LOMBARD BANK

Associate CCF Group

HEAD OFFICE, Lombard House,
67, Republic Street, Valletta VLT 05 MALTA.
Tel: 21240442 Fax: 21247442 e-mail: mail@lombardmalta.com
www.lombardmalta.com

Contents

Chairman's Message
to the Members

2001 will be remembered for the traumatic events of the 11th September in New York, which have adversely affected consumer confidence and the business climate on a global scale. They came on the back of a prolonged economic slowdown in most developed countries as well as volatility in the major stockmarkets, which continued their downward trend started in Spring of 2000. As our financial year came to a close amid these circumstances, the extent of future uncertainty likely to follow is yet to be gauged. Since the beginning of the year, major central banks have successively cut interest rates to stimulate economic activity and, as I write, further cuts are anticipated by the United States FOMC where interest rates are already at their lowest for almost half a century.

Against this sombre background, Lombard Bank's financial results for the year ended 30 September, 2001 assume particular significance. Our pre-tax profit of Lm1.12 million is marginally down from last year's record of Lm1.24 million. Underlying this result is a strong operating performance, in the form of a 9% increase in net interest income and a healthy net interest margin. Also, we note with considerable satisfaction that measures to curtail costs have borne results, denoting greater efficiency and better all-round management of resources. What dampened an otherwise fine performance was the significant decline in the value of equity securities quoted on the Malta Stock Exchange, resulting in unfavourable price movements which effectively reversed last year's gains. While it is not expected that the extent of these corrections will be repeated in the new financial year, the investment performance accounted partly for the overall drop in operating income. All other income streams improved on 2000, while the main domestic business indicators, namely customer loans and advances and Maltese Lira deposits, showed consistent growth of 25% and 15%, respectively.

Consequent to the introduction of a Central Bank of Malta Directive on loan provisioning, the Board of Directors has considered it appropriate to absorb a greater proportion of the impact of revised provisions in the current financial year. We believe that the level of provisions adequately reflects the valuation of loans and advances, and is consistent with the Bank's policy of prudent provisioning.

The Board of Directors will be recommending a gross dividend of 9.0 cents per share, an increase of just under 6% on last year. At the Annual General Meeting on 21 December, 2001, a resolution will be presented requesting approval that shareholders be given the option of receiving the dividend either in cash or by the issue of new shares. The Board is encouraged to once again make this recommendation since, judging by the response of recent years, shareholders seem to welcome the opportunity to consolidate their stake in the Bank. The attribution price, which is calculated consistently with previous years, works out at Lm3.705. In last year's message I had stated that when considering our dividend policy we ensure that, whilst identifying opportunities for re-investment and profit retention in the Bank, we need to be mindful of the preferences of those shareholders who look for sustained payouts. This year's dividend decision is prompted by the further consideration of prospecting optimism about the future.

It is the duty of the Board and that of Management to see that your equity in the Bank continues to offer scope for value enhancement, and we achieve this by ensuring that the Bank's fundamentals remain sound. At 11.8%, pre-tax return on equity is strong and net assets per share work out at Lm2.44. It is our business to ensure that these sound fundamentals are maintained, as they form the bedrock for future value accretion. Although Lombard shares tended to follow the general direction of the Malta Stock Exchange index during 2001, I am pleased to note that, overall, they out-performed the financial services sector on the official listing. Trading activity in Lombard shares remains thin, an indication that they continue to be closely held - perhaps a gratifying expression of trust in our ability to generate yet more value in the future.

Most importantly, the Bank's performance in 2001 has confirmed, indeed vindicated, that our strategy of pursuing business selectively and delivering high value services is the right one, and best suited to minimise the downside in the current economic climate.

My fellow Board members join me in thanking our customers and you, our shareholders, for the confidence you have placed in Lombard Bank. It is when such encouraging results are achieved in difficult and turbulent market conditions that the judicious decisions of the Management and the diligent performance of the Staff deserve special mention. We extend to them our warmest appreciation for their valuable contribution to the continued development and success of the Bank.

Christian Lemmerich
Chairman

Directors' Report
30 September 2001

The Directors present their report for the year ended 30 September 2001. The report is prepared in terms of section 177 of the Companies Act, 1995 and complies with the disclosure requirements of the Sixth Schedule to the same Act.

Directors

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

Joseph R. Darmanin
Joseph M Demajo
Karl Gollcher F.C.C.A., C.P.A. *(retired 21 December 2000)*
Christian Lemmerich (Chairman)
Norman P. Mifsud
Joseph Said F.C.I.B. *(appointed 21 December 2000)*
Joseph G. Vassallo Dip. Pol. Econ. (Oxon)
Michael Zammit

K. M. Gollcher and N. P. Mifsud retired by rotation on 21 December 2000. K. M. Gollcher did not seek re-election. N. P. Mifsud, who offered himself for re-election, and J. Said were elected during the Annual General Meeting on the same date.

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

Results for the Year

	2001	**2000**
	Lm 000	Lm 000
Profit after income tax	**726**	805
Proposed dividend, net of income tax	**(228)**	(213)
Retained balance for transfer to profit & loss account	**498**	592

The gross dividend recommendation is 9c0 per share (2000 - 8c5). The Board of Directors will recommend that shareholders be given the option of receiving the dividend either in the form of cash or by the issue of new shares, and a resolution to that effect will be proposed to the Annual General Meeting of shareholders.

Principal Activities

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

Directors' Report
30 September 2001

Board Committees

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.

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. During the year under review, the Board also appointed an Audit Committee and established its terms of reference. All Board Committees met regularly according to the frequency established by their terms of reference.

Corporate Governance

The Board of Directors adopts a policy of clear demarcation between its role and responsibilities and that of Management. Accountability for the Bank's day-to-day business is vested in a Management team headed by the Chief Executive Officer. This method of governance has enabled the directors to exercise a more independent policy making and monitoring function, and Management to run the Bank with greater efficiency and effectiveness. As awareness of the importance of sound governance practices in listed public limited companies has continued to increase, the Board of Directors notes with satisfaction that its established procedures continue to yield the desired results.

Corporate Strategy

During the year, Management continued to pursue a strategy which focuses on private clients, corporate and international business. The underlying motivation for this strategy is as follows:

a. it does not require size and huge resources to secure a business advantage, and the market is large and promises considerable profit opportunities, whereas retail banking business has become highly competitive and expensive to run unless economies of scale can be achieved;

b. the Bank aims to achieve a unique market position differentiated by an emphasis on high quality service and standards of delivery, and which considers price differentiation tactics as an important strategic driver; and

c. this strategy requires a cohesive organisational framework built on communication, professionalism, a positive culture and teamwork, at the same time ensuring that those with a stake in the Bank are equitably rewarded for their commitment and contribution.

Performance of Share Price

The downward trend in equity prices on the main overseas investment markets was largely reflected in the Maltese market. All equity shares listed on the Malta Stock Exchange (MSE) experienced significant downward corrections during the year under review. Lombard Bank shares traded between a low of Lm3.679 and a high of Lm5.000 during the financial year 2001. At 30 September

2001 the price of the Bank's shares stood at Lm4.000. The year under review saw the first full period of operation of the Trade-Weighted Average Moving Price (TWAMP) mechanism in dealings on the MSE. Overall, Lombard Bank shares over-performed the financial services companies sector on the MSE official listing.

Retail Banking

The branch network engages in retail and commercial banking services for personal customers, small and medium-sized business undertakings. Despite the strong competition in the provision of retail banking services, Lombard Bank increased its activity across the range of banking products.

The process of customer segmentation continued in earnest, the objective being that of providing a more personalised financial services product to private and high net worth clients. This has resulted in increased efficiencies and greater focus on more profitable business. In this connection, after careful evaluation of customer demands and business trends, it was decided to widen the span of business hours to come more in line with banking hours in major European international financial centres.

Corporate Banking

The growth of recent years has provided the platform for the Bank to entertain larger exposures and thus raise its profile more prominently in the corporate banking sector. The Bank aims to excel in providing a comprehensive service to its corporate customers, and has become well-known for going beyond its call of business and extending its contacts, experience and advice to its borrowers. In this connection, the Bank has been successful in advising a number of its customers on various aspects of restructuring, re-engineering and business organisation.

