LOMBARD

Lombard Bank Malta p.l.c.

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ANNUAL REPORT 2006

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Chairman's Statement to the Members

Once again Lombard Bank has registered another solid performance. The profit before tax for the financial year ended 31 December 2006 stood at Lm3.87 million, increasing by 5.5 per cent over that of the previous year and represents yet another record profit in the Bank's financial history. Earnings per share increased to 29.5 cents from 28.3 cents following the approval by the shareholders of the subdivision of the par value of each share on a two for one basis during 2006. The Bank's balance sheet continued to show growth in core business activities with total assets under management exceeding Lm205 million.

Business sentiment during the year remained cautious and characterised by increased liberalisation and preparations at a national level for the adoption of the Euro currency in 2008 for which Malta recently filed an application. This was set against a backdrop of high oil prices and rapid global economic growth supported by low interest rates and ample global liquidity, despite tighter monetary policy.

Since Malta joined the Exchange Rate Mechanism II (ERM II), in May 2005, the resolve of the Maltese to satisfy the convergence criteria continued unabated and all preparations seem to be well in place for Malta to adopt the Euro as its currency in January 2008.

The driver behind the Bank's positive performance remains that of a focused strategy, which pursues value-creating opportunities and is selective in its business initiatives. The Bank continued to reward the loyalty of its customers by providing very competitive interest rates on its deposit products, concurrently balancing the size of its customer deposit base with the demand for credit thus making efficient use of its liquidity.

Of significance was the acquisition in August 2006 of a 35 per cent stake in Maltapost p.l.c. This is a strategic investment which the Bank's Board of Directors and Management are convinced will prove beneficial for both Maltapost and Lombard Bank. Although this investment is very recent we are reassured by the potential at Maltapost. As a Listed company we are duty bound to seize opportunities that benefit us and add stakeholder value as and when these may arise. The advantage lies in identifying such opportunities before others. Lombard Bank does not embrace a policy of seeking short-term gains. Instead, we prefer situations that allow us to lay strong foundations for profitable growth in the medium to long term. The investment in Maltapost should be viewed in the light of this philosophy.

The position of the Bank remains solid indeed as evidenced by the financial ratios. The Solvency Ratio calculated in terms of the Banking Rules stood at 21.2 per cent, against a regulatory minimum requirement of 8 per cent. Cost control remains a high priority for the Bank and the Cost to Income ratio improved from 38.2 per cent of the previous year to an enviable 35.1 per cent. Thus the Bank is very well positioned to efficiently meet ongoing challenges. Earnings per Share reached 29.5 cents. Return on average equity attributable to shareholders was 21.7 per cent on a pre-tax basis. Return on Assets at 1.9 per cent was on the same level of that of last year while Net Asset Value per share stood at Lm2.24 from Lm1.98 in 2005.

The Board of Directors is recommending a Gross Dividend of 12.5 cents per share resulting in an increase of 25 per cent over the dividend paid last year when accounting for the share split undertaken in May 2006. As in previous years, a resolution will be presented to the forthcoming Annual General Meeting requesting approval that shareholders be given the option of receiving the dividend either in cash or by the issue of new shares. The attribution price (at which the new shares to be issued will be determined) has been established as the trade weighted average price of the Bank's shares for the three months up to and including the date of approval of the Accounts, i.e. 8 March 2007, and has been calculated at Lm5.233.

The Statement of Compliance underlines the high standards of Corporate Governance to which the Board is

Chairman's Statement to the Members

committed. The Bank maintains maximum transparency and accountability in all its dealing with all stakeholders as well as third parties. Concurrently the Bank continues to provide a well balanced approach towards risk management by ensuring prudent decisions that are directed towards increased shareholder value. This has resulted in solid growth based on quality assets in the lending portfolio as well as an investments portfolio that provides satisfactory returns. The Bank is prepared for the challenges that lie ahead, not least through advancement in technology as well the continued development of skills of all staff. We are also very conscious of our responsibility towards the needs of society and remain responsive to these obligations by assisting a number of social and philanthropic causes.

Our priority going forward is to use our robust financial and market position as well as our flexibility to continue to seek business opportunities that will maximise shareholder value. Even though market conditions remain challenging in 2007, we are confident that Management has the wherewithal to continue delivering strong performances.

In concluding I extend my sincere thanks to the shareholders and customers for their support, my fellow Board members for their judicious contribution as well as to Joseph Said the Bank's Chief Executive Officer, his Management team and all staff for their continued dedication and commitment.

Christian Lemmerich
Chairman

Chief Executive Officer's Review of Operations

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

The Bank continues to assume the profile of a personalised service provider by implementing its strategy of selectively identifying and building profitable relationships. This focuses mainly on high net worth, private and corporate customers, without overlooking the traditional retail and commercial sectors.

In a market that remains intensely competitive, staff at all levels is encouraged to be proactive, innovative and to attach value to customer relationships. Executives are required to be conscious of the realities facing the sector today and to identify opportunities and meet challenges.

The Bank's business model aims at operating within an organisation structure that upholds a high level of good corporate governance, control and ethical standards.

Review of Financial Performance

An increase of 9 per cent in Operational Income resulted in a profit before tax of Lm3.87 million for the period.

Our net interest income increased by 10.2 per cent to Lm5.26 million thus registering an improved Net Interest Margin of 52.5 per cent.

Total Customer deposits at Lm180.60 million increased by Lm14.85 million (9 per cent) over the previous year. Customer Lm deposit balances make up 76 per cent of total customer deposits and amount to Lm137.83 million. Customers' balances in foreign currency increased by Lm2.32 million (6 per cent) to Lm42.77 million.

Profitability and Own Funds

During the year, the Bank's share capital was increased by 123,622 Ordinary shares, as most shareholders opted to receive their dividend (for 2005) in shares.

Shareholders' Funds rose by Lm2.47 million (15 per cent) to Lm19.09 million. This increased the Bank's capacity to assume larger Credit exposures and to diversify its investment opportunities. Return on Assets (ROA) remained unchanged from last year's 1.9 per cent. The Bank's solvency ratio, computed according to the Banking Directives, stood at 21.2 per cent (2005: 20.4 per cent) and compares well with the statutory minimum requirement of 8 per cent. Earnings per Share (EPS) for 2006 reached 29.5 cents, an increase of 4.2 per cent over 28.3 cents in 2005. Net Asset Value per share at year end stood at Lm2.24 representing a price to book multiple of 2.57 times.

Treasury and Market Activity

The Central Bank of Malta raised the Central Intervention Rate twice, on 25th May and on 31st October, by 25 basis points each time.

Our liquidity ratio at 60.34 per cent stood well over the statutory minimum of 30 per cent reflecting the high liquidity position that the Bank continues to enjoy. This ratio is managed by means of Reserve Deposit Equalisation, short-term Treasury paper and inter-bank transactions. Credit activity during 2006 continued its upward trend and led to an increase of Lm11.48 million (15 per cent) in Loans and Advances to customers, which rose to Lm90.21 million from Lm78.74 million in 2005 (net of Impairment Allowances).

2007 should be a landmark year as Malta is set to confirm adoption of the Euro in January 2008.This forthcoming event together with a rising interest rate environment, drove investors to generally prefer deposits with short maturities in anticipation of further interest rate increases in the Euro.

Chief Executive Officer's Review of Operations

We assessed our position with regard to the forthcoming legislation on the New Capital Requirements. As the regulations now stand the Bank is considered to have the necessary levels of capital.

Human Resources

Our policy remains one of strengthening Management by ongoing training of all staff, acquiring new professional skills as well as recruiting new staff members in the Trainee Officer grade. In Q1 we concluded negotiations and signed a new Collective Agreement. As a player in the financial services industry the Bank is fully aware that its staff, at all levels is the key to further growth.

Projects

In line with our policy of growing steadily we are fully converting newly acquired premises in Valletta and in Qormi. Works are in hand with completion dates envisaged for Q3 2007 in all cases.
During 2007 we shall also be deciding on which level of internet banking is best suited for our client base.

Maltapost p.l.c.

In August we announced the acquisition of a 35 per cent shareholding in Maltapost p.l.c. from Transend Worldwide Limited (New Zealand Post). We look upon this investment as one of strategic importance that should result in added value to the stakeholders of both the Bank and Maltapost. In the coming years we shall seek to cooperate closely with Maltapost which currently operates various outlets throughout the Islands.

Lombard Asset Managers Limited

Lombard Asset Managers Limited (LAM) is licensed to provide Investment Services to collective investment schemes. It is the appointed Manager of Lombard Funds SICAV p.l.c., an open-ended multi-class collective investment scheme licensed in Malta.

The activities of this subsidiary until now have been very limited indeed. So far we have focused our efforts towards preparation of the groundwork in respect of market positioning, investor requirements and product development. During 2007 we plan to bring this company's activities to life.

Community Involvement

Lombard Bank remains fully sensitive to its responsibility towards the community. We extend support to a number of voluntary and charitable organisations albeit without manifestation.

During 2006 we launched an anti-smoking project in conjunction with the Malta Cancer Foundation aimed at secondary school students in Malta and Gozo. The project took off in October 2006 and following the most encouraging response received we plan to make this an annual/ongoing event. We consider this initiative to be a meaningful and effective way of contributing to the community.

Outlook

Current economic indicators in the Euro zone are regarded as being generally positive. On the local scene public debt and budget deficit seem to be under control and on target. Economic growth for 2006 stood at 2.6 per cent and expected to reach 3 per cent in 2007.

Chief Executive Officer's
Review of Operations

The real estate market continues to be very active and appears to remain so in the coming years.

Local investors are now focusing their attention on Euro-denominated investments which will no longer carry a currency risk. No doubt this will create additional competition that may well result in higher costs for deposit taking and lower spreads on Loans and Advances. The changeover is also bound to impact our foreign exchange earnings which are expected to reduce more so in view of the fact that the Bank adopts a policy of not undertaking any proprietary trading whatsoever. The short term impact of Euro adoption may therefore result in pressure on revenue streams.

The Bank shall focus on expanding its customer base as well as the range of products and services it offers. We shall face the new challenges positively and shall also look upon the adoption of the Euro as an opportunity to venture our Treasury activities (in terms of placements) to the Euro zone market. So far these activities were restricted to the Maltese money market which is very modest in terms of size and choice.

The overall performance of the Bank for 2006 has been a very satisfactory one with record profit levels being reached.

Management believes that notwithstanding the challenges ahead, Lombard Bank can still register significant growth both in terms of Balance Sheet as well as profits.

