

FIMBANK

*Annual Report
& Financial Statements
2002*



“Splendid Ships”

These splendid ships,
each with her grace, her glory,
Her memory of old song
or comrade’s story,
Still in my mind
the image of life’s need,
Beauty in hardest action,
beauty indeed.

John Masefield



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From Sail to Steam

The first two decades of the 19th century were full of important events and some of them profoundly affected the development of maritime trade. The first event occurred in 1812 with the successful trial of the steam vessel 'Comet' on the Clyde in England. Indeed, Henry Bell's 'Comet' fired the imagination of shipbuilders and engineers on Clydeside and provided the impetus which in due course transformed that waterway into the world's greatest shipbuilding centre.



**The steamship brought a new pattern of trade to Malta.
In a short time the port of Valletta became an important bunkering port in the Mediterranean.
This position was greatly enhanced with the opening of the Suez Canal in 1869.**

The Wickman Maritime Collection

The first steam driven vessel to navigate in Maltese waters was the British owned '*London Engineer*'. This paddle steamer arrived in the Grand Harbour from Gibraltar in eight days on the 3rd July 1826. Measuring 315 tons, she was built in 1818 (just six years after the launching of Bell's historic '*Comet*') by Daniel Brent of Rotherhithe. The steamer was powered by a 120 horsepower engine built by the well-known marine engineer Joseph Maudsaly. The '*London Engineer*' was also the first steam driven vessel built on the Thames.

Indeed, the arrival of steam propulsion opened a new chapter in the history of Maltese maritime trade. The port

of Valletta became an important bunkering station and this position was further strengthened with the opening of the Suez Canal in 1869.

During the first half of the 19th century, the Maltese mercantile marine reached its climax. Sailing ships of all shapes and sizes belonging to the port of Valletta were gainfully occupied on all the trade routes of the Black Sea and the Mediterranean and some also ventured across the Atlantic. Although the impact of the steam driven vessel was already being appreciated by the commercial community of the Island, the local shipowner was reluctant to invest in steam driven ships. He reasoned that the coal



Sail and steam at the Marsa at the turn of the 19th century.
The Wickman Maritime Collection

consuming vessel was expensive to construct and, furthermore, due to the high consumption of coal, was exorbitant to operate at a profit. They also argued that the earning capacity of a ship was greatly reduced since such precious space was sacrificed for the engine, boilers and coal bunkers.

The earliest steam driven vessels in Maltese waters were small craft employed as maids-of-all-work, particularly towing vessels in and out of harbour. These were initially owned by the British Admiralty but later they passed under the ownership of commercial companies. The steam tugs 'Dragon' and 'Bulldog' were perhaps the best known along the Valletta waterfront.

The 'Dragon' was one of the earliest steam tugboats operating in the Grand Harbour and Marsamxett. She arrived at Malta from Newcastle early in December 1855 and on arrival she was immediately placed in service under the command of Captain William Donkin. A circular distributed to the commercial community by the owners of the 'Dragon' makes interesting reading :

“The steam tug ‘Dragon’ now on her way to Malta and intended for service in the ports of Valletta and the Quarantine will upon arrival be ready to tow vessels in and out of the harbour at the following rates :

- ***From sea to anchorage or vice-versa or from harbour to harbour not exceeding 300 tons register : £1.13s.4d.***
- ***For every additional 100 tons : 10s.0d.***
- ***For transporting ships about the harbour : two thirds of the above rates.***

The signal to be used by the vessels coming from seaward or in port requiring the tug service, will be by the hoisting of the national ensign at the fore-top gallant or royal masthead.

Apply : J.C. Swift, Ship Chandler or Captain William Donkin, on board.”

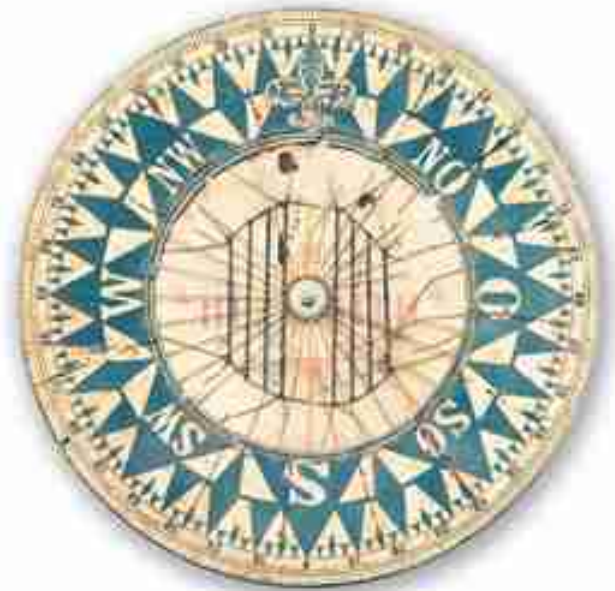
First Maltese Steamer

The history of Maltese deep sea steam navigation goes back to around 1843 when the Anglo Maltese Steam Navigation Company was formed. The intention of the new company was to acquire a number of steamships and operate them out of the port of Valletta to North African ports, Sicily and to other ports in the Mediterranean. Originally, the company planned to slot the sailings from the port of Valletta in conjunction with the arrival of the British and French mail ships. This was indeed sound planning, but unfortunately the only vessel operated by the company was not suitable for the new venture.

In February 1844, the company purchased the paddle steamer 'Scotia' from British owners. She was built at Greenock in 1829 and measured 169 tons. She had accommodation for a number of passengers and ample space for cargo. Paintings still in existence of the ship show the vessel with a black hull and a red funnel with a black top. One painting however shows the 'Scotia' with an all black funnel. She carried her name on the paddle-boxes.

Captain Antonio Cacace, a seasoned master mariner was given command of the ship. But bad weather delayed the sailing of the ship from English waters. She finally left Gravesend early in March and after calling at Gibraltar left for Palma to replenish her bunkers. She left for Malta on the 5th April. However, during the last leg of the voyage, the ship met with bad weather. This forced her to burn more fuel and in a short time her coal bunkers were empty. All unwanted timber on board as well as doors and furniture were burnt. The 'Scotia' managed to reach Malta on the 10th April under sail.

On arrival in Malta, she was chartered for 650 dollars to convey the Pasha of Tripoli and 200 troops, horses and military equipment to Benghazi and on the 7th May, she was back in Malta with passengers and general cargo consigned to various merchants as well as 96 heads of cattle. Late in May, the 'Scotia' went aground while entering the port of Tunis. The vessel suffered bottom damage and on her return to Malta was hauled up by the slipway of the shipyard owned by Giuseppe Camilleri of Senglea. She was ready for sea trails in October and



Compass Card

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Captain Saverio Cassar assumed command of the ship. The ship was again advertised, sailing to North African ports. But the ship was plagued with more trouble, mainly defects in the machinery and boiler. Finally the Admiralty loaned a qualified engineer from the Dockyard and the 'Scotia' was able to maintain her services. During September and October 1845 she was reboilered at the Royal Dockyard and early in November was ready for steam trials. At this time the 'Scotia' was advertised as having machinery developing 160 horsepower. Tonnage was listed at 300 gross.

Tagliaferro and Scicluna

Two Maltese families, the Tagliaferro and the Scicluna families, played a very important role in the development of Maltese maritime trade during the age of sail and they both went into steam roughly at the same time, at first operating chartered tonnage and later ordering ships for their services. Indeed, at that time, Maltese shipbuilders had no knowledge in the construction of iron ships and their intricate machinery. In the early 1880 a milestone was reached in Tagliaferro's long history by the building of the iron steamship 'Tagliaferro'. The steamer was ordered from the shipyard of Schelsinger and Davis of



The steamer 'Tagliaferro', built in 1882 at Newcastle, 1500 gross tons.
The Wickman Maritime Collection

Newcastle-on-Tyne. This 1,500 ton steamer, a very large trader for her days was used in the tramp trades worldwide. She was sold at a profit and ended her profitable years under the colours of McIwarth, McEacharn & Company of Melbourne, Australia, without a change of name. The 'Tagliaferro' was sold in 1906 to Japan and renamed 'Kyushan Maru'. The 'Tagliaferro' was followed by other steamships which operated on various trades. Amongst these were the 'Emmanuele Tagliaferro' and 'Granville'.

Early in January 1884, the Shipping and Mercantile Gazette reported the launching at Sunderland of the steamer 'Marquis Scicluna'. The launching ceremony was performed by Miss Pyrrah, daughter of Mr A.H. Pyrrah of Newsbury. Although this steamer was registered

under the ownership of George Allen & Company, of South Shields, the Scicluna family had a large share in the vessel. The 'Marquis Scicluna' was an iron screw steamer, measuring 1,055 net and 1,655 gross tons, indeed a large cargo carrier for her days. She was registered in the port of South Shields, then a very busy port with British tramp ship operators. The 'Marquis Scicluna' was employed on world-wide tramping.

In the same year, Scicluna also took delivery of the steamship 'Emanuele Scicluna'. Built at Barrow, this steamer was an iron screw ship of 961 gross tons. Commanded by Captain Demaria the 'Emanuele Scicluna' arrived at Malta on her maiden voyage on the 16th May from Cardiff with a full cargo of coal. Without any doubt,

The steamer 'Granville' was bought for £10,000 by Alfredo Tagliaferro in January 1886.
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Gollcher's 'L'Isle Adam', 99 h.p., 841 gross tons, built in 1883 at Birkenhead.
The Wickman Maritime Collection

it was a great day for the Scicluna family. On that day in the Grand Harbour was also the *'Marquis Scicluna'*, which at that time was on a voyage from Glasgow to Penang. In 1895, the *'Emanuele Scicluna'* was sold to Stott of Liverpool and renamed *'Twilight'*.

The next steamer to be built for the firm was the *'Joseph Scicluna'* which was constructed in 1885 by the Grangemouth Dockyard Company Ltd of Grangemouth, while her main engine was supplied by Huston & Company of Glasgow. The vessel entered the company's service in the same year. The *'Joseph Scicluna'* was one of the largest Maltese owned ships up to that time. She measured 1,500 gross tons with a deadweight of 2,000 tons. The ship's first voyage was from Leith to Malta with coal. Captain M. Demaria, the senior master employed by the firm, was in command. The Demaria family of Senglea since the mid 17th century had supplied a steady stream of master mariners to the local merchant fleet. The vessel carried a crew of 21 officers and men. Although the steamer was primarily designed as a grain carrier for the company's own needs, she was suitable for other trades as well.

Late in June, the Governor of Malta, General Sir Arthur J. Lyon Fremantle paid an official visit to Scicluna's flagship. He was shown around the steamer by the owners and the master of the ship. Before the Governor left the steamer, he congratulated Scicluna for his enterprise in building such a fine ship - a tribute to Maltese enterprise and British marine engineering.

