended 31 December 2009

Group

	2009	2008
	€ 000	€ 000
Profit for the year	**8,064**	9,083
Other comprehensive income, net of income tax		
Investment revaluation reserve (available-for-sale financial assets):		
Net change in fair value	**366**	(732)
Net amount transferred to profit and loss	**44**	(61)
Income tax on other comprehensive income	**(88)**	258
Other comprehensive income for the year, net of income tax	**322**	(535)
Total comprehensive income for the year, net of income tax	**8,386**	8,548
Attributable to:		
Equity holders of the Bank	**7,644**	7,874
Non-controlling interest	**742**	674
Total recognised income and expense for the year	**8,386**	8,548

Bank

	2009	2008
	€ 000	€ 000
Profit for the year	**7,481**	7,178
Other comprehensive income, net of income tax		
Investment revaluation reserve (available-for-sale financial assets):		
Net change in fair value	**207**	(737)
Net amount transferred to profit and loss	**44**	-
Income tax on other comprehensive income	**(88)**	258
Other comprehensive income for the year, net of income tax	**163**	(479)
Total comprehensive income for the year, net of income tax	**7,644**	6,699

The notes on pages 33 to 96 are an integral part of these financial statements.

Statements of Changes in Equity

For the Year Ended 31 December 2009

Group

	Called Up Issued Share Capital	Share Premium	Property Revaluation Reserve	Investment Revaluation Reserve	Retained Earnings	Total	Non-controlling Interest	Total Equity
	Attributable to equity holders of the Bank							
	€ 000	€ 000	€ 000	€ 000	€ 000	€ 000	€ 000	€ 000
At 1 January 2008	5,024	13,590	2,288	571	29,550	51,023	3,460	54,483
Total comprehensive income for the year								
Profit for the year	-	-	-	-	8,402	8,402	681	9,083
Other comprehensive income								
Investment revaluation reserve (available-for-sale financial assets): Net change in fair value	-	-	-	(476)	-	(476)	1	(475)
Net amount transferred to profit and loss, net of tax	-	-	-	(72)	20	(52)	(8)	(60)
Total other comprehensive income for the year	-	-	-	(548)	20	(528)	(7)	(535)
Total comprehensive income for the year	-	-	-	(548)	8,422	7,874	674	8,548
Transactions with owners, recorded directly in equity								
Contributions by and distributions to owners								
Dividends to equity holders	-	-	-	-	(2,243)	(2,243)	(559)	(2,802)
Increase in nominal value of paid-up share capital	3,604	-	-	-	(3,604)	-	-	-
Rights issue of ordinary shares	134	1,547	-	-	-	1,681	-	1,681
Total contributions by and distributions to owners	3,738	1,547	-	-	(5,847)	(562)	(559)	(1,121)
Changes in ownership interests in subsidiaries that do not result in a loss of control								
Change in non-controlling interest in shareholding in subsidiary	-	-	-	-	(607)	(607)	(174)	(781)
At 31 December 2008	8,762	15,137	2,288	23	31,518	57,728	3,401	61,129

The notes on pages 33 to 96 are an integral part of these financial statements.

Statements of Changes in Equity

For the Year Ended 31 December 2009

Group

	Attributable to equity holders of the Bank							
	Called Up Issued Share Capital € 000	Share Premium € 000	Property Revaluation Reserve € 000	Investment Revaluation Reserve € 000	Retained Earnings € 000	Total € 000	Non-controlling Interest € 000	Total Equity € 000
At 1 January 2009	8,762	15,137	2,288	23	31,518	57,728	3,401	61,129
Total comprehensive income for the year								
Profit for the year	-	-	-	-	7,377	7,377	687	8,064
Other comprehensive income								
Investment revaluation reserve (available-for-sale financial assets): Net change in fair value	-	-	-	238	-	238	55	293
Net amount transferred to profit and loss, net of tax	-	-	-	29	-	29	-	29
Total other comprehensive income for the year	-	-	-	267	-	267	55	322
Total comprehensive income for the year	-	-	-	267	7,377	7,644	742	8,386
Transactions with owners, recorded directly in equity								
Contributions by and distributions to owners								
Dividends to equity holders	-	-	-	-	(2,278)	(2,278)	(405)	(2,683)
Rights issue of ordinary shares	141	1,272	-	-	-	1,413	-	1,413
Total contributions by and distributions to owners	141	1,272	-	-	(2,278)	(865)	(405)	(1,270)
Changes in ownership interests in subsidiaries that do not result in a loss of control								
Change in non-controlling interest in shareholding in subsidiary	-	-	-	-	(222)	(222)	179	(43)
At 31 December 2009	8,903	16,409	2,288	290	36,395	64,285	3,917	68,202

The notes on pages 33 to 96 are an integral part of these financial statements.

Statements of Changes in Equity
For the Year Ended 31 December 2009

Bank

	Called Up Issued Share Capital € 000	Share Premium € 000	Property Revaluation Reserve € 000	Investment Revaluation Reserve € 000	Retained Earnings € 000	Total € 000
At 1 January 2008	5,024	13,590	2,288	502	29,327	50,731
Total comprehensive income for the year						
Profit for the year	-	-	-	-	7,178	7,178
Other comprehensive income						
Investment revaluation reserve (available-for-sale financial assets):						
Net change in fair value	-	-	-	(479)	-	(479)
Net amount transferred to profit and loss, net of tax	-	-	-	-	-	-
Total other comprehensive income for the year	-	-	-	(479)	-	(479)
Total comprehensive income for the year	-	-	-	(479)	7,178	6,699
Transactions with owners, recorded directly in equity						
Contributions by and distributions to owners						
Dividends to equity holders	-	-	-	-	(2,243)	(2,243)
Increase in nominal value of paid-up share capital	3,604	-	-	-	(3,604)	-
Rights issue of ordinary shares	134	1,547	-	-	-	1,681
Total contributions by and distributions to owners	3,738	1,547	-	-	(5,847)	(562)
At 31 December 2008	8,762	15,137	2,288	23	30,658	56,868

The notes on pages 33 to 96 are an integral part of these financial statements.

Statements of Changes in Equity

For the Year Ended 31 December 2009

Bank

	Called Up Issued Share Capital	Share Premium	Property Revaluation Reserve	Investment Revaluation Reserve	Retained Earnings	Total
	€ 000	**€ 000**	**€ 000**	**€ 000**	**€ 000**	**€ 000**
At 1 January 2009	**8,762**	**15,137**	**2,288**	**23**	**30,658**	**56,868**
Total comprehensive income for the year						
Profit for the year	-	-	-	-	**7,481**	**7,481**
Other comprehensive income						
Investment revaluation reserve (available-for-sale financial assets):						
Net change in fair value	-	-	-	**134**	-	**134**
Net amount transferred to profit and loss, net of tax	-	-	-	**29**	-	**29**
Total other comprehensive income for the year	-	-	-	**163**	-	**163**
Total comprehensive income for the year	-	-	-	**163**	**7,481**	**7,644**
Transactions with owners, recorded directly in equity						
Contributions by and distributions to owners						
Dividends to equity holders	-	-	-	-	**(2,278)**	**(2,278)**
Rights issue of ordinary shares	**141**	**1,272**	-	-	-	**1,413**
Total contributions by and distributions to owners	**141**	**1,272**	-	-	**(2,278)**	**(865)**
At 31 December 2009	**8,903**	**16,409**	**2,288**	**186**	**35,861**	**63,647**

The notes on pages 33 to 96 are an integral part of these financial statements.

Statements of Cash Flows

For the Year Ended 31 December 2009

	Note	Group 2009 € 000	Group 2008 € 000	Bank 2009 € 000	Bank 2008 € 000
Cash flows from operating activities					
Interest and commission receipts		**24,685**	24,917	**24,739**	24,959
Cash receipts from customers		**85,005**	84,567	**122**	1,138
Interest and commission payments		**(13,585)**	(14,336)	**(13,656)**	(14,400)
Payments to employees and suppliers		**(89,009)**	(86,387)	**(6,150)**	(5,952)
Operating profit before changes in operating assets and liabilities		**7,096**	8,761	**5,055**	5,745
(Increase)/decrease in operating assets:					
Treasury bills		**(16,671)**	(43,889)	**(16,671)**	(43,889)
Deposits with Central Bank of Malta		**365**	15,696	**365**	15,696
Loans and advances to banks and customers		**(2,892)**	(60,643)	**(3,046)**	(61,179)
Other receivables		**1,940**	(680)	**1,949**	(675)
Increase/(decrease) in operating liabilities:					
Amounts owed to banks and to customers		**9,907**	21,655	**9,615**	23,702
Other payables		**2,123**	(7,275)	**2,123**	(7,275)
Net cash from/(used in) operations		**1,868**	(66,375)	**(610)**	(67,875)
Income tax paid		**(5,892)**	(6,634)	**(4,294)**	(5,822)
Net cash used in operating activities		**(4,024)**	(73,009)	**(4,904)**	(73,697)
Cash flows from investing activities					
Dividends received		**122**	65	**122**	65
Interest received from investments		**4,867**	4,683	**4,524**	4,360
Proceeds on maturity/sale of investments		**8,632**	4,238	**8,625**	4,004
Purchase of investments		**(1,779)**	(1,673)	**(784)**	(1,607)
Investment in subsidiary		**-**	-	**-**	(291)
Purchase of property and equipment		**(1,892)**	(3,554)	**(1,331)**	(3,072)
Acquisition of non-controlling interest		**(156)**	(916)	**-**	-
Net cash flows from investing activities		**9,794**	2,843	**11,156**	3,459
Cash flows from financing activities					
Dividend by subsidiary to non-controlling interest		**(249)**	(559)	**-**	-
Dividends paid		**(865)**	(564)	**(865)**	(564)
Cash used in financing activities		**(1,114)**	(1,123)	**(865)**	(564)
Net increase/(decrease) in cash and cash equivalents		**4,656**	(71,289)	**5,387**	(70,802)
Cash and cash equivalents at beginning of year		**64,770**	136,059	**59,752**	130,554
Cash and cash equivalents at end of year	36	**69,426**	64,770	**65,139**	59,752

The notes on pages 33 to 96 are an integral part of these financial statements.

Notes to the Financial Statements
For the Year Ended 31 December 2009

1 **Reporting entity**

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

The consolidated financial statements of the Bank for the year ended 31 December 2009 comprise the Bank and its subsidiary undertakings (together referred to as "the Group" and individually as "Group entities") as disclosed in note 20.

2 **Basis of preparation**

2.1 *Statement of compliance*

The consolidated and separate financial statements were authorised for issue by the Board of Directors on 11 March 2010.

These financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the EU ("the applicable framework"). All references in the financial statements to IAS, IFRS or SIC/IFRIC interpretations refer to those adopted by the EU.

These financial statements have also been prepared and presented in accordance with the provisions of the Banking Act, 1994 (Chapter 371, Laws of Malta) and the Companies Act, 1995 (Chapter 386, Laws of Malta).

2.2 *Basis of measurement*

The financial statements have been prepared on the historical cost basis except for the following, which are measured at fair value:

- derivative financial instruments;
- available-for-sale financial assets; and
- investment property.

2.3 *Functional and presentation currency*

The financial statements are presented in Euro (€), which is the Group's functional currency.

2.4 *Use of estimates and judgements*

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

2 **Basis of preparation** *(continued)*
2.4 *Use of estimates and judgements (continued)*

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

Information about significant areas of estimation, uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are described in note 40.

2.5 *Changes in accounting policies*

2.5.1 Overview

Effective 1 January 2009 the Group has changed its accounting policies in the following areas:

- Determination and presentation of operating segments;
- Presentation of financial statements.

2.5.2 Determination and presentation of operating segments

As of 1 January 2009 the Group determines and presents operating segments based on the information that internally is provided to the Bank's Board of Directors, which is the Group's chief operating decision maker. This change in accounting policy is due to the adoption of IFRS 8, *Operating Segments*. Previously, operating segments were determined and presented in accordance with IAS 14, *Segment Reporting*. The new accounting policy in respect of operating segments disclosure is presented as follows:

Comparative segment information has been represented in conformity with the transitional requirements of this standard. Since the change in accounting policy only impacts presentation and disclosure aspects, there is no impact on earnings per share.

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components, whose operating results are reviewed regularly by the Bank's Board of Directors to make decisions about resources allocated to the segment and assess its performance, and for which discrete financial information is available. Segment results that are reported to the Bank's Board of Directors include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

Segment capital expenditure is the total cost incurred during the period to acquire property and equipment, and intangible assets other than goodwill.

2 **Basis of preparation** *(continued)*
2.5 *Changes in accounting policies (continued)*

2.5.3 Presentation of financial statements

The Group applies revised IAS 1 *Presentation of Financial Statements* (2007), which became effective as of 1 January 2009. As a result, the Group presents in the consolidated statement of changes in equity all owner changes in equity, whereas all non-owner changes in equity are presented in the consolidated statement of comprehensive income.

Comparative information has been represented so that it also is in conformity with the revised standard. Since the change in accounting policy only impacts presentation aspects, there is no impact on earnings per share.

2.6 *Other accounting developments – Disclosures pertaining to fair values and liquidity risk for financial instruments*

The Group has applied Improving *Disclosures about Financial Instruments* (Amendments to IFRS 7), issued in March 2009, that require enhanced disclosures about fair value measurements and liquidity risk in respect of financial instruments.