Joseph Said
Chief Executive Officer

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Directors' Report

For the Year Ended 31 December 2006

The Group

Lombard Bank Malta p.l.c. ('the Bank') had two subsidiaries as at 31st December 2006 namely, Lombard Asset Managers Limited and Redbox Limited. Lombard Stockbrokers Limited ceased to form part of the Lombard Group in December 2005.

Principal Activities

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

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

Redbox Limited was registered in August 2006 for the purpose of buying the shareholding that Transend Worldwide Limited held in Maltapost p.l.c. following an agreement reached between the Bank and New Zealand Post on 9 August 2006. Redbox Limited is fully owned by the Bank and as at 31st December 2006 held a 35 per cent shareholding in Maltapost p.l.c.

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

Review of Performance

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

Results for 2006

A profit after taxation of Lm2.497 million and Lm2.505 million for the Bank and the Group respectively, were registered for the twelve months ended 31 December 2006.

A Gross Dividend of 12.5 cents per share for the twelve months ended 31 December 2006 is being proposed for approval by the shareholders. The Board of Directors recommends that shareholders be given the option of receiving the dividend either in the form of cash or by the issue of new shares. A resolution to that effect will be proposed to the Annual General Meeting of shareholders.

Capital

At the 2006 Annual General Meeting the shareholders approved a sub-division of the par value of the Bank's shares on a 'two-for-one' basis. As a result, the number of authorised and issued shares doubled while the par value of each share decreased from 50 cents to 25 cents. Also during the financial year, the Bank's Ordinary Share capital was increased by 123,622 new Ordinary fully paid shares of Lm0.25 each, after resolutions were adopted at the 2006 Annual General Meeting allowing shareholders the option to receive their dividend either by the issue of new shares or in cash.

Directors' Report

For the Year Ended 31 December 2006

Standard Licence Conditions

In accordance with paragraph 10.34 of the Investment Services Guidelines regulated by the Malta Financial Services Authority, licence holders are required to disclose any regulatory breaches of standard licence conditions in this Annual Report. 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.

Audit Committee

This committee consists 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.

Board of Directors

The following directors served on the Board during the period under review:

Joseph M Demajo
Graham A Fairclough, *resigned and re-appointed on 25 April 2006*
Christian Lemmerich
Gianfilippo Maiga
Joseph Said, *resigned and re-appointed on 25 April 2006*
Vittorio Vellano, *resigned on 4 September 2006*
Michael Zammit
Stefano Loffredi, *appointed on 4 January 2007*

Approved by the Board of Directors on 8 March 2007 and signed on its behalf by:

Christian Lemmerich
Chairman

Joseph Said
Chief Executive Officer

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Statement of Compliance with the Principles of Good Corporate Governance

For the Year Ended 31 December 2006

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

Compliance

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

The Board of Directors

The Board consists of five non-executive Directors and two Directors on full-time contracts of service. The Chairman of the Board is elected by the Directors from amongst themselves at the first Board meeting after the Annual General Meeting. The Directors who served on the Board during the period under review are as follows:

	Year when first appointed	*Attendance at Board Meetings (1 January 2006 to 31 December 2006)*
Joseph M Demajo	1999	5
Graham A Fairclough, resigned and re-appointed on 25 April 2006	2003	6
Christian Lemmerich	1998	6
Gianfilippo Maiga	2004	4
Joseph Said, resigned and re-appointed on 25 April 2006	2000	6
Vittorio Vellano, resigned on 4 September 2006	2006	-
Michael Zammit	1995	6
Stefano Loffredi, appointed on 4 January 2007	2007	-

The Directors confirmed Christian Lemmerich, who is a non-executive Director, as Chairman of the Board after the Annual General Meeting in 2006. Joseph Said and Graham Fairclough hold the position of Chief Executive Officer and General Manager respectively.

In conformity with the requirements of the Principles of Good Corporate Governance, the Directors provided a declaration, at 31 December 2006 and 8 March 2007, of their beneficial and non-beneficial shareholdings in the Bank as well as the particulars of any contracts of significance with the Bank or its subsidiaries.

The Board of Directors has wide ranging experience in industry, commerce and banking.

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

Appointments and resignations of directors are shown in the Directors' Report.

Under the present circumstances, the Board does not consider it necessary to appoint a committee to carry out a performance evaluation of the Board, its Directors and Committees as the Board's and Directors' performance is always under the scrutiny of the shareholders.

Going Concern

In accordance with the provisions of Listing Rule 9.37.17, the Directors have duly considered the Bank's performance and expect that the Bank will continue to operate as a going concern for the foreseeable future.

Adequate systems are in place so that the Bank's human resources are developed to ensure that the corporate objectives are achieved.

Appointment and Election of Directors

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

The aggregate amount of Directors' emoluments is disclosed in Note 11 to the Financial Statements. No disclosure is made of the remuneration of each director separately.

Terms of Appointment

The aggregate maximum amount of remuneration that can be received by the Board for their service is fixed by the shareholders at each Annual General Meeting. This was set at Lm30,000 at the last Annual General Meeting. Since most of the Board is made up of non-executive Directors, the determination of remuneration arrangements for each board member is a matter for the Board as a whole. The Chief Executive Officer and the General Manager are on a contract of employment with the Bank and their remuneration as employees, as well as their employment, is independent of their office as Directors of the Bank. The remuneration and bonuses of the Chief Executive Officer and the General Manager are approved by the Board of Directors, which effectively carries out the function of Remuneration Committee. Management approves the remuneration and bonuses of all other members of staff. Therefore, the circumstances of the Bank do not warrant the setting up of separate Remuneration Committee.

Board Meetings

The proceedings of Directors are regulated by the Bank's Articles of Association. The Board meets regularly during the year. Dates of a forthcoming meeting and all documentation for the meeting, including minutes of the previous meeting, are made available to the Directors with adequate advance notice. Meetings of the Board follow a formal Agenda that normally includes strategy issues, business performance and credit decisions. The Board receives from Management full and detailed reports on all aspects of operations at every Board meeting. When a Director joins the Board for the first meeting, adequate information about the company and the local operating environment is provided so the Director can perform his duties properly. Minutes of Board meetings are held by the Company Secretary. It is the practice of the Directors that when a potential conflict of interest may arise in connection with any matter, the potential conflict of interest is declared and the individual concerned refrains from taking part in proceedings relating to the matter or decision. The Board Minutes invariably include a suitable record of such declaration and of the action taken by the individual Director concerned. In the course of discharging his responsibilities, a Director has access to such independent advice as he may deem appropriate for the better performance of his duties. During the 12 months ended 31 December 2006, the Board met on six occasions.

Statement of Compliance with the Principles of Good Corporate Governance

For the Year Ended 31 December 2006

Internal Control

The Board is responsible for ensuring that adequate processes and procedures exist to ensure effective internal control systems. These internal control systems ensure that decision-making capability and the accuracy of the reporting and financial results are maintained at a high level at all times. However, they cannot completely eliminate the risk of material error or fraud. The Board assumes responsibility for:

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

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

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

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

Board Committees

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

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

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

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

Audit Committee
The Audit Committee as approved by the Listing Authority, inter alia, assists the Board in fulfilling its supervisory and monitoring responsibilities by reviewing the financial statements and disclosures, the systems of internal control

established by Management and the external and internal audit processes. The terms of reference of the Audit Committee ensure that it acts separately and independently of Management. The terms of reference of the Audit Committee comply with the requirements of the Listing Rules. The Audit Committee is made up of all the non-executive Directors and met four times during 2006. At meetings of the Audit Committee the Bank's Internal Auditor and the External Auditors, KPMG, are requested to attend if considered advisable by the Committee. Members of Management are also invited to attend Audit Committee meetings as deemed necessary by the Committee.

Corporate Social Responsibility

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

Commitment to Shareholders and an Informed Market

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

The Bank is guided by the relevant Legislation with regards to the rights of the Minority shareholders.

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

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

Approved by the Board of Directors on 8 March 2007 and signed on its behalf by:

Christian Lemmerich
Chairman

Joseph Said
Chief Executive Officer

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

Pursuant to Listing Rule 8.31 issued by the Listing Authority

Listing Rules 8.29 and 8.30 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 8.31, which requires us to include a report on this statement of compliance.

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

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

In our opinion, the statement of compliance set out on pages 9 to 12 provides the disclosures required by the Listing Rules 8.29 and 8.30 issued by the Listing Authority.

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

KPMG
Certified Public Accountants
Portico Buildings
Marina Street
Pieta'
Malta

8 March 2007

Company Information

Directors' beneficial and non beneficial interests in the share capital of the Bank or in any related company as at 31 December 2006

Michael Zammit	106 shares

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

	31 December 2006	8 March 2007
Banca Unione Di Credito	26.57%	26.57%
Cramer & Cie SA obo customer	10.02%	10.02%
HSBC Bank Malta p.l.c. as custodians	8.01%	7.68%
First Gemini p.l.c.	5.15%	5.15%

Number of shareholders at 31 December 2006

The total number of registered shareholders is 1,295 of the same class.

Number of shareholders at 31 December 2006 analysed by range:

Range	Total Shareholders	Shares
1 -500	310	62,398
501 -1000	156	113,727
1001 -5000	724	1,468,720
5001 and over	105	6,889,497
Total	**1,295**	**8,534,342**

Board of Directors and Senior Management

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

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

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

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

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

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FINANCIAL STATEMENTS

for the period 1 January 2006 to 31 December 2006

2006

Preparation of Financial Statements and Directors' Responsibilities

The Companies Act, 1995 requires the Directors 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 results of their operations and their cash flows for that year.

In preparing such financial statements, Article 14 of the Third Schedule to the Companies Act, 1995, requires the Directors to:

• adopt the going concern basis unless it is inappropriate to presume that the Bank and the Group will continue in business;

• select suitable accounting policies and apply them consistently from one accounting period to another;

• make judgements and estimates that are reasonable and prudent;

• account for income and charges relating to the accounting period on the accruals basis; and

• value separately the components of asset and liability items on a prudent basis.

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

The Directors are also responsible for safeguarding the assets of the 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 establishes and maintains internal control to provide reasonable assurance with regard to reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations.

Management is responsible, with oversight from the Directors, to establish a control environment and maintain policies and procedures to assist in achieving the objective of ensuring, as far as possible, the orderly and efficient conduct of the Bank's business. This responsibility includes establishing and maintaining controls pertaining to the Bank's objective of preparing financial statements as required by the Companies Act, 1995 and the Banking Act, 1994 and managing risks that may give rise to material misstatements in those financial statements. In determining which controls to implement to prevent and detect fraud, management considers the risks that the financial statements may be materially misstated as a result of fraud.

