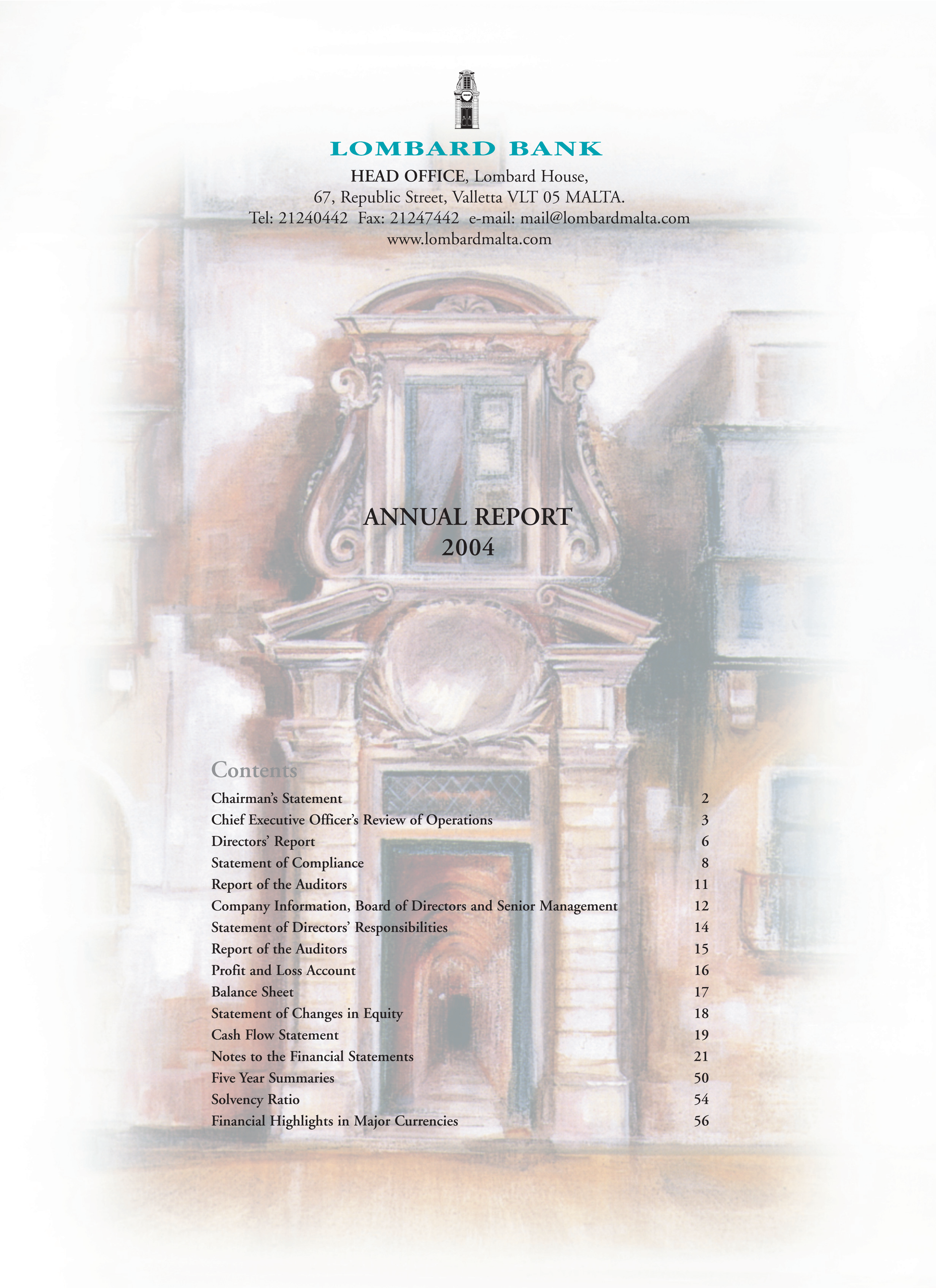
LOMBARD BANK

2004

ANNUAL REPORT



LOMBARD BANK

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ANNUAL REPORT 2004

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Chairman's Statement
to the Members

Once again the privilege rests with me as Chairman to report a record performance of Lombard Bank. Profit on ordinary activities before tax for the 12 months ended 31 December 2004 reached Lm2.542 million. In this period we achieved practically the same level of profits as for the 15 months ended 2003 - no mean feat. I would point out that the financial year-end was changed last year from 30 September to 31 December. Consequently the figures for this 12 month period are compared to those over a 15 month period from 1 October 2002 up to 31 December 2003.

Against a backdrop of a tumbling US Dollar and high oil prices, interest rates in Malta remained unchanged throughout the year. This contrasts with an otherwise historically eventful year with the highlight being Malta's accession to the European Union in May 2004. Earlier in the year the Central Bank of Malta announced the lifting of all remaining restrictions on foreign exchange transactions. Also, the financial markets in Malta continued to experience high liquidity indicating a cautious business approach as the impact of EU membership continued to work itself into the economy.

We are reporting a profit after taxation of Lm1.558 million for the 12 months ended 31 December 2004 (Lm1.393 million for the 15 months ended 31 December 2003). This is another strong performance by the Bank and equates at over 11 per cent on 2003. The Bank continued to reward the loyalty of its customers by providing very competitive interest rates on its deposit products, and at the same time balancing the size of its customer deposit base with the demand for credit in a scenario of modest economic growth. A healthy Interest Margin was maintained throughout the year and cost to income ratio remained comfortably below the 50 per cent mark. The Solvency Ratio calculated in terms of the Banking Directives stands at 18.9 per cent, against a regulatory requirement of 8 per cent. Thus the Bank continues to operate within a robust financial framework and remains well positioned to meet ongoing challenges arising from a liberalised economic environment. Over the past years the Bank has achieved remarkable rates of growth. Though such high rates are desirable, it would not be prudent to anticipate that similar rates of growth will continue unabated into the future. Shareholders' funds have now increased to Lm13.300 million (Lm11.645 million as at 31 December 2003) and Earnings per Share reached 38 cents for the 12 month period. Net Assets per share now stand at Lm3.23.

The Board of Directors are recommending a gross dividend of 15 cents per share resulting in an effective 25 per cent increase over the (annualised) dividend last period. 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. 17 February 2005, and has been calculated at Lm4.192.

The Bank has maintained high standards of Corporate Governance as declared in the Statement of Compliance. Indeed, the Bank is committed to ensure maximum transparency and accountability in all its affairs. Risk Management continued to be an integral part of the Bank's organisational structure and business strategy and the Bank's tradition of building quality assets in the lending portfolio has contributed to this year's strong performance. Treasury and investment decisions were also guided by prudent management policies. The Bank took a number of initiatives that should support the alignment of its strategic direction with developments in the market. These should also enhance its key strengths especially in its technology infrastructure and human resource capability. Such decisions should also complement the commitment to provide financial services that are driven by value. The Bank remains firm in its belief of the need to continue creating value for its shareholders as well as nurture and maximise the relationship with all stakeholders. The Bank remains responsive to the needs of society and has, on various occasions, assisted a number of social and philanthropic causes.

At the Annual General Meeting held in October 2003, shareholders had approved an Extraordinary Resolution that paved the way for the creation of a Share Ownership Scheme for staff members. In my statement then I had informed you that before further progress could be made with the Scheme certain clarifications were needed from the relevant Authorities. Unfortunately, the situation has not changed since then, but we remain confident that a solution will be forthcoming. In the meantime, the Bank remains committed in its belief that hard work, initiative and dedication are to be acknowledged as well as remunerated. In this regard it will continue to identify and adopt ways and means of rewarding all those staff members who extend their services beyond average levels.

In conclusion my fellow directors join me in thanking all shareholders and customers for consistently putting their trust in the Bank. I also thank the Management and Staff who accepted and met the quality standards set by the Board. Without their commitment, hard work and competence, the Bank's progress and growth would not be possible.

Christian Lemmerich
Chairman

Chief Executive Officer's
Review of Operations

Lombard Bank Malta p.l.c. and its subsidiaries registered a Group pre-tax profit of Lm2.54 million for the period ended 31 December 2004. In 2002 the Bank opted to change its financial year from the end of September to December. The previous financial year covered a 15 month period and therefore comparative figures are to be interpreted accordingly unless otherwise stated.

The Bank and its Subsidiaries

The Financial Statements covered by this review reflect the consolidated results of Lombard Bank and its two subsidiaries, Lombard Stockbrokers Limited and Lombard Asset Managers Limited.

Lombard Stockbrokers Limited (LSL) is the Bank's 51 per cent owned stockbroking subsidiary. LSL is active in stockbroking, primarily in securities quoted on the Malta Stock Exchange.

Lombard Asset Managers Limited (LAM) provides investment services to collective investment schemes. It is the appointed Manager of Gasan Funds SICAV p.l.c., an open-ended multi-class collective investment scheme licensed in Malta, which in 2003 was restructured to ensure a more unified and efficient investment approach by the sub-funds under its umbrella. LAM was acquired in 2002 at which time the equity market was relatively flat and appetite for collective investment schemes had somewhat waned. During this period, LAM concentrated on studying the market with a view to determining investor preferences and needs. In the coming year we envisage the launch of a product by LAM that should meet the requirements of the average prudent and entrepreneurial Maltese investor.

The Bank continues to implement a strategy of selectively identifying and building relationships based on providing a bespoke service. We focus our efforts mainly on high net worth clients both private as well as corporate.

Review of Financial Performance

Income Statement

In spite of low interest rates and tepid sentiment towards new capital investment, the Bank increased its Net Interest Income to Lm3.67 million. Interest receivable on loans, advances and balances with Central Bank of Malta amounted to Lm6.84 million while interest on debt securities contributed Lm1.64 million. On the other hand interest payable on deposits decreased to Lm4.82 million. The Bank's robust core operations continued to enhance the Net Interest Margin, which increased to 43.2 per cent and this, notwithstanding strong competitive pressures.