The amendments require that fair value measurement disclosures use a three-level fair value hierarchy that reflects the significance of the inputs used in measuring fair values of financial instruments. Specific disclosures are required when fair value measurements are categorised as Level 3 (significant unobservable inputs) in the fair value hierarchy. The amendments require that any significant transfers between Level 1 and Level 2 of the fair value hierarchy be disclosed separately, distinguishing between transfers into and out of each level. Furthermore, changes in valuation techniques from one period to another, including the reasons thereof, are required to be disclosed for each class of financial instruments.

Revised disclosures in respect of fair values of financial instruments are included in note 40 to these financial statements.

Furthermore, the definition of liquidity risk has been amended and it is now defined as the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

The amendments require disclosure of a maturity analysis for non-derivative and derivative financial liabilities, but *contractual* maturities are required to be disclosed for derivative financial liabilities only when contractual maturities are essential for an understanding of the timing of cash flows. For issued financial guarantee contracts, the amendments require the maximum amount of the guarantee to be disclosed in the earliest period in which the guarantee could be called.

Revised disclosures in respect of liquidity risk are included in note 4.

3 **Significant accounting policies**

3.1 *Basis of consolidation*

The accounting policies set out below have been applied consistently to all periods presented in these financial statements, and have been applied consistently by Group entities, except as explained in note 2.5, which addresses changes in accounting policies.

3.1.1 Subsidiaries

Subsidiaries are entities controlled by the Bank. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The financial statements have been prepared using uniform accounting policies for like transactions and other events in similar circumstances.

3.1.2 Fund management

The Group manages and administers investment vehicles on behalf of investors. The financial statements of these entities are not included in these financial statements, except when the Group controls the entity. Information about the Group's fund management is set out in note 20.

3.1.3 Transactions eliminated on consolidation

Intra-group balances and any unrealised gains and losses or income and expenses (except for foreign currency gains or losses) arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

3.2 *Financial instruments*

3.2.1 Recognition

The Group initially recognises loans and advances and deposits on the date at which they are originated. Regular way purchases and sales of financial assets are recognised on the trade date at which the Group commits to purchase or sell the asset. All other financial assets and liabilities are initially recognised on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

A financial asset or financial liability is measured initially at fair value plus, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue.

3.2.2 Classification

See accounting policies 3.3 to 3.7, 3.12, 3.15 and 3.17.

3 **Significant accounting policies** *(continued)*
3.2 *Financial instruments (continued)*

3.2.3 Derecognition

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or when it transfers the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all the risks and rewards of ownership and it does not retain control of the financial asset. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Group is recognised as a separate asset or liability in the statement of financial position. On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset transferred), and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

The Group enters into transactions whereby it transfers assets recognised on its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognised. Transfers of assets with retention of all or substantially all risks and rewards include, for example, securities lending and repurchase transactions.

In transactions in which the Group neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset and it retains control over the asset, the Group continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expired.

3.2.4 Offsetting

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to set off the recognised amounts and it intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted under IFRSs, or for gains and losses arising from a group of similar transactions such as in the Group's trading activity.

3.2.5 Amortised cost measurement

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

3.2.6 Fair value measurement

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction on the measurement date.

3 **Significant accounting policies** *(continued)*
3.2 *Financial instruments (continued)*
3.2.6 Fair value measurement *(continued)*

When available, the Group measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis.

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price, i.e., the fair value of the consideration given or received, unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e., without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets. When transaction price provides the best evidence of fair value at initial recognition, the financial instrument is initially measured at the transaction price and any difference between this price and the value initially obtained from a valuation model is subsequently recognised in profit or loss on an appropriate basis over the life of the instrument but not later than when the valuation is supported wholly by observable market data or the transaction is closed out.

Assets and long positions are measured at a bid price; liabilities and short positions are measured at an asking price. Where the Group has positions with offsetting risks, mid-market prices are used to measure the offsetting risk positions and a bid or asking price adjustment is applied only to the net open position as appropriate. Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the Group entity and the counterparty where appropriate. Fair value estimates obtained from models are adjusted for any other factors, such as liquidity risk or model uncertainties, to the extent that the Group believes a third-party market participant would take them into account in pricing a transaction.

3.2.7 Identification and measurement of impairment

At each reporting date, the Group assesses whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. A financial asset or a group of financial assets is (are) impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset(s), and that the loss event has an impact on the future cash flows of the asset(s) that can be estimated reliably.

Objective evidence that financial assets (including equity securities) are impaired can include significant financial difficulty of the borrower or issuer, default or delinquency by a borrower, restructuring of a loan or advance by the Group on terms that the Group would not otherwise consider, indications that a borrower will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the group. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

The Group considers evidence of impairment for loans and advances and held-to-maturity investment securities at both a specific asset and collective level. All individually significant loans and advances and held-to-maturity investment securities are assessed for specific impairment. All individually significant loans and advances and held-to-maturity investment securities found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Loans and advances that are not individually significant are collectively assessed for impairment by grouping together loans and advances with similar risk characteristics.

3 **Significant accounting policies** *(continued)*
3.2 *Financial instruments (continued)*
3.2.7 Identification and measurement of impairment *(continued)*

In assessing collective impairment the Group uses historical trends to determine the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical modelling. Default rates, loss rates and the expected timing of future recoveries are regularly benchmarked against actual outcomes to ensure that they remain appropriate.

Impairment losses on assets carried at amortised cost are measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the asset's original effective interest rate.

Impairment losses are recognised in profit or loss and reflected in an allowance account against loans and advances. Interest on impaired assets continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Impairment losses on available-for-sale investment securities are recognised by transferring the cumulative loss that has been recognised in other comprehensive income to profit or loss as a reclassification adjustment. The cumulative loss that is reclassified from other comprehensive income to profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognised in profit or loss. Changes in impairment provisions attributable to time value are reflected as a component of interest income.

If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed, with the amount of the reversal recognised in profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised in other comprehensive income.

The Group writes off loans and advances, trade and receivables and investment securities when they are determined to be uncollectible (see note 4).

3.3 *Cash and cash equivalents*

Cash and cash equivalents include notes and coins on hand, unrestricted balances held with central bank and highly liquid financial assets with original maturities of less than three months, which are subject to insignificant risk of changes in their fair value, and are used by the Group in the management of its short-term commitments.

Cash and cash equivalents are carried at amortised cost in the statement of financial position.

3.4 *Trading assets and liabilities*

Trading assets and liabilities are those assets and liabilities that the Group acquires or incurs principally for the purpose of selling or repurchasing in the near term, or holds as part of a portfolio that is managed together for short-term profit or position taking.

3 **Significant accounting policies** *(continued)*
3.4 *Trading assets and liabilities (continued)*

Trading assets and liabilities are initially recognised and subsequently measured at fair value in the statement of financial position, with transaction costs recognised in profit or loss. All changes in fair value are recognised as part of net trading income in profit or loss. Trading assets and liabilities are not reclassified subsequent to their initial recognition.

3.5 *Derivatives held for risk management purposes*

Derivatives held for risk management purposes include all derivative assets and liabilities that are not classified as trading assets or liabilities. Derivatives held for risk management purposes are measured at fair value in the statement of financial position.

When a derivative is not held for trading, all changes in its fair value are recognised immediately in profit or loss as a component of net income from other financial instruments at fair value through profit or loss.

3.6 *Loans and advances*

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Group does not intend to sell immediately or in the near term.

Loans and advances are initially recognised at fair value plus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method.

3.7 *Investment securities*

Investment securities are initially measured at fair value plus, in case of investment securities not at fair value through profit or loss, incremental direct transaction costs, and subsequently accounted for depending on their classification as either held-to-maturity or available-for-sale.

3.7.1 Held-to-maturity

Held-to-maturity investments are non-derivative assets with fixed or determinable payments and fixed maturity that the Group has the positive intent and ability to hold to maturity, and which are not designated as available-for-sale.

Held-to-maturity investments are carried at amortised cost using the effective interest method. A sale or reclassification of a more than insignificant amount of held-to-maturity investments would result in the reclassification of all held-to-maturity investments as available-for-sale, and would prevent the Group from classifying investment securities as held-to-maturity for the current and the following two financial years. However, sales and reclassifications in any of the following circumstances would not trigger a reclassification:

- sales or reclassifications that are so close to maturity that changes in the market rate of interest would not have a significant effect on the financial asset's fair value;
- sales or reclassifications after the Group has collected substantially all of the asset's original principal;
- sales or reclassifications attributable to non-recurring isolated events beyond the Group's control that could not have been reasonably anticipated.

3 **Significant accounting policies** *(continued)*
3.7 *Investment securities (continued)*

3.7.2 Available-for-sale

Available-for-sale investments are non-derivative investments that are designated as available-for-sale or are not classified as another category of financial assets. Unquoted equity securities whose fair value cannot reliably be measured are carried at cost. All other available-for-sale investments are carried at fair value.

Interest income is recognised in profit or loss using the effective interest method. Dividend income is recognised in profit or loss when the Group becomes entitled to the dividend. Foreign exchange gains or losses on available-for-sale debt security investments are recognised in profit or loss.

Other fair value changes are recognised in other comprehensive income until the investment is sold or impaired, whereupon the cumulative gains and losses previously recognised in other comprehensive income are reclassified to profit or loss as a reclassification adjustment.

A non-derivative financial asset may be reclassified from the available-for-sale category to the loans and receivables category if it otherwise would have met the definition of loans and receivables and if the Group has the intention and ability to hold that financial asset for the foreseeable future or until maturity.

3.8 *Investments in subsidiaries*

Investments in subsidiaries are shown in the separate statement of financial position at cost less accumulated impairment losses.

3.9 *Property and equipment*

3.9.1 Recognition and measurement

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

Cost includes expenditures that are directly attributable to the acquisition of the asset. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

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

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

The gain or loss on disposal of an item of property or equipment is determined by comparing the proceeds from disposal with the carrying amount of the item or property and equipment, and are recognised net within other income in profit or loss. When revalued assets are sold, the amounts included in the revaluation surplus reserve are transferred to retained earnings.

3 **Significant accounting policies** *(continued)*
3.9 *Property and equipment (continued)*

3.9.2 Subsequent costs

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

3.9.3 Depreciation

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property and equipment since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Land is not depreciated. Assets in course of construction are not depreciated. Leased assets under finance leases are depreciated over the shorter of the lease term and their useful lives. The estimated useful lives for the current and comparative period are as follows:

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

Depreciation methods, useful lives and residual values are reviewed at each financial year-end and adjusted if appropriate.

3.10 *Intangible assets*

3.10.1 Goodwill

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

Goodwill is measured at cost less any accumulated impairment losses.

3.10.2 Software

Computer software acquired by the Group is stated at cost less accumulated amortisation and accumulated impairment losses. Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful life of the software, from the date that it is available for use since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. The estimated useful life of software is four years.

Amortisation methods, useful lives and residual values are reviewed at each financial year-end and adjusted if appropriate.

3 **Significant accounting policies** *(continued)*
3.10 *Intangible assets (continued)*

3.10.3 Postal licence

The postal licence represents the amount paid for the right to operate postal services in Malta. The licence has a definite useful life and is measured at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful life of the licence. The estimated useful life of the postal licence is fifteen years.

3.11 *Investment property*

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes. The Group holds investment property as a consequence of the ongoing rationalisation of its retail branch network. Other property has been acquired through the enforcement of security over loans and advances. Investment property is measured at fair value with any change therein recognised in profit or loss in other operating income. Valuations are reviewed annually by the Bank's legal department.

3.12 *Trade and other receivables*

As in loans and advances (see note 3.6) trade and other receivables relating principally to postal services are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition trade and other receivables are measured at amortised cost using the effective interest method, less impairment losses.

3.13 *Inventories*

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

3.14 *Impairment of non-financial assets*

The carrying amounts of the Group's non-financial assets, other than investment property, inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated. For goodwill and intangible assets that have indefinite useful lives or that are not yet available for use, the recoverable amount is estimated each year at the same time.

The recoverable amount of an asset is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects the current marked assessments of the time value of money and the risks specific to the asset.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior period are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimated used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

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

3.15 *Amounts owed to banks and customers*

Amounts owed to banks and customers are the Group's principal sources of funding.

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

3.16 *Provisions*

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

3.17 *Financial guarantees*

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

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

3.18 *Interest*

Interest income and expense are recognised in profit or loss using the effective interest method. The effective interest rate is that rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. When calculating the effective interest rate, the Group estimates future cash flows considering all contractual terms of the financial instrument, but not future credit losses.

The calculation of the effective interest rate includes all fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or liability.

Interest income and expense presented in the statement of comprehensive income include:

- interest on financial assets and liabilities measured at amortised cost calculated on an effective interest basis; and
- interest on available-for-sale investment securities on an effective interest basis.

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

3.19 *Fee and commission*

Fee and commission income and expense that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate.

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

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

3.20 *Postal sales and service revenue*

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

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

3.21 *Net trading income*

Net trading income comprises gains less losses related to trading assets and liabilities, and includes all realised and unrealised fair value changes and foreign exchange differences.

