LOMBARD BANK

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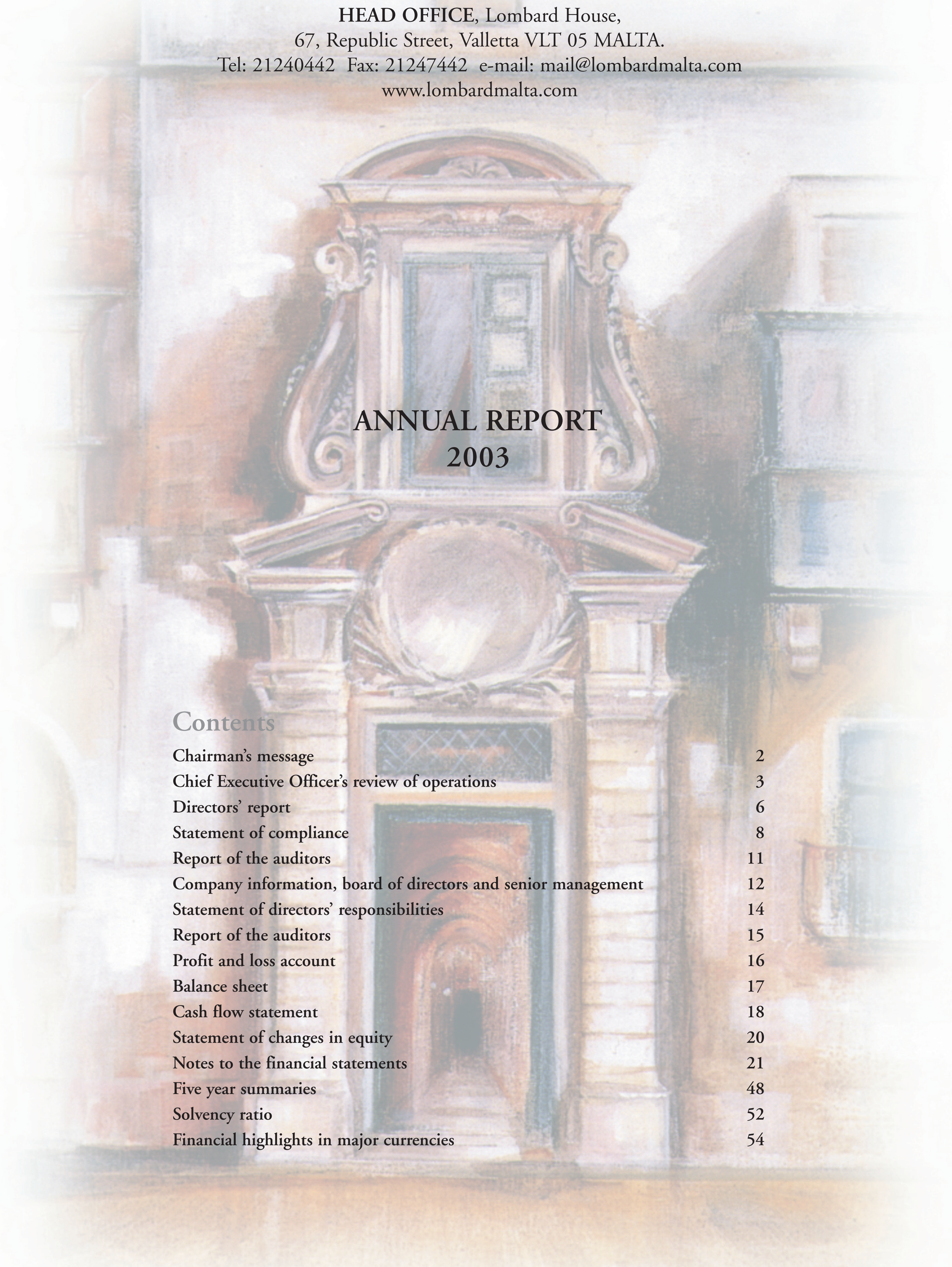

ANNUAL REPORT 2003

Contents

Chairman's Message
to the Members

The decision taken two years ago to change the financial year-end from 30 September to 31 December means that this year we are analysing the Bank's results over a 15 month financial period, and making comparisons with a previous 12 month financial year. It also leads us to review performance against the eventful environment that characterised the Bank's main market areas in 2003.

While the US, Japan and the UK continued to show positive growth signs, recovery indicators in the European Union lagged slightly behind, with stable inflation levels balanced by high rates of unemployment in the euro area. For its part, the Maltese economy's recovery - measured in terms of real GDP growth - while higher than EU levels, does not appear to be broadly based. Unemployment as well as a budget deficit continue to impact the economy negatively. During the period under review, official interest rates in Malta decreased by an aggregate of 100 basis points, phased over four successive cuts. This declining interest rate background continued to bring mainline sources of income under pressure for Lombard Bank. The run-up and aftermath to the EU referendum and the general elections which followed soon after further concentrated the challenging market conditions faced by the Bank during the period covered by this Annual Report.

We are pleased to report a pre-tax profit of Lm2.16 million by Lombard Bank and its subsidiaries for the period ended 31 December, 2003. This is a record performance by the Bank and an improvement of 53% on 2002, or 24% if taken on an annualised basis. Underlying this result is once again an increase in both Interest and Non-Interest Income, which translates into a 24% rise in Operating Income. In spite of increases in administrative overheads necessitated by the general growth in business activities and operations, we have also been successful at maintaining our cost-to-income ratio below the 50% threshold. Consistent improvement in credit quality resulted in a net reversal in impairment allowances on financial assets, mainly loans and advances. We are pleased to report growth in customer deposits as well as a consolidation of our loan book. Total assets have now reached Lm186 million.

With shareholders' funds of almost Lm12 million, pre-tax return on equity remains strong with earnings per share reaching 35.2 cents for the 15 month period. Net assets per share work out at Lm2.88.

The Board of Directors are recommending a final gross dividend of 9.0 cents per share, which added to the interim gross dividend of 6.0 cents per share approved in October 2003, amounts to an aggregate total proposed dividend for the period of 15.0 cents. This represents an annualised increase of 20% over 2002's 10.0 cents. As in previous years, a resolution will be presented to the forthcoming Annual General Meeting requesting approval that shareholders be individually given the option of receiving the dividend either in cash or by the issue of new shares. The attribution price (at which the new shares to be issued will be determined) has been established as the trade weighted average price of the Bank's shares for the three months up to and including the date of approval of the Accounts, i.e. 18 February, 2004, and has been calculated at Lm3.705.

Since my last message in the 2002 Annual Report we have had the opportunity to meet and communicate with our shareholders at the Annual General Meeting convened in October 2003. On that occasion we reviewed the Bank's performance for the 9 months ended 30 June, 2003 and, amongst other things, approved an extraordinary resolution which paved the way for the creation of a Share Ownership Scheme for employees of the Bank. As announced at that Meeting, the Scheme will require changes to be made to the Bank's Memorandum and Articles of Association, and therefore approval of such changes at a General Meeting. Much as we had hoped to be able to present a resolution with our proposals at the forthcoming 2004 Annual General Meeting to be convened in the coming weeks, this will now be presented at a future General Meeting. It is hoped that, by then, all issues being discussed with the relevant Authorities will be clarified. We shall of course keep you informed of developments.

As usual, I end by thanking all our shareholders and customers for consistently putting their trust in the Bank. I also thank my fellow directors, the Management and Staff for their dedication and competence, without whose commitment the Bank's progress and growth would not be possible.

Christian Lemmerich
Chairman

Chief Executive Officer's
Review of Operations

Lombard Bank Malta plc and its subsidiaries registered a Group pre-tax profit of Lm2.16 million for the financial period ended 31 December, 2003, an increase of 53% over the performance for the 12 months ended 30 September, 2002. Following the Bank's decision to change its financial year to a calendar year basis, these accounts cover the 15 month period from 1 October 2002 to 31 December 2003. Comparative figures and percentages should be interpreted accordingly.

The following commentary reviews the various areas of operations and analyses the results in the context of the Bank's activities and the market environment over a 15 month period

The Bank and its Subsidiaries

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

The year 2003 proved to be another challenging and interesting year for the financial services industry where, in spite of stiff competition in the provision of banking services, Lombard Bank increased activity across its range of products. The Bank continued with the process of customer segmentation, with the aim of providing more bespoke financial services particularly to private and high net worth clients.

The Bank also continued to raise its profile more prominently in the corporate banking sector, progressively entertaining larger and diversified business relationships. The Bank aims to provide a comprehensive service to its corporate customers, and is well-known for going beyond its normal call of business and extending its contacts, experience and advice to its clientele. The Bank's range of deposit accounts attracted attention from both retail and wholesale customers during 2003, in large part due to the highly competitive terms on offer. 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 issues on the Maltese capital market during the financial year under review, and as registrar for an initial offering of bonds.