Signed on behalf of the Board of Directors on 8 March 2007 by:

Christian Lemmerich
Chairman

Joseph Said
Chief Executive Officer

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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 19 to 65, which comprise the balance sheets as at 31 December 2006, and the income statements, statements of changes in equity and cash flow statements for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements
As described on page 16, the directors are responsible for the preparation and fair presentation of the financial statements of the Group in accordance with International Financial Reporting Standards as adopted by the EU and of the Bank in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' responsibility
Our responsibility is to express an opinion on these financial statements based on our audit. 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 Bank'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 Bank'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 opinion.

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

(a) of the financial position of the Group as at 31 December 2006, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU; and

(b) of the financial position of the Bank as at 31 December 2006, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

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

REPORT ON THE OTHER LEGAL REGULATORY REQUIREMENTS

Auditor's responsibility
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 Lombard Bank Malta p.l.c. 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 are also required to state whether the financial statements have been properly prepared in accordance with the provisions of the Companies Act, 1995.

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

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

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

KPMG
Certified Public Accountants
Portico Buildings
Marina Street
Pietà
Malta

8 March 2007

Income Statement

For the Year Ended 31 December 2006

	Note	Group 2006 Lm 000	Group 2005 Lm 000	Bank 2006 Lm 000	Bank 2005 Lm 000
Interest receivable and similar income					
- on loans and advances, balances with Central Bank of Malta and Treasury Bills	4	**8,642**	7,801	**8,645**	7,803
- on debt and other fixed income instruments	4	**1,392**	1,530	**1,392**	1,530
Interest expense	5	**(4,770)**	(4,554)	**(4,770)**	(4,554)
Net interest income		**5,264**	4,777	**5,267**	4,779
Fee and commission income		**487**	444	**480**	434
Fee and commission expenses		**(14)**	(16)	**(13)**	(14)
Net fee and commission income		**473**	428	**467**	420
Dividend income	6	**34**	27	**34**	27
Net trading income	7	**326**	352	**326**	352
Net gains on disposal of non-trading financial instruments	8	**36**	12	**10**	11
Other operating income		**22**	32	**22**	30
Operating income		**6,155**	5,628	**6,126**	5,619
Administrative expenses	9	**(2,053)**	(2,056)	**(2,027)**	(2,021)
Depreciation		**(108)**	(93)	**(108)**	(94)
Provision for liabilities and other charges	31	**(10)**	(103)	**(10)**	(103)
Net impairment (losses)/reversals	10	**(122)**	290	**(122)**	290
Operating profit		**3,862**	3,666	**3,859**	3,691
Share of profit of associate	19	**5**	-	**-**	-
Profit before taxation	11	**3,867**	3,666	**3,859**	3,691
Taxation	12	**(1,362)**	(1,303)	**(1,362)**	(1,303)
Profit for the year		**2,505**	2,363	**2,497**	2,388
Attributable to:					
Shareholders of the bank		**2,504**	2,369	**2,497**	2,388
Minority interest		**1**	(6)	**-**	-
		2,505	2,363	**2,497**	2,388
Earnings per share	13	**29c5**	28c3	**29c4**	28c5

LOMBARD

Balance Sheet

At 31 December 2006

	Note	Group 2006 Lm 000	Group 2005 Lm 000	Bank 2006 Lm 000	Bank 2005 Lm 000
Assets					
Balances with Central Bank of Malta, Treasury Bills and cash	14	**44,223**	29,511	**44,223**	29,511
Cheques in course of collection		**592**	550	**592**	550
Derivative financial instruments	15	**2**	-	**2**	-
Investments	16	**23,473**	23,599	**23,375**	23,414
Loans and advances to banks	17	**41,206**	48,839	**41,206**	48,839
Loans and advances to customers	18	**90,214**	78,738	**90,214**	78,785
Investment in associate	19	**1,143**	-	**-**	-
Shares in subsidiary companies	20	**-**	-	**1,275**	125
Property and equipment	21	**3,032**	3,057	**3,032**	3,057
Investment property	22	**151**	151	**151**	151
Assets held for sale	18	**106**	-	**106**	-
Deferred tax assets	23	**398**	291	**398**	291
Other assets		**24**	23	**22**	21
Prepayments and accrued income	24	**1,256**	3,275	**1,256**	3,275
Total assets		**205,820**	188,034	**205,852**	188,019
Liabilities					
Amounts owed to banks	25	**218**	65	**218**	65
Amounts owed to customers	26	**180,598**	165,752	**180,633**	165,752
Current tax payable		**489**	195	**489**	195
Provisions for liabilities and other charges	31	**238**	248	**238**	248
Other liabilities	27	**3,434**	3,441	**3,424**	3,431
Accruals and deferred income	28	**1,726**	1,680	**1,726**	1,680
Total liabilities		**186,703**	171,381	**186,728**	171,371
Equity					
Called up share capital	29	**2,133**	2,103	**2,133**	2,103
Share premium		**5,364**	4,877	**5,364**	4,877
Other reserve	30	**-**	111	**-**	111
Property revaluation reserve	30	**982**	932	**982**	932
Investment revaluation reserve	30	**266**	314	**235**	268
Retained earnings	30	**10,343**	8,283	**10,410**	8,357
Equity attributable to shareholders		**19,088**	16,620	**19,124**	16,648
Minority interest		**29**	33	**-**	-
Total equity		**19,117**	16,653	**19,124**	16,648
Total liabilities and equity		**205,820**	188,034	**205,852**	188,019
Memorandum items					
Contingent liabilities	31	**3,229**	3,261	**3,229**	3,261
Commitments	32	**34,557**	24,023	**34,557**	24,023

The financial statements on pages 19 to 65 were approved by the Board of Directors on 8 March 2007 and signed on its behalf by:

Christian Lemmerich
Chairman

Joseph Said
Chief Executive Officer

Statement of Changes in Equity
For the Year Ended 31 December 2006

Group

	Attributable to equity holders of the Bank								
	Called up Share Capital Lm 000	Share Premium Lm 000	Other Reserve Lm 000	Property Revaluation Reserve Lm 000	Investment Revaluation Reserve Lm 000	Retained Earnings Lm 000	Total Lm 000	Minority Interest Lm 000	Total Equity Lm 000
At 1 January 2005	2,057	4,537	111	126	148	6,321	13,300	62	13,362
Net gains on available-for-sale assets	-	-	-	-	175	-	175	9	184
Release of net gains on disposal of available-for-sale assets	-	-	-	-	(9)	-	(9)	-	(9)
Revaluation of property	-	-	-	1,017	-	-	1,017	-	1,017
Deferred tax on revalued property	-	-	-	(211)	-	-	(211)	-	(211)
Income and expenses recognised directly in equity	-	-	-	806	166	-	972	9	981
Profit for the year	-	-	-	-	-	2,369	2,369	(6)	2,363
Disposal of subsidiary	-	-	-	-	-	(6)	(6)	(32)	(38)
Dividends payable	-	-	-	-	-	(401)	(401)	-	(401)
Rights issue of ordinary shares	46	340	-	-	-	-	386	-	386
At 31 December 2005	2,103	4,877	111	932	314	8,283	16,620	33	16,653
At 1 January 2006	**2,103**	**4,877**	**111**	**932**	**314**	**8,283**	**16,620**	**33**	**16,653**
Net losses on available-for-sale assets	-	-	-	-	**(21)**	-	**(21)**	**1**	**(20)**
Release of net gains on disposal of available-for-sale assets	-	-	-	-	**(27)**	-	**(27)**	**(6)**	**(33)**
Adjustment to deferred tax on revaluation reserve	-	-	-	**50**	-	-	**50**	-	**50**
Income and expenses recognised directly in equity	-	-	-	**50**	**(48)**	-	**2**	**(5)**	**(3)**
Profit for the year	-	-	-	-	-	**2,504**	**2,504**	**1**	**2,505**
Transfer of other reserve to retained earnings	-	-	**(111)**	-	-	**111**	-	-	-
Dividends payable	-	-	-	-	-	**(555)**	**(555)**	-	**(555)**
Rights issue of ordinary shares	**30**	**487**	-	-	-	-	**517**	-	**517**
At 31 December 2006	**2,133**	**5,364**	-	**982**	**266**	**10,343**	**19,088**	**29**	**19,117**

LOMBARD

Statement of Changes in Equity

For the Year Ended 31 December 2006

Bank

	Called Up Share Capital Lm 000	Share Premium Lm 000	Other Reserve Lm 000	Property Revaluation Reserve Lm 000	Investment Revaluation Reserve Lm 000	Retained Earnings Lm 000	Total Lm 000
At 1 January 2005	2,057	4,537	111	126	129	6,370	13,330
Net gains on available-for-sale assets	-	-	-	-	148	-	148
Release of net gains on disposal of available-for-sale assets	-	-	-	-	(9)	-	(9)
Revaluation of property	-	-	-	1,017	-	-	1,017
Deferred tax on revalued property	-	-	-	(211)	-	-	(211)
Income and expenses recognised directly in equity	-	-	-	806	139	-	945
Profit for the year	-	-	-	-	-	2,388	2,388
Dividends payable	-	-	-	-	-	(401)	(401)
Rights issue of ordinary shares	46	340	-	-	-	-	386
At 31 December 2005	2,103	4,877	111	932	268	8,357	16,648
At 1 January 2006	**2,103**	**4,877**	**111**	**932**	**268**	**8,357**	**16,648**
Net losses on available-for-sale assets	-	-	-	-	**(23)**	-	**(23)**
Release of net gains on disposal of available-for-sale assets	-	-	-	-	**(10)**	-	**(10)**
Adjustment to deferred tax on revaluation reserve	-	-	-	**50**	-	-	**50**
Income and expenses recognised directly in equity	-	-	-	**50**	**(33)**	-	**17**
Profit for the year	-	-	-	-	-	**2,497**	**2,497**
Transfer of other reserve to retained earnings	-	-	**(111)**	-	-	**111**	-
Dividends payable	-	-	-	-	-	**(555)**	**(555)**
Rights issue of ordinary shares	**30**	**487**	-	-	-	-	**517**
At 31 December 2006	**2,133**	**5,364**	-	**982**	**235**	**10,410**	**19,124**

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Cash Flow Statement
For the Year Ended 31 December 2006

