LOMBARD BANK

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Chairman's Message to the Members

During 2001 central banks in the major industrial nations had successively reduced official interest rates in an attempt to stimulate persistently weak economic conditions.The following year started off with the global situation improving slightly, with interest rates in the major economies being left unchanged. Against this background, however, stock markets continued their downward trend as investors focused, on the valuations of their equity holdings in the light of, amongst others, falling profits and the problems faced by the ìnew economyî companies. The scandals that rocked the foundations of confidence in corporate America and the possibility of military action in the Middle East further added to declining confidence in the equity markets.

During the financial year under review, and in the short space of two months between November and January, the Central Bank of Malta lowered its central intervention rate by an aggregate of 50 basis points. But the forecast GDP growth of 3% for 2002 - significantly higher than that forecast for the Euro area - is highly dependant on the extent of the rebound in the major economies, which is expected to stimulate demand for Maltese exports. As the Maltese banking market entered 2002 in a declining interest rate environment which tended to bring under pressure mainline sources of income, Lombard Bank remained consistent with its strategy of pursuing business selectively and delivering high value services.

We are delighted to report a pre-tax profit of Lm1.41 million for the financial year ended 30 September 2002. This is a record performance by the Bank and an improvement of 26% on last year. Underlying this result is once again a strong, all-round operating performance, including substantial increases in both Interest and Non-Interest Income and of 28% in Operating Income. We have also been successful at maintaining high efficiency levels as shown by the overheads performance and credible cost-to-income ratios. Despite being allowed to account for the impact of increased loan provisions - brought about by the introduction in 2001 of a revised Banking Directive to that effect - over a 3 year period, the Board of Directors has considered it prudent to completely absorb the balance of 50% in 2002, rather than defer any of it into 2003. Net Impairment Losses resulting from write-downs in values of loans and advances - formerly known as bad and doubtful debt provisions - represent a charge to profit of Lm650,000. They also reflect the financial effect of International Accounting Standard (IAS) 39, which became applicable as from this financial year. We are pleased to report growth in Customer Loans and Advances of 13%, as well as an increase of 35% in Customer Deposits, which have now reached Lm58 million and Lm145 million, respectively. Total assets are similarly up by 32% to Lm160 million.

For the first time, the Bankís results reflect the consolidated position of holdings acquired during the financial year in our two subsidiaries, namely Lombard Stockbrokers Limited (51%) and Lombard Asset Managers Limited (75%). While the addition of the subsidiaries on the Bankís consolidated position has so far been slight, the Board is confident of their potential to make a more meaningful contribution in the future, especially should sentiment in the investment markets be reversed. We welcome the input of our partners in these two ventures, who are established names in their respective fields of activity.

The Board of Directors will be recommending a gross dividend of 10.0 cents per share, an increase of 11% over 2001ís 9.0 cents. As in previous years, a resolution will be presented to the 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 Bankís shares for the three months up to and including the date of approval of the Accounts, i.e. 6 November, 2002. In previous years, the trade weighted average price was compared to the closing price on the approval date, with the lower of the two being selected. We feel that the small modification this year is in the best interest of shareholders, given the thinness of the market and the fact that minute trades at times cause extreme price variances. We are pleased to note that the gross dividend has been increased successively since 1998, for a cumulative growth in dividend payout of 43%.

In spite of the increase in shareholdersí funds to Lm10.2 million, pre-tax return on equity remains strong at 13.7% (2001 - 11.8%) while earnings per share were of 23.1 cents (2001 - 18.7 cents). Net assets per share work out at Lm2.58. Based on price to book multiples calculated at recently traded prices, we believe that Lombard Bank shares offer value for money to their holders.

During the year under review, CCF Holding (Suisse) SA, previously the largest single shareholder in Lombard Bank, transferred its holding to Swiss bank Banca Unione di Credito (Credit Union Bank). We welcome our new shareholders and wish them a prosperous and successful relationship with our Bank. We thank all our other shareholders as well as our esteemed customers for the confidence which they continue to place in the Bank.

My final word goes to my fellow directors for their continued commitment as well as to the Management and Staff whose hard work and diligence continues to support the progress and success of Lombard Bank.

Christian Lemmerich
Chairman

Chief Executive Officer's
review of operations

Lombard Bank and its subsidiaries registered a pre-tax profit of Lm1.41 million for the financial year ended 30 September, 2002, an increase of 26% over the Bank's performance in 2001. The following commentary reviews the various areas of Bank operations and analyses the results in the context of the Bank's activities and their market environment.

The Bank and its Subsidiaries

Lombard Bank seeks to create for itself a market position underscored by high quality service and standards of delivery, and which considers differentiation measures as important drivers. This strategy enables the Bank to be a full-service provider concurrently developing relationships with selected customers. Despite strong competition in the provision of retail banking services, Lombard Bank increased its activity across the range of banking services. The process of customer segmentation continues, the objective being that of providing more personalised services to high net worth clients. This has resulted in increased efficiencies and greater focus on more profitable business.

The Bank continues to grow in the area of corporate banking where the platform built in recent years enables it to entertain larger exposures and thus raise its profile more prominently in this sector. It aims to excel in providing a comprehensive service to corporate customers, and has become well-known for going beyond its normal call by extending its contacts, experience and advice to its borrowers.

The Bank also provides a wide range of investment services in both locally and overseas-quoted instruments. In particular, the Bank's investments division was active as intermediary for various initial public offerings on the Maltese capital market during the financial year under review, and as manager and registrar for an initial offering of bonds. The Bank is also authorised to introduce deals on the MSE secondary market.

On 21 December 2001, the Bank subscribed to 51% of the newly-formed Lombard Stockbrokers Limited (LSL). The remaining 49% is held by Finco Holdings Limited, a holding company of the Finco Trust Group, which is a multi-disciplinary professional services group based in Malta. LSL is licensed by the Malta Financial Services Authority to carry on the business of stockbroking, primarily in securities quoted on the Malta Stock Exchange. In the relatively short time since it has been active, LSL has established itself among the leading firms in terms of volume of business transacted.

On 23 September, 2002, the Bank concluded its acquisition of 75% of the issued share capital of Gasan Fund Management Limited, a company licensed by the Malta Financial Services Authority to provide investment services to collective investment schemes. The remaining 25% is held by Gee Five Limited, a member of the Gasan Group which is a diversified business, industrial and investment group based in Malta. Gasan Fund Management Limited, which has been renamed Lombard Asset Managers Limited, was set up in 2001 and appointed manager of the Gasan Funds SICAV plc, an open-ended multi-class collective investment scheme licensed in Malta by the Malta Financial Services Authority.

Technology and Support

As anticipated in the 2001 Report, the year under review saw the start of preparations for the transition of the Bank's core system to BankMaster Release 7. This project, which is expected to be concluded during the coming year, will be a major upgrade to the present software which should also result in enhancements to customer account facilities and functions. It will also lead to an upgrading of operating hardware and software systems in operation throughout the Bank. It therefore allows a uniform basis for decision-making throughout the Bank. During 2002, the Bank embarked on a general review and upgrading of its Handbooks and Manuals of procedures

Staff and Welfare

Much of the Bank's success hinges on the quality of its management and staff. The Bank is mindful of the fact that its ability to attain distinctive service objectives depends significantly on the availability of competent and skilled personnel throughout its structure. A conscious effort is therefore made to engage staff of high calibre, combining a mix of experience and academic preparation. More importantly this is accompanied by a continuous process of on-the-job training and career development.

Chief Executive Officer's
review of operations

Discussions on the new collective agreement started with the Malta Union of Bank Employees during the year under review. In May 2002, the Bank launched a career-wear programme which covers all supervisory, clerical and non-clerical staff. As part of the Bank's commitment to further increase the skill and expertise of staff, a number attended business seminars, conferences and professional courses throughout the year. This complemented the programme of in-house training in systems and skills, including training in prevention of money laundering procedures.

Community Involvement

The Bank supports the important work of various voluntary and non profit-making organisations at both the national and local level. As in previous years, the Bank has supported the Malta Community Chest Fund ñ for which it acts as official banker and treasurer ñ as well as a number of other organisations.

Review of Financial Performance

Income Statement

Net interest income increased by 12% to Lm2.865 million. While interest revenue decreased slightly in absolute terms, interest payable dropped by 7%. Despite tight lending conditions and low interest rates, the Bank strengthened its Net Interest Margin from 33.7% to 38.1%, one of the stronger margins in the market. Interest receivable on loans and advances to customers increased by 19%, while interest on bank balances - in large part with overseas credit institutions and in currency - continued its rapid decline, corresponding with lower interest returns in Eurozone and on the US Dollar. The Bank maintained its policy of competitive segmentation in the deposit market. With its deposit rate offer remaining competitive, the Bank was generally in a position to avoid competing for funds at higher rates; consequently, interest payable decreased in absolute terms. The Bank registered a record Operating Income of Lm3.80 million, up 28% from last year's Lm2.97 million.