Lombard Stockbrokers Limited (LSL) is the Bank's 51% owned stockbroking subsidiary, with the remaining 49% held by Finco Holdings Limited. LSL is licensed by the Malta Financial Services Authority as a Category 2 investment services provider, and is mainly active in stockbroking, primarily in securities quoted on the Malta Stock Exchange. The Bank also controls 75% of Lombard Asset Managers Limited (LAM), 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. LAM is the appointed manager of Gasan Funds SICAV plc, an open-ended multi-class collective investment scheme licensed in Malta, which in 2003 was restructured to ensure a more unified and efficient investment approach by the sub-funds under its umbrella.

Technology and Support

Work continued on the conversion of the Bank's core system which is now scheduled for completion early in 2004. This project will result in enhancements to customer account facilities and functions, and will also lead to an upgrading of operating hardware and software systems throughout the Bank. The system of Handbooks and Manuals of procedures was launched in electronic format on the Bank's intranet during 2003, and various other facilities were added in the process. As a short- to medium-term objective, the Bank has identified the need to upgrade its technology in a number of critical business areas, and has prepared a wholesome strategy to address these issues.

Staff Development and Welfare

As from January 2003 the Bank's in-house programme of human resource development was revamped and a new series of training courses using interactive technology was launched. As part of the commitment to further increase the skill and expertise of staff, the programme is complemented by the attendance of a number of staff at business seminars, conferences and professional courses throughout the year. Moreover, certain training is being decentralised away from the training centre to branches and offices, in consideration that it is frequently more relevant and efficient for staff to receive training 'on-site'.

Chief Executive Officer's
Review of Operations

The Bank is mindful of the fact that its ability to attain distinctive service objectives depends on the availability of a competent and skilled workforce. In this respect, the Bank's recruitment policy continued to be aimed at attracting staff of a high calibre, combining a mix of experience and academic preparation. Two recruitment exercises were concluded during the period under review, and the engaged staff underwent comprehensive induction and on-the-job training programmes before being assigned to their regular duties.

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 - for which it acts as official banker and treasurer - as well as a number of other organisations.

Review of Financial Performance

Income Statement

Against a background of declining interest rates and competitive lending conditions, the Bank increased its Net Interest Income by 26% to Lm3.62 million. Interest receivable on loans, advances and balances with Central Bank of Malta amounted to Lm8.6 million while interest on debt securities contributed Lm2.1 million; on the other hand interest payable on deposits reached Lm7.07 million, a 52% increase which in good part represents a significantly enlarged deposit base. In spite of strong competitive pressures and generally declining interest rates in the markets where the Bank is mainly active - official rates in Malta decreased by 100 basis points during the period under review alone - the Bank registered a Net Interest Margin of 33.9%. Fees and commissions receivable contributed Lm0.47 million while profits on dealing activities amounted to Lm0.57 million. Gross Operating Income is up by 24% to Lm4.72 million.

Expenditure increased by 42% at the same time as depreciation continued to decrease. The Bank has provided for potential losses of Lm0.14 million that may arise from claims under litigation. On the other hand, an overall improvement in credit quality resulted in a net reversal in impairment allowances on financial assets, mainly loans and advances, in contrast with the charges of previous years. Despite the increase in overheads the Bank's Cost/Income ratio (calculated as Expenditure and Depreciation in relation to Operating Income) remained low at 48.8% (2002 - 46%) especially when considering the challenges of economies of scale and scope faced by the Bank, and that industry averages for banks of bigger scale are normally in the range of 55% to 65%. Overall, Net Interest Income made up 76% (2002 - 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.

Fund Raising Activities

Customer deposits increased by 16% from 2002's Lm145 million to Lm167.6 million. Most of the increase was in Maltese lira balances which comprise over 80% of the Bank's deposit base. During the period under review the Bank was competitive with its interest rate offer, and this explains the success at enlarging its base of deposit relationships. In line with the strategy developed in recent years, the Bank also promoted fiduciary deposit services to non-resident customers, and these transactions are reflected off balance sheet. Deposits from customers are by far the largest single on-balance sheet component, and balance sheet footings correspondingly increased by 16%, with total assets now reaching Lm185.6 million.

Money and Fixed-Income Market Activity

Liquidity in the Maltese commercial banking market remained high, with liquidity ratios averaging 55% during the financial year under review - certainly the highest for the past 25 years or so and an increase of more than 30% over the levels reached only 3 years earlier. The situation was no different at the Bank, which manages its liquidity position by means of reserve deposit equalisation, short-term treasury paper and inter-bank transactions. Holdings of treasury bills decreased as T-bill paper dried up from 2002's Lm27.7 million to Lm20.4 million. Balances with the Central Bank of Malta conversely increased from Lm21.9 million to Lm39.5 million, more than a tenfold increase in just over 2 years.

Chief Executive Officer's
Review of Operations

These represent reserve deposit balances in terms of the Central Bank of Malta Act, as well as the employment of liquidity with the Central Bank of Malta by way of short-term deposits. Fixed income securities held to maturity - in great part Malta Government Bonds - decreased by 6%, mainly as a result of redeemed bonds which were not substituted as the high systemic liquidity drove pricing for renewal issues upwards. 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 were largely unchanged at Lm59.4 million. Analysed by industry concentration the loan book remained diversified, with the largest sector "Real estate, renting and business activities" accounting for 31% of gross loans and advances. The next largest areas of credit activity are "Building and Construction" and "Wholesale and Retail", with 21% and 16% respectively. Private lending to households and individuals takes up another 16% of the loan book. Commitments to lend stood at Lm17 million (2002 - Lm21.4 million) while guarantee obligations on behalf of customers amounted to Lm3.5 million.

The Bank is committed to ensuring that its provisioning policies represent at all times a prudent estimate of loss in its loan and advances portfolio, and therefore upholds a conservative approach to provisioning. Allowances for impaired loans and advances stood at Lm2.04 million (2002 - Lm1.96 million), made up in large part of specific allowances. The ratio of net impairment allowances to gross loans and advances increased from last year's 3.26% to 3.44%.

Profitability and Own Funds

Shareholders' funds at the end of December 2003 totalled Lm11.66 million, an increase of 14% on September 2002. Return on shareholders funds (ROE) increased from 13.7% in 2002 to 18.7% on a pre-tax basis. At 1.2%, return on assets (ROA) is up on last year's 0.9%. With total statutory own funds of Lm12.07 million and a solvency ratio of 18.7%, 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 and to diversify its investing opportunities. The final dividend for 2003 is being proposed at 9.0 cents per share, gross of income tax. Since an interim dividend of 6.0 cents was approved by the Annual General Meeting of October 2003, the proposed total dividend for the period will 15.0 cents (2002 - 10.0 cents), or an increase of 20% on an annualised basis. The dividend cover is up from 3.5 times in 2002 to 3.6 times in 2003. Earnings per share for 2003 amount to 35.2 cents, an increase of 52% over 23.1 cents in 2002. Net Asset Value per share works out at Lm2.88, which at market prices prevailing at 31 December 2003 represents a price to book multiple of 1.30 times.

Conclusion

Although a meaningful interpretation and comparison of the Bank's 2003 results with previous years is somewhat thwarted by the fact that they relate to a 15-month financial period, it is nevertheless evident that the Bank improved its pre-tax profit by 24%, on an annualised basis. Considering the testing economic conditions that prevailed in 2003, this is a significant achievement. After a period of consolidation of the funding base and lending portfolio, the Bank is well positioned to further expand its activities and the business and operating decisions to be taken in 2004 will be precisely aimed to ensure sustained and successful growth. Together with all the staff, Management looks forward to taking on the challenges and opportunities which lie ahead.

Joseph Said
Chief Executive Officer

Directors' Report

For the period 1 October 2002 to 31 December 2003

The Directors present their report for the fifteen-month period ended 31 December 2003. This 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 period under review:

Joseph R. Darmanin
Joseph M. Demajo - *retired and reappointed on 20 December 2002*
Graham A. Fairclough F.C.I.B. - *appointed on 23 October 2003*
Christian Lemmerich (Chairman) - *retired and reappointed on 20 December 2002*
Norman P. Mifsud - *retired on 23 October 2003*
Piero Raimondo (Alternate Director, Gianfilippo Maria Maiga) - *appointed on 20 December 2002*
Joseph Said F.C.I.B.
Joseph G. Vassallo Dip. Pol. Econ. (Oxon) - *retired on 20 December 2002*
Michael Zammit

The retirement of directors and appointments in their stead took place at the Annual General Meetings which were convened on 20 December 2002 and 23 October 2003. In terms of the Memorandum and Articles of Association, two of the directors will retire at the 2004 Annual General Meeting and, being eligible, may offer themselves for re-election.

Results for the Financial Period

	2003 Lm000 Group	**2003 Lm000 Bank**	2002 Lm000 Group	2002 Lm 000 Bank
Profit after income tax	**1,393**	**1,410**	912	911

The gross dividend recommendation is 9c per share for the fifteen months ended 31 December 2003 (10c0 gross for the 12 months to 30 September 2002). A gross interim dividend of 6c0 was approved by the shareholders at the 2003 Annual General Meeting. 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 the shareholders.