Indeed, the change from sail to steam brought about many difficulties to the local ship owner, mainly operational know-how and the availability of fully trained marine engineering officers. Seasoned engineers were only available in the Naval Dockyard and in the few engineering shops at Marsa. Scicluna was the first to organise apprenticeships for engineers, offering courses ashore in the workshops and then gaining further experience in his ships. For this reason, he created the post of fourth engineer in his ships.

Gollcher

For over a century and a half, the name *'Gollcher'* has occupied an important place in the maritime activities of the Maltese Islands, as shipbrokers, shipowners and commission agents. In 1883, Olof Frederik Gollcher was appointed Lloyd's agent in Malta.

The ties between Malta and this Swedish family go back to January 1846 when the Swedish brig-schooner *'Swalan'* commanded by Captain J. Gollcher arrived from Stockholm. The ship's cargo included 500 barrels of Swedish tar and 480 lengths of timber, all consigned to H. Zimelli, and a further 200 barrels of tar on the account of the master. Around the year 1852, Olof Frederik Gollcher settled in Malta and the ships owned by the family continued calling at Malta. In those days they all flew the combined Swedish-Norwegian ensign.

But the family is also remembered for the part they played in the development of steam navigation in Malta. The first steam driven vessel owned by the Gollchers was the wooden steam paddle tug *'Vincenza'* (ex *'Bulldog'*) which was acquired in 1867. In the same year the steamer *'Lancefield'*, 281 gross tons, was purchased and placed on a new passenger and cargo service to Tunis, a service which the Gollchers maintained for over two decades.

In the early 1880's this service was extended, offering regular sailings from Adriatic ports, Malta and North Africa. For this venture new tonnage was required and the *'La Valette'* and *'L'Isle Adam'* were purchased.

For many years both steamers maintained a regular and reliable service from Adriatic ports to Malta and North Africa. In spite of the stiff competition offered by the Austrian steamers operating from Trieste, the Gollcher steamers were well patronised by passengers and shippers. The funnel markings of the company's steamers were black with broad white band.

Cassar

The Cassar family's interest in ship-owning and maritime trade goes back to the days of sail. Like the Tagliaferros and the Sciclunas they employed their ships in the Black Sea grain trade. They also financed the construction of new tonnage built in local shipyards. They also were known for their interest in the grain milling trade, owning at first a small mill in Zebbug and later a larger and better equipped mill at Marsa.

Like other Maltese shipowners of the 19th century, the Cassars also went into steam. Their largest steamer was the *'Antonio Cassar'* (6,600 gross tons). Commanded by Captain Salvatore Galea, she was lost during the First World War whilst on Government service. Luckily there was no loss of life. The *'Antonio Cassar'* was mainly employed in the grain trade from the River Plate.

Cassar are perhaps better known as the owners of the R.M.S. *'Knight of Malta'* (1553 gross tons). This two funneled steamer was built in 1929 by Swan, Hunter & Wigham Richardson Ltd of Newcastle upon Tyne and was specifically designed for Cassar's new passenger and mail service between Malta and Tunis. Up to the

outbreak of the Second World War, she provided a regular and reliable service across the channel which was so important before the advent of air services to the continent. Indeed the story of the Sicily steam packet service is another chapter in the history of Maltese maritime trade.

Between the Wars

After the Great War, the Maltese merchant fleet was in a very poor shape. A few Maltese owners still owned sailing ships, mainly employed in the wine trade. However, very few steamers still carried *'Malta'* on their graceful counter-sterns. It was such a different story to some 85 years earlier when the notice boards in the courtyard of the Chamber of Commerce in Valletta recorded the movements of scores of Maltese deep sea merchantmen navigating in waters ranging from the Black Sea and the Mediterranean to the Atlantic.

The house-flags of the well-known ship-owning families had vanished from the high seas. The leading ones, Tagliaferro and Scicluna, concentrated their efforts more on their already well-established merchant banking business and other trades particularly in the coal bunkering business. They all used chartered tonnage to transport their cargoes. One of the leading steam ship operators of the Island, the Malta Steam Navigation Company, formed in 1911, was also out of business.

In the twenties, the most important unit of the local fleet was the steamer *'San Paul'*, 3779 gross tons, owned by Mifsud Brothers of Valletta. She was built way back in 1901 as the Austrian *'Korana'* by J. Priestman & Company of Sunderland and later serving also as the *'Huntshead'* under the British Flag.

At about this time Joseph Gasan appeared on the local maritime scene when he launched the Gasan Line and the General Shipping Agency. In 1925, Mr Gasan was awarded the Malta-Sicily passenger and mail contract. For this service he purchased the steamer *'Lubiana'*. This 928 gross ton vessel was built in 1900 as the *'Hegedus Sandor'*. Later Gasan acquired a larger steamer, the *'Maltana'*, measuring 1838 gross tons. This steamer was built and engined by Hall, Russell of Aberdeen in 1889 as the *'Ifafa'*. The *'Maltana'* joined the fleet in 1926. She maintained services between Adriatic ports, Malta

and Marseilles and occasionally served as a substitute vessel for the 'Lubiana'. Gasan later owned various ships in partnership with the Pace family.

The Post-War Years

Cassar & Company in 1943 acquired the English steamer 'Rudby'. Measuring 4846 gross tons she was built in 1924 by W. Gray & Company of West Hartlepool for the Ropner Shipping Company. She was a very ordinary type of tramp steamer, but did valuable work in peace and war. She was managed for Cassar in the United Kingdom by Harris & Dixon. The 'Rudby' was not allowed to be renamed during hostilities but became the 'Knight Templar' in 1946. In the following year she was sold to Panamanian owners. In 1946, the Malta Steamship Company acquired the motor coaster 'Empire Snowdrop'. Completed in 1939 at Waterhuizen by Gebr. Van Diepen N.V. as the 'Caribe', she traded under that name until the early days of the war when she was taken over by the British Ministry of Transport and given the 'Empire' name. Under Maltese ownership, the 'Empire Snowdrop' was renamed 'De Vilhena'. She traded mainly between French Mediterranean ports, Italy and North Africa. She came to her home port on a few occasions.

The Phoenicia Steamship Company during this period operated one steamer, the 'Britannia'. Dating from 1918, this 632 gross ton steamer was completed by Smith's Dockyard as H.M.S. 'Killiney', one of the numerous 'Kil' class patrol boats built by various shipyards during the last two years of the Great War. Immediately after the hostilities she was sold by the Admiralty and converted for commercial use. The 'Britannia' was mainly used in the Eastern Mediterranean and the Red Sea.

In the late 1940's some local merchants operated various steamers. These included Portanier and La Ferla. But perhaps the most important were the Virtu' Steamship Company, the Mediterranean Trading Shipping Company and the Pace family.

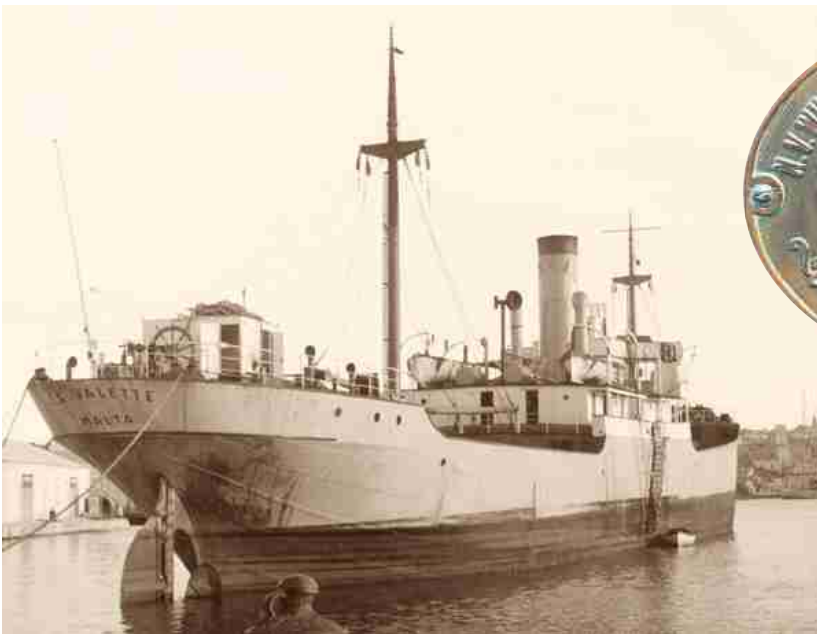
The Virtu' Steamship Company was formed in September 1945. The founders of the company were Lt. Col. Roger Strickland, Captain S. Xuereb, Capt. R. Cassar Torreggiani and Mr Francis X. Sullivan.



The three-masted schooner 'Carmary', a pioneer vessel owned by the Mediterranean Trading Shipping Company, built in 1884.

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Unfortunately late in February 1948, the company's pioneer steamer 'Virtu' under the command of Captain Orazio Mizzi went aground off the Libyan coast and became a total loss. Later the company purchased the steamer 'Majorca' from the Leith, Hull and Hamburg Steam Packet Company. This 1132 gross ton steamer came from the Goole Shipbuilding Company. The Virtu' Company also owned the Baltic type steamer 'Manta', 712 gross tons, completed in 1917. Both these two ships maintained a service between Malta and the United Kingdom, mainly transporting scrap metal from Malta and returning back home with general cargo. The largest vessel of the company was acquired in 1959 when the 'Bankstone' was purchased. She was renamed 'Saver', after one of the founders of the company. A steamer of 2037 gross tons, 'Saver' was built during the war by the Grangemouth Dockyard as the 'Empire Villager'.



Machinery builder's plate of the S/S 'La Valette', which was acquired by the Malta Shipping Company in 1946.

*The Wickman
Maritime Collection*

Since the days of sail, Maltese businessmen regarded the North African trade as a very important factor for the expansion of their trade. A Maltese company which played an important part in this trade was the Mediterranean Trading Shipping Company. This new venture was launched in 1948 operating the three-masted auxiliary schooner 'Carmary', 118 gross tons, which was built in 1884. She was mainly employed in the citrus trade from Tripoli. When the firm acquired the 'Dorabella', the veteran 'Carmary' was retired.

The 'Dorabella', 299 gross tons, was a converted landing ship, built by the New York Shipbuilding Company and engined by General Motors. She was sold to foreign owners in 1957. In 1955 the 'Angelabella' ex 'Angela' was acquired from a Norwegian company and by that time the company was handling nearly all the exports from Malta to Libya. Indeed industry and shipping go hand in hand and as the industrialisation of the Maltese Islands increased, Maltese manufacturers and exporters demanded better shipping connections. Late in 1962, the Maltese Government, through the 'Aids to the Industries Scheme' approved a grant and loan to the company so that the company would be in a position to acquire more modern tonnage. The first vessel purchased with the help

The 'Carabella' was the first vessel purchased with the help of the 'Aids to the Industries Scheme'

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of the scheme was the 498 gross ton 'Carabella'. She sailed on her maiden voyage to Tripoli under the colours of the Maltese company in February 1963. The 'Carabella' was built in 1958 as the 'Kleine Beer'. She was shortly afterwards joined by another Dutch-built vessel, the 'Rudolf J' which was renamed 'Mariabella'. Besides regular services to Tripoli, the company also advertised sailings to Adriatic ports, Tunis and Syracuse. In 1975, the company was also managing owner of some other ships.