Expenditure was kept down on that for 2001, with most administrative overheads being reduced further over previous years. This performance continues to evince the Bank's ability to derive efficiencies from its operations, despite that economies of scale do obviously work against it. Depreciation for the year is down by 14%, largely to be expected as the depreciable investment of recent years in equipment and technology continues to wear off its written-down value. The cost (administrative expenses and depreciation) to operating income ratio is down from last year's 61% to 46%, a remarkable achievement by any standard.

Overall, net interest income made up 75% of gross operating income, the balance being non-interest income in the form of fees, commissions, dividend income and earnings on foreign exchange business. Worthy of particular mention is the increase of 73% in foreign exchange earnings which this year exceeded Lm0.5 million.

Fund Raising Activities

Customer deposits increased by 35% from 2001's Lm108 million to Lm145 million. Most of the increase was in Maltese Lira balances where the Bank's competitive interest-rate pricing strategy, based on careful market segmentation, continued to yield results. The increases were across the range of current and savings accounts, and time deposits. Whereas the latter increased by 29%, the former grew by 39% over the previous year. In line with the strategy developed in recent years, the Bank continued to promote fiduciary deposit services with non-resident customers, and these transactions are reflected off the balance sheet.

Money and Fixed-income Market Activity

The Maltese commercial banking market remained highly liquid during the financial year under review. Published statistics point to liquidity ratios in the low-to-mid 50's during the year under review, significantly up by between 5 and 10 percentage points on the previous year. The Bank, which manages its liquidity position by means of reserve deposit equalisation, short-term treasury paper and inter-bank transactions, was no exception. During the year, the Bank was active in both the primary and the secondary treasury bill market, and the holding of T-bill paper increased from 2001's Lm9.1 million to Lm27.7million. Balances with the Central Bank of Malta likewise increased from Lm3.3 million in 2001 to Lm21.9 million. Apart from meeting the reserve deposit requirement in terms of the Central Bank of Malta Act, the Central Bank absorbed liquidity from Lombard Bank by way of short-term deposits. Fixed income securities - namely Malta Government Bonds - held to maturity decreased by 3%, mainly as a result of redeemed bonds which were not immediately substituted. In line with the Bank's policy, loans and advances to banks reflect the currency profile of corresponding amounts owing to customers, and are largely held in US Dollar, Pound Sterling and Euro.

Credit Activity and Loan Loss Provisions

Gross loans and advances to customers increased by 15% to Lm60 million with an evenly diversified loan book. At Lm21.4 million, commitments to lend increased by some 35% over the levels of the previous two years. Guarantee obligations on behalf of customers amounted to Lm3.4 million.

In the previous financial year, the method of loan provisioning was revised to conform with the requirements of a new Central Bank of Malta Directive. The Directive is intended to ensure uniform provisioning policies among banks and, amongst its main features it requires interest to be suspended earlier on past due accounts and takes into account the extendible value of collateral backing loans and advances. The Directive also allowed for the impact of the revised policies to be absorbed over a period of 3 financial years. After having absorbed 50% of the impact in 2001, consistent with its policy of prudent accounting, the Bank opted to fully absorb the outstanding 50% during 2002. In line with the accounting measurement principles and requirements of International Accounting Standard (IAS) 39, loans and advances have been adjusted to reflect any impairment resulting from the application of the Standard's principles of fair valuation. The Bank is committed to ensure that its provisioning policies represent at all times a prudent estimate of loss in the Bank's loan and advances portfolio. The ratio of net impairment allowances (loan loss provisions) to gross loans and advances increased from last year's 2.13% to 3.26%.

Profitability and Own Funds

Shareholders' funds at the end of September reached Lm10.2 million, an increase of 8% on 2001. Return on shareholders funds (ROE) increased from 12% to 14% on a pre-tax basis. At 0.9%, return on assets (ROA) is at the same level as last year, in great part the substantial increase in total assets diluting the improved earnings performance. With total statutory own funds of Lm10.4 million and a solvency ratio of 18.3%, the Bank exceeds the minimum regulatory ratio established by the Banking Directives. The higher level of own funds also raises the Bank's ability to potentially take on larger credit exposures in its books. The dividend for 2002 is being proposed at 10.0 cents per share, gross of income tax, while the dividend cover is marginally higher from last year's 3.2 to 3.5.

Conclusion

The Bank's results for 2002 mark a strong operating performance to which all of the Bank's business segments contributed positively. Admittedly it may still be early to estimate whether market conditions and the general environment in 2003 will be conducive to sustain the rate of growth experienced during the 2002 financial year. However we believe that the operating base and market positioning which have been established, as well as the potential contribution of the subsidiary companies, will continue to provide the Bank with future opportunities for profit.

Directors' Report
30 September 2001

The Directors present their report for the year ended 30 September 2002. The report is prepared in terms of section 177 of the Companies Act, 1995 and complies with the disclosure requirements of the Sixth Schedule to the same Act.

Directors

The following directors served on the Board during the financial year under review:

Joseph R. Darmanin
Joseph M Demajo
Christian Lemmerich (Chairman)
Norman P. Mifsud
Joseph Said F.C.I.B.
Joseph G. Vassallo Dip. Pol. Econ. (Oxon)
Michael Zammit

In terms of the Memorandum and Articles of Association, two of the directors will retire at the forthcoming Annual General Meeting and, being eligible, may offer themselves for re-election.

Results for the Year

	2002	**2002**	2001
	Lm 000	**Lm 000**	Lm 000
	Group	**Bank**	Bank
Profit after income tax	**915**	**911**	726

The gross dividend recommendation is 10c0 per share (2001 - 9c0). The Board of Directors will recommend 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.

Principal Activities of the Bank and its Subsidiaries

The Bank is a public limited company registered under the laws of Malta with number C1607, and listed on the Malta Stock Exchange. It is licensed as a credit institution under the Banking Act, 1994 and for investment business under the Investment Services Act, 1994. The Bank provides an extensive range of banking and financial services to domestic and international customers through a network of six branches in Malta and Gozo.

For the first time, the Bank's results reflect the consolidated position of holdings, acquired during the financial year under review, in its two subsidiaries, namely Lombard Stockbrokers Limited (51%) and Lombard Asset Managers Limited (75%). The companies are mainly involved in stock-broking and fund management activities, respectively.

Risk Management

The Board of Directors has ultimate responsibility for overseeing risk, which is monitored and systematically managed across the whole spectrum of the Bank's activities. 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. The Credit Committee operates under delegated Board authority and apart from developing general lending principles and ensuring a positive credit culture, it also takes individual loan decisions in terms of prescribed limits. It also oversees risk management practices in the area of lending operations.

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. In addition, management maintains a comprehensive system of internal controls, including procedural and accounting controls to ensure that assets, records and transactions are properly controlled and monitored. These controls are complemented by an ongoing programme of internal audit of all aspects of the Bank's operations.

The Bank submits comprehensive reporting to the Malta Financial Services Authority and to the Central Bank of Malta, in accordance with its requirements under the Banking Act, the Central Bank of Malta Act and the Investment Services Act. Onsite examination of the Bank's activities is performed by the

Malta Financial Services Authority in terms of its regulatory functions. The Bank's risk management procedures and controls are also reviewed by the external auditors, KPMG, during the course of their annual audit examination.

Disclosure in terms of the Sixth Schedule to the Companies Act, 1995

During the year ended 30 September 2002, no shares in the Bank were:

(a) purchased by it or were acquired by it by forfeiture or surrender or otherwise;
(b) acquired by another person in circumstances where the acquisition was by the Bank's financial assistance, the Bank itself having a beneficial interest;
(c) made subject to pledge or other privileges, to a hypothec or to any other charge in favour of the Bank.

During the year under review, the Bank's capital was increased by the issue of 54,414 ordinary fully paid shares of Lm0.50 each, after a resolution was approved by the Annual General Meeting on 21 December, 2001 allowing shareholders the option to receive their dividend either by the issue of new shares or in cash.

Auditors

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

Outlook for the year 2003

The year under review came to a start amid the most uncertain of global economic scenarios for years. Sliding equity indices on most investment exchanges coupled with clear signs of lagged economic recovery in the major economies, exacerbated in the aftermath of September 2001's terrorist events in America and the ensuing war on terror, raised global economic uncertainty to unprecedented levels. Against this background, it was unavoidable for the Maltese economic climate - already characterised by mixed signals coming from a deceleration in growth of manufactured exports, tourism and a marginal decline in domestic consumption - to be effected.