Principal Activities of the Bank and its Subsidiaries

The Bank is a public limited company registered under the laws of Malta with number C.1607, and listed on the Malta Stock Exchange. It is licensed as a credit institution under the Banking Act and for investment business under the Investment Services Act. It is also a member of the Deposit Guarantee Scheme and of the Investor Compensation Scheme set up under the laws of Malta. It provides an extensive range of banking and financial services to domestic and international customers through a network of six branches in Malta and Gozo.

On a Group basis, the Bank consolidates the results of its two subsidiaries, Lombard Stockbrokers Limited (51%) and Lombard Asset Managers Limited (75%). The companies are active in stockbroking and fund management business 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.

Directors' Report

For the period 1 October 2002 to 31 December 2003

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 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 period ended 31 December 2003, 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; or
(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 92,431 new ordinary fully paid shares of Lm0.50 each, after resolutions were approved at the 2002 and 2003 Annual General Meetings allowing shareholders the option to receive their dividend either by the issue of new shares or in cash. This amount was made up of 56,738 new shares issued in January 2003 and 35,693 issued in November 2003 respectively, in lieu of cash dividends.

Disclosure in terms of the Investment Services Guidelines

In accordance with paragraph 10.32 of the Investment Services Guidelines regulated by the Malta Financial Services Authority, licence holders are required to disclose any regulatory breaches of standard licence conditions in this annual report. During the period, there were no breaches of the standard licence conditions or regulatory sanctions imposed by the Malta Financial Services Authority.

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 2004

On 1 May 2004, Malta will become a full member of the European Union, and thereby join not only a strong political and economic bloc but also the world's largest single market for goods and services. Membership will also imply economic policy disciplines which will add to the current challenges of accelerating the rate of GDP growth, increasing employment and strengthening demand as short-term prospects remain clouded by lower growth predictions in the Euro-zone area, a key export market for Malta.

Against this backdrop, the Bank intends to sustain its strategy of carefully selecting and building relationships and to develop a business base that continues to promise opportunities for profit. There will be increased emphasis on restructuring operations to derive greater efficiencies and on upgrading the Bank's technological platform to improve the range and quality of services. The results for 2003 are underpinned by sound business fundamentals which the Board feels should continue to form the basis for future earnings growth.

Approved by the Board of Directors on 18 February 2004 and signed on its behalf by:

Christian Lemmerich
Chairman

Joseph Said
Chief Executive Officer

Statement of Compliance

For the period 1 October 2002 to 31 December 2003

Preamble

As required by the Malta Stock Exchange Bye-Law 6.05.07(ii), as extant at 31 December 2003, the Board of Directors (the 'Board' or 'Directors') of Lombard Bank Malta p.l.c. ('the Bank') hereby presents its Statement of Compliance drawn up in terms of the 'Code of Principles of Good Corporate Governance' approved by the Council of the Malta Stock Exchange in November 2001. While the principles are not mandatory, the Bank, as an organisation of long corporate standing, believes that this development is an essential step forward in the process of strengthening corporate governance structures, transparency and accountability and, except where specific circumstances may so require, has endorsed them.

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 staff. 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 that adequate internal controls exist and are appropriately monitored for compliance;
3. ensuring that significant business risks are identified and appropriately managed;
4. setting the highest business standards and code for ethical behaviour, and monitoring their performance; and
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 upholds a policy of clear demarcation between its role and responsibilities and those of Management. It has defined the level of power that it retains 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; and
c) Assistant General Managers and other senior members of Management.

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 'fit 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. Polls for the election of directors taken at General Meetings are overseen by the Bank's external auditors. 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. In view of the above rules for the appointment and retirement of directors, the Board has so far not considered necessary the constitution of a Nominations Committee.

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

Statement of Compliance

For the period 1 October 2002 to 31 December 2003

	Year when first appointed	No. of shares held in the Bank
Joseph R. Darmanin	1991	1,908
Joseph M. Demajo	1999	-
Graham A. Fairclough	2003	-
Christian Lemmerich (Chairman)	1998	-
Joseph Said	2000	-
Piero Raimondo	2002	-
Michael Zammit	1995	50

Christian Lemmerich was confirmed Chairman by the Directors after the 2003 Annual General Meeting. He does not occupy any executive capacity on the Board. Joseph Said, Chief Executive Officer, and Graham A. Fairclough, General Manager, serve as directors on the Board. The other directors do not hold any other position with the Bank. The Board is therefore composed of two members on full-time contracts of service with the Bank and five non-executive directors.

Full details of retirements and appointments of directors during the period are provided in the Directors' Report on page 6.

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 period under review, the ALCO met on four occasions.

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 four occasions during the 15 months ended 31 December 2003.

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. Christian Lemmerich, Joseph R. Darmanin and Joseph M. Demajo sit on the Audit Committee. At meetings of the Audit Committee the Bank's internal auditor and the external auditors, KPMG, are typically required to attend. Members of Management are also invited to attend Audit Committee meetings as deemed necessary by the members. During the period under review, the Audit Committee met on five occasions.

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 "Report by Management" 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 "Annual Management Review" 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 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

Statement of Compliance

For the period 1 October 2002 to 31 December 2003

constructive role in the Bank's affairs. During the 15 months ended 31 December 2003, the Board met on nine occasions.

Terms of Appointment

The Annual General Meeting approves the maximum annual aggregate remuneration which Directors may receive for the holding of their office. At the Annual General Meeting held on 20 December 2002, the shareholders established Lm18,000 as the maximum amount to which Directors would be entitled in 2003. 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 and the General Manager are on a contract of employment with the Bank and their remuneration as employees, as well as their employment, are independent of their office as directors 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.

In addition, the Annual General Meeting of 23 October 2003 approved a resolution to create a new class of shares earmarked for the acquisition by employees at an arm's length consideration. The features, terms and conditions of the acquisition of such shares are to be proposed for the consideration of the shareholders at a General Meeting.

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 "Code of Conduct for dealings in securities by Directors, Executives and Employees" which was adopted by the Bank in April 2001.

There are also formal procedures in place for the timely dissemination and publication of information. 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 "time-windows" preceding and following the publication of twice-yearly financial information during which no dealing in the Bank's securities is allowed. Apart from the "time-windows", 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 Meetings. 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 fourteen clear days before the date of the Annual General Meeting. The notice is accompanied by the Annual Report and Audited Accounts for the preceding financial year. 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.

In accordance with the Companies Act, 1995, the Bank is required to hold a general meeting annually with intervals not exceeding fifteen months. In view of the Bank's change in its accounting reference date from 30 September to 31 December, the Bank was statutorily required to convene a general meeting without including the presentation for approval of the audited Annual Report on the agenda. Notwithstanding this, shareholders were asked to receive and consider the unaudited Interim Report for the nine-month period ended 30 June 2003. A copy of these Financial Statements, incorporating a Review Report by the external auditors KPMG, was sent to all shareholders together with the Notice of Annual General Meeting.

Approved by the Board of Directors on 18 February 2004 and signed on its behalf by:

Christian Lemmerich
Chairman

Joseph Said
Chief Executive Officer

Report of the Auditors
to the Members of Lombard Bank

Pursuant to the Malta Stock Exchange Bye-Law 6.05.07(iii). As extant at 31 December 2003

The Malta Stock Exchange Bye-Law 6.05.07(ii), as extant at 31 December 2003, requires the Bank's directors to include in their Annual Report a Statement of Compliance to the extent to which they have adopted the Code of Principles of Good Corporate Governance, and the effective measures that they have taken to ensure compliance with these Principles.

Our responsibility, as auditors of the Bank, is laid down by the Malta Stock Exchange Bye-Law 6.05.07(iii) as extant at 31 December 2003, 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 Bank's corporate governance procedures or its risk and control procedures, nor on the ability of the Bank to continue in operational existence.

In our opinion, the Statement of Compliance set out on pages 8 to 10 has been properly prepared in accordance with the requirements of the Malta Stock Exchange Bye-Law 6.05.07(ii) as extant at 31 December 2003.

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

KPMG
Certified Public Accountants and Auditors

18 February 2004

Company Information

Directors' interests in the share capital of the Bank at 31 December 2003

Michael Zammit	50
Joseph R. Darmanin	1,908

Registered shareholders with 5% or more of the share capital at 31 December 2003

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

Number of shareholders at 31 December 2003
The total number of registered shareholders is 1,292 of the same class.

Number of shareholders at 31 December 2003 analysed by range.

Range	Total Shareholders	Shares
1 - 500	356	74,916
501 - 1,000	477	312,176
1,001 - 5,000	413	711,797
5,001 - 10,000	21	138,461
10,001 and over	25	2,814,546
Total	**1,292**	**4,051,896**

Board of Directors and Senior Management

Directors
Christian Lemmerich (Chairman)
Joseph R. Darmanin
Joseph M. Demajo
Norman P. Mifsud F.C.I.B.
Graham A. Fairclough F.C.I.B
Joseph Said F.C.I.B.
Michael Zammit

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

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

General 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 M.B.A. (Henley), B.A. (Hons) Acct. M.I.A. C.P.A.