In 1965, the Bianchi Group formed the Alliance Shipping Company owning two vessels, the 'Tita' (II) ex 'Salling', later adding another ship, the 'Medina' ex 'Marchon Trader'. Both vessels were used on general trading. Infact, in 1967, the 'Tita' spent nearly a year trading on the United States-Caribbean routes.





The 'Avolos' of the Maltese National Lines which later became Sea Malta's 'Mdina'.
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In the 1960's, the Maltese National Lines was the largest local steamship company, one of the companies owned by the Pace family. For many years they were merchants, ship-brokers and forwarding agents. The early Paces moved to Malta from Italy in the early years of the 19th century, but it is difficult tracing the early ships they owned. In 1906 they owned two steamers. In 1937, Pace with Mr Joseph Gasan formed the Anglo Maltese Steamship Company and they acquired the steamer 'Marvia', the first vessel to sail under the colours of the new company. A steamer of 1989 gross tons, the 'Marvia' was built in 1914 in Germany as a freighter for the Oldenburg-Portuguese Line and later bought by Mac Andrews of London in 1921 and acquired by the Maltese company late in 1936. Later the company purchased the steamer 'Skipjack' (1167 gross tons).

After the war, a number of enemy prizes lying in Grand Harbour were offered for sale. These included the Italian steamers 'Polinice' which became Schembri's 'Reborn' while Pace acquired the 'Adige' renaming her 'Cantakeit'. A steamer measuring 1900 tons deadweight, she proved a very suitable vessel for the company's needs.

Eventually Mr Gasan sold his shares to the Pace family and at this time two more steamers were acquired. One of them was the 5501 gross ton Clan liner 'Clan Ranald' built in 1917. Renamed 'Valetta City', she became the largest steamer of this Maltese post war fleet. It is of interest to record that on arriving at Montreal to load

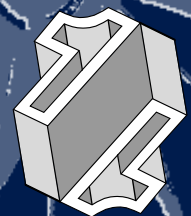
grain, the Canadian press hailed the 'Valetta City' as the largest Maltese vessel ever to call at a Canadian port. More steamers followed and the fleet list included the 'Marvia' (II), 'Ugol', 'Olga Pace' and 'Mary Pace'.

Although between the years 1956 and 1964 the company did not operate any ships of its own, it had always been the belief of the firm that better steamship services helped the development of Maltese trade. This led to the launching of the Malta Maritime Services in 1964. This new venture later led to the formation of the Maltese National Lines. One of the earliest ships was the 'San Pawl' (ex 'Burgundia') which was followed by three ex-Wilson Line 'green parrots' as well as other tonnage acquired from other owners. The funnel markings of the company were yellow, black, white and red top resembling that of Hapag-Lloyd. The house flag was rather unusual, in bearing a replica of the funnel itself. Three units of this fleet, the 'Munita', 'Oleos' and 'Avolos' were eventually taken over by the newly established Sea Malta Company and renamed 'Gudja', 'Marsa' and 'Mdina' respectively, taking on the livery of the new company - red funnel with a white Maltese cross and a black top.

Victor Wickman

Victor Wickman writes on maritime matters and owns the Wickman Maritime Collection at Xghajra (Zabbar), Malta

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FIMBANK

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Chairman's Report

I am pleased to present you with the 2002 annual report and financial statements. The Directors' report, on pages 10 to 13, explains the main issues relating to the year in detail. Therefore, I will not repeat the same. Instead, I will present my views on the issues that effected the results of the Bank during the year, the lessons we learned, and our plans going forward. Since the Bank was formed I had good news to report at this time of the year. This year I am afraid I have to mention some bad news as well.

FIMBank is a short-term lender. Its activity revolves around transactional finance, where essentially each transaction has a pre-defined repayment source. When a situation alters and the expected repayment is not received, the transaction becomes essentially doubtful or impaired. Unfortunately this is what happened to us this year, in three different instances, which were mainly due to fraud. So, in line with its prudent policy, the Bank decided to take an impairment allowance of USD9.9 million, which covers 100% of impaired assets. This, of course, will not stop the Bank from doing everything within its ability to collect what is due.

We are determined not to let any temporary setbacks to slow our progress and development. Learning from our recent experience, we have reevaluated our internal control procedures and taken effective corrective measures. We found that although our credit approval process functioned well with lower volumes, it has become less effective with the substantial increase in workload. Where before this was one of the delegated functions of the Executive Committee, the Board has recently approved the formation of a new Local Credit Committee, designated to meet in Malta on a weekly basis, to focus mainly on Credit review, analyses and approvals.

Another important control procedure was introduced through the separation of the marketing function from the operations and back office functions. Two new highly experienced executives will be joining the Bank during the first quarter of 2003 - an executive vice president and a credit risk assessment manager. We have also shifted our country specialists from consultants to dedicated full-time employees. This measure has been taken to enhance the control, maintain progress, as well as to increase the level of loyalty and commitment to the Bank.

The good news is that last year was similar to previous years, in terms of positive and consistent growth in all major areas of the Bank's operational activities.

The financial statements and the Directors' report show that the Bank has an identified and solid business model. The net operating income of the Bank exceeded USD8 million. The increase of 23%, over the 2001 figures, was due to the substantial increase in fee & commission income. The Bank's



balance sheet also shows a significant increase in customer deposits. The outstanding commitments as at year-end reached USD129 million, an increase of USD40 million over last year.

The turnover in letters of credit increased by 28% over the previous year, and another record year was reported for the ship-scraping business where the Bank financed 123 transactions compared to 75 ships last year.

Furthermore, the Bank has also identified strong potential in extending its services to downstream correspondents. We add value through confirmation of documentary credits issued by such banks, rendering these instruments more acceptable to the supplier of goods, while at the same time, creating a marketable instrument in the case of deferred payment acceptances. This area of credit securitisation and trading of these securities continues to grow, and we intend to develop it further.

We have learned a very expensive lesson. I remember an old saying which states that, the stick that does not break your back will make it stronger. Now, we are stronger because we are witnessing the high level of commitment from members of the Board and the specialised committees, who are cooperating with senior management to understand and solve problems. We are stronger because our team, who still think and breathe trade-finance, has gained more experience and is totally dedicated to succeed. We are stronger because our stock has retained its value in the market, even during these hard times, reflecting the strong backing of our shareholders.

I wish to thank you all for your understanding, continued trust and support of our institution.


NAJEEB H. M. AL-SALEH
Chairman

الأخبار السارة هي أن السنة الماضية كانت كالسنة التي سبقتها من حيث النمو الإيجابي المستمر في جميع المجالات الكبرى لأنشطة المصرف العملياتية.

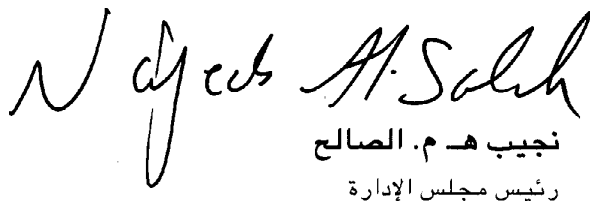
البيانات المالية وتقرير أعضاء مجلس الإدارة تظهر أن المصرف لديه نموذج عمل محدد ورضين. وصافي الدخل التشغيلي للمصرف تجاوز 8 مليون دولار أمريكي. وزيادة 23% على أرقام سنة 2001 جاءت نتيجة الزيادة الكبيرة في دخل الرسوم والعمولات. وميزانية المصرف الكشفية أيضاً تظهر زيادة مهمة في إيداعات الزبائن. والالتزامات الراهنة مع نهاية السنة وصلت إلى 129 مليون دولار أمريكي بزيادة 40 مليون دولار أمريكي عن السنة الماضية.

مجموع الأعمال في خطابات الاعتماد إزدادت بواقع 28% عن السنة السابقة، كما سُجّلت سنة أخرى قياسية في عمل تخريد السفن حيث مول المصرف 123 صفقة مقارنة مع 75 سفينة في السنة الماضية.

بالإضافة إلى ذلك، قام المصرف أيضاً بالتعرف على إمكانيات قوية في توسيع خدماته للمشتغلين بالتوزيع والتسويق. ونقوم بإضافة القيمة من خلال تأكيد الاعتمادات المستندية الصادرة عن مثل هذه المصارف، محولين هذه المستندات إلى مستندات مقبولة أكثر من طرف متعهدي البضائع بينما نخلق في نفس الوقت آلية قابلة للتسويق في حالات القبول بالتسديد المؤجل. هذا المجال من ضمان الإئتمانات والاتجار بهذه الكفالات مستمر في النمو، ونحن ننوي المزيد من التطوير له.

لقد تعلمنا درساً باهضاً. وأنا أذكر المثل القديم القائل إن العصا التي لا تكسر تظهر كستجعله أقوى. والآن، نحن أقوى لأننا نشهد المستوى العالي من الالتزام من أعضاء مجلس الإدارة واللجان المتخصصة الذين يتعاونون مع الإدارة العليا على فهم وحل المشاكل. نحن أقوى لأن فريقنا الذي لا يزال يفكر ويتنافس التجارة والمالية، قد اكتسب خبرة أكبر وهو مصمم تماماً على النجاح. نحن أقوى لأن أسهمنا احتفظت بقيمتها في السوق، حتى أثناء هذه الأوقات الصعبة، ما يعكس الدعم القوي الذي نلقاه من مساهمينا.

وأود أن أشكركم جميعاً على تفهمكم، وثقتكم ودعمكم المستمر لمؤسستنا.


نجيب ه. م. الصالح
رئيس مجلس الإدارة

تقرير رئيس مجلس الإدارة

يسرني أن أقدم إليكم التقرير السنوي والبيانات المالية عن السنة 2002. تقرير أعضاء مجلس الإدارة بالصفحات من 10 إلى 13 يشرح المسائل الرئيسية المتعلقة بالسنة بالتفصيل. لذلك، فإنني لن أكرر نفس الشيء. وبدلاً من ذلك، سأقوم بعرض وجهات نظري حول المسائل التي أثرت في نتائج المصرف خلال هذه السنة، والدروس التي استفدناها، وخططنا الرامية إلى المضي قدماً. ومنذ إنشاء المصرف كانت لدي أخبار سارة أعلن عنها في هذا الوقت من السنة. ولكنني في هذه السنة مضطر إلى الإعلان عن بعض الأخبار السيئة أيضاً.