Investment Services

The Bank continues to provide a wide range of services in both locally and overseas-quoted instruments. In particular, the Bank's investments division was active as intermediary for various initial public offerings on the Maltese capital market during the financial year under review. The Bank is also authorised to introduce deals on the MSE secondary market. The Bank is the appointed representative in Malta for the Lazard Asset Management range of investment funds. Investment sentiment was subdued throughout the year and the outlook towards the year-end was not any more optimistic, as heightened political and economic uncertainty in the major economies continued to increase volatility in the markets. For the future, the Bank plans to expand its activities into stockbroking services.

Risk Management

Risk is monitored and systematically managed across the whole spectrum of the Bank's activities. The Asset-Liability Committee manages the Bank's investment policy. Credit risk is reviewed actively by the Credit Committee. 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.

Directors' Report
30 September 2001

The Bank submits comprehensive reporting to the Central Bank of Malta in accordance with its requirements under the Banking Act 1994. Onsite examination of the Bank's activities is performed by the Central Bank of Malta and the Malta Financial Services Centre in terms of regulatory functions.

Information Technology

2001 has been a year of consolidation for projects in the area of BankMaster, the Bank's core banking software. Apart from major updates to the Extended Retail Lending Module being completed, IT staff tested and released a comprehensive range of new Branchpower transactions. Adjustment to the banking software and hardware environment is now firmly in place. Real time networking has permitted all offices to be integrated ensuring simultaneous access to data for all users. This permitted a uniform basis for decision-making throughout the Bank. In-house training programmes, aimed at improving knowledge and proficiency of systems, were devised and delivered to a wide spectrum of bank staff during the year.

An intra-Bank electronic mail network was implemented during the year and this now permits faster and more effective communication throughout the organisation. During the year, the Bank invested in an off-site back-up data processing set-up, which includes full redundancy of servers and communication links. The back-up site offers full disaster recovery and contingency planning facilities. Other back-up and off-site storage procedures were also upgraded.
The coming year will see the start of a transition of the Bank's core system to BankMaster Release 7, a major upgrade to the present software which should result in enhancements to various customer functionalities.

Staff Welfare

In December 2000 the Bank concluded and signed a new collective agreement with the Malta Union of Bank Employees. The agreement, which covers the 3-year period from 1999 to 2001, includes a number of improvements and enhanced benefits for staff. During the year, the programme of in-house training was intensive and ongoing. These initiatives stemmed from the Bank's commitment to further increase the skill and expertise of staff. A number of staff attended educational seminars and professional courses from time to time.

The weekly average number of persons employed by the Bank decreased by 6 to 121.

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 – as well as a number of other philanthropic organisations.

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

During the year ended 30 September 2001, no shares in the Bank were:

Directors' Report
30 September 2001

(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; and
(c) made subject to pledge or other privileges, to a hypothec or to any other charge in favour of the Bank.

Other than as shown in the above 'Results for the Year', the Bank's capital was increased by the issue of 40,486 ordinary shares of Lm0.50 each, as fully paid bonus shares, after a resolution to that effect was approved by the Annual General Meeting on 21 December 2000.

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 2002

The financial year under review came to a close amid the most uncertain of global economic scenarios for years. Sliding equity indices on most stock exchanges coupled by clear signs of economic slowdown in the major economies were exacerbated by the disturbing terrorist events in America which, apart from the human tragedy which they represented, raised global economic uncertainty to unprecedented levels. Against this background, it is unavoidable for the Maltese economic climate, already characterised in 2001 by mixed signals coming from a deceleration in growth of manufactured exports, broad improvement in tourism and a marginal decline in domestic consumption, to be affected.

For the coming year, Lombard Bank will aim to consolidate its position as a boutique provider of financial services and products. This will be achieved through ongoing restructuring of its core operations, differentiation of mainline banking business and a concerted focus on private client business. The Bank's results for 2001 mark a strong operating performance and reflect a sound underlying business as well as a high quality customer base. The Board is confident that these fundamentals will continue to form the bedrock for future, sustained growth in earnings and shareholder value.

Approved by the Board of Directors on 8 November 2001 and signed on its behalf by

Christian Lemmerich	**Norman P. Mifsud**
Chairman	Director

Review
of Financial Performance

Lombard Bank registered a pre-tax profit of Lm1,120,000 for the financial year ended 30 September, 2001 (2000 – Lm1,240,000). The following commentary analyses the results in the context of the Bank's market environment and compares with the previous year's performance.

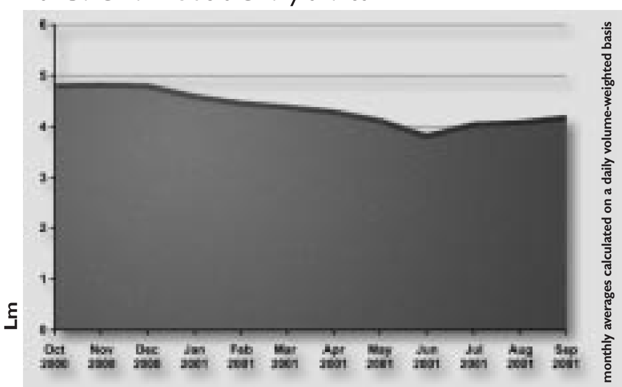
Income Statement

Net interest income increased by 9%. While interest revenue increased by 2% in absolute terms, interest payable dropped by the same percentage. The average cost of funding interest bearing liabilities decreased from 4.9% to 4.8% whereas the average return on interest earning assets maintained last year's level of 6.6%. Despite the tight lending conditions and generally declining interest rates – which tended to intensify competition for loan pricing – the Bank strengthened its net interest margin (its net share of interest based revenues) from 31.5% to 33.7%, one of the most robust margins in the market. During the year under review, the Bank stepped up the use of higher-yielding treasury bills as a short-term money market instrument, and for reserve management purposes. Interest receivable on loans and advances to customers increased by 13%, while interest on bank balances – in large part with overseas credit institutions, and in currency – fell by 14%, corresponding with the lower average bank balances. Declining interest rate conditions further encouraged customers to seek improved price terms for their borrowings. The Bank continued with its policy of competitive segmentation in the deposit market. With its deposit rate offer remaining the most competitive in the market, the Bank was generally in a position to avoid competing for funds at higher rates. Consequently, interest payable decreased in absolute as well as average cost terms.

Expenditure was kept marginally down on 2000. While staff costs increased by 5%, other administrative overheads were reduced by 10%. This is a most commendable performance, by far a significant improvement, and follows on the progress of recent years. Depreciation is down by 9%, largely to be expected as the depreciable investment of recent years in premises, equipment and technology has started to leave its written-down effect. The cost (administrative expenses and depreciation) to operating income ratio is up from last year's 53% to 61%, a direct consequence of the contracted income base and not because of increased overheads or inefficiencies.

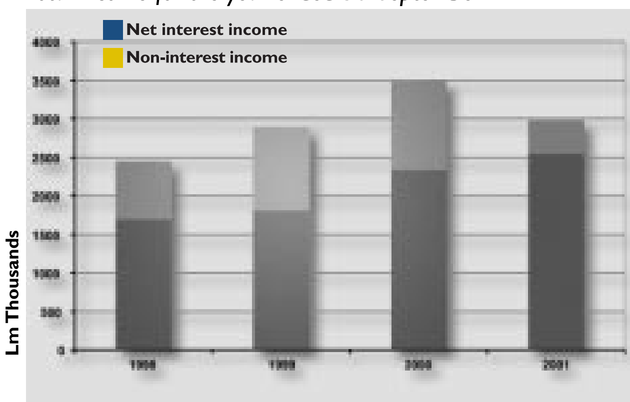
Overall, net interest income made up 85% of gross operating income, the balance being non-interest income in the form of fees, commissions, dividend income and dealing results.