	Group		Bank	
	2006	2005	**2006**	2005
	Lm 000	Lm 000	**Lm 000**	Lm 000
Cash flows from operating activities				
Interest and commission receipts	**10,975**	6,888	**10,971**	6,885
Interest and commission payments	**(4,722)**	(4,626)	**(4,722)**	(4,625)
Payments to employees and suppliers	**(2,074)**	(2,036)	**(2,047)**	(2,007)
Operating profit before changes in operating assets and liabilities	**4,179**	226	**4,202**	253
(Increase)/decrease in operating assets:				
Treasury Bills	**7,826**	7,928	**7,826**	7,928
Deposits with Central Bank of Malta	**(3,591)**	6,417	**(3,591)**	6,417
Loans and advances to banks and customers	**(13,747)**	(9,412)	**(13,700)**	(9,416)
Other receivables	**(150)**	(236)	**(150)**	(236)
Increase/(decrease) in operating liabilities:				
Amounts owed to customers	**14,846**	1,139	**14,881**	1,116
Other payables	**(6)**	439	**(6)**	439
Net cash from operations	**9,357**	6,501	**9,462**	6,501
Tax paid	**(1,097)**	(1,141)	**(1,097)**	(1,141)
Net cash from operating activities c/f	**8,260**	5,360	**8,365**	5,360

LOMBARD

Cash Flow Statement
For the Year Ended 31 December 2006

	Note	Group 2006 Lm 000	Group 2005 Lm 000	Bank 2006 Lm 000	Bank 2005 Lm 000
Net cash from operating activities b/f		**8,260**	5,360	**8,365**	5,360
Cash flows from investing activities					
Dividends received		**22**	27	**22**	27
Interest received from investments		**2,067**	2,710	**2,067**	2,710
Proceeds on maturity/disposal of investments		**1,827**	3,468	**1,734**	3,468
Purchase of investments		**(1,800)**	-	**(1,800)**	-
Investment in associate		**(1,138)**	-	**-**	-
Investment in subsidiary		**-**	-	**(1,150)**	-
Purchase of property, plant and equipment		**(84)**	(237)	**(84)**	(237)
Proceeds from disposal of subsidiary		**-**	31	**-**	31
Net cash flows from investing activities		**894**	5,999	**789**	5,999
Cash flows from financing activities					
Dividends paid		**(38)**	(15)	**(38)**	(15)
Cash used in financing activities		**(38)**	(15)	**(38)**	(15)
Net increase in cash and cash equivalents		**9,116**	11,344	**9,116**	11,344
Cash and cash equivalents at beginning of year		**65,516**	54,172	**65,516**	54,172
Cash and cash equivalents at end of year	33	**74,632**	65,516	**74,632**	65,516

1 Reporting entity

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

The consolidated financial statements for the year ended 31 December 2006 comprise the Bank and its subsidiary undertakings (together referred to as 'the Group') as disclosed in note 20.

IFRS in issue but not yet effective

Certain new disclosures about financial instruments will be required upon the adoption of IFRS 7 Financial Instruments: Disclosures. This Standard is applicable for annual periods beginning on or after 1 January 2007, with earlier application encouraged. IFRS 7 replaces the disclosures required by IAS 32, Financial Instruments: Disclosures and Presentation and IAS 30, Disclosures in the Financial Statements of Banks and Similar Financial Institutions. IFRS 7 introduces new disclosures to improve the information about financial instruments.

Upon adoption of the amendments to IAS 1, Capital Disclosures, additional disclosures will also be required to enable users to evaluate the objectives, policies and processes for managing capital. These amendments are applicable for annual periods beginning on or after 1 January 2007, with earlier application encouraged.

The financial statements were approved by the Board of Directors on 8 March 2007.

2 Basis of preparation

2.1 *Statement of compliance*

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

Notwithstanding the above, there were no incompatibilities between the provisions of the Companies Act, 1995 and the requirements of the Regulation in relation to the preparation of these financial statements.

2.2 *Functional currency and basis of measurement*

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

2 **Basis of preparation** *(continued)*

2.3 *Use of estimates and judgements*

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

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

In particular, information about significant areas of estimated, uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amount recognized in the financial statements are described in note 38.

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

3 **Significant accounting policies**

3.1 *Basis of consolidation*

3.1.1 Subsidiaries

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

3.1.2 Associates

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. The consolidated financial statements include the Group's share of profit of associates on an equity accounted basis, from the date that significant influence commences until the date that significant influence ceases. When the Group's share of losses exceeds its interest in an associate, the Group's carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of an associate.

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.

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

3.2 *Financial instruments*

3.2.1 Classification

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

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

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

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

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

3.2.2 Recognition

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

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

3.2.3 Measurement

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

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

3.2.3 Measurement *(continued)*

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

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

3.2.4 Fair value measurement principles

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

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

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

3.2.5 Gains and losses on subsequent measurement

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

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

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

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

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

3.2.6 Derecognition

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

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

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

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

3.3 *Offsetting financial instruments*

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

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

3.4 *Investments in subsidiaries and associates*

Investments in subsidiaries are shown in the balance sheet of the Bank at cost less impairment losses (see accounting policy 3.7).

Investments in associates are classified by the Bank as available-for-sale financial assets and stated at fair value.

3.5 *Property and equipment*

3.5.1 Owned assets

Property and equipment are initially measured at cost.

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

Property and equipment are subsequently stated net of accumulated depreciation (see note 3.5.3) and impairment losses (see note 3.7).

3 Significant accounting policies *(continued)*

3.5.1 Owned assets *(continued)*

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

3.5.2 Subsequent costs

The cost of replacing part of an item of property and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied with the part will flow to the Group and its cost can be measured reliably.

The costs of the day-to-day servicing of property and equipment are recognised in profit or loss as incurred.

3.5.3 Depreciation

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

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

Depreciation methods, useful lives and residual values are reassessed at the balance sheet date.

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. Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. Valuations are prepared by considering the aggregate of the net annual rents receivable from the properties and, where relevant associated costs. These valuations are reviewed annually by an independent valuation expert.

Changes in fair value are recognised in profit or loss.

3.7 *Impairment*

The carrying amounts of the Group's assets, other than investment property (see accounting policy 3.6) and deferred tax assets (see accounting policy 3.18), are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. A financial asset or group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset and that loss has an impact on the estimated future cash flows of the financial assets or group of financial assets that can be reliably measured. If there is objective evidence, the asset's recoverable amount is estimated (see below). An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in profit or loss unless the asset is carried at revalued amount, in which case the impairment is treated as a revaluation decrease, to the extent of the credit balance on the revaluation reserve.

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

3.7.1 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.

3.7.2 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.

3.7.3 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.

3.7.4 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.

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

3.7.4 Reversals of impairment *(continued)*

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.

3.8 *Cash and cash equivalents*

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

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

3.9 *Provisions*

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

3.10 *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.

3.11 *Interest*

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

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

3.11 *Interest (continued)*

The calculation of the effective interest rate includes all fees 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 rate basis; and
- interest on available-for-sale investment securities on an effective interest basis.

3.12 *Fees and commissions*

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, is 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.

3.13 *Net trading income*

Net trading income comprises fair value movements on derivative financial instruments and foreign exchange differences.

3.14 *Dividends*

Dividend income is recognised when the right to received income is established. Usually this is the ex-dividend date for equity securities.

3.15 *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.

3.16 *Employee benefits*

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

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

3.17 *Foreign currency transactions*

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to Maltese Lira at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in profit or loss. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to Maltese Lira at foreign exchange rates ruling at the dates the fair values were determined.

3.18 *Income tax*

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

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or 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 liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised and/or sufficient taxable temporary differences are available. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

3.19 *Segment reporting*

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

3.20 *Non-current assets held for sale*

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

Impairment losses on initial classification as held for sale are charged to the income statement. Gains and losses on subsequent re-measurement are also included in the income statement.

4 **Interest receivable and similar income**

	Group		Bank	
	2006	2005	**2006**	2005
	Lm 000	Lm 000	**Lm 000**	Lm 000
On loans and advances to banks	**1,722**	1,320	**1,722**	1,323
On loans and advances to customers	**5,780**	5,314	**5,783**	5,313
On balances with Central Bank of Malta	**663**	362	**663**	362
On Treasury Bills	**477**	805	**477**	805
	8,642	7,801	**8,645**	7,803
On debt and other fixed income instruments	**1,428**	1,565	**1,428**	1,565
Net amortisation of premia and discounts	**(36)**	(35)	**(36)**	(35)
	1,392	1,530	**1,392**	1,530

5 **Interest expense**

	Group		Bank	
	2006	2005	**2006**	2005
	Lm 000	Lm 000	**Lm 000**	Lm 000
On amounts owed to banks	**17**	8	**17**	5
On amounts owed to customers	**4,753**	4,546	**4,753**	4,549
	4,770	4,554	**4,770**	4,554

6 **Dividend income**

	Group		Bank	
	2006	2005	**2006**	2005
	Lm 000	Lm 000	**Lm 000**	Lm 000
From available-for-sale equity shares	**34**	27	**34**	27

7 **Net trading income**

	Group		Bank	
	2006	2005	**2006**	2005
	Lm 000	Lm 000	**Lm 000**	Lm 000
Profit on foreign exchange activities	**324**	352	**324**	352
Fair value movements on derivative financial instruments	**2**	-	**2**	-
	326	352	**326**	352

8 Net gains on disposal of non-trading financial instruments

	Group		Bank	
	2006	2005	**2006**	2005
	Lm 000	Lm 000	**Lm 000**	Lm 000
Net revaluation gains on available-for-sale assets transferred from equity	**36**	10	**10**	9
Profit on disposal of investment in subsidiary	**-**	2	**-**	2
	36	12	**10**	11

9 Administrative expenses

9.1

	Group		Bank	
	2006	2005	**2006**	2005
	Lm 000	Lm 000	**Lm 000**	Lm 000
Staff costs:				
- wages, salaries and allowances	**1,198**	1,136	**1,198**	1,136
- defined contribution social security costs	**77**	75	**77**	75
Other administrative expenses	**778**	845	**752**	810
	2,053	2,056	**2,027**	2,021

9.2

	Group		Bank	
	2006	2005	**2006**	2005
	Number	Number	**Number**	Number
Average number of employees				
Executive and senior managerial	**11**	11	**11**	11
Other managerial, supervisory and clerical	**111**	112	**111**	112
Others	**8**	7	**8**	7
	130	130	**130**	130

10 Net impairment (losses)/reversals

	Group		Bank	
	2006	2005	**2006**	2005
	Lm 000	Lm 000	**Lm 000**	Lm 000
Write downs:				
Loans and advances to customers				
- Specific Allowances	**(335)**	(283)	**(335)**	(283)
- Collective Allowances	**(120)**	(104)	**(120)**	(104)
	(455)	(387)	**(455)**	(387)
Reversal of write downs:				
Loans and advances to customers				
- Specific Allowances	**333**	677	**333**	677
	333	677	**333**	677
Net impairment (losses)/reversals	**(122)**	290	**(122)**	290

11 Profit before taxation

	Group		Bank	
	2006	2005	**2006**	2005
	Lm 000	Lm 000	**Lm 000**	Lm 000
Profit before taxation is stated after crediting and charging the following:				
After charging				
Directors' emoluments:				
- Fees	**23**	24	**23**	24
- Other emoluments	**124**	107	**124**	107
Operating lease rental charge	**41**	41	**41**	41
After crediting				
Rental income from investment property	**16**	16	**16**	16

Profit before tax is also stated after charging auditors' remuneration in relation to statutory audit amounting to Lm10,000.