But despite this sentiment which continued to dominate in the markets related to Maltese economic activity, our strategy of carefully selecting business appears to continue to yield the desired results. The Bank has managed to build a sound business base which continues to promise great opportunities for future profit and growth. For the coming year, we should aim to continue strengthening our position as a quality provider of financial services and products. This could be achieved through ongoing restructuring of our core operations, differentiation of mainline banking business and a concerted focus on private client business. The outstanding results for 2002 reflect a sound underlying business as well as a high quality customer base. The Board is confident that these fundamentals will continue to form the bedrock for future, sustained growth in earnings and shareholder value.

Approved by the Board of Directors on 6 November, 2002 and signed on its behalf by:

Christian Lemmerich
Chairman

Joseph Said
Director

Statement of Compliance
30 September 2002

Preamble

The Board of Directors (the ìBoardî or ìDirectorsî) presents its first Statement of Compliance, drawn up in terms of the ìCode of Principles of Good Corporate Governanceî approved by the Council of the Malta Stock Exchange in November, 2001, and now included as Appendix C to Chapter 6 of the Exchange's Bye-Laws. As an organisation of long corporate standing, both as a licensed credit institution and as a quoted public limited company, Lombard Bank welcomes this development as an essential step forward in the process of strengthening corporate governance structures, transparency and accountability.

Role and Responsibilities

The Board is responsible for the overall long-term direction and prosperity of the Bank and its various stakeholders, namely the shareholders, customers and employees. It discharges its responsibilities by:

1. setting business objectives, goals and the general strategic direction for Management with a view to maximise value;
2. ensuring adequate internal controls exist and are appro priately monitored for compliance;
3. ensuring significant business risks are identified and appropriately managed;
4. setting the highest business standards and code for ethical behaviour, and monitoring their performance;
5. 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.

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

a) Chief Executive Officer;
b) two General Managers responsible for Credit & Operations, and Finance & International respectively;
c) five Assistant General Managers, responsible for Internal Audit, Branch Operations, Finance, Information Technology and Gozo, respectively.

This method of governance, which enables the Directors to exercise a more independent policy making and monitoring function and the Management to run the Bank with greater efficiency and effectiveness, has been embraced by all Board members and recorded through an appropriate resolution in the minutes of the Board meeting held on 29 January, 1999.

The suitability of any individual to become a Director is in the first instance assessed by the competent regulatory authorities in Malta, who subject the individual to ëfit and proper' tests in order to determine if he is competent to serve as Director of the bank. In this connection, the individual provides any such information, including detailed personal questionnaires, as the regulators may require. 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.

Composition

Clauses 87 to 94 of the Bank's Articles of Association provide for the manner of appointment and retirement of Directors. The Board shall consist of not more than seven Directors, and every shareholder holding in the aggregate at least 15% of the Bank's Ordinary Issued share capital is entitled to appoint one director for each and every 15% owned by him. Any fractional shareholding in excess of such 15% not applied in appointing a director shall be entitled to vote for the remaining Directors together with the remaining general body of shareholders. At every general meeting, one-third of the serving Directors retire from office by a rotation procedure established in the Articles and, being eligible, may offer themselves for re-election. Any person proposed for appointment as director at an Annual General Meeting shall be either recommended by the serving Directors or nominated by a shareholder in terms of the Articles. The Chairman of the Board is elected by the Directors from amongst themselves at the first Board meeting after the Annual General Meeting. The quorum necessary for the transacting of business by the Directors, and for Board meetings, is four.

As at the date of this Statement the members of the Board are as follows:

Statement of Compliance
30 September 2002

	Year when first appointed	No. of shares held in the Bank
Joseph R. Darmanin	1991	1854
Joseph M Demajo	1999	-
Christian Lemmerich (Chairman)	1998	-
Norman P. Mifsud	1998	-
Joseph Said	2000	-
Joseph G. Vassallo	1987	-
Michael Zammit	1995	47

During 2002 Banca Unione di Credito acquired a 26.32% holding in the Bank. Christian Lemmerich was confirmed Chairman by the Directors after the 2001 Annual General Meeting. He does not occupy any executive capacity on the Board. Joseph Said, Chief Executive Officer, serves as director on the Board. The other directors do not hold any other position with the Bank.

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.

During the financial year under review the ALCO met on five occasions. Norman P Mifsud is the Board member on the ALCO, along with the CEO, the two General Managers responsible for Credit & Operations, and Finance & International respectively, and the Assistant General Manager responsible for Finance.

The Credit Committee operates under delegated Board authority and apart from developing general lending principles and ensuring a positive credit culture, it also takes individual loan decisions in terms of prescribed limits. It also oversees risk management practices in the area of lending operations. The Credit Committee met on seven occasions during 2001/02. Joseph G Vassallo and Michel Zammit are the Board members on the Credit Committee, along with the CEO and the two General Managers responsible for Credit & Operations and Finance & International, respectively.

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

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, and specifically provide that the role of the Chief Executive Officer on the Committee is primarily that of providing liaison with the respective Bank departments and officers as well as to provide continuity to the said Committee. During 2001/02, the Audit Committee met on three occasions. At meetings of the Audit Committee the external auditors, KPMG, and the Bank's internal auditor are required to attend. Christian Lemmerich, Joseph M Demajo and the CEO sit on the Audit Committee, where the quorum is required to be made up of the former two members.

Proceedings of Directors

The proceedings of Directors are regulated by the Bank's Articles of Association. Meetings of the Board are held as frequently as considered necessary, and are notified by the Company Secretary with the issue of the agenda for the forthcoming meeting. The notification is accompanied by such papers and documents as are necessary to make Directors aware of current or forthcoming issues relating to operations and performance.

In connection with each Board meeting, the Directors are served with a ìReport by Managementî containing a detailed overview of matters, events and decisions since the preceding meeting. At the first meeting after the close of the financial year, the Board receives an ìAnnual Management Reviewî containing a summary of the more salient operational and performance events of the year. Each Board meeting also reviews and discusses the management accounts for the financial period ended nearest the date of the meeting, and analyses their performance.

Other papers and memoranda on items featuring in the meeting's agenda either accompany the notice or are made available for perusal by the Directors during office hours. Minutes of committee meetings are also made available for inspection by Board members in the same manner. The CEO and General Managers attend all meetings of the Board.

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

Statement of Compliance
30 September 2002

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 all other circumstances the Directors play a full and constructive role in the Bank's affairs.

During the financial year ended 30 September, 2002, the Board met on seven occasions.

Terms of Appointment

The remuneration policy approved by the Board ensures that executive directors and senior executives are rewarded for their contribution to the Bank's financial performance at levels which take account of industry and market benchmarks. The basic objective of the policy is that executive directors and senior management should receive remuneration which is appropriate to their scale of responsibility and performance and which will attract, motivate and retain individuals of the necessary calibre. The remuneration for non-executive directors is also based on industry and market averages. The Annual General Meeting approves the maximum annual aggregate remuneration which Directors may receive for the holding of their office. At the last Annual General Meeting held on 21 December, 2001, the shareholders established Lm18,000 as the maximum amount to which Directors would be entitled in 2002. Each Director receives an annual remuneration of Lm2,250 for his services. This remuneration is fixed and is not linked to corporate or individual performance; neither are the Directors in receipt of any further remuneration for sitting on any Board committee or for holding any additional role, such as that of Chairman. The CEO is on a contract of employment with the Bank and his remuneration as an employee, as well as his employment, are independent of his office as a director of the Bank. The remuneration and bonuses of the CEO and General Managers 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.

Commitment to Shareholders and an Informed Market

The Board firmly believes in, and adheres to, the rules and regulations enshrined in the Malta Stock Exchange Bye-Laws regarding the obligations to maintain a fair and informed market in the Bank's equity securities. It discharges its obligations by having 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 ìCode of Conduct for dealings in securities by Directors, Executives and Employeesî which was adopted by the Bank in April 2001.

There are also formal procedures in place for the timely dissemination and publication of information. This usually consists of two types, namely potentially price-sensitive information connected with events or transactions to which the Bank is a party or in which it is otherwise involved and the reporting of twice-yearly financial information, at the interim (or mid-year) and final (or end-year) stages. Directors, executives and all employees are reminded by circular from the Company Secretary of the ìtime-windowsî preceding and following the publication of twice-yearly financial information during which no dealing in the Bank's securities is allowed. Apart from the ìtime-windowsî, they are also reminded that if an individual possesses material non-public price-sensitive information about the Bank, that person is prohibited from dealing.

All eligible shareholders are served with a notice to attend the Bank's Annual General Meeting, which is normally held in December. The notice contains all the resolutions proposed for approval by the Annual General Meeting and, where considered necessary, notes accompanying such resolutions. In terms of law, notices are delivered to shareholders at least 14 clear days before the date of the Annual General Meeting. The notice is accompanied by the Annual Report and Audited Accounts for the financial year ended 30 September. The Annual Report is an informative document which, in addition to the normal statutory disclosures, contains detailed and analytical information about the Bank's performance and activities. Above all, the Board ensures that the Annual General Meeting serves as an effective medium in which information is communicated to the shareholders in an accountable manner.

