LOMBARD

Lombard Bank Malta p.l.c.

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ANNUAL REPORT 2008

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Chairman's Statement to the Members

For the financial year ended 31 December 2008 Lombard Bank Group registered a profit of €9.08 million after tax representing an increase of just over 28 per cent over the previous year. This lifted the Group's profit to yet another record level despite the fact that 2008 was an extremely difficult year for banks worldwide.

The past year will go down in economic history as being the worst and possibly also the most complex financial crisis since 1929. What started off as the bursting of the housing bubble in the United States of America developed into the 'subprime crisis' which erupted in the summer of 2007. Then in 2008 we saw a further deterioration of the global financial system with the bankruptcy of Lehman Brothers in September as one of the most significant events.

In order to avoid a meltdown of the financial system governments and central banks in a number of countries introduced substantial bail-out packages ranging from issuing guarantees, to taking capital participations in some of banks and to buying some of the 'toxic paper' held by such banks. The crisis of the financial system has, in the meantime, affected the real economies around the globe and most of the industrialised nations are now in recession. We cannot yet gauge the extent of the recession, but the rate of decline of economic activity is such that countries have put spending programmes into place intended to mitigate the impact of recession and avoid the risk of a further downward trend. Parallel to these programmes central banks have drastically reduced interest rates. Whilst a year ago the European Central Bank was concerned about rising inflation this currently is no longer the case and the ECB has joined other central banks in bringing interest rates down. However, the reduction of interest rates filters through to the real economy only to a limited extent because interbank lending activities have still not reached the level seen before the eruption of the financial crisis. The marked slow-down of economic activities and the expectation of a further contraction during this year resulted in significant re-pricing of assets: stock markets saw the worst annual performance since 1931, while oil prices saw their all-time high in mid-2008 they however went into a free-fall and oil now costs over a USD 100 per barrel less than in 2008.

The Maltese banking system has so far weathered the storm of the global financial crisis. However, it would be illusionary to believe that Malta would not be affected by the significant world economic slowdown – but because of its sound economic structure Malta will hopefully be affected to a lesser extent than most other EU countries.

For Lombard Bank (like for all other banks) the developments described above and their effects have been very challenging and it is gratifying to see that the Bank has nevertheless performed well and has yet again turned in a record profit. We believe that the conservative and prudent approach always taken by the Bank pays off in the long run and particularly during times of turbulence. We have always attached importance to solid financial ratios: Lombard's Capital Adequacy Ratio (Basle II) has always been comfortably above the regulatory minimum requirements of 8 per cent - at the end of 2008 it stood at 15.2 per cent (2007: 15.9 per cent). The Loan to Deposit ratio remains in the region of 73.9 per cent which compares very well with most other strong banks and confirms that the Bank is comfortably in a position to fund its lending activities without having to rely on the interbank market at all. At 71.2 per cent the Bank's liquidity position is well above the statutory requirement of 30 per cent.

The Bank is also prudent in managing its treasury book which, as can well be imagined, was a particularly challenging task in the past year and the Bank is pleased that no markdowns in respect of this have been necessary.

Thanks to the excellent preparation for the introduction of the Euro the changeover at the beginning of 2008 went well. This was a major task involving virtually all the staff of the Bank. Naturally, now that Malta no longer has its own currency, foreign exchange activities have reduced significantly.

Chairman's Statement to the Members

Also at the beginning of 2008 the Bank successfully acted as Manager and Registrar for the Initial Public Offering of the 40 per cent shareholding in MaltaPost held by the Government of Malta. The Bank now has a 63.8 per cent shareholding in MaltaPost which it considers strategic and not financial. During the year the cooperation between the two organisations has intensified to our mutual benefit. For the business year ended 30 September 2008 MaltaPost registered a record profit of €1.88 million which is reflected in Lombard Bank Group's results.

As in the past cost control has been of priority for us and the Cost to Income Ratio now stands at 64.7 per cent for the Group and 39.1 per cent for the Bank. Return on average equity attributable to shareholders was 24.5 per cent on a pre-tax basis. Net Assets Value per share stood at €1.65 (2007: €1.48) while Earnings per share increased to 24.1 euro cents (2007: 20.6 euro cents).

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.

My sincere thanks go to our shareholders and customers for their support. The Bank is grateful for their loyalty and the Bank does its best to reciprocate by delivering good results despite difficult market conditions and by being loyal to its customers and delivering excellent service and advice. Similarly my thanks go to my fellow Board members for their valuable contribution.

For the Bank's Chief Executive Officer, Joseph Said, and his entire team the year 2008 was particularly challenging and demanding and I would like to congratulate him and his colleagues on the commendable achievements under most difficult conditions and extend to them my thanks for their commitment, diligence and hard work.

Christian Lemmerich
Chairman

Chief Executive Officer's Review of Operations

These Financial Statements report the consolidated results of Lombard Bank Malta p.l.c., Lombard Asset Managers Limited, Redbox Limited (the company holding shares in MaltaPost p.l.c.) and Lombard Funds SICAV p.l.c., (the Group), as at 31 December 2008 and also the financial results of MaltaPost p.l.c. as at 30 September 2008 following the latter company becoming a subsidiary of Redbox Limited on 6 September 2007.

Our policy remains one of establishing new business relationships selectively while enhancing our existing ones.

During 2008 the Bank weathered the turmoil that hit global financial markets and remained well above the required regulatory levels in terms of capital and liquidity requirements. Prudent Treasury management remained a top priority, while a drive to expand our deposit base continued.

The acquisition of a controlling stake in MaltaPost has strengthened the Bank's position and created new opportunities. In addition to this we look forward to new opportunities following Marfin Popular Bank p.l.c. becoming the Bank's single largest shareholder.

The Bank is committed to increasing shareholder value by curtailing costs, reducing risks, optimising work processes, meeting regulatory expectations and offering a better and more extensive service to our customers while also maintaining a pleasant and rewarding work environment for our staff.

During the year the Bank's share capital was redenominated into Euro and split 4 for 1. Thus 8,628,728 shares of Lm0.25 each were transformed into 34,514,912 shares of €0.25 each. This included a capitalisation of €3.6 million from Retained Earnings. The Called Up Share Capital increased by a further 533,296 Ordinary shares, as a good number of shareholders opted to receive their dividend for 2007 in shares rather than cash.

Review of Financial Performance

Total Operating Income for the Group increased by 92 per cent resulting in a higher Operating Profit of €14.14 million. The increase in the main represents the consolidation for the first time of a full year's profit from our investment in MaltaPost p.l.c..

Credit activity continued its upward trend with an increase of €64.74 million (25 per cent) in Loans and Advances to customers. The Loan to Deposit ratio of 73.9 per cent at year end remained within parameters set by the Bank.

Whereas our Liquidity Ratio remained satisfactory throughout the year, the Bank still considered it opportune to increase its customer deposit base. Notwithstanding a falling interest rate environment and volatile customer sentiment, deposits with longer maturities were successfully registered. This strengthened even further the comfortable liquidity position that the Bank enjoys as customer deposits increased by €21.65 million (5.2 per cent).

Profitability and Own Funds

Shareholders' Funds rose by €6.65 million (13 per cent) to €57.69 million allowing us to assume larger credit exposures, diversify our investment opportunities and maintain a strong solvency level. Return on Assets (ROA) increased from last year's 1.4 per cent to 1.7 per cent. The Bank's Capital Adequacy Ratio, computed in accordance with Banking Rules stood at 15.2 per cent (2007: 15.9 per cent) and compares well with the statutory minimum requirement of 8 per cent. Earnings per Share (EPS) for FYE2008 reached 24.1 cents, up from 20.6 cents in 2007. Net Asset Value per share at year end stood at €1.65 representing a price to book multiple of 1.82 times.

Chief Executive Officer's Review of Operations

Treasury and Finance

Upon adoption of the Euro in January 2008, the European Central Bank became the reference authority for local interest rate movements. Changes to the euro interest rate were made on four occasions during the year, starting with an increase of 25 bp in July followed by three reductions amounting to 175 bp. The Bank continuously monitored the situation to ensure that it remained sensibly competitive.

The crisis in the US sub prime mortgage market, which started in 2007, developed into a global financial markets crisis during 2008. Mindful of increased risk as well as shortage of sound investment opportunities, the Bank remained highly liquid with a liquidity ratio of 71 per cent - well over the statutory minimum of 30 per cent. Our liquid position consisted mainly of Reserve Deposit Equalisation, short-term Treasury paper and inter-bank deposits.

Risk Management

The Bank maintains a fully integrated risk assessment, measurement, monitoring and reporting structure that is in line with international best practice and is based on the principles of clear identification of responsibility for decision making. We make use of techniques and instruments that incorporate delegated limits as well as systems that provide for the review and reporting of any risks identified. Work on the Bank's Internal Capital Adequacy Assessment processes started in earnest during the year and by year-end was at an advanced stage.

Human Resources

The Bank continues to implement a policy of developing processes and programs that attract, motivate and remunerate staff members who contribute towards making the Group a leading organisation.

Learning and career development opportunities for staff were provided including a number of in-house training courses as well as local and overseas external training. We believe that the personal and professional development of staff is an investment by the Bank necessary for further growth. At the end of the year the staff complement of the Bank stood at 151.

Projects

The new Wealth Management office in Valletta became operational in Q2 of 2008. Works continue on another Valletta office and are expected to be completed by Q2 of 2009 while the new Qormi branch will see its first customers in early 2009. In the meantime, plans to start works on another main Sliema site are advanced. The new facilities will complement the Bank's growth in business and provide additional market reach.

Projects initiated in 2007 to meet with the adoption of the Euro were satisfactorily concluded in Q1 of 2008. All aspects of this exercise were smoothly undertaken and successfully implemented.

Numismatic/philatelic initiatives were successfully undertaken during the year in collaboration with MaltaPost p.l.c..

MaltaPost p.l.c.

In January 2008 the Government sold its remaining 40 per cent shareholding in MaltaPost to the public via an Initial Public Offering (IPO) which sale was heavily oversubscribed. The Bank was appointed Manager and Registrar of the IPO. MaltaPost shares were listed on the Malta Stock Exchange on 24 January 2008.

Chief Executive Officer's Review of Operations

The Bank now owns 63.8 per cent shareholding in MaltaPost which investment is considered to be a strategic one rather than financial.

For FYE2008 MaltaPost registered a pre-tax profit of €2.90 million compared to €1.66 million in 2007.

Community Involvement

The Bank continues to discharge its social responsibilities by contributing selectively to projects and causes which are considered to be of practical benefit. This, as always, is carried out discreetly. Our commitment is affirmed in the continuation of our Anti-Smoking project for all secondary school – a project endorsed by the Directorate for Educational Services and supported by the Malta Cancer Foundation.

Outlook

So far, the Maltese economy has been reasonably resilient despite the global economic and financial crisis. However, international developments are bound to impact our small, open economy.

The Financial Services industry remains Malta's hallmark of success and this is borne by the robust fundamentals evident in Maltese banks.

Lombard Bank, in the past, has adapted well to changing circumstances. With Marfin Popular Bank as the single largest shareholder and the new dimensions that have been added by MaltaPost, we remain prudently confident that opportunities still lie ahead, notwithstanding the current international environment.

We have the expertise to continue adapting to market change. Strong fundamentals characterise our Bank which have continued to be reinforced in 2008 while MaltaPost provides further diversification of our income streams. We are strongly committed to maintaining the growth of our Group and we have the necessary resources and skills to grasp opportunities as and when they arise. Therefore, we remain confident of continuing to strengthen our market position while adhering to high ethical standards at all times.

Joseph Said
Chief Executive Officer

Directors' Report

For the Year Ended 31 December 2008

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 Deposit Guarantee Scheme and the Investor Compensation Scheme set up under the laws of Malta. The Bank has a network of six branches in Malta and Gozo providing an extensive range of banking and financial services.

Lombard Asset Managers Limited holds a Category 2 Investment Services licence issued by the Malta Financial Services Authority in terms of the Investment Services Act, 1994 and is authorised to provide management and administrative services to Collective Investment Schemes. The Bank holds 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 2008. Redbox Limited owns 63.8 per cent of the ordinary share capital of MaltaPost p.l.c.; the remaining 36.2 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 2008

Profit after taxation of €9.083 million and €7.178 million for the Group and the Bank respectively, were registered for the twelve months ended 31 December 2008.