12 Taxation

12.1 *Recognised in the income statement*

	Group		Bank	
	2006	2005	**2006**	2005
	Lm 000	Lm 000	**Lm 000**	Lm 000
Current taxation				
Current tax expense	**1,400**	1,279	**1,400**	1,279
Deferred taxation				
Origination and reversal of temporary differences	**(38)**	24	**(38)**	24
	1,362	1,303	**1,362**	1,303

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

	Group		Bank	
	2006	2005	**2006**	2005
	Lm 000	Lm 000	**Lm 000**	Lm 000
Profit before taxation	**3,867**	3,666	**3,859**	3,691
Tax at the applicable rate of 35%	**(1,353)**	(1,283)	**(1,351)**	(1,292)
Tax effect of non-taxable income	**10**	-	**-**	-
Tax effect of non-deductible expenses	**(11)**	(12)	**(3)**	(2)
Tax effect of income taxed at different tax rates	**2**	1	**2**	-
Tax effect of depreciation charges not deductible by way of capital allowances	**(9)**	(6)	**(9)**	(6)
Tax effect of taxable temporary differences previously not recognised	**(1)**	(3)	**(1)**	(3)
Taxation	**(1,362)**	(1,303)	**(1,362)**	(1,303)

13 Earnings per share

Earnings per share is calculated on profit attributable to the equity holders of the Bank for the year ended 31 December 2006 amounting to Lm2,504,000 for the Group (2005: Lm2,369,000) and Lm2,497,000 for the Bank (2005: Lm2,388,000) divided by 8,488,620 (2005: 8,376,968), being the weighted average number of shares in issue during the year.

On 17 April 2006, at the Bank's Annual General Meeting, the shareholders approved a sub division of the par value of the Bank's shares on a 'two-for-one' basis, bringing down the par value of each share from 50 cents to 25 cents. The earnings per share for the prior year has been restated with this effect.

14 Balances with Central Bank of Malta, Treasury Bills and cash

	Group		Bank	
	2006	2005	**2006**	2005
	Lm 000	Lm 000	**Lm 000**	Lm 000
Balances with Central Bank of Malta	**42,421**	4,130	**42,421**	4,130
Malta Government Treasury Bills	**990**	24,807	**990**	24,807
Cash in hand	**812**	574	**812**	574
	44,223	29,511	**44,223**	29,511

Balances with the Central Bank of Malta includes a reserve deposit amounting to Lm6,798,000 (2005: Lm4,130,000) held in terms of Article 37 of the Central Bank of Malta Act, Cap 204.

15 Derivative financial instruments

	Group		Bank	
	2006	2005	**2006**	2005
	Lm 000	Lm 000	**Lm 000**	Lm 000
Financial assets				
Derivative financial instruments	**2**	-	**2**	-

Group/Bank

	Notional amount with remaining life of:			Fair values
	Less than three months	Between three months and one year	Total	Assets
	Lm 000	Lm 000	Lm 000	Lm 000
Forward exchange contracts:				
At 31 December 2006	**32**	**326**	**358**	**2**
At 31 December 2005	121	-	121	-

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16 **Investments**

16.1 *Investments comprise:*

	Group		Bank	
	2006	2005	**2006**	2005
	Lm 000	Lm 000	**Lm 000**	Lm 000
Debt and other fixed income instruments				
- available-for-sale	**1,009**	1,682	**1,009**	1,682
- held-to-maturity	**21,619**	21,055	**21,619**	21,055
Equity instruments available-for-sale	**845**	862	**747**	677
	23,473	23,599	**23,375**	23,414

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

	Group		Bank	
	2006	2005	**2006**	2005
	Lm 000	Lm 000	**Lm 000**	Lm 000
Issued by public issuers:				
- local banks	**349**	397	**349**	397
- local others	**660**	1,285	**660**	1,285
	1,009	1,682	**1,009**	1,682
Debt and other fixed income instruments				
- listed on the Malta Stock Exchange	**1,009**	1,682	**1,009**	1,682

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

The Bank has pledged Lm2,000,000 (2005: Lm2,000,000) worth of Malta Government Stocks to the Central Bank of Malta as security for a facility which was not utilised at balance sheet date.

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

16 **Investments** *(continued)*

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

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

17 **Loans and advances to banks**

	Group		Bank	
	2006 Lm 000	2005 Lm 000	**2006 Lm 000**	2005 Lm 000
Repayable on call and at short notice	**1,436**	1,839	**1,436**	1,839
Term loans and advances	**39,770**	47,000	**39,770**	47,000
	41,206	48,839	**41,206**	48,839

18 **Loans and advances to customers**

18.1

	Group		Bank	
	2006 Lm 000	2005 Lm 000	**2006 Lm 000**	2005 Lm 000
Repayable on call and at short notice	**34,584**	35,357	**34,584**	36,006
Term loans and advances	**57,560**	45,189	**57,560**	44,587
Gross loans and advances to customers	**92,144**	80,546	**92,144**	80,593
Allowance for uncollectibility	**(1,930)**	(1,808)	**(1,930)**	(1,808)
Net loans and advances to customers	**90,214**	78,738	**90,214**	78,785
Allowances for uncollectibility				
Specific allowances	**1,402**	1,400	**1,402**	1,400
Collective allowances	**528**	408	**528**	408
	1,930	1,808	**1,930**	1,808

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

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

	Group		Bank	
	2006 **Lm 000**	2005 Lm 000	**2006** **Lm 000**	2005 Lm 000
Transport, storage and communication	**1,665**	2,221	**1,665**	2,221
Financial intermediation	**213**	325	**213**	372
Agriculture	**199**	191	**199**	191
Manufacturing	**2,686**	3,932	**2,686**	3,932
Construction	**24,667**	15,686	**24,667**	15,686
Hotel and restaurants, excluding related construction activities	**3,097**	2,340	**3,097**	2,340
Wholesale and retail trade; repairs	**14,524**	14,731	**14,524**	14,731
Community, recreational and personal service activities	**5,307**	5,169	**5,307**	5,169
Education	**1,776**	1,936	**1,776**	1,936
Health and social work	**89**	81	**89**	81
Mining and quarrying	**273**	331	**273**	331
Electricity, gas and water supply	**20**	-	**20**	-
Real estate, renting and business activities	**27,334**	23,156	**27,334**	23,156
Households and individuals	**10,294**	10,447	**10,294**	10,447
	92,144	80,546	**92,144**	80,593

18.3

Group/Bank

	Specific allowances Lm 000	**Collective allowances Lm 000**	**Total Lm 000**
At 1 January 2005	1,794	304	2,098
Additions	283	104	387
Reversals	(677)	-	(677)
At 31 December 2005	1,400	408	1,808
At 1 January 2006	1,400	408	1,808
Additions	335	120	455
Reversals	(333)	-	(333)
At 31 December 2006	**1,402**	**528**	**1,930**

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

The aggregate amount of impaired loans and advances to customers amounted to Lm14,320,000 (2005: Lm12,383,000) in respect of the Group and the Bank. No further specific allowances for uncollectibility were required in terms of Banking Directive 09.

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

18.4 *(continued)*

Total interest that would have accrued on the impaired loans in the current and preceding financial years would have amounted to Lm1,332,000 (2005: Lm1,230,000) in respect of the Group and the Bank.

18.5 Assets acquired in settlement of debt amounting to Lm106,000 (2005: nil) are classified as assets held for sale.

19 **Investment in associate**

19.1 *The Bank has the following investment in associate:*

Name of Company	Incorporated In	Nature of Business	Ownership Interest	
			2006	2005
			%	%
Maltapost p.l.c.	Malta	Postal services	**35**	-

The shares in associated company are held indirectly by the bank through Redbox Limited, which is a fully-owned subsidiary of the Bank. Maltapost p.l.c. is not listed.

19.2

	Group		Bank	
	2006	2005	**2006**	2005
	Lm 000	Lm 000	**Lm 000**	Lm 000
Additions	**1,138**	-	**-**	-
Share of profit of associate	**5**	-	-	-
At the end of the year	**1,143**	-	-	-

19.3 *Summary of financial information on associated company as of and for the year ended 30 September 2006 – 100%*

	Assets	**Liabilities**	**Equity**	**Revenues**	**Profit**
	Lm 000	**Lm 000**	**Lm 000**	**Lm 000**	**Lm 000**
2006					
Maltapost p.l.c.	**6,369**	**3,194**	**3,175**	**7,267**	**101**

20 **Shares in subsidiary companies**

Name of Company	Incorporated In	Nature of Business	Equity Interest 2006 %	2005 %	Bank 2006 Lm 000	2005 Lm 000
Lombard Asset Managers Limited	Malta	Management of Collective Investments Schemes	**75**	75	**125**	125
Redbox Limited	Malta	Holding Company	**100**	-	**1,150**	-
					1,275	125

The subsidiary companies are not listed.

Lombard Asset Managers Limited is the investment manager of Lombard Enterprise Fund. At balance sheet date the subsidiary owned 36% of the units in the Fund. The Bank is also the unit holder of another 36% of the units in the Fund. As a result, by virtue of the Bank's 75% holding of the equity of the subsidiary, the Group is the owner of 63% of the total units in Lombard Enterprise Fund.

The investment in Lombard Enterprise Fund is not consolidated on the basis of materiality. Furthermore, the directors consider that in view of the fact that the investment in the Fund is measured at fair value in the Bank's and the subsidiary's separate financial statements, the consolidated financial statements reflect substantively the Group's share in the fair value of this investment.

Redbox Limited owns 35% of the equity interest in Maltapost p.l.c. (note 19).