Administration Expenses at Lm1.90 million are 7.5 per cent above those for the previous period that is on an annualised basis. In the main these are made up of Staff Costs and the increase is within budget. Our cost to income ratio (calculated as Expenditure and Depreciation in relation to Operating Income) improved further to 43.2 per cent compared to last year's 49.3 per cent and this despite challenges of economies of scale. The continued policy of prudent lending reduced net impairment losses on loans and advances. Net Interest Income accounts for 79 per cent of operating income (2003: 77 per cent) while non-interest income in the form of fees, commissions, dividend income and earnings on foreign exchange business accounts for the balance.

Fund Raising Activities

The effect of a declining interest rate coupled with new consumer spending patterns that are evolving following the removal of trade restrictions earlier in the year, contributed to a contraction of 1.8 per cent in customer deposits to Lm165 million. Much of the decrease was in Maltese lira balances that comprise over 79 per cent of the Bank's deposit base. Deposits from customers are by far the largest on-balance sheet component with total assets now at Lm183 million. In line with the strategy developed in recent years, the Bank continued to offer fiduciary deposit services to non-resident customers, and these transactions are recorded off the balance sheet.

Money and Fixed-income Market Activity

The Bank's liquidity ratio at 72.73 per cent is well over the statutory minimum of 30 per cent evidencing the high liquidity position that has been prevailing in the Maltese banking market for the past years. The liquidity position of the Bank is managed by means of reserve deposit equalisation, short-term Treasury paper and inter-bank transactions.

Chief Executive Officer's
Review of Operations

Holdings of Treasury Bills increased from Lm20.3 million in 2003 to Lm29.1 million. Loans and advances to banks increased by 12 per cent to reach Lm41 million. Fixed income securities held to maturity - largely Malta Government Bonds - increased by 5 per cent. This, coupled with the growth in the Bank's lending book led to the utilisation of balances with the Central Bank of Malta that dropped from Lm39.5 million last year to Lm10.5 million.

Credit Activity and Loan Loss Provisions

Gross loans and advances to customers grew by 20 per cent to Lm71.2 million. Analysed by industry concentration the loan book remained diversified, with the largest sector "Construction" accounting for 22 per cent of gross loans and advances. Other significant areas of credit activity accounting for another 39 per cent of the loan book relate to "Real estate, renting and business activities" as well as "Wholesale & retail trade". Lending to "Households and individuals" takes up another 17 per cent of the loan book.

The Bank is committed to ensuring that its provisioning policies represent a prudent estimate of loss in its loan and advances portfolio, and therefore upholds a careful approach to provisioning. Allowances for impaired loans and advances stood at Lm2.10 million (2003: Lm2.05 million), which increase is also attributable to the expansion of the loan book. The ratio of net impairment allowances to gross loans and advances decreased from last year's 3.44 per cent to 2.95 per cent.

Profitability and Own Funds

Shareholders' funds rose by Lm1.66 million to Lm13.30 million. Return on shareholders funds (ROE) on a pre-tax basis increased from 19.8 per cent (15 months) to 20.4 per cent. Also, Return on Assets (ROA) at 1.4 per cent is up on last year's 1.3 per cent. The Bank's solvency ratio, which is computed in line with the Banking Directives, stands at 18.9 per cent (2003: 18.7 per cent). The Bank's statutory own funds increased to Lm13.6 million (2003: Lm11.9 million). This increases the Bank's ability to potentially take on larger credit exposures in its books and to diversify its investing opportunities. A Final Gross Dividend for 2004 of 15 cents per share is being proposed. This represents an increase of 25 per cent over the (annualised) previous year's level. The net dividend is covered 3.9 times by attributable profit (2003: 3.5 times). Earnings per share for 2004 amount to 38 cents, which is 3.3 cents higher than the 34.7 cents earned for the 15 month period ended 2003. Net Asset Value per share at year end stands at Lm3.23 representing a price to book multiple of 1.31 times.

Technology

The core banking system was upgraded during the year thereby significantly improving our processes. Work is in progress on extensive replacement of the data networking infrastructure with appropriate high specification technology. At the same time, internal voice and video communication facilities were also targeted for upgrading. Work on this project started in Q3 of 2004 and is scheduled to be completed by Q2 of 2005. This will lead to more efficient service levels to customers as well as significant cost savings in communication expenses. Computer hardware in use at all the Bank's offices was replaced during the year by upgraded equipment. This too should help towards increased efficiency in all processes that are technology dependent.

Premises

The Bank acquired two properties in Valletta that it shall refurbish and use as extensions to its existing Head Office once planning permits are in hand. Some offices will also be relocated as a result of our increased activity. A refurbishment programme for the branch network is also in place so as to create a more efficient and comfortable environment for customers and staff alike. This project should reach an advanced stage by the end of 2005.

Centralistion

The Bank retains its focus on maintaining high standards of service. With this in mind a project aimed at attaining centralisation of most of the back-office work will be undertaken in 2005. Branches will then be allowed to concentrate further on attending to customers as well as further improving the high service levels that we believe they

Chief Executive Officer's Review of Operations

are entitled to. We remain convinced that personal service should feature as a main attribute of Lombard Bank. While fully conscious of the need to provide customers with state of the art technology we are sensitive to the importance of extending a personal service at all times. We shall not compromise in this regard.

During 2004 the Bank set up a numismatic service. This offers for sale Malta coins and our initiative of issuing a silver ingot to commemorate Malta's accession to the EU was extremely well received. A website (www.maltacoins.com) is in place and is receiving an encouraging response.

Staff matters

A revised Collective Agreement was concluded in Q4 of 2004. This established principles for the remuneration of staff that allow equitable reward processes related directly to efficiency and commitment. Management will continue in its endeavours to create a work environment that is pleasant, professionally fulfilling and also rewarding to its staff. To this end, we continue to lay emphasis on training by providing the necessary programs that are aimed at developing and sharpening skills. We are sensitive to the need of investing in our human resources which we consider to be a vital ingredient in our formula for success.

Community Involement

The Bank is well aware of its obligations to the community. It provides support to the work of a number of voluntary and non profit-making organisations. In this regard the Bank adopts a policy of not publicising the support it extends.

Outlook

This year's performance turns out to be the most successful in the history of the Bank. However one cannot safely expect such rates of performance to be achieved indefinitely year after year. Economic setbacks as well as market uncertainty are bound to inhibit such rates of growth and the consequences of these would impact our performance.

Nevertheless Lombard Bank enjoys the required dedication of its staff, loyalty of its customers as well as support of its shareholders to ensure the continuation of its progress.

Joseph Said
Chief Executive Officer

Directors' Report

For the Year Ended 31 December 2004

The Group

Lombard Bank Malta p.l.c. ("the Bank"), Lombard Asset Managers Limited and Lombard Stockbrokers Limited, together make up the Lombard Group.

Principal Activities

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

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

Lombard Stockbrokers Limited is licensed by the Malta Financial Services Authority as a Category 2 investment services provider and carries on the business of stockbroking. It is 51 per cent owned by the Bank.

Review of Performance

The Chief Executive Officer provides a review of operations in another section of this Annual Report.

Results for 2004

A profit after taxation of Lm1.558 million was registered for the twelve months ended 31 December 2004.

A gross dividend of 15 cents per share for the twelve months ended 31 December 2004 is being proposed for approval by the shareholders. This represents an increase of 25 per cent when compared to the (annualised) dividend paid in the last period. 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, and a resolution to that effect will be proposed to the Annual General Meeting of shareholders.

Capital

During the year under review, the Bank's Ordinary Share capital was increased by 61,363 new Ordinary fully paid shares of Lm0.50 each, after resolutions were approved at the 2004 Annual General Meeting allowing shareholders the option to receive their dividend either by the issue of new shares or in cash.

Standard Licence Conditions

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

Audit Committee

This Committee acts independently of Management and is intended to ensure effective internal controls, compliance and accountability. The members on the Committee are Christian Lemmerich, Joseph M. Demajo and Gianfilippo M. Maiga. Members of Management and senior officials of the Bank are invited to attend meetings as the need arises. The Committee also acts to ensure that high ethical standards are maintained, as explained in the "Statement of Compliance with the Principles of Good Corporate Governance" in another section of this Annual Report.

Directors' Report

For the Year Ended 31 December 2004

Auditors

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

Board of Directors

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

Joseph R. Darmanin - *retired on 5th April, 2004*
Joseph M. Demajo
Graham A. Fairclough
Christian Lemmerich
Gianfilippo M. Maiga - *appointed on 5th April, 2004*
Piero Raimondo - *retired on 5th April, 2004*
Joseph Said
Vittorio Vellano - *appointed on 5th April, 2004*
Michael Zammit - *retired and reappointed on 5th April, 2004*

Approved by the Board of Directors on 17 February 2005 and signed on its behalf by:

Christian Lemmerich
Chairman

Joseph Said
Chief Executive Officer

Statement of Compliance

For the Year Ended 31 December 2004

Preamble

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

Compliance

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

The Board of Directors

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

	Year when first appointed	No. of shares held in the Bank
Joseph M. Demajo	1999	-
Graham A. Fairclough	2003	-
Christian Lemmerich	1998	-
Gianfilippo M. Maiga	2004	-
Joseph Said	2000	-
Vittorio Vellano	2004	-
Michael Zammit	1995	51

The Directors confirmed Christian Lemmerich, who is a non-executive Director, as Chairman of the Board after the Annual General Meeting in 2004. Joseph Said and Graham Fairclough hold the position of Chief Executive Officer and General Manager respectively.

Appointment and Election of Directors

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

Terms of Appointment

The aggregate maximum amount of remuneration that can be received by the Board for their service is fixed by the shareholders at each Annual General Meeting. This was set at Lm18,000 at the last Annual General Meeting. Since most of the Board is made up of non-executive Directors, the determination of remuneration arrangements for each board member is a matter for the Board as a whole. The Chief Executive Officer and the General Manager are on a contract of employment with the Bank and their remuneration as employees, as well as their employment, is independent of their office as Directors of the Bank. The remuneration and bonuses of the Chief Executive Officer and the General Manager are approved by the Board of Directors, which effectively carries out the function of Remuneration Committee. The Management approves the remuneration and bonuses of all other members of staff.