A gross dividend of €0.10 per nominal €0.25 share for the twelve months ended 31 December 2008 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 24 April 2008, the Authorised Share Capital of the Company 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 Company is Euro eight million, six hundred and twenty eight thousand, seven hundred and twenty eight (€8,628,728) divided into thirty four million, five hundred and fourteen thousand, nine hundred and twelve (34,514,912) Ordinary Shares of a nominal value of €0.25 each, all of one class.

On the 8 May 2008 an additional 533,296 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 35,048,208 Ordinary Shares of €0.25 each all of which carry the same voting rights. Equity attributable to shareholders as at 31 December 2008 stood at €57.7 million.

Changes in Senior Management

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

With effect from 30 September 2008, the General Manager of the Bank retired from office.

Change in Major Shareholder

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

Transactions in Own Shares

The Bank holds units in a collective investment scheme which scheme invests in the Bank's shares. Through its holding in this fund, the Bank indirectly acquired an additional 12,984 of its own shares during the year, bringing the total number of shares indirectly held at 31 December 2008 to 17,196.

Standard Licence Conditions

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

Listing Rules - Disclosures

In terms of Listing Rule 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.

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 2008	at 3 March 2009
Safaco Ltd	32,804	32,804
First Gemini p.l.c.	1,822,748	1,822,748

	Shares in MaltaPost p.l.c.	
	at 31 December 2008	at 3 March 2009
Safaco Ltd	31,168	31,168
First Gemini p.l.c.	18,800	25,314
MAL Services Ltd	3,257	-
Transeuro Systems Ltd	3,257	-

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 and a resolution proposing their reappointment will be put to the forthcoming Annual General Meeting.

Approved by the Board of Directors on 12 March 2009 and signed on its behalf by:

Christian Lemmerich
Chairman

Joseph Said
Chief Executive Officer

Statement of Compliance with the Principles of Good Corporate Governance

For the Year Ended 31 December 2008

Introduction

In terms of the Malta Financial Services Authority (MFSA) Listing Rules, as the competent Listing Authority, the Bank is to include in the annual report a statement of compliance providing an explanation of the extent to which the Principles of Good Corporate Governance have been adopted.

The Bank is to indicate the effective measures that they have taken to ensure compliance throughout the accounting period with the Principles.

The Board of Directors

Every listed company is to be headed by an effective Board, which should lead and control the company. The Board should exercise leadership, enterprise, integrity and judgement in directing the Bank to achieve continuing prosperity and act in the best interest of the business enterprise in a transparent, accountable and responsible manner. The fundamental responsibility of the Board is to safeguard and improve the economic and commercial prosperity of the Bank.

Composition

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
	Gianfilippo Maiga***	2004
	Stefano Loffredi***	2007

* retired from General Manager with effect from 30 September 2008
** appointed with effect from 3 April 2008
*** resigned with effect from 3 April 2008

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

Distinct roles

The Board has the first level responsibility of executing the following basic roles: accountability, monitoring, strategy formulation and policy development. There exists a clear division of responsibilities between the functions of the Board and the executive responsibility for the running of the Bank's business. No one individual or small group of individuals has unfettered powers of decision and 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 concerned with 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

The Board meets regularly 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 writing and in time for all Board meetings and have at their disposal all necessary documents for each meeting. All Directors have access to the advice and services of the Company Secretary. The Directors recognise 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 2008, 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	6
Graham A Fairclough	7
Christian Lemmerich	7
Joseph Said	7
Dimitris Spanodimos**	2
Christos J Stylianides**	6
Michael Zammit	7
Gianfilippo Maiga*	0
Stefano Loffredi*	0

* resigned with effect from 3 April 2008
** appointed with effect from 3 April 2008

During meetings, all board members were given ample opportunity to convey their opinions and discuss issues set on the board agenda so that they carry out their responsibilities. Notice of the dates of meetings together with the supporting material was circulated well in advance to the Directors so that they could 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 after the relevant meeting. The documentation includes the minutes of the previous meeting together with a full report on the more important operational matters.

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

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

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 per cent (15%) of the Bank's Ordinary Issued Share Capital is entitled to appoint one (1) Director for each and every fifteen per cent (15%) of the Ordinary Issued Capital owned by him. Any fractional shareholding in excess of fifteen per cent (15%) 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 2008, 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 and the General Manager (up to 30 September 2008) are on a contract of employment with the Bank and their remuneration as employees, as well as their employment, is independent of their office as Directors of the Bank. Whilst the remuneration and bonuses of the Chief Executive Officer and the General Manager (up to 30 September 2008) 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 is 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

The 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 senior management including managers from Finance and Treasury. The Chief Executive Officer retains primary responsibility for asset and liability management.

Credit Committee

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

Audit Committee

The 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 Audit Committee, as approved by the Listing Authority, inter alia, assists the Board in fulfilling its supervisory and monitoring responsibilities by reviewing the financial statements and disclosures, the systems of internal control established by Management and the external and internal audit process. The terms of reference of the Audit Committee ensure that it acts separately and independently of Management. The terms of reference of the Audit Committee comply with the requirements of the Listing Rules. The Audit Committee, which met five (5) times during 2008, was made up of the following members (all non-executive Board directors):

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

Joseph M Demajo is an independent member who is competent in accounting and/or auditing in terms of the Listing Rules.

The Bank's Internal Auditor always attends at meetings of the Audit Committee. The External Auditors are always invited to attend such meetings. Members of the 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 necessary, the Board may enter into a satisfactory dialogue with institutional shareholders and market intermediaries based on the mutual understanding of objectives.

Being 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 policy of the Bank 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 being provided to shareholders at least fourteen days prior to the meetings and provides the opportunity for shareholders to participate by 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 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 a predefined 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. There are also formal procedures in place for the timely dissemination and publication of information that is potentially price-sensitive, including the publication of the Bank's financial statements. Directors and employees are periodically reminded of their obligations when dealing in securities of the Bank to observe the regulations stipulated by law and as laid down by the Listing Authority of the Malta Financial Services Authority.

Training and Development

In the light of fast changing characteristics of the market, the Bank continues with its programme of training and developing its staff members right across the board, thus ensuring that there is adequate training in the Bank for management and employees. It is recognised that adequate and relevant training and development, at all levels, will help the Bank retain 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 12 March 2009 and signed on its behalf by:

Christian Lemmerich
Chairman

Joseph Said
Chief Executive Officer

Company Information

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

	31 December 2008	4 March 2009	
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:

	31 December 2008	4 March 2009
Marfin Popular Bank Public Co Ltd	43.1%	43.1%
First Gemini p.l.c.	5.2%	5.2%

Number of shareholders at 31 December 2008 analysed by range:

Range	Total Shareholders	Shares
1 – 500	162	32,187
501 – 1000	83	66,543
1001 – 5000	469	1,429,869
5001 and over	644	33,519,609
Total	**1,358**	**35,048,208**

Number of shareholders at 4 March 2009 analysed by range:

Range	Total Shareholders	Shares
1 – 500	165	33,242
501 – 1000	84	67,567
1001 – 5000	484	1,475,716
5001 and over	639	33,471,683
Total	**1,372**	**35,048,208**

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

Company Information

Board Of Directors

Christian Lemmerich (Chairman)
Joseph Said
Joseph M Demajo
Graham A Fairclough
Stefano Loffredi (resigned 3 April 2008)
Gianfilippo Maiga (resigned 3 April 2008)
Dimitris Spanodimos (as from 3 April 2008)
Christos J Stylianides (as from 3 April 2008)
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
Stefan Berry	Head – Compliance & Risk Management
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 – Treasury

Registered Office

67 Republic Street, Valletta VLT 1117
Tel: 25581 152

Branches

67 Republic Street, Valletta VLT 1117
Tel: 25581 150

Balzan Valley Road, Balzan BZN 1409
Tel: 25581 500

4 Main Street, Qormi QRM 1100
Tel: 25581 300

Graham Street, Sliema SLM 1711
Tel: 25581 200

Paceville Avenue, Paceville STJ 3103
Tel: 25581 400

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

Wealth Management

59 Republic Street, Valletta VLT 1117
Tel: 25581 810

Directors' Responsibility for the Financial Statements

The Companies Act, 1995 requires the Directors of Lombard Bank Malta p.l.c. (the 'Bank') to prepare financial statements for each financial year which give a true and fair view of the financial position of the Bank and the Group as at the end of the financial year and of the profit or loss of the Bank and the Group for that period in accordance with the requirements of International Financial Reporting Standards 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 and the Banking Act, 1994.

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

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

Management is responsible, with oversight from the Directors, to establish a control environment and maintain policies and procedures to assist in achieving the objective of ensuring, as far as possible, the orderly and efficient conduct of the Bank's business. This responsibility includes establishing and maintaining controls pertaining to the Bank's and Group's objective of preparing financial statements as required by the Companies Act, 1995 and 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 2008 to 31 December 2008

2008

Balance Sheet

At 31 December 2008

		Group		Bank	
		2008	2007	**2008**	2007
	Note	**€ 000**	€ 000	**€ 000**	€ 000
Assets					
Balances with Central Bank of Malta, treasury bills and cash	15	**68,576**	75,181	**68,457**	75,183
Cheques in course of collection		**2,748**	2,229	**2,748**	2,229
Investments	17	**51,627**	54,894	**48,024**	51,081
Loans and advances to banks	18	**49,214**	88,975	**44,315**	82,933
Loans and advances to customers	19	**325,025**	260,284	**325,025**	260,284
Investment in subsidiaries	20	**-**	-	**5,934**	5,884
Intangible assets	21	**1,302**	1,400	**13**	55
Current tax assets		**234**	-	**1,077**	-
Property and equipment	22	**13,009**	10,352	**10,539**	7,676
Investment property	23	**745**	745	**745**	745
Deferred tax assets	24	**1,994**	2,055	**1,655**	1,857
Inventories	25	**821**	804	**338**	235
Trade and other receivables	26	**4,438**	3,937	**61**	7
Prepayments and accrued income	27	**4,962**	3,606	**3,518**	3,242
Total assets		**524,695**	504,462	**512,449**	491,411

Liabilities					
Amounts owed to banks	28	**130**	736	**130**	736
Amounts owed to customers	29	**439,860**	418,206	**443,379**	419,676
Current tax payable		**-**	1,640	**-**	1,193
Provisions for liabilities and other charges	34	**2,413**	2,262	**566**	526
Other liabilities	30	**12,416**	20,431	**6,471**	13,748
Accruals and deferred income	31	**8,786**	6,688	**5,075**	4,786
Total liabilities		**463,605**	449,963	**455,621**	440,665

The notes on pages 30 to 99 are an integral part of these financial statements.

Balance Sheet

At 31 December 2008

	Note	Group 2008 € 000	Group 2007 € 000	Bank 2008 € 000	Bank 2007 € 000
Equity					
Called up share capital	32	**8,762**	5,024	**8,762**	5,024
Share premium	33	**15,137**	13,590	**15,137**	13,590
Property revaluation reserve	33	**2,288**	2,288	**2,288**	2,288
Investment revaluation reserve	33	**(16)**	587	**(17)**	517
Retained earnings	33	**31,518**	29,550	**30,658**	29,327
Equity attributable to equity holders of the Bank		**57,689**	51,039	**56,828**	50,746
Minority interest		**3,401**	3,460	**-**	-
Total equity		**61,090**	54,499	**56,828**	50,746
Total liabilities and equity		**524,695**	504,462	**512,449**	491,411
Memorandum items					
Contingent liabilities	34	**6,624**	6,508	**6,624**	6,508
Commitments	35	**79,948**	60,592	**79,948**	60,592

The notes on pages 30 to 99 are an integral part of these financial statements.