3.22 *Dividends*

Dividend income is recognised when the right to receive payment is established. Usually this is the ex-dividend date for equity securities. Dividends are reflected as a component of net trading income or other operating income based on the underlying classification of the equity investment.

3.23 *Lease payments*

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

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

3 **Significant accounting policies** *(continued)*
3.23 *Lease payments (continued)*

Contingent lease payments are accounted for by revising the minimum lease payments over the remaining term of the lease when the lease adjustment is confirmed.

3.24 *Employee benefits*

3.24.1 Defined contribution plan

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

3.24.2 Defined benefit plan

The subsidiary provides for the obligation arising in terms of Article 8A of the Pensions Ordinance (Chapter 93, Laws of Malta), covering those ex-Government employees who opted to become full-time employees of the company, and who continued to be entitled to pension rights which go beyond the National Insurance Scheme.

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

3.25 *Foreign currency transactions*

Transactions in foreign currencies are translated into the functional currency at the spot exchange rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated into the functional currency at the spot exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the spot exchange rate at the end of the period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated into the functional currency at the spot exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments. 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.

3.26 *Income tax expense*

Income tax comprises current and deferred tax. Current tax and deferred tax are recognised in profit or loss except to the extent that it relates to items recognised directly in equity or in other comprehensive income.

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

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities

3 **Significant accounting policies** *(continued)*
3.26 *Income tax expense (continued)*

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

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

3.27 *Segment reporting*

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components, whose operating results are reviewed regularly by the Bank's Board of Directors (being the chief operating decision maker) to make decisions about resources allocated to each segment and assess its performance, and for which discrete financial information is available.

3.28 *Non-current assets held for sale*

Non-current assets that are expected to be recovered primarily through sale rather than through continuing use are classified as held for sale. Immediately before classification as held for sale, the assets are remeasured in accordance with the Group's accounting policies. Thereafter, generally the assets are measured at the lower of their carrying amount and fair value less cost to sell.

Impairment losses on initial classification as held for sale and subsequent gains or losses on remeasurement are recognised in profit or loss. Gains are not recognised in excess of any cumulative impairment loss.

3.29 *Earnings per share*

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

3.30 *Share capital*

The Group classifies capital instruments as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instruments.

3.31 *Dividends*

Dividends distributed to the Bank's shareholders are recognised as a liability in the period in which the dividends are approved by the Bank's shareholders.

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

3.32 *Future accounting developments*

The Directors anticipate that the adoption of other IFRS that were in issue at the date of authorisation of these financial statements will have no material impact on the financial statements of the Group in the period of initial application.

4 **Financial risk management**

4.1 *Introduction*

4.1.1 Preamble

The Bank considers risk management a core competency that helps produce consistently high returns for its various stakeholders. Lombard aims to manage all major types of risk by applying methods that meet best practice. Lombard considers it important to have a clear distribution of responsibilities within risk management. One of the main tasks of Lombard's executive management is to set the framework for this area. An understanding of risk-taking and transparency in risk-taking are key elements in Lombard's business strategy and thus in its ambition to be a strong financial body. Lombard's internal risk management processes support this objective.

4.1.2 Regulation

Risk management is mainly carried out on a unified basis, using an integrated and global framework. This framework is based on local and international guidelines, such as the Basel II Accord and corresponding Directives of the European Union (Capital Requirements Directive), as well as on contemporary international banking practices. The Group implemented and adopted the Basel II (Pillar I), the Capital Requirements Directive of the E.U. and the Malta Financial Services Authority (MFSA) Rules. Lombard has adopted the Standardized Approach with respect to the calculation of capital requirements and management of credit and market risk and the Basic Indicator Approach with respect to operational risk. The Bank continued work on the Internal Capital Adequacy Assessment Process – ICAAP. This led to the finalisation and approval by the Board of the first ICAAP capital document in July 2009.

4.1.3 Organisation

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

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

4 **Financial risk management** *(continued)*
4.1 *Introduction (continued)*
4.1.3 Organisation *(continued)*

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

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

The Group is committed to the highest standards of business conduct and seeks to maintain these standards across all of its operations. Group policies and procedures are in place for the reporting and resolution of fraudulent activities.

The Group has an appropriate organisational structure for planning, executing, controlling and monitoring business operations in order to achieve Group objectives.

4.1.4 Risk policies

The Bank's Board of Directors is empowered to set out the overall risk policies and limits for all material risk types. The Board also decides on the general principles for managing and monitoring risks.

Internal controls are managed within the following areas:

- Finance
- Treasury
- Credit/Advances
- Internal Audit
- Risk Management
- Compliance
- Anti-Money Laundering

4.1.5 Risk appetite

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

- Financial strength
- Earnings robustness
- Core markets
- Credit risk

4 **Financial risk management** *(continued)*
4.1 *Introduction (continued)*
4.1.5 Risk appetite *(continued)*

- Concentration risk
- Market risk
- Liquidity risk
- Operational risk
- Compliance

4.1.6 Reporting

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

4.2 *Risk exposure*

In terms of MFSA Banking Rule 02/2008/01, "an exposure" is the amount at risk arising from the reporting credit institution's assets and off-balance sheet items. Consistent with this, an exposure would include the amount at risk arising from the Bank's:

(a) claims on a customer including actual and potential claims which would arise from the drawing down in full of undrawn advised facilities, which the Bank has committed itself to provide;

(b) contingent liabilities arising in the normal course of business, and those contingent liabilities which would arise from the drawing down in full of undrawn advised facilities which the Bank has committed itself to provide; and

(c) other on and off-balance sheet financial assets and commitments.

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

The main categories of risk are:

- *Credit risk*: Credit risk stems from the possible non-prompt repayment or non-payment of existing and contingent obligations by the Group's counterparties, resulting in the loss of equity and profit. Risk that deterioration in the financial condition of a borrower will cause the asset value to decrease or be extinguished. Country risk and settlement risk are included in this category. Country risk refers to the risk of losses arising from economic or political changes that affect the country in which the loan is booked. Settlement risk refers to the risk of losses through failure of the counter-party to settle outstanding dues on the settlement date owing to bankruptcy or other causes.

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

- *Liquidity risk*: Liquidity risk may be divided into two sub-categories:

  - Market (product) liquidity risk: Risk of losses arising from difficulty in accessing a product or market at the required time, price and volume.

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

- Funding liquidity risk: Risk of losses arising from a timing mismatch between investing, placements and fund raising activities resulting in obligations missing the settlement date or satisfied at higher than normal rates.

- *Operational risk*: Risk of damage resulting from the lack of skillful management or good governance within the Group and the inadequacy of proper control, which might involve internal operations, personnel, the system or external occurrences that in turn affect the income and capital funds of financial institutions. Lombard has adopted an operational risk management framework and procedures, which provide for the identification, assessment, management, monitoring and reporting of Lombard's operational risks.

4.3 *Capital management*

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

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

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

	2009 **€ 000**	2008 € 000
Total original own funds	**61,173**	54,557
Additional own funds:		
Property revaluation reserve	**2,288**	2,288
Collective impairment allowances	**1,859**	1,638
Total own funds	**65,320**	58,483

Calculation of minimum capital requirements and risk-weighted assets.

The minimum capital requirements are calculated for the credit, market and operational risk. The capital ratio is calculated using the definition of regulatory capital and risk-weighted assets. In terms of the current MFSA Banking Rule (BR/04/2007), the minimum level of the Capital Requirements Ratio stands at 8 per cent. The Capital Requirements Ratio expresses own funds as a proportion of risk weighted assets and off-balance sheet items, together with notional risk weighted assets in respect of Operational Risk and Market Risk. Total risk-weighted assets are

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

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

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

	Balance sheet value 2009 € 000	Weighted amount 2009 € 000	Capital requirement 2009 € 000
On-balance sheet assets			
Cash and balances with Central Bank of Malta	27,251	-	-
Cheques in course of collection	811	162	13
Malta Government treasury bills	88,742	-	-
Loans and advances to banks	18,460	6,029	482
Loans and advances to customers	327,956	292,667	23,413
Equity Shares	2,073	1,208	97
Debt securities	37,284	2,818	225
Investments in subsidiaries	7,634	7,634	611
Intangible assets	3	3	-
Current tax assets	1,731	-	-
Property and equipment	11,654	11,654	932
Other assets	2,683	2,683	215
Prepayments and accrued income	4,622	4,622	370
	530,904	329,480	26,358
Off-balance sheet items			
Contingent liabilities and commitments	109,095	14,710	1,177
Credit risk		344,190	27,535
Foreign exchange risk		663	53
Operational risk		32,384	2,591
Total		377,237	30,179
Own funds			
Original own funds			61,173
Additional own funds			4,147
Gross own funds			65,320
Deductions			-
Total own funds			65,320
Capital Adequacy Ratio			17.3%

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

	Balance sheet value 2008 € 000	Weighted amount 2008 € 000	Capital requirement 2008 € 000
On-balance sheet assets			
Cash and balances with Central Bank of Malta	19,330	-	-
Cheques in course of collection	2,748	550	44
Malta Government treasury bills	49,127	-	-
Loans and advances to banks	44,315	13,062	1,045
Loans and advances to customers	325,025	298,700	23,896
Equity shares	1,795	1,188	95
Debt securities	45,304	6,691	535
Investments in subsidiaries	6,920	6,920	554
Intangible assets	13	13	1
Current tax assets	1,077	-	-
Property and equipment	10,539	10,539	843
Other assets	2,778	2,778	222
Prepayments and accrued income	3,518	3,518	282
	512,489	343,959	27,517
Off-balance sheet items			
Contingent liabilities and commitments	86,572	9,833	787
Credit risk		353,792	28,304
Foreign exchange risk		600	48
Operational risk		30,221	2,418
Total		384,613	30,770
Own funds			
Original own funds			54,557
Additional own funds			3,926
Gross own funds			58,483
Deductions			-
Total own funds			58,483
Capital Adequacy Ratio			15.2%

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

4.4 *Credit risk*

4.4.1 Introduction

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. Credit risk constitutes the Group's largest risk in view of its significant lending and securities portfolios, which are monitored in several ways.

4.4.2 Credit risk Management

The granting of a credit facility is based on the Group's insight into the customer's financial position, which is reviewed regularly to assess whether the basis for the granting of credit has changed. Furthermore, the customer must be able to demonstrate, in all probability, the ability to repay the debt. Approval limits are graded starting from managers and leading up to the Credit Committee and the Board of Directors depending on the size and the particular risk attached to the loan. Facilities are generally adequately secured either by property and/or guarantees and are reviewed periodically by management both in terms of the exposure to the Group and to ensure that security is still valid.

In order to minimise the credit risk undertaken, counterparty credit limits may be defined, which consider a counterparty's creditworthiness, the value of collateral and guarantees pledged, which can reduce the overall credit risk exposure, as well as the type and the duration of the credit facility. In order to examine a counterparty's creditworthiness, country risk, quantitative and qualitative characteristics, as well as the industry sector in which the counterparty operates are considered. The Group has set limits of authority and has segregated duties so as to maintain impartiality and independence during the approval process and control new and existing credit facilities.

4.4.3 Maximum exposure to credit risk

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

- Financial assets recognised on-balance sheet comprising balances with Central Bank of Malta, treasury bills, cheques in course of collection, financial assets at fair value through profit or loss, financial investments, loans and advances and acceptances and endorsements. The maximum exposure of these financial assets to credit risk, equals their carrying amount.

- Guarantee obligations incurred on behalf of third parties. The maximum exposure to credit risk is the full amount that the Group would have to pay if the guarantees are called upon as disclosed in note 35.

- Loan commitments and other credit related commitments that are irrevocable over the life of the respective facilities. The maximum exposure to credit risk is the full amount of the committed facilities as disclosed in note 35.

4.4.4 Exposure analysed by industry

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

4 **Financial risk management** *(continued)*
4.4 *Credit risk (continued)*
4.4.4 Exposure analysed by industry *(continued)*

	Group		Bank	
	2009	2008	**2009**	2008
	€ 000	€ 000	**€ 000**	€ 000
Transport, storage and communication	**7,177**	8,418	**7,331**	8,418
Financial services	**300**	229	**300**	229
Agriculture	**2,343**	928	**2,343**	928
Manufacturing	**12,535**	5,822	**12,535**	5,822
Construction	**111,542**	100,189	**111,542**	100,189
Hotel and restaurants, excluding related construction activities	**8,515**	5,012	**8,515**	5,012
Wholesale and retail trade	**38,858**	44,811	**38,858**	44,811
Community, recreational and personal service activities	**11,170**	13,305	**11,170**	13,305
Education	**3,328**	3,426	**3,328**	3,426
Health and social work	**173**	164	**173**	164
Mining and quarrying	**468**	532	**468**	532
Electricity, gas and water supply	**35**	47	**35**	47
Real estate, renting and business activities	**103,349**	110,827	**103,349**	110,827
Households and individuals	**34,037**	37,228	**34,037**	37,228
Gross amount granted to customers	**333,830**	330,938	**333,984**	330,938

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

The Group holds debt instruments that are either issued by local government, local banks or other corporate entities. All such counterparties are listed on the Malta Stock Exchange, which is currently the only locally-based recognised investment exchange (RIE) in Malta, as regulated by MFSA. Similarly, all of the equity instruments held by the Group comprise securities that are listed locally, except for an amount that is considered to be insignificant.