إن فيم بانك هو مصرف إقراض على المدى القصير. وتتمحور نشاطاته حول الصفقات التمويلية. حيث لا بد أن يكون لكل صفقة مصدراً محدداً مسبقاً للتسديد. وعندما يتغير الوضع ولا يتم استلام التسديد المتوقع، تصبح الصفقة بالضرورة موضع شك أو متضررة. ولسوء الحظ كان هذا هو ما حدث لنا هذه السنة في ثلاث حالات مختلفة كانت بشكل أساسي تعزي إلى الاحتيايل. لذلك وانسجماً مع سياسته الحكيمة، فقد قرر المصرف أن يقطع بدل أضرار قدره 9.9 مليون دولار أمريكي لتغطية 100% من الأصول المتضررة. وهذا بالطبع لن يوقف المصرف عن عمل كل ما في وسعه لاسترداد ما هو مستحق.

نحن مصممون على عدم ترك أية نكسات مؤقتة تبطئ من تقدمنا وتنميتنا. وتعلمنا من خبرتنا الحديثة، قمنا بإعادة تقييم إجراءاتنا الداخلية للمراقبة واتخذنا التدابير التصحيحية الفعالة. وقد اكتشفنا أنه بالرغم من أن عملية المصادقة على دائنيتنا تسير بشكل جيد مع الأحجام الأصغر، إلا أنها أصبحت أقل فعالية مع الزيادة المهمة في حجم العمل. وقد كان هذا من قبل إحدى الوظائف المسندة إلى اللجنة التنفيذية، غير أن مجلس الإدارة صادق حديثاً على تشكيل لجنة ائتمان محلية جديدة مكلفة بالإجتماع في مالطا على أساس أسبوعي للتركيز بشكل أساسي على مراجعة الإئتمان، والتحليلات، والمصادقات.

وقد تم تقديم إجراء مراقبة مهم آخر من خلال فصل وظيفة التسويق عن العمليات ووظائف المكتب الخلفي. وهناك إثنان من الموظفين التنفيذيين الجدد من ذوي الخبرة العالية سينضمان إلى المصرف خلال الربع الأول من 2003، وهما نائب رئيس تنفيذي ومدير لتقييم مخاطر الإئتمان. كما أننا قمنا بتحويل مختصي البلدان التابعين لنا من استشاريين إلى موظفين متفرغين بالكامل. وقد تم اتخاذ هذا الإجراء من أجل تحسين المراقبة، والمحافظة على التقدم، وكذلك رفع مستوى الولاء والالتزام تجاه المصرف.

Rapport du Président

J'ai le plaisir de vous présenter le rapport d'activité annuel et le bilan financier pour l'année 2002. Le rapport du Directeur, pages 10 à 13, explique les principaux points de l'année en détail. Je ne vais donc pas répéter la même chose. A la place, je vais vous présenter mon avis sur les points qui ont affecté les résultats de la banque durant l'année, les leçons que nous avons apprises, et nos projets pour avancer. Depuis la fondation de la Banque, à ce moment de l'année, j'avais de bonnes nouvelles à annoncer. Cette année, je crains d'avoir à mentionner également quelques mauvaises nouvelles.

FIMBank est un prêteur à court terme. Cette activité tourne autour de la finance transactionnelle, où principalement chaque transaction a une source de repaiement prédéfinie. Lorsqu'une situation change et que le repaiement prévu n'est pas reçu, la transaction devient essentiellement douteuse ou compromettante. Malheureusement, c'est ce qui nous est arrivé cette année, en trois différentes occasions, principalement dû à la fraude. Donc en conformité avec sa politique de prudence, la banque a décidé de faire une provision de USD9.9 millions, qui couvre 100% des créances douteuses. Cela n'empêchera pas la banque de mettre tout en oeuvre, dans la mesure de sa capacité, à recouvrer ce qui est dû.

Nous sommes déterminés à ne pas laisser un retard temporaire ralentir notre progression et notre développement. Apprenant de notre récente expérience, nous avons revalorisé nos procédures de contrôles internes et pris les mesures correctives nécessaires. Nous avons trouvé que même si notre méthode d'approbation de crédit fonctionne bien avec un faible volume, elle est devenue moins efficace avec une augmentation substantielle de la charge de travail. Alors que c'était une des fonctions déléguées du Comité Exécutif, le conseil a récemment approuvé la formation d'un nouveau comité (Comité de Crédit Local), nommé pour se réunir à Malte sur une base hebdomadaire, afin de se concentrer principalement sur l'étude des crédits, les analyses et les approbations.

Une autre procédure importante de contrôle a été introduite avec la séparation de la fonction 'marketing' et des fonctions opérations et back office. Deux nouveaux cadres hautement expérimentés rejoindront la banque durant le premier trimestre 2003 - un cadre vice-président et un directeur d'évaluation du crédit risque. Nous avons également remplacé nos consultants spécialisés par pays par des salariés motivés à temps plein. Cette mesure a été prise afin d'accroître le contrôle, de maintenir une progression, ainsi que d'augmenter le niveau de loyauté et d'engagement à la banque.

Les bonnes nouvelles sont que cette année est similaire aux années précédentes, en terme de croissance positive et constante dans tous les secteurs majeurs d'activités opérationnelles de la Banque.

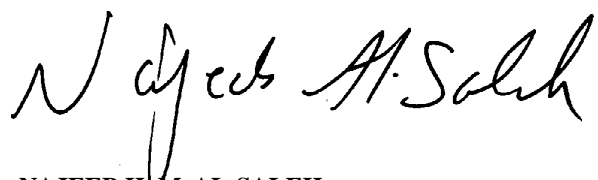
Les états financiers et le rapport du Directeur montrent que la Banque a un modèle d'affaires identifié et solide. Le revenu net opérationnel de la Banque a excédé USD8 millions. L'augmentation de 23%, en plus par rapport aux chiffres 2001, est due à l'accroissement substantiel des produits sur frais et commissions. Le bilan de la Banque montre une augmentation significative des dépôts des clients. Les engagements en cours à la fin de l'année atteignaient USD129 millions, soit une augmentation de USD40 millions de plus que l'année dernière.

Le chiffre d'affaires des lettres de crédit a augmenté de 28% par rapport à l'an passé, et une nouvelle année record est enregistrée pour les opérations de mise en ferraille de navires où la banque a financé 123 transactions contre 75 l'année précédente.

De plus, la banque a également identifié un important potentiel en étendant ses services à ses correspondants en aval. Nous ajoutons de la valeur en confirmant des crédits documentaires émis par ces banques, rendant ces instruments plus acceptables pour le fournisseur des produits, et créant en même temps, un instrument négociable dans le cas d'acceptations de paiement différé. Ce secteur de sécurisation de crédit et le commerce de ces sécurités continuent de croître, et nous avons l'intention de le développer davantage.

Nous avons appris une leçon très coûteuse. Je me souviens d'un vieux dicton, qui stipule que, le bâton qui ne brise pas votre dos le rendra plus fort. Maintenant, nous sommes plus forts car nous témoignons d'un haut niveau d'engagement des membres du conseil et des comités spécialisés qui coopèrent avec la Direction afin de comprendre et de résoudre les problèmes. Nous sommes plus forts car notre équipe, qui continue à penser et respirer financement des opérations commerciales, a gagné plus d'expérience et est totalement dévouée au succès. Nous sommes plus forts car notre titre a conservé sa valeur sur le marché, même durant cette période difficile, reflétant le support solide de nos actionnaires.

Je souhaite vous remercier pour votre compréhension, votre confiance continue et votre soutien à notre institution.



NAJEEB H.M. AL-SALEH
Président

Directors' Interests

DIRECTORS' INTERESTS INCLUDE :

Najeeb H.M. Al-Saleh (Chairman)

- Chairman and Managing Director of Kuwaiti Interests for Financial Investments K.S.C., Kuwait;
- Chairman of Global Financial Holdings N.V., Netherlands;
- Vice Chairman of Al Massaleh Real Estate Company K.S.C., Kuwait.

Mehdi Ouazzani (Vice Chairman)

- Member of the Lawyer Council of Casablanca and Certified to the Supreme Court;
- Chairman and Chief Executive Officer of Es Saada Insurance and Reinsurance Company;
- Chairman of Essadotel Limited (Crowne Plaza), Casablanca;
- First Vice President of Grand Casablanca Regional Council;
- Member of the Casablanca Chamber of Commerce;
- Member of Ethical Team of the Morocco's Leadership Union (C.G.E.M.).

Fouad M.T. Alghanim

- Vice Chairman of Mobile Telephone Company K.S.C., Kuwait;
- President of Fouad Alghanim & Sons Group of Companies;
- Member of the Board of Medis Technologies, U.S.A.;
- Member of the Board of the Council on Foreign Relations, U.S.A.;
- Member of the Board of International Conference, U.S.A.;
- Member of the Board of United Bank of Kuwait, London;
- Member of the Board of Intercontinental Hotels Company, Cairo;
- Member of the Society for the Care of Arab Children, Kuwait.

Fawzi Al-Jouder

- General Manager of Kuwaiti Consulting and Investment Company.

Mohammed I.H. Marafie

- Chairman and Managing Director of Al Nour International Holding Co., Kuwait;
- Director of W.H. Ireland p.l.c., U.K.;
- Deputy Chairman of Gulf Cement Company, UAE.

Saad A.A. Al-Mutawa

- Chairman and Delegate Member of the Board entrusted for a number of touristic projects;
- Partner and Member of the Board of Abdel Aziz Al-Mutawa Group;
- Regional Manager for Al-Mutawa Group in North Africa;
- Vice President and Delegate Member of the various Boards of North African and Kuwaiti companies.

Duco Reinout Hooft Graafland

- President Dexteritas B.V.;
- Chairman of the Non-Executive Board of Beheer Maatschappij Catharijne;
- Member of the Supervisory Board of Carbo Holding;
- Chairman of the Board of a Dutch museum;
- Former Member of the Managing Board of Bank Mees & Hope N.V.;
- Former Member of the Executive Council of MeesPierson N.V.;
- Former Chairman of Theodoor Gilissen Bank;
- Former Member of the Supervisory Board of Friesland Bank Securities.

Marwan Ahmad Salamah

- General Manager of Orient Consulting Center, Kuwait;
- Chairman of KCPC K.S.C., Kuwait;
- Member of the Board of Kuwaiti Interests for Financial Investments Company K.S.C., Kuwait.

Hamad Musaed Bader Al-Sayer

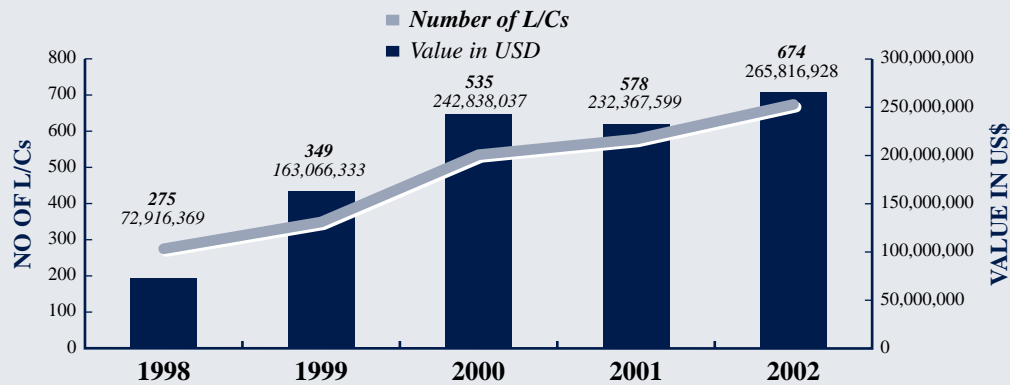
- Relationship Manager, Credit Department, National Bank of Kuwait;
- Director of Gulf Glass Manufacturing;
- Director of Musaed Bader Al-Sayer Est.