Approved by the Board of Directors on 6 November, 2002 and signed on its behalf by:

Christian Lemmerich
Chairman

Joseph Said
Director

Report of the Auditors
to the Members of Lombard Bank
Pursuant to the Malta Stock Exchange Bye-Law 6.05.07(iii)

The Malta Stock Exchange Bye-Law 6.05.07(ii) requires the companyís 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 that they have taken to ensure compliance with these Principles.

Our responsibility, as auditors of the company, is laid down by the Malta Stock Exchange Bye-Law 6.05.07(iii), which requires us to include a report on this Statement of Compliance.

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

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

In our opinion, the Statement of Compliance set out on pages 4 to 8 has been properly prepared in accordance with the requirements of the Malta Stock Exchange Bye-Law 6.05.07(ii).

This copy of the report has been signed by
Noel Mizzi (Partner) for and on behalf of

KPMG
Certified Public Accountants and Auditors

6 November 2002

Board of Directors
and Senior Management

Directors

Christian Lemmerich (Chairman)

Joseph R. Darmanin

Joseph M. Demajo

Norman P. Mifsud F.C.I.B.

Joseph Said F.C.I.B.

Joseph G. Vassallo Dip. Pol. Econ. (Oxon)

Michael Zammit

Company Secretary

Graham A. Fairclough F.C.I.B

Chief Executive Officer

Joseph Said F.C.I.B.

General Managers

Graham A. Fairclough F.C.I.B

Marcel Cassar M.B.A. (Wales), M.I.A., C.P.A.A.

Assistant General Managers

Carmel Vassallo A.C.I.B. M.I.M.I.S.

Anthony Bezzina A.C.I.B.

Eugene Farrugia B.A. (Hons) Bus Mangt. A.C.I.B.

George R. Gusman A.C.I.B.

Aurelio Theuma B.A. (Hons) Acct. M.I.A. C.P.A.

LOMBARD BANK

FINANCIAL RESULTS

for the year ended 30 September

2002

Statement of Directors' Responsibilities

30 September 2002

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. 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.

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

We have audited the financial statements set out on pages 16 to 46. 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. 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 30 September 2002 and of its profit, changes in equity and cash flows for the year then ended in accordance with the requirements of International Financial Reporting Standards, and have been properly prepared in accordance with the provisions of the Companies Act, 1995 and the Banking Act, 1994 enacted in Malta.

This copy of the audit report has been signed by
Noel Mizzi (Partner) for and on behalf of

KPMG
Certified Public Accountants and Auditors

6 November 2002

Profit and Loss Account

For the year ended 30 September 2002

		Group	Bank	
		2002	**2002**	2001
	Note	Lm 000	Lm 000	Lm 000
Interest receivable and similar income				
- on loans, advances and balances with Central Bank of Malta	3	5,683	5,683	5,738
- on debt securities	3	1,836	1,836	1,815
Interest payable	4	(4,654)	(4,654)	(5,006)
Net interest income		2,865	2,865	2,547
Fees and commissions receivable		431	400	352
Fees and commissions payable		(31)	(15)	(14)
Dividend income	5	40	40	36
Trading profits/(losses)	6	496	496	(74)
Other operating income		16	15	127
Operating income		3,817	3,801	2,974
Administrative expenses	7	(1,555)	(1,548)	(1,585)
Depreciation		(200)	(200)	(233)
Other operating charges		-	-	(6)
Net impairment losses	8	(650)	(650)	(30)
Amortisation of goodwill	19	(2)	-	-
Profit on ordinary activities before tax	9	1,410	1,403	1,120
Tax on profit on ordinary activities	10	(495)	(492)	(394)
Profit on ordinary activities after tax		915	911	726
Profit attributable to minority interests		(3)	-	-
Profit for the financial year attributable to shareholders		912	911	726
Earnings per share	11	23c1	23c1	18c7

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 46.

Balance Sheet

At 30 September 2002

	Note	2002 Lm 000	2002 Lm 000	2001 Lm 000
ASSETS				
Balances with Central Bank of Malta, Treasury Bills and cash	13	**50,430**	**50,430**	13,113
Cheques in course of collection		**831**	**831**	733
Financial assets held for trading	14	**73**	**73**	-
Investments	15	**27,133**	**26,997**	27,831
Loans and advances to banks	16	**19,643**	**19,641**	23,782
Loans and advances to customers	17	**58,076**	**58,076**	51,284
Shares in subsidiary companies	18	**-**	**138**	-
Intangible assets	19	**20**	**-**	-
Tangible assets	20	**1,436**	**1,432**	1,625
Deferred tax asset	21	**703**	**703**	351
Other assets	22	**222**	**217**	176
Prepayments and accrued income	23	**1,981**	**1,981**	2,880
Total assets		**160,548**	**160,519**	121,775
LIABILITIES				
Financial liabilities held for trading	14	**90**	**90**	-
Amounts owed to banks	24	**229**	**229**	296
Amounts owed to customers	25	**145,039**	**145,070**	107,510
Other liabilities	26	**2,734**	**2,722**	2,579
Accruals and deferred income	27	**2,174**	**2,174**	1,872
Minority interests		**49**	**-**	-
		150,315	**150,285**	112,257
SHAREHOLDERS' FUNDS				
Called up issued share capital	28	**1,980**	**1,980**	1,953
Share premium		**4,055**	**4,055**	3,880
Other reserve	29	**111**	**111**	111
Property revaluation reserve	29	**126**	**126**	126
Investment revaluation reserve	29	**(59)**	**(57)**	-
Profit and loss account		**3,763**	**3,762**	3,220
Dividend reserve		**257**	**257**	228
		10,233	**10,234**	9,518
Total liabilities		**160,548**	**160,519**	121,775
MEMORANDUM ITEMS				
Contingent liabilities	30	**3,416**	**3,416**	3,970
Commitments	31	**21,542**	**21,542**	16,165

The Balance Sheet is to be read in conjunction with the notes to and forming part of the financial statements set out in pages 21 to 46.
The financial statements on pages 16 to 46 were approved by the Board of Directors on 6 November 2002 and were signed on its behalf by:

Christian Lemmerich
Chairman

Joseph Said
Director

Statement of Changes in Equity

For the year ended 30 September 2002

Group

	Total	Called Up Issued Share Capital	Share Premium	Other Reserve	Property Revaluation Reserve	Investment Revaluation Reserve	Profit and Loss Account	Dividend Reserve
	Lm 000	Lm 000	Lm 000	Lm 000	Lm 000	Lm 000	Lm 000	Lm 000
At 1 October 2001	9,518	1,953	3,880	111	126	-	3,220	228
Impact of adopting IAS 39 (note 36)	(112)	-	-	-	-	-	(112)	-
At 1 October 2002 as restated	9,406	1,953	3,880	111	126	-	3,108	228
Ordinary shares issued in lieu of dividends	-	27	175	-	-	-	-	(202)
Dividends paid	(26)	-	-	-	-	-	-	(26)
Net loss on available-for-sale assets not recognised in the profit and loss account	(59)	-	-	-	-	(59)	-	-
Profit for the year	912	-	-	-	-	-	912	-
Dividends, net of income tax	-	-	-	-	-	-	(257)	257
	10,233	1,980	4,055	111	126	(59)	3,763	257

Bank

	Total	Called Up Issued Share Capital	Share Premium	Other Reserve	Property Revaluation Reserve	Investment Revaluation Reserve	Profit and Loss Account	Dividend Reserve
At 1 October 2000	8,813	1,932	3,709	111	126	-	2,722	213
Ordinary shares issued in lieu of dividends	-	21	171	-	-	-	-	(192)
Dividends paid	(21)	-	-	-	-	-	-	(21)
Profit for the year	726	-	-	-	-	-	726	-
Dividends, net of income tax	-	-	-	-	-	-	(228)	228
At 1 October 2001	9,518	1,953	3,880	111	126	-	3,220	228
Impact of adopting IAS 39 (note 36)	(112)	-	-	-	-	-	(112)	-
At 1 October 2002 as restated	9,406	1,953	3,880	111	126	-	3,108	228
Ordinary shares issued in lieu of dividends	-	27	175	-	-	-	-	(202)
Dividends paid	(26)	-	-	-	-	-	-	(26)
Net loss on available-for-sale assets not recognised in the profit and loss account	(57)	-	-	-	-	(57)	-	-
Profit for the year	911	-	-	-	-	-	911	-
Dividends, net of income tax	-	-	-	-	-	-	(257)	257
	10,234	1,980	4,055	111	126	(57)	3,762	257

The Statement of Changes in Equity is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 21 to 46.