4 **Financial risk management** *(continued)*
4.4 *Credit risk (continued)*
4.4.5 Exposure on debt securities, other fixed income instruments and equity instruments *(continued)*

The credit quality of debt securities and treasury bills as determined by the rating agency (Fitch Ratings) is as follows:

Group

	Treasury bills € 000	**Debt securities € 000**	**Total € 000**
A- to A+	**88,742**	**37,243**	**125,985**
Lower than A-	**-**	**315**	**315**
Unrated	**-**	**4,969**	**4,969**
At 31 December 2009	**88,742**	**42,527**	**131,269**
A- to A+	49,127	41,112	90,239
Unrated	-	8,314	8,314
At 31 December 2008	49,127	49,426	98,553

Investment debt securities are analysed by industry as follows:

	2009 € 000	2008 € 000
Corporate:		
Financial services	**2,358**	-
Real estate and construction	**513**	4,309
Tourism	**1,215**	1,304
Wholesale and retail trade	**1,033**	1,600
Others	**3,743**	3,839
Government	**33,665**	38,374
	42,527	49,426

4.4.6 Impaired loans and advances

Impaired loans and advances are advances for which the Bank determines that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the loans and advances agreement(s). Advances are graded in five categories:

- Regular
- Watch
- Sub-standard
- Doubtful
- Loss

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

The Bank reviews and grades advances using the criteria laid down in the Banking Rule 09: Credit and Country Risk Provisioning by Credit Institutions Licensed under the Banking Act, 1994 (Chapter 371, Laws of Malta).

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

	Group		**Bank**	
	2009	2008	**2009**	2008
	€ 000	€ 000	**€ 000**	€ 000
Gross loans and advances				
Impaired	**22,346**	20,592	**22,346**	20,592
Past due but not impaired	**133,011**	76,787	**133,011**	76,787
Neither past due nor impaired	**178,473**	233,559	**178,627**	233,559
Gross amount granted to customers	**333,830**	330,938	**333,984**	330,938
Analysis of past due but not impaired				
Watch	**42,411**	19,848	**42,411**	19,848
Substandard	**14,400**	11,389	**14,400**	11,389
Doubtful but fully collateralised	**76,200**	45,550	**76,200**	45,550
	133,011	76,787	**133,011**	76,787
Analysis of neither past due nor impaired				
Regular	**178,473**	233,559	**178,627**	233,559

4.4.7 Past due but not impaired loans

Past due but not impaired loans comprise loans and advances where interest or principal payments are past due, but the Bank believes that impairment is not appropriate on the basis of the level of security available and/or the stage of collection of amounts owed to the Bank. The past due ageing analysis is shown in the table below. Related credit losses which may arise are partly covered by collective impairment allowances.

Bank

	2009	2008
	€ 000	€ 000
Past due up to 30 days	**11,518**	7,634
Past due 31-60 days	**42,411**	19,847
Past due 61-90 days	**2,882**	3,756
Past due over 90 days	**76,200**	45,550
	133,011	76,787

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

4.4.8 Collateral

Collateral is an important mitigant of credit risk. Nevertheless, it is Group's policy to establish that facilities are within the customer's capacity to repay rather than to over rely on security. In certain cases, depending on the customer's standing and the type of product, facilities may be unsecured. The Group applies various measures to reduce the risk on individual transactions, including collateral in the form of physical assets and guarantees. The most important instruments utilised to reduce risk are charges against real property and personal guarantees.

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

Bank

	2009	2008
	€ 000	€ 000
Against individually impaired		
Immovable property	**16,725**	6,160
Cash or quasi cash	-	714
Personal guarantees	**354**	2,127
Other security	**699**	3,314
	17,778	12,315

	2009	2008
	€ 000	€ 000
Against past due but not impaired		
Immovable property	**106,605**	62,984
Cash or quasi cash	**1,106**	1,203
Personal guarantees	**5,622**	3,699
Other security	**1,045**	1,627
	114,378	69,513

	2009	2008
	€ 000	€ 000
Against neither past due nor impaired		
Immovable property	**125,426**	152,369
Cash or quasi cash	**6,802**	9,228
Prime bank guarantees	**510**	474
Personal guarantees	**460**	1,644
Other security	**1,490**	3,331
	134,688	167,046
	266,844	248,874

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

4.4.9 Loans with renegotiated terms

Loans with renegotiated terms are loans that have been restructured due to deterioration in the borrower's financial position and where the Bank has made concessions that it would not otherwise consider. Once the loan is restructured it remains in this category independent of satisfactory performance after restructuring. The total value of loans with renegotiated terms which would otherwise be past due or impaired as at 31 December 2009 amounted to €32,202,000 (2008: €21,717,000).

4.4.10 Allowances for impairment

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

4.4.11 Write-off policy

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

4.5 *Market risk*

Market risk for the Group consists of four elements:

- Interest rate risk, which is the risk of losses because of changes in interest rates.
- Exchange rate risk, which is the risk of losses on the Group's positions in foreign currency because of changes in exchange rates.
- Investments price risk, which is the risk of losses because of changes in investments prices.
- Credit spread risk, which is the risk of losses because of changes in credit spreads.

4.5.1 Interest rate risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The Group's operations are subject to the risk of interest rate fluctuations to the extent that interest-earning assets and interest-bearing liabilities mature or reprice at different times or at different amounts. The Group accepts deposits from customers at both fixed and floating rates and for varying maturity periods. This risk is managed through the matching of the interest resetting dates on assets and liabilities. However, the Group seeks to maximise the spread over the cost of capital by investing funds in a portfolio of securities and loans and receivables with a longer tenure than the liabilities (therefore carrying a negative maturity gap position) through the efficient management of shorter term liabilities over the medium to longer term.

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

The tables below summarise the Group's repricing mismatches at reporting date together with the effective interest rates, where applicable.

Group

	2009	Effective interest rate	Less than 3 months	Between 3 months and 1 year	Between 1 year and 5 years	More than 5 years	Others
	€ 000	%	€ 000	€ 000	€ 000	€ 000	€ 000
Assets							
Cash and balances with Central Bank and treasury bills	**116,357**	1.30	89,435	23,764	-	-	3,158
Debt and other fixed income instruments							
- available-for-sale	**7,894**	5.86	139	1,652	2,553	3,550	-
- held-to-maturity	**34,633**	6.34	-	3,879	23,394	7,360	-
Equity financial instruments							
- available-for-sale	**2,498**	-	-	-	-	-	2,498
Loans and advances to banks	**22,383**	0.39	17,588	-	-	-	4,795
Loans and advances to customers	**327,802**	7.01	313,388	7,900	6,514	-	-
Other assets	**31,274**	-	-	-	-	-	31,274
Total assets	**542,841**		420,550	37,195	32,461	10,910	41,725
Liabilities							
Amounts owed to banks	**3,675**	1.03	-	3,558	-	-	117
Amounts owed to customers	**446,209**	2.41	223,422	111,301	69,103	28,516	13,867
Other liabilities	**24,755**	-	-	-	-	-	24,755
Total liabilities	**474,639**		223,422	114,859	69,103	28,516	38,739
Total equity	**68,202**		-	-	-	-	68,202
Total liabilities and equity	**542,841**		223,422	114,859	69,103	28,516	106,941
Gap			197,128	(77,664)	(36,642)	(17,606)	(65,216)
Cumulative Gap			197,128	119,464	82,822	65,216	-

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

Group

	2008	Effective interest rate	Less than 3 months	Between 3 months and 1 year	Between 1 year and 5 years	More than 5 years	Others
	€ 000	%	€ 000	€ 000	€ 000	€ 000	€ 000
Assets							
Cash and balances with Central Bank and treasury bills	68,576	2.99	18,692	46,166	-	-	3,718
Debt and other fixed income instruments							
- available-for-sale	6,480	5.79	-	491	2,342	3,647	-
- held-to-maturity	42,946	6.38	1,165	7,086	17,035	17,660	-
Equity financial instruments							
- available-for-sale	2,201	-	-	-	-	-	2,201
Loans and advances to banks	49,214	0.95	46,816	2,398	-	-	-
Loans and advances to customers	325,025	7.05	319,444	-	4,883	698	-
Other assets	30,292	-	-	-	-	-	30,292
Total assets	524,734		386,117	56,141	24,260	22,005	36,211
Liabilities							
Amounts owed to banks	130	-	-	-	-	-	130
Amounts owed to customers	439,860	3.41	161,302	169,872	61,911	32,518	14,257
Other liabilities	23,615	-	-	-	-	-	23,615
Total liabilities	463,605		161,302	169,872	61,911	32,518	38,002
Total equity	61,129		-	-	-	-	61,129
Total liabilities and equity	524,734		161,302	169,872	61,911	32,518	99,131
Gap			224,815	(113,731)	(37,651)	(10,513)	(62,920)
Cumulative Gap			224,815	111,084	73,433	62,920	-

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

4.5.1.1 Interest rate profile

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

	2009	2008
	€ 000	€ 000
Fixed rate instruments		
Financial assets	**88,223**	102,572
Financial liabilities	**(348,525)**	(336,084)
	(260,302)	(233,512)
Variable rate instruments		
Financial assets	**412,893**	385,951
Financial liabilities	**(87,375)**	(89,519)
	325,518	296,432

4.5.1.2 Fair value sensitivity analysis for fixed rate instruments

The Group does not account for any fixed rate financial assets and liabilities at fair value through profit or loss, and the Group does not designate derivatives as hedging instruments under a hedge accounting model. Therefore a change in interest rates at the reporting date would not affect profit or loss.

4.5.1.3 Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points in interest rates at the reporting date would have increased/(decreased) Group equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis for 2008.

	Profit or loss		**Equity**	
	100bp increase € 000	**100bp decrease € 000**	**100bp increase € 000**	**100bp decrease € 000**
At 31 December 2009	**3,255**	**(3,255)**	**3,255**	**(3,255)**
At 31 December 2008	2,964	(2,964)	2,964	(2,964)

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

4.5.2 Currency risk

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

The Bank maintains its exposure to foreign currencies within prescribed limits set by the Bank's ALCO. Under the scenario that all currencies move adversely against the Euro by 20 per cent the effect would be a decrease of €731,000 in the carrying amount of financial instruments. Under a scenario that all currencies move in favour of the Euro by 20 per cent the effect would be a gain of €731,000 in the carrying amount of financial instruments.

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

	2009 Total € 000	**2009 € 000**	**2009 £ 000**	**2009 $ 000**	**2009 Other 000**
Assets					
Cash and balances with Central Bank of Malta, treasury bills and cash	**116,357**	98,072	11,239	7,038	8
Investments					
- held-to-maturity	**34,633**	34,633	-	-	-
- available-for-sale	**10,392**	9,648	-	744	-
Loans and advances to banks	**22,383**	6,292	3,455	7,944	4,692
Loans and advances to customers	**327,802**	321,552	27	6,223	-
Intangible assets	**1,238**	1,238	-	-	-
Property and equipment	**13,878**	13,878	-	-	-
Investment property	**745**	745	-	-	-
Deferred tax assets	**1,993**	1,993	-	-	-
Current tax assets	**1,171**	1,171	-	-	-
Assets held for resale	**109**	109	-	-	-
Other assets	**12,140**	8,277	-	47	3,816
Total assets	**542,841**	**497,608**	**14,721**	**21,996**	**8,516**

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

	2009 Total € 000	2009 € 000	2009 £ 000	2009 $ 000	2009 Other 000
Liabilities					
Amounts owed to banks	**3,675**	3,675	-	-	-
Amounts owed to customers	**446,209**	406,387	14,061	21,118	4,643
Other liabilities	**24,755**	23,312	301	547	595
Total liabilities	**474,639**	433,374	14,362	21,665	5,238
Total equity	**68,202**	68,202	-	-	-
Total liabilities and equity	**542,841**	**501,576**	**14,362**	**21,665**	**5,238**
Net on-balance sheet currency position		(3,968)	359	331	3,278
Net notional position of derivative financial instrument		314	(314)	-	-
Net currency position		**(3,654)**	**45**	**331**	**3,278**

	2008 Total € 000	2008 € 000	2008 £ 000	2008 $ 000	2008 Other 000
Total assets	524,734	470,802	18,158	23,453	12,321
Total liabilities and equity	524,734	471,436	18,647	23,259	11,392
Net currency position		**(634)**	**(489)**	**194**	**929**

4.5.3 Investment price risk

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

4.5.3.1 Fair value and price verification control

The majority of the financial assets and liabilities of the Group are carried at cost or amortised cost and not fair value. Fair value represents the amount at which an asset could be exchanged, or a liability settled, in an arm's length transaction. Differences can therefore arise between carrying values and fair values.

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

This category of assets is carried at amortised cost and amounts to €34,633,000 as at 31 December 2009. Fair value based on quoted market prices at balance sheet date without any deduction for transaction costs amounts to €37,824,000.

4 **Financial risk management** *(continued)*
4.5 *Market risk (continued)*
4.5.3 Investment price risk *(continued)*

4.5.3.3 Loans and advances to banks and customers

This category of assets is reported net of impairment allowances to reflect the estimated recoverable amounts. As at 31 December 2009, the Group's carrying amount was €350,185,000. The loans and advances to customers category of assets amounts to €327,802,000. 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 €22,383,000. As at 31 December 2009, almost all of loans and advances to banks had a contractual repricing term of 3 months or less. Interest rates on these advances reflect current market rates, and therefore the carrying amount approximates to fair value.