LOMBARD BANK

FINANCIAL STATEMENTS

for the period 1 October 2002 to 31 December 2003

2003

Statement of Directors' Responsibilities

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

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

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

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

The directors are responsible for keeping proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Bank and the Group and to enable them to ensure that the financial statements have been properly prepared in accordance with the Companies Act, 1995 and the Banking Act, 1994 enacted in Malta. They are also responsible for safeguarding the assets of the Bank and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

18 February 2004

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

We have audited the financial statements set out on pages 16 to 47. As described on page 14, these financial statements are the responsibility of the Bank's directors. Our responsibility is to express an opinion on these financial statements based on our audit. We are also required to report whether we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purpose of our audit, whether in our opinion proper books of account have been kept by the Bank so far as appears from our examination thereof and whether the financial statements are in agreement with the books.

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

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

In our opinion, the financial statements give a true and fair view of the state of affairs of the Bank and the Group as at 31 December 2003 and of its profit, changes in equity and cash flows for the period then ended in accordance with the requirements of International Financial Reporting Standards promulgated by the International Accounting Standards Board, and have been properly prepared in accordance with the provisions of the Companies Act, 1995 and the Banking Act, 1994, enacted in Malta.

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

KPMG
Certified Public Accountants and Auditors

18 February 2004

Profit and Loss Account

For the period 1 October 2002 to 31 December 2003

		The Group		The Bank	
		01/10/02 to 31/12/03	01/10/01 to 30/09/02	**01/10/02 to 31/12/03**	01/10/01 to 30/09/02
	Note	**Lm 000**	Lm 000	**Lm 000**	Lm 000
Interest receivable and similar income					
- on loans, advances and balances with Central Bank of Malta	3	**8,582**	5,683	**8,583**	5,683
- on debt securities	3	**2,110**	1,836	**2,110**	1,836
Interest payable	4	**(7,070)**	(4,654)	**(7,072)**	(4,654)
Net Interest Income		**3,622**	2,865	**3,621**	2,865
Fees and commissions receivable		**502**	431	**472**	400
Fees and commissions payable		**(36)**	(31)	**(18)**	(15)
Dividend income	5	**37**	40	**37**	40
Trading profits	6	**573**	496	**573**	496
Net gains on disposal on non-trading financial instruments	7	**15**	-	**15**	-
Other operating income		**24**	16	**23**	15
Operating Income		**4,737**	3,817	**4,723**	3,801
Administrative expenses	8	**(2,243)**	(1,555)	**(2,211)**	(1,548)
Depreciation		**(94)**	(200)	**(93)**	(200)
Provision for potential losses	31	**(134)**	-	**(134)**	-
Net impairment losses	9	**(102)**	(650)	**(102)**	(650)
Amortisation of goodwill	20	**(2)**	(2)	-	-
Profit on Ordinary Activities before Tax	10	**2,162**	1,410	**2,183**	1,403
Tax on profit on ordinary activities	11	**(773)**	(495)	**(773)**	(492)
Profit on Ordinary Activities after Tax		**1,389**	915	**1,410**	911
Loss/(profit) attributable to minority interests		**4**	(3)	-	-
Profit for the Financial Period attributable to Shareholders		**1,393**	912	**1,410**	911
Earnings per Share	12	**34c7**	23c1	**35c2**	23c1

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 47.

Balance Sheet

At 31 December 2003

	Note	The Group 31/12/03 Lm 000	The Group 30/09/02 Lm 000	The Bank 31/12/03 Lm 000	The Bank 30/09/02 Lm 000
ASSETS					
Balances with Central Bank of Malta, treasury bills and cash	14	**60,711**	50,430	**60,711**	50,430
Cheques in course of collection		**699**	831	**699**	831
Financial assets held for trading	15	**44**	73	**44**	73
Investments	16	**25,530**	27,133	**25,399**	26,997
Loans and advances to banks	17	**36,628**	19,643	**36,628**	19,641
Loans and advances to customers	18	**57,344**	58,076	**57,347**	58,076
Shares in subsidiary companies	19	**-**	-	**154**	138
Intangible assets	20	**18**	20	**-**	-
Tangible assets	21	**1,532**	1,436	**1,529**	1,432
Deferred tax asset	22	**714**	703	**714**	703
Other assets	23	**178**	222	**172**	217
Prepayments and accrued income	24	**2,238**	1,981	**2,238**	1,981
Total Assets		185,636	160,548	185,635	160,519
LIABILITIES					
Financial liabilities held for trading	15	**85**	90	**85**	90
Amounts owed to banks	25	**150**	229	**150**	229
Amounts owed to customers	26	**167,595**	145,039	**167,654**	145,070
Other liabilities	27	**4,100**	2,734	**4,090**	2,722
Accruals and deferred income	28	**2,000**	2,174	**2,000**	2,174
Minority interests		**61**	49	**-**	-
		173,991	150,315	**173,979**	150,285
SHAREHOLDERS' FUNDS					
Called up issued share capital	29	**2,026**	1,980	**2,026**	1,980
Share premium		**4,341**	4,055	**4,341**	4,055
Other reserve	30	**111**	111	**111**	111
Property revaluation reserve	30	**126**	126	**126**	126
Investment revaluation reserve	30	**41**	(59)	**36**	(57)
Profit and loss account		**4,763**	3,763	**4,779**	3,762
Dividend reserve		**237**	257	**237**	257
		11,645	10,233	**11,656**	10,234
Total Liabilities		**185,636**	160,548	**185,635**	160,519
MEMORANDUM ITEMS					
Contingent liabilities	31	**3,524**	3,416	**3,524**	3,416
Commitments	32	**17,201**	21,542	**17,201**	21,542

The financial statements on pages 16 to 47 were approved by the Board of Directors on 18 February 2004 and signed on its behalf by:

Christian Lemmerich
Chairman

Joseph Said
Chief Executive Officer

Cash Flow Statement

For the period 1 October 2002 to 31 December 2003

		The Group		The Bank	
		01/10/02 to 31/12/03	01/10/01 to 30/09/02	**01/10/02 to 31/12/03**	01/10/01 to 30/09/02
	Note	**Lm 000**	Lm 000	**Lm 000**	Lm 000
Cash Flows from Operating Activities					
Interest and commission receipts		**9,286**	7,041	**9,239**	7,009
Interest and commission payments		**(7,396)**	(4,348)	**(7,378)**	(4,348)
Payments to employees and suppliers		**(2,135)**	(1,034)	**(2,091)**	(1,010)
Operating (Loss)/Profit before Changes in Operating Assets and Liabilities		**(245)**	1,659	**(230)**	1,651
Decrease/(Increase) in operating assets:					
Treasury bills		**16**	(1,687)	**16**	(1,687)
Deposits with Central Bank of Malta		**(1,721)**	(1,817)	**(1,721)**	(1,817)
Loans and advances to banks and customers		**(1,510)**	(9,983)	**(1,519)**	(9,982)
Other receivables		**177**	(141)	**177**	(139)
Increase in operating liabilities:					
Amounts owed to customers		**22,553**	37,529	**22,585**	37,560
Other payables		**1,156**	262	**1,156**	265
Net Cash Generated from Operations		**20,426**	25,822	**20,464**	25,851
Tax paid		**(759)**	(874)	**(756)**	(874)
Net Cash Flows from Operating Activities		**19,667**	24,948	**19,708**	24,977

Cash Flow Statement

For the period 1 October 2002 to 31 December 2003

		The Group		The Bank	
		01/10/02 to 31/12/03	01/10/01 to 30/09/02	**01/10/02 to 31/12/03**	01/10/01 to 30/09/02
	Note	**Lm 000**	Lm 000	**Lm 000**	Lm 000
Cash Flows from Investing Activities					
Dividends received		**37**	40	**37**	40
Interest received from investments		**2,384**	1,825	**2,384**	1,825
Proceeds on maturity/disposal of investments		**2,046**	2,299	**2,034**	2,299
Purchase of investments		**(383)**	(1,577)	**(383)**	(1,577)
Proceeds on disposal of property, plant and equipment		**3**	13	**3**	13
Purchase of property, plant and equipment		**(191)**	(22)	**(190)**	(21)
Purchase of shares issued by subsidiary company		**-**	-	**(15)**	(13)
Payment to acquire subsidiary company		**-**	(125)	**-**	(125)
Net Cash Flows from Investing Activities		**3,896**	2,453	**3,870**	2,441
Cash Flows from Financing Activities					
Dividends paid		**(81)**	(26)	**(81)**	(26)
Minority interest in newly formed subsidiary		**15**	12	**-**	-
Net Cash Used in Financing Activities		**(66)**	(14)	**(81)**	(26)
Net Increase in Cash and Cash Equivalents		**23,497**	27,387	**23,497**	27,392
Cash and cash equivalents of acquired subsidiary		**-**	5	**-**	-
Cash and cash equivalents at beginning of period/year		**55,587**	28,195	**55,587**	28,195
Cash and Cash Equivalents at End of Period/Year	33	**79,084**	55,587	**79,084**	55,587

The cash flow statement is to be read in conjunction with the notes to and forming part of the financial statements set out in pages 21 to 47.