Francis J. Vassallo

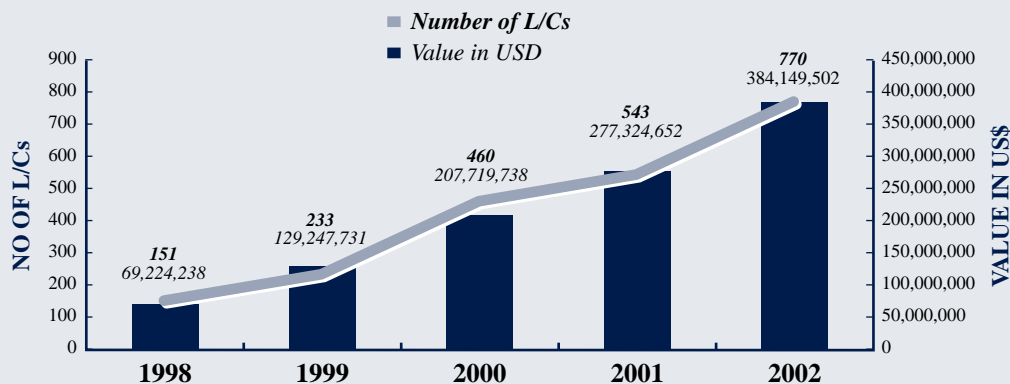
- President of Francis J. Vassallo & Associates;
- Former Governor of the Central Bank of Malta;
- Former Senior Executive of Chase Manhattan Bank Worldwide;
- Former Board Member of Chase Manhattan Bank subsidiary interests;
- Former Credit Investment Committee Member of Chase Manhattan Bank, Worldwide;
- Former Governor for Malta on the IMF;
- Former Alternate Governor for Malta at the EBRD;
- Former Ex-Officio appointment on the Board of Governors of the MFSC;
- Former Chairman of the Joint Banking Committee;
- Former Chairman of the Monetary Policy Council, CBM;
- Former Chairman of the Investment Policy Committee, CBM;
- Former Member of the Malta Council for Economic Development;
- Member of the Institute of Directors, London;
- Fellow of the Institute of Bankers, London;
- Speaker at many international conferences on topics including: Commodity Financing, Islamic Banking; Investment Management; Monetary Policy; Banking Supervision and Risk Management; Money Laundering; Institutional Investors and Stock Exchanges.

Operating Performance

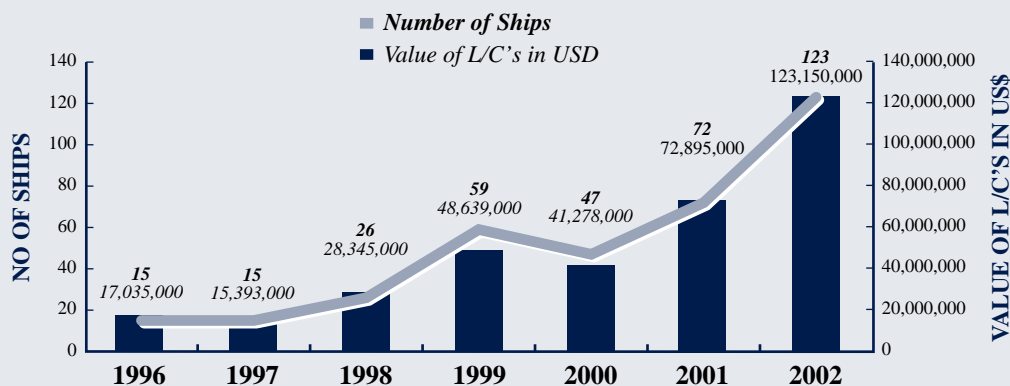
Outward Letters of Credit



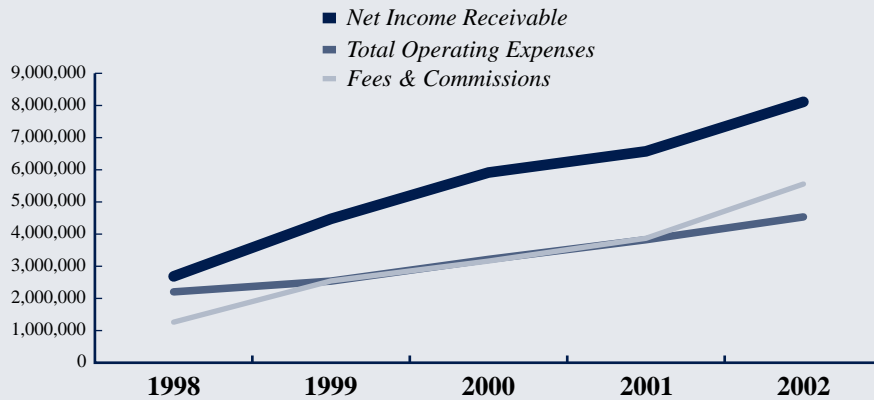
Inward Letters of Credit



Ship Scrapping

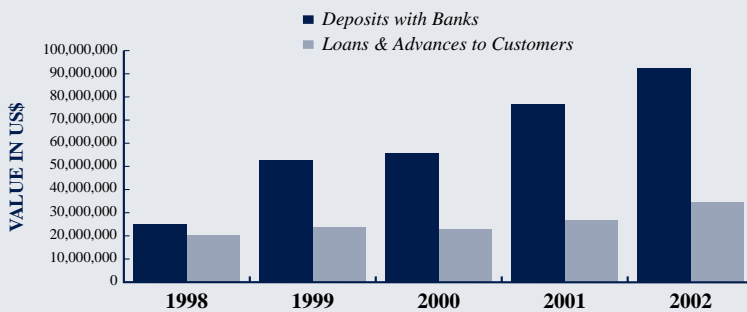


Expansion & Control

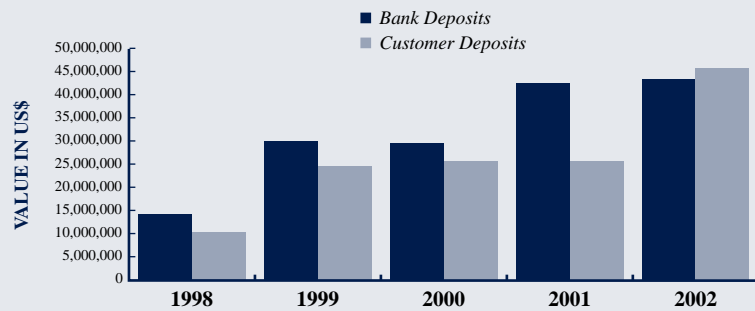


Real Terms

Assets

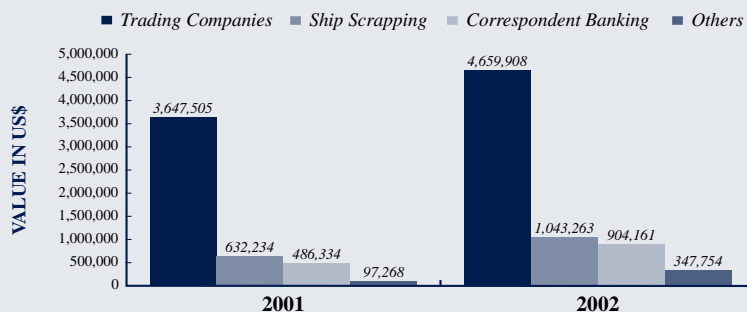


Liabilities



Our Business

in figures



in percentages

	2001	2002
• Trading Companies	75%	67%
• Ship Scrapping	13%	15%
• Correspondent Banking	10%	13%
• Others	2%	5%

Report of the Directors

for the year ended 31 December 2002

The Directors submit their Annual Report together with the audited financial statements of the Bank for the year ended 31 December 2002.

Principal Activities

The Bank is registered under the laws of the Republic of Malta, and in November 1994, it was granted its licence to carry on the business of banking as a credit institution in terms of Section 5 (1) of the Banking Act, 1994. The Bank's principal activity is that of providing short-term international trade finance to corporate traders and acts as an intermediary to other financial institutions for international settlements, forfaiting and loan syndications. The Bank also maintains accounts in currencies other than the Maltese Lira for residents and non-residents and provides credit card facilities to its customers.

Review of Business Development and State of Affairs

During the twelve-month period under review the Bank recognised the opportunities that exist in providing services to banks. The Bank therefore concentrated most of its marketing resources to develop relations with banks operating from developing countries of the African and Middle East regions. Essentially, in these regions, traders are still very dependant on traditional financial instruments to support their import requirements. Documentary letters of credit are still widely used and banks in these countries need supporting confirmation lines, foreign currency settlement facilities and other ancillary services.

The focus has been on the development of banking relationships in our target markets. The Bank has established new successful relationships with 44 new banks situated in different countries. New countries also marketed by the Bank include Ethiopia, Yemen, Kazakhstan and Ghana. This development has allowed the Bank to spread the risk and increase business volume. Customer services teams in Malta and London have been most successful in delivering an excellent service to existing and new customers of the Bank. FIMBank's trade related services and its specialist ship-scrap facilities are widely acknowledged as a superior product to that of its competitors. This has given the Bank a marketing edge that has proven extremely important to sustain its prevailing rate of growth over a period of deepening economic crises.

In 2002, the Bank generated a net operating income of USD8,113,035, a healthy 23% increase over 2001, despite further cuts in interest rates. Net fees and commissions increased from USD3.7 million to USD5.4 million, a 46% increase received from operating activities of the Bank. Interest revenues continued to fall, resulting in a net receivable of USD2.6 million. Although net interest income was at the same level as in the previous year, the latter was generated on a larger asset portfolio. The increase in income is attributable to fees and commissions generated from a substantial growth in business.

Administrative expenses increased by USD670,334, a third of which is attributable to personnel while the rest is spread over general overheads. During the period, the Bank continued to fill in key managerial positions while a number of junior clerks were employed to handle the increase in transaction volume. Although depreciation allocated for the period increased by 17%, the cost of other variables, related to the application of more human resources and business volume, such as rent and telecommunication expenses, were contained. Other increases in administrative overheads relate to professional consultancy, executive and other committee meetings and liability insurance.