The financial statements on pages 21 to 99 were approved by the Board of Directors on 12 March 2009 and signed on its behalf by:

Christian Lemmerich
Chairman

Joseph Said
Chief Executive Officer

LOMBARD

Statement of Changes in Equity

For the Year Ended 31 December 2008

Group

	Attributable to equity holders of the Bank							
	Called Up Issued Share Capital	**Share Premium**	**Property Revaluation Reserve**	**Investment Revaluation Reserve**	**Retained Earnings**	**Total**	**Minority Interest**	**Total Equity**
	€ 000	**€ 000**	**€ 000**	**€ 000**	**€ 000**	**€ 000**	**€ 000**	**€ 000**
At 1 January 2007	4,969	12,495	2,288	620	24,093	44,465	68	44,533
Consolidation Adjustment	-	-	-	(5)	7	2	-	2
Acquisition of subsidiary	-	-	-	-	-	-	3,375	3,375
Net losses on available-for-sale assets	-	-	-	(23)	-	(23)	(2)	(25)
Release of net gains on disposal of available-for-sale assets	-	-	-	(5)	-	(5)	-	(5)
Income and expenses recognised directly in equity	-	-	-	(33)	7	(26)	3,373	3,347
Profit for the year	-	-	-	-	7,065	7,065	19	7,084
Dividends	-	-	-	-	(1,615)	(1,615)	-	(1,615)
Rights issue of ordinary shares	55	1,095	-	-	-	1,150	-	1,150
At 31 December 2007	5,024	13,590	2,288	587	29,550	51,039	3,460	54,499

The notes on pages 30 to 99 are an integral part of these financial statements.

Statement of Changes in Equity
For the Year Ended 31 December 2008

Group

	Attributable to equity holders of the Bank							
	Called Up Issued Share Capital	Share Premium	Property Revaluation Reserve	Investment Revaluation Reserve	Retained Earnings	Total	Minority Interest	Total Equity
	€ 000	€ 000	€ 000	€ 000	€ 000	€ 000	€ 000	€ 000
At 1 January 2008	5,024	13,590	2,288	587	29,550	51,039	3,460	54,499
Net losses on available-for-sale assets	-	-	-	(531)	-	(531)	1	(530)
Release of net gains on disposal of available-for-sale assets	-	-	-	(72)	20	(52)	(8)	(60)
Income and expenses recognised directly in equity	-	-	-	(603)	20	(583)	(7)	(590)
Profit for the year	-	-	-	-	8,402	8,402	681	9,083
Dividends	-	-	-	-	(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
Change in minority interest in shareholding in subsidiary	-	-	-	-	(607)	(607)	(174)	(781)
At 31 December 2008	**8,762**	**15,137**	**2,288**	**(16)**	**31,518**	**57,689**	**3,401**	**61,090**

The notes on pages 30 to 99 are an integral part of these financial statements.

LOMBARD

Statement of Changes in Equity
For the Year Ended 31 December 2008

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 2007	4,969	12,495	2,288	547	24,249	44,548
Net losses on available-for-sale assets	-	-	-	(25)	-	(25)
Release of net gains on disposal of available-for-sale assets	-	-	-	(5)	-	(5)
Income and expenses recognised directly in equity	-	-	-	(30)	-	(30)
Profit for the year	-	-	-	-	6,693	6,693
Dividends	-	-	-	-	(1,615)	(1,615)
Rights issue of ordinary shares	55	1,095	-	-	-	1,150
At 31 December 2007	5,024	13,590	2,288	517	29,327	50,746

The notes on pages 30 to 99 are an integral part of these financial statements.

Statement of Changes in Equity

For the Year Ended 31 December 2008

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 2008	5,024	13,590	2,288	517	29,327	50,746
Net losses on available-for-sale assets	-	-	-	(534)	-	(534)
Income and expenses recognised directly in equity	-	-	-	(534)	-	(534)
Profit for the year	-	-	-	-	7,178	7,178
Dividends	-	-	-	-	(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
At 31 December 2008	8,762	15,137	2,288	(17)	30,658	56,828

The notes on pages 30 to 99 are an integral part of these financial statements.

Income Statement

For the Year Ended 31 December 2008

		Group		Bank	
	Note	**2008**	2007	**2008**	2007
		€ 000	€ 000	**€ 000**	€ 000
Interest receivable and similar income					
- on loans and advances, balances with Central Bank of Malta and treasury bills	5	**25,912**	26,208	**25,815**	26,201
- on debt and other fixed income instruments	5	**3,149**	3,196	**2,962**	3,196
Interest expense		**(14,493)**	(13,871)	**(14,559)**	(13,876)
Net interest income		**14,568**	15,533	**14,218**	15,521
Fee and commission receivable		**2,398**	1,200	**1,364**	1,179
Fee and commission payable		**(82)**	(40)	**(81)**	(40)
Net fee and commission income		**2,316**	1,160	**1,283**	1,139
Postal sales and other revenues	6	**19,516**	1,214	**130**	-
Dividend income	7	**65**	93	**65**	93
Net trading income	8	**345**	710	**355**	710
Net gains on disposal of non-trading financial instruments	9	**73**	7	**4**	7
Other operating income		**44**	515	**44**	515
Total operating income		**36,927**	19,232	**16,099**	17,985
Employee compensation and benefits	10	**(13,885)**	(4,088)	**(3,760)**	(3,443)
Other operating costs		**(8,873)**	(2,643)	**(2,278)**	(2,173)
Depreciation and amortisation		**(1,119)**	(335)	**(250)**	(277)
Provision for liabilities and other charges	34	**(297)**	(33)	**(21)**	(21)
Net impairment gains/(losses)	11	**1,387**	(1,863)	**1,429**	(1,863)
Operating profit		**14,140**	10,270	**11,219**	10,208
Share of profit of equity accounted investee (net of tax)		**-**	366	**-**	-
Profit before taxation	12	**14,140**	10,636	**11,219**	10,208
Taxation	13	**(5,057)**	(3,552)	**(4,041)**	(3,515)
Profit for the year		**9,083**	7,084	**7,178**	6,693
Attributable to:					
Equity holders of the Bank		**8,402**	7,065	**7,178**	6,693
Minority interest		**681**	19	**-**	-
		9,083	7,084	**7,178**	6,693
Earnings per share	14	**24c1**	20c6	**20c6**	19c5

The notes on pages 30 to 99 are an integral part of these financial statements.

LOMBARD

Cash Flow Statement

For the Year Ended 31 December 2008

		Group		Bank	
		2008	2007	**2008**	2007
	Note	**€ 000**	€ 000	**€ 000**	€ 000
Cash flows from operating activities					
Interest and commission receipts		**24,917**	21,651	**24,959**	21,641
Cash receipts from customers		**84,567**	3,630	**1,138**	3,639
Interest and commission payments		**(14,336)**	(13,420)	**(14,400)**	(13,420)
Payments to employees and suppliers		**(86,387)**	(5,425)	**(5,952)**	(5,378)
Operating profit before changes in operating assets and liabilities		**8,761**	6,436	**5,745**	6,482
(Increase)/decrease in operating assets:					
Treasury bills		**(43,889)**	(2,276)	**(43,889)**	(2,276)
Deposits with Central Bank of Malta		**15,696**	(4,435)	**15,696**	(4,435)
Loans and advances to banks and customers		**(60,643)**	(45,973)	**(61,179)**	(45,973)
Other receivables		**(680)**	(738)	**(675)**	(738)
Increase/(decrease) in operating liabilities:					
Amounts owed to customers		**21,655**	(1,076)	**23,702**	(1,085)
Other payables		**(7,275)**	5,770	**(7,275)**	5,770
Net cash used in operations		**(66,375)**	(42,292)	**(67,875)**	(42,255)
Tax paid		**(6,634)**	(4,375)	**(5,822)**	(4,375)
Net cash used in operating activities		**(73,009)**	(46,667)	**(73,697)**	(46,630)
Cash flows from investing activities					
Dividends received		**65**	93	**65**	93
Interest received from investments		**4,683**	4,461	**4,360**	4,463
Proceeds on maturity/disposal of investments		**4,238**	4,635	**4,004**	4,635
Purchase of investments		**(1,673)**	(1,479)	**(1,847)**	(1,479)
Investment in subsidiary		**-**	-	**-**	(2,912)
Purchase of property and equipment		**(3,554)**	(943)	**(3,072)**	(943)
Acquisition of interest in subsidiary (net of cash acquired)		-	2,632	-	-
Acquisition of minority interest		**(916)**	-	**(51)**	-
Net cash inflows from investing activities		**2,843**	9,399	**3,459**	3,857
Cash flows from financing activities					
Dividend and capital return by subsidiaries to minority holders		**(559)**	-	-	-
Dividends paid		**(564)**	(464)	**(564)**	(464)
Cash used in financing activities		**(1,123)**	(464)	**(564)**	(464)
Net decrease in cash and cash equivalents		**(71,289)**	(37,732)	**(70,802)**	(43,237)
Cash and cash equivalents at beginning of year		**136,059**	173,791	**130,554**	173,791
Cash and cash equivalents at end of year	36	**64,770**	136,059	**59,752**	130,554

The notes on pages 30 to 99 are an integral part of these financial statements.

Notes to the Financial Statements
For the Year Ended 31 December 2008

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 as at and for the year ended 31 December 2008 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 12 March 2009.

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

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

These financial statements have also been prepared and presented in accordance with the provisions of the Banking Act, 1994 and the Companies Act, 1995, enacted in 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 **Basis of preparation** *(continued)*

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 requires management to make judgements, estimates and assumptions that affect the application of accounting policies and reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.

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

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

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.

3.1.1 Subsidiaries

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

3.1.2 Associates

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the Group holds between 20% and 50% of the voting power of another entity. Associates are accounted for using the equity method (equity accounted investees) and are recognised initially at cost. The Group's investment includes goodwill identified on acquisition, net of any accumulated impairment losses. The consolidated financial statements include the Group's share of the income and expenses and equity movements of equity accounted investees, after adjustments to align the accounting policies with those of the Group, from the date that significant influence commences until the date that significant influence ceases.

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

When the Group's share of losses exceeds its interest in equity accounted investee, the carrying amount of that interest (including any long-term investments) is reduced to nil and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investee.

3.1.3 Fund management

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

3.1.4 Transactions eliminated on consolidation

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

3.2 *Financial instruments*

3.2.1 Non-derivative financial instruments

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

3.2.1.1 Cash and cash equivalents

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

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

3.2.1.2 Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group positively intends, and is able, to hold until maturity. Held-to-maturity investments are initially recorded at fair value plus any directly attributable transaction costs, and are subsequently measured at amortised cost using the effective interest method, less any impairment losses.

3.2.1.3 Available-for-sale financial assets

The Group's investments in equity securities and certain debt securities are classified as available-for-sale financial assets. Available-for-sale financial assets are measured initially at fair value plus direct and incremental transaction costs. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses, and foreign currency differences are recognised directly in equity in investment revaluation reserve until the assets are sold or impaired. When available-for-sale financial assets are derecognised, the cumulative gains or losses previously recognised in equity, are recognised in profit or loss.

3.2.1.4 Loans and receivables

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

3.2.1.5 Financial assets at fair value through profit or loss

Financial assets or financial liabilities at fair value through profit or loss are financial assets that are either classified as held for trading or upon initial recognition are designated by the Group at fair value through profit or loss, except for investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured. Financial instruments are designated at fair value through profit or loss if the Group manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Group's documented risk management or investment strategy. Upon initial recognition attributable transaction costs are recognised in profit or loss when incurred. Financial instruments at fair value through profit or loss are measured at fair value, and changes therein are recognised in profit or loss.

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

3.2.2 Derivative financial instruments

Derivatives are initially recognised and subsequently measured at fair value. Fair values are obtained from quoted market prices in active markets, or by using valuation techniques, including recent market transactions, where an active market does not exist. Valuation techniques include discounted cash flow models and option pricing models as appropriate. All derivatives are classified as assets when their fair value is positive or as liabilities when their fair value is negative.

3.2.3 Derecognition of financial assets and liabilities

A financial asset is derecognised when the right to receive cash flows from the asset has expired or when the Group has transferred its contractual right to receive the cash flows of the financial asset, and either

- substantially all the risks and rewards of ownership have been transferred; or

- substantially all the risks and rewards have neither been retained nor transferred but control is not retained.

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

Assets designated by the Group at fair value through profit or loss and available-for-sale assets that are sold are derecognised and corresponding receivables from the buyer for the payment are recognised as at the date the Group commits to sell the assets.