21 Property and equipment

Group

	Land and buildings Lm 000	Computer equipment Lm 000	Other Lm 000	Total Lm 000
Cost/revaluation				
At 1 January 2005	1,836	984	828	3,648
Acquisitions	113	58	65	236
Disposals	-	(12)	(3)	(15)
Revaluation	1,017	-	-	1,017
Release of depreciation on revaluation	(40)	-	-	(40)
At 31 December 2005	2,926	1,030	890	4,846
At 1 January 2006	2,926	1,030	890	4,846
Acquisitions	19	7	58	84
Disposals	-	(65)	(35)	(100)
At 31 December 2006	**2,945**	**972**	**913**	**4,830**
Depreciation				
At 1 January 2005	146	854	749	1,749
Charge for the year	18	52	23	93
Release on disposals	-	(12)	(1)	(13)
Release of depreciation on revaluation	(40)	-	-	(40)
At 31 December 2005	124	894	771	1,789
At 1 January 2006	124	894	771	1,789
Charge for the year	25	55	28	108
Release on disposals	-	(65)	(34)	(99)
At 31 December 2006	**149**	**884**	**765**	**1,798**
Carrying amount				
At 1 January 2005	1,690	130	79	1,899
At 31 December 2005	2,802	136	119	3,057
At 1 January 2006	**2,802**	**136**	**119**	**3,057**
At 31 December 2006	**2,796**	**88**	**148**	**3,032**

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21 **Property and equipment** *(continued)*

Bank

	Land and buildings Lm 000	Computer equipment Lm 000	Other Lm 000	Total Lm 000
Cost/revaluation				
At 1 January 2005	1,836	979	825	3,640
Acquisitions	113	58	65	236
Disposals	-	(12)	-	(12)
Revaluation	1,017	-	-	1,017
Release of depreciation on revaluation	(40)	-	-	(40)
At 31 December 2005	2,926	1,025	890	4,841
At 1 January 2006	2,926	1,025	890	4,841
Acquisitions	19	7	58	84
Disposals	-	(65)	(35)	(100)
At 31 December 2006	**2,945**	**967**	**913**	**4,825**
Depreciation				
At 1 January 2005	146	848	748	1,742
Charge for the year	18	53	23	94
Release on disposal	-	(12)	-	(12)
Release of depreciation on revaluation	(40)	-	-	(40)
At 31 December 2005	124	889	771	1,784
At 1 January 2006	124	889	771	1,784
Charge for the year	25	55	28	108
Release on disposals	-	(65)	(34)	(99)
At 31 December 2006	**149**	**879**	**765**	**1,793**
Carrying amount				
At 1 January 2005	1,690	131	77	1,898
At 31 December 2005	2,802	136	119	3,057
At 1 January 2006	**2,802**	**136**	**119**	**3,057**
At 31 December 2006	**2,796**	**88**	**148**	**3,032**

21 **Property and equipment** *(continued)*

	Group		Bank	
	2006	2005	**2006**	2005
	Lm 000	Lm 000	**Lm 000**	Lm 000
Carrying amount of property occupied for own activities	**2,796**	2,802	**2,796**	2,802
Future capital expenditure				
Contracted but not provided for in the financial statements	**360**	-	**360**	-
Authorised by the directors but not yet contracted	**891**	-	**891**	-
	1,251	-	**1,251**	-

The carrying amount of land and buildings that would have been included in the financial statements had these assets been carried at cost less depreciation is Lm1,604,000 (2005: Lm1,607,000) for the Group and the Bank.

22 **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
	2006	2005	**2006**	2005
	Lm 000	Lm 000	**Lm 000**	Lm 000
Leasehold land and buildings				
Balance at 1 January	**151**	151	**151**	151
Balance at 31 December	**151**	151	**151**	151

23 **Deferred tax assets**

23.1 *Recognised deferred tax assets and liabilities:*

Group/Bank

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

	Assets 2006 Lm 000	**Liabilities 2006 Lm 000**	**Net 2006 Lm 000**	Assets 2005 Lm 000	Liabilities 2005 Lm 000	Net 2005 Lm 000
Excess of depreciation over capital allowances	**24**	**-**	**24**	31	-	31
Provision for liabilities and other charges	**90**	**-**	**90**	87	-	87
Impairment allowances	**676**	**-**	**676**	633	-	633
Revaluation of property	**-**	**(228)**	**(228)**	-	(278)	(278)
Fair value movements in investments	**-**	**(164)**	**(164)**	-	(182)	(182)
	790	**(392)**	**398**	751	(460)	291

23.2 *Unrecognised deferred tax assets*

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

	2006 Lm 000	2005 Lm 000
Tax losses	**80**	80
Capital allowances	**1**	1
	81	81

23.3 *Movement in temporary differences during the year:*

Group/Bank

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

23 **Deferred tax assets** *(continued)*

23.3 *Movement in temporary differences during the year: (continued)*

Group/Bank

	At 1 January 2006 Lm 000	**Recognised in Income Lm 000**	**Recognised in Equity Lm 000**	**At 31 December 2006 Lm 000**
Excess of depreciation over capital allowances	**31**	**(7)**	**-**	**24**
Provision for liabilities and charges	**87**	**3**	**-**	**90**
Impairment allowances	**633**	**43**	**-**	**676**
Revaluation of property	**(278)**	**-**	**50**	**(228)**
Fair value movements in investments	**(182)**	**-**	**18**	**(164)**
	291	**39**	**68**	**398**

24 **Prepayments and accrued income**

	Group		**Bank**	
	2006 Lm 000	2005 Lm 000	**2006 Lm 000**	2005 Lm 000
Accrued income	**1,205**	3,220	**1,205**	3,220
Prepayments	**51**	55	**51**	55
	1,256	3,275	**1,256**	3,275

25 **Amounts owed to banks**

	Group		**Bank**	
	2006 Lm 000	2005 Lm 000	**2006 Lm 000**	2005 Lm 000
Repayable on demand	**218**	65	**218**	65

26 **Amounts owed to customers**

	Group		Bank	
	2006	2005	**2006**	2005
	Lm 000	Lm 000	**Lm 000**	Lm 000
Term deposits	**134,262**	116,758	**134,262**	116,758
Repayable on demand	**46,336**	48,994	**46,371**	48,994
	180,598	165,752	**180,633**	165,752

27 **Other liabilities**

	Group		Bank	
	2006	2005	**2006**	2005
	Lm 000	Lm 000	**Lm 000**	Lm 000
Bills payable	**1,031**	875	**1,031**	875
Cash collateral	**131**	182	**131**	182
Other	**2,272**	2,384	**2,262**	2,374
	3,434	3,441	**3,424**	3,431

28 **Accruals and deferred income**

	Group		Bank	
	2006	2005	**2006**	2005
	Lm 000	Lm 000	**Lm 000**	Lm 000
Accrued interest	**1,501**	1,440	**1,501**	1,440
Other	**225**	240	**225**	240
	1,726	1,680	**1,726**	1,680

29 Share capital

29.1 Group/Bank

	2006 No. of Shares 000s	**2006 Lm 000**	2005 No. of Shares 000s	2005 Lm 000
Authorised				
Ordinary shares of 50 cents each	**-**	**-**	10,000	5,000
Ordinary shares of 25 cents each	**20,000**	**5,000**	-	-
Issued and fully paid up				
Ordinary shares of 50 cents each	**-**	**-**	4,205	2,103
Ordinary shares of 25 cents each	**8,534**	**2,133**	-	-

29.2 *Issued for cash*

	Ordinary shares	
	2006	2005
On issue at 1 January	**4,205**	4,114
Sub-division of the par value of shares	**4,205**	-
Rights issue	**124**	91
On issue at 31 December	**8,534**	4,205

29.3 On 17 April 2006 the shareholders in general meeting approved a sub-division of the par value of the Bank's shares on a 'two-for-one' basis. As a result, the number of authorised and issued shares doubled whilst the par value of each share decreased from 50 cents to 25 cents.

29.4 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.

30 Reserves

30.1 *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 17 April 2006.

30.2 *Other reserve*

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

30 **Reserves** *(continued)*

30.3 *Property revaluation reserve*

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

30.4 *Investment revaluation reserve*

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

30.5 *Retained earnings*

30.5.1 Dividends

A gross dividend of 12.5 cents share for the twelve months ended 31 December 2006 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.

31 **Provisions and contingent liabilities**

31.1 *Provisions*

During the year, the Bank provided Lm10,000 (2005: Lm103,000) against claims by customers. In addition, the Bank is also a defendant in legal actions by other customers as a result of which the directors are of the opinion that no liability will be incurred.

31.2 *Contingent liabilities*

Group/Bank

	2006	2005
	Lm 000	Lm 000
Guarantee obligations incurred on behalf of third parties	**3,229**	3,261

32 Commitments

Group/Bank

	2006	2005
	Lm 000	Lm 000
Documentary credits	**435**	92
Credit facilities and other commitments to lend	**34,122**	23,931
	34,557	24,023

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

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

33 Cash and cash equivalents

Balances of cash and cash equivalents as shown in the Balance Sheet are analysed below:

	Group		**Bank**	
	2006	2005	**2006**	2005
	Lm 000	Lm 000	**Lm 000**	Lm 000
Treasury Bills	**990**	16,981	**990**	16,981
Loans and advances to banks	**73,048**	48,026	**73,048**	48,026
Cash in hand	**812**	574	**812**	574
Amounts owed to banks	**(218)**	(65)	**(218)**	(65)
Cash and cash equivalents	**74,632**	65,516	**74,632**	65,516
Adjustment to reflect balances with contractual maturity of more than 3 months	**10,579**	12,769	**10,579**	12,769
Per balance sheet	**85,211**	78,285	**85,211**	78,285
Analysed as follows:				
Balances with Central Bank of Malta, Treasury Bills and cash	**44,223**	29,511	**44,223**	29,511
Loans and advances to banks	**41,206**	48,839	**41,206**	48,839
Amounts owed to banks	**(218)**	(65)	**(218)**	(65)
	85,211	78,285	**85,211**	78,285

34 **Segmental information**

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

35 **Related parties**

35.1 *Identity of related parties*

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

35.2 *Transactions arrangements and agreements involving key management personnel*

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

Group/Bank

	2006 Loans and advances Lm 000	**2006 Commitments Lm 000**	2005 Loans and advances Lm 000	2005 Commitments Lm 000
Key management personnel:				
Directors				
At beginning of year	**250**	**-**	324	1
Additions	**-**	**7**	(74)	-
Repayments	**(23)**	**-**	-	-
Drawn commitments	**-**	**-**	-	(1)
At balance sheet date	**227**	**7**	250	-

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.

35.3 *Compensation to key management personnel*

Details of directors' fees and emoluments are stated in note 11.