Cash Flow Statement

For the year ended 30 September 2002

	Group		Bank
	2002	**2002**	2001
	Lm 000	**Lm 000**	Lm 000
Cash flows from operating activities			
Interest and commission receipts	**7,041**	**7,009**	5,365
Interest and commission payments	**(4,348)**	**(4,348)**	(5,546)
Payments to employees and suppliers	**(1,034)**	**(1,010)**	(1,670)
Operating profit/(loss) before changes in operating assets/liabilities	**1,659**	**1,651**	(1,851)
(Increase)/decrease in operating assets:			
Non-investment securities	**-**	**-**	(220)
Treasury bills	**(1,687)**	**(1,687)**	-
Reserve deposits with Central Bank of Malta	**(1,817)**	**(1,817)**	2,551
Loans and advances to banks and customers	**(9,983)**	**(9,982)**	5,066
Other receivables	**(141)**	**(139)**	(128)
Increase/(decrease) in operating liabilities:			
Amounts owed to customers	**37,529**	**37,560**	(1,348)
Other payables	**262**	**265**	495
Net cash from operating activities before income tax	**25,822**	**25,851**	4,565
Tax paid	**(874)**	**(874)**	(549)
Net cash from operating activities	**24,948**	**24,977**	4,016
Cash flows from investing activities			
Dividends received	**40**	**40**	36
Interest received from investments	**1,825**	**1,825**	1,905
Proceeds on maturity/disposal of investments	**2,299**	**2,299**	3,922
Proceeds on disposal of tangible fixed assets	**13**	**13**	3
Purchase of investments	**(1,577)**	**(1,577)**	(5,819)
Purchase of property, plant and equipment	**(22)**	**(21)**	(95)
Purchase of shares in newly formed subsidiary company	**-**	**(13)**	-
Payment to acquire subsidiary company	**(125)**	**(125)**	-
Net cash flows from/(used in) investing activities	**2,453**	**2,441**	(48)

Cash Flow Statement

For the year ended 30 September 2002

	Note	Group 2002 Lm 000	Bank 2002 Lm 000	Bank 2001 Lm 000
Cash flows from financing activities				
Dividends paid		(26)	(26)	(21)
Minority interest in newly formed subsidiary		12	-	-
Net cash used in financing activities		(14)	(26)	(21)
Net increase in cash and cash equivalents		27,387	27,392	3,947
Cash and cash equivalents of acquired subsidiary		5	-	-
Cash and cash equivalents at beginning of year		28,195	28,195	24,248
Cash and cash equivalents at end of year	32	55,587	55,587	28,195

The Cash Flow Statement is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 21 to 46.

Notes to the Financial Statements

30 September 2002

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 under the historical cost convention as modified by the revaluation of financial assets held for trading, available-for-sale assets, derivative financial instruments and land and buildings.

Except for the adoption of IAS 39, the accounting polices have been consistently applied 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. ('Bank') and its subsidiary companies ('Group').

On 21 December 2001 the Bank subscribed for 51% of the equity of Lombard Stockbrokers Limited, a newly constituted company. On 13 August 2002, the bank acquired 75% shareholding in Gasan Fund Management Limited, subsequently renamed Lombard Asset Managers Limited. These acquisitions have been accounted for by the purchase method of accounting.

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.

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. Premiums 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 is estimated at the amount that the Group would receive or pay to terminate the contract at the balance sheet date taking into account current market conditions and the current 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 on 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 date to determine whether there is objective evidence of impairment. 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 general 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. General 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 directly.

If in a subsequent period the amount of an 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 to the extent the asset is impaired. 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 investments in subsidiary companies are 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.

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

	Group	Bank	
	2002	**2002**	2001
	Lm 000	**Lm 000**	Lm 000
On loans and advances to banks	711	711	1,723
On loans and advances to customers	4,324	4,324	3,625
On balances with Central Bank of Malta	190	190	154
On treasury bills	458	458	236
	5,683	5,683	5,738
On debt securities	1,855	1,855	1,824
Amortisation of premiums and discounts	(19)	(19)	(9)
	1,836	1,836	1,815

4. Interest Payable

	Group	Bank	
	2002	**2002**	2001
	Lm 000	**Lm 000**	Lm 000
On amounts owed to banks	20	20	31
On amounts owed to customers	4,634	4,634	4,975
	4,654	4,654	5,006

5. Dividend Income

	Group	Bank	
	2002	2002	2001
	Lm 000	Lm 000	Lm 000
From available-for-sale assets	40	40	36

6. Trading Profits/(Losses)

Profit on foreign exchange activities	509	509	293
Fair value movements on trading financial instruments	(13)	(13)	-
Price movements on investments	-	-	(367)
	496	496	(74)

7. Administrative Expenses

Staff costs			
- wages, salaries and allowances	896	896	946
- social security costs	66	66	62
Other administrative expenses	593	586	577
	1,555	1,548	1,585

	Number	Number	Number
Average number of employees			
Executive and senior managerial	9	9	8
Other managerial, supervisory and clerical	96	96	102
Others	9	9	11
	114	114	121

8. Net impairment losses

	Group	Bank	
	2002	2002	2001
	Lm 000	Lm 000	Lm 000
Write downs:			
Loans and advances to customers			
- specific allowances	(859)	(859)	(287)
Reversals of write downs:			
Loans and advances to customers			
- specific allowances	45	45	219
- general allowances	164	164	38
	209	209	257
Net impairment losses	(650)	(650)	(30)

Net impairment losses for the year include the effect of the adoption of IAS 39 (note 36), and the Bank's decision to implement Banking Directive 09 on 'Credit and Country Risk Provisioning by Credit Institutions' by 30 September 2002 in lieu of the deadline of 31 December 2003.

9. Profit on Ordinary Activities before Tax

Profit before tax is stated after charging:

Auditors' remuneration	6	6	6
Directors' emoluments:			
- Fees	16	16	14
- Other emoluments	37	37	23
	53	53	37

10. Tax on Profit on Ordinary Activities

	Group	Bank	
	2002	**2002**	2001
	Lm 000	**Lm 000**	Lm 000
The charge for income tax which is based on the taxable profit for the year at a rate of 35% comprises:			
Current	755	752	557
Deferred	(260)	(260)	(163)
	495	**492**	394

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	**1,410**	**1,403**	1,120
Tax at the applicable rate of 35%	**494**	**491**	392
Tax effect of non-taxable income	(7)	(7)	(7)
Tax effect of non-deductible expenses	1	**1**	3
Tax effect of depreciation charges not deductible by way of capital allowances	**6**	**6**	6
Tax effect of change in accounting policy	**1**	**1**	-
Tax on profit on ordinary activities	**495**	**492**	394

11. Earnings Per Share

Earnings per share is calculated on the profit after taxation of Lm912,000 for the Group and Lm911,000 for the Bank (2001: Lm726,000) divided by 3,943,215 (2001: 3,892,200), being the weighted average number of shares in issue during the year.

12. Dividends

Group/Bank	**2002**	2001	**2002**	2001
	%	%	**Lm 000**	Lm 000
Gross of income tax				
Proposed final	**20**	18	**396**	351

	Cents per Share	**Cents per Share**	Lm 000	Lm 000
Net of income tax				
Proposed final	**6.5**	5.9	**257**	228

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

	Group	**Bank**	
	2002	**2002**	2001
	Lm 000	**Lm 000**	Lm 000
Balances with Central Bank of Malta	**21,879**	**21,879**	3,293
Malta Government Treasury Bills	**27,737**	**27,737**	9,174
Cash in hand	**814**	**814**	646
	50,430	**50,430**	13,113

The balance with the Central Bank of Malta includes a reserve deposit, amounting to Lm5,110,000 held in terms of Section 37 of the Central Bank of Malta Act, Cap 204.