Lombard Bank 50c ordinary shares



Review
of Financial Performance

Total income for the year ended 30 September



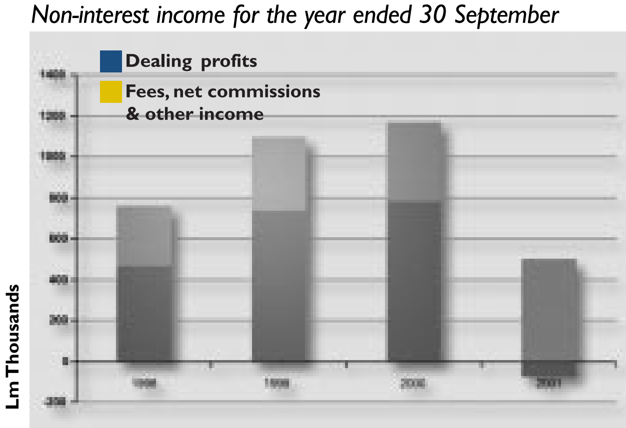
Performance of Securities Portfolio

A significant drag on the Bank's performance has been the overall dealing result on currency and securities trading and positions. While profit on foreign exchange activities declined marginally by 3% on 2000, a significant downward correction in the value of equity securities quoted on the Malta Stock Exchange – which prolonged throughout the financial year – completely reversed the favourable results of last year. Since no disposals of dealing securities took place, there was no repeat of last year's realised gains of Lm228,000; moreover, 2000's book gains of Lm249,000 turned into book losses of Lm367,000. In total, a decline of Lm844,000 in dealing gains which impacted directly on the Bank's profit performance. It should be noted that these accounting results arise from the Bank's policy of valuing dealing shares and securities at market price, reflecting changes in market values in dealing profits or losses. On the other hand, the Bank holds quoted Malta Government securities intended for investment on a continuing basis and valued at amortised cost less any decline other than temporary which, at the end of the financial year, carried a surplus of market value over cost of almost Lm800,000. Whilst so far, these valuation surpluses have not been accounted to profit, the introduction of International Accounting Standard (IAS) 39 for the financial year ending September 2002 may be expected to impact on the valuation of these financial instruments.

Fund Raising Activities

Customer deposits contracted marginally by 1% to Lm108 million. While Maltese Lira balances increased by 15%, foreign currency deposits dropped by 31%. The main reason for this contraction was the presence at the beginning of the year of large offshore corporate deposits which, by their nature, tend to be volatile and of short duration. Although these deposits leave their mark on the balance sheet, their effect on profitability is insignificant since they turn on very narrow spreads. Moreover, the Bank has for some years been promoting fiduciary deposits to non-resident customers, and these large transactions are reflected off the balance sheet. The growth in Maltese Lira deposits continued to follow from the Bank's competitive pricing strategy, based on careful market segmentation. The increases were across the range of current accounts, savings and time deposits.

Non-interest income for the year ended 30 September

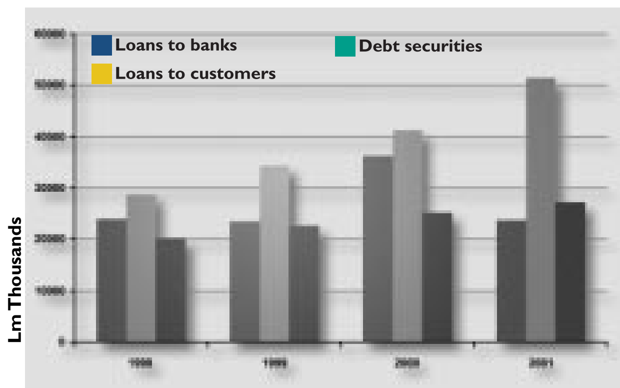


Review of Financial Performance

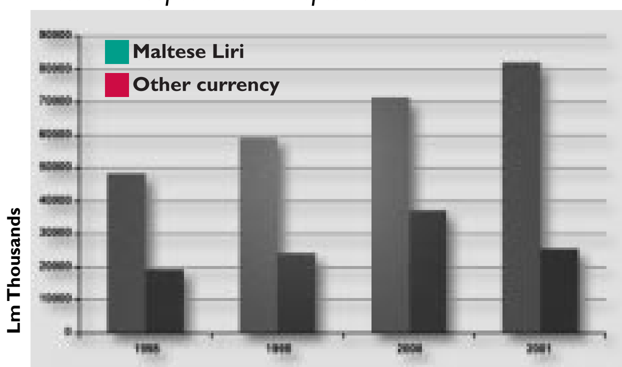
MONEY AND FIXED-INCOME MARKET ACTIVITY

Liquidity in the banking market continued generally high during the year under review. The Bank manages its liquidity position by means of reserve deposit equalisation, short-term treasury paper and inter-bank transactions. During the year, Lombard Bank was active in both the primary and secondary Treasury Bill market, and the holding of T-bill paper increased further on 2000, to over Lm9 million. Malta Government Bonds held for investment purposes increased by 7% to Lm25.5 million. As noted above, the market value of these securities exceeds book value by Lm0.8 million (2000 – Lm1.1 million). Foreign government bonds were redeemed on maturity, however no new investments were effected. 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. The amount of loans and advances to banks decreased relatively in the same proportion as the decrease in customers' foreign currency accounts. During the year, there were no noticeable changes in money market interest rates except

Asset allocation at 30 September



Customers' deposits at 30 September



for the 3-month T-bill rate which, in response to the Treasury's demand for funds, edged marginally upwards in June. Government bond yields across all maturities remained relatively stable during most of the year under review.

CREDIT OPERATIONS AND LOAN LOSS PROVISIONS

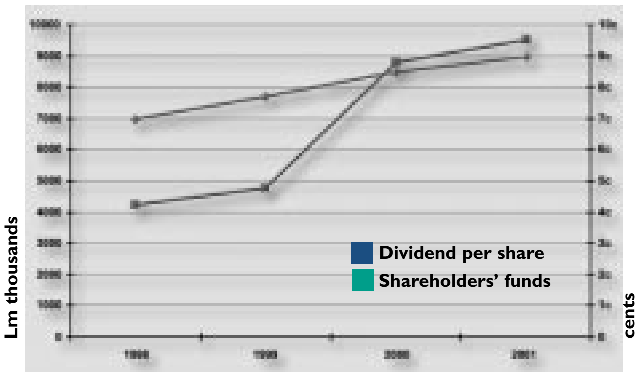
Gross loans and advances to customers increased by 24% to Lm53 million. The loan book remained diversified, with the largest sector, wholesale and retail, accounting for no more than 17% of total loans and advances. The next largest areas of credit activity are the personal and other services sectors, with 14% each. Following the trend of recent years, and in line with the Bank's strategy, private client lending – mainly classified under the "all others" industry category – continued to show steady progress. At Lm16 million, commitments to lend remained at the level of the previous two years. Guarantee obligations on behalf of customers amounted to Lm4 million.

During the year under review, the method of loan provisioning was revised to conform with the requirements of a new

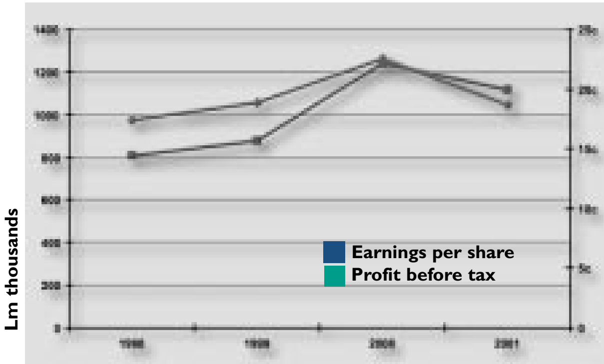
Review
of Financial Performance

Central Bank of Malta Directive. The Directive is intended to ensure uniform provisioning policies among banks and, amongst its main features, it requires interest to be suspended earlier on past due accounts and takes into account the extendible value of collateral backing loans and advances. It also allows for the impact of the revised policies to be absorbed over a period of 3 financial years. Consistent with its policy of prudent provisioning, the Bank opted to absorb 50% of the impact during 2001. The ratio of loan loss provisions (general and specific) to gross loans and advances declined from last year's 2.6% to 2.1%, an indicator of the quality of the loan book and security held – largely resulting from a reduction in general provision. Allowing for the inclusion of suspended interest, the ratio increases to 2.9% (2000 – 3.0%). It is possible that during the 2002 financial year the provisioning policy will change again, this time to reflect the accounting measurement principles and requirements of IAS 39. The Bank is committed to ensure that its provisioning policies represent at all times a prudent estimate of loss in the Bank's loans and advances portfolio.