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

3.2.4 Offsetting financial instruments

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

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

3.3 *Investments in subsidiaries and associates*

Investments in subsidiaries and associates are shown in the separate balance sheet at cost less impairment losses.

3.4 *Property and equipment*

3.4.1 Recognition and measurement

Items of property and equipment are measured initially at cost.

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

Items of property and equipment are stated net of accumulated depreciation and any impairment losses.

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

Gains and losses on disposal of an item of property and equipment are determined by comparing the proceeds from disposal with the carrying amount of 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.

3.4.2 Subsequent costs

The cost of replacing part of an item of property and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied with the part will flow to the Group and its cost can be measured reliably. The 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 **Significant accounting policies** *(continued)*
3.4 *Property and equipment (continued)*

3.4.3 Depreciation

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

3.5 *Intangible assets*

3.5.1 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. In respect of equity accounted investees, the carrying amount of goodwill is included in the carrying amount of the investment.

3.5.2 Computer software

Computer software acquired by the Group is measured initially at cost and subsequently stated net of accumulated amortisation and 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 recognised in profit or loss as incurred.

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful life of software from the date it is available for use. The estimated useful life of software is four years.

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

3.5.3 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 initially at cost and subsequently stated net of accumulated amortisation and 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.

3.6 *Investment property*

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

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

3.7 *Trade and other receivables*

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less impairment losses.

3.8 *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 method. Net realisable value is the estimate of the selling price in the ordinary course of business, less the costs of completion and selling expenses.

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

3.9 *Impairment*

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

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

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

3.9.1 Assets carried at amortised cost

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

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

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

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

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

3.9.2 Financial assets remeasured to fair value

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

When a decline in the fair value of an available-for-sale financial asset has been recognised directly in equity and there is objective evidence that the asset is impaired, the cumulative loss that had been recognised directly in equity is recognised in the income statement even though the financial asset has not been derecognised. The amount of the cumulative loss that is recognised in profit or loss is the difference between the acquisition cost and current fair value, less any impairment loss on that financial asset previously recognised in profit or loss.

3.9.3 Other assets

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

3.9.4 Reversals of impairment

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

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

In respect of other assets, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

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

3.10 *Amounts owed to bank and customers*

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

3.11 *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.

3.12 *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.

3.13 *Interest income and expense*

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

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

Interest income and expense presented in the income statement include:

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

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

3.14 *Fee and commission*

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

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

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

3.15 *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 a subsidiary's activities. Revenue is shown net of sales taxes and discounts. It comprises revenue directly received from customers, commissions earned on postal and non-postal transactions and income from foreign outbound mail receivable from overseas postal administrations.

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

3.16 *Net trading income*

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

3.17 *Dividend income*

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

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

3.18 *Lease payments*

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

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

3.19 *Employee benefits*

3.19.1 Defined contribution plan

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

3.19.2 Defined benefit plan

The subsidiary provides for the obligation arising in terms of Article 8A of the Pensions Ordinance, Cap 93 of the 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 providing pensions is charged to profit or loss so as to spread the regular cost over the years of service giving rise to entitlement to benefits in accordance with actuarial techniques. The pension obligation is measured as the present value of the estimated future cash outflows using interest rates of long term government bonds which have terms to maturity approximating the terms of the related liability. All actuarial gains and losses are spread forward over the average remaining service lives of employees.

3.20 *Foreign currency transactions*

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

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

3.21 *Income tax*

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

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

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

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

3.22 *Segment reporting*

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

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

3.24 *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.

3.25 *Future accounting developments*

A number of new standards, amendments to standards and interpretations were not yet effective for the year ended 31 December 2008 and have not been applied in preparing these financial statements.

Standards and interpretations issued by the IASB

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

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

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

The Directors also anticipate that the adoption of other IFRS that were in issue at the date of authorisation of these financial statements, but not yet effective will have no material impact on the financial statements of the Company 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 EU and the Malta Financial Services Authority (MFSA) Rules. Lombard has adopted the Standardised 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. At the same time, the Group continued with the development of other procedures for the recognition, assessment and management of several other important risks regarding the adequacy of own capital (Internal Capital Adequacy Assessment Process - ICAAP), which is a requirement of Pillar II of the Basel II. In the near future, the requirements of Pillar III in respect of public disclosure for risk management issues will also be fulfilled.

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 by the following departments:

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

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

4.1.5 Risk appetite

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

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

4.1.6 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 BR/02/2008.1, '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.

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

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 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.

- *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 **Financial risk management** *(continued)*

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 largely 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:

Bank

	2008	2007
	€000	€000
Total original own funds	**54,555**	47,940
Additional own funds:		
Property revaluation reserve	**2,288**	2,288
Collective impairment allowances	**1,638**	1,339
Total own funds	**58, 481**	51, 567

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

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

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

	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	2,720	2,113	169
Debt securities	45,304	6,691	535
Investment in subsidiaries	5,934	5,934	475
Intangible assets	13	13	1
Current tax assets	1,077	-	-
Property and equipment	10,539	10,539	843
Other assets	2,799	2,799	224
Prepayments and accrued income	3,518	3,518	282
	512,449	343,919	27,514
Off-balance sheet items			
Contingent liabilities and commitments	86,572	9,833	787
Credit risk		353,752	28,301
Foreign exchange risk		600	48
Operational risk		30,221	2,418
Total		384,573	30,767
Own funds			
Original own funds			54,555
Additional own funds			3,926
Gross own funds			58,481
Deductions			-
Total own funds			58,481
Capital Adequacy Ratio			15.2%

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

	Balance sheet value 2007 €000	Weighted amount 2007 €000	Capital requirement 2007 €000
On-balance sheet assets			
Cash and balances with Central Bank of Malta	49,867	-	-
Cheques in course of collection	2,229	446	36
Malta Government treasury bills	25,316	-	-
Loans and advances to banks	82,933	16,587	1,327
Loans and advances to customers	260,284	236,550	18,927
Equity shares	2,199	1,297	104
Debt securities	48,882	6,573	526
Investment in subsidiaries	5,884	5,884	471
Intangible assets	55	55	4
Property and equipment	7,676	7,676	614
Other assets	2,844	2,844	228
Prepayments and accrued income	3,242	3,242	259
	491,411	281,154	22,496
Off-balance sheet items			
Contingent liabilities and commitments	67,100	19,064	1,525
Credit risk		300,218	24,021
Foreign exchange risk		652	51
Operational risk		23,836	1,908
Total		324,706	25,980
Own funds			
Original own funds			47,940
Additional own funds			3,627
Gross own funds			51,567
Deductions			-
Total own funds			51,567
Capital Adequacy Ratio			15.9%

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. The Group aims to develop long-term relationships with its customers.

4.4.2 Credit risk Managemet

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 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 on and off-balance sheet financial instruments, before taking account of any collateral held or other credit enhancements can be classified in the following categories:

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

- Financial guarantees granted. The maximum exposure to credit risk is the full amount that the Group would have to pay if the guarantees are called upon.

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

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

4.4.4 Exposure analysed by industry

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

Group/Bank

	2008	2007
	€ 000	€ 000
Transport, storage and communication	**8,418**	5,260
Financial intermediation	**229**	678
Agriculture	**928**	941
Manufacturing	**5,822**	5,814
Construction	**100,189**	77,512
Hotel and restaurants, excluding related construction activities	**5,012**	4,922
Wholesale and retail trade; repairs	**44,811**	45,779
Community, recreational and personal service activities	**13,305**	13,855
Education	**3,426**	3,410
Health and social work	**164**	177
Mining and quarrying	**532**	836
Electricity, gas and water supply	**47**	26
Real estate, renting and business activities	**110,827**	78,496
Households and individuals	**37,228**	29,920
Gross amount granted to customers	**330,938**	267,626

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.

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 issued by the Central Bank of Malta Credit and Country Risk Provisioning by Credit Institutions licenced under the Banking Act 1994 (reference BR/09/2008).

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

Group/Bank

Analysis by credit quality

	2008	2007
	€ 000	€ 000
Gross loans and advances		
Impaired	**21,357**	18,102
Past due but not impaired	**71,384**	50,030
Neither past due nor impaired	**238,197**	199,494
	330,938	267,626
Analysis of neither past due nor impaired		
Regular	**238,197**	199,494
Analysis of past due but not impaired		
Watch	**59,995**	12,620
Substandard	**11,389**	37,410
	71,384	50,030

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.

4 Financial risk management *(continued)*
4.4 *Credit Risk (continued)*
4.4.7 Past due but not impaired loans *(continued)*

Group/Bank

	2008	2007
	€ 000	€ 000
Past due 30 to 59 days	**5,843**	15,279
Past due 60 to 89 days	**3,756**	6,932
Past due 90 to 179 days	**33,701**	6,557
Past due over 180 days	**28,084**	21,262
	71,384	50,030

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:

Group/Bank

	2008	2007
	€ 000	€ 000
Against individually impaired		
Immovable property	**6,160**	15,511
Cash or quasi cash	**714**	291
Personal guarantees	**2,127**	37
Other security	**3,314**	16
	12,315	15,855
Against neither past due nor impaired		
Immovable property	**217,507**	118,202
Cash or quasi cash	**13,864**	9,250
Prime bank guarantees	**7,551**	2,190
Personal guarantees	**8,238**	8,178
Other security	**5,357**	2,627
	252,517	140,447

4 **Financial risk management** *(continued)*
4.4 *Credit Risk (continued)*
4.4.8 Collateral *(continued)*

Group/Bank

	2008	2007
	€ 000	€ 000
Against past due but not impaired		
Immovable property	**25,193**	40,305
Cash or quasi cash	**1,181**	1,172
Personal guarantees	**492**	5,369
Other security	**9**	77
	26,875	46,923
	291,707	203,225

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.

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

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

4.5 *Market risk*

Market risk for the Group consists of four elements:

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

4.5.1 Interest rate risk

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

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

The table below summarises re-pricing mismatches at balance sheet date together with the effective interest rates, where applicable.

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	-	1,514	698	3,369
Other assets	**30,253**	-	-	-	-	-	30,253
Total assets	**524,695**		386,117	56,141	20,891	22,005	39,541
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
	463,605		161,302	169,872	61,911	32,518	38,002
Total equity	**61,090**		-	-	-	-	61,090
Total liabilities and equity	**524,695**		161,302	169,872	61,911	32,518	99,092
Gap			224,815	(113,731)	(41,020)	(10,513)	(59,551)
Cumulative Gap			224,815	111,084	70,064	59,551	-

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

Group	2007 € 000	Effective interest rate %	Less than 3 months € 000	Between 3 months and 1 year € 000	Between 1 year and 5 years € 000	More than 5 years € 000	Others € 000
Assets							
Cash and balances with Central Bank and treasury bills	75,181	4.17	69,917	2,275	-	-	2,989
Debt and other fixed income instruments							
- available-for-sale	5,802	5.81	-	-	363	5,439	-
- held-to-maturity	46,655	6.20	-	-	3,959	42,696	-
Equity financial instruments							
- available-for-sale	2,437	-	-	-	-	-	2,437
Loans and advances to banks	88,975	4.70	86,844	2,131	-	-	-
Loans and advances to customers	260,284	7.05	260,284	-	-	-	-
Other assets	25,128	-	-	-	-	-	25,128
Total assets	504,462		417,045	4,406	4,322	48,135	30,554
Liabilities							
Amounts owed to banks	736	-	-	-	-	-	736
Amounts owed to customers	418,206	4.41	154,600	172,203	68,969	9,863	12,571
Other liabilities	31,021	-	-	-	-	-	31,021
	449,963		154,600	172,203	68,969	9,863	44,328
Total equity	54,499		-	-	-	-	54,499
Total liabilities and equity	504,462		154,600	172,203	68,969	9,863	98,827
Gap			262,445	(167,797)	(64,647)	38,272	(68,273)
Cumulative Gap			262,445	94,648	30,001	68,273	-

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

4.5.1.1 Interest rate profile

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

Group

	2008	2007
	€ 000	€ 000
Fixed rate instruments		
Financial assets	**99,203**	80,999
Financial liabilities	**(336,084)**	(303,364)
	(236,881)	(222,365)
Variable rate instruments		
Financial assets	**385,951**	392,909
Financial liabilities	**(89,519)**	(102,271)
	296,432	290,638

4.5.1.2 Fair value sensitivity analysis for fixed rate instruments

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

4.5.1.3 Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points in interest rates at the reporting date would have increased/(decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis for 2007.