14. Financial instruments held for trading

	Group	Bank	
	2002	**2002**	2001
	Lm 000	**Lm 000**	Lm 000
Financial assets held for trading			
Derivative financial instruments	73	73	-
Financial liabilities held for trading			
Derivative financial instruments	90	90	-

Group/Bank

	Notional amount with remaining life of:			Fair values	
	Less than three months	**Between three months and one year**	**Total**	**2002 Assets**	**2002 Liabilities**
	Lm000	Lm000	Lm000	Lm000	Lm000
Currency derivatives					
Forward exchange contracts	32,325	2,675	35,000	73	90

15. Investments

Investments comprise:

	Group	Bank	
	2002	2002	2001
	Lm 000	**Lm 000**	Lm 000
Debt and other fixed income instruments			
- available-for-sale	1,734	1,734	1,693
- held-to-maturity	24,742	24,742	25,505
Equity instruments and other non-fixed income instruments available-for-sale	657	521	633
	27,133	26,997	27,831

15. Investments *(continued)*

a) Debt and other fixed income instruments available-for-sale

	Group	Bank	
	2002	**2002**	2001
	Lm 000	**Lm 000**	Lm 000
Issued by public bodies:			
- Local government	**50**	**50**	51
Issued by public issuers:			
- Local banks	**462**	**462**	443
- Others local	**1,222**	**1,222**	1,199
	1,734	**1,734**	1,693
Debt and other fixed income instruments			
- listed on the Malta Stock Exchange	**1,475**	**1,475**	1,434
- local unlisted	**259**	**259**	259
	1,734	**1,734**	1,693
b) Debt and other fixed income instruments held-to-maturity			
Issued by public bodies:			
- Local government listed on the Malta Stock Exchange	**24,742**	**24,742**	25,505

The Bank has pledged Lm2,000,000 (2001: Lm2,000,000) worth of Malta Government Stocks to the Central Bank of Malta as security for a facility which was not utilised at year end.

	Group	Bank	
c) Equity instruments and other non-fixed income instruments available-for-sale			
- Equity instruments listed on the Malta Stock Exchange	**657**	**521**	633

(d) With the adoption of IAS 39, the Group now states all available-for-sale assets at fair value. The adjustment to recognise these assets at fair value on 1 October 2001 was recorded as an adjustment to opening retained earnings (note 36).

In the previous financial year available-for-sale assets, debt and other fixed income instruments were valued at cost less amortisation for discounts and premiums.

16. Loans and Advances to Banks

	Group	Bank	
	2002	2002	2001
	Lm 000	Lm 000	Lm 000
Repayable on call and at short notice	2,421	2,419	3,717
Term loans and advances	17,222	17,222	20,065
	19,643	19,641	23,782

17. Loans and Advances to Customers

	Group	Bank	
	2002	2002	2001
	Lm 000	Lm 000	Lm 000
Repayable on call and at short notice	32,028	32,028	27,424
Term loans and advances	28,009	28,009	24,978
Total loans and advances to customers	60,037	60,037	52,402
Allowance for uncollectibility	(1,961)	(1,961)	(1,118)
Net loans and advances to customers	58,076	58,076	51,284
Allowances for uncollectibility			
Specific allowances	1,576	1,576	569
General allowances	385	385	549
	1,961	1,961	1,118

The aggregate amount of impaired loans and advances to customers amounted to Lm10,484,000 (2001: Lm5,301,000).

No further specific allowances for uncollectibility were required in terms of Banking Directive 09.

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

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

Group/Bank	**2002**		2001	
	Lm 000	**%**	Lm 000	%
Energy and water	**2,160**	**3.6**	2,010	3.8
Transport, storage and communications	**560**	**0.9**	639	1.2
Financial institutions	**106**	**0.2**	63	0.1
Agriculture and fisheries	**4,008**	**6.7**	124	0.2
Manufacturing	**4,706**	**7.8**	4,412	8.4
Building and construction	**3,862**	**6.4**	4,733	9.0
Hotel, restaurant and tourist trade	**12,665**	**21.1**	3,316	6.3
Wholesale and retail trade	**7,925**	**13.2**	9,169	17.5
Personal	**4,402**	**7.3**	7,177	13.8
Other services	**16,189**	**27.0**	7,207	13.8
All others	**3,453**	**5.8**	13,552	25.9
	60,037	**100.0**	52,402	100.0

18. Shares in Subsidiary Companies

These consist of:

Name of Company	**Incorp. In**	**Nature of Business**	**Current Equity Interest**		**Group**	**Bank**	
			Group	Bank	**2002**	**2002**	2001
			%	%	**Lm 000**	**Lm 000**	Lm 000
Lombard Stockbrokers Limited	Malta	Stockbroking	51	51	-	13	-
Lombard Asset Managers Limited	Malta	Management of Collective Investment Schemes	75	75	-	125	-
					-	138	-

19. Intangible Assets

Intangible fixed assets consist of purchased goodwill.

(a)	**Group**
	Lm000
Cost	
On acquisition of subsidiary	22
At 30 September 2002	22
Amortisation	
Charge for the year	2
At 30 September 2002	2
Net Book Amount	
At 30 September 2002	20

(b) Goodwill represents the excess of the cost of acquisition over the fair value of the identifiable assets and liabilities of the subsidiary undertaking acquired. The remaining amortisation period on goodwill is nine years. Identifiable assets and liabilities of the subsidiary undertaking acquired were:

	Lm
Loans and advances to banks	4,067
Investments	104,246
Tangible Fixed Assets	2,330
Other Assets	2,752
Other Liabilities	(10,247)
Net identifiable assets and liabilities	103,148
Goodwill on acquisition	22,441
Total consideration	125,589

20. Tangible Fixed Assets

Group

	Land and Buildings Lm 000	Computer Equipment Lm 000	Other Lm 000	Total Lm 000
Cost/Revaluation				
At 1 October 2001	1,433	857	764	3,054
On acquisition of subsidiary	-	1	4	5
Additions	2	10	8	20
Disposals	(13)	-	-	(13)
At 30 September 2002	**1,422**	**868**	**776**	**3,066**
Depreciation				
At 1 October 2001	84	664	681	1,429
On acquisition of subsidiary	-	-	1	1
Charge for the year	17	153	30	200
At 30 September 2002	**101**	**817**	**712**	**1,630**
Net Book Amount				
At 30 September 2002	**1,321**	**51**	**64**	**1,436**
Bank				
Cost/Revaluation				
At 1 October 2001	1,433	857	764	3,054
Additions	2	10	8	20
Disposals	(13)	-	-	(13)
At 30 September 2002	**1,422**	**867**	**772**	**3,061**
Depreciation				
At 1 October 2001	84	664	681	1,429
Charge for the year	17	153	30	200
At 30 September 2002	**101**	**817**	**711**	**1,629**
Net Book Amount				
At 30 September 2002	**1,321**	**50**	**61**	**1,432**
At 30 September 2001	1,349	193	83	1,625

20. Tangible Fixed Assets *(continued)*

	Group	Bank	
	2002	2002	2001
	Lm000	Lm 000	Lm 000
Net book amount of land and buildings occupied for own activities	**1,321**	**1,321**	1,349

Future capital expenditure			
Contracted but not provided in the financial statements	-	-	130
Authorised by the directors but not yet contracted	**84**	**84**	-
	84	**84**	130

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 Lm1,138,000 (2001: Lm1,163,000).

21. Deferred tax asset

	Group	Bank	
	2002	2002	2001
	Lm 000	Lm 000	Lm 000
Deferred taxation	**703**	**703**	351

Deferred income taxes are calculated on all temporary differences under the liability method using a principal tax rate of 35% (2001- 35%). The deferred income tax is analysed below:

Tax effect of temporary differences relating to:			
- Excess of capital allowances over depreciation	**90**	**90**	58
- Impairment allowances	**687**	**687**	392
- Revaluation of property	**(68)**	**(68)**	(68)
- Fair value movements in investments	**(6)**	**(6)**	(31)
	703	**703**	351

22. Other Assets

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

23. Prepayments and Accrued Income

	Group	Bank	
	2002	2002	2001
	Lm 000	Lm 000	Lm 000
Accrued income	1,923	1,923	2,821
Prepayments	58	58	59
	1,981	1,981	2,880

24. Amounts Owed to Banks

Repayable on demand	229	229	296

25. Amounts Owed to Customers

Term deposits	88,630	88,630	63,946
Repayable on demand	56,409	56,440	43,564
	145,039	145,070	107,510

26. Other Liabilities

Tax liability	146	146	267
Bills payable	880	880	630
Other	1,708	1,696	1,682
	2,734	2,722	2,579

27. Accruals and Deferred Income

Accrued interest	2,085	2,085	1,782
Other	89	89	90
	2,174	2,174	1,872

28. Share Capital

	2002		2001	
	Lm000	**Lm 000**	Lm000	Lm 000
Authorised Ordinary Shares of 50 cents	**10,000**	**5,000**	10,000	5,000
Issued and fully paid up Ordinary Shares of 50 cents	**3,959**	**1,980**	3,905	1,953

29. Reserves

a) Share premium
The increase in the share premium account represents the premium on the shares issued in lieu of cash dividends approved by the General Meeting on 21 December 2001.

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.

30. Contingent Liabilities

Group/Bank

	2002	2001
	Lm 000	Lm 000
Guarantee obligations incurred on behalf of third parties	**3,416**	3,970

During the year, the Bank has been named as a defendant in legal actions by customers. The Bank has replied to the actions and, in maintaining its position, is not of the opinion that any liability will be incurred.