The Bank's balance sheet and cash flow as at 31 December reflect that the Bank has maintained its rate of growth. It is most significant here to mention the increase of USD20 million in customer deposits, which is nearly double the balance of the previous year. The Bank's outstanding off-balance commitments also increased by USD40 million, reaching a total of approximately USD129 million as at year-end. However, while 2002 was a good year for development of new business, it also presented its difficulties in recoveries. As was the case with many large international banks, the depressed world economy and fraud took their toll on asset quality in 2002. FIMBank was no exception, and as shown in its profit and loss account, the Bank had to take a specific impairment allowance for uncollectibility of approximately USD9.9 million. Before taking into account the impairment allocation, profit generated from operations, amounted to of USD3,578,786. The high value of single transactions handled by the Bank exposes it to potential risks, such as fraud and country risk, where substantial amounts are involved. The amount stated relates to three separate situations.

After evaluating the circumstances of each case, the Board decided to take the most prudent approach, and took a full provision on these contested amounts while legal remedies are in process for their recovery in the shortest possible time. The Bank is doing its utmost to isolate the problems faced last year in order to allow the staff to concentrate their time and energy to develop business. Otherwise, the Bank is more than adequately liquid to sustain its growing business. Any recoveries made will be written back to the profit and loss account when they are received.

Early in 2002, the Bank reviewed the recommendations made by the Malta Stock Exchange (M.S.E.) in its "Code of Principles of Good Corporate Governance". The Bank, in its listing process only months before, had gone through a thorough evaluation exercise, and its standards, as a financial institution, were found to be sound and compliant with existing M.S.E. requirements. However, while the Code is not mandatory, the Bank acknowledged that in its recommendations the M.S.E. had introduced new standards, which upon review of existing structures showed that these could also be implemented for the benefit the Company.

The Bank is enhancing its controls within its organisational structure. Following the review and recommendations made, the Bank decided to segregate its front-office-international marketing functions, from its back-office credit administration and operational activities. For these functions to take full effect and benefit, the Bank stopped operating its international marketing activities through consultants but appointed them to full-time employment to enhance their commitment and loyalty towards the institution.

Within its budget, the Bank has also allowed for the employment of a senior credit officer, with hands-on experience in the international commodity markets. Once appointed, this executive officer will head a credit administration department responsible to analyse all credit proposals, including bank counterparts and country risks, recommend, perfect security and maintain the requisite levels of control expected to be fulfilled from this head office function.

Overall, the business volume is expected to continue increasing. Last year, the turnover of inward/outward letters of credit reached USD650 million, up by 28% over the previous year and ship-scrap totalled 123 transactions, with a value of business amounting to USD125 million. The Bank's marketing efforts to attract letters of credit and other payment processing business from banks also rendered excellent results. These are, of course, record levels in the core activities of the Bank, and are expected to continue rising each year. This growth was achieved with determination in delivering a dedicated service to customers against all odds and despite heavy competition.

Report of the Directors

for the year ended 31 December 2002

Future Business Development

The five-year business plan approved by the Board in 2001 is fundamentally tied with building upon its strengths in the specialist field of trade finance. The changes being made in its marketing division are a marked improvement on the tools employed to attain its medium term objectives. The direction may concentrate more on an equal drive in developing relations with banks as downstream correspondents and with corporate commodity traders in target markets. Simultaneously other spin-off business such as discounting and forfaiting, from which the Bank has already made good returns, will be given extra attention.

Late in 2002, the Malta Financial Services Authority issued a Category 2, Investment Services Licence to the Bank. This allows the Bank to offer its customers new products other than its comprehensive range of core banking services and those already actively marketed such as bulk payment-order processing and US Dollar denominated credit card facilities.

Today Malta is on the eve of a very important decision, affecting its political and economic future. Whether the country joins or not, it is evident that the improvements to its legal infrastructure and the introduction of European standards, have already had a positive impact on Malta's financial services sector. The Bank has always believed that Malta's acceptance within the European Union meant that the country would receive international recognition for having attained those minimum standards that made it eligible to join the Union. As a Banking institution established and operating from a country with the respected standards of the E.U., the Bank stands to benefit. The Bank will remain receptive to develop those opportunities that may materialise should Malta join in 2004.

Dividends and Reserves

In view of the particular circumstances and the prudent policy decision taken to make a full impairment allowance for uncollectibility, the Directors do not recommend the payment of a dividend. After the mentioned deduction, the balance of the profit and loss account of USD712,044 is being carried forward to reserves.

Directors

The directors who served during the financial period to date of the report were:

Board of Directors

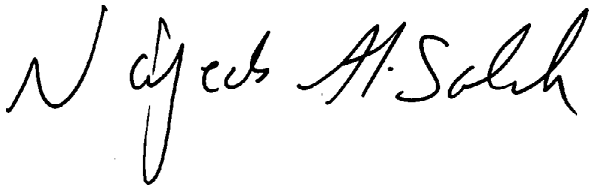
Mr. Najeeb H.M. Al-Saleh (*Chairman*),
Mr. Mehdi Ouazzani (*Vice Chairman*),
Mr. Fouad M.T. Alghanim,
Mr. Fawzi Al-Jouder,
Mr. Sayer B. Al-Sayer,
Mr. Mohammed I.H. Marafie,
Mr. Saad A.A. Al-Mutawa,
Mr. Duco Reinout Hooft Graafland
Mr. Marwan Ahmad Salamah
Mr. Francis J. Vassallo (co-opted)
Dr. John C. Grech (resigned)
Mr. Emanuel Ellul (resigned)

At the meeting of the 18 February 2003, the Board accepted the resignation of Mr. Emanuel Ellul and co-opted Mr. Francis J. Vassallo as Director until the next Annual General Meeting. Mr Ellul resigned from office due to other personal commitments. Dr. John C. Grech did not seek re-election at the Annual General Meeting held on 19 April 2002.

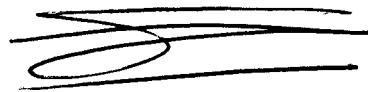
Auditors

The auditors Messrs. KPMG, Malta have signified their willingness to continue in office. A resolution proposing the reappointment of KPMG as auditors of the Bank will be submitted at the forthcoming Annual General Meeting.

Approved by the Board of Directors on the 18 February 2003 and signed on its behalf by:



MR. NAJEEB H.M. AL-SALEH
CHAIRMAN



MR. MEHDI OUAZZANI
VICE CHAIRMAN

Registered Address

7th Floor
Plaza Commercial Centre
Bisazza Street
Sliema, SLM 15
Malta

Statement of Compliance with the Principles of Good Corporate Governance

Introduction

As required by the Malta Stock Exchange Bye-Law 6.05.07 (ii), the Board of Directors (the “Board”) of First International Merchant Bank p.l.c. (the “Bank”) present their Statement of Compliance drawn up in terms of the Code of Principles of Good Corporate Governance “the Code” approved and issued by the Council of the Malta Stock Exchange in November 2001.

On the 16 February 2002, after making proper evaluation of the standards expected by the Code, the Board resolved to comply with the requirements of the Code and delegated its Executive Committee to review the internal structure of the Bank and the functions of the Board with its committees and make recommendations thereof. During the period, the Chairman and members of the committee held a number of meetings with senior management and together, with the assistance of professional consultants, identified and found solutions aimed towards achieving those standards of good corporate governance defined in the Code.

Board Responsibility

The Board is responsible for all the company’s affairs. The Board has, over the years, established other sub-committees formed of Directors and professional consultants to assist it in fulfilling its functions and achieve its objectives. A framework is in place to ensure that control is exercised over the Bank’s business and proper reporting is channeled to Board members to provide them with the essential information in their decision-making process.

The Board establishes policies and clear guidelines for the conduct of the Bank’s business. Implementation and monitoring is achieved through the active role of the Executive Committee, which is delegated by the Board to fulfill most of the regular operational and control functions essential for the banking institution. The Bank has in place a 5-year business plan that was approved by the Board of Directors during its meeting held on the 4 April 2001. This can be considered as the primary strategy document and business plan that is in place. The Board ensures that members of Board-appointed committees and senior executives are of the highest professional background, in possession of those skills essential to fulfill their duties diligently and thereby reflect the image of professional excellence expected by the Board.

The composition of the Executive Committee and Management Structure is regularly enhanced to meet the demands of organizational growth and business development. Thereby the Board is well assisted in discharging its responsibilities.

Board Composition and Proceedings of Directors

The composition of the Board may not be more than eleven Directors. Presently there are ten Directors. Three of them, including the Chairman, have been members of the Board since the inception of the company. Eight of the members represent a direct or indirect financial interest in the shareholding of the Bank while two other are independent.

Prior to an appointment on the Board, each member would have received a “fit and proper” clearance from the Malta Financial Services Authority in order to occupy the post. One is however directed to refer to the page in the Annual Report, which lists the Director’s other interests, to appreciate better the professional and business background of each individual Director.

Clauses 93 to 114 of the Bank’s Articles of Association clearly provide for the manner of appointment and retirement of Directors. Since its conversion to public status, the Board serves for a period of approximately one year and is re-appointed at every Annual General Meeting. The strong financial interest of some members ensures the essential element of continuity on the Board. Nominations for Directors are submitted prior to each AGM and a ballot is taken only if nominations exceed eleven persons.

At the date of the approval by the Board of Directors of this Statement of Compliance the Board is composed of the following non-executive Directors:

	Date of appointment	No. of own shares held in the Bank
Mr Najeeb Hamed Musaad Al- Saleh - Chairman	08/11/1994	300,000
Mr Mehdi Ouazzani	08/11/1994	1,000,000
Mr Fouad M.T. Alghanim	09/11/1997	NIL
Mr Saad A. A. Al-Mutawa	23/03/1999	80,000
Mr Mohamed Marafie	08/11/1994	3,000,000
Mr Duco Reinout Hooft Graafland	14/11/2000	NIL
Mr Fawzi Al-Jouder	09/11/1997	NIL
Mr Marwan Ahmad Salamah	14/11/2000	600,000
Mr. Francis J. Vassallo (co-opted)	18/02/2003	NIL
Mr Hamad M.B.M. Al-Sayer	19/04/2002	NIL

The Board accepted the resignation of Mr. Emanuel Ellul and appointed Mr. Francis J. Vassallo for the interim period until the next AGM. Mr. Vassallo has been member of the Executive Committee of the Bank since August 1999 and it is expected that he will be nominated for re-appointment on the next Board.

The proceedings of Board meetings are in accordance with the Bank's Articles of Association. Due to the composition of the Board and the different nationality of the Directors, members have to travel to a convenient location to meet, holding at least one meeting in Malta, while London and Kuwait serve also as alternative venues. During 2002, the Board convened one meeting in Malta on 18 April 2002 and held two other meetings in February and August, with quorum by proxy, to approve the publication of the annual and interim financial statements. The Board has resolved to meet more frequently in the future. It is envisaged that meetings in person will be held regularly every quarter.