Statement of Changes in Equity

For the period ended 31 December 2003

The 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	9,406	1,953	3,880	111	126	-	3,108	228
Dividends payable	(228)	-	-	-	-	-	-	(228)
Rights issue of ordinary shares	202	27	175	-	-	-	-	-
Net loss on available-for-sale assets recognised in Investment Revaluation Reserve	(59)	-	-	-	-	(59)	-	-
Profit for the year	912	-	-	-	-	-	912	-
Dividends proposed, net of income tax	-	-	-	-	-	-	(257)	257
At 1 October 2002	10,233	1,980	4,055	111	126	(59)	3,763	257
Dividends payable	(413)	-	-	-	-	-	(156)	(257)
Rights issue of ordinary shares	332	46	286	-	-	-	-	-
Net profit on available-for-sale assets recognised in Investment Revaluation Reserve	100	-	-	-	-	100	-	-
Profit for the period	1,393	-	-	-	-	-	1,393	-
Dividends proposed, net of income tax	-	-	-	-	-	-	(237)	237
At 31 December 2003	11,645	2,026	4,341	111	126	41	4,763	237
At 1 October 2001	9,406	1,953	3,880	111	126	-	3,108	228
Dividends payable	(228)	-	-	-	-	-	-	(228)
Rights issue of ordinary shares	202	27	175	-	-	-	-	-
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
At 1 October 2002	10,234	1,980	4,055	111	126	(57)	3,762	257
Dividends payable	(413)	-	-	-	-	-	(156)	(257)
Rights issue of ordinary shares	332	46	286	-	-	-	-	-
Net profit on available-for-sale assets recognised in Investment Revaluation Reserve	93	-	-	-	-	93	-	-
Profit for the period		1,410	-	-	-	-	-	1,410
-								
Dividends proposed, net of income tax	-	-	-	-	-	-	(237)	237
At 31 December 2003	11,656	2,026	4,341	111	126	36	4,779	237

Notes to the Financial Statements

For the period 1 October 2002 to 31 December 2003

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.

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

2. Significant Accounting Policies

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

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

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

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

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

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

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

c) Financial Instruments

i. Classification

Trading instruments are those that the Group principally holds for the purpose of short-term profit taking. All trading derivatives in a net receivable position (positive fair value) are reported as trading assets. All trading derivatives in a net payable position (negative fair value) are reported as trading liabilities.

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

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

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

ii. Recognition

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

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

iii. Measurement

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

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

All non-trading financial liabilities, originated loans and receivables and held-to-maturity assets are measured at amortised cost less impairment losses. Amortised cost is calculated on the effective interest rate method. Premia and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortised over the period to maturity based on the effective interest rate of the instrument.

iv. Fair value measurement principles

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

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

The fair values of derivatives that are not exchange traded are estimated at the amount that the Group would receive or pay to terminate the contract at the balance sheet date taking into account current market conditions and the current creditworthiness of the counterparties.

v. Gains and losses on subsequent measurement

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

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

d) Derecognition

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

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

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

e) Impairment

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

i. Originated loans and advances

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

Loans and advances are presented net of specific and 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.

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

ii. Financial assets remeasured to fair value directly through equity

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

Where an asset remeasured to fair value directly through equity is impaired, and a write-down of the asset was previously recognised directly in equity, the write down is transferred to the income statement and recognised as part of the impairment loss. Where an increase in fair value of an asset was previously recognised in equity, the increase in fair value of the asset recognised in equity is reversed 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 investment in subsidiary companies is stated at cost less impairment losses.

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

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

Freehold property is revalued on the basis of its existing use every five years or earlier whenever its fair value differs materially from its carrying amount. Any surpluses arising on such revaluation are credited to a revaluation reserve. Any deficiencies resulting from decreases in value are deducted from this reserve to the extent that it is sufficient to absorb them, and charged to the income statement thereafter.

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

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

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

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

k) Cash and Cash Equivalents

Cash and cash equivalents comprise:

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

l) Segment Reporting

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

3. Interest Receivable and Similar Income

	The Group		The Bank	
	01/10/02 to 31/12/03 Lm 000	01/10/01 to 30/09/02 Lm 000	**01/10/02 to 31/12/03 Lm 000**	01/10/01 to 30/09/02 Lm 000
On loans and advances to banks	**801**	711	**802**	711
On loans and advances to customers	**5,393**	4,324	**5,393**	4,324
On balances with Central Bank of Malta	**1,813**	190	**1,813**	190
On treasury bills	**575**	458	**575**	458
	8,582	5,683	**8,583**	5,683
On debt securities	**2,134**	1,855	**2,134**	1,855
Amortisation of premia and discounts	**(24)**	(19)	**(24)**	(19)
	2,110	1,836	**2,110**	1,836

4. Interest Payable

	The Group		The Bank	
	01/10/02 to 31/12/03 Lm 000	01/10/01 to 30/09/02 Lm 000	**01/10/02 to 31/12/03 Lm 000**	01/10/01 to 30/09/02 Lm 000
On amounts owed to banks	**2**	20	**2**	20
On amounts owed to customers	**7,068**	4,634	**7,070**	4,634
	7,070	4,654	**7,072**	4,654

5. Dividend Income

	The Group		The Bank	
	01/10/02 to 31/12/03 Lm 000	01/10/01 to 30/09/02 Lm 000	**01/10/02 to 31/12/03 Lm 000**	01/10/01 to 30/09/02 Lm 000
From available-for-sale assets	**37**	40	**37**	40

6. Trading Profits

Profit on foreign exchange activities	**607**	509	**607**	509
Fair value movements on trading financial instruments	**(34)**	(13)	**(34)**	(13)
	573	496	573	496

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

Profit from disposal of available-for-sale investment	**15**	-	**15**	-

8. Administrative Expenses

Staff costs:				
- wages, salaries and allowances	**1,262**	896	**1,262**	896
- social security costs	**83**	66	**83**	66
Other administrative expenses	**898**	593	**866**	586
	2,243	1,555	2,211	1,548

	Number	Number	**Number**	Number
Average number of employees				
Executive and senior managerial	**12**	9	**12**	9
Other managerial, supervisory and clerical	**93**	96	**93**	96
Others	**12**	9	**12**	9
	117	114	117	114

9. Net impairment losses

	The Group		The Bank	
	01/10/02 to 31/12/03 Lm 000	01/10/01 to 30/09/02 Lm 000	**01/10/02 to 31/12/03 Lm 000**	01/10/01 to 30/09/02 Lm 000
Write downs:				
Loans and advances to customers				
- specific allowances	**(293)**	(859)	**(293)**	(859)
Reversal of write downs:				
Loans and advances to customers				
- specific allowances	**97**	45	**97**	45
- general allowances	**112**	164	**112**	164
	209	209	**209**	209
Bad debts written off	**(18)**	-	**(18)**	-
Net impairment losses	**(102)**	(650)	**(102)**	(650)

10. Profit on Ordinary Activities before Tax

	The Group		The Bank	
Profit before tax is stated after charging:				
Auditors' remuneration	**8**	6	**6**	6
Directors' emoluments:				
- Fees	**24**	16	**24**	16
- Other emoluments	**50**	37	**50**	37
	74	53	74	53

11. Tax on Profit on Ordinary Activities

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

	The Group		The Bank	
	01/10/02 to 31/12/03 Lm 000	01/10/01 to 30/09/02 Lm 000	**01/10/02 to 31/12/03 Lm 000**	**01/10/01 To 30/09/02** Lm 000
Current tax expense	**836**	751	**836**	748
(Over)/under-provision in prior year	**(2)**	4	**(2)**	4
	834	755	**834**	752
Deferred tax movement	**(61)**	(260)	**(61)**	(260)
	773	495	773	492

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

Profit on ordinary activities before tax	**2,162**	1,410	**2,183**	1,403
Tax at the applicable rate of 35%	757	494	764	491
Tax effect of non-taxable income	(1)	(7)	(1)	(7)
Tax effect of non-deductible expenses	9	1	2	1
Tax effect of depreciation charges not deductible by way of capital allowances	8	6	8	6
Tax effect of change in accounting policy	-	1	-	1
Tax on profit on ordinary activities	773	495	773	492

12. Earnings Per Share

Earnings per share is calculated on profit after taxation of Lm1,393,000 for the Group (2002: Lm915,000) and Lm1,410,000 for the Bank (2002: Lm911,000) divided by 4,008,998 (2002: 3,943,215), being the weighted average number of shares in issue during the period.

13. Dividends

The Bank

	01/10/02 to 31/12/03 Cents per share	01/10/01 to 30/09/02 Cents per share	**01/10/02 to 31/12/03 Lm 000**	01/10/01 to 30/09/02 Lm 000
Gross of income tax				
Proposed final	**9.0**	10.0	**608**	396

	Cents per share	Cents per share	**Lm 000**	Lm 000
Net of income tax				
Proposed final	**5.9**	6.5	**237**	257

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

	The Group		**The Bank**	
	31/12/03 Lm 000	30/09/02 Lm 000	**31/12/03 Lm 000**	30/09/02 Lm 000
Balances with Central Bank of Malta	**39,539**	21,879	**39,539**	21,879
Malta Government treasury bills	**20,350**	27,737	**20,350**	27,737
Cash in hand	**822**	814	**822**	814
	60,711	50,430	**60,711**	50,430

The balance with the Central Bank of Malta includes a reserve deposit amounting to Lm6,831,100 held in terms of Section 37 of the Central Bank of Malta Act, Cap 204.