Shareholders' funds and Dividends



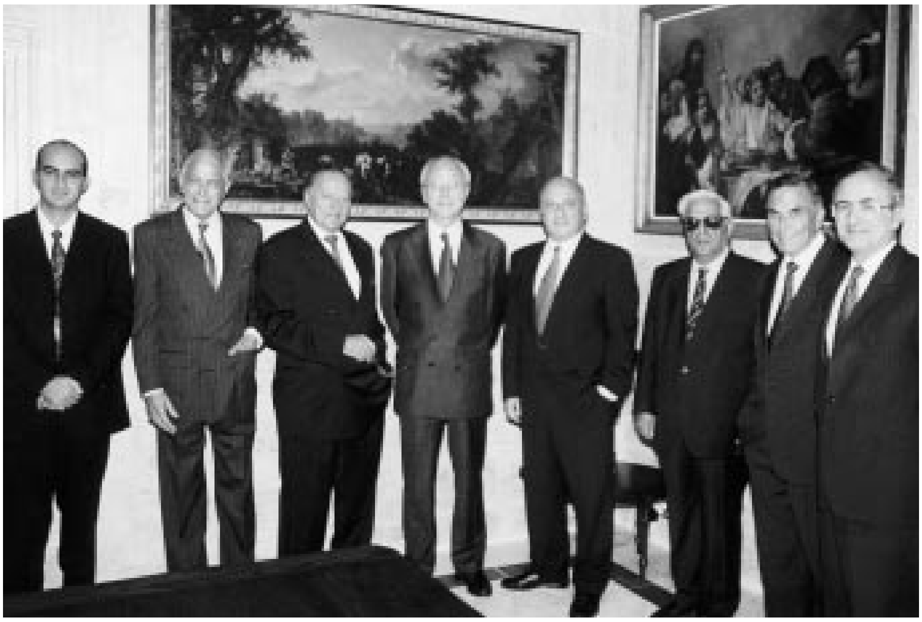
Profit before tax and Earnings performance



Profitability and Own Funds

Shareholders' funds at the end of September totalled Lm9.5 million, an increase of 8% on 2000. Return on shareholders funds (ROE) decreased from 14% to 12% on a pre-tax basis. At 0.9%, return on assets (ROA) is slightly down on last year's 1.0%. With total statutory own funds of Lm9.9 million and a solvency ratio of 19%, the Bank comfortably exceeds the minimum regulatory ratio of 8% as established by the Banking Directives. The higher level of own funds also raises the Bank's ability to potentially take on larger credit exposures in its books. The dividend for 2001 is being increased from 8.5 cents to 9.0 cents per share gross of income tax. This represents a slightly higher payout ratio of 31% (2000 – 26%), and the Board of Directors will once again be recommending to the Annual General Meeting that shareholders be given the option of receiving the dividend either in cash or by the issue of new shares. If this recommendation is approved it could result in further undistributed profits, and net asset value per share (based on a full dividend reserve) could increase up to 244 cents (2000 – 228 cents) per share. The Bank's earnings are at 18.7 cents per share, down from the previous year's 22.6 cents.

Board of Directors
and Senior Management



Directors

Christian Lemmerich (Chairman)

Joseph R. Darmanin

Joseph M. Demajo

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

Joseph Said F.C.I.B.

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

Michael Zammit

Company Secretary

Graham A. Fairclough F.C.I.B

Chief Executive Officer

Joseph Said F.C.I.B.

General Managers

Graham A. Fairclough F.C.I.B

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

Assistant General Managers

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

Anthony Bezzina A.C.I.B.

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

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

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

LOMBARD BANK

FINANCIAL RESULTS

for the year ended 30 September

2001

Statement of Directors' Responsibilities

30 September 2001

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 as at the end of the financial year and of the profit or loss of the Bank for that year.

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

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

• 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 to enable them to ensure that the financial statements have been property prepared in accordance with the Companies Act, 1995 and the Banking Act, 1994. They are also responsible for safeguarding the assets of the Bank and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

We have audited the financial statements set out on pages 16 to 40. As described on page 14, the financial statements are the responsibility of the Bank's directors. Our responsibility is to express an opinion on these financial statements based on our audit. We are also required to report whether we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purpose of our audit, whether in our opinion proper books of account have been kept by the Bank so far as appears from our examination thereof and whether the financial statements are in agreement with the books.

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

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

In our opinion, the financial statements give a true and fair view of the state of affairs of the Bank as at 30 September 2001 and of its profit, changes in equity and cash flows for the year then ended in accordance with International Accounting Standards, and have been properly prepared in accordance with the Companies Act, 1995 and the Banking Act, 1994.

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

KPMG
Certified Public Accountants and Auditors
Pietà, Malta

8 November 2001

Profit and Loss Account

For the year ended 30 September 2001

	Note	**2001** Lm 000	2000 Lm 000
Interest receivable and similar income			
- on loans, advances and balances with Central Bank of Malta	3	**5,502**	5,555
- on debt securities	3	**2,051**	1,847
Interest payable	4	**(5,006)**	(5,069)
Net interest income		**2,547**	2,333
Dividend income	5	**36**	35
Fees and commissions receivable		**352**	348
Fees and commissions payable		**(14)**	(11)
Dealing (losses)/profits	6	**(74)**	781
Other operating income	7	**127**	16
Operating income		**2,974**	3,502
Administrative expenses	8	**(1,585)**	(1,589)
Depreciation		**(233)**	(255)
Other operating charges		**(6)**	(40)
Provision for bad and doubtful debts	9	**(287)**	(384)
Adjustments to provision for bad and doubtful debts	10	**257**	6
Profit on ordinary activities before taxation	11	**1,120**	1,240
Tax on profit on ordinary activities	12	**(394)**	(435)
Profit for the year		**726**	805
Earnings per share	13	**18c7**	22c6

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 40.

Balance Sheet

At 30 September 2001

	Note	2001 Lm 000	2000 Lm 000
ASSETS			
Cash and balances with Central Bank of Malta	15	**646**	829
Reserve deposit with Central Bank of Malta	16	**3,293**	5,844
Cheques in course of collection		**733**	1,169
Treasury bills	17	**9,174**	7,386
Loans and advances to banks	18	**23,782**	36,191
Loans and advances to customers	19	**51,284**	41,158
Debt securities	21	**27,198**	25,204
Equity shares	22	**633**	773
Tangible fixed assets	23	**1,625**	1,765
Other assets	24	**527**	1,052
Prepayments and accrued income	25	**2,880**	1,920
Total assets		**121,775**	123,291
LIABILITIES			
Amounts owed to banks	26	**296**	1,077
Amounts owed to customers	27	**107,510**	108,859
Other liabilities	28	**2,312**	1,812
Accruals and deferred income	29	**1,872**	2,470
Provision for taxation		**267**	260
		112,257	114,478
SHAREHOLDERS' FUNDS			
Called up issued share capital	30	**1,953**	1,932
Share premium	31	**3,880**	3,709
Other reserve	31	**111**	111
Revaluation reserve	31	**126**	126
Profit and loss account		**3,220**	2,722
Dividend reserve		**228**	213
		9,518	8,813
Total liabilities		**121,775**	123,291
MEMORANDUM ITEMS			
Contingent liabilities	32	**3,970**	2,440
Commitments	33	**16,165**	16,230

The balance sheet is to be read in conjunction with the notes to and forming part of the financial statements set out in pages 21 to 40.
The financial statements on pages 16 to 40 were approved by the Board of Directors on 8 November 2001 and were signed on its behalf by:

Christian Lemmerich
Chairman

Norman P. Mifsud
Director

Statement of Changes in Equity

For the year ended 30 September 2001

	Note	Total	Share Capital	Share Premium	Other Reserve	Revaluation Reserve	Profit and Loss Account	Dividend Reserve
		Lm 000	Lm 000	Lm 000	Lm 000	Lm 000	Lm 000	Lm 000
At 1 October 1999		4,948	1,530	922	111	102	2,130	153
Surplus on revaluation of freehold property		36	-	-	-	36	-	-
Effect of deferred tax on revaluation of freehold property		(12)	-	-	-	(12)	-	-
Ordinary shares issued in lieu of dividends		-	20	129	-	-	-	(149)
Dividends payable		(4)	-	-	-	-	-	(4)
Issue of shares		3,040	382	2,658	-	-	-	-
Profit for the year		805	-	-	-	-	805	-
Dividends, net of income tax		-	-	-	-	-	(213)	213
At 30 September 2000		8,813	1,932	3,709	111	126	2,722	213
Ordinary shares issued in lieu of dividends	30	-	21	171	-	-	-	(192)
Dividends paid		(21)	-	-	-	-	-	(21)
Profit for the year		726	-	-	-	-	726	-
Dividends, net of income tax	14	-	-	-	-	-	(228)	228
At 30 September 2001		9,518	1,953	3,880	111	126	3,220	228

The statement of changes in equity is to be read in conjunction with the notes to and forming part of the financial statements set out in pages 21 to 40.

Cash Flow Statement

For the year ended 30 September 2001

	Note	2001 Lm 000	2000 Lm 000
Cash flows from operating activities			
Interest and commission receipts		**5,365**	5,093
Interest and commission payments		**(5,546)**	(4,456)
Payments to employees and suppliers		**(1,670)**	(1,526)
Operating loss before changes in operating assets		**(1,851)**	(889)
Decrease/(increase) in operating assets:			
Non-investment securities		**(220)**	236
Reserve deposit with Central Bank of Malta		**2,551**	(1,741)
Loans and advances to customers and banks		**5,066**	(26,311)
Other receivables		**(128)**	(1,068)
(Decrease)/increase in operating liabilities:			
Amounts owed to customers		**(1,348)**	25,561
Other payables		**495**	959
Net cash from/(absorbed by) operating activities before income tax		**4,565**	(3,253)
Tax paid		**(549)**	(380)
Net cash from/(used in) operating activities		**4,016**	(3,633)
Cash flows from investing activities			
Dividends received		**36**	34
Interest income from investment securities		**1,905**	1,764
Proceeds from maturity/sale of investment securities		**3,922**	2,745
Proceeds from disposal of tangible fixed assets		**3**	-
Purchase of investment securities		**(5,819)**	(5,361)
Purchase of property, plant and equipment		**(95)**	(44)
Net cash flows used in investing activities		**(48)**	(862)
Cash flows from financing activities			
Proceeds from issue of share capital		**-**	3,040
Dividends paid		**(21)**	(3)
Net cash (used in)/from financing activities		**(21)**	3,037

Cash Flow Statement

For the year ended 30 September 2001

	Note	2001 Lm 000	2000 Lm 000
Net increase/(decrease) in cash and cash equivalents		3,947	(1,458)
Cash and cash equivalents at beginning of year		24,248	25,706
Cash and cash equivalents at end of year	34	28,195	24,248

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 40.

Notes to the Financial Statements

30 September 2001

1. Basis of Preparation

The format of the financial statements conforms with the Banking Directive on the publication of audited financial statements of credit institutions authorised under the Banking Act, 1994 issued by the Central Bank of Malta.

The financial statements have been prepared under the historical cost convention, as modified by the revaluation of freehold property and certain investments, and in accordance with the requirements of International Accounting Standards and the Companies Act, 1995.

2. Significant Accounting Policies

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

a) Revenue Recognition
Interest income is recognised in the profit and loss account as it accrues, except in the case of doubtful debts (see note 2(b).

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 on equity shares is accounted for when the right to receive dividend income is established.

b) Loans and Advances and Doubtful Debts
Loans and advances are stated after deduction of amounts, which, in the opinion of the directors, are required as specific and general provisions. Specific provisions have been made in respect of all identified impaired advances relating to individual banking relationships. The general provision is maintained in respect of losses which, although not yet specifically identified, are known from experience to be present and are inherent in any portfolio of bank loans and advances.

The aggregate provisions which are made during the year are charged against profit before income tax while amounts realised and recoveries of debts previously written off are added to profit. Interest on doubtful loans and advances is not credited to profit but carried forward as suspended interest. Bad debts are written off in whole or in part when the extent of the loss incurred has been confirmed and, where appropriate, are then removed from the amount included in specific provision.

c) Debt securities and equity shares
Shares and securities intended for use on a continuing basis in the Bank's activities are classified as investment securities. Such shares and securities are stated at cost less provision for any declines other than temporary in value. In the case of investment securities redeemable on or before a given date and not subject to abnormal risk of default, the cost is adjusted for the amortisation of premiums and discounts on a straight-line basis over the period to maturity. The amortisation of premiums or discounts is included in interest income.

Dealing shares and securities are valued at market price. Changes in the market value of dealing shares and securities are included in dealing profits.

Notes to the Financial Statements

30 September 2001

d) 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 profit and loss account thereafter.

e) Taxation

Tax on the profit for the year comprises current tax and the change in deferred tax. Current tax comprises tax payable calculated on the basis of the expected taxable income for the year, using the tax rates enacted by the balance sheet date, and any adjustments of tax payable for previous years. Deferred taxes is provided using the balance sheet liability method on all temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes, except for the initial recognition of assets or liabilities which affect neither accounting nor taxable profit.

The tax value of losses expected to be available for utilisation against future taxable income is set off against the deferred tax liability within the same legal tax unit and jurisdiction. Net deferred tax assets are reduced to the extent that is no longer probable that the related tax benefit will be realised.Deferred tax is calculated on the basis of the tax rates that are expected to apply to the period when the asset is realised or the liability is settled. The effect on deferred tax of any changes in tax rates is charged to the profit and loss account, except to the extent that it relates to items previously charged or credited directly to equity.

The amount of deferred income taxes on these differences is determined by using the rate of local income tax applicable at balance sheet date.

f) Employee Benefits

The Bank contributes towards the State pension in accordance with local legislation. Related costs are expensed in the period in which these are incurred.

g) Foreign Currencies

Transactions denominated in foreign currencies are converted into Maltese Lira at the rates of exchange ruling on the dates of the transactions. Monetary assets and liabilities expressed in foreign currencies are translated at the rates of exchange prevailing at balance sheet date. Resulting exchange differences are recognised as income or expense in the period in which these arise.

h) 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.

Notes to the Financial Statements

30 September 2001

3. Interest Receivable and Similar Income

	2001 Lm 000	2000 Lm 000
On loans and advances to banks	1,723	2,048
On loans and advances to customers	3,625	3,194
On balances with Central Bank of Malta	154	313
	5,502	5,555
On debt securities	1,824	1,566
Amortisation of discounts and premiums:		
- debt securities	(9)	(2)
- treasury bills	236	283
	2,051	1,847
	7,553	7,402

4. Interest Payable

	2001 Lm 000	2000 Lm 000
On amounts owed to banks	31	10
On amounts owed to customers	4,975	5,059
	5,006	5,069

5. Dividend Income	2001	2000
	Lm 000	Lm 000
From equity shares	36	35

6. Dealing (Losses)/Profits

	2001 Lm 000	2000 Lm 000
Profit on foreign exchange activities	**293**	304
Price movements on dealing securities	**(367)**	249
Net gains on sale of securities	**-**	228
	(74)	781

7. Other Operating Income

	2001 Lm 000	2000 Lm 000
Gains on disposal of investment securities	**111**	-
Other income	**16**	16
	127	16

8. Administrative Expenses

	2001 Lm 000	2000 Lm 000
Staff costs		
- wages, salaries and allowances	**946**	889
- social security costs	**62**	65
Other administrative expenses	**577**	635
	1,585	1,589