Board Meetings

The proceedings of Directors are regulated by the Bank's Articles of Association. The Board normally meets every quarter, but may convene more regularly when it considers this to be necessary. Meetings of the Board follow a formal Agenda that normally includes strategy issues, business performance and credit decisions. Minutes of Board meetings are held by the Company Secretary.

Statement of Compliance

For the Year Ended 31 December 2004

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 shall have access to such independent advice as he may deem appropriate for the better performance of his duties. During the 12 months ended 31 December 2004, the Board met on six occasions.

Internal Control

The Board is responsible for ensuring that adequate processes and procedures exist to ensure effective internal controls system. 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:

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

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:

- Chief Executive Officer;
- General Manager; and
- Assistant General Managers and other Senior Managers.

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

Board Committees

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

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

The Credit Committee considers the development of general lending principles and oversees risk management practices in lending operations. It also takes individual loan decisions within limits delegated by the Board.

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

Any Directors that may be appointed to these Board committees will become involved in the Bank's decision-making process by virtue of their appointment and are therefore vested with executive powers in those areas, which fall within the scope of the particular committee.

Statement of Compliance

For the Year Ended 31 December 2004

Commitment to Shareholders and an Informed Market

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

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

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

Approved by the Board of Directors on 17 February 2005 and signed on its behalf by:

Christian Lemmerich
Chairman

Joseph Said
Chief Executive Officer

Report of the Auditors
to the Members of Lombard Bank

Pursuant to the Listing Rule 8.28 issued by the Listing Authority

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

Our responsibility, as auditors of the Bank, is laid down by Listing Rule 8.28, which requires us to include a report on this Statement of Compliance.

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

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

In our opinion, the Statement of Compliance set out on pages 8 to 10 provides the disclosures required by the Listing Rules 8.26 and 8.27 issued by the Listing Authority.

Noel Mizzi (Partner) for and on behalf of

KPMG
Certified Public Accountants
Portico Building
Marina Street
Pieta` MSD 08
Malta

17 February 2005

Company Information

Directors' interests in the share capital of the Bank at 31 December 2004

Michael Zammit	51

Registered shareholders with 5% or more of the share capital at 31 December 2004

	%
Banca Unione Di Credito	26.5
Cramer & Cie Sa Obo Customers	10.0
First Gemini p.l.c.	5.1

Number of shareholders at 31 December 2004
The total number of registered shareholders is 1,280 of the same class.

Number of shareholders at 31 December 2004 analysed by range

Range	Total Shareholders	Shares
1 - 500	370	75,376
501 - 1,000	460	302,822
1,001 - 5,000	400	691,566
5,001 - 10,000	24	170,340
10,001 and over	26	2,873,155
Total	**1,280**	**4,113,259**

Board of Directors and Senior Management

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

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

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

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

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

LOMBARD BANK

FINANCIAL STATEMENTS

for the period 1 January 2004 to 31 December 2004

2004

Statement of Directors' Responsibilities

The following statement, which should be read in conjunction with the Auditors' Report on page 15, is made to enable shareholders to distinguish between the respective responsibilities of the directors and auditors in relation to financial statements.

The Companies Act, 1995 requires the directors to prepare financial statements for each financial year, which give a true and fair view of the state of affairs of the Bank and the Group as at the end of the financial year and of the profit or loss of the Bank and the Group for that year.

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

- adopt the going concern basis unless it is inappropriate;
- select suitable accounting policies and apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- account for income and charges relating to the accounting period on the accruals basis;
- value separately the components of asset and liability items; and
- report comparative figures corresponding to those of the preceding accounting period.

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 Companies Act, 1995 and the Banking Act, 1994 enacted in Malta. They are also responsible for safeguarding the assets of the Bank and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Signed on behalf of the Board
Graham A. Fairclough
Company Secretary

17 February 2005

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

We have audited the financial statements set out on pages 16 to 49. As described on page 14, these financial statements are the responsibility of the Bank's directors. Our responsibility is to express an opinion on these financial statements based on our audit. We are also required to report whether we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purpose of our audit, whether in our opinion proper books of account have been kept by the Bank so far as appears from our examination thereof and whether the financial statements are in agreement with the books.

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

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

In our opinion, the financial statements give a true and fair view of the state of affairs of the Bank and the Group as at 31 December 2004 and of its profits and cash flows for the year then ended in accordance with the requirements of International Financial Reporting Standards promulgated by the International Accounting Standards Board, and have been properly prepared in accordance with the provisions of the Companies Act, 1995 and the Banking Act, 1994, enacted in Malta.

Noel Mizzi (Partner) for and on behalf of

KPMG
Certified Public Accountants
Portico Building
Marina Street
Pietà MSD 08
Malta

17 February 2005

Profit and Loss Account

For the period 1 January 2004 to 31 December 2004

	Note	The Group **01/01/04 to 31/12/04 Lm 000**	The Group 01/10/02 to 31/12/03 Lm 000	The Bank **01/01/04 to 31/12/04 Lm 000**	The Bank 01/10/02 to 31/12/03 Lm 000
Interest receivable and similar income					
- on loans, advances and balances with Central Bank of Malta	3	**6,844**	8,582	**6,844**	8,583
- on debt securities	3	**1,639**	2,110	**1,638**	2,110
Interest payable	4	**(4,814)**	(7,070)	**(4,815)**	(7,072)
Net Interest Income		**3,669**	3,622	**3,667**	3,621
Fees and commissions receivable		**443**	502	**416**	472
Fees and commissions payable		**(23)**	(36)	**(12)**	(18)
Dividend income	5	**40**	37	**40**	37
Trading profits	6	**414**	573	**414**	573
Net gains on disposal of non-trading financial instruments	7	**86**	15	**86**	15
Other operating income		**16**	24	**16**	23
Operating Income		**4,645**	4,737	**4,627**	4,723
Administrative expenses	8	**(1,929)**	(2,243)	**(1,896)**	(2,211)
Depreciation		**(77)**	(94)	**(76)**	(93)
Provision for potential losses	31	**(6)**	(134)	**(6)**	(134)
Net impairment losses	9	**(73)**	(102)	**(73)**	(102)
Amortisation of goodwill	20	**(18)**	(2)	**-**	-
Profit on Ordinary Activities before Tax	10	**2,542**	2,162	**2,576**	2,183
Tax on profit on ordinary activities	11	**(987)**	(773)	**(985)**	(773)
Profit on Ordinary Activities after Tax		**1,555**	1,389	**1,591**	1,410
Loss/(profit) attributable to minority interests		**3**	4	**-**	-
Profit for the Financial Period attributable to Shareholders		**1,558**	1,393	**1,591**	1,410
Earnings per Share	12	**38c0**	34c7	**38c8**	35c2

The profit and loss account is to be read in conjunction with the notes to and forming part of the financial statements set out in pages 21 to 49.

Balance Sheet

At 31 December 2004

	Note	The Group 31/12/04 Lm 000	The Group 31/12/03 Lm 000	The Bank 31/12/04 Lm 000	The Bank 31/12/03 Lm 000
ASSETS					
Balances with Central Bank of Malta, treasury bills and cash	14	**40,312**	60,711	**40,312**	60,711
Cheques in course of collection		**334**	699	**334**	699
Financial assets held for trading	15	**16**	44	**16**	44
Investments	16	**26,794**	25,530	**26,639**	25,399
Loans and advances to banks	17	**41,045**	36,628	**41,045**	36,628
Loans and advances to customers	18	**69,067**	57,344	**69,079**	57,347
Shares in subsidiary companies	19	-	-	**154**	154
Intangible assets	20	-	18	-	-
Tangible assets	21	**1,899**	1,532	**1,898**	1,529
Deferred tax asset	22	**602**	714	**602**	714
Other assets	23	**187**	178	**181**	172
Prepayments and accrued income	24	**2,737**	2,238	**2,737**	2,238
Total Assets		**182,993**	185,636	**182,997**	185,635
LIABILITIES					
Financial liabilities held for trading	15	**15**	85	**15**	85
Amounts owed to banks	25	**102**	150	**102**	150
Amounts owed to customers	26	**164,578**	167,595	**164,636**	167,654
Other liabilities	27	**3,216**	4,100	**3,194**	4,090
Accruals and deferred income	28	**1,720**	2,000	**1,720**	2,000
Minority interests		**62**	61	-	-
		169,693	173,991	**169,667**	173,979
SHAREHOLDERS' FUNDS					
Called up issued share capital	29	**2,057**	2,026	**2,057**	2,026
Share premium		**4,537**	4,341	**4,537**	4,341
Other reserve	30	**111**	111	**111**	111
Property revaluation reserve	30	**126**	126	**126**	126
Investment revaluation reserve	30	**148**	41	**129**	36
Profit and loss account		**5,920**	4,763	**5,969**	4,779
Dividend reserve		**401**	237	**401**	237
		13,300	11,645	**13,330**	11,656
Total Liabilities and Equity		**182,993**	185,636	**182,997**	185,635
MEMORANDUM ITEMS					
Contingent liabilities	31	**2,999**	3,524	**2,999**	3,524
Commitments	32	**22,673**	17,201	**22,673**	17,201

The financial statements on pages 16 to 49 were approved by the Board of Directors on 17 February 2005 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 2004