4.5.3.4 Trade and other receivables

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

4.5.3.5 Amounts owed to banks and customers

This category of liabilities is carried at amortised cost and amounts to €449,884,000 as at 31 December 2009. 3.1 per cent of this liability is non-interest bearing, 31.0 per cent of the liability has a contractual repricing term of three months or less, 40.4 per cent reprices within three months and one year, 16.9 per cent reprices within one year and five years whilst 8.6 per cent is repriceable after more than five years. For demand deposits and deposits maturing within one year, fair value is taken to be the amount payable on demand at balance sheet date. In respect of other longer-term fixed-maturity deposits, these being repriceable upon their contractual maturity date, it is not practicable to determine fair value with sufficient reliability.

4.5.4 Counterparty Banks' risk

The Bank runs the risk of loss of funds due to the possible delay in the repayment of existing and future obligations by counterparty banks.

Within its daily operations the Bank transacts with banks and other financial institutions. By conducting these transactions the Bank is running the risk of losing funds due to the possible delays in the repayment to the Bank of the existing and future obligations of the counterparty banks. The positions are checked against the limits on a daily basis and in real time.

4.5.5 Country risk

The Bank runs the risk of loss of funds due to the possible political, economic and other events in a particular country where funds have been placed or invested with several counterparties.

Countries are assessed according to their size, economic data and prospects and their credit ratings from international rating agencies. Existing country credit risk exposures are monitored and reviewed periodically. The Group's exposure is predominantly in Malta. Other country risks are limited to nostro balances and money market placements with a total balance sheet value of €18,172,000.

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

4.5.6 Credit spread risk

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

	2009	2008
	%	%
Investments are analysed as follows:		
- issued by local government	**81**	89
- issued by corporates	**19**	11
	100	100
Debt and other fixed income instruments:		
- issued by local government	**85**	96
- issued by corporates	**15**	4
	100	100

4.6 *Liquidity risk*

Liquidity risk is defined as the risk of losses due to:

- the Group's funding costs increasing disproportionately;
- lack of funding prevents the Group from establishing new business; and
- lack of funding will ultimately prevent the Group from meeting its obligations.

Liquidity risk may result from an inability to sell a financial asset quickly at close to its fair value. The Group is exposed to daily calls on its available cash resources from overnight deposits, current and call deposits, maturing term deposits, loan draw-downs and guarantees.

The objective of the Group's liquidity and funding management is to ensure that all foreseeable funding commitments and deposit withdrawals can be met when due. It is the Group's objective to maintain a diversified and stable funding base with the objective of enabling the Group to respond quickly and smoothly to unforeseen liquidity requirements.

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

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.

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

At 31 December 2009	**Fair Value Adjustments € 000**	**Less than 3 months € 000**	**Between 3 months and 1 year € 000**	**Between 1 year and 5 years € 000**	**More than 5 years € 000**	**Gross nominal inflow/ outflow € 000**
Financial assets						
Debt and other fixed income instruments						
- available-for-sale	**93**	**142**	**1,818**	**3,320**	**4,948**	**10,321**
- held-to-maturity	**-**	**-**	**4,036**	**31,408**	**10,192**	**45,636**
Loans and advances to banks	**-**	**22,453**	**-**	**-**	**-**	**22,453**
Loans and advances to customers – gross	**-**	**40,625**	**47,933**	**135,873**	**142,760**	**367,191**
	93	**63,220**	**53,787**	**170,601**	**157,900**	**445,601**
Financial liabilities						
Amounts owed to banks	**-**	**117**	**3,575**	**-**	**-**	**3,692**
Amounts owed to customers	**-**	**237,793**	**113,246**	**78,423**	**40,215**	**469,677**
	-	**237,910**	**116,821**	**78,423**	**40,215**	**473,369**
Loan commitments	**-**	**98,611**	**-**	**-**	**-**	**-**

As at 31 December 2009, the Group and Bank had outstanding guarantees on behalf of third parties amounting to €10,484,000, which are cancellable upon the request of third parties.

At 31 December 2008	**Fair Value Adjustments € 000**	**Less than 3 months € 000**	**Between 3 months and 1 year € 000**	**Between 1 year and 5 years € 000**	**More than 5 years € 000**	**Gross nominal inflow/ outflow € 000**
Financial assets						
Debt and other fixed income Instruments						
- available-for-sale	58	7	505	2,825	5,173	8,568
- held-to-maturity	-	1,199	7,497	20,748	27,679	57,123
Loans and advances to banks	-	47,940	1,462	-	-	49,402
Loans and advances to customers - gross	-	40,705	48,028	132,333	143,043	364,109
	58	89,851	57,492	155,906	175,895	479,202
Financial liabilities						
Amounts owed to banks	-	130	-	-	-	130
Amounts owed to customers	-	225,851	146,604	48,019	44,188	464,662
	-	225,981	146,604	48,019	44,188	464,792
Loan commitments	-	79,948	-	-	-	-

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

As at 31 December 2008, the Group and Bank had outstanding guarantees on behalf of third parties amounting to €6,624,000, which are cancellable upon the request of third parties.

4.7 *Operational risk*

Operational risk is the risk of losses owing to:

- deficient or erroneous internal procedures
- human or system errors
- external events, including legal events
- internal and external fraud
- employment practices and workplace safety
- clients, products and business practices
- damage to physical assets
- business disruption and system failures
- execution, delivery and process management

Operational risk is thus often associated with specific and one-off events, such as failure to observe business or working procedures, defects or breakdowns of the technical infrastructure, criminal acts, fire and storm damage or litigation.

Operational risks are, thus, non-financial risks. Operational risk management relies on a framework of policies overseen by the Risk Management Department.

A financial measurement of this risk is arrived at by the Group for the purpose of allocating risk capital using the Basic Indicator Approach under the CRD rules. The capital requirement for operational risk under this method was calculated at €2,591,000 (2008: €2,418,000).

4.8 *Derivative financial instruments*

The Group enters into forward foreign currency exchange contracts with customers in the normal course of its business. Generally, it is the Group's policy to cover these contracts by other forward positions. 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. Open foreign currency forward contract at reporting date with a notional amount of €314,000 (2008: nil) had a fair value of nil.

5 Net interest income

	Group		Bank	
	2009	2008	**2009**	2008
	€ 000	€ 000	**€ 000**	€ 000
Interest income				
On loans and advances to banks	**136**	3,320	**79**	3,223
On loans and advances to customers	**23,050**	20,952	**23,050**	20,952
On balances with Central Bank of Malta	**159**	350	**159**	350
On treasury bills	**2,059**	1,290	**2,059**	1,290
	25,404	25,912	**25,347**	25,815
On debt and other fixed income instruments	**2,839**	3,234	**2,620**	3,047
Net amortisation of premia and discounts	**(93)**	(85)	**(67)**	(85)
	2,746	3,149	**2,553**	2,962
Total interest income	**28,150**	29,061	**27,900**	28,777
Interest expense				
On amounts owed to banks	**(11)**	(3)	**(11)**	(3)
On amounts owed to customers	**(13,549)**	(14,490)	**(13,621)**	(14,556)
Total interest expense	**(13,560)**	(14,493)	**(13,632)**	(14,559)
Net interest income	**14,590**	14,568	**14,268**	14,218

6 Net fee and commission income

	Group		Bank	
	2009	2008	**2009**	2008
	€ 000	€ 000	**€ 000**	€ 000
Fee and commission income				
Retail banking customer fees	**634**	662	**634**	662
Brokerage	**59**	30	**59**	30
Asset management fees	**20**	21	**-**	-
Other	**1,444**	1,685	**527**	672
Total fee and commission income	**2,157**	2,398	**1,220**	1,364
Fee and commission expense				
Inter bank transaction fees	**(56)**	(71)	**(56)**	(71)
Other	**(11)**	(11)	**(10)**	(10)
Total fee and commission expense	**(67)**	(82)	**(66)**	(81)
Net fee and commission income	**2,090**	2,316	**1,154**	1,283

7 **Postal sales and other revenues**

	Group		Bank	
	2009	2008	**2009**	2008
	€ 000	€ 000	**€ 000**	€ 000
Stamps, parcel post and postal stationery including income from foreign inbound mail	**18,755**	18,265	**-**	-
Collectibles and philatelic sales	**586**	1,207	**122**	130
Other	**52**	44	**-**	-
	19,393	19,516	**122**	130

8 **Dividend income**

	Group		Bank	
	2009	2008	**2009**	2008
	€ 000	€ 000	**€ 000**	€ 000
Subsidiary company	**-**	-	**1,819**	-
Available-for-sale equity shares	**122**	65	**122**	65
	122	65	**1,941**	65

9 **Net trading income**

	Group		Bank	
	2009	2008	**2009**	2008
	€ 000	€ 000	**€ 000**	€ 000
Profit on foreign exchange activities	**266**	345	**262**	355

10 **Employee compensation and benefits**

10.1

	Group		Bank	
	2009	2008	**2009**	2008
	€ 000	€ 000	**€ 000**	€ 000
Staff costs:				
- wages, salaries and allowances	**12,691**	12,924	**3,800**	3,541
- social security costs	**952**	961	**239**	219
	13,643	13,885	**4,039**	3,760

10 **Employee compensation and benefits** *(continued)*

10.2

	Group		Bank	
	2009	2008	**2009**	2008
Average number of employees				
Managerial	**71**	63	**38**	35
Others	**692**	693	**120**	116
	763	756	**158**	151

11 **Net impairment gains**

	Group		Bank	
	2009	2008	**2009**	2008
	€ 000	€ 000	**€ 000**	€ 000
Write-downs				
Loans and advances to customers				
- specific allowances	**(1,316)**	(1,594)	**(1,316)**	(1,594)
- collective allowances	**(221)**	(299)	**(221)**	(299)
Trade receivables - specific	**(65)**	(42)	**-**	-
	(1,602)	(1,935)	**(1,537)**	(1,893)
Reversals of write-downs				
Loans and advances to customers				
- specific allowances	**1,727**	3,322	**1,727**	3,322
	1,727	3,322	**1,727**	3,322
Net impairment gains	**125**	1,387	**190**	1,429

12 **Profit before income tax**

12.1 *Profit before income tax is stated after crediting and charging the following:*

	Group		Bank	
	2009	2008	**2009**	2008
	€ 000	€ 000	**€ 000**	€ 000
After charging				
Directors' emoluments				
- Fees	**81**	80	**56**	56
- Other emoluments	**292**	330	**292**	330
Operating lease rental charge	**863**	798	**122**	123
After crediting				
Net investment income	**96**	62	**96**	62
Rental income from investment property	**37**	37	**37**	37

12 **Profit before income tax** *(continued)*

12.2 *Profit before income tax is also stated after charging auditors' fees as follows:*

	Audit € 000	Other assurance services € 000	Tax advisory services € 000	Other non-assurance services € 000
Auditors of the parent				
2009	**38**	**-**	**1**	**1**
2008	36	1	4	1
Auditors of subsidiary companies				
2009	**22**	**9**	**2**	**-**
2008	22	9	2	2

13 **Income tax expense**

13.1 *Recognised in income statement*

	Group		Bank	
	2009 € 000	2008 € 000	**2009 € 000**	2008 € 000
Current taxation				
Current tax expense	**4,747**	4,760	**3,952**	3,552
Adjustment to prior years' current tax expense	**224**	-	**182**	-
	4,971	4,760	**4,134**	3,552
Deferred taxation				
Origination and reversal of temporary differences	**(108)**	297	**(5)**	489
	4,863	5,057	**4,129**	4,041

13 **Income tax expense** *(continued)*

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

	Group		Bank	
	2009	2008	**2009**	2008
	€ 000	€ 000	**€ 000**	€ 000
Profit before income tax	**12,927**	14,140	**11,610**	11,219
Tax at the applicable rate of 35%	**(4,524)**	(4,949)	**(4,064)**	(3,926)
Tax effect of non-deductible expenses	**(93)**	(73)	**(8)**	(7)
Tax effect of income taxed at different tax rates	**33**	64	**157**	-
Tax effect of losses for which no deferred tax asset was recognised	**(18)**	-	**-**	-
Tax effect of income not brought to tax	**-**	9	**-**	-
Tax effect of depreciation charges not deductible by way of capital allowances	**(32)**	(22)	**(32)**	(22)
Tax effect of additional tax incurred	**-**	(86)	**-**	(86)
Tax effect of adjustment to prior years' tax expense	**(224)**	-	**(182)**	-
Tax effect of temporary differences previously not recognised	**(5)**	-	**-**	-
	(4,863)	(5,057)	**(4,129)**	(4,041)

14 **Earnings per share**

Earnings per share is calculated on profit amounting to €7,377,000 for the Group (2008: €8,402,000) and €7,481,000 for the Bank (2008: €7,178,000) divided by 35,432,352 (2008: 34,864,614), being the weighted average number of shares in issue during the year.