The weekly average number of persons employed by the Bank during the year was as follows:

	No.	No.
Executive and senior managerial	**8**	9
Other managerial, supervisory and clerical	**102**	106
Others	**11**	12
	121	127

9. Provision for Bad and Doubtful Debts

	2001 Lm 000	2000 Lm 000
Increase in specific provision	287	105
Increase in general provision	-	277
Bad debts written off	-	2
	287	384

10. Adjustments to Provision for Bad and Doubtful Debts

	2001 Lm 000	2000 Lm 000
Decrease in specific provision	219	6
Decrease in general provision	38	-
	257	6

11. Profit on Ordinary Activities Before Taxation

	2001 Lm 000	2000 Lm 000
Profit before taxation is stated after charging:		
Auditors' remuneration	6	6
Directors' emoluments		
- fees	14	7
- other emoluments	23	7
	37	14

12.Tax on Profit on Ordinary Activities

	2001 Lm 000	2000 Lm 000
Current tax expense – income tax at 35% on the taxable income for the year	557	550
Net deferred tax movement relating to the origination and reversal of temporary differences	(163)	(115)
	394	435

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

	2001 Lm 000	2000 Lm 000
Profit on ordinary activities before taxation	1,120	1,240
Tax at the applicable rate at 35%	392	434
Tax effect of non-taxable income	(7)	(7)
Tax effect of depreciation charges not deductible by way of capital allowances in determining taxable income	6	7
Tax effect of expenses that are not deductible in determining taxable income	3	1
Tax on profit on ordinary activities	394	435

13.Earnings Per Share

Earnings per share is calculated on the profit after taxation of Lm726,000 (2000: Lm805,000) divided by 3,892,200 (2000: 3,555,956), being the weighted average number of shares in issue during the year.

14. Dividends

	2001	2000	**2001**	2000
	%	%	**Lm 000**	Lm 000
Gross of income tax				
Proposed final	**18**	17	**351**	328

	Cents per Share	Cents per Share	**Lm 000**	Lm 000
Net of income tax				
Proposed final	**5.9**	5.5	**228**	213

15. Cash and Balances with Central Bank of Malta

	2001	2000
	Lm 000	Lm 000
Cash in hand	**646**	537
Balances with Central Bank of Malta	**-**	292
	646	829

16. Reserve Deposit with Central Bank of Malta

This consists of a reserve deposit held with the Central Bank of Malta in terms of Section 37 of the Central Bank of Malta Act, Cap 204.

17. Treasury Bills

	2001	2000
	Lm 000	Lm 000
Cost and market value		
Malta Government Treasury Bills held for investment purposes	**9,174**	7,386

18. Loans and Advances to Banks

	2001 Lm 000	2000 Lm 000
Repayable on call and at short notice	**3,717**	2,182
Term loans and advances	**20,065**	34,009
	23,782	36,191
Remaining maturity of term loans and advances		
- five years or less but over one year	**372**	460
- one year or less but over three months	**1,512**	13,148
- three months or less	**18,181**	20,401
	20,065	34,009
By currency		
- Maltese Lira	**20**	126
- foreign	**23,762**	36,065
	23,782	36,191

19. Loans and Advances to Customers

	2001 Lm 000	2000 Lm 000
Repayable on call and at short notice	**27,630**	22,287
Term loans and advances	**25,165**	20,139
	52,795	42,426
Less:		
Provision for bad and doubtful debts	**(1,118)**	(1,088)
Interest in suspense	**(393)**	(180)
	51,284	41,158

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

	2001 Lm 000	2000 Lm 000
Remaining maturity of term loans and advances		
- over five years	**1,418**	1,259
- five years or less but over one year	**3,314**	3,829
- one year or less but over three months	**12,365**	9,256
- three months or less	**8,068**	5,795
	25,165	20,139
Provision for bad and doubtful debts		
- Specific	**569**	501
- General	**549**	587
	1,118	1,088
By currency		
- Maltese Lira	**51,113**	41,565
- foreign	**1,682**	861
	52,795	42,426

The aggregate amount of advances, gross of provisions, on which interest is suspended amounted to Lm5,301,000 (2000: Lm681,000), against which Lm962,000 (2000: Lm681,000) is being provided for as specific provision and interest in suspense after taking into account the extendible value of the security backing such loans and advances.

20. Concentration of Loans and Advances

The following industry concentrations, gross of provisions, are considered significant:

	2001		2000	
	Lm 000	**%**	Lm 000	%
Energy and water	**2,025**	**3.8**	2,093	4.9
Transport, storage and communications	**644**	**1.2**	190	0.4
Financial institutions	**63**	**0.1**	200	0.5
Agriculture and fisheries	**125**	**0.2**	136	0.3
Manufacturing	**4,445**	**8.4**	3,715	8.8
Building and construction	**4,768**	**9.0**	2,451	5.8
Hotel, restaurant and tourist trade	**3,341**	**6.3**	3,761	8.9
Wholesale and retail trade	**9,238**	**17.5**	6,288	14.8
Personal	**7,231**	**13.8**	8,616	20.3
Other services	**7,261**	**13.8**	4,117	9.7
All others	**13,654**	**25.9**	10,859	25.6
	52,795	**100.0**	42,426	100.0

21. Debt Securities

	2001		2000	
	Balance Sheet Lm 000	**Market Value Lm 000**	Balance Sheet Lm 000	Market Value Lm 000
Issued by public bodies				
Investment securities				
-local government	**25,556**	**26,334**	23,800	24,947
-foreign government	**-**	**-**	402	400
	25,556	**26,334**	24,202	25,347
Issued by other issuers				
Investment securities				
- foreign banks	**-**	**-**	390	374
- local banks	**443**	**465**	-	-
- others foreign	**-**	**-**	102	101
- others local	**890**	**887**	194	194
	1,333	**1,352**	686	669
carried forward to next page	26,889	27,686	24,888	26,016

21. Debt Securities *(continued)*

	2001		2000	
	Balance Sheet Lm 000	**Market Value Lm 000**	Balance Sheet Lm 000	Market Value Lm 000
brought forward from previous page	**26,889**	**27,686**	24,888	26,016
Dealing securities				
- other local	**309**	**309**	316	316
	27,198	**27,995**	25,204	26,332
Amounts include				
By remaining maturities:				
- over five years	**17,296**		14,465	
- five years or less but over one year	**7,527**		9,193	
- one year or less but over three months	**1,895**		1,410	
- three months or less	**480**		136	
	27,198		25,204	
By currency:				
- Maltese Lira	**26,755**		24,310	
- foreign	**443**		894	
	27,198		25,204	
Unamortised net premiums on investment securities	**(170)**		(116)	
Investment securities				
- listed on Malta Stock Exchange	**26,630**		23,994	
- local unlisted	**259**		-	
- foreign listed	**-**		894	
	26,889		24,888	
Dealing securities				
- listed on Malta Stock Exchange	**309**		316	
	27,198		25,204	

21. Debt Securities *(continued)*

Investment securities

Cost	**2001**	**2000**
At beginning of year	24,888	22,310
Exchange adjustments	(9)	4
Acquisitions	5,819	5,361
Maturity/disposals	(3,800)	(2,785)
Amortisation of discounts and premiums	(9)	(2)
At balance sheet date	26,889	24,888

The Bank has pledged Lm2,000,000 (2000: Lm2,000,000) worth of Malta Government Stocks to the Central Bank of Malta as security for a facility which was not utilised at year end.