Preparatory work for Board meetings is coordinated between the Chairman, Executive Management and the Board Secretary. The Chairman of the Board also chairs the Executive Committee, which meets more regularly than the Board. Primarily, issues are discussed at this level before recommendations and the essential preparatory work is done to facilitate decision-taking at Board level. Together with the Agenda, all members are provided with full supporting documentation for each respective item on the list. These documents are normally delivered by courier well ahead of each meeting. This allows the Directors to prepare well for the meetings. At Board meetings, the Board Secretary records proceedings of meetings and once these are certified as correct by the Board, they are kept at the Bank's registered office.

Board Appointed Committees

As mentioned earlier, the Board has, over the years, appointed persons, whose experience and professional background, were most suited to fulfill identified roles on the various committees and in senior management, to ensure that the Board's delegated responsibilities are carried out in accordance with principles of best practice in this industry. The following are the appointed committees:

Executive Committee,
Audit Committee,
Asset Liability Committee and
International Advisory Board.

Statement of Compliance with the Principles of Good Corporate Governance

The Executive Committee

The Board of Directors formalised the delegated authorities currently assigned to the Executive Committee and Senior Officers of the Bank in a document entitled "Authorities of the Executive Committee, Chairman and Officers of the Bank" presented at a meeting held on 9 November 2001.

The Bank's competitive advantage is its high quality customer service and responsiveness to market needs. To achieve this, the Board has delegated to the Executive Committee the authority to act with quick decision-making on operational issues while ensuring effective risk management, so that the Bank can meet its objective. The Committee receives regular reports from the Financial Controller and the Operating Divisions to enable it to make decisions and monitor the Bank's risk exposures.

The Executive Committee is the most senior risk management committee of the Bank. It has overall responsibility and accountability for establishing and reviewing an appropriate framework within which to measure and control all financial and non-financial risks attributable to the various products and overall business of the Bank.

The Executive Committee is made up of four members who currently are the Chairman, Mr Najeeb H. M. Al-Saleh, Board Directors, Mr Mohamed I. H. Marafie and Mr Francis J. Vassallo and an independent member, Mr Robert L. Speelman. Mr. Francis J. Vassallo also chairs the Asset and Liability Committee created to support the risk monitoring function of the Committee. The Bank's President/Chief Executive, is regularly invited to attend these meetings. The Committee met on five occasions during the year 2002 and all its members are in regular contact with senior management through informal meetings held in Malta and abroad, and through the use of other means of telecommunication, such as teleconferencing.

The Audit Committee

The Board has set up an Audit Committee made up of three members who are non-executive Directors. The Audit Committee assists the Board of Directors in fulfilling its monitoring role of internal systems and takes a supervisory responsibility of reviewing the financial statements and disclosures before their publication.

The Audit Committee met on two occasions during the year 2002. The three members and the internal auditor, who acts also as secretary on the Audit Committee, attended both meetings. A senior executive also participates to provide the required information to ensure proper understanding of the operational aspects of the business. The Bank's external auditors, attended the meeting held in Malta on the 18 April 2002. The Committee has resolved to forthwith invite the Bank's external auditors to all its meetings.

Until the date of his resignation, Mr. Emanuel Ellul was chairing the Audit Committee. The Board is appointing another Director Mr. Duco Reinout Hooft Graafland to chair the Audit Committee. The appointment is effective from 1 February 2003. The members of the committee together with the internal auditor and the external auditors and a senior executive of the Bank met to review the 2002 financial statements and report accordingly to the Board.

The Bank employs the services of an experienced bank internal auditor who reviews processes and procedures to ensure effectiveness of internal systems of control. Both the Committee's and the Internal Auditor's terms of reference clearly stipulate their independence from all operations and management of the Bank.

Asset and Liability Committee

The Asset and Liability Committee (ALCO) is responsible to establish appropriate Asset/Liability Management (ALM) policies, oversee and supervise the ALM function and review the ALM strategy. The Committee is responsible to issue guidelines on the types of instruments the Bank can operate in and determine the level of funding required based on the quantum of business expected for the future. The strategy includes the review and management of both on-balance and off-balance sheet assets and liabilities. It reviews the cash flow and hedged positions, and the investments and loan portfolio of the Bank.

The Committee is composed of a member of the Executive Committee, Mr Francis J. Vassallo who has now been co-opted as Director, and who acts as Chairman, and the Bank's President and General Manager - Head Office. The Senior Vice President - International Division and the Financial Controller are asked to attend these meetings. During the year 2002, the Committee met on six occasions.

International Advisory Board

The International Advisory Board is responsible to monitor the Bank's strategy in line with the 5-year plan approved by the Board of Directors and to identify new market opportunities and recommend changes in future strategy to gain advantage from identified opportunities.

The Board is chaired by Dr John C. Grech, an independent member, Mr Najeeb H.M Al-Saleh, Chairman of the Board of Directors, Mr. Jacques Leblanc and Mr. Abdulaziz S. Al-Saleh, both Independent members. The President of the Bank is asked to attend the meetings of the International Advisory Board. The Board met twice during the year 2002.

The Bank's Management

The Bank's Management is responsible for the daily operations of the Bank, regular reporting to the Board of Directors and its Committees and compliance with established internal policies and regulatory directives. The team comprises:

- a. President / Chief Executive Officer;
- b. General Manager - Head Office;
- c. Senior Manager - Operations;
- d. Senior Manager - Information Technology & Administration;
- e. Senior Vice President - International Division
- f. Financial Controller.

Clear guidelines are issued to Management by the Board upon recommendations made by the Executive Committee. These guidelines are intended to define their responsibilities within the organisational structure, including their respective levels of authority, their ability to bind the company and their reporting line.

Terms of appointment

One of the recommendations of the Code, which the Board has decided to adopt is to formalise its Remuneration Policy and to delegate its implementation to the Executive Committee. This policy has the overriding objective to enable the Bank to attract, retain and motivate individuals of the highest caliber to serve as Directors and officers of the Bank.

Statement of Compliance with the Principles of Good Corporate Governance

Prior to the formalisation of its Remuneration Policy, the Bank considered the fact that the Directors had to travel to an agreed venue whenever a Board Meeting is convened and paid an allowance of USD1,500 per meeting plus reimbursement of travelling and accommodation expenses, depending on each individual's attendance at Board Meetings.

The maximum aggregate emoluments of all Directors as outlined in Clauses 109 of the Articles of Association is determined by the Company at its Annual General Meeting. Directors' emoluments for the financial year under review amounted to USD123,000. The Board has resolved to disclose Directors' fees in an aggregate format rather than as separate figures for each director as required by the Code.

Commitment to Shareholders and an Informed Market

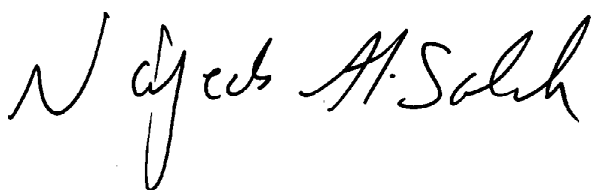
The organisation is geared to ensure due compliance with the reporting directives of the MFSA and MSE in a timely and comprehensive manner. The Bank's interim and annual financial statements are issued in accordance with regulatory requirements.

Although there is no compulsory requirement, the Bank has adopted a policy to hold meetings with the financial intermediaries coinciding with the publication of its annual and interim financial statement to provide further insight on its performance over a given period and the potential development of the Bank's business.

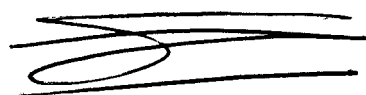
In accordance with the Malta Stock Exchange Bye-Laws, the Bank has identified those persons within the organization who could have access to market sensitive information. Each Director, committee member, executive, senior manager and employee who has been so identified is individually advised in writing that they are prohibited to transact in the Bank's shares or to divulge sensitive information to third parties during the blackout period. These periods are normally two-month time windows and coincide with the preparation, approval and publication of the interim and annual financial statements of the Bank.

As is standard practice, all eligible shareholders are notified of the Annual General Meeting in accordance with regulatory requirements and this notification details the proceedings that will be followed during the meeting and lists all the proposed resolutions for consideration and approval by the Annual General Meeting. The meeting is normally held in April of each year. The Annual Report and Financial Statements for the year ended 31 December accompany the notification. Besides normal statutory disclosures, the Annual Report contains detailed information about the Bank's activities.

Approved by the Board of Directors on 18 February 2003 and signed on its behalf by:



MR. NAJEEB H.M. AL-SALEH
CHAIRMAN



MR. MEHDI OUAZZANI
VICE CHAIRMAN

Report of the Auditors

**To the Members of First International Merchant Bank p.l.c.
Pursuant to the Malta Stock Exchange Bye-Law 6.05.07 (iii)**

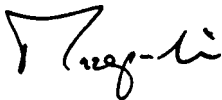
The Malta Stock Exchange Bye-Law 6.05.07(ii) requires the company's Directors to include in their Annual Report a Statement of Compliance to the extent to which they have adopted the Code of Principles of Good Corporate Governance, and the effective measures that they have taken to ensure compliance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

Our responsibility, as auditors of the company, is laid down by the Malta Stock Exchange Bye-Law 6.05.07(iii), which requires us to include a report of 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 of 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 Directors' Report and Financial Statements.

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 of the effectiveness of the company's corporate governance procedures or its risk and control procedures, nor on the ability of the company to continue in operation existence.

In our opinion, the Statement of Compliance set out on pages 14 to 18 has been properly prepared in accordance with the requirements of the Malta Stock Exchange Bye-Law 6.05.07(iii).



Ray Azzopardi (Partner) for and on behalf of

KPMG
Certified Public Accountants and Auditors

18 February 2003

Statement of Directors' Responsibilities

The following statement, which should be read in conjunction with the Report of the Auditors on page 19, is made to enable shareholders to distinguish the respective responsibilities of the Directors and of the Auditors in relation to the financial statements.

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

In preparing these 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 properly prepared in accordance 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.



Signed on behalf of the Board
Francesco Apap Bologna
Company Secretary

18 February 2003

Report of the Auditors

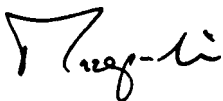
**To the Members of
First International Merchant Bank p.l.c.**

We have audited the financial statements set out on pages 22 to 44. As described on page 20, these financial statements are the responsibility of the Bank's Directors. Our responsibility is to express an opinion on these financial statements based on our audit. We are also required to report whether we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purpose of our audit, whether in our opinion proper books of account have been kept by the Bank so far as appears from our examination thereof and whether the financial statements are in agreement with the books.

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting 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 purpose 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 31 December 2002 and of its loss, changes in equity and cash flows for the year then ended in accordance with International Financial Reporting Standards, and have been properly prepared in accordance with the provisions of the Companies Act, 1995 and the Banking Act, 1994, enacted in Malta.