Group

	Profit or loss		**Equity**	
	100 bp increase € 000	**100 bp decrease € 000**	**100 bp increase € 000**	**100 bp decrease € 000**
At 31 December 2008	**1,446**	**(1,446)**	**1,446**	**(1,446)**
At 31 December 2007	1,209	(1,209)	1,209	(1,209)

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. Any changes in foreign currency exchange rates on the positions at 31 December 2008 will not have any material impact on the Group's profit or loss and equity.

Under the scenario that all currencies move adversely against the Euro by 20% the effect would be a decrease of €127,000 in the fair value of financial instruments. Under a scenario that all currencies move in favour of the Euro by 20% the effect would be a gain of €127,000 in the fair value of financial instruments.

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

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

Group

	2008 Total € 000	2008 € 000	2008 £ 000	2008 $ 000	2008 Other 000
Assets					
Balances with Central Bank of Malta, treasury bills and cash	**68,576**	68,356	108	92	20
Investments					
- held-to-maturity	**42,946**	42,946	-	-	-
- available-for-sale	**8,681**	7,926	-	755	-
Loans and advances to banks	**49,214**	6,129	17,654	15,975	9,456
Loans and advances to customers	**325,025**	318,115	377	6,533	-
Intangible assets	**1,302**	1,302	-	-	-
Property and equipment	**13,009**	13,009	-	-	-
Investment property	**745**	745	-	-	-
Deferred tax assets	**1,994**	1,994	-	-	-
Current tax assets	**234**	234	-	-	-
Other assets	**12,969**	10,007	19	98	2,845
Total assets	**524,695**	**470,763**	**18,158**	**23,453**	**12,321**
Liabilities					
Amounts owed to banks	**130**	130	-	-	-
Amounts owed to customers	**439,860**	389,859	17,892	22,682	9,427
Other liabilities	**23,615**	20,318	755	577	1,965
Total liabilities	**463,605**	**410,307**	**18,647**	**23,259**	**11,392**
Total equity	**61,090**	61,090	-	-	-
Total liabilities and equity	**524,695**	**471,397**	**18,647**	**23,259**	**11,392**
Net currency position	**-**	**(634)**	**(489)**	**194**	**929**

	2007 Total € 000	2007 € 000	2007 £ 000	2007 $ 000	2007 Other 000
Total assets	504,462	438,261	23,061	31,215	11,925
Total liabilities and equity	504,462	438,211	23,185	31,108	11,958
Net currency position	**-**	**50**	**(124)**	**107**	**(33)**

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

4.5.3 Investment price risk

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

4.5.3.1 Fair value and price verification control

The majority of the financial assets and liabilities of the Group are carried at cost or amortised cost and not fair value. 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 €42,946,000 as at 31 December 2008. Fair value based on quoted market prices at balance sheet date without any deduction for transaction costs amounts to €46,582,000.

4.5.3.3 Loans and advances to banks and customers

This category of assets is reported net of impairment allowances to reflect the estimated recoverable amounts. As at 31 December 2008, the Group's carrying amount was €374,239,000. The loans and advances to customers category of assets amounts to €325,025,000. 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 €49,214,000. As at 31 December 2008, a significant element of loans and advances to banks had a short-term contractual re-pricing. Interest rates on these advances reflect current market rates, and therefore the carrying amount approximates to fair value.

4.5.3.4 Trade and other receivables

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

4.5.3.5 Amounts owed to banks and customers

This category of liabilities is carried at amortised cost and amounts to €439,990,000 as at 31 December 2008. 3.3% of this liability is non-interest bearing, 36.6% of the liability has contractual re-pricing within the 'less than three months' band, 38.6% reprices within the 'between three months and one year' band, 14.1% re-prices within the 'between one year and five years' band whilst 7.4% is repriceable within the 'more than five years' band. For demand deposits and deposits maturing within one year, fair value is taken to be the amount payable on demand at balance sheet date. In respect of other longer-term fixed-maturity deposits, these being repriceable upon their contractual maturity date, it is not practicable to determine fair value with sufficient reliability.

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

4.5.4 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 in 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.

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.

4 **Financial risk management** *(continued)*
4.5 *Market Risk (continued)*
4.5.6 Credit spread risk *(continued)*

Group

	2008	2007
	%	%
Investments are analysed as follows:		
- issued by local government	**89**	80
- issued by corporates	**11**	20
	100	100
Debt and other fixed income instruments		
- listed on the Malta Stock Exchange	**96**	93
- not listed	**4**	7
	100	100

4.6 *Liquidity risk*

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

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

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.

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

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

Group

At 31 December 2008	**Fair Value Adjustments**	**Less than 3 months**	**Between 3 months and 1 year**	**Between 1 year and 5 years**	**More than 5 years**	**Total**
	€ 000	**€ 000**	**€ 000**	**€ 000**	**€ 000**	**€ 000**
Financial assets						
Debt and other fixed income instruments						
- available-for-sale	**58**	**7**	**480**	**2,355**	**3,580**	**6,480**
- held-to-maturity	**-**	**1,165**	**7,086**	**16,884**	**17,811**	**42,946**
Loans and advances to banks	**-**	**47,816**	**1,398**	**-**	**-**	**49,214**
Loans and advances to customers - gross	**-**	**132,841**	**18,500**	**110,413**	**69,184**	**330,938**
	58	**181,829**	**27,464**	**129,652**	**90,575**	**429,578**
Financial liabilities						
Amounts owed to banks	**-**	**130**	**-**	**-**	**-**	**130**
Amounts owed to customers	**-**	**224,941**	**141,773**	**42,740**	**30,406**	**439,860**
	-	**225,071**	**141,773**	**42,740**	**30,406**	**439,990**

Group

At 31 December 2007	**Fair Value Adjustments**	**Less than 3 months**	**Between 3 months and 1 year**	**Between 1 year and 5 years**	**More than 5 years**	**Total**
	€ 000	**€ 000**	**€ 000**	**€ 000**	**€ 000**	**€ 000**
Financial assets						
Debt and other fixed income instruments						
- available-for-sale	(184)	-	410	2,453	3,123	5,802
- held-to-maturity	-	-	3,655	22,096	20,904	46,655
Loans and advances to banks	-	87,077	1,898	-	-	88,975
Loans and advances to customers - gross	-	106,797	18,498	73,881	68,450	267,626
	(184)	193,874	24,461	98,430	92,477	409,058
Financial liabilities						
Amounts owed to banks	-	736	-	-	-	736
Amounts owed to customers	-	239,119	124,074	46,865	8,148	418,206
	-	239,856	124,074	46,865	8,148	418,942

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

4.7 *Operational risk*

Operational risk is the risk of losses owing to:

- deficient or erroneous internal procedures
- human or system errors
- external events, including legal events
- internal fraud 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 €2,418,000 (2007: €1,908,000).

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. Details of the Group's exposure to derivative financial instruments at the balance sheet date are disclosed in note 16 to these financial statements.

5 Interest income

	Group		Bank	
	2008	2007	**2008**	2007
	€ 000	€ 000	**€ 000**	€ 000
On loans and advances to banks	**3,320**	4,482	**3,223**	4,475
On loans and advances to customers	**20,952**	18,661	**20,952**	18,661
On balances with Central Bank of Malta	**350**	1,761	**350**	1,761
On treasury bills	**1,290**	1,304	**1,290**	1,304
	25,912	26,208	**25,815**	26,201
On debt and other fixed income instruments	**3,234**	3,285	**3,047**	3,285
Net amortisation of premia and discounts	**(85)**	(89)	**(85)**	(89)
	3,149	3,196	**2,962**	3,196

6 Postal sales and other revenues

	Group		Bank	
	2008	2007	**2008**	2007
	€ 000	€ 000	**€ 000**	€ 000
Stamps, parcel post and postal stationery including income from foreign inbound mail	**18,265**	1,041	**-**	-
Collectibles and Philatelic sales	**1,207**	40	**130**	-
Other	**44**	133	**-**	-
	19,516	1,214	**130**	-

7 Dividend income

	Group		Bank	
	2008	2007	**2008**	2007
	€ 000	€ 000	**€ 000**	€ 000
Available-for-sale equity shares	**65**	93	**65**	93

8 **Net trading income**

	Group		Bank	
	2008	2007	**2008**	2007
	€ 000	€ 000	**€ 000**	€ 000
Profit on foreign exchange activities	**345**	710	**355**	710

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

	Group		Bank	
	2008	2007	**2008**	2007
	€ 000	€ 000	**€ 000**	€ 000
Net gains	**73**	7	**4**	7

10 **Employee compensation and benefits**

10.1

	Group		Bank	
	2008	2007	**2008**	2007
	€ 000	€ 000	**€ 000**	€ 000
Staff costs:				
- wages, salaries and allowances	**12,924**	3,834	**3,541**	3,240
- social security costs	**961**	254	**219**	203
	13,885	4,088	**3,760**	3,443

10.2

	Group		Bank	
	2008	2007	**2008**	2007
Average number of employees				
Managerial	**63**	37	**35**	35
Others	**693**	151	**116**	113
	756	188	**151**	148

11 **Net impairment gains/(losses)**

	Group		Bank	
	2008	2007	**2008**	2007
	€ 000	€ 000	**€ 000**	€ 000
Write-downs				
Loans and advances to customers				
- specific allowances	**(1,594)**	(1,631)	**(1,594)**	(1,631)
- collective allowances	**(299)**	(109)	**(299)**	(109)
- bad debts written off	-	(615)	-	(615)
Trade receivables	**(42)**	-	-	-
	(1,935)	(2,355)	**(1,893)**	(2,355)
Reversals of write-downs				
Loans and advances to customers				
- specific allowances	**3,322**	492	**3,322**	492
	3,322	492	**3,322**	492
Net impairment gains/(losses)	**1,387**	(1,863)	**1,429**	(1,863)

12 **Profit before taxation**

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

	Group		Bank	
	2008	2007	**2008**	2007
	€ 000	€ 000	**€ 000**	€ 000
After charging				
Directors' emoluments				
- Fees	**80**	79	**56**	56
- Other emoluments	**330**	342	**330**	342
Operating lease rental charge	**798**	126	**123**	102
After crediting				
Net investment income	**62**	49	**62**	49
Rental income from investment property	**37**	37	**37**	37

12 **Profit before taxation** *(continued)*

12.2 *Profit before taxation is also stated after charging auditor's fees as follows:*

	Audit	Other assurance services	Tax advisory services	Other non-assurance services
	€ 000	**€ 000**	**€ 000**	**€ 000**
Auditors of the parent				
2008	**36**	**1**	**4**	**1**
2007	30	1	-	-

In addition, other auditors received €22,000 (2007: €22,000) for the audit of the subsidiary companies.

13 **Taxation**

13.1 *Recognised in income statement*

	Group		Bank	
	2008	2007	**2008**	2007
	€ 000	€ 000	**€ 000**	€ 000
Current taxation				
Current tax expense	**4,760**	4,470	**3,552**	4,426
	4,760	4,470	**3,552**	4,426
Deferred taxation				
Origination and reversal of temporary differences	**297**	(918)	**489**	(911)
	5,057	3,552	**4,041**	3,515

13 **Taxation** *(continued)*

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

	Group		Bank	
	2008	2007	**2008**	2007
	€ 000	€ 000	**€ 000**	€ 000
Profit before taxation	**14,140**	10,636	**11,219**	10,208
Tax at the applicable rate of 35%	**(4,949)**	(3,722)	**(3,926)**	(3,573)
Tax effect of non-deductible expenses	**(73)**	(7)	**(7)**	(7)
Tax effect of income taxed at different tax rates	**64**	95	**-**	95
Tax effect of losses for which no deferred tax asset was recognised	**-**	(16)	**-**	-
Tax effect of income not brought to tax	**9**	-	**-**	-
Tax effect of share in associate accounted for on a net basis	**-**	128	**-**	-
Tax effect of depreciation charges not deductible by way of capital allowances	**(22)**	(28)	**(22)**	(28)
Tax effect of additional tax incurred	**(86)**	(2)	**(86)**	(2)
	(5,057)	(3,552)	**(4,041)**	(3,515)

14 **Earnings per share**

Earnings per share is calculated on profit €8,402,000 for the Group (2007: €7,065,000) and €7,178,000 for the Bank (2007: €6,693,000) divided by 34,864,614 (2007: 34,383,548), 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	
	2008	2007	**2008**	2007
	€ 000	€ 000	**€ 000**	€ 000
Balances with Central Bank of Malta	**15,731**	46,878	**15,731**	46,878
Malta Government treasury bills	**49,127**	25,315	**49,127**	25,316
Cash in hand	**3,718**	2,988	**3,599**	2,989
	68,576	75,181	**68,457**	75,183

The balance with the Central Bank of Malta includes a reserve deposit amounting to €6,723,000 (2007: €14,076,000) held in terms of Regulation (EC) No. 1745/2003 of the European Central Bank.