The Group	Total Lm 000	Called Up Issued Share Capital Lm 000	Share Premium Lm 000	Other Reserve Lm 000	Property Revaluation Reserve Lm 000	Investment Revaluation Reserve Lm 000	Profit and Loss Account Lm 000	Dividend Reserve Lm 000
At 1 October 2002	10,233	1,980	4,055	111	126	(59)	3,763	257
Dividends payable	(413)	-	-	-	-	-	(156)	(257)
Rights issue of ordinary shares	332	46	286	-	-	-	-	-
Net profit on available-for-sale assets recognised in Investment Revaluation Reserve	100	-	-	-	-	100	-	-
Profit for the period	1,393	-	-	-	-	-	1,393	-
Dividends proposed, net of income tax	-	-	-	-	-	-	(237)	237
At 31 December 2003	11,645	2,026	4,341	111	126	41	4,763	237
Dividends payable	(237)	-	-	-	-	-	-	(237)
Rights issue of ordinary shares	227	31	196	-	-	-	-	-
Net profit on available-for-sale assets recognised in Investment Revaluation Reserve	162	-	-	-	-	162	-	-
Net gains released on disposal of available-for-sale assets	(55)	-	-	-	-	(55)	-	-
Profit for the year	1,558	-	-	-	-	-	1,558	-
Dividends proposed, net of income tax	-	-	-	-	-	-	(401)	401
At 31 December 2004	**13,300**	**2,057**	**4,537**	**111**	**126**	**148**	**5,920**	**401**

The Bank	Total Lm 000	Called Up Issued Share Capital Lm 000	Share Premium Lm 000	Other Reserve Lm 000	Property Revaluation Reserve Lm 000	Investment Revaluation Reserve Lm 000	Profit and Loss Account Lm 000	Dividend Reserve Lm 000
At 1 October 2002	10,234	1,980	4,055	111	126	(57)	3,762	257
Dividends payable	(413)	-	-	-	-	-	(156)	(257)
Rights issue of ordinary shares	332	46	286	-	-	-	-	-
Net profit on available-for-sale assets recognised in Investment Revaluation Reserve	93	-	-	-	-	93	-	-
Profit for the period	1,410	-	-	-	-	-	1,410	-
Dividends proposed, net of income tax	-	-	-	-	-	-	(237)	237
At 31 December 2003	11,656	2,026	4,341	111	126	36	4,779	237
Dividends payable	(237)	-	-	-	-	-	-	(237)
Rights issue of ordinary shares	227	31	196	-	-	-	-	-
Net profit on available-for-sale assets recognised in Investment Revaluation Reserve	148	-	-	-	-	148	-	-
Net gains released on disposal of available-for-sale assets	(55)	-	-	-	-	(55)	-	-
Profit for the year	1,591	-	-	-	-	-	1,591	-
Dividends proposed, net of income tax	-	-	-	-	-	-	(401)	401
At 31 December 2004	**13,330**	**2,057**	**4,537**	**111**	**126**	**129**	**5,969**	**401**

Cash Flow Statement

For the Year Ended 31 December 2004

	Note	The Group 01/01/04 to 31/12/04 Lm 000	The Group 01/10/02 to 31/12/03 Lm 000	The Bank 01/01/04 to 31/12/04 Lm 000	The Bank 01/10/02 to 30/12/03 Lm 000
Cash Flows from Operating Activities					
Interest and commission receipts		**6,657**	9,286	**6,635**	9,239
Interest and commission payments		**(5,139)**	(7,396)	**(5,129)**	(7,378)
Payments to employees and suppliers		**(1,896)**	(2,135)	**(1,875)**	(2,091)
Operating Loss before Changes in Operating Assets and Liabilities		**(378)**	(245)	**(369)**	(230)
Decrease/(Increase) in operating assets:					
Treasury bills		**(12,831)**	16	**(12,831)**	16
Deposits with Central Bank of Malta		**(3,716)**	(1,721)	**(3,716)**	(1,721)
Loans and advances to banks and customers		**(4,212)**	(1,510)	**(4,235)**	(1,519)
Other receivables		**356**	177	**356**	177
Increase in operating liabilities:					
Amounts owed to customers		**(3,026)**	22,553	**(3,019)**	22,585
Other payables		**(736)**	1,156	**(736)**	1,156
Net Cash (Used in)/From Operations		**(24,543)**	20,426	**(24,550)**	20,464
Tax paid		**(1,090)**	(759)	**(1,089)**	(756)
Net Cash (Used in)/From Operating Activities		**(25,633)**	19,667	**(25,639)**	19,708

Cash Flow Statement

For the Year Ended 31 December 2004

	Note	The Group 01/01/04 to 31/12/04 Lm 000	The Group 01/10/02 to 31/12/03 Lm 000	The Bank 01/01/04 to 31/12/04 Lm 000	The Bank 01/10/02 to 30/12/03 Lm 000
Cash Flows from Investing Activities					
Dividends received		**40**	37	**40**	37
Interest received from investments		**2,208**	2,384	**2,207**	2,384
Proceeds on maturity/disposal of investments		**383**	2,046	**363**	2,034
Purchase of investments		**(1,456)**	(383)	**(1,429)**	(383)
Proceeds on disposal of fixed assets		**1**	3	**1**	3
Purchase of property, plant and equipment		**(445)**	(191)	**(445)**	(190)
Purchase of shares issued by subsidiary company		-	-	-	(15)
Net Cash Flows from Investing Activities		731	3,896	737	3,870
Cash Flows from Financing Activities					
Dividends paid		**(10)**	(81)	**(10)**	(81)
Minority interest in newly formed subsidiary		-	15	-	-
Net Cash Used in Financing Activities		(10)	(66)	(10)	(81)
Net (Decrease)/Increase in Cash and Cash Equivalents		(24,912)	23,497	(24,912)	23,497
Cash and cash equivalents at beginning of period/year		**79,084**	55,587	**79,084**	55,587
Cash and cash equivalents at end of Period/Year	33	**54,172**	79,084	**54,172**	79,084

The cash flow statement is to be read in conjunction with the notes to and forming part of the financial statements set out in pages 21 to 49.

Notes to the Financial Statements

For the Year Ended 31 December 2004

1. Basis of Preparation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") promulgated by the International Accounting Standards Board ("IASB"), and the provisions of the Companies Act, 1995 and the Banking Act, 1994, enacted in Malta.

The financial statements are prepared on a fair value basis for derivative financial instruments, financial assets and liabilities held for trading and available-for-sale assets. Other financial assets and liabilities and non-financial assets and liabilities are stated at amortised cost or historical cost.

The accounting polices have been consistently applied by the Group and are consistent with those used in the previous year.

2. Significant Accounting Policies

The significant accounting policies adopted in the preparation of these financial statements are set out below:

a) Basis of Consolidation
The consolidated financial statements comprise the financial statements of Lombard Bank Malta p.l.c. ('the Bank') and its subsidiary companies (collectively referred to as 'the Group').

The Bank holds 51% of the equity of Lombard Stockbrokers Limited and 75% of the equity in Lombard Asset Managers Limited.

All significant intra-group transactions have been eliminated on consolidation.

Goodwill arising on acquisition, being the difference between the cost of the investment and the Group's share of the fair value of the net identifiable assets of subsidiary undertakings, is recognised as an intangible asset and amortised on a straight-line basis over ten years, subject to impairment testing at each reporting date.

b) Revenue Recognition
Interest income is recognised in the income statement as it accrues.

Fee income is accounted for in the period when receivable, except where the fee is charged to cover the cost of a continuing service to, or risk borne for, the customer, or is interest in nature. In these cases, the fee is recognised on an appropriate basis over the relevant period. Dividend income from equity shares is accounted for when the right to receive dividend income is established.

c) Financial Instruments

i. Classification

Trading instruments are those that the Group principally holds for the purpose of short-term profit taking. 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.

Originated loans and receivables are loans and receivables created by the Group providing money directly to a debtor other than those created with the intention of short-term profit taking.

Held-to-maturity assets are financial assets with fixed or determinable payments and fixed maturity that the Group has the intent and ability to hold to maturity.

Available-for-sale assets are financial assets that are not held for trading purposes, originated by the Group or held-to-maturity.

ii. Recognition

The Group recognises financial assets held for trading and available-for-sale assets on the day these are transferred to the Group. From the date the Group commits to purchase the asset and the date the asset is transferred to the Group, changes in fair value of the asset are recognised.

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

iii. Measurement

Financial instruments are measured initially at cost, including transaction costs.

Subsequent to initial recognition all trading instruments and all available-for-sale assets are measured at fair value, except that any instrument that does not have a quoted market price in an active market and the fair value of which cannot be reliably measured is stated at cost, including transaction costs, less impairment losses.

All non-trading financial liabilities, originated loans and receivables and held-to-maturity assets are measured at amortised cost less impairment losses. Amortised cost is calculated on the effective interest rate method. Premia and discounts, including initial transaction 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.

iv. 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 values of derivatives that are not exchange traded are 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 creditworthiness of the counterparties.

v. Gains and losses on subsequent measurement

Gains or losses arising from a change in the fair value of available-for-sale assets are recognised directly in equity. When financial assets are sold, collected or otherwise disposed of, the cumulative gain or loss recognised in equity is transferred to the income statement.

Gains or losses arising from a change in the fair value of trading instruments are recognised in the income statement.

d) Derecognition

A financial asset is derecognised when the Group loses control over the contractual rights that comprise the asset. This occurs when the rights are realised, expire or are surrendered. A financial liability is derecognised when it is extinguished.

Available-for-sale assets and assets held for trading that are sold, are derecognised and corresponding receivables from the buyer for the payment are recognised as of the date the Group transfers the assets. The Group uses the specific identification method to determine the gain or loss on derecognition.

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

e) Impairment

Financial assets are reviewed at each balance sheet date to determine whether these are impaired. A financial asset is impaired if there is objective evidence that, as a result of one or more events that occurred after its initial recognition, a loss is expected to be incurred in recovering the carrying value of that asset. If any such indications exist, the asset's recoverable amount is estimated.

i. Originated loans and advances

The recoverable amount of originated loans and advances represents the present value of the expected future cash flows, discounted at the instrument's original effective interest rate. Short-term balances are not discounted.

Loans and advances are presented net of specific and collective allowances for uncollectibility. Specific allowances 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 allowances are maintained to reduce the carrying amount of portfolios of similar loans and advances to their estimated recoverable amounts at the balance sheet date. The expected cash flows for portfolios of similar assets are estimated based on previous experience and considering the credit rating of the underlying customers and late payments of interest or penalties. Increases in the allowance account are recognised in the income statement. When a loan is known to be uncollectible, all the necessary legal procedures have been completed, and the final loss has been determined, the loan is written off.