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

	Group		Bank	
	2009	2008	**2009**	2008
	€ 000	€ 000	**€ 000**	€ 000
Balances with Central Bank of Malta	**24,457**	15,731	**24,457**	15,731
Malta Government treasury bills	**88,742**	49,127	**88,742**	49,127
Cash in hand	**3,158**	3,718	**2,794**	3,599
	116,357	68,576	**115,993**	68,457

The balance with the Central Bank of Malta includes a reserve deposit amounting to €6,359,000 (2008: €6,723,000) held in terms of Regulation (EC) No. 1745/2003 of the European Central Bank. The average reserve deposit balance held for the relevant maintenance period amounted to €7,398,000.

16 **Derivative financial instruments**

Open foreign currency forward contract at reporting date with a notional amount of €314,000 (2008: nil) had a fair value of nil.

17 **Investments**

17.1

	Group		Bank	
	2009	2008	**2009**	2008
	€ 000	€ 000	**€ 000**	€ 000
Debt and other fixed income instruments				
- available-for-sale	**7,894**	6,480	**2,651**	2,358
- held-to-maturity	**34,633**	42,946	**34,633**	42,946
Equity instruments available-for-sale	**2,498**	2,201	**2,073**	1,795
	45,025	51,627	**39,357**	47,099

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

	Group		Bank	
	2009	2008	**2009**	2008
	€ 000	€ 000	**€ 000**	€ 000
Issued by public bodies:				
- local government	**2,617**	2,545	**-**	-
Issued by public issuers:				
- local banks	**2,086**	1,648	**1,000**	743
- local others	**3,191**	2,287	**1,651**	1,615
	7,894	6,480	**2,651**	2,358
Listing status:				
- listed on the Malta Stock Exchange	**7,894**	6,480	**2,651**	2,358

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

The Bank has pledged €14,376,000 (2008: €14,588,000) Malta Government Stocks in favour of the Central Bank of Malta as security for a facility which was not utilised at balance sheet date.

17 **Investments** *(continued)*

17.4 Equity instruments available-for-sale comprise equities listed on the Malta Stock Exchange, except for two investments amounting to €162,000 which are carried at cost.

17.5 *The movement in investments is summarised as follows:*

	Group			Bank		
	Available-for-sale € 000	**Held-to-maturity € 000**	**Total € 000**	**Available-for-sale € 000**	**Held-to-maturity € 000**	**Total € 000**
At 1 January 2009	8,681	42,946	51,627	4,153	42,946	47,099
Foreign exchange movement	(15)	-	(15)	(15)	-	(15)
Amortisation	(25)	(63)	(88)	-	(63)	(63)
Acquisitions	1,796	-	1,796	784	-	784
Redemptions/disposals	(410)	(8,250)	(8,660)	(404)	(8,250)	(8,654)
Fair value movement	365	-	365	206	-	206
At 31 December 2009	**10,392**	**34,633**	**45,025**	**4,724**	**34,633**	**39,357**
At 1 January 2008	8,239	46,655	54,894	3,656	46,655	50,311
Foreign exchange movement	35	-	35	31	-	31
Amortisation	-	(85)	(85)	-	(85)	(85)
Acquisitions	1,814	-	1,814	1,607	-	1,607
Redemptions/disposals	(641)	(3,624)	(4,265)	(405)	(3,624)	(4,029)
Fair value movement	(766)	-	(766)	(736)	-	(736)
At 31 December 2008	8,681	42,946	51,627	4,153	42,946	47,099

18 **Loans and advances to banks**

	Group		Bank	
	2009 € 000	2008 € 000	**2009 € 000**	2008 € 000
Repayable on call and at short notice	**22,231**	48,995	**18,460**	44,315
Term loans and advances	**152**	219	**-**	-
	22,383	49,214	**18,460**	44,315

19 **Loans and advances to customers**

19.1

	Group		Bank	
	2009	2008	**2009**	2008
	€ 000	€ 000	**€ 000**	€ 000
Repayable on call and at short notice	**98,321**	112,450	**98,321**	112,450
Term loans and advances	**235,509**	218,488	**235,663**	218,488
Gross loans and advances to customers	**333,830**	330,938	**333,984**	330,938
Allowance for uncollectibility	**(6,028)**	(5,913)	**(6,028)**	(5,913)
Net loans and advances to customers	**327,802**	325,025	**327,956**	325,025
Allowances for uncollectibility				
Specific allowances	**4,169**	4,275	**4,169**	4,275
Collective allowances	**1,859**	1,638	**1,859**	1,638
	6,028	5,913	**6,028**	5,913

19.2

Group/Bank

	Specific allowances € 000	Collective allowances € 000	Total € 000
At 1 January 2009	**4,275**	**1,638**	**5,913**
Additions	**1,666**	**221**	**1,887**
Reversals	**(1,772)**	**-**	**(1,772)**
At 31 December 2009	**4,169**	**1,859**	**6,028**

19.3 The aggregate amount of impaired loans and advances to customers amounted to €22,346,000 (2008: €20,592,000).

19.4 Assets acquired in settlement of debt amounting to €109,000 (2008: nil) are classified as assets held for sale.

20 **Investments in subsidiaries**

Name of company	Country of incorporation	Nature of business	Equity interest			
			2009	2008	**2009**	2008
			%	%	**€ 000**	€ 000
Lombard Asset Managers Limited	Malta	Management of Collective Investment Schemes	**100**	100	**344**	344
Redbox Limited	Malta	Holding Company	**100**	100	**6,304**	5,590
Lombard Funds SICAV p.l.c.	Malta	Collective Investment Scheme	**87.98**	86.47	**986**	986
					7,634	6,920

Lombard Asset Managers Limited is the investment manager of Lombard Enterprise Fund, which is a sub-fund of Lombard Funds SICAV p.l.c.. At 31 December 2009, the Bank owned 87.98% (2008: 86.47%) of the units of the fund.

At 31 December 2009, Redbox Limited held 65.2% (2008: 63.8%) of the equity shares capital of MaltaPost p.l.c.. The remaining 34.8% (2008: 36.2%) is held by the general public. MaltaPost p.l.c. was listed on the Malta Stock Exchange on 24 January 2008.

The reporting date of the audited financial statements of MaltaPost p.l.c. used in the preparation of consolidated financial statements is 30 September 2009.

21 **Intangible assets**

21.1

	Group				Bank	
	Goodwill € 000	Computer software € 000	Postal license € 000	Total € 000	Computer software € 000	Total € 000
Cost						
At 1 January 2008	857	1,956	1,159	3,972	1,455	1,455
Additions	-	70	-	70	-	-
At 31 December 2008	857	2,026	1,159	4,042	1,455	1,455
Amortisation						
At 1 January 2008	-	(1,843)	(729)	(2,572)	(1,400)	(1,400)
Amortisation for the year	-	(86)	(82)	(168)	(42)	(42)
At 31 December 2008	-	(1,929)	(811)	(2,740)	(1,442)	(1,442)
Carrying Amounts						
At 31 December 2008	857	97	348	1,302	13	13
Cost						
At 1 January 2009	857	2,026	1,159	4,042	1,455	1,455
Additions	-	57	-	57	1	1
At 31 December 2009	**857**	**2,083**	**1,159**	**4,099**	**1,456**	**1,456**
Amortisation						
At 1 January 2009	-	(1,929)	(811)	(2,740)	(1,442)	(1,442)
Amortisation for the year	-	(44)	(77)	(121)	(11)	(11)
At 31 December 2009	**-**	**(1,973)**	**(888)**	**(2,861)**	**(1,453)**	**(1,453)**
Carrying Amounts						
At 31 December 2009	**857**	**110**	**271**	**1,238**	**3**	**3**

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

21 **Intangible assets** *(continued)*

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

The goodwill acquired represents payments made by the Group in anticipation of future economic benefits, from assets that are not capable of being individually identified and separately recognised. As at 31 December 2009 these amounted to €857,000 and related to the acquisition of MaltaPost p.l.c..

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

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

This calculation takes into account the market capitalisation of MaltaPost p.l.c. on the Malta Stock Exchange at a price per share of €0.70 as at 31 December 2009. The recoverable amount of the cash generating unit is higher than its carrying amount.

22 **Property and equipment**

22.1

Group

	Land and buildings € 000	Computer equipment € 000	Other € 000	Total € 000
Cost/revaluation				
At 1 January 2008	10,614	1,645	4,655	16,914
Additions	3,213	134	261	3,608
Disposals	-	(4)	(4)	(8)
At 31 December 2008	13,827	1,775	4,912	20,514
At 1 January 2009	13,827	1,775	4,912	20,514
Additions	1,180	374	264	1,818
Disposals	(10)	(1)	(1)	(12)
At 31 December 2009	**14,997**	**2,148**	**5,175**	**22,320**
Depreciation				
At 1 January 2008	1,643	1,435	3,484	6,562
Charge for the year	419	127	405	951
Released on disposals	-	(4)	(4)	(8)
At 31 December 2008	2,062	1,558	3,885	7,505
At 1 January 2009	2,062	1,558	3,885	7,505
Charge for the year	496	96	352	944
Released on disposals	(5)	(1)	(1)	(7)
At 31 December 2009	**2,553**	**1,653**	**4,236**	**8,442**
Carrying amount				
At 1 January 2008	8,971	210	1,171	10,352
At 31 December 2008	11,765	217	1,027	13,009
At 1 January 2009	**11,765**	**217**	**1,027**	**13,009**
At 31 December 2009	**12,444**	**495**	**939**	**13,878**

22 **Property and equipment** *(continued)*

Bank

	Land and buildings € 000	Computer equipment € 000	Other € 000	Total € 000
Cost/revaluation				
At 1 January 2008	7,545	837	2,340	10,722
Additions	2,876	43	152	3,071
Disposals	-	(4)	(3)	(7)
At 31 December 2008	10,421	876	2,489	13,786
At 1 January 2009	10,421	876	2,489	13,786
Additions	912	326	93	1,331
Disposals	-	(1)	(1)	(2)
At 31 December 2009	**11,333**	**1,201**	**2,581**	**15,115**
Depreciation				
At 1 January 2008	409	764	1,873	3,046
Charge for the year	47	47	114	208
Released on disposals	-	(4)	(3)	(7)
At 31 December 2008	456	807	1,984	3,247
At 1 January 2009	456	807	1,984	3,247
Charge for the year	72	28	116	216
Released on disposals	-	(1)	(1)	(2)
At 31 December 2009	**528**	**834**	**2,099**	**3,461**
Carrying amount				
At 1 January 2008	7,136	73	467	7,676
At 31 December 2008	9,965	69	505	10,539
At 1 January 2009	**9,965**	**69**	**505**	**10,539**
At 31 December 2009	**10,805**	**367**	**482**	**11,654**

22 **Property and equipment** *(continued)*

22.2

	Group		Bank	
	2009 **€ 000**	2008 € 000	**2009** **€ 000**	2008 € 000
Carrying amount of property occupied for own activities	**12,444**	11,765	**10,805**	9,965
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	**9,688**	9,001	**8,048**	7,201
Future capital expenditure				
Contracted but not provided for in the financial statements	**184**	449	**184**	449
Authorised by the directors but not yet contracted	**-**	-	**-**	-
	184	449	**184**	449

23 **Investment property**

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

	Group		Bank	
	Fair Value **2009** **€ 000**	Fair Value 2008 € 000	**Fair Value** **2009** **€ 000**	Fair Value 2008 € 000
Leasehold land and buildings				
Balance at 1 January	**745**	745	**745**	745
Balance at 31 December	**745**	745	**745**	745

The fair value of investment property is determined by the capitalisation of the sub-ground rent receivable from the investment property at the rate of 5% by reference to Article 1501 (2) of the Civil Code (Chapter 16, Laws of Malta).