16 **Derivative financial instruments**

The Group did not have any foreign currency derivative position at the balance sheet date. Open foreign currency forward contracts at 31 December 2007 with a notional amount of €163,000 had a fair value of nil.

17 **Investments**

17.1

	Group		Bank	
	2008	2007	**2008**	2007
	€ 000	€ 000	**€ 000**	€ 000
Debt and other fixed income instruments				
- available-for-sale	**6,480**	5,802	**2,358**	2,227
- held-to-maturity	**42,946**	46,655	**42,946**	46,655
Equity instruments available-for-sale	**2,201**	2,437	**2,720**	2,199
	51,627	54,894	**48,024**	51,081

17 **Investments** *(continued)*

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

	Group		Bank	
	2008	2007	**2008**	2007
	€ 000	€ 000	**€ 000**	€ 000
Issued by public bodies:				
- local government	**2,545**	2,126	-	-
Issued by public issuers:				
- local banks	**1,648**	1,570	**743**	724
- local others	**2,287**	2,106	**1,615**	1,503
	6,480	5,802	**2,358**	2,227
Listing status:				
- listed on the Malta Stock Exchange	**6,480**	5,802	**2,358**	2,227

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

The Bank has pledged €14,588,000 (2006: €4,659,000) Malta Government Stocks in favour of the Central Bank of Malta as security for a facility which was not utilised at balance sheet date.

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

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

	Group			**Bank**		
	Available-for-sale	**Held-to-maturity**	**Total**	**Available-for-sale**	**Held-to-maturity**	**Total**
	€ 000	**€ 000**	**€ 000**	**€ 000**	**€ 000**	**€ 000**
At 1 January 2008	8,239	46,655	54,894	4,426	46,655	51,081
Foreign exchange movement	35	-	35	31	-	31
Amortisation	-	(85)	(85)	-	(85)	(85)
Acquisitions	1,814	-	1,814	1,847	-	1,847
Redemptions/disposals	(641)	(3,624)	(4,265)	(405)	(3,624)	(4,029)
Fair value movement	(766)	-	(766)	(821)	-	(821)
At 31 December 2008	**8,681**	**42,946**	**51,627**	**5,078**	**42,946**	**48,024**

17 **Investments** *(continued)*
17.5 *(continued)*

	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 2007	4,321	50,357	54,678	4,091	50,357	54,448
Foreign exchange movement	(89)	-	(89)	(89)	-	(89)
Amortisation	-	(89)	(89)	-	(89)	(89)
Acquisitions	512	967	1,479	512	967	1,479
Redemptions/disposals	(51)	(4,580)	(4,631)	(51)	(4,580)	(4,631)
Fair value movement	(30)	-	(30)	(37)	-	(37)
Acquisition through business combination	3,576	-	3,576	-	-	-
At 31 December 2007	8,239	46,655	54,894	4,426	46,655	51,081

18 **Loans and advances to banks**

	Group		Bank	
	2008 € 000	2007 € 000	**2008 € 000**	2007 € 000
Repayable on call and at short notice	**48,995**	10,081	**44,315**	4,577
Term loans and advances	**219**	78,894	**-**	78,356
	49,214	88,975	**44,315**	82,933

19 **Loans and advances to customers**

19.1

	Group		Bank	
	2008 € 000	2007 € 000	**2008 € 000**	2007 € 000
Repayable on call and at short notice	**112,450**	95,399	**112,450**	95,399
Term loans and advances	**218,488**	172,227	**218,488**	172,227
Gross loans and advances to customers	**330,938**	267,626	**330,938**	267,626
Allowance for uncollectibility	**(5,913)**	(7,342)	**(5,913)**	(7,342)
Net loans and advances to customers	**325,025**	260,284	**325,025**	260,284
Allowances for uncollectibility				
Specific allowances	**4,275**	6,003	**4,275**	6,003
Collective allowances	**1,638**	1,339	**1,638**	1,339
	5,913	7,342	**5,913**	7,342

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

19.2

Group/Bank

	Specific allowances	Collective allowances	Total
	€ 000	**€ 000**	**€ 000**
At 1 January 2008	**6,003**	**1,339**	**7,342**
Additions	**1,594**	**299**	**1,893**
Reversals	**(3,322)**	**-**	**(3,322)**
At 31 December 2008	**4,275**	**1,638**	**5,913**

19.3 The specific allowances includes interest in suspense amounting to €1,596,000 (2007: €1,598,000) that has been netted off against interest receivable.

19.4 The aggregate amount of impaired loans and advances to customers amounted to €21,357,000 (2007: €18,102,000). No further specific allowances for uncollectibility were required in terms of Banking Rule BR/09/2008.

19.5 No assets in settlement of debt and classified as assets held-for-sale were held by the Bank at balance sheet date.

20 **Investments in subsidiaries**

Name of Company	Incorp. In	Nature of Business	Equity Interest			
			2008	2007	**2008**	2007
			%	%	**€ 000**	€ 000
Bank						
Lombard Asset Managers Limited	Malta	Management of Collective Investment Schemes	**100**	75	**344**	294
Redbox Limited	Malta	Holding Company	**100**	100	**5,590**	5,590
					5,934	5,884
Lombard Funds SICAV p.l.c.	Malta	Collective Investment Scheme	**86.47**	65	**925**	949

20 **Investments in subsidiaries** *(continued)*

Lombard Asset Managers Limited and Redbox Limited are not listed on the Malta Stock Exchange while Lombard Funds SICAV p.l.c. is listed.

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 2007 Lombard Asset Managers Limited owned 20% of the units in the Fund. The Bank was also the unit holder of another 65% of the units in the Fund. As a result, by virtue of the Bank's 75% holding of the equity of Lombard Asset Managers Limited, the Group had an effective participation of 80% of the total units in Lombard Enterprise Fund. The investment in Lombard Enterprise Fund was not consolidated in 2007 on the basis of materiality. During 2008, Lombard Asset Managers Limited disposed of all its holding in the Fund, whilst the Bank increased its shareholding in the Fund to 86.47%, which investment is classified in the books of the Bank as an available-for-sale investment.

During 2006, Redbox Limited acquired 35% holding in MaltaPost p.l.c.. On 6 September 2007, the company acquired an additional 25% shareholding in MaltaPost p.l.c. from the Government of Malta, increasing its total holding to 60% of the voting share capital of MaltaPost p.l.c.. The remaining 40% is held by the general public. MaltaPost p.l.c. was listed on the Malta Stock Exchange on 24 January 2008. During 2008, Redbox Limited purchased shares from the open market to further increase its shareholding in MaltaPost p.l.c. by 3.8% to 63.8%.

The reporting date of the financial statements of MaltaPost p.l.c. used in the preparation of consolidated financial statements is 30 September 2008.

21 Intangible assets

	Group				Bank	
	Goodwill	Computer Software	Postal License	Total	Computer Software	Total
	€ 000	€ 000	€ 000	€ 000	€ 000	€ 000
Cost or fair value						
At 1 January 2007	-	1,451	-	1,451	1,451	1,451
Acquisition through business combination	857	501	1,159	2,517	-	-
Additions	-	4	-	4	4	4
At 31 December 2007	857	1,956	1,159	3,972	1,455	1,455
Amortisation						
At 1 January 2007	-	(1,340)	-	(1,340)	(1,340)	1,340)
Acquisition through business combination	-	(446)	(724)	(1,170)	-	-
Amortisation for the year	-	(57)	(5)	(62)	(60)	(60)
At 31 December 2007	-	(1,843)	(729)	(2,572)	(1,400)	1,400)
Carrying amounts						
At 31 December 2007	857	113	430	1,400	55	55
Cost or fair value						
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**

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

The intangible asset represents 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.

21.1 *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 2008 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 €0.818 as at 31 December 2008. The recoverable amount of the cash-generating unit is higher than its carrying amount.

22 **Property and equipment**

Group

	Land and buildings € 000	Computer equipment € 000	Other € 000	Total € 000
Cost/revaluation				
At 1 January 2007	6,860	802	2,127	9,789
Additions	684	40	215	939
Acquisition through business combination	3,070	809	2,316	6,195
Disposals	-	(6)	(3)	(9)
At 31 December 2007	10,614	1,645	4,655	16,914
At 1 January 2008	10,614	1,645	4,655	16,914
Acquisitions	3,213	133	260	3,606
Disposals	-	(3)	(3)	(6)
At 31 December 2008	**13,827**	**1,775**	**4,912**	**20,514**
Depreciation				
At 1 January 2007	348	709	1,780	2,837
Acquisition through business combination	1,218	643	1,598	3,459
Charge for the year	77	88	108	273
Released on disposals	-	(5)	(2)	(7)
At 31 December 2007	1,643	1,435	3,484	6,562
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**
Carrying amount				
At 1 January 2007	6,512	93	347	6,952
At 31 December 2007	8,971	210	1,171	10,352
At 1 January 2008	**8,971**	**210**	**1,171**	**10,352**
At 31 December 2008	**11,765**	**217**	**1,027**	**13,009**

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

Bank

	Land and buildings € 000	Computer equipment € 000	Other € 000	Total € 000
Cost/revaluation				
At 1 January 2007	6,860	802	2,127	9,789
Acquisitions	685	40	216	941
Disposals	-	(5)	(3)	(8)
At 31 December 2007	7,545	837	2,340	10,722
At 1 January 2008	7,545	837	2,340	10,722
Acquisitions	2,876	43	153	3,072
Disposals	-	(4)	(4)	(8)
At 31 December 2008	**10,421**	**876**	**2,489**	**13,786**
Depreciation				
At 1 January 2007	348	709	1,780	2,837
Charge for the year	61	61	95	217
Released on disposals	-	(6)	(2)	(8)
At 31 December 2007	409	764	1,873	3,046
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**
Carrying amount				
At 1 January 2007	6,512	93	347	6,952
At 31 December 2007	7,136	73	467	7,676
At 1 January 2008	**7,136**	**73**	**467**	**7,676**
At 31 December 2008	**9,965**	**69**	**505**	**10,539**

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

	Group		Bank	
	2008	2007	**2008**	2007
	€ 000	€ 000	**€ 000**	€ 000
Carrying amount of property occupied for own activities	**11,765**	8,467	**9,965**	7,136
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	**9,001**	6,240	**7,201**	4,365
Future capital expenditure				
Contracted but not provided for in the financial statements	**449**	3,767	**449**	3,767
Authorised by the directors but not yet contracted	**-**	-	**-**	-
	449	3,767	**449**	3,767

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	Fair Value	**Fair Value**	Fair Value
	2008	2007	**2008**	2007
	€ 000	€ 000	**€ 000**	€ 000
Leasehold land and buildings				
Balance at 1 January	**745**	351	**745**	351
Change in fair value	**-**	394	**-**	394
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 Chapter 16 of the 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 2008 € 000	**Liabilities 2008 € 000**	**Net 2008 € 000**	Assets 2007 € 000	Liabilities 2007 € 000	Net 2007 € 000
Excess of depreciation over capital allowances	**260**	**-**	**260**	182	-	182
Provision for liabilities and charges	**296**	**-**	**296**	196	-	196
Impairment allowances	**2,095**	**-**	**2,095**	2,567	-	2,567
Revaluation of property	**-**	**(578)**	**(578)**	-	(578)	(578)
Fair value movements in investments	**-**	**(79)**	**(79)**	51	(363)	(312)
	2,651	**(657)**	**1,994**	2,996	(941)	2,055