35 **Related parties** *(continued)*

35.4 *Transactions with other related parties*

Subsidiaries

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

	2006	2005
	Lm 000	Lm 000
Income statement		
Interest receivable and similar income	**3**	2
Balance sheet		
Loans and advances to customers	**-**	47
Amounts owed to customers	**35**	-

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

	2006	2005
	Lm 000	Lm 000
Income statement		
Interest receivable and similar income	**7**	6
Administrative expenses	**21**	23
Balance sheet		
Other assets	**2**	2
Other liabilities	**8**	8

Major Shareholder

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

	2006	2005
	Lm 000	Lm 000
Income statement		
Interest receivable and similar income	**28**	5
Interest payable	**1**	-
Balance Sheet		
Loans and advances to banks	**221**	417

36 **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.

37 **Financial instruments**

Exposure to credit, interest rate and currency risks arises in the normal course of the Group's business. By their nature, the Group's activities are related to the use of financial instruments. The Group accepts deposits from customers at both fixed and floating rates and for varying maturity periods. The Group seeks to maximise the spread over the cost of capital by investing these funds in a portfolio of securities and loans and receivables with a longer tenure than the liabilities (therefore carrying a negative maturity gap position) through the efficient management of shorter term liabilities over the medium to longer term. The most important types of financial risk to which the Group is therefore exposed are credit risk, liquidity risk and market risk. Market risk includes currency and interest rate risks.

37.1 *Credit risk*

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

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

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

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

37.2 *Interest rate risk*

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The Group's operations are subject to the risk of interest rate fluctuations to the extent that interest-earning assets and interest-bearing liabilities mature or re-price at different times or at different amounts. Accordingly this risk is managed through the matching of the interest resetting dates on assets and liabilities. The domestic environment offers relatively more stability in market rates whereas foreign rates tend to be more volatile. The table below summarises re-pricing mismatches at balance sheet date together with the effective interest rates where applicable.

37 **Financial instruments** *(continued)*

37.2 *Interest rate risk (continued)*

Group

	2006 Lm 000	Effective Interest Rate %	Less than Three Months Lm 000	Between Three Months and One Year Lm 000	Between One Year and Five Years Lm 000	More than Five Years Lm 000	Others Lm 000
Assets							
Balances with Central Bank of Malta, Treasury Bills and cash	**44,223**	3.71	43,411	-	-	-	812
Cheques in course of collection	**592**	-	-	-	-	-	592
Derivative financial instruments	**2**	-	-	2	-	-	-
Investments							
Debt and other fixed income financial instruments							
- available-for-sale	**2,709**	6.23	-	-	1,700	1,009	-
- held-to-maturity	**19,919**	6.48	-	-	-	19,919	-
Equity financial instruments							
- available-for-sale	**845**	-	-	-	-	-	845
Loans and advances to banks	**41,206**	4.48	38,347	2,859	-	-	-
Loans and advances to customers	**90,214**	6.71	42,728	877	20,664	25,945	-
Other assets	**6,110**	-	-	-	-	-	6,110
Total assets	**205,820**		124,486	3,738	22,364	46,873	8,359

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37 **Financial instruments** *(continued)*

37.2 *Interest rate risk (continued)*

Group

	2006 Lm 000	Effective Interest Rate %	Less than Three Months Lm 000	Between Three Months and One Year Lm 000	Between One Year and Five Years Lm 000	More than Five Years Lm 000	Others Lm 000
Liabilities							
Amounts owed to banks	**218**	-	-	-	-	-	218
Amounts owed to customers	**180,598**	2.92	81,434	58,194	34,457	1,667	4,846
Other liabilities	**5,887**	-	-	-	-	-	5,887
	186,703		81,434	58,194	34,457	1,667	10,951
Called up share capital	**2,133**	-	-	-	-	-	2,133
Share premium	**5,364**	-	-	-	-	-	5,364
Other reserve	-	-	-	-	-	-	-
Property revaluation reserve	**982**	-	-	-	-	-	982
Investment revaluation reserve	**266**	-	-	-	-	-	266
Retained earnings	**10,343**	-	-	-	-	-	10,343
Equity attributable to shareholders	**19,088**	-	-	-	-	-	19,088
Minority interest	**29**	-	-	-	-	-	29
Total equity	**19,117**		-	-	-	-	19,117
Total liabilities and equity	**205,820**		81,434	58,194	34,457	1,667	30,068
Gap			43,052	(54,456)	(12,093)	45,206	(21,709)
Cumulative gap			43,052	(11,404)	(23,497)	21,709	-

37 **Financial instruments** *(continued)*

37.2 *Interest rate risk (continued)*

Group

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

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37 **Financial instruments** *(continued)*

37.2 *Interest rate risk (continued)*

Group

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

37 **Financial instruments** *(continued)*

37.3 *Currency risk*

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

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

Group

	2006 Maltese Liri Lm000	**2006 Other Currencies Lm000**	**2006 Total Lm000**	2005 Maltese Liri Lm000	2005 Other Currencies Lm000	2005 Total Lm000
Financial assets						
Balances with Central Bank of Malta, Treasury Bills and cash	**44,095**	**128**	**44,223**	29,393	118	29,511
Cheques in course of collection	**592**	**-**	**592**	540	10	550
Investments						
Debt and other fixed income financial instruments						
-available-for-sale	**2,360**	**349**	**2,709**	1,285	397	1,682
-held-to-maturity	**19,919**	**-**	**19,919**	21,055	-	21,055
Equity financial instruments						
-available-for-sale	**797**	**48**	**845**	823	39	862
Loans and advances to banks	**1,396**	**39,810**	**41,206**	10,112	38,727	48,839
Loans and advances to customers – gross	**88,819**	**3,325**	**92,144**	78,351	2,195	80,546
Derivative financial instruments	**-**	**2**	**2**	-	-	-
	157,978	**43,662**	**201,640**	141,559	41,486	183,045
Financial liabilities						
Derivative financial instruments	-	-	-	-	-	-
Amounts owed to banks	**218**	**-**	**218**	65	-	65
Amounts owed to customers	**137,832**	**42,766**	**180,598**	125,306	40,446	165,752
	138,050	**42,766**	**180,816**	125,371	40,446	165,817

37 **Financial instruments** *(continued)*

37.4 *Liquidity risk*

Liquidity risk is the risk that an enterprise will encounter difficulty in raising funds to meet commitments associated with financial instruments. The Bank manages this risk by ensuring that its assets and liabilities are matched in terms of maturities, thereby allowing it to raise funds to meet its commitments, predominantly through deposits. The Group holds significant liquid assets in the form of treasury bills and money market placements as part of its liquidity risk management strategy.

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

Group

At 31 December 2006

	Fair value Adjustment Lm 000	Between One and Three Months Lm 000	Between Three Months and One Year Lm 000	Between One and Five Years Lm 000	More Than Five Years Lm 000	Total Lm 000
Financial assets						
Derivative financial instruments	-	-	2	-	-	2
Investments						
Debt and other fixed income financial instruments						
- available-for-sale	(9)	-	-	2,688	30	2,709
- held-to-maturity	-	-	1,967	6,605	11,347	19,919
Loans and advances to banks	-	38,998	2,208	-	-	41,206
Loans and advances to customers – gross	-	40,706	3,832	21,106	26,500	92,144
	(9)	79,704	8,009	30,399	37,877	155,980
Financial liabilities						
Amounts owed to banks	-	218	-	-	-	218
Amounts owed to customers	-	105,415	51,525	22,151	1,507	180,598
	-	105,633	51,525	22,151	1,507	180,816

37 **Financial instruments** *(continued)*

37.4 *Liquidity risk (continued)*

Group

At 31 December 2005

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

37.5 *Derivative financial instruments*

The Group enters into forward foreign currency exchange contracts with customers in the normal course of its business. Generally, it is the Group's policy to cover these contracts immediately by buying or selling a corresponding amount of the contracted currency on the money market. As a result, the Group is not open to any significant exchange risk. The Group also takes a deposit margin of the nominal value from the customer thereby reducing its credit risk should the client default. Details of the Group's exposure to derivative financial instruments at the balance sheet date are disclosed in note 15 to the financial statements.

37.6 *Fair values*

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

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

This category of assets is carried at amortised cost and amounts to Lm21,619,000 as at 31 December 2006. Fair value based on quoted market prices at balance sheet date without any deduction for transaction costs amounts to Lm23,399,000.

37 **Financial instruments** *(continued)*

37.6 *Fair values (continued)*

37.6.2 Loans and advances to banks and customers

This category of assets is reported net of impairment allowances to reflect the estimated recoverable amounts. As at 31 December 2006, the Group's carrying amount was Lm131,420,000. The loans and advances to customers category of assets amounts to Lm90,214,000. 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 Lm41,206,000. As at 31 December 2006, 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.

37.6.3 Amounts owed to banks and customers

This category of liabilities is carried at amortised cost and amounts to Lm180,816,000 as at 31 December 2006. 42.4% of this liability has contractual re-pricing within the 'less than three months' band, 37.3% re-prices within the 'between three months and one year' band whilst 19.3% re-prices within the 'between one year and five years' band whilst 1.0% 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.

38 **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.

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

38.1.1 Impairment losses on loans and advances

The Group reviews its loan portfolio to assess impairment on an ongoing basis as relevant generic data is observed concerning risks associated with groups of loans with similar risk characteristics. As a result, the Group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans, before the decrease is actually identified with an individual loan in that portfolio. The evidence may include observable data indicating that there has been an adverse change in the relative economic situation of an asset Group or in the credit status of borrowers in a Group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

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

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

38.1.2 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.

38.1.3 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.