24 **Deferred tax assets**

24.1 *Recognised deferred tax assets and liabilities*

Deferred tax assets and liabilities are attributable to the following:

Group

	Assets 2009 € 000	**Liabilities 2009 € 000**	**Net 2009 € 000**	Assets 2008 € 000	Liabilities 2008 € 000	Net 2008 € 000
Excess of depreciation over capital allowances	**286**	**-**	**286**	260	-	260
Provision for liabilities and charges	**322**	**-**	**322**	296	-	296
Impairment allowances	**2,151**	**-**	**2,151**	2,095	-	2,095
Revaluation of property	**-**	**(578)**	**(578)**	-	(578)	(578)
Fair value movements in investments	**-**	**(188)**	**(188)**	-	(100)	(100)
	2,759	**(766)**	**1,993**	2,651	(678)	1,973

Bank

	Assets 2009 € 000	**Liabilities 2009 € 000**	**Net 2009 € 000**	Assets 2008 € 000	Liabilities 2008 € 000	Net 2008 € 000
Excess of depreciation over capital allowances	**5**	**-**	**5**	44	-	44
Provision for liabilities and charges	**202**	**-**	**202**	198	-	198
Impairment allowances	**2,110**	**-**	**2,110**	2,070	-	2,070
Revaluation of property	**-**	**(578)**	**(578)**	-	(578)	(578)
Fair value movements in investments	**-**	**(188)**	**(188)**	-	(100)	(100)
	2,317	**(766)**	**1,551**	2,312	(678)	1,634

24 **Deferred tax assets** *(continued)*

24.2 *Unrecognised deferred tax assets*

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

	2009 € 000	2008 € 000
Tax losses	**179**	183

24.3 *Movement in temporary differences relating to:*

Group

	At 1 January 2009 € 000	**Recognised in income € 000**	**Recognised in equity € 000**	**At 31 December 2009 € 000**	At 1 January 2008 € 000	Recognised in income € 000	Recognised in equity € 000	At 31 December 2008 € 000
Excess of depreciation over capital allowances	**260**	**25**	**-**	**285**	182	78	-	260
Provision for liabilities and charges	**295**	**27**	**-**	**322**	184	111	-	295
Impairment allowances	**2,096**	**56**	**-**	**2,152**	2,582	(486)	-	2,096
Revaluation of property	**(578)**	**-**	**-**	**(578)**	(578)	-	-	(578)
Fair value movements in investments	**(100)**	**-**	**(88)**	**(188)**	(307)	-	207	(100)
	1,973	**108**	**(88)**	**1,993**	2,063	(297)	207	1,973

Bank

	At 1 January 2009 € 000	**Recognised in income € 000**	**Recognised in equity € 000**	**At 31 December 2009 € 000**	At 1 January 2008 € 000	Recognised in income € 000	Recognised in equity € 000	At 31 December 2008 € 000
Excess of depreciation over capital allowances	**44**	**(39)**	**-**	**5**	46	(2)	-	44
Provision for liabilities and charges	**198**	**4**	**-**	**202**	185	13	-	198
Impairment allowances	**2,070**	**40**	**-**	**2,110**	2,570	(500)	-	2,070
Revaluation of property	**(578)**	**-**	**-**	**(578)**	(578)	-	-	(578)
Fair value movements in investments	**(100)**	**-**	**(88)**	**(188)**	(358)	-	258	(100)
	1,634	**5**	**(88)**	**1,551**	1,865	(489)	258	1,634

25 **Inventories**

	Group		Bank	
	2009	2008	**2009**	2008
	€ 000	€ 000	**€ 000**	€ 000
Postal supplies and materials	**123**	174	**-**	-
Merchandise	**301**	479	**-**	293
Other stock items	**247**	168	**247**	45
	671	821	**247**	338

26 **Trade and other receivables**

	Group		Bank	
	2009	2008	**2009**	2008
	€ 000	€ 000	**€ 000**	€ 000
Trade receivables - net of impairment allowance	**6,505**	4,377	**-**	-
Other	**40**	61	**31**	61
	6,545	4,438	**31**	61

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

	Group		Bank	
	2009	2008	**2009**	2008
	€ 000	€ 000	**€ 000**	€ 000
At 1 January	**53**	11	**-**	-
Impairment loss recognised	**65**	42	**-**	-
At 31 December	**118**	53	**-**	-

27 **Prepayments and accrued income**

	Group		Bank	
	2009	2008	**2009**	2008
	€ 000	€ 000	**€ 000**	€ 000
Prepayments	**3,969**	3,523	**4,478**	3,404
Accrued income	**144**	1,499	**144**	114
	4,113	5,022	**4,622**	3,518

28 **Amounts owed to banks**

	Group		Bank	
	2009	2008	**2009**	2008
	€ 000	€ 000	**€ 000**	€ 000
Term deposits with agreed maturity dates or periods of notice	**3,558**	-	**3,558**	-
Repayable on demand	**117**	130	**117**	130
	3,675	130	**3,675**	130

29 **Amounts owed to customers**

	Group		Bank	
	2009	2008	**2009**	2008
	€ 000	€ 000	**€ 000**	€ 000
Term deposits	**344,967**	336,084	**346,105**	338,583
Repayable on demand	**101,242**	103,776	**103,331**	104,796
	446,209	439,860	**449,436**	443,379

30 **Provisions for liabilities and other charges**

30.1 *Provisions*

	Group		Bank	
	2009	2008	**2009**	2008
	€ 000	€ 000	**€ 000**	€ 000
Obligation to Government	**1,600**	1,569	**-**	-
Legal	**920**	844	**577**	566
	2,520	2,413	**577**	566

30 **Provisions for liabilities and other charges** *(continued)*

30.2

Group

	2009			2008		
	Pension Obligation € 000	**Legal € 000**	**Total € 000**	Pension Obligation € 000	Legal € 000	Total € 000
At 1 January	**1,569**	**844**	**2,413**	1,736	526	2,262
Exchange differences recognised in profit or loss	**-**	**(9)**	**(9)**	-	18	18
Charge/(credit) for the year	**88**	**85**	**173**	(3)	300	297
Crystallised obligations	**(57)**	**-**	**(57)**	(164)	-	(164)
At 31 December	**1,600**	**920**	**2,520**	1,569	844	2,413

30.3

Bank

	2009 Legal € 000	2008 Legal € 000
At 1 January	**566**	526
Exchange differences recognised in profit or loss	**(9)**	19
Charge for the year	**20**	21
At 31 December	**577**	566

30.4 The obligation to Government arises in terms of Article 8A of the Pensions Ordinance (Chapter 93, Laws of Malta), covering those ex-Government employees who opted to become full-time employees of MaltaPost p.l.c., and who continued to be entitled to pension rights which go beyond the National Insurance Scheme. The scheme is a final salary defined benefit plan and is unfunded.

30.5 *Obligation to Government recognised in the Statement of financial position is arrived at as follows:*

Group

	2009 € 000	2008 € 000
Present value of unfunded obligations	**2,299**	2,268
Fair value of obligations to be reimbursed by Government	**(699)**	(699)
Present value of unfunded obligations	**1,600**	1,569

30.6 In computing the Obligation to Government, the Group used a discount rate of 4.47% (2008: 4.45%), whereas the future salary increases were based on inflation rates and past salary increases.

30 **Provisions for liabilities and other charges** *(continued)*

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

31 Other liabilities

	Group		Bank	
	2009	2008	**2009**	2008
	€ 000	€ 000	**€ 000**	€ 000
Trade payables	**1,475**	3,485	**-**	-
Bills payable	**2,378**	1,990	**2,378**	1,990
Cash collateral	**224**	182	**224**	182
Other payables	**8,509**	6,759	**5,992**	4,299
	12,586	12,416	**8,594**	6,471

32 Accruals and deferred income

	Group		Bank	
	2009	2008	**2009**	2008
	€ 000	€ 000	**€ 000**	€ 000
Accrued interest	**4,229**	4,136	**4,272**	4,230
Other	**5,420**	4,650	**703**	845
	9,649	8,786	**4,975**	5,075

33 Share capital

33.1

Bank

	2009		2008	
	No. of shares 000s	**€ 000**	No. of shares 000s	€ 000
Authorised				
Ordinary shares of 25 cents each	**80,000**	**20,000**	80,000	20,000
Issued				
Ordinary shares of 25 cents each	**35,614**	**8,903**	35,048	8,762

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

33.2

Bank

	Ordinary shares	
	2009	2008
	000s	000s
On issue at 1 January	**35,048**	8,629
Sub division of the par value of shares	**-**	25,886
Rights issue	**566**	533
On issue at 31 December	**35,614**	35,048

33.3 The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Bank. All shares rank equally with regard to the Bank's residual assets.

34 **Reserves**

34.1 *Share premium*

The increase in the share premium account represents the premium on the rights issue of shares approved by the shareholders during the Annual General Meeting held on 23 April 2009.

34.2 *Property revaluation reserve*

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

34.3 *Investment revaluation reserve*

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

34.4 *Retained earnings*

34.4.1 Dividends

A gross dividend of €0.10 per nominal €0.25 share for the twelve months ended 31 December 2009 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.

	2009	2008
Dividends declared and paid by the Bank (€000)	**2,278**	2,243
€ per share – gross	**0.10**	0.10

35 **Commitments and contingent liabilities**

35.1

Group/Bank

	2009 **€ 000**	2008 € 000
Documentary credits	**1,368**	462
Credit facilities and other commitments to lend	**97,243**	79,486
	98,611	79,948
Guarantee obligations incurred on behalf of third parties	**10,484**	6,624

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

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

Group

	2009 **€ 000**	2008 € 000
Within 1 year	**213**	192
Between 2 and 5 years	**383**	520
After 5 years	**-**	-
	596	712

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

36 **Cash and cash equivalents**

	Group		Bank	
	2009	2008	**2009**	2008
	€ 000	€ 000	**€ 000**	€ 000
Malta Government treasury bills	**25,905**	2,961	**25,905**	2,961
Loans and advances to banks	**40,480**	58,221	**36,557**	53,322
Cash	**3,158**	3,718	**2,794**	3,599
Amounts owed to banks	**(117)**	(130)	**(117)**	(130)
Cash and cash equivalents	**69,426**	64,770	**65,139**	59,752
Adjustment to reflect balances with contractual maturity of more than 3 months	**65,639**	52,890	**65,639**	52,890
	135,065	117,660	**130,778**	112,642
Analysed in the statement of financial position as follows:				
Balances with Central Bank of Malta, treasury bills and cash	**116,357**	68,576	**115,993**	68,457
Loans and advances to banks	**22,383**	49,214	**18,460**	44,315
Amounts owed to banks	**(3,675)**	(130)	**(3,675)**	(130)
	135,065	117,660	**130,778**	112,642

37 **Segmental information**

	Banking services		Postal services		Total	
	2009	2008	**2009**	2008	**2009**	2008
	€ 000	€ 000	**€ 000**	€ 000	**€ 000**	€ 000
Segment operating income	**15,927**	16,101	**20,514**	20,826	**36,441**	36,927
Depreciation and amortisation	**(227)**	(250)	**(838)**	(869)	**(1,065)**	(1,119)
Impairment allowances	**190**	1,429	**(65)**	(42)	**125**	1,387
Other segment costs	**(6,150)**	(6,037)	**(16,424)**	(17,018)	**(22,574)**	(23,055)
Profit before taxation	**9,740**	11,243	**3,187**	2,897	**12,927**	14,140
Segment total assets	**520,776**	503,325	**22,065**	21,409	**542,841**	524,734
Segment total liabilities	**463,451**	451,190	**11,188**	12,415	**474,639**	463,605
Segment total equity	**57,325**	52,135	**10,877**	8,994	**68,202**	61,129

The Group mainly provides services that are subject to risks and returns pertaining to the domestic economic and social environment. Moreover, from a customers' perspective, MaltaPost p.l.c. generated 11.8% (2008: 13.1%) of its revenue for 2009 internationally.

38 **Related parties**

38.1 *Identity of related parties*

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

38.2 *Transaction arrangements and agreements involving key management personnel*

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

	Loans and advances 2009 € 000	**Commitments 2009 € 000**	Loans and advances 2008 € 000	Commitments 2008 € 000
Key management personnel:				
Directors				
At 1 January	**786**	**10**	490	5
Additions	**694**	**687**	501	5
Repayments	**(248)**	**-**	(205)	-
Drawn commitments	**-**	**-**	-	-
At 31 December	**1,232**	**697**	786	10

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.

38.3 *Compensation to key management personnel*

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

38 **Related parties** *(continued)*

38.4 *Transactions with other related parties*

38.4.1 Subsidiaries

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

	2009	2008
	€ 000	€ 000
Income statement		
Other income	**12**	-
Interest payable	**72**	66
Administrative expenses	**33**	184
Statement of financial position		
Loans and advances to customers	**154**	-
Amounts owed to customers	**3,227**	3,519
Other liabilities	**46**	145

Moreover, during the year, a subsidiary received gross dividends from its subsidiary company amounting to €858,000 (2008: nil).

38.4.2 Major shareholder

The following transactions were conducted by the Bank with its major shareholder during the year:

	2009	2008
	€ 000	€ 000
Income statement		
Interest receivable and similar income	**14**	85
Statement of financial position		
Loans and advances to banks	**7,573**	6,885

39 **Investor Compensation Scheme**

In accordance with the provisions of the Investor Compensation Scheme Regulations, 2003 issued under the Investment Services Act, 1994 (Chapter 370, Laws of Malta) 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.

40 **Accounting estimates and judgements**

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.

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

40.1.1 Impairment losses on loans and advances

The Group reviews its loans portfolio to assess impairment on an on-going basis as relevant generic data is observed concerning risks associated with groups of loans with similar risk characteristics. As a result, the Group makes 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 objectives evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

40.1.2 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.

40.1.3 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.

40 **Accounting estimates and judgements** *(continued)*

40.1 *Critical accounting judgement in applying the Group's accounting policies (continued)*

40.1.4 Valuation of financial instruments

The Group's accounting policy on fair value measurements is discussed in accounting policy 3.2.6.

The Group measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

- Level 1: Quoted market price (unadjusted) in an active market for an identical instrument.
- Level 2: Valuation techniques based on observable inputs, either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.
- Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

Fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations.

As at 31 December 2008 and 2009, all financial instruments that are measured at fair value were valued using Level 1 inputs.

41 **Comparative amounts**

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

Statement of the Directors pursuant to Listing Rule 9.44c

For the Year Ended 31 December 2009

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

Signed on behalf of the Board of Directors on 11 March 2010 by:

Christian Lemmerich
Chairman

Joseph Said
Chief Executive Officer

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

Report on the Financial Statements

We have audited the financial statements of Lombard Bank Malta p.l.c. (the "Bank") and of the Group of which the Bank is the parent, as set out on pages 24 to 96, which comprise the statements of financial position as at 31 December 2009 and the statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' Responsibility for the Financial Statements
As explained more fully in the Directors' Responsibilities Statement set out on page 21, the directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted by the EU, the Companies Act, 1995 (Chapter 386, Laws of Malta), and the Banking Act, 1994 (Chapter 371, Laws of Malta), and, as regards the financial statements of the Group, Article 4 of the IAS Regulation. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility
Our responsibility is to express an opinion on these financial statements based on our audit. This report, including the opinion, has been prepared for and only for the Bank's members as a body in accordance with Article 179 of the Companies Act, 1995 (Chapter 386, Laws of Malta) and Article 31 of the Banking Act, 1994 (Chapter 371, Laws of Malta), and may not be appropriate for any other purpose.