Bank

	Assets 2008 € 000	**Liabilities 2008 € 000**	**Net 2008 € 000**	Assets 2007 € 000	Liabilities 2007 € 000	Net 2007 € 000
Excess of depreciation over capital allowances	**44**	**-**	**44**	47	-	47
Provision for liabilities and charges	**198**	**-**	**198**	184	-	184
Impairment allowances	**2,070**	**-**	**2,070**	2,567	-	2,567
Revaluation of property	**-**	**(578)**	**(578)**	-	(578)	(578)
Fair value movements in investments	**-**	**(79)**	**(79)**	-	(363)	(363)
	2,312	**(657)**	**1,655**	2,798	(941)	1,857

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:

	2008	2007
	€ 000	€ 000
Tax losses	**183**	186

24.3 *Movement in temporary differences relating to:*

Group

	At 1 January 2008	**Recognised in income**	**Recognised in equity**	**At 31 December 2008**	At 1 January 2007	Acquisition through business combination	Recognised in income	Recognised in equity	At 31 December 2007
	€ 000	**€ 000**	**€ 000**	**€ 000**	€ 000	€ 000	€ 000	€ 000	€ 000
Excess of depreciation over capital allowances	**182**	**78**	**-**	**260**	56	128	(2)	-	182
Provision for liabilities and charges	**196**	**111**	**-**	**307**	210	12	(26)	-	196
Impairment allowances	**2,567**	**(486)**	**-**	**2,081**	1,575	-	992	-	2,567
Revaluation of property	**(578)**	**-**	**-**	**(578)**	(531)	-	(47)	-	(578)
Fair value movements in investments	**(312)**	**-**	**236**	**(76)**	(382)	49	-	21	(312)
	2,055	**(297)**	**236**	**1,994**	928	189	917	21	2,055

Bank

	At 1 January 2008	**Recognised in income**	**Recognised in equity**	**At 31 December 2008**	At 1 January 2007	Recognised in income	Recognised in equity	At 31 December 2007
	€ 000	**€ 000**	**€ 000**	**€ 000**	€ 000	€ 000	€ 000	€ 000
Excess of depreciation over capital allowances	**47**	**(2)**	**-**	**45**	56	(9)	-	47
Provision for liabilities and charges	**184**	**13**	**-**	**197**	210	(26)	-	184
Impairment allowances	**2,567**	**(500)**	**-**	**2,067**	1,575	992	-	2,567
Revaluation of property	**(578)**	**-**	**-**	**(578)**	(531)	(47)	-	(578)
Fair value movements in investments	**(363)**	**-**	**287**	**(76)**	(382)	-	19	(363)
	1,857	**(489)**	**287**	**1,655**	928	910	19	1,857

25 Inventories

	Group		Bank	
	2008	2007	**2008**	2007
	€ 000	€ 000	**€ 000**	€ 000
Postal supplies and materials	**174**	263	**-**	-
Merchandise	**479**	379	**293**	186
Other stock items	**168**	162	**45**	49
	821	804	**338**	235

26 Trade and other receivables

	Group		Bank	
	2008	2007	**2008**	2007
	€ 000	€ 000	**€ 000**	€ 000
Trade receivables - net of impairment allowance	**4,377**	3,930	**-**	-
Other	**61**	7	**61**	7
	4,438	3,937	**61**	7

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

	Group		Bank	
	2008	2007	**2008**	2007
	€ 000	€ 000	**€ 000**	€ 000
At 1 January	**11**	-	**-**	-
Acquisition through business combination	**-**	30	**-**	-
Impairment loss recognised	**42**	-	**-**	-
At 31 December	**53**	30	**-**	-

27 **Prepayments and accrued income**

	Group		Bank	
	2008	2007	**2008**	2007
	€ 000	€ 000	**€ 000**	€ 000
Prepayments	**3,463**	161	**3,404**	151
Accrued income	**1,499**	3,445	**114**	3,091
	4,962	3,606	**3,518**	3,242

28 **Amounts owed to banks**

	Group		Bank	
	2008	2007	**2008**	2007
	€ 000	€ 000	**€ 000**	€ 000
Term deposits	**-**	466	**-**	466
Repayable on demand	**130**	270	**130**	270
	130	736	**130**	736

29 **Amounts owed to customers**

	Group		Bank	
	2008	2007	**2008**	2007
	€ 000	€ 000	**€ 000**	€ 000
Term deposits	**336,084**	302,523	**338,583**	303,964
Repayable on demand	**103,776**	115,683	**104,796**	115,712
	439,860	418,206	**443,379**	419,676

30 **Other liabilities**

	Group		Bank	
	2008	2007	**2008**	2007
	€ 000	€ 000	**€ 000**	€ 000
Trade payables	**3,485**	2,728	**-**	-
Bills payable	**1,990**	2,308	**1,990**	2,308
Cash collateral	**182**	1,696	**182**	1,696
Other payables	**6,759**	13,699	**4,299**	9,744
	12,416	20,431	**6,471**	13,748

31 **Accruals and deferred income**

	Group		Bank	
	2008	2007	**2008**	2007
	€ 000	€ 000	**€ 000**	€ 000
Accrued interest	**4,136**	3,990	**4,230**	3,990
Other	**4,650**	2,698	**845**	796
	8,786	6,688	**5,075**	4,786

32 **Share capital**

32.1

Bank

	2008	**2008**	2007	2007
	No. of shares		No. of shares	
	000s	**€ 000**	000s	€ 000
Authorised				
Ordinary shares of 25 cents each	**80,000**	**20,000**	-	-
Ordinary shares of 58.2343 cents each	-	-	20,000	11,647
Issued				
Ordinary shares of 25 cents each	**35,048**	**8,762**	-	-
Ordinary shares of 58.2343 cents each	-	-	8,629	5,024

32 **Share capital** *(continued)*

32.2

Bank

	Ordinary shares	
	2008	2007
	000s	000s
On issue at 1 January	**8,629**	8,534
Sub division of the par value of shares	**25,886**	-
Rights issue	**533**	95
On issue at 31 December	**35,048**	8,629

32.3 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.

33 **Reserves**

33.1 *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 24 April 2008.

33.2 *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.

33.3 *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.

33.4 *Retained earnings*

33.4.1 Dividends

A gross dividend of €0.10 per nominal €0.25 share for the twelve months ended 31 December 2008 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.

33 **Reserves** *(continued)*
33.4 *Retained earnings (continued)*
33.4.1 Dividends *(continued)*

	2008	2007
Dividends declared and paid by the Bank (€000)	**2,243**	1,615
€ per share – gross	**0.10**	0.07

34 Provisions for liabilities and other charges

34.1 *Provisions*

	Group		**Bank**	
	2008	2007	**2008**	2007
	€ 000	€ 000	**€ 000**	€ 000
Obligation to Government	**1,569**	1,736	**-**	-
Legal	**844**	526	**566**	526
	2,413	2,262	**566**	526

34.2

Group

	2008			2007		
	Pension Obligation	**Legal**	**Total**	Pension Obligation	Legal	Total
	€ 000	**€ 000**	**€ 000**	€ 000	€ 000	€ 000
At 1 January	**1,736**	**526**	**2,262**	-	554	554
Acquisition through business combinations during the year	**-**	**-**	**-**	1,724	-	1,724
Exchange differences recognised in profit or loss	**-**	**18**	**18**	-	(49)	(49)
Charge/(credit) for the year	**(3)**	**300**	**297**	12	21	33
Crystallised obligations	**(164)**	**-**	**(164)**	-	-	-
At 31 December	**1,569**	**844**	**2,413**	1,736	526	2,262

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

34.3

Bank

	2008	2007
	Legal	Legal
	€ 000	€ 000
At 1 January	**526**	554
Exchange differences recognised in profit or loss	**19**	(49)
Charge for the year	**21**	21
At 31 December	**566**	526

34.4 The obligation to Government arises in terms of Article 8A of the Pensions Ordinance, Cap 93 of the 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.

34.5 *Obligation to Government recognised in the Balance Sheet is arrived at as follows:*

Group

	2008	2007
	€ 000	€ 000
Present value of unfunded obligations	**2,268**	2,376
Fair value of obligations to be reimbursed by Government	**(699)**	(640)
Present value of unfunded obligations	**1,569**	1,736

34.6 In computing the Obligation to Government, the Group used a discount rate of 4.47% (2007: 5.1%), whereas the future salary increases were based on inflation rates and past salary increases.

34.7 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.

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

34.8 *Contingent liabilities*

Group/Bank

	2008	2007
	€ 000	€ 000
Guarantee obligations incurred on behalf of third parties	**6,624**	6,508

35 **Commitments**

35.1

Group/Bank

	2008	2007
	€ 000	€ 000
Documentary credits	**462**	545
Credit facilities and other commitments to lend	**79,486**	60,047
	79,948	60,592

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

	2008	2007
	€ 000	€ 000
Within 1 year	**192**	198
Between 2 and 5 years	**520**	729
After 5 years	**-**	44
	712	971

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	
	2008	2007	**2008**	2007
	€ 000	€ 000	**€ 000**	€ 000
Treasury bills	**2,961**	23,040	**2,961**	23,040
Loans and advances to banks	**58,221**	110,727	**53,322**	105,259
Cash	**3,718**	3,028	**3,599**	2,991
Amounts owed to banks	**(130)**	(736)	**(130)**	(736)
Cash and cash equivalents	**64,770**	136,059	**59,752**	130,554
Adjustment to reflect balances with contractual maturity of more than 3 months	**52,890**	27,361	**52,890**	26,826
Per balance sheet	**117,660**	163,420	**112,642**	157,380

Analysed as follows:

Balances with Central Bank of Malta, treasury bills and cash	**68,576**	75,181	**68,457**	75,183
Loans and advances to banks	**49,214**	88,975	**44,315**	82,933
Amounts owed to banks	**(130)**	(736)	**(130)**	(736)
	117,660	163,420	**112,642**	157,380

37 **Segmental information**

	Banking services		Postal services		Total	
	2008	2007	**2008**	2007	**2008**	2007
	€ 000	€ 000	**€ 000**	€ 000	**€ 000**	€ 000
Segment operating income	**16,150**	18,004	**20,777**	1,228	**36,927**	19,232
Depreciation and amortisation	**(250)**	(277)	**(869)**	(58)	**(1,119)**	(335)
Impairment allowances	**1,430**	(1,865)	**(42)**	-	**1,388**	(1,865)
Other segment costs	**(6,085)**	(5,700)	**(16,971)**	(1,062)	**(23,056)**	(6,762)
Segment result	**11,245**	10,162	**2,895**	108	**14,140**	10,270
Share of profit of equity accounted investee					**-**	366
Profit before taxation					**14,140**	10,636
Segment total assets	**505,722**	484,313	**18,973**	20,149	**524,695**	504,462
Segment total liabilities	**454,496**	433,626	**9,109**	16,337	**463,605**	449,963
Segment total equity	**51,226**	50,687	**9,864**	3,812	**61,090**	54,499

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 13.1% (2007: 11.1%) of its revenue for 2008 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 **Related parties** *(continued)*

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 2008 € 000	**Commitments 2008 € 000**	Loans and advances 2007 € 000	Commitments 2007 € 000
Key management personnel: **Directors**				
At beginning of year	**490**	**5**	529	16
Additions	**501**	**-**	75	-
Repayments	**(205)**	**-**	(114)	-
Drawn Commitments	**-**	**5**	-	(11)
At balance sheet date	**786**	**10**	490	5

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.

38.4 *Transactions with other related parties*

38.4.1 Subsidiaries

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

	2008 € 000	2007 € 000
Income statement		
Interest payable	**66**	2
Administrative expenses	**184**	42
Balance sheet		
Amounts owed to customers	**3,519**	2,311
Other liabilities	**145**	-

38 **Related parties** *(continued)*
38.4 *Transactions with other related parties (continued)*

38.4.2 Other related parties

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

	2008	2007
	€ 000	€ 000
Income statement		
Fee and commission receivable	-	559
Administrative expenses	-	123
Employee compensation and benefits	-	240
Balance sheet		
Other assets	-	1,843
Other liabilities	-	2,499

38.4.3 Major shareholder

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

	2008	2007
	€ 000	€ 000
Income statement		
Interest receivable and similar income	**85**	-
Balance sheet		
Loans and advances to banks	**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, 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.