If in a subsequent period the amount of impairment loss decreases and the decrease can be linked objectively to an event occurring after the write-down, the write-down or allowance is reversed through the income statement.

ii. Financial assets remeasured to fair value directly through equity

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.

Where an asset remeasured to fair value directly through equity is impaired, and a write-down of the asset was previously recognised directly in equity, the write-down is transferred to the income statement and recognised as part of the impairment loss. Where an increase in fair value of an asset was previously recognised in equity, the increase in fair value of the asset recognised in equity is reversed. Any additional impairment loss is recognised in the income statement.

If in a subsequent period, the amount of impairment loss decreases and the decrease can be linked objectively to an event occurring after the write-downs, the write-down is reversed through the income statement.

f) Subsidiary Companies
The Bank's investment in subsidiary companies is stated at cost less impairment losses.

g) Tangible Fixed Assets and Depreciation
Tangible fixed assets are stated at historical cost, or in the case of freehold property at revalued amounts, and are depreciated using the straight line method over their estimated useful economic lives as follows:

	Years
Freehold property	100
Leasehold property	over the period of the lease
Computer equipment	4
Other assets	4 - 8

Freehold property is revalued on the basis of its existing use every five years or earlier whenever its fair value differs materially from its carrying amount. 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, and charged to the income statement thereafter.

h) Deferred Taxation
Deferred income taxes are provided for using the balance sheet liability method of accounting for income taxes under which deferred tax consequences are recognised for all temporary differences, being differences between the tax basis of assets and liabilities and their carrying amounts for financial reporting purposes.

A deferred tax asset is recognised for all deductible temporary differences to the extent that it is probable that taxable income will be available against which the deductible temporary differences can be utilised. The amount of deferred taxation on these differences is determined by using the rate of local income tax applicable at balance sheet date.

i) Retirement Benefits
The Bank contributes towards the State pension in accordance with local legislation. The Bank does not provide for other contributory or retirement benefit plans. This cost is expensed during the period in which it is incurred.

j) Foreign Currencies
Monetary assets and liabilities denominated in foreign currencies are translated to Maltese Liri at the rates of exchange ruling at the balance sheet date. Transactions denominated in foreign currencies are converted at the rates of exchange ruling on the dates of the transactions. Gains and losses arising from exchange differences are dealt with in the income statement, except for gains and losses resulting from the translation of available-for-sale non-monetary assets that are recognised through equity.

k) Cash and Cash Equivalents

Cash and cash equivalents comprise:

- 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.

l) Segment Reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (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. Interest Receivable and Similar Income

	The Group		The Bank	
	01/01/04 to 31/12/04 Lm 000	01/10/02 to 31/12/03 Lm 000	**01/01/04 to 31/12/04 Lm 000**	01/10/02 to 30/12/03 Lm 000
On loans and advances to banks	**786**	801	**787**	802
On loans and advances to customers	**4,324**	5,393	**4,323**	5,393
On balances with Central Bank of Malta	**1,164**	1,813	**1,164**	1,813
On treasury bills	**570**	575	**570**	575
	6,844	8,582	**6,844**	8,583
On debt securities	**1,665**	2,134	**1,664**	2,134
Amortisation of premia and discounts	**(26)**	(24)	**(26)**	(24)
	1,639	2,110	**1,638**	2,110

4. Interest Payable

	The Group		The Bank	
	01/01/04 to 31/12/04 Lm 000	01/10/02 to 31/12/03 Lm 000	**01/01/04 to 31/12/04 Lm 000**	01/10/02 to 30/12/03 Lm 000
On amounts owed to banks	4	2	4	2
On amounts owed to customers	**4,810**	7,068	**4,811**	7,070
	4,814	7,070	**4,815**	7,072

5. Dividend Income

	The Group		The Bank	
	01/01/04 to 31/12/04 Lm 000	01/10/02 to 31/12/03 Lm 000	**01/01/04 to 31/12/04 Lm 000**	01/10/02 to 31/12/03 Lm 000
From available-for-sale assets	**40**	37	**40**	37

6. Trading Profits

	The Group		The Bank	
	01/01/04 to 31/12/04 Lm 000	01/10/02 to 31/12/03 Lm 000	**01/01/04 to 31/12/04 Lm 000**	01/10/02 to 31/12/03 Lm 000
Profit on foreign exchange activities	**413**	607	**413**	607
Fair value movements on trading financial instruments	**1**	(34)	**1**	(34)
	414	573	**414**	573

7. Net gains on disposal of non-trading financial instruments

	The Group		The Bank	
	01/01/04 to 31/12/04 Lm 000	01/10/02 to 31/12/03 Lm 000	**01/01/04 to 31/12/04 Lm 000**	01/10/02 to 31/12/03 Lm 000
Profit from disposal of available-for-sale investment	**86**	15	**86**	15

8. Administrative Expenses

	The Group		The Bank	
	01/01/04 to 31/12/04	01/10/02 to 31/12/03	**01/01/04 to 31/12/04**	01/10/02 to 31/12/03
	Lm 000	Lm 000	**Lm 000**	Lm 000
Staff costs:				
- wages, salaries and allowances	**1,109**	1,262	**1,109**	1,262
- social security costs	**56**	83	**56**	83
Other administrative expenses	**764**	898	**731**	866
	1,929	2,243	**1,896**	2,211

	Number	Number	**Number**	Number
Average number of employees				
Executive and senior managerial	**13**	12	**13**	12
Other managerial, supervisory and clerical	**98**	93	**98**	93
Others	**7**	12	**7**	12
	118	117	**118**	117

9. Net impairment losses

	The Group		The Bank	
	01/01/04 to 31/12/04	01/10/02 to 31/12/03	**01/01/04 to 31/12/04**	01/10/02 to 31/12/03
	Lm 000	Lm 000	**Lm 000**	Lm 000
Write downs:				
Loans and advances to customers				
- specific allowances	**(226)**	(293)	**(226)**	(293)
Reversal of write downs:				
Loans and advances to customers				
- specific allowances	**204**	97	**204**	97
- collective allowances	**(31)**	112	**(31)**	112
	173	209	**173**	209

9. Net impairment losses *(continued)*

	The Group		The Bank	
	01/01/04 to 31/12/04 Lm 000	01/10/02 to 31/12/03 Lm 000	**01/01/04 to 31/12/04 Lm 000**	01/10/02 to 31/12/03 Lm 000
Bad debts written off	**(20)**	(18)	**(20)**	(18)
Net impairment losses	**(73)**	(102)	**(73)**	(102)

10. Profit on Ordinary Activities before Tax

	The Group		The Bank	
	01/01/04 to 31/12/04 Lm 000	01/10/02 to 31/12/03 Lm 000	**01/01/04 to 31/12/04 Lm 000**	01/10/02 to 31/12/03 Lm 000
Profit before tax is stated after charging:				
Auditors' remuneration	**10**	8	**8**	6
Directors' emoluments:				
- Fees	**16**	24	**16**	24
- Other emoluments	**87**	50	**87**	50
	103	74	**103**	74

11. Tax on Profit on Ordinary Activities

The charge for income tax, which is based on the taxable profit for the year at a rate of 35%, comprises:

	The Group		The Bank	
	01/01/04 to 31/12/04 Lm 000	01/10/02 to 31/12/03 Lm 000	**01/01/04 to 31/12/04 Lm 000**	01/10/02 to 31/12/03 Lm 000
Current tax expense	**906**	836	**904**	836
(Over)/under-provision in prior year/period	**19**	(2)	**19**	(2)
	925	834	**923**	834
Deferred tax movement	**62**	(61)	**62**	(61)
	987	773	**985**	773

The tax expense and the result of accounting profit multiplied by the applicable tax rate are reconciled as follows:

Profit on ordinary activities before tax	**2,542**	2,162	**2,576**	2,183
Tax at the applicable rate of 35%	**890**	757	**902**	764
Tax effect of non-taxable income	**(2)**	(1)	**(1)**	(1)
Tax effect of non-deductible expenses	**21**	11	**6**	4
Tax effect of disposal of available-for-sale assets	**51**	-	**51**	-
Tax effect of depreciation charges not deductible by way of capital allowances	**8**	8	**8**	8
Tax effect of under/(over) provision in prior year/period	**19**	(2)	**19**	(2)
Tax on profit on ordinary activities	**987**	773	**985**	773

12. Earnings Per Share

Earnings per share is calculated on profit after taxation of Lm1,558,000 for the Group (2003: Lm1,393,000) and Lm1,591,000 for the Bank (2003: Lm1,410,000) divided by 4,095,990 (2003: 4,008,998), being the weighted average number of shares in issue during the year.

13. Dividends

The Bank

	01/01/04 to 31/12/04 Cents per share	01/10/02 to 31/12/03 Cents per share	01/01/04 to 31/12/04 Lm 000	01/10/02 to 31/12/03 Lm 000
Gross of income tax				
Proposed final	**15.0**	9.0	**617**	365
Declared interim	**-**	6.0	**-**	243
	15.0	15.0	**617**	608
Net of income tax				
Proposed final	**9.8**	5.9	**401**	237
Declared interim	**-**	3.9	**-**	156
	9.8	9.8	**401**	393

14. Balances with Central Bank of Malta, Treasury Bills and Cash

	The Group		The Bank	
	31/12/04 Lm 000	31/12/03 Lm 000	31/12/04 Lm 000	31/12/03 Lm 000
Balances with Central Bank of Malta	**10,547**	39,539	**10,547**	39,539
Malta Government treasury bills	**29,120**	20,350	**29,120**	20,350
Cash in hand	**645**	822	**645**	822
	40,312	60,711	**40,312**	60,711

The balance with the Central Bank of Malta includes a reserve deposit amounting to Lm6,619,080 held in terms of Section 37 of the Central Bank of Malta Act, Cap 204.