15. Financial instruments held for trading

	The Group		The Bank	
	31/12/03	30/09/02	**31/12/03**	30/09/02
	Lm 000	Lm 000	Lm 000	Lm 000
Financial assets held for trading				
Derivative financial instruments	44	73	44	73
Financial liabilities held for trading				
Derivative financial instruments	85	90	85	90

The Group/Bank

	Notional amount with remaining life of:			Fair values	
	Less than three months	Between three months and one year	Total	Assets	Liabilities
	Lm000	Lm000	Lm000	Lm000	Lm000
Forward exchange contracts:					
At 31 December 2003	42,896	1,288	44,184	44	85
At 30 September 2002	32,325	2,675	35,000	73	90

16. Investments

a) Investments comprise:

	The Group		The Bank	
	31/12/03	30/09/02	**31/12/03**	30/09/02
	Lm 000	Lm 000	**Lm 000**	Lm 000
Debt and other fixed income instruments				
- available-for-sale	**1,751**	1,734	**1,751**	1,734
- held-to-maturity	**23,037**	24,742	**23,037**	24,742
Equity instruments available-for-sale	**742**	657	**611**	521
	25,530	27,133	**25,399**	26,997

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

Issued by public bodies:				
- local government	**53**	50	**53**	50
Issued by public issuers:				
- local banks	**404**	462	**404**	462
- local others	**1,294**	1,222	**1,294**	1,222
	1,751	1,734	**1,751**	1,734

Debt and other fixed income instruments				
- listed on the Malta Stock Exchange	**1,751**	1,475	**1,751**	1,475
- local unlisted	**-**	259	**-**	259
	1,751	1,734	**1,751**	1,734

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

The Bank has pledged Lm2,000,000 (2002: Lm2,000,000) worth of Malta Government Stocks to the Central Bank of Malta as security for a facility which was not utilised at balance sheet date.

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

17. Loans and Advances to Banks

	The Group		The Bank	
	31/12/03	30/09/02	**31/12/03**	30/09/02
	Lm 000	Lm 000	**Lm 000**	Lm 000
Repayable on call and at short notice	**10,851**	2,421	**10,851**	2,419
Term loans and advances	**25,777**	17,222	**25,777**	17,222
	36,628	19,643	**36,628**	19,641

18. Loans and Advances to Customers

Repayable on call and at short notice	**28,283**	32,028	**28,286**	32,028
Term loans and advances	**31,106**	28,009	**31,106**	28,009
Total gross loans and advances to customers	**59,389**	60,037	**59,392**	60,037
Allowance for uncollectibility	**(2,045)**	(1,961)	**(2,045)**	(1,961)
Net loans and advances to customers	**57,344**	58,076	**57,347**	58,076
Allowances for uncollectibility				
Specific allowances	**1,772**	1,576	**1,772**	1,576
General allowances	**273**	385	**273**	385
	2,045	1,961	**2,045**	1,961

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

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

The Group/Bank

	31/12/03		30/09/02	
	Lm 000	%	Lm 000	%
Energy and water	**291**	**0.5%**	2,183	3.6%
Transport, storage and communications	**364**	**0.6%**	560	0.9%
Agriculture and fisheries	**55**	**0.1%**	106	0.2%
Manufacturing	**4,304**	**7.3%**	4,008	6.7%
Building and construction	**12,599**	**21.2%**	4,706	7.8%
Hotel, restaurant and tourist trade	**3,695**	**6.2%**	3,862	6.4%
Wholesale and retail trade	**9,742**	**16.4%**	12,665	21.1%
Community, recreational and personal service activities	**129**	**0.2%**	842	1.4%
Education	**80**	**0.1%**	37	0.1%
Health and social work	**78**	**0.1%**	76	0.1%
Mining and quarrying	**113**	**0.2%**	109	0.2%
Real estate, renting and business activities	**18,259**	**30.8%**	22,687	37.8%
Households and individuals	**9,680**	**16.3%**	8,196	13.7%
	59,389	**100%**	60,037	100%

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

The aggregate amount of impaired loans and advances to customers amounted to Lm11,954,000 (2001:Lm10,484,000). No further specific allowances for uncollectibility were required in terms of Banking Directive 09.

Total interest that would have accrued on the impaired loans in the current and preceding financial years would have amounted to Lm961,000 (30/09/02: Lm637,000).

19. Shares in Subsidiary Companies

Name of Company	Incorp. In	Nature of Business	Equity Interest (%) 2003	Equity Interest (%) 2002	The Bank 2003 Lm 000	The Bank 2002 Lm 000
Lombard Stockbrokers Limited	Malta	Stockbroking	**51**	51	**29**	13
Lombard Asset Managers Limited	Malta	Management of Collective Investment Schemes	**75**	75	**125**	125
					154	138

None of the subsidiary companies are listed.

20.Intangible Assets

Intangible assets consist of purchased goodwill. 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.

	Group Lm000
Cost	
At 1 October 2002	22
At 31 December 2003	22
Amortisation	
At 1 October 2002	2
Charge for the period	2
At 31 December 2003	4
Net Book Amount	
At 31 December 2003	18
At 30 September 2002	20

21. Tangible Fixed Assets

The Group

	Land and Buildings Lm 000	Computer Equipment Lm 000	Other Lm 000	Total Lm 000
Cost/Revaluation				
At 1 October 2002	1,422	868	776	3,066
Additions	127	45	17	189
Disposals	-	-	(8)	(8)
At 31 December 2003	**1,549**	**913**	**785**	**3,247**
Depreciation				
At 1 October 2002	101	817	712	1,630
Charge for the period	23	43	27	93
Release on disposals	-	-	(8)	(8)
At 31 December 2003	**124**	**860**	**731**	**1,715**
Net Book Amount				
At 31 December 2003	**1,425**	**53**	**54**	**1,532**
At 30 September 2002	1,321	51	64	1,436

The Bank

	Land and Buildings Lm 000	Computer Equipment Lm 000	Other Lm 000	Total Lm 000
Cost/Revaluation				
At 1 October 2002	1,422	867	772	3,061
Additions	127	46	17	190
Disposals	-	-	(8)	(8)
At 31 December 2003	**1,549**	**913**	**781**	**3,243**
Depreciation				
At 1 October 2002	101	817	711	1,629
Charge for the period	23	43	27	93
Release on disposals	-	-	(8)	(8)
At 31 December 2003	**124**	**860**	**730**	**1,714**

21.Tangible Fixed Assets *(continued)*

The Bank

	Land and Buildings Lm 000	Computer Equipment Lm 000	Other Lm 000	Total Lm 000
Net Book Amount				
At 31 December 2003	**1,425**	**53**	**51**	**1,529**
At 30 September 2002	1,321	50	61	1,432

	The Group		The Bank	
	31/12/03 Lm 000	30/09/02 Lm 000	**31/12/03 Lm 000**	30/09/02 Lm 000
Net book amount of land and buildings occupied for own activities	**1,321**	1,321	**1,321**	1,321
Future capital expenditure				
Contracted but not provided	-	-	-	-
Authorised by the directors but not yet contracted	**260**	84	**260**	84
	260	84	**260**	84

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 Lm1,243,000 (2002: Lm1,138,000).

22.Deferred Tax Asset

Deferred income taxes are calculated on all temporary differences under the liability method using a principal tax rate of 35% (30.09.02 - 35%). The deferred income tax balance composition is analysed below:

	The Group 31/12/03	The Group 30/09/02	The Bank 31/12/03	The Bank 30/09/02
Tax effect of temporary differences relating to:				
- excess of capital allowances over depreciation	75	90	75	90
- provision for potential losses	47	-	47	-
- impairment allowances	716	687	716	687
- revaluation of property	(68)	(68)	(68)	(68)
- fair value movements in investments	(56)	(6)	(56)	(6)
	714	703	714	703

A deferred tax asset amounting to Lm85,000 has not been recognised by the Group due to the uncertainty of the realisation of the tax benefits through future taxable profits.