39 **Comparative amounts**

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

Five Year Summary
Income Statement

Bank

	01/01/06 to 31/12/06 Lm 000	01/01/05 to 31/12/05 Lm 000	01/01/04 to 31/12/04 Lm 000	01/10/02 to 31/12/03 Lm 000	01/10/01 to 30/09/02 Lm 000
Interest receivable and other income	**10,037**	9,333	8,482	10,693	7,519
Interest expense	**(4,770)**	(4,554)	(4,815)	(7,072)	(4,654)
Net interest income	**5,267**	4,779	3,667	3,621	2,865
Other operating income	**859**	840	960	1,101	936
Other operating charges	**(2,145)**	(2,218)	(1,978)	(2,437)	(1,748)
Net impairment losses	**(122)**	290	(73)	(102)	(650)
Profit before taxation	**3,859**	3,691	2,576	2,183	1,403
Taxation	**(1,362)**	(1,303)	(985)	(773)	(492)
Profit for the year	**2,497**	2,388	1,591	1,410	911
Earnings per share	**29c4**	28c5	19c4	17c6	11c6

Five Year Summary
Balance Sheet

Bank

	31/12/06 Lm 000	31/12/05 Lm 000	31/12/04 Lm 000	31/12/03 Lm 000	30/09/02 Lm 000
Assets					
Balances with Central Bank of Malta, Treasury Bills and cash	**44,223**	29,511	40,312	60,711	50,430
Cheques in course of collection	**592**	550	334	699	831
Derivative financial instruments	**2**	-	16	44	73
Investments	**23,375**	23,414	26,639	25,399	26,997
Loans and advances to banks	**41,206**	48,839	41,045	36,628	19,641
Loans and advances to customers	**90,214**	78,785	69,079	57,347	58,076
Shares in subsidiary companies	**1,275**	125	154	154	138
Assets held for sale	**106**	-	-	-	-
Property and equipment	**3,032**	3,057	1,898	1,529	1,432
Investment property	**151**	151	151	151	151
Deferred tax assets	**398**	291	602	714	703
Other assets	**22**	21	30	21	66
Prepayments and accrued income	**1,256**	3,275	2,737	2,238	1,981
Total assets	**205,852**	188,019	182,997	185,635	160,519
Liabilities					
Derivative financial instruments	-	-	15	85	90
Amounts owed to banks	**218**	65	102	150	229
Amounts owed to customers	**180,633**	165,752	164,636	167,654	145,070
Current tax payable	**489**	195	58	224	146
Provision for liabilities and other charges	**238**	248	134	134	-
Other liabilities	**3,424**	3,431	3,002	3,732	2,576
Accruals and deferred income	**1,726**	1,680	1,720	2,000	2,174
Called up share capital	**2,133**	2,103	2,057	2,026	1,980
Share premium	**5,364**	4,877	4,537	4,341	4,055
Other reserve	-	111	111	111	111
Property revaluation reserve	**982**	932	126	126	126
Investment revaluation reserve	**235**	268	129	36	(57)
Retained earnings	**10,410**	8,357	6,370	4,779	3,762
Dividend reserve	-	-	-	237	257
Total liabilities and equity	**205,852**	188,019	182,997	185,635	160,519
Memorandum items					
Contingent liabilities	**3,229**	3,261	2,999	3,524	3,416
Commitments	**34,557**	24,023	22,673	17,201	21,542

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Five Year Summary
Cash Flow Statement

Bank

	01/01/06 to 31/12/06 Lm 000	01/01/05 to 31/12/05 Lm 000	01/01/04 to 31/12/04 Lm 000	01/10/02 to 31/12/03 Lm 000	01/10/01 to 30/09/02 Lm 000
Net cash from operating activities	**8,365**	5,360	(25,639)	19,708	24,977
Investing activities					
Dividends received	**22**	27	40	37	40
Interest received from investments	**2,067**	2,710	2,207	2,384	1,825
Proceeds from maturity/disposal of investments	**1,734**	3,468	363	2,034	2,299
Purchase of investments	**(1,800)**	-	(1,429)	(383)	(1,577)
Proceeds from disposal of property, plant and equipment	-	-	1	3	13
Purchase of property, plant and equipment	**(84)**	(237)	(445)	(190)	(21)
Purchase of shares issued by subsidiary company	-	-	-	(15)	(13)
Payment to acquire subsidiary	**(1,150)**	-	-	-	(125)
Proceeds from disposal of subsidiary	-	31	-	-	-
Net cash from investing activities	**789**	5,999	737	3,870	2,441
Financing activities					
Dividends paid	**(38)**	(15)	(10)	(81)	(26)
Net cash used in financing activities	**(38)**	(15)	(10)	(81)	(26)
Increase/(decrease) in cash and cash equivalents	**9,116**	11,344	(24,912)	23,497	27,392

Five Year Summary
Accounting Ratios

Bank

	01/01/06 to 31/12/06 %	01/01/05 to 31/12/05 %	01/01/04 to 31/12/04 %	01/10/02 to 31/12/03 %	01/10/01 to 30/09/02 %
Net interest income and other operating income to total assets	**3.0**	3.0	2.5	2.5	2.4
Operating expenses to total assets	**1.0**	1.1	1.1	1.2	1.1
Profit before tax to total assets	**1.9**	2.0	1.4	1.2	0.9
Profit before tax to equity	**20.2**	22.2	19.2	18.7	13.7
Profit after tax to equity	**13.1**	14.3	11.9	12.1	8.9

	31/12/06	31/12/05	31/12/04	31/12/03	30/09/02
Shares in issue of 25c each (thousands)	**8,534**	8,410	8,228	8,104	7,918
Net assets per share (cents)	**224**	198	162	144	129
Earnings per share (cents)	**29.0**	28.4	19.4	17.6	11.6

Solvency Ratio
At 31 December 2006

Bank

	Note	Balance sheet value Lm 000	Weighted amount Lm 000
On-balance sheet assets			
Balances with Central Bank of Malta,			
Treasury Bills and cash	(a)	44,200	-
Cheques in course of collection		592	118
Investments		23,375	3,177
Loans and advances to banks		41,206	8,241
Loans and advances to customers	(b)	90,742	74,366
Shares in subsidiary companies		1,275	1,275
Property, plant and equipment		3,032	3,032
Investment property		151	151
Deferred tax asset		398	398
Other assets		153	153
Prepayments and accrued income		1,256	629
		206,380	**91,540**
Off-balance sheet assets	(c)		
Contingent liabilities and commitments		37,786	-
Total adjusted assets and off-balance sheet items			**91,540**
Own funds			
Original own funds	(d)		17,907
Additional own funds	(e)		1,510
Gross own funds			**19,417**
Deductions	(f)		-
Total own funds			**19,417**
Solvency ratio	(g)		**21.21%**

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Solvency Ratio
At 31 December 2006

Notes

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

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

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

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

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

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

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

Financial Highlights in Major Currencies

Bank

	EURO €000's	US Dollars $000's	Pound Sterling £000's
For the year ended 31 December 2006			
Net interest income	12,269	16,172	8,224
Profit before income tax	8,988	11,848	6,025
Profit after income tax	5,816	7,667	3,899
At balance sheet date			
Shareholders' funds	44,547	58,720	29,860
Loans and advances to customers	210,142	277,002	140,860
Amounts owed to customers	420,761	554,633	282,040
Total assets	479,506	632,069	321,417
Per share			
Earnings	0.68	0.89	0.45
Net asset value	5.22	6.88	3.50

At currency rates of exchange ruling on 31 December 2006:

EURO €1 = Lm0.4293
US Dollars $3.0705 = Lm1
Pound Sterling £1.5614 = Lm1

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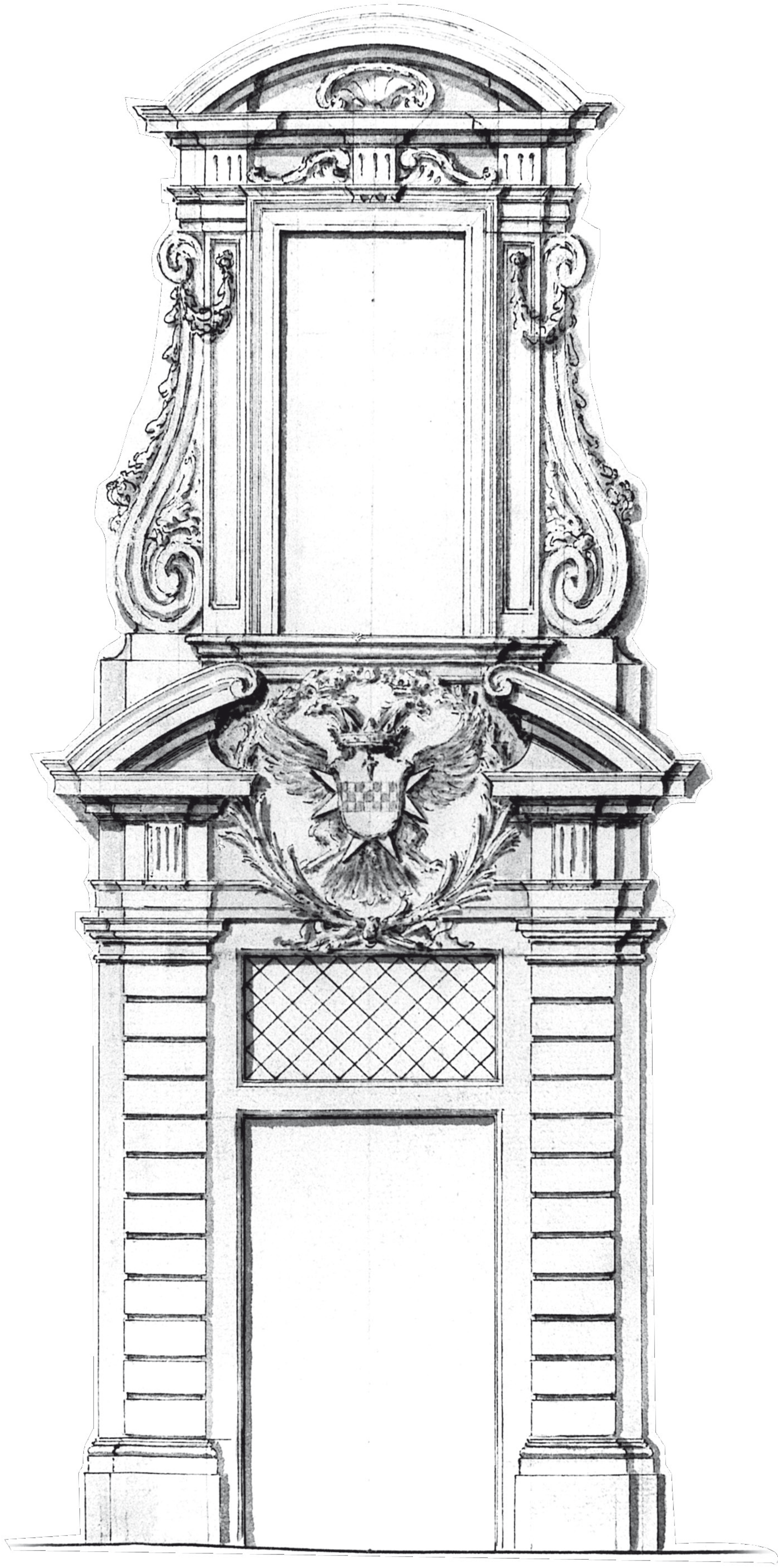

(Portal of Spinola Palace, Valletta designed by Romano Carapecchia (1666-1738
- Sources: The Courtauld Gallery - London & Denis De Lucca)
(*Carapecchia: Master of Baroque Architecture in Early Eighteenth Century Malta,* Malta, 1999