15. Financial instruments held for trading

	The Group		The Bank	
	31/12/04	31/12/03	**31/12/04**	31/12/03
	Lm 000	Lm 000	**Lm 000**	Lm 000
Financial assets held for trading				
Derivative financial instruments	**16**	44	**16**	44
Financial liabilities held for trading				
Derivative financial instruments	**15**	85	**15**	85

The Group/Bank

	Notional amount with remaining life of:			Fair values	
	Less than three months	**Between three months and one year**	**Total**	**Assets**	**Liabilities**
	Lm000	**Lm000**	**Lm000**	**Lm000**	**Lm000**
Forward exchange contracts:					
At 31 December 2004	151	2,680	2,831	16	15
At 31 December 2003	42,896	1,288	44,184	44	85

16. Investments

a) Investments comprise:

	The Group		The Bank	
	31/12/04	31/12/03	**31/12/04**	31/12/03
	Lm 000	Lm 000	**Lm 000**	Lm 000
Debt and other fixed income instruments				
- available-for-sale	**1,712**	1,751	**1,706**	1,751
- held-to-maturity	**24,440**	23,037	**24,440**	23,037
Equity instruments available-for-sale	**642**	742	**493**	611
	26,794	25,530	**26,639**	25,399

b) Debt and other fixed income instruments available-for-sale comprise instruments:

Issued by public bodies:				
- local government	**55**	53	**55**	53
Issued by public issuers:				
- local banks	**368**	404	**368**	404
- local others	**1,283**	1,294	**1,283**	1,294
- foreign others	**6**	-	-	-
	1,712	1,751	**1,706**	1,751
Debt and other fixed income instruments				
- listed on the Malta Stock Exchange	**1,706**	1,751	**1,706**	1,751
- foreign listed	**6**	-	-	-
	1,712	1,751	**1,706**	1,751

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

The Bank has pledged Lm2,000,000 (2003: 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.

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

17. Loans and Advances to Banks

	The Group		The Bank	
	31/12/04	31/12/03	**31/12/04**	31/12/03
	Lm 000	Lm 000	**Lm 000**	Lm 000
Repayable on call and at short notice	**11,887**	10,851	**11,887**	10,851
Term loans and advances	**29,158**	25,777	**29,158**	25,777
	41,045	36,628	**41,045**	36,628

18. Loans and Advances to Customers

	The Group		The Bank	
	31/12/04	31/12/03	**31/12/04**	31/12/03
	Lm 000	Lm 000	**Lm 000**	Lm 000
Repayable on call and at short notice	**31,236**	28,283	**31,248**	28,286
Term loans and advances	**39,929**	31,106	**39,929**	31,106
Total gross loans and advances to customers	**71,165**	59,389	**71,177**	59,392
Allowance for uncollectibility	**(2,098)**	(2,045)	**(2,098)**	(2,045)
Net loans and advances to customers	**69,067**	57,344	**69,079**	57,347
Allowances for uncollectibility				
Specific allowances	**1,794**	1,772	**1,794**	1,772
Collective allowances	**304**	273	**304**	273
	2,098	2,045	**2,098**	2,045

18. Loans and Advances to Customers *(continued)*

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

The Group

	31/12/04		31/12/03	
	Lm 000	**%**	Lm 000	%
Electricity, gas and water supply	**100**	**0.1%**	291	0.5%
Transport, storage and communication	**3,617**	**5.1%**	364	0.6%
Financial Intermediation	**129**	**0.2%**	-	0%
Agriculture	**192**	**0.3%**	55	0.1%
Manufacturing	**3,896**	**5.5%**	4,304	7.3%
Construction	**15,585**	**21.9%**	12,599	21.2%
Hotel and restaurants, excluding related construction activities	**3,626**	**5.1%**	3,695	6.2%
Wholesale and retail trade; repairs	**12,446**	**17.5%**	9,742	16.4%
Community, recreational and personal service activities	**4,591**	**6.5%**	129	0.2%
Education	**151**	**0.2%**	80	0.1%
Health and social work	**229**	**0.3%**	78	0.1%
Mining and quarrying	**101**	**0.1%**	113	0.2%
Real estate, renting and business activities	**14,757**	**20.7%**	18,259	30.8%
Households and individuals	**11,745**	**16.5%**	9,680	16.3%
	71,165	**100%**	59,389	100%

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 Lm11,810,000 (2003: Lm11,954,000). No further specific allowances for uncollectibility were required in terms of Banking Directive 09.

Total interest that would have accrued on the impaired loans in the current and preceding financial years would have amounted to Lm1,261,000 (2003: Lm961,000).

19. Shares in Subsidiary Companies

Name of Company	Incorp. In	Nature of Business	Equity Interest (%)		The Bank	
			31/12/04	31/12/03	**31/12/04 Lm 000**	31/12/03 Lm 000
Lombard Stockbrokers Limited	Malta	Stockbroking	**51**	51	**29**	29
Lombard Asset Managers Limited	Malta	Management of Collective Investment Schemes	**75**	75	**125**	125
					154	154

None of the subsidiary companies are listed.

20. Intangible Assets

Intangible assets comprise purchased goodwill, representing the excess of the cost of acquisition over the fair value of the identifiable assets and liabilities of the subsidiary undertaking acquired.

	Group Lm000
Cost	
At 1 January 2004	22
At 31 December 2004	22
Amortisation	
At 1 January 2004	4
Charge for the period	18
At 31 December 2004	22
Net Book Amount	
At 31 December 2004	-
At 31 December 2003	18

21. Tangible Fixed Assets

The Group

	Land and Buildings Lm 000	Computer Equipment Lm 000	Other Lm 000	Total Lm 000
Cost/Revaluation				
At 1 January 2004	1,549	913	785	3,247
Additions	287	115	43	445
Disposals	-	(48)	-	(48)
At 31 December 2004	**1,836**	**980**	**828**	**3,644**
Depreciation				
At 1 January 2004	124	860	731	1,715
Charge for the year	22	38	18	78
Release on disposals	-	(48)	-	(48)
At 31 December 2004	**146**	**850**	**749**	**1,745**
Net Book Amount				
At 31 December 2004	**1,690**	**130**	**79**	**1,899**
At 31 December 2003	1,425	53	54	1,532

The Bank

	Land and Buildings Lm 000	Computer Equipment Lm 000	Other Lm 000	Total Lm 000
Cost/Revaluation				
At 1 January 2004	1,549	913	781	3,243
Additions	287	114	44	445
Disposals	-	(48)	-	(48)
At 31 December 2004	**1,836**	**979**	**825**	**3,640**
Depreciation				
At 1 January 2004	124	860	730	1,714
Charge for the year	22	36	18	76
Release on disposals	-	(48)	-	(48)
At 31 December 2004	**146**	**848**	**748**	**1,742**

21. Tangible Fixed Assets *(continued)*

The Bank

	Land and Buildings Lm 000	Computer Equipment Lm 000	Other Lm 000	Total Lm 000
Net Book Amount				
At 31 December 2004	**1,690**	**131**	**77**	**1,898**
At 31 December 2003	1,425	53	51	1,529

	The Group		The Bank	
	31/12/04 Lm 000	31/12/03 Lm 000	**31/12/04 Lm 000**	31/12/03 Lm 000
Net book amount of land and buildings occupied for own activities	**1,321**	1,321	**1,321**	1,321
Future capital expenditure				
Authorised by the directors but not yet contracted	**108**	260	**108**	260
	108	260	**108**	260

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 Lm1,510,000 (2003: Lm1,243,000).

22. Deferred Tax Asset

Deferred income taxes are calculated on all temporary differences under the liability method using a principal tax rate of 35% (2003: 35%). The deferred income tax balance composition is analysed below:

	The Group		The Bank	
	31/12/04 Lm 000	31/12/03 Lm 000	**31/12/04 Lm 000**	31/12/03 Lm 000
Tax effect of temporary differences relating to:				
- excess of capital allowances over depreciation	**39**	75	**39**	75
- provision for potential losses	**2**	47	**2**	47
- impairment allowances	**735**	716	**735**	716
- revaluation of property	**(68)**	(68)	**(68)**	(68)
- fair value movements in investments	**(106)**	(56)	**(106)**	(56)
	602	714	**602**	714

A deferred tax asset amounting to Lm80,827 has not been recognised by the Group due to the uncertainty of the realisation of the tax benefits through future taxable profits.

23. Other Assets

Other assets include the sub-directum dominium recognised in settlement of an advance to a customer and held with the necessary approval from the Central Bank of Malta in terms of Section 15 (1) (f) (iii) of the Banking Act, 1994.

24. Prepayments and Accrued Income

	The Group		The Bank	
	31/12/04	31/12/03	**31/12/04**	31/12/03
	Lm 000	Lm 000	**Lm 000**	Lm 000
Accrued income	**2,689**	2,190	**2,689**	2,190
Prepayments	**48**	48	**48**	48
	2,737	2,238	**2,737**	2,238

25. Amounts Owed to Banks

	The Group		The Bank	
	31/12/04	31/12/03	**31/12/04**	31/12/03
	Lm 000	Lm 000	**Lm 000**	Lm 000
Repayable on demand	**102**	150	**102**	150

26. Amounts Owed to Customers

	The Group		The Bank	
	31/12/04	31/12/03	**31/12/04**	31/12/03
	Lm 000	Lm 000	**Lm 000**	Lm 000
Term deposits	**117,665**	119,239	**117,691**	119,265
Repayable on demand	**46,913**	48,356	**46,945**	48,389
	164,578	167,595	**164,636**	167,654

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For the Year Ended 31 December 2004

27. Other Liabilities

	The Group		The Bank	
	31/12/04	**31/12/03**	**31/12/04**	**31/12/03**
	Lm 000	Lm 000	**Lm 000**	Lm 000
Tax liability	**59**	224	**58**	224
Bills payable	**1,228**	1,253	**1,228**	1,253
Provision for liabilities	**134**	134	**134**	134
Other	**1,795**	2,489	**1,774**	2,479
	3,216	4,100	**3,194**	4,090

28. Accruals and Deferred Income

	The Group		The Bank	
	31/12/04	**31/12/03**	**31/12/04**	**31/12/03**
	Lm 000	Lm 000	**Lm 000**	Lm 000
Accrued interest	**1,496**	1,798	**1,496**	1,798
Other	**224**	202	**224**	202
	1,720	2,000	**1,720**	2,000

29. Share Capital

The Group/Bank

	31/12/04		31/12/03	
	No. of Shares	**Lm 000**	No. of Shares	Lm 000
Authorised				
Ordinary shares of 50 cents each	**10,000**	**5,000**	10,000	5,000
Issued and fully paid up				
Ordinary shares of 50 cents each	**4,114**	**2,057**	4,052	2,026

30. Reserves

a) Share Premium

The increase in the share premium account represents the premium on the rights issue of shares approved by the General Meeting dated 12 April 2004.

b) Other Reserve

This represents the remaining unrealised gain registered by the Bank on the translation of its net foreign currency holding following the devaluation of the Maltese Lira on 25 November 1992, net of related deferred tax effects. This reserve is not available for distribution.

c) 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.

d) 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.