22.Equity Shares

	2001	**2000**
	Lm 000	Lm 000
Dealing securities		
- listed on Malta Stock Exchange	**633**	773

23. Tangible Fixed Assets

	Land and Buildings	Computer Equipment	Other	Total
	Lm 000	Lm 000	Lm 000	Lm 000
Cost/Revaluation				
At 1 October 2000	1,388	826	748	2,962
Additions	48	31	16	95
Disposals	(3)	-	-	(3)
At 30 September 2001	**1,433**	**857**	**764**	**3,054**
Depreciation				
At 1 October 2000	68	488	641	1,197
Charge for the year	17	176	40	233
Released on disposal	(1)	-	-	(1)
At 30 September 2001	**84**	**664**	**681**	**1,429**
Net Book Amount				
At 30 September 2001	**1,349**	**193**	**83**	**1,625**
At 30 September 2000	1,320	338	107	1,765

	2001	2000
	Lm 000	Lm 000
Net book amount of land and buildings occupied for own activities	**1,349**	1,320
Future capital expenditure		
Contracted but not provided in the financial statements	**130**	12
Authorised by the directors but not yet contracted	-	142
	130	154

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 Lm1,163,000 (2000: Lm1,134,000).

Notes to the Financial Statements
30 September 2001

24. Other Assets

	2001	2000
	Lm 000	Lm 000
Deferred taxation	**351**	188
Subscriptions to acquire securities	-	627
Investment property at cost	**151**	151
Other	**25**	86
	527	1,052

The investment property is held with the necessary approval from the Central Bank of Malta in terms of Section 15 (1) (f) (iii) of the Banking Act, 1994.

The deferred tax asset arises as follows:

	2001	2000
	Lm 000	Lm 000
Tax effect of temporary differences relating to:		
- Excess of capital allowances over depreciation	**58**	20
- Revaluation of freehold property	**(68)**	(68)
- Provision for bad and doubtful debts	**392**	381
- Price movements in dealing securities	**(31)**	(159)
- Capital loss on investment securities	-	14
	351	188

25. Prepayments and Accrued Income

	2001	2000
	Lm 000	Lm 000
Accrued income	**2,821**	1,869
Prepayments	**59**	51
	2,880	1,920

26. Amounts Owed To Banks

	2001 Lm 000	2000 Lm 000
With agreed maturity dates or periods of notice, by remaining maturity		
- three months or less but not repayable on demand	-	1,000
Repayable on demand	296	77
	296	1,077
Analysed by currency:		
- Maltese Lira	278	1,047
- foreign	18	30
	296	1,077

27. Amounts Owed to Customers

	2001 Lm 000	2000 Lm 000
With agreed maturity dates or periods of notice, by remaining maturity		
- over five years	185	402
- five years or less but over one year	12,976	12,493
- one year or less but over three months	30,402	35,536
- three months or less but not repayable on demand	59,671	57,147
	103,234	105,578
Repayable on demand	4,276	3,281
	107,510	108,859
Analysed by currency:		
- Maltese Lira	81,819	71,583
- foreign	25,691	37,276
	107,510	108,859

28. Other Liabilities

	2001 Lm 000	2000 Lm 000
Bills payable	630	439
Other	1,682	1,373
	2,312	1,812

29. Accruals and Deferred Income

	2001 Lm 000	2000 Lm 000
Accrued interest	1,782	2,309
Other	90	161
	1,872	2,470

30. Share Capital

	2001		2000	
	000s	Lm 000	000s	Lm 000
Authorised				
Ordinary Shares of 50 cents	10,000	5,000	10,000	5,000
Issued and fully paid up				
Ordinary Shares of 50 cents	3,905	1,953	3,865	1,932

The increase in the issued and paid up share capital represents the nominal value of shares issued in lieu of cash dividends approved by the Annual General Meeting held on 21 December 2000.

31. Reserves

a) Share premium
The increase in the share premium account represents the premium on the shares issued in lieu of cash dividends approved by the General Meeting on 21 December 2000.

b) Other Reserve
This reserve represents the remaining unrealised exceptional 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. Movements on this reserve relate to the crystallisation of the gains on conversion of foreign currency holdings to Maltese Lira. This reserve is not available for distribution.

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

32. Contingent Liabilities

	2001	2000
	Lm 000	Lm 000
Guarantee obligations incurred on behalf of third parties	**3,970**	2,440

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

33. Commitments

	2001	2000
	Lm 000	Lm 000
Documentary credits	**177**	164
Forward asset purchases	**147**	28
Credit facilities and other commitments to lend	**15,841**	16,038
	16,165	16,230

There are outstanding forward contracts for the purchase and sale of foreign currency from which it is envisaged that no irrecoverable liability will arise. At balance sheet date, the Bank held fiduciary placements from which it is envisaged that no liability will arise.

Notes to the Financial Statements

30 September 2001

34. Cash and Cash Equivalents

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

	2001 Lm 000	2000 Lm 000
Cash	**646**	537
Balances with Central Bank of Malta (excluding reserve deposit)	-	292
Loans and advances to banks	**19,924**	17,110
Treasury bills	**7,921**	7,386
Amounts owed to banks	**(296)**	(1,077)
	28,195	24,248
Adjustment to reflect balances with contractual maturity of more than three months	**5,111**	19,081
Per balance sheet	**33,306**	43,329
Analysed as follows:		
Cash and balances with Central Bank of Malta	**646**	829
Treasury bills	**9,174**	7,386
Loans and advances to Banks	**23,782**	36,191
Amounts owed to Banks	**(296)**	(1,077)
	33,306	43,329

35. The Aggregate Amount of Assets and Liabilities Denominated in Foreign Currencies Translated into Maltese Liri

	2001 Lm 000	2000 Lm 000
Assets	**26,329**	39,003
Liabilities	**25,717**	37,974

36. Segmental Information

The Bank provides related retail and corporate banking services to resident and non-resident customers who are subject to the same risks and returns in the domestic market.

37. Related Parties

During the course of its operations the Bank conducts business with its major shareholder, Crédit Commercial de France Group (CCF) and members of CCF's ultimate shareholder, the HSBC Group. Transactions entered into with CCF, which relate mainly to foreign currency positions and inter-bank placements, are carried out on an arm's length basis.

38. Loans to and commitments on behalf of directors and officers

	2001 Loans and Advances Lm 000	2001 Commitments Lm 000	2000 Loans and Advances Lm 000	2000 Commitments Lm 000
Directors				
At beginning of year	-	1	-	-
Additions	-	-	-	1
Repayments	-	(1)	-	-
At balance sheet date	-	-	-	1
Officers				
At beginning of year	83	52	22	52
Additions	246	-	64	-
Repayments	(18)	(52)	(3)	-
At balance sheet date	311	-	83	52

39. Financial Instruments

Off-Balance sheet instruments
The Bank enters into forward foreign currency exchange contracts with customers in the normal course of its business. In view of the Bank's policy to hedge these contracts immediately by buying or selling a corresponding amount of the contracted currency on the money market, the Bank 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.

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

Interest rate risk – the risk that the value of a financial instrument will fluctuate due to changes in market interest rate
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. Any mismatches that arise are monitored accordingly.

Market risk – the risk that the value of a financial instrument will fluctuate as a result of a change in market prices
The Bank manages this risk by establishing investment limits both in terms of the value that can be invested and also the securities and equities that can be invested in, always ensuring that investments are held in good quality names.

39. Financial Instruments *(continued)*

Credit risk – 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 Bank's largest risk in view of its significant lending portfolio and 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 Bank and to ensure that security is still valid.

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

The Bank monitors its risk on balances held with other banks by establishing bank and country limits. The Bank also ensures that it deals with reputable and highly rated international credit institutions.

Liquidity risk – 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. Most of the Bank's foreign investments are in listed companies thereby increasing their liquidity, whilst the investment in locally listed securities is less liquid in view of the size of the local market.

Fair values – the amount for which an asset can be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction
At 30 September 2001 and 30 September 2000, the carrying amounts of cash balances, loans and advances to banks and customers, investments, other assets, amounts owed to banks and customers and other liabilities approximated their fair values. Cash balances, loans to banks, amounts owed to banks, other assets and liabilities are highly liquid short-term assets and liabilities. Adequate provisions are in place to ensure that loans and advances to customers correctly reflect their fair value. Dealing securities are stated at their market value, whilst the market values of investment securities which are accounted for at cost, are also disclosed.