31. Commitments

Group/Bank

	2002 Lm 000	2001 Lm 000
Documentary credits	**122**	177
Forward asset purchases	**-**	147
Credit facilities and other commitments to lend	**21,420**	15,841
	21,542	16,165

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

32. Cash and Cash Equivalents

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

	Group 2002 Lm 000	Bank 2002 Lm 000	Bank 2001 Lm 000
Treasury bills	**24,797**	**24,797**	7,921
Loans and advances to banks	**13,426**	**13,436**	19,924
Cash	**814**	**814**	646
Balances with Central Bank of Malta (excluding reserve deposit)	**16,769**	**16,769**	-
Amounts owed to banks	**(229)**	**(229)**	(296)
Cash and Cash equivalents	**55,587**	**55,587**	28,195
Adjustment to reflect balances with contractual maturity of more than three months	**14,257**	**14,255**	8,404
Per balance sheet	**69,844**	**69,842**	36,599
Analysed as follows			
Balances with Central Bank of Malta, Treasury Bills and Cash	**50,430**	**50,430**	13,113
Loans and advances to banks	**19,643**	**19,641**	23,782
Amounts owed to banks	**(229)**	**(229)**	(296)
	69,844	**69,842**	36,599

33. Segmental Information

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

34. Related Parties

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

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

Bank/Group

	2002 Loans and Advances	**2002 Commitments**	2001 Loans and Advances	2001 Commitments
	Lm 000	**Lm 000**	Lm 000	Lm 000
Directors				
At beginning of year	-	-	-	1
Additions	-	-	-	-
Repayments	-	-	-	(1)
At balance sheet date	-	-	-	-
Officers				
At beginning of year	**724**	-	496	52
Additions	**121**	-	246	-
Repayments	**(124)**	-	(18)	(52)
At balance sheet date	**721**	-	724	-

36. Changes in accounting policy

During the year, the group adopted IAS 39 Financial Instruments: Recognition and Measurement. The adoption of IAS 39 has resulted in the Group recognising available-for-sale assets (refer to note 15) and all derivative financial instruments as assets or liabilities at fair value (refer to note 14). Other financial assets excluded from fair value were measured at amortised cost using the effective interest rate method less impairment losses. Impairment losses are calculated in accordance with note 2(e). These changes have been accounted for by adjusting the opening balance of retained earnings. Comparatives have not been restated to reflect the adoption of IAS 39.

36. Changes in accounting policy *(continued)*

The adoption of IAS 39 had the following impact on the opening retained earnings of the Group/Bank at 1 October 2001.

Group/Bank

	Profit and Loss Account Lm 000
At 1 October 2001	3,220
Impact on adoption of IAS 39	
- available-for-sale assets stated at fair value	12
- held-to-maturity assets stated at amortised cost using the effective rate of return	1
- loans and advances to customers	(125)
At 1 October 2001 as restated	3,108

37. 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.

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 sectoral mix of loans, mitigating the higher risk industries by charging higher interest rates as disclosed in note 17 to the financial statements.

With respect to the securities, the Group deals in investment grade securities.

The Bank monitors its risk on balances held with other banks by establishing bank and country limits.

37. Financial Instruments ***(continued)***

Interest rate risk

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

Group

	2002	**Effective Interest Rate**	**Three Months or Less**	**One Year or Less but Over Three Months**	**Five Years or Less but Over One Year**	**Over Five Years**	**Others**
	Lm 000	%	Lm 000	Lm 000	Lm 000	Lm 000	Lm 000
Assets							
Balances with Central Bank of							
Malta, Treasury Bills and cash	50,430	2.7	42,380	2,940	-	-	5,110
Cheques in course of collection	831	-	-	-	-	-	831
Financial assets held for trading							
- Derivative financial instruments	73	-	-	-	-	-	73
Investments							
Debt and other fixed income							
financial instruments							
- available-for-sale	1,734	6.60	-	-	-	1,734	-
- held-to-maturity	24,742	6.62	-	206	803	23,733	-
Equity and other non fixed							
Income instruments							
- available-for-sale	657	-	-	-	-	-	657
Loans and advances to banks	19,643	3.12	11,925	6,205	-	-	1,513
Loans and advances to customers	58,076	7.89	6,856	51,220	-	-	-
Other assets	4,362	-	-	-	-	-	4,362
Total assets	160,548		61,161	60,571	803	25,467	12,546

37. Financial Instruments *(continued)*

	2002	Effective Interest Rate	Three Months or Less	One Year or Less but Over Three Months	Five Years or Less but Over One Year	Over Five Years	Others
Liabilities							
Financial liabilities held for trading	90	-	-	-	-	-	90
Amounts owed to banks	229	-	-	-	-	-	229
Amounts owed to customers	145,039	4.44	58,830	55,943	25,985	160	4,121
Other liabilities	4,957	-	-	-	-	-	4,957
	150,315		58,830	55,943	25,985	160	9,397
Shareholders' funds							
Called up share capital	1,980	-	-	-	-	-	1,980
Share Premium	4,055	-	-	-	-	-	4,055
Other reserve	111	-	-	-	-	-	111
Property revaluation reserve	126	-	-	-	-	-	126
Investment revaluation reserve	(59)	-	-	-	-	-	(59)
Profit and loss account	3,763	-	-	-	-	-	3,763
Dividend reserve	257	-	-	-	-	-	257
	10,233		-	-	-	-	10,233
Total liabilities	160,548		58,830	55,943	25,985	160	19,630
Gap			2,331	4,628	(25,182)	25,307	(7,084)
Cumulative Gap			2,331	6,959	(18,223)	7,084	-

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 can arise are monitored accordingly.

37. Financial Instruments *(continued)*

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

Group at 30 September	**Maltese Liri**	**Other Currencies**	**Total**	Maltese Liri	Other Currencies	Total
		2002			2001	
	Lm000	**Lm000**	**Lm000**	Lm000	Lm000	Lm000
Financial assets						
Balances with Central Bank of Malta, Treasury Bills and cash	**50,246**	**184**	**50,430**	12,893	220	13,113
Cheques in course of collection	**831**	**-**	**831**	733	-	733
Investments:						
- Debt and other fixed income financial instruments available for sale	**1,272**	**462**	**1,734**	1,250	443	1,693
- Debt and other fixed income financial instruments held to maturity	**24,742**	**-**	**24,742**	25,505	-	25,505
- Equity and other non fixed income instruments available for sale	**657**	**-**	**657**	633	-	633
Loans and advances to banks	**42**	**19,601**	**19,643**	19	23,763	23,782
Loans and advances to customers	**54,778**	**3,298**	**58,076**	49,603	1,681	51,284
Financial assets held for trading:						
- Derivative financial instruments	**-**	7373	**-**	-	-	-
	132,568	**23,618**	**156,186**	**90,636**	26,107	116,743
Financial Liabilities						
Financial liabilities held for trading:						
- Derivative financial instruments	**-**	**90**	**90**	-	-	-
Amounts owed to banks	**220**	**9**	**229**	**278**	18	296
Amounts owed to customers	**122,129**	**22,910**	**145,039**	**81,819**	25,691	107,510
	122,349	**23,009**	**145,358**	**82,097**	25,709	107,806

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.

37. Financial Instruments *(continued)*

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

Group at 30 September 2002

	Fair value Adjustment	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	-	54	19	-	-	73
Investments:						
- Debt and other fixed income financial instruments available for sale	53	309	-	321	1,051	1,734
- Debt and other fixed income financial instruments held to maturity	-	-	1,675	6,341	16,726	24,742
Loans and advances to banks	-	17,367	1,923	353	-	19,643
Loans and advances to customers	-	32,963	2,670	8,513	13,930	58,076
	53	50,693	6,287	15,528	31,707	104,268
Financial Liabilities						
Financial liabilities held for trading:						
- Derivative financial instruments	-	74	16	-	-	90
Amounts owed to banks	-	229	-	-	-	229
Amounts owed to customers	-	80,263	43,185	21,402	189	145,039
	-	80,566	43,201	21,402	189	145,358

Bank at 30 September 2001

	Fair value Adjustment	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						
Investments:						
- Debt and other fixed income financial instruments available for sale	-	-	372	1,321	1,693	
- Debt and other fixed income financial instruments held to maturity		480	1,895	7,155	15,975	25,505
Loans and advances to banks		21,898	1,512	372	-	23,782
Loans and advances to customers		34,552	12,101	3,243	1,388	51,284
		56,930	15,508	11,142	18,684	102,264

37. Financial Instruments *(continued)*

Bank at 30 September 2001	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 Liabilities					
Amounts owed to banks	296	-	-	-	296
Amounts owed to customers	63,947	30,402	12,976	185	107,510
	64,243	30,402	12,976	185	107,806

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 is disclosed in note 14 to the financial statements.