31. Provisions and Contingent Liabilities

a) Provisions

During the year, the Bank provided for potential losses amounting to Lm6,000 (2003: Lm134,000) against claims by customers. In addition, the Bank is also a defendant in legal actions by other customers. The directors are of the opinion that no liability will be incurred.

b) Contingent liabilities

The Group/Bank

	31/12/04 Lm 000	31/12/03 Lm 000
Guarantee obligations incurred on behalf of third parties	**2,999**	3,524

32. Commitments

The Group/Bank

	31/12/04 Lm 000	31/12/03 Lm 000
Documentary credits	**258**	196
Credit facilities and other commitments to lend	**22,415**	17,005
	22,673	17,201

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:

	The Group		The Bank	
	31/12/04	31/12/03	**31/12/04**	31/12/03
	Lm 000	Lm 000	**Lm 000**	Lm 000
Treasury bills	**13,365**	17,425	**13,365**	17,425
Loans and advances to banks	**40,264**	28,277	**40,264**	28,277
Cash	**645**	823	**645**	823
Balances with Central Bank of Malta (excluding reserve deposit)	**-**	32,708	**-**	32,708
Amounts owed to Banks	**(102)**	(149)	**(102)**	(149)
Cash and cash equivalents	**54,172**	79,084	**54,172**	79,084
Adjustment to reflect balances with contractual maturity of more than 3 months	**27,083**	18,105	**27,083**	18,105
Per balance sheet	**81,255**	97,189	**81,255**	97,189
Analysed as follows:				
Balances with Central Bank of Malta, treasury bills and cash	**40,312**	60,711	**40,312**	60,711
Loans and advances to banks	**41,045**	36,628	**41,045**	36,628
Amounts owed to banks	**(102)**	(150)	**(102)**	(150)
	81,255	97,189	**81,255**	97,189

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

During the course of its operations the Bank conducts business with its major shareholder. Transactions, which relate mainly to inter-bank placements, are carried out on an arm's length basis.

The subsidiary Lombard Stockbrokers Limited regularly conducts business with a related company, by virtue of having common directors. Brokerage fees amounting to Lm11,000 and interest amounting to Lm2,000 were paid to the related company during the year. Fees were paid on an arm's length basis.

The subsidiary Lombard Asset Managers Limited holds an available-for-sale investment in a related company, by virtue of having common directors. Trading transactions amounting to Lm31,000 were carried out on an arm's length basis with this related party during the year.

36. Loans to and Commitments on behalf of Directors and Officers

The Group/Bank

	31/12/04 Loans and advances	**31/12/04 Commitments**	31/12/03 Loans and advances	31/12/03 Commitments
Directors				
At beginning of period	**316**	**7**	-	-
Additions	**20**	**-**	316	7
Repayments	**(12)**	**(6)**	-	-
At balance sheet date	**324**	**1**	316	7
Officers				
At beginning of period	**770**	**-**	721	-
Additions	**285**	**-**	140	-
Repayments	**(86)**	**-**	(91)	-
At balance sheet date	**969**	**-**	770	-

37. Comparative Amounts

The current year's amounts reflect the financial results of the twelve month period ended 31 December 2004, following a change in accounting reference date.

The comparative amounts reflect the financial results of the fifteen month period ended 31 December 2003.

38. 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.

39. Financial Instruments

This section provides details of the Group's exposure to risk and describes the methods used by management to control risk. The most important types of financial risk to which the Group is exposed are credit risk, liquidity risk and market risk. Market risk includes currency and interest rate risks.

39. Financial Instruments *(continued)*

The Group's accounting policies are directed towards the establishment of fair values for its assets and liabilities having regard to these risks.

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.

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.

39. Financial Instruments *(continued)*

The Group

	2004 Lm 000	Effective Interest Rate %	Three Months or Less Lm 000	One Year or Less but Over Three Months Lm 000	Five Years or Less but Over One Year Lm 000	Over Five Years Lm 000	Others Lm 000
Assets							
Balances with Central Bank of Malta, treasury bills and cash	40,312	2.94	24,462	15,206	-	-	644
Cheques in course of collection	334	-	-	-	-	-	334
Financial assets held for trading							
- Derivative financial instruments	16	-	-	-	-	-	16
Investments							
Debt and other fixed income financial instruments							
- available-for-sale	1,712	6.35	-	-	-	1,712	-
- held-to-maturity	24,440	6.39	-	-	-	24,440	-
Equity financial instruments							
- available-for-sale	642	-	-	-	-	-	642
Loans and advances to banks	41,045	2.88	40,263	782	-	-	-
Loans and advances to customers	69,067	6.93	31,791	5,386	12,770	22,479	(3,359)
Other assets	5,425	-	-	-	-	-	5,425
Total Assets	182,993		96,516	21,374	12,770	48,631	3,702
Liabilities							
Financial liabilities held for trading	15	-	-	-	-	-	15
Amounts owed to banks	102	-	102	-	-	-	-
Amounts owed to customers	164,578	2.70	70,142	55,372	38,904	160	-
Other liabilities	4,998	-	-	-	-	-	4,998
	169,693		70,244	55,372	38,904	160	5,013

39. Financial Instruments *(continued)*

The Group

	2004 Lm 000	Effective Interest Rate %	Three Months or Less Lm 000	One Year or Less but Over Three Months Lm 000	Five Years or Less but Over One Year Lm 000	Over Five Years Lm 000	Others Lm 000
Shareholders' Funds							
Called up share capital	2,057	-	-	-	-	-	2,057
Share premium	4,537	-	-	-	-	-	4,537
Other reserve	111	-	-	-	-	-	111
Property revaluation reserve	126	-	-	-	-	-	126
Investment revaluation reserve	148	-	-	-	-	-	148
Profit and loss account	6,321	-	-	-	-	-	6,321
Dividend reserve	-	-	-	-	-	-	-
	13,300		-	-	-	-	13,300
Total Liabilities and Equity	182,993		70,244	55,372	38,904	160	18,313
Gap			26,272	(33,998)	(26,134)	48,471	(14,611)
Cumulative Gap			26,272	(7,726)	(33,860)	14,611	-

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. Maltese Lira liabilities, which are invested in foreign currency denominated assets, are usually aligned with the basket of currencies making up the Maltese Lira valuation. Any mismatches that may arise are monitored accordingly.

39. Financial Instruments *(continued)*

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

The Group	**Maltese Liri**	**Other Currencies**	**Total**	Maltese Liri	Other Currencies	Total
	31/12/04	**31/12/04**	**31/12/04**	31/12/03	31/12/03	31/12/03
	Lm000	**Lm000**	**Lm000**	Lm000	Lm000	Lm000
Financial Assets						
Balances with Central Bank of Malta, treasury bills and cash	**40,171**	**141**	**40,312**	60,558	153	60,711
Cheques in course of collection	**334**	**-**	**334**	699	-	699
Investments						
- Debt and other fixed income financial instruments available-for-sale	**1,338**	**374**	**1,712**	1,347	404	1,751
- Debt and other fixed income financial instruments held-to-maturity	**24,440**	**-**	**24,440**	23,037	-	23,037
- Equity financial instruments available-for-sale	**610**	**32**	**642**	697	45	742
Loans and advances to banks	**9,072**	**31,973**	**41,045**	7,051	29,577	36,628
Loans and advances to customers - gross	**68,932**	**2,233**	**71,165**	57,772	1,617	59,389
Financial assets held for trading						
- Derivative financial instruments	**-**	**16**	**16**	-	44	44
	144,897	**34,769**	**179,666**	151,161	31,840	183,001
Financial Liabilities						
Financial liabilities held for trading						
- Derivative financial instruments	**-**	**14**	**14**	-	85	85
Amounts owed to banks	**101**	**1**	**102**	145	5	150
Amounts owed to customers	**130,593**	**33,985**	**164,578**	136,863	30,732	167,595
	130,694	**34,000**	**164,694**	137,008	30,822	167,830

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.