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

Five Year Summary
Profit and Loss Account

	2001 Lm 000	2000 Lm 000	1999 Lm 000	1998 Lm 000	1997 Lm 000
Interest receivable and other income	**7,553**	7,402	5,359	4,807	5,566
Interest payable	**(5,006)**	(5,069)	(3,560)	(3,121)	(4,004)
Net interest income	**2,547**	2,333	1,799	1,686	1,562
Other operating income	**427**	1,169	1,096	755	642
Other operating charges	**(1,824)**	(1,884)	(1,788)	(1,591)	(1,391)
Net charge for bad and doubtful debts	**(30)**	(378)	(229)	(44)	(82)
Profit before taxation	**1,120**	1,240	878	806	731
Taxation	**(394)**	(435)	(303)	(375)	(234)
Profit for the year	**726**	805	575	431	497
Earnings per share					
Before special tax	**18c7**	22c6	18c9	17c4	16c6
After special tax	-	-	-	14c4	-

Five Year Summary
Balance Sheet

	2001 Lm 000	2000 Lm 000	1999 Lm 000	1998 Lm 000	1997 Lm 000
ASSETS					
Cash and balances with Central Bank of Malta	**646**	829	825	1,580	745
Reserve deposit with Central Bank of Malta	**3,293**	5,844	4,103	3,347	3,315
Cheques in course of collection	**733**	1,169	438	437	339
Treasury bills	**9,174**	7,386	1,641	-	292
Loans and advances to banks	**23,782**	36,191	23,504	24,051	23,426
Loans and advances to customers	**51,284**	41,158	34,347	28,668	23,701
Debt securities	**27,198**	25,204	22,619	20,228	18,996
Equity shares	**633**	773	537	457	971
Tangible fixed assets	**1,625**	1,765	1,940	1,769	1,322
Other assets	**527**	1,052	613	264	268
Prepayments and accrued income	**2,880**	1,920	667	666	616
Total assets	**121,775**	123,291	91,234	81,467	73,991
LIABILITIES					
Amounts owed to banks	**296**	1,077	264	7,541	171
Amounts owed to customers	**107,510**	108,859	83,297	67,387	67,872
Other liabilities	**2,312**	1,812	855	480	387
Accruals and deferred income	**1,872**	2,470	1,780	1,476	1,311
Provision for taxation	**267**	260	90	210	171
Share capital	**1,953**	1,932	1,530	1,500	1,500
Share premium	**3,880**	3,709	922	815	815
Other reserve	**111**	111	111	111	111
Revaluation reserve	**126**	126	102	102	102
Profit and Loss Account	**3,220**	2,722	2,130	1,708	1,414
Dividend reserve	**228**	213	153	137	137
Total liabilities	**121,775**	123,291	91,234	81,467	73,991
MEMORANDUM ITEMS					
Contingent liabilities	**3,970**	2,440	620	992	847
Commitments	**16,165**	16,230	16,451	8,392	6,790

Five Year Summary
Cash Flow Statement

	2001 Lm 000	2000 Lm 000	1999 Lm 000	1998 Lm 000	1997 Lm 000
Net cash from /(used in) operating activities	**5,957**	(1,835)	10,312	(4,270)	(6,794)
Investing activities					
- purchase of investment securities	**(5,819)**	(5,361)	(3,743)	(6,310)	(9,193)
- sale of investment securities	**2,370**	1,925	1,201	4,587	2,365
- investment securities matured during the year	**1,552**	820	252	523	430
- purchase of tangible fixed assets	**(95)**	(44)	(406)	(595)	(406)
- proceeds from sale of tangible fixed assets	**3**	-	-	-	-
Net Cash used in investing activities	**(1,989)**	(2,660)	(2,696)	(1,795)	(6,804)
Financing activities					
- proceeds from issue of share capital	**-**	3,040	-	-	-
- dividends paid	**(21)**	(3)	-	(137)	(147)
Net Cash (used in) / from financing activities	**(21)**	3,037	-	(137)	(147)
Increase / (Decrease) in cash and cash equivalents	**3,947**	(1,458)	7,616	(6,202)	(13,745)

Five Year Summary
Accounting Ratios

	2001	2000	1999	1998	1997
	%	%	%	%	%
Net interest income and other operating income to total assets	**2.4**	2.8	3.2	3.0	3.0
Operating expenses to total assets	**1.5**	1.8	2.2	2.0	2.0
Profit before tax to total assets	**0.9**	1.0	1.0	1.0	1.0
Profit before tax to equity	**11.8**	14.1	17.7	19.0	18.5
Profit after tax to equity	**7.6**	9.1	11.6	10.2	12.7

	2001	2000	1999	1998	1997
Shares in issue of 50c each (thousands)	**3,905**	3,865	3,060	3,000	3,000
Net assets per share (cents)	**244**	228	162	141	130
Earnings per share (cents)					
- after special tax	-	-	-	13.7	-
- before special tax	**18.7**	22.6	18.9	16.7	16.6
Dividend per share (cents)					
- gross	**9.0**	8.5	7.7	7.0	7.0
- net	**5.9**	5.5	5.0	4.6	4.6
Dividend cover	**3.2**	3.8	3.8	3.1	3.6

Solvency Ratio

30 September 2001

	Note	Balance Sheet Value Lm 000	Weighted Amount Lm 000
On-balance sheet assets	(a)		
Cash and balances with Central Bank of Malta		646	-
Reserve deposit with Central Bank of Malta		3,293	-
Cheques in course of collection		733	147
Malta Government treasury bills		9,174	-
Loans and advances to banks		23,782	4,756
Loans and advances to customers	(b)	52,795	42,411
Debt securities		27,198	1,282
Equity shares		633	633
Tangible fixed assets		1,625	1,624
Other assets		527	527
Prepayments and accrued income		2,880	1,440
		123,286	52,820
Off-balance sheet assets	(c)		
Contingent liabilities and commitments		20,135	-
Total adjusted assets and off-balance sheet items			52,820
Own Funds			
Original own funds	(d)	9,221	
Additional own funds	(e)	675	
Gross own funds		9,896	
Deductions	(f)	-	
Total own funds		9,896	
Solvency ratio	(g)		19%

Solvency Ratio
30 September 2001

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 provision for bad and doubtful debts.

(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 tangible fixed assets revaluation reserve and dividend reserve.

(e) Additional own funds comprise the general provision for bad and doubtful debts and tangible fixed assets revaluation reserve.

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

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

Financial Highlights in Major Currencies
30 September 2001

	EURO € 000's	USD $ 000's	GBP £ 000's
For the year			
Net interest income	6,287	5,749	3,905
Profit before income tax	2,764	2,528	1,717
Profit after income tax	1,792	1,639	1,113
At the year end			
Shareholders' funds	23,492	21,485	14,594
Loans and advances to customers	126,579	115,763	78,634
Amounts owed to customers	265,356	242,682	164,845
Total assets	300,565	274,883	186,718
Per share			
Earnings	0.46	0.42	0.29
Net asset value	6.02	5.50	3.74

At currency rates of exchange ruling on 30 September 2001:

EURO 2.4682 = Lm1
US Dollars 2.2573 = Lm1
Pounds Sterling 1.5333 = Lm1

Other Relevant Company Information

Directors' interests in the Bank's share capital at 30 September 2001.

Mr N P Mifsud	80,000
Mr M Zammit	47
Mr J R Darmanin	1,825

Registered shareholders with 5% or more of the Bank's share capital at 30 September 2001.

	%
CCF Holding (Suisse) SA	21.77
First Gemini p.l.c.	5.10
Wignacourt Funds SICAV p.l.c.	5.00

Number of shareholders at 30 September 2001.

The total number of registered shareholders is 1,323 of the same class.

Number of shareholders at 30 September 2001 analysed by range.

Range	Total Shareholders	Shares
1 – 500	339	73,465
501 – 1,000	498	313,959
1,001 – 5,000	441	737,510
5,001 – 10,000	19	132,489
10,001 and over	26	2,647,628
Total	**1,323**	**3,905,051**

Company Secretary
G A Fairclough F.C.I.B.
Lombard Bank Malta p.l.c.
Lombard House
67 Republic Street
Valletta VLT 05
Malta