23. Other Assets

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

24. Prepayments and Accrued Income

	The Group		The Bank	
	31/12/03	30/09/02	**31/12/03**	30/09/02
	Lm 000	Lm 000	**Lm 000**	Lm 000
Accrued income	**2,190**	1,923	**2,190**	1,923
Prepayments	**48**	58	**48**	58
	2,238	1,981	**2,238**	1,981

25.Amounts Owed to Banks

Repayable on demand	**150**	229	**150**	229

26.Amounts Owed to Customers

	The Group		The Bank	
	31/12/03	30/09/02	**31/12/03**	30/09/02
	Lm 000	Lm 000	**Lm 000**	Lm 000
Term deposits	**119,239**	88,630	**119,265**	88,630
Repayable on demand	**48,356**	56,409	**48,389**	56,440
	167,595	145,039	**167,654**	145,070

27. Other Liabilities

	The Group		The Bank	
	31/12/03	30/09/02	**31/12/03**	30/09/02
	Lm 000	Lm 000	**Lm 000**	Lm 000
Tax liability	**224**	146	**224**	146
Bills payable	**1,253**	880	**1,253**	880
Provision for liabilities	**134**	-	**134**	-
Other	**2,489**	1,708	**2,479**	1,696
	4,100	2,734	**4,090**	2,722

28. Accruals and Deferred Income

Accrued interest	**1,798**	2,085	**1,798**	2,085
Other	**202**	89	**202**	89
	2,000	2,174	**2,000**	2,174

29. Share Capital

	31/12/03		30/09/02	
	No. of Shares	**Lm 000**	No. of Shares	Lm 000
Authorised				
Ordinary shares of 50 cents each	**10,000**	**5,000**	10,000	5,000
Issued and fully paid up				
Ordinary shares of 50 cents each	**4,052**	**2,026**	3,959	1,980

30. Reserves

a) Share premium
The increase in the share premium account represents the premium on the rights issue of shares approved by the General Meetings dated 20 December 2002 and 23 October 2003.

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

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

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

31. Provisions and Contingent Liabilities

a) Provisions
During the period, the Bank provided for potential losses amounting to Lm134,000 (2002: Nil) against claims by customers. In addition, the Bank is also a defendant in legal actions by other customers from which the directors are of the opinion that no liability will be incurred.

b) Contingent liabilities

The Group/Bank

	31/12/03	30/09/02
	Lm 000	Lm 000
Guarantee obligations incurred on behalf of third parties	**3,524**	3,416

32. Commitments

Documentary credits	**196**	122
Credit facilities and other commitments to lend	**17,005**	21,420
	17,201	21,542

Credit facilities and commitments to lend funds to customers are granted at prevailing market interest rates at drawdown date. At balance sheet date, the Bank held fiduciary placements from which it is envisaged that no liability will arise.

33.Cash and Cash Equivalents

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

	The Group		The Bank	
	31/12/03	30/09/02	**31/12/03**	30/09/02
	Lm 000	Lm 000	**Lm 000**	Lm 000
Treasury bills	**17,425**	24,797	**17,425**	24,797
Loans and advances to banks	**28,277**	13,436	**28,277**	13,436
Cash	**823**	814	**823**	814
Balances with Central Bank of Malta (excluding reserve deposit)	**32,708**	16,769	**32,708**	16,769
Amounts owed to Banks	**(149)**	(229)	**(149)**	(229)
Cash and cash equivalents	**79,084**	55,587	**79,084**	55,587
Adjustment to reflect balances with contractual maturity of more than 3 months	**18,105**	14,257	**18,105**	14,255
Per balance sheet	**97,189**	69,844	**97,189**	69,842
Analysed as follows:				
Balances with Central Bank of Malta, treasury bills and cash	**60,711**	50,430	**60,711**	50,430
Loans and advances to banks	**36,628**	19,643	**36,628**	19,641
Amounts owed to banks	**(150)**	(229)	**(150)**	(229)
	97,189	69,844	**97,189**	69,842

34.Segmental Information

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

35.Related Parties

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

The subsidiary Lombard Stockbrokers Limited regularly conducts business with a related company, by virtue of having common directors. Brokerage fees amounting to Lm7,000 were paid to the related company during the period. Fees were paid on an arm's length basis.

The subsidiary Lombard Asset Managers Limited holds an available-for-sale investment in a related company, by virtue of having common directors. Trading transactions amounting to Lm13,000 were carried out on an arm's length basis with this related party during the period.

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

The Group/Bank

	31/12/03 Loans and advances	**31/12/03 Commitments**	30/09/02 Loans and advances	30/09/02 Commitments
Directors				
At beginning of period	-	-	-	-
Additions	**316**	7	-	-
Repayments	-	-	-	-
At balance sheet date	**316**	7	-	-
Officers				
At beginning of period	**721**	-	724	-
Additions	**140**	-	121	-
Repayments	**(91)**	-	(124)	-
At balance sheet date	**770**	-	721	-

37.Comparative Amounts

The current period's amounts reflect the financial results of the fifteen-month period ended 31 December 2003, following a change in accounting reference date.

The comparative amounts reflect the financial results of the twelve-month period ended 30 September 2002.

38. 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.

38. Financial Instruments *(continued)*

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

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

Interest rate risk

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

The Group

	2003	**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	60,711	2.95	59,180				1,531
Cheques in course of collection	699	-	-	-	-	-	699
Financial assets held for trading							
- Derivative financial instruments	44	-	-	-	-	-	44
Investments							
Debt and other fixed income financial instruments							
- available-for-sale	1,751	6.67	-	-	-	1,751	-
- held-to-maturity	23,037	6.61	-	1,163	8,041	13,833	-

38. Financial Instruments *(continued)*

The Group

	2003	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							
Equity financial instruments							
- available-for-sale	742	-	-	-	-	-	742
Loans and advances to banks	36,628	2.33	30,111	6,517	-	-	-
Loans and advances to							
customers	57,344	7.56	37,277	2,168	6,874	11,025	-
Other assets	4,680	-	-	-	-	-	4,680
Total Assets	185,636		126,568	9,848	14,915	26,609	7,696
Liabilities							
Financial liabilities held							
for trading	85	-	-	-	-	-	85
Amounts owed to banks	150	-	-	-	-	-	150
Amounts owed to customers	167,595	3.00	82,614	47,634	32,402	185	4,760
Other liabilities	6,161	-	-	-	-	-	6,161
	173,991		82,614	47,634	32,402	185	11,156
Shareholders' Funds							
Called up share capital	2,026	-	-	-	-	-	2,026
Share premium	4,341	-	-	-	-	-	4,341
Other reserve	111	-	-	-	-	-	111
Property revaluation reserve	126	-	-	-	-	-	126
Investment revaluation reserve	41	-	-	-	-	-	41
Profit and loss account	4,763	-	-	-	-	-	4,763
Dividend reserve	237	-	-	-	-	-	237
	11,645		-	-	-	-	11,645
Total Liabilities	185,636		82,614	47,634	32,402	185	22,801
Gap			43,954	(37,786)	(17,487)	26,424	(15,105)
Cumulative Gap			43,954	6,168	(11,319)	15,105	-

38. Financial Instruments *(continued)*

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to the changes in foreign exchange rates. The Group manages this risk using various techniques. In the majority of cases, the Group covers the risk by ensuring that its foreign currency denominated liabilities are matched with corresponding assets in the same currency. Maltese Lira liabilities, which are invested in foreign currency denominated assets, are usually aligned with the basket of currencies making up the Maltese Lira valuation. Any mismatches that may arise are monitored accordingly.

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

The Group	**Maltese Liri**	**Other Currencies**	**Total**	Maltese Liri	Other Currencies	Total
		31/12/2003			30/09/2002	
	Lm000	**Lm000**	**Lm000**	Lm000	Lm000	Lm000
Financial Assets						
Balances with Central Bank of Malta, treasury bills and cash	**60,558**	**153**	**60,711**	50,246	184	50,430
Cheques in course of collection	**699**	**-**	**699**	831	-	831
Investments:						
- Debt and other fixed income financial instruments available for sale	**1,347**	**404**	**1,751**	1,272	462	1,734
- Debt and other fixed income financial instruments held to maturity	**23,037**	**-**	**23,037**	24,742	-	24,742
- Equity financial instruments available for sale	**697**	**45**	**742**	657	-	657
Loans and advances to banks	**7,051**	**29,577**	**36,628**	42	19,601	19,643
Loans and advances to customers - gross	**57,772**	**1,617**	**59,389**	56,739	3,298	60,037
Financial assets held for trading:						
- Derivative financial instruments	**-**	**44**	**44**	-	73	73
	151,161	**31,840**	**183,001**	134,529	23,618	158,147
Financial Liabilities						
Financial liabilities held for trading:						
- Derivative financial instruments	-	85	85	-	90	90
Amounts owed to banks	145	5	150	220	9	229
Amounts owed to customers	136,863	30,732	167,595	122,129	22,910	145,039
	137,008	30,822	167,830	_122,349	_23,009	_145,358

38. Financial Instruments *(continued)*

Liquidity risk

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

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

The Group at 31 December 2003

	Fair value adjustments	Between one and three months	Between three months and one year	Between one and five years	More than five years	Total
	Lm000	Lm000	Lm000	Lm000	Lm000	Lm000
Financial Assets						
Financial assets held for trading:						
- Derivative financial instruments	-	36	8	-	-	44
Investments:						
- Debt and other fixed income financial instruments available for sale	109	-	-	835	807	1,751
- Debt and other fixed income financial instruments held to maturity	-	-	1,167	8,032	13,838	23,037
Loans and advances to banks	-	30,111	6,517	-	-	36,628
Loans and advances to customers - gross	-	32,014	2,108	10,450	14,817	59,389
	109	62,161	9,800	19,317	29,462	120,849
Financial Liabilities						
Financial liabilities held for trading:						
- Derivative financial instruments	-	84	1	-	-	85
Amounts owed to banks	-	150	-	-	-	150
Amounts owed to customers	-	58,422	69,879	39,134	160	167,595
	-	58,656	69,880	39,134	160	167,830

38. Financial Instruments *(continued)*

The Group at 30 September 2002

	Fair value adjustments	Between one and three months	Between three months and one year	Between one and five years	More than five years	Total
	Lm000	Lm000	Lm000	Lm000	Lm000	Lm000
Financial 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 - gross	-	34,924	2,670	8,513	13,930	60,037
	53	52,654	6,287	15,528	31,707	106,229

	Fair value adjustments	Between one and three months	Between three months and one year	Between one and five years	More than five years	Total
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

Derivative financial instruments

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

Fair values

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

i) Investments - Debt and other fixed income instruments held-to-maturity

This category of assets is carried at amortised cost and amounts to Lm23,037,000 as at 31 December 2003. Fair value based on quoted market prices at balance sheet date without any deduction for transaction costs amounts to Lm25,492,000.