41 **Comparative amounts**

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

42 **Significant events during the year**

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

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

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

42.3 Shareholders at the Annual General Meeting of the Bank held on Thursday 24 April 2008, approved resolutions:

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

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

42 **Significant events during the year** *(continued)*
42.3 *(continued)*

Explanation of effect of Resolutions passed at Annual General Meeting of 24 April 2008:

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

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

Statement of the Directors pursuant to Listing Rule 9.44c

For the Year Ended 31 December 2008

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 12 March 2009 by:

Christian Lemmerich
Chairman

Joseph Said
Chief Executive Officer

Report of the Independent Auditors

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

Pursuant to Listing Rule 8.39 issued by the Listing Authority

Listing Rules 8.37 and 8.38 issued by the Listing Authority, require the Bank's directors to include in their Annual Report a Statement of Compliance to the extent to which they have adopted the Code of Principles of Good Corporate Governance and the effective measures they have taken to ensure compliance with these Principles.

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

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

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

In our opinion, the Statement of Compliance set out on pages 10 to 16 provides the disclosures required by the Listing Rules 8.37 and 8.38 issued by the Listing Authority.

Joseph C Schembri (Partner) for and on behalf of

KPMG
Registered Auditors
Portico Building
Marina Street
Pietà PTA 9044
Malta

12 March 2009

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

Report on the Financial Statements

We have audited the accompanying financial statements of Lombard Bank Malta p.l.c. ('the Bank') and of the Group of which the Bank is the parent ('the financial statements') set out on pages 21 to 99, which comprise the balance sheets as at 31 December 2008, and the income statements, statements of changes in equity and cash flow statements for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' Responsibility for the Financial Statements
As described on page 19, the Directors are responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards as adopted by the EU. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

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

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our 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
In our opinion the financial statements give a true and fair view of the financial position of the Bank and the Group as at 31 December 2008, 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.

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

Report on Other Legal and Regulatory Requirements

The Banking Act, 1994 requires us to report:

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

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

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

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

Opinion

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

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

Joseph C Schembri (Partner) for and on behalf of

KPMG
Registered Auditors
Portico Building
Marina Street
Pietà PTA 9044
Malta

12 March 2009

LOMBARD

Five Year Summary
Balance Sheet

Group

	31/12/2008	31/12/2007	31/12/2006	31/12/2005	31/12/2004
	€ 000	€ 000	€ 000	€ 000	€ 000
Assets					
Balances with Central Bank of Malta, treasury bills and cash	**68,576**	75,181	102,956	68,721	93,902
Cheques in course of collection	**2,748**	2,229	1,379	1,281	778
Derivative financial instruments	**-**	-	5	-	37
Investments	**51,627**	54,894	54,677	54,971	62,413
Loans and advances to banks	**49,214**	88,975	95,984	113,764	95,609
Loans and advances to customers	**325,025**	260,284	210,142	183,410	160,883
Investment in equity accounted investee	**-**	-	2,662	-	-
Intangible assets	**1,302**	1,400	-	-	-
Current tax assets	**234**	-	-	-	-
Assets held-for-sale	**-**	-	247	-	-
Property and equipment	**13,009**	10,352	7,063	7,121	4,423
Investment property	**745**	745	352	352	352
Deferred tax assets	**1,994**	2,055	927	678	1,402
Trade and other receivables	**4,438**	3,937	5	54	68
Inventories	**821**	804	107	21	16
Prepayments and accrued income	**4,962**	3,606	2,926	7,627	6,378
Total assets	**524,695**	504,462	479,432	438,000	426,261
Liabilities					
Derivative financial instruments	**-**	-	-	-	35
Amounts owed to banks	**130**	736	508	151	238
Amounts owed to customers	**439,860**	418,206	420,680	386,098	383,364
Current tax payable	**-**	1,640	1,139	454	137
Provision for liabilities and other charges	**2,413**	2,262	554	578	312
Other liabilities	**12,416**	20,431	7,999	8,015	7,042
Accruals and deferred income	**8,786**	6,688	4,020	3,913	4,007
Total liabilities	**463,605**	449,963	434,900	399,209	395,135
Equity					
Called up share capital	**8,762**	5,024	4,969	4,899	4,792
Share premium	**15,137**	13,590	12,495	11,360	10,568
Other reserve	**-**	-	-	259	259
Property revaluation reserve	**2,288**	2,288	2,287	2,171	294
Investment revaluation reserve	**(16)**	587	620	731	345
Retained earnings	**31,518**	29,550	24,093	19,294	13,790
Dividend reserve	**-**	-	-	-	934
Equity attributable to equity holders of the Bank	**57,689**	51,039	44,464	38,714	30,982
Minority interest	**3,401**	3,460	68	77	144
Total equity	**61,090**	54,499	44,532	38,791	31,126
Total liabilities and equity	**524,695**	504,462	479,432	438,000	426,261
Memorandum items					
Contingent liabilities	**6,624**	6,508	7,522	7,596	6,986
Commitments	**79,948**	60,592	80,496	55,959	52,814

Five Year Summary
Income Statement

Group

	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	01/01/2004 to 31/12/2004 € 000
Interest receivable and similar income	**29,061**	29,404	23,373	21,735	19,760
Interest expense	**(14,493)**	(13,871)	(11,111)	(10,608)	(11,214)
Net interest income	**14,568**	15,533	12,262	11,127	8,546
Other operating income	**22,359**	3,699	2,075	1,982	2,273
Other operating charges	**(24,174)**	(7,099)	(5,057)	(5,246)	(4,729)
Net impairment gains/(losses)	**1,387**	(1,863)	(284)	676	(170)
Share of profit of equity accounted investee (net of tax)	-	366	12	-	7
Profit before taxation	**14,140**	10,636	9,008	8,539	5,927
Taxation	**(5,057)**	(3,552)	(3,173)	(3,035)	(2,299)
Profit for the year	**9,083**	7,084	5,835	5,504	3,628
Attributable to:					
Equity holders of the Bank	**8,402**	7,065	5,833	5,518	3621
Minority interest	**681**	19	2	(14)	7
	9,083	7,084	5,835	5,504	3,628

Five Year Summary
Cash Flow Statement

Group

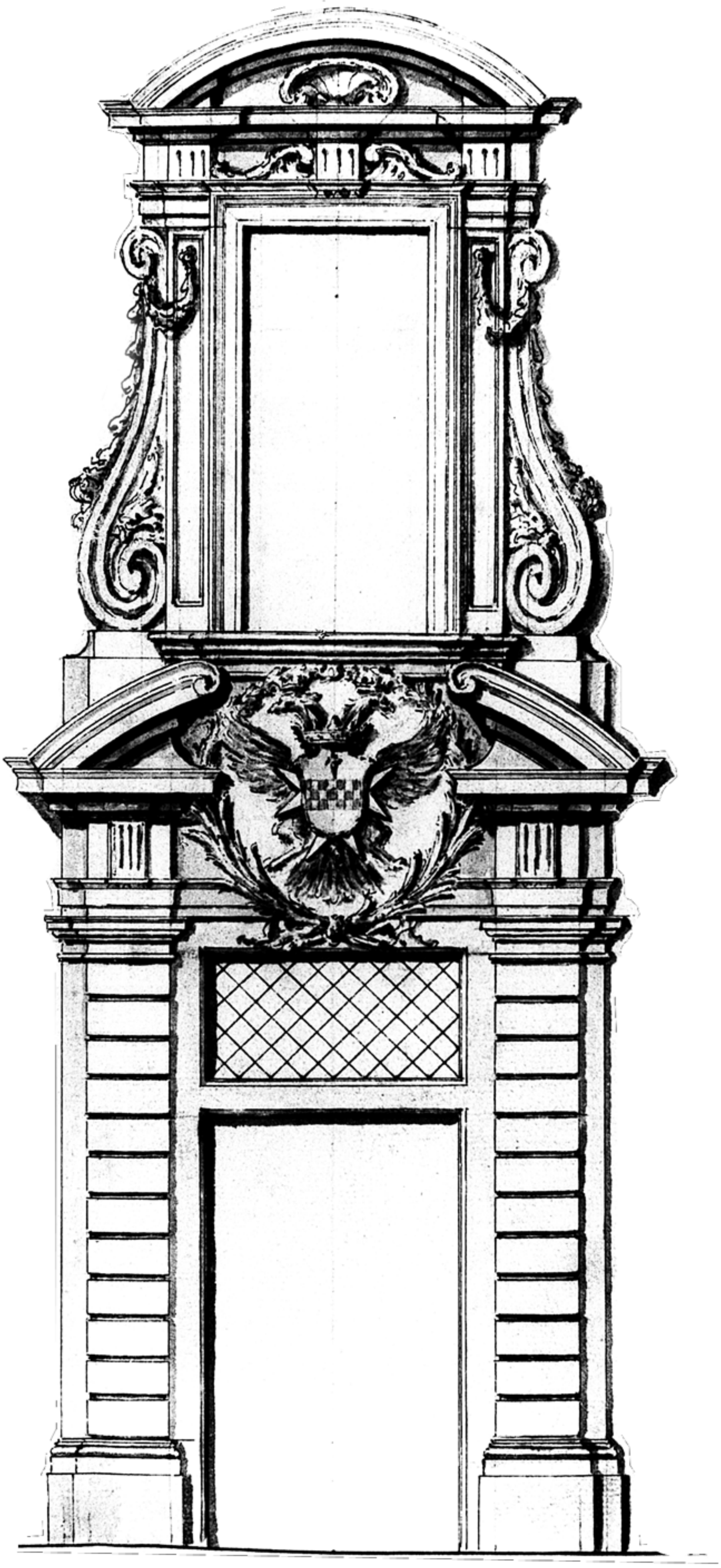
	01/01/2008 to 31/12/2008 € 000	01/01/2007 to 31/12/2007 € 000	01/01/2006 to 31/12/2006 € 000	01/01/2005 to 31/12/2005 € 000	01/01/2004 to 31/12/2004 € 000
Net cash (used in)/from operating activities	**(73,009)**	(46,667)	19,208	12,485	(59,709)
Cash flows from investing activities					
Dividends received	**65**	93	51	63	93
Interest received from investments	**4,683**	4,461	4,815	6,313	5,143
Proceeds from maturity/disposal of investments	**4,238**	4,635	4,256	8,078	892
Purchase of investments	**(1,673)**	(1,479)	(4,193)	-	(3,392)
Investment in equity accounted investee	**-**	-	(2,651)	-	-
Proceeds from disposal of property and equipment	**-**	-	-	-	2
Purchase of property and equipment	**(3,554)**	(943)	(196)	(552)	(1,037)
Acquisition of interest in subsidiary (net of cash acquired)	**-**	2,632	-	-	-
Proceeds from disposal of subsidiary	**-**	-	-	72	-
Acquisition of minority interest	**(916)**	-	-	-	-
Net cash flows from investing activities	**2,843**	9,399	2,082	13,974	1,701
Cash flows from financing activities					
Dividends paid	**(564)**	(464)	(89)	(35)	(23)
Minority interest in newly formed subsidiary	**(559)**	-	-	-	-
Cash used in financing activities	**(1,123)**	(464)	(89)	(35)	(23)

Five Year Summary
Accounting Ratios

Group

	01/01/2008 to 31/12/2008 %	01/01/2007 to 31/12/2007 %	01/01/2006 to 31/12/2006 %	01/01/2005 to 31/12/2005 %	01/01/2004 to 31/12/2004 %
Net interest income and other operating income to total assets	**7.0**	3.8	3.0	3.0	2.5
Operating expenses to total assets	**4.6**	1.4	1.0	1.1	1.1
Profit before tax to total assets	**2.7**	2.1	1.9	1.9	1.4
Profit before tax to equity	**26.0**	21.5	21.6	24.5	20.4
Profit after tax to equity	**16.7**	14.3	14.0	15.8	12.5

	31/12/2008	31/12/2007	31/12/2006	31/12/2005	31/12/2004
Shares in issue of €0.25 each (thousands)	**35,048**	34,515	34,136	33,640	32,912
Net assets per share (euro cents)	**165**	148	130	115	94



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)