In addition, we read the other information contained in the Annual Report 2009 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 material misstatements of fact or material inconsistencies with the financial statements.

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion on Financial Statements
In our opinion, the financial statements:

- give a true and fair view of the Group's and the Bank's financial position as at 31 December 2009, and of their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU; and
- have been properly prepared in accordance with the Companies Act, 1995 (Chapter 386, Laws of Malta), the Banking Act, 1994 (Chapter 371, Laws of Malta), and, as regards the financial statements of the Group, Article 4 of the IAS Regulation.

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

Report on Other Legal and Regulatory Requirements

Matters on which we are required to report by the Banking Act, 1994 (Chapter 371, Laws of Malta)

In our opinion:

- 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;
- proper books of account have been kept by the Bank so far as appears from our examination thereof;
- the Bank's financial statements are in agreement with the books of account; and
- to the best of our knowledge and belief and, on the basis of the explanations given to us, the financial statements give the information required by law in force in the manner so required.

Matters on which we are required to report by exception by the Companies Act, 1995 (Chapter 386, Laws of Malta) ("the Act"), other than those reported upon above.

We have nothing to report in respect of the following matters where the Act requires us to report to you if, in our opinion:

- the information given in the Directors' Report for the financial year for which the financial statements are prepared is not consistent with the financial statements; or
- certain disclosures of directors' remuneration specified by the Act are not made.

Joseph C. Schembri (Partner) for and on behalf of

KPMG
Registered Auditors
Portico Building
Marina Street
Pietà PTA 9044
Malta

11 March 2010

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

Report required by Listing Rule 8.38 issued by the Listing Authority in Malta on the Directors' Statement of Compliance with the Code of Principles of Good Corporate Governance (the "Principles") outlined in Appendix 8.1 to Chapter 8 (Continuing Obligations) of the Listing Rules (the "Appendix").

Listing Rule 8.36 requires an Issuer whose securities are admitted to trading on a Regulated Market operating in Malta to prepare a corporate governance statement. In addition, as an Issuer registered in Malta, Listing Rule 8.36b requires that the Bank endeavours to adopt the Principles and to prepare a report explaining how it has complied with the provisions of the Appendix.

Our responsibility as independent auditors of the Bank, is laid down by Listing Rule 8.38, which requires us to issue a report on the Directors' Statement of Compliance with the Principles, which is set out on pages 11 to 17.

We review the Directors' Statement of Compliance and report as to whether this Statement provides the disclosures required by Listing Rules 8.37 and 8.38 as obtaining prior to the coming into effect of Circular 01/2010 issued to all Company Secretaries and Stockbroking Firms, by the Listing Authority (Malta Financial Services Authority), which Circular came into effect on 11 January 2010. We are not required to, and we do not, consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risks and control procedures, nor on the ability of the Group to continue in operational existence.

In our opinion, the Directors' Statement of Compliance set out on pages 11 to 17 provides the disclosures required by the aforementioned Listing Rules 8.37 and 8.38 as obtaining prior to the coming into effect of Circular 01/2010 issued to all Company Secretaries and Stockbroking Firms, by the Listing Authority (Malta Financial Services Authority), which Circular came into effect on 11 January 2010.

Joseph C. Schembri (Partner) for and on behalf of

KPMG
Registered Auditors
Portico Building
Marina Street
Pietà PTA 9044
Malta

18 March 2010

Five Year Summary
Statements of Financial Position

Group

	31/12/2009	31/12/2008	31/12/2007	31/12/2006	31/12/2005
	€ 000	€ 000	€ 000	€ 000	€ 000
Assets					
Balances with Central Bank of Malta, treasury bills and cash	**116,357**	68,576	75,181	102,956	68,721
Cheques in course of collection	**811**	2,748	2,229	1,379	1,281
Derivative financial instruments	**-**	-	-	5	-
Investments	**45,025**	51,627	54,894	54,677	54,971
Loans and advances to banks	**22,383**	49,214	88,975	95,984	113,764
Loans and advances to customers	**327,802**	325,025	260,284	210,142	183,410
Investment in equity accounted investee	**-**	-	-	2,662	-
Intangible assets	**1,238**	1,302	1,400	-	-
Current tax assets	**1,171**	234	-	-	-
Property and equipment	**13,878**	13,009	10,352	7,063	7,121
Investment property	**745**	745	745	352	352
Assets held for sale	**109**	-	-	247	-
Deferred tax assets	**1,993**	1,973	2,055	927	678
Inventories	**671**	821	804	107	21
Trade and other receivables	**6,545**	4,438	3,937	5	54
Prepayments and accrued income	**4,113**	5,022	3,606	2,926	7,627
Total assets	**542,841**	524,734	504,462	479,432	438,000
Liabilities					
Amounts owed to banks	**3,675**	130	736	508	151
Amounts owed to customers	**446,209**	439,860	418,206	420,680	386,098
Current tax payable	**-**	-	1,640	1,139	454
Provision for liabilities and other charges	**2,520**	2,413	2,262	554	578
Other liabilities	**12,586**	12,416	20,431	7,999	8,015
Accruals and deferred income	**9,649**	8,786	6,688	4,020	3,913
Total liabilities	**474,639**	463,605	449,963	434,900	399,209
Equity					
Called up share capital	**8,903**	8,762	5,024	4,969	4,899
Share premium	**16,409**	15,137	13,590	12,495	11,360
Property revaluation reserve	**2,288**	2,288	2,288	2,287	2,171
Investment revaluation reserve	**290**	23	587	620	731
Other reserve	**-**	-	-	-	259
Retained earnings	**36,395**	31,518	29,550	24,093	19,294
Equity attributable to equity holders of the Bank	**64,285**	57,728	51,039	44,464	38,714
Non-controlling interest	**3,917**	3,401	3,460	68	77
Total equity	**68,202**	61,129	54,499	44,532	38,791
Total liabilities and equity	**542,841**	524,734	504,462	479,432	438,000
Memorandum items					
Contingent liabilities	**10,484**	6,624	6,508	7,522	7,596
Commitments	**98,611**	79,948	60,592	80,496	55,959

Five Year Summary
Income Statements

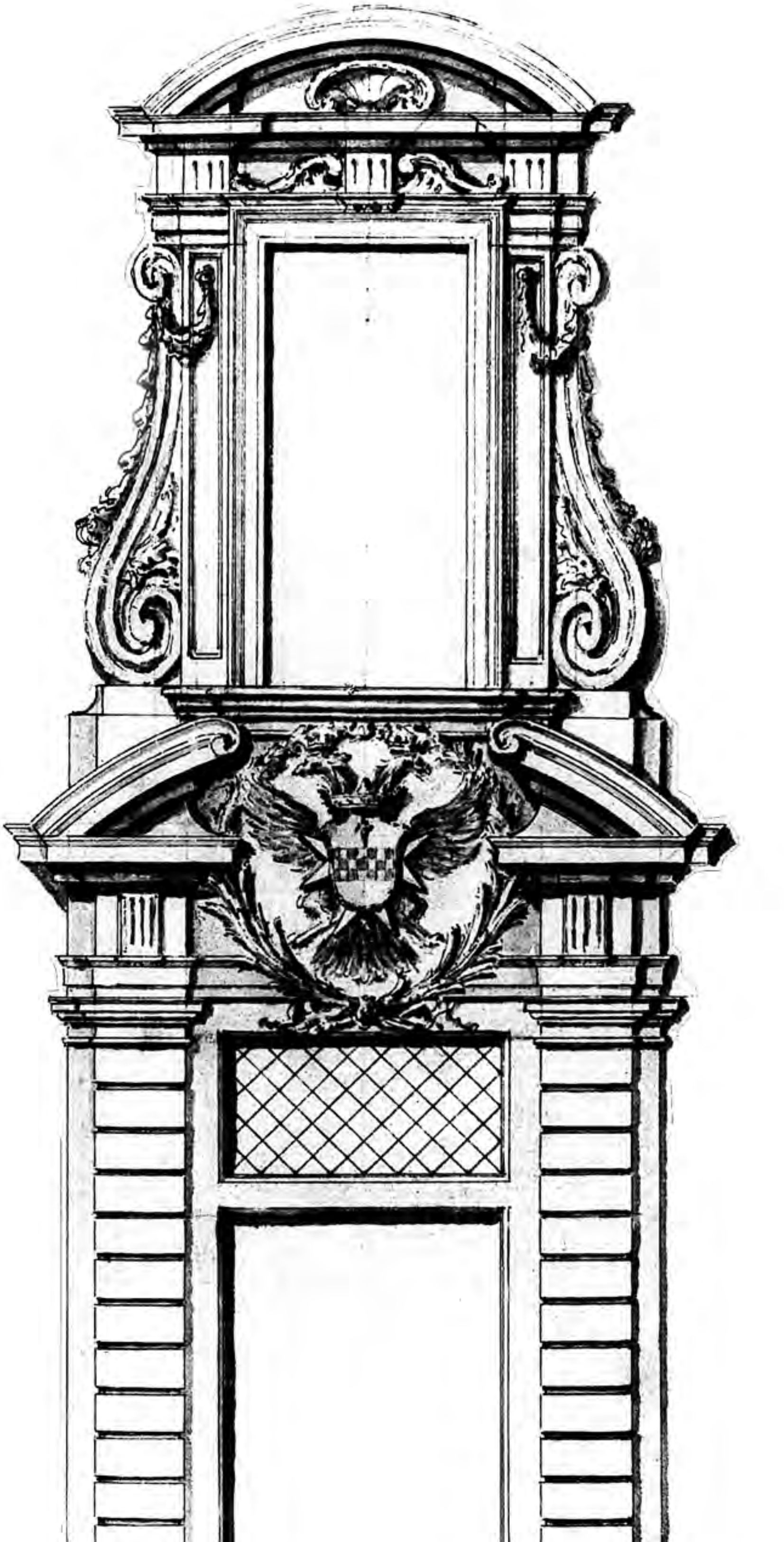
Group

	01/01/2009 to 31/12/2009 € 000	01/01/2008 to 31/12/2008 € 000	01/01/2007 to 31/12/2007 € 000	01/01/2006 to 31/12/2006 € 000	01/01/2005 to 31/12/2005 € 000
Interest receivable and similar income	**28,150**	29,061	29,404	23,373	21,735
Interest expense	**(13,560)**	(14,493)	(13,871)	(11,111)	(10,608)
Net interest income	**14,590**	14,568	15,533	12,262	11,127
Other operating income	**21,971**	22,359	3,699	2,075	1,982
Other operating charges	**(23,759)**	(24,174)	(7,099)	(5,057)	(5,246)
Net impairment gains/(losses)	**125**	1,387	(1,863)	(284)	676
Shares of profit of equity accounted investee (net of tax)	**-**	-	366	12	-
Profit before income tax	**12,927**	14,140	10,636	9,008	8,539
Income tax expense	**(4,863)**	(5,057)	(3,552)	(3,173)	(3,035)
Profit for the year	**8,064**	9,083	7,084	5,835	5,504
Attributable to:					
Equity holders of the Bank	**7,377**	8,402	7,065	5,833	5,518
Non-controlling interest	**687**	681	19	2	(14)
	8,064	9,083	7,084	5,835	5,504

Five Year Summary
Statements of Cash Flows

Group

	01/01/2009 to 31/12/2009 € 000	01/01/2008 to 31/12/2008 € 000	01/01/2007 to 31/12/2007 € 000	01/01/2006 to 31/12/2006 € 000	01/01/2005 to 31/12/2005 € 000
Net cash (used in)/from operating activities	**(4,024)**	(73,009)	(46,667)	19,208	12,485
Cash flows from investing activities					
Dividends received	**122**	65	93	51	63
Interest received from investments	**4,867**	4,683	4,461	4,815	6,313
Proceeds on maturity/sale of investments	**8,632**	4,238	4,635	4,256	8,078
Purchase of investments	**(1,779)**	(1,673)	(1,479)	(4,193)	-
Investment in equity accounted investee	**-**	-	-	(2,651)	-
Purchase of property and equipment	**(1,892)**	(3,554)	(943)	(196)	(552)
Acquisition of interest in subsidiary (net of cash acquired)	**-**	-	2,632	-	-
Proceeds from disposal of subsidiary	**-**	-	-	-	72
Acquisition of non-controlling interest	**(156)**	(916)	-	-	-
Net cash flows from investing activities	**9,794**	2,843	9,399	2,082	13,974
Cash flows from financing activities					
Dividend by subsidiary to non-controlling interest	**(249)**	(559)	-	-	-
Dividends paid	**(865)**	(564)	(464)	(89)	(35)
Cash used in financing activities	**(1,114)**	(1,123)	(464)	(89)	(35)



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)

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