38. Financial Instruments *(continued)*

ii) Loans and advances to banks and customers
This category of assets is reported net of impairment allowances to reflect the estimated recoverable amounts. As at 31 December 2003, the Group's carrying amount was Lm93,972,000. The loans and advances to customers category of assets amounts to Lm57,344,000. This carrying value approximates to fair value in the case of loans, which are repriceable at the Bank's discretion. These loans constitute a significant element of the total loan portfolio. The loans and advances to banks category of assets amounts to Lm36,628,000. As at 31 December 2003, 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 Lm167,745,000 as at 31 December 2003. 34.8% of this liability has contractual re-pricing within the "less than three months" band, 41.8% re-prices within the "between three months and one year" band whilst 23.4% is repriceable within the "between one year and five years" band. For demand deposits and deposits maturing within one year, fair value is taken to be the amount payable on demand at balance sheet date. In respect of other longer-term fixed-maturity deposits, these being repriceable upon their contractual maturity date, it is not practicable to determine fair value with sufficient reliability.

Five Year Summary
Profit and Loss Account

The Bank

	01/10/02 to 31/12/03 Lm 000	01/10/01 to 30/09/02 Lm 000	01/10/00 to 30/09/01 Lm 000	01/10/99 to 30/09/00 Lm 000	01/10/98 to 30/09/99 Lm 000
Interest receivable and other income	**10,693**	7,519	7,553	7,402	5,359
Interest payable	**(7,072)**	(4,654)	(5,006)	(5,069)	(3,560)
Net Interest Income	**3,621**	2,865	2,547	2,333	1,799
Other operating income	**1,101**	936	427	1,169	1,096
Other operating charges	**(2,437)**	(1,748)	(1,824)	(1,884)	(1,788)
Net impairment losses	**(102)**	(650)	(30)	(378)	(229)
Profit before Taxation	**2,183**	1,403	1,120	1,240	878
Taxation	**(773)**	(492)	(394)	(435)	(303)
Profit for the Year	**1,410**	911	726	805	575
Earnings per Share	**35c2**	23c1	18c7	22c6	18c9

Five Year Summary
Balance Sheet

The Bank

	31/12/03 **Lm 000**	30/09/02 Lm 000	30/09/01 Lm 000	30/09/00 Lm 000	30/09/99 Lm 000
ASSETS					
Balances with Central Bank of Malta, treasury bills and cash	**60,711**	50,430	13,113	14,059	6,569
Cheques in course of collection	**699**	831	733	1,169	438
Financial assets held for trading	**44**	73	-	-	-
Investments	**25,399**	26,997	27,831	25,977	23,156
Loans and advances to banks	**36,628**	19,641	23,782	36,191	23,504
Loans and advances to customers	**57,347**	58,076	51,284	41,158	34,347
Shares in subsidiary companies	**154**	138	-	-	-
Tangible fixed assets	**1,529**	1,432	1,625	1,765	1,940
Other assets	**886**	920	527	1,052	613
Prepayments and accrued income	**2,238**	1,981	2,880	1,920	667
Total Assets	**185,635**	160,519	121,775	123,291	91,234
LIABILITIES					
Financial liabilities held for trading	**85**	90	-	-	-
Amounts owed to banks	**150**	229	296	1,077	264
Amounts owed to customers	**167,654**	145,070	107,510	108,859	83,297
Other liabilities	**3,866**	2,576	2,312	1,812	855
Accruals and deferred income	**2,000**	2,174	1,872	2,470	1,780
Provision for taxation	**224**	146	267	260	90
Share capital	**2,026**	1,980	1,953	1,932	1,530
Share premium	**4,341**	4,055	3,880	3,709	922
Other reserve	**111**	111	111	111	111
Property revaluation reserve	**126**	126	126	126	102
Investment revaluation reserve	**36**	(57)	-	-	-
Profit and Loss Account	**4,779**	3,762	3,220	2,722	2,130
Dividend reserve	**237**	257	228	213	153
Total Liabilities	**185,635**	160,519	121,775	123,291	91,234
MEMORANDUM ITEMS					
Contingent liabilities	**3,524**	3,416	3,970	2,440	620
Commitments	**17,201**	21,542	16,165	16,230	16,451

Five Year Summary
Cash Flow Statement

The Bank

	01/10/02 to 31/12/03 Lm 000	01/10/01 to 30/09/02 Lm 000	01/10/00 to 30/09/01 Lm 000	01/10/99 to 30/09/00 Lm 000	01/10/98 to 30/09/99 Lm 000
Net Cash from/(used in) Operating Activities	**19,708**	24,977	4,016	(3,633)	8,784
Investing Activities					
- dividends received	**37**	40	36	34	42
- interest received from investment	**2,384**	1,825	1,905	1,764	1,486
- proceeds from maturity/disposal of investments	**2,034**	2,299	3,922	2,745	1,453
- purchase of tangible fixed assets	**(190)**	(21)	(95)	(44)	(406)
- proceeds from sale of tangible fixed assets	**3**	13	3	-	-
- purchase of investment	**(383)**	(1,577)	(5,819)	(5,361)	(3,743)
- purchase of shares issued by subsidiary company	**(15)**	(13)	-	-	-
- payment to acquire subsidiary company	-	(125)	-	-	-
Net Cash from/(used in) Investing Activities	**3,870**	2,441	(48)	(862)	(1,168)
Financing Activities					
- proceeds from issue of share capital	-	-	-	3,040	-
- dividends paid	**(81)**	(26)	(21)	(3)	-
Net Cash (used in)/from Financing Activities	**(81)**	(26)	(21)	3,037	-
Increase/(Decrease) in Cash and Cash Equivalents	**23,497**	27,392	3,947	(1,458)	7,616

Five Year Summary
Accounting Ratios

The Bank

	01/10/02 to 31/12/03 %	01/10/01 to 30/09/02 %	01/10/00 to 30/09/01 %	01/10/99 to 30/09/00 %	01/10/98 to 30/09/99 %
Net interest income and other operating income to total assets	**2.5**	2.4	2.4	2.8	3.2
Operating expenses to total assets	**1.2**	1.1	1.5	1.8	2.2
Profit before tax to total assets	**1.2**	0.9	0.9	1.0	1.0
Profit before tax to equity	**18.7**	13.7	11.8	14.1	17.7
Profit after tax to equity	**12.1**	8.9	7.6	9.1	11.6

	31/12/03	30/09/02	30/09/01	30/09/00	30/09/99
Shares in issue of 50c each (thousands)	**4,052**	3,959	3,905	3,865	3,060
Net assets per share (cents)	**288**	258	244	228	162
Earnings per share (cents)	**35.2**	23.1	18.7	22.6	18.9
Dividend per share (cents)					
- gross	**15.0**	10.0	9.0	8.5	7.7
- net	**9.8**	6.5	5.9	5.5	5.0
Dividend cover	**3.6**	3.5	3.2	3.8	3.8

Solvency Ratio

31 December 2003

	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		60,711	-
Cheques in course of collection		699	140
Financial assets held for trading		44	1
Investments		25,399	1,987
Loans and advances to banks		36,628	7,326
Loans and advances to customers	*(b)*	57,620	51,503
Shares in subsidiary companies		154	154
Tangible fixed assets		1,529	1,529
Deferred tax asset		638	638
Other assets		172	172
Prepayments and accrued income		2,238	1,119
		185,832	64,569
Off-balance sheet assets	*(c)*		
Contingent liabilities and commitments		24,958	-
Total adjusted assets and off-balance sheet items			64,569
Own Funds			
Original own funds	*(d)*		11,634
Additional own funds	*(e)*		434
Gross own funds			12,068
Deductions	*(f)*		-
Total own funds			12,068
Solvency ratio	*(g)*		18.7%

Solvency Ratio
31 December 2003

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.