39. Financial Instruments *(continued)*

The Group

	Fair value adjustments Lm000	Between one and three months Lm000	Between three months and one year Lm000	Between one and five years Lm000	More than five years Lm000	Total Lm000
Financial Assets						
Financial assets held for trading						
- Derivative financial instruments	-	16	-	-	-	16
Investments						
- Debt and other fixed income financial instruments available-for-sale	81	-	53	932	646	1,712
- Debt and other fixed income financial instruments held-to-maturity	-	-	3,351	6,520	14,569	24,440
Loans and advances to banks	-	40,264	781	-	-	41,045
Loans and advances to customers - gross	-	45,358	1,648	5,693	18,466	71,165
	81	85,638	5,833	13,145	33,681	138,378
Financial Liabilities						
Financial liabilities held for trading						
- Derivative financial instruments	-	-	15	-	-	15
Amounts owed to banks	-	102	-	-	-	102
Amounts owed to customers	-	88,598	47,650	28,330	-	164,578
	-	88,700	47,665	28,330	-	164,695
Financial Assets						
Financial assets held for trading						
- Derivative financial instruments	-	36	8	-	-	44
Investments						
- Debt and other fixed income financial instruments available-for-sale	109	-	-	835	807	1,751
- Debt and other fixed income financial instruments held-to-maturity	-	-	1,167	8,032	13,838	23,037
Loans and advances to banks	-	30,111	6,517	-	-	36,628
Loans and advances to customers - gross	-	32,014	2,108	10,450	14,817	59,389
	109	62,161	9,800	19,317	29,462	120,849

39. Financial Instruments *(continued)*

The Group

	Fair value adjustments	Between one and three months	Between three months and one year	Between one and five years	More than five years	Total
	Lm000	Lm000	Lm000	Lm000	Lm000	Lm000
Financial Liabilities						
Financial liabilities held for trading						
- Derivative financial instruments	-	84	1	-	-	85
Amounts owed to banks	-	150	-	-	-	150
Amounts owed to customers	-	58,422	69,879	39,134	160	167,595
	-	58,656	69,880	39,134	160	167,830

Derivative financial instruments
The Bank enters into forward foreign currency exchange contracts with customers in the normal course of its business. Generally, it is the Bank'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 Bank 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.

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

i) Investments - Debt and other fixed income instruments held-to-maturity
This category of assets is carried at amortised cost and amounts to Lm24,440,101 as at 31 December 2004. Fair value based on quoted market prices at balance sheet date without any deduction for transaction costs amounts to Lm26,689,641.

ii) 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 2004, the Group's carrying amount was Lm110,111,170. The loans and advances to customers category of assets amounts to Lm69,066,665. This carrying value approximates to fair value in the case of loans, which are repriceable at the Bank's discretion. These loans constitute a significant element of the total loan portfolio. The loans and advances to banks category of assets amounts to Lm41,044,505. As at 31 December 2004, 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.

39. Financial Instruments *(continued)*

iii) Amounts owed to banks and customers

This category of liabilities is carried at amortised cost and amounts to Lm164,679,864 as at 31 December 2004. 42.7% of this liability has contractual re-pricing within the "less than three months" band, 33.6% re-prices within the "between three months and one year" band whilst 23.7% is repriceable within the "between one year and 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.

Five Year Summary
Profit and Loss Account

The Bank

	01/01/04 to 31/12/04 Lm 000	01/10/02 to 31/12/03 Lm 000	01/10/01 to 30/09/02 Lm 000	01/10/00 to 30/09/01 Lm 000	01/10/99 to 30/09/00 Lm 000
Interest receivable and other income	**8,482**	10,693	7,519	7,553	7,402
Interest payable	**(4,815)**	(7,072)	(4,654)	(5,006)	(5,069)
Net Interest Income	**3,667**	3,621	2,865	2,547	2,333
Other operating income	**960**	1,101	936	427	1,169
Other operating charges	**(1,978)**	(2,437)	(1,748)	(1,824)	(1,884)
Net impairment losses	**(73)**	(102)	(650)	(30)	(378)
Profit before Taxation	**2,576**	2,183	1,403	1,120	1,240
Taxation	**(985)**	(773)	(492)	(394)	(435)
Profit for the Year	**1,591**	1,410	911	726	805
Earnings per Share	**38c8**	35c2	23c1	18c7	22c6

Five Year Summary
Balance Sheet

The Bank

	31/12/04	31/12/03	30/09/02	30/09/01	30/09/00
	Lm 000	Lm 000	Lm 000	Lm 000	Lm 000
ASSETS					
Balances with Central Bank of Malta, treasury bills and cash	**40,312**	60,711	50,430	13,113	14,059
Cheques in course of collection	**334**	699	831	733	1,169
Financial assets held for trading	**16**	44	73	-	-
Investments	**26,639**	25,399	26,997	27,831	25,977
Loans and advances to banks	**41,045**	36,628	19,641	23,782	36,191
Loans and advances to customers	**69,079**	57,347	58,076	51,284	41,158
Shares in subsidiary companies	**154**	154	138	-	-
Tangible fixed assets	**1,898**	1,529	1,432	1,625	1,765
Other assets	**783**	886	920	527	1,052
Prepayments and accrued income	**2,737**	2,238	1,981	2,880	1,920
Total Assets	**182,997**	185,635	160,519	121,775	123,291
LIABILITIES					
Financial liabilities held for trading	**15**	85	90	-	-
Amounts owed to banks	**102**	150	229	296	1,077
Amounts owed to customers	**164,636**	167,654	145,070	107,510	108,859
Other liabilities	**3,136**	3,866	2,576	2,312	1,812
Accruals and deferred income	**1,720**	2,000	2,174	1,872	2,470
Provision for taxation	**58**	224	146	267	260
Share capital	**2,057**	2,026	1,980	1,953	1,932
Share premium	**4,537**	4,341	4,055	3,880	3,709
Other reserve	**111**	111	111	111	111
Property revaluation reserve	**126**	126	126	126	126
Investment revaluation reserve	**129**	36	(57)	-	-
Profit and Loss Account	**6,370**	4,779	3,762	3,220	2,722
Dividend reserve	-	237	257	228	213
Total Liabilities	**182,997**	185,635	160,519	121,775	123,291
MEMORANDUM ITEMS					
Contingent liabilities	**2,999**	3,524	3,416	3,970	2,440
Commitments	**22,673**	17,201	21,542	16,165	16,230

Five Year Summary
Cash Flow Statement

The Bank

	01/01/04 to 31/12/04 Lm 000	01/10/02 to 31/12/03 Lm 000	01/10/01 to 30/09/02 Lm 000	01/10/00 to 30/09/01 Lm 000	01/10/99 to 30/09/00 Lm 000
Net Cash from/(used in) Operating Activities	**(25,639)**	19,708	24,977	4,016	(3,633)
Investing Activities					
- dividends received	**40**	37	40	36	34
- interest received from investment	**2,207**	2,384	1,825	1,905	1,764
- proceeds from maturity/disposal of investments	**363**	2,034	2,299	3,922	2,745
- purchase of tangible fixed assets	**(445)**	(190)	(21)	(95)	(44)
- proceeds from sale of tangible fixed assets	**1**	3	13	3	-
- purchase of investment	**(1,429)**	(383)	(1,577)	(5,819)	(5,361)
- purchase of shares issued by subsidiary company	-	(15)	(13)	-	-
- payment to acquire subsidiary company	-	-	(125)	-	-
Net Cash from/(used in) Investing Activities	**737**	3,870	2,441	(48)	(862)
Financing Activities					
- proceeds from issue of share capital	-	-	-	-	3,040
- dividends paid	**(10)**	(81)	(26)	(21)	(3)
Net Cash (used in)/from Financing Activities	**(10)**	(81)	(26)	(21)	3,037
(Decrease)/Increase in Cash and Cash Equivalents	**(24,912)**	23,497	27,392	3,947	(1,458)

Five Year Summary
Accounting Ratios

The Bank

	01/01/04 to 31/12/04 %	01/10/02 to 31/12/03 %	01/10/01 to 30/09/02 %	01/10/00 to 30/09/01 %	01/10/99 to 30/09/00 %
Net interest income and other operating income to total assets	**2.5**	2.5	2.4	2.4	2.8
Operating expenses to total assets	**1.1**	1.2	1.1	1.5	1.8
Profit before tax to total assets	**1.4**	1.2	0.9	0.9	1.0
Profit before tax to equity	**19.2**	18.7	13.7	11.8	14.1
Profit after tax to equity	**11.9**	12.1	8.9	7.6	9.1

	31/12/04	31/12/03	30/09/02	30/09/01	30/09/00
Shares in issue of 50c each (thousands)	**4,114**	4,052	3,959	3,905	3,865
Net assets per share (cents)	**324**	288	258	244	228
Earnings per share (cents)	**38.8**	35.2	23.1	18.7	22.6
Dividend per share (cents)					
- gross	**15.0**	15.0	10.0	9.0	8.5
- net	**9.8**	9.8	6.5	5.9	5.5
Dividend cover	**4.0**	3.6	3.5	3.2	3.8

Solvency Ratio

31 December 2004

	Note	Balance Sheet Value Lm 000	Weighted Amount Lm 000
On-balance sheet assets	*(a)*		
Balances with Central Bank of Malta,			
Treasury Bills and cash		40,312	-
Cheques in course of collection		334	67
Financial assets held for trading		16	3
Investments		26,639	1,850
Loans and advances to banks		41,045	8,209
Loans and advances to customers	*(b)*	69,383	58,011
Shares in subsidiary companies		154	154
Tangible fixed assets		1,898	1,898
Deferred tax asset		602	602
Other assets		181	181
Prepayments and accrued income		2,737	1,369
		183,301	72,344
Off-balance sheet assets	*(c)*		
Contingent liabilities and commitments		25,672	-
Total adjusted assets and off-balance sheet items			72,344
Own Funds			
Original own funds	*(d)*		13,075
Additional own funds	*(e)*		559
Gross own funds			13,634
Deductions	*(f)*		-
Total own funds			13,634
Solvency ratio	*(g)*		18.8%

Solvency Ratio

31 December 2004

Notes

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

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

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

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

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

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

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

Financial Highlights in Major Currencies

The Bank

	EURO €000's	US Dollars $000's	Pounds Sterling £000's
For the period			
Net interest income	8,440	11,512	5,966
Profit before income tax	5,929	8,087	4,191
Profit after income tax	3,662	4,995	2,588
At balance sheet date			
Shareholders' funds	30,680	41,848	21,687
Loans and advances to customers	158,992	216,867	112,385
Amounts owed to customers	378,926	516,858	267,846
Total assets	421,186	574,501	297,718
Per share			
Earnings	0.89	1.22	0.63
Net asset value	7.46	10.17	5.27

At currency rates of exchange ruling on 31 December 2004:

€2.3016 = Lm1
$3.1394 = Lm1
£1.6269 = Lm1

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