Fair values
Certain of the Group's financial assets and liabilities 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 costs and amounts to Lm24,742,000 as at 30 September 2002. Fair value based on quoted market prices at balance sheet date without any deduction for transaction costs amounts to Lm 26,153,000.

(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 30 September 2002, the group's carrying amount was Lm77,719,000. The loans and advances to customers category of assets amounts to Lm58,076,000. This carrying value approximates to fair value in the case of loans, which are re-priceable 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 Lm19,643,000. As at 30 September 2002, 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.

(iii) Amounts owed to banks and customers
This category of liabilities is carried at amortised cost and amounts to Lm145,268,000 as at 30 September 2002. 41.7% of this liability has contractual re-pricing within the "less than three months" band, 39.6% re-prices within the "between three months and one year" band whilst 18.4% is repriced 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. A third of the other fixed-maturity deposits representing the remaining 18.7% of this category of liability, were accepted during the current financial year. With respect to this category, representing about 12% of the deposits, it is not practicable to determine fair value with sufficient reliability.

Five Year Summary
Profit and Loss Account

	2002 Lm 000	2001 Lm 000	2000 Lm 000	1999 Lm 000	1998 Lm 000
Interest receivable and other income	**7,519**	7,553	7,402	5,359	4,807
Interest payable	**(4,654)**	(5,006)	(5,069)	(3,560)	(3,121)
Net interest income	**2,865**	2,547	2,333	1,799	1,686
Other operating income	**936**	427	1,169	1,096	755
Other operating charges	**(1,748)**	(1,824)	(1,884)	(1,788)	(1,591)
Net impairment losses	**(650)**	(30)	(378)	(229)	(44)
Profit before taxation	**1,403**	1,120	1,240	878	806
Taxation	**(492)**	(394)	(435)	(303)	(375)
Profit for the year	**911**	726	805	575	431
Earnings per share					
Before special tax	**23c1**	18c7	22c6	18c9	17c4
After special tax	-	-	-	-	14c4

Five Year Summary
Balance Sheet

	2002	2001	2000	1999	1998
	Lm 000	Lm 000	Lm 000	Lm 000	Lm 000
ASSETS					
Balances with Central Bank of Malta,					
Treasury Bills and Cash	**50,430**	13,113	14,059	6,569	4,927
Cheques in course of collection	**831**	733	1,169	438	437
Financial assets held for trading	**73**	-	-	-	-
Investments	**26,997**	27,831	25,977	23,156	20,685
Loans and advances to banks	**19,641**	23,782	36,191	23,504	24,051
Loans and advances to customers	**58,076**	51,284	41,158	34,347	28,668
Shares in subsidiary companies	**138**	-	-	-	-
Tangible fixed assets	**1,432**	1,625	1,765	1,940	1,769
Other assets	**920**	527	1,052	613	264
Prepayments and accrued income	**1,981**	2,880	1,920	667	666
Total assets	160,519	121,775	123,291	91,234	81,467
LIABILITIES					
Financial liabilities held for trading	**90**	-	-	-	-
Amounts owed to banks	**229**	296	1,077	264	7,541
Amounts owed to customers	**145,070**	107,510	108,859	83,297	67,387
Other liabilities	**2,576**	2,312	1,812	855	480
Accruals and deferred income	**2,174**	1,872	2,470	1,780	1,476
Provision for taxation	**146**	267	260	90	210
Share capital	**1,980**	1,953	1,932	1,530	1,500
Share premium	**4,055**	3,880	3,709	922	815
Other reserve	**111**	111	111	111	111
Property revaluation reserve	**126**	126	126	102	102
Investment revaluation reserve	(57)	-	-	-	-
Profit and Loss Account	**3,762**	3,220	2,722	2,130	1,708
Dividend reserve	**257**	228	213	153	137
Total liabilities	**160,519**	121,775	123,291	91,234	81,467
MEMORANDUM ITEMS					
Contingent liabilities	**3,416**	3,970	2,440	620	992
Commitments	**21,542**	16,165	16,230	16,451	8,392

Five Year Summary
Cash Flow Statement

	2002 Lm 000	2001 Lm 000	2000 Lm 000	1999 Lm 000	1998 Lm 000
Net cash from/(used in) operating activities	**26,842**	5,957	(1,835)	10,312	(4,270)
Investing activities					
- purchase of investments	**(1,577)**	(5,819)	(5,361)	(3,743)	(6,310)
- sale of investments	**67**	2,370	1,925	1,201	4,587
- investments matured during the year	**2,232**	1,552	820	252	523
- purchase of tangible fixed assets	**(21)**	(95)	(44)	(406)	(595)
- proceeds from sale of tangible fixed assets	**13**	3	-	-	-
- purchase of shares in newly formed subsidiary company	**(13)**	-	-	-	-
- payment to acquire subsidiary company	**(125)**	-	-	-	-
Net Cash (from)/(used in) investing activities	**576**	(1,989)	(2,660)	(2,696)	(1,795)
Financing activities					
- proceeds from issue of share capital	-	-	3,040	-	-
- dividends paid	**(26)**	(21)	(3)	-	(137)
Net Cash (used in)/from financing activities	**(26)**	(21)	3,037	-	(137)
Increase/(Decrease) in cash and cash equivalents	**27,392**	3,947	(1,458)	7,616	(6,202)

Five Year Summary
Accounting Ratios

	2002 %	2001 %	2000 %	1999 %	1998 %
Net interest income and other operating income to total assets	2.4	2.4	2.8	3.2	3.0
Operating expenses to total assets	1.1	1.5	1.8	2.2	2.0
Profit before tax to total assets	0.9	0.9	1.0	1.0	1.0
Profit before tax to equity	13.7	11.8	14.1	17.7	19.0
Profit after tax to equity	8.9	7.6	9.1	11.6	10.2
Shares in issue of 50c each (thousands)	3,959	3,905	3,865	3,060	3,000
Net assets per share (cents)	258	244	228	162	141
Earnings per share (cents)					
- after special tax	-	-	-	-	13.7
- before special tax	23.1	18.7	22.6	18.9	16.7
Dividend per share (cents)					
- gross	10.0	9.0	8.5	7.7	7.0
- net	6.5	5.9	5.5	5.0	4.6
Dividend cover	3.5	3.2	3.8	3.8	3.1

Solvency Ratio

30 September 2002

	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		50,430	-
Cheques in course of collection		831	166
Financial assets held for trading		73	73
Investments		27,133	1,971
Loans and advances to banks		19,643	3,929
Loans and advances to customers	*(b)*	60,037	47,040
Intangible assets		20	20
Tangible fixed assets		1,436	1,436
Deferred tax asset		703	703
Other assets		222	222
Prepayments and accrued income		1,981	991
		162,509	56,551
Off-balance sheet assets	*(c)*		
Contingent liabilities and commitments		24,958	-
Total adjusted assets and off-balance sheet items			56,551
Own Funds			
Original own funds	*(d)*		9,909
Additional own funds	*(e)*		452
Gross own funds			10,361
Deductions	*(f)*		-
Total own funds			10,361
Solvency ratio	*(g)*		18.3%

Solvency Ratio

30 September 2002

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 general 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

30 September 2002

	EURO	US Dollars	Pounds Sterling
	000's	000's	000's
	€	$	£
For the year			
Net interest income	6,941	6,823	4,360
Profit before income tax	3,399	3,341	2,135
Profit after income tax	2,207	2,170	1,386
At the year end			
Shareholders' funds	24,795	24,372	15,575
Loans and advances to customers	140,707	138,308	88,386
Amounts owed to customers	351,476	345,484	220,782
Total assets	388,905	382,276	244,294
	2001		
Per share			
Earnings	0.56	0.55	0.35
Net asset value	6.26	6.16	3.93

At currency rates of exchange ruling on 30 September 2002:

EURO 2.4228 = Lm1
US Dollars 2.3815 = Lm1
Pounds Sterling 1.5219 = Lm1

Other Relevant Company Information

Directors' interests in the Bank's share capital at 30 September 2002.

	no. of shares
Mr M Zammit	47
Mr J R Darmanin	1,854

Registered shareholders with 5% or more of the Bank's share capital at 30 September 2002.

	%
Banca Unione di Credito	26.36
First Gemini p.l.c.	5.11
Wignacourt Funds SICAV p.l.c.	5.00
Global Funds SICAV p.l.c.	5.00

Number of shareholders at 30 September 2002.

The total number of registered shareholders is 1,315 of the same class.

Number of shareholders at 30 September 2002 analysed by range.

Range	Total Shareholders	Shares
1 – 500	344	73,936
501 – 1,000	497	319,075
1,001 – 5,000	429	728,191
5,001 – 10,000	21	145,543
10,001 and over	24	2,692,720
Total	**1,315**	**3,959,465**

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