Ray Azzopardi (Partner) for and on behalf of

KPMG
Certified Public Accountants and Auditors

18 February 2003

Profit & Loss Account

for the year ended 31 December 2002

		2002	2001
	Note	USD	USD
Interest receivable on loans and advances and balances with Central Bank of Malta	3	3,914,668	4,538,929
Interest payable	4	(1,265,498)	(1,867,926)
Net interest income		2,649,170	2,671,003
Fees and commissions receivable		5,557,855	3,870,272
Fees and commissions payable		(603,818)	(424,406)
Trading profit from foreign exchange activities		459,828	257,001
Other operating income	28	50,000	200,000
Operating income		8,113,035	6,573,870
Administrative expenses	5	(4,271,503)	(3,601,169)
Depreciation		(262,746)	(224,486)
Net impairment losses	6	(9,935,604)	(277,197)
(Loss)/Profit on ordinary activities before tax	7	(6,356,818)	2,471,018
Tax on profit on ordinary activities	8	227,919	(333,468)
(Loss)/Profit for the year		(6,128,899)	2,137,550
(Loss)/Earnings per share	9	(13.32c)	5.02c

The profit and loss account is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 27 to 44.

Balance Sheet

as at 31 December 2002

		2002	2001
	Note	USD	USD
ASSETS			
Balances with Central Bank of Malta and cash	10	2,758,724	2,477,758
Financial assets held for trading	11	10,072	-
Investments	12	133,600	85,538
Loans and advances to banks	13	90,458,355	76,857,419
Loans and advances to customers	14	24,403,487	25,368,400
Tangible fixed assets	15	1,180,518	895,004
Deferred tax asset	16	618,777	29,855
Other assets		205,658	225,249
Prepayments and accrued income	17	329,217	262,998
Total assets		120,098,408	106,202,221
LIABILITIES			
Amounts owed to banks	18	43,197,825	42,383,463
Amounts owed to customers	19	45,725,136	25,573,293
Current taxation		135,996	183,687
Accruals and deferred income	20	624,791	645,268
		89,683,748	68,785,711
SHAREHOLDERS' FUNDS			
Called up issued share capital	21	23,000,000	23,000,000
Share premium	22	4,021,575	4,034,140
Other reserve	23	2,681,041	2,689,427
Dividend reserve		-	852,000
Profit and loss account		712,044	6,840,943
		30,414,660	37,416,510
Total liabilities		120,098,408	106,202,221

Balance Sheet

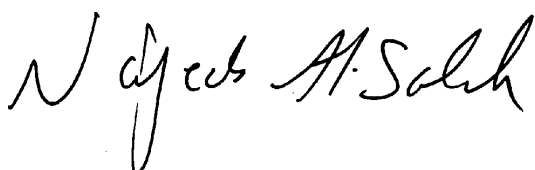
as at 31 December 2002

		2002	2001
	Note	USD	USD
MEMORANDUM ITEMS			
Contingent liabilities	24	3,174,578	7,277,376
Commitments	25	128,993,598	88,337,309

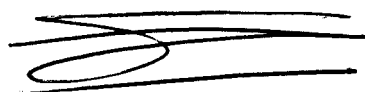
The official middle rate of exchange between the US Dollar and the Maltese Lira issued by the Central Bank of Malta for 31 December 2002 stood at 2.4818.

The balance sheet is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 27 to 44.

The financial statements on pages 22 to 44 were approved by the Board of Directors on 18 February 2003 and were signed on its behalf by:



Mr. Najeeb H.M. Al-Saleh
Chairman



Mr. Mehdi Ouazzani
Vice Chairman

Statement of Changes in Equity

for the year ended 31 December 2002

	Called up Issued Share Capital	Share Premium	Reserve for own Shares	Profit & Loss Account	Dividend Reserve	Other Reserve	Total
	USD	USD	USD	USD	USD	USD	USD
At 1 January 2001	20,000,000	-	-	5,555,393	-	-	25,555,393
Own shares acquired	-	-	(2,000,000)	-	-	-	(2,000,000)
Own shares sold	-	-	2,000,000	-	-	2,689,427	4,689,427
Issue of share capital	3,000,000	4,034,140	-	-	-	-	7,034,140
Profit for the year	-	-	-	2,137,550	-	-	2,137,550
Proposed dividends				(852,000)	852,000		
At 1 January 2002	23,000,000	4,034,140	-	6,840,943	852,000	2,689,427	37,416,510
Profit for the year	-	-	-	(6,128,899)	-	-	(6,128,899)
Adjustment to prior period share issue costs	-	(12,565)	-	-	-	(8,386)	(20,951)
Dividends paid	-	-	-	-	(852,000)	-	(852,000)
At 31 December 2002	23,000,000	4,021,575	-	712,044	-	2,681,041	30,414,660

The statement of changes in equity is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 27 to 44.

Cash Flow Statement

for the year ended 31 December 2002

	2002	2001
<i>Note</i>	<i>USD</i>	<i>USD</i>
Cash flows from operating activities		
Interest and commission receipts	9,301,907	8,673,020
Exchange gain received	449,756	257,001
Interest and commission payments	(1,846,737)	(2,338,587)
Payments to employees and suppliers	(4,192,052)	(3,569,409)
	<hr/>	<hr/>
Operating profit before changes in operating assets/liabilities	3,712,874	3,022,025
Decrease/(increase) in operating assets:		
- Reserve deposit with Central Bank of Malta	(586,300)	226,435
- Loans and advances to customers and banks	(16,448,536)	(588,203)
(Decrease)/increase in operating liabilities:		
- Amounts owed to customers and banks	20,151,843	(1,783,914)
	<hr/>	<hr/>
Cash generated from operations	6,829,881	876,343
Income Tax Paid	(408,694)	(316,834)
	<hr/>	<hr/>
Net cash from operating activities	6,421,187	559,509
	<hr/>	<hr/>
Cash flows from investing activities		
- Payments to acquire tangible fixed assets	(534,153)	(217,744)
- Purchase of equity shares	(48,062)	(32,695)
	<hr/>	<hr/>
Cash outflows from investing activities	(582,215)	(250,439)
	<hr/>	<hr/>
Cash flows from financing activities		
- Proceeds from issue of share capital	-	9,723,567
- Dividends paid	(852,000)	-
	<hr/>	<hr/>
Cash inflows from financing activities	(852,000)	9,723,567
	<hr/>	<hr/>
Increase in cash and cash equivalents	4,986,972	10,032,637
	<hr/>	<hr/>
- Effect of exchange rate changes on cash and cash equivalents	1,044,313	389,028
- Net increase in cash and cash equivalents	3,942,659	9,643,609
	<hr/>	<hr/>
Increase in cash and cash equivalents	4,986,972	10,032,637
Cash and cash equivalents at beginning of year	31,576,549	21,543,912
	<hr/>	<hr/>
Cash and cash equivalents at end of year	26 36,563,521	31,576,549
	<hr/>	<hr/>

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 27 to 44.

Notes to the Financial Statements

for the year ended 31 December 2002

1. BASIS OF PREPARATION

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

The financial statements are prepared on a fair value basis for financial assets and liabilities held for trading and available-for-sale assets, except those for which a reliable measure of fair value is not available. Other financial assets and liabilities and non-financial assets and liabilities are stated at amortised cost or historical cost.

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

The Bank maintains its accounting records in US Dollars. These financial statements have been prepared in US Dollars in compliance with Section 187 (1) of the Companies Act, 1995.

2. SIGNIFICANT ACCOUNTING POLICIES

a) Revenue Recognition

Interest income is recognised in the profit and loss account 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.

b) Financial Instruments

i) Classification

Trading instruments are those that the Bank principally holds for the purpose of short-term profit taking. These include investments, derivative contracts, and liabilities from short sales of financial instruments. All trading derivatives in a net receivable position (positive fair value) are reported as trading assets. All trading derivatives in a net payable position (negative fair value) are reported as trading liabilities.

Originated loans and receivables are loans and receivables created by the Bank providing money to a debtor other than those created with the intention of short-term profit taking. Originated loans and receivables comprise loans and advances to banks and customers.

Held-to-maturity assets are financial assets with fixed or determinable payments and fixed maturity that the Bank has the intent and ability to hold to maturity. These include loans and advances to banks and customers and certain debt investments.

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

ii) Recognition

The Bank recognises financial assets held for trading and available-for-sale assets on the date it commits to purchase the assets. From this date any gains or losses arising from changes in fair value of the assets are recognised.

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

Notes to the Financial Statements

for the year ended 31 December 2002

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 whose fair value cannot be reliably measured is stated at cost, including transaction costs, less impairment losses.

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

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.

c) *Derecognition*

A financial asset is derecognised when the Bank 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 at the date the Bank commits to sell the assets. The Bank 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 Bank.

d) *Impairment*

Financial assets are reviewed at each balance date to determine whether there is objective evidence of impairment. If any such indications exist, the asset's recoverable amount is estimated.

i) *Originated loans and advances*

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

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

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

ii) *Financial assets remeasured to fair value directly through equity*

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

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

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

e) **Tangible Fixed Assets and Depreciation**

Tangible fixed assets are stated at cost less accumulated depreciation. Depreciation is calculated on a straight line basis so as to write off the cost of the assets over their estimated useful economic lives as follows:-

	Years
Furniture, fixtures and fittings	14
Computer equipment	5
Computer system	7
Premises	50
Other	5-14

f) **Taxation**

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

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Notes to the Financial Statements

for the year ended 31 December 2002

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

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

g) Employee Benefits

The Bank contributes towards the state pension in accordance with local legislation. Related costs are recognised as an expense during the year in which these are incurred.

h) Equity Related Compensation Benefits

The share option scheme allows Executives to acquire shares in the Bank. The option exercise price is fixed on the date of the grant and no compensation cost or obligation is recognised. When the options are exercised, equity is increased by the amount of the proceeds received. Bonuses received by employees are based on target performance. The estimated amount of the bonus is recognised as an expense on the accruals basis.

i) Foreign Currency

Transactions in foreign currencies have been converted into US Dollars at the rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies have been translated into US Dollars at the rates of exchange ruling at balance sheet date. Gains and losses arising from exchange differences are dealt with in the profit and loss account, except gains and losses resulting from the translation of available-for-sale non-monetary assets, which are recognised in equity.

j) Cash and Cash Equivalents

Cash and cash equivalents comprise cash and balances with the Central Bank of Malta and short-term highly liquid investments with maturities of three months or less when purchased, including treasury bills and other bills eligible for rediscounting with the central bank.

k) Segment Reporting

A segment is a distinguishable component of the Bank 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

	2002 USD	2001 USD
On loans and advances to banks	1,723,052	1,964,635
On loans and advances to customers	1,540,090	1,889,221
On balances with Central Bank of Malta	43,317	65,629
	<hr/>	<hr/>
	3,306,459	3,919,485
On other trade finance activities	608,209	619,444
	<hr/>	<hr/>
	3,914,668	4,538,929
	<hr/>	<hr/>

4. INTEREST PAYABLE

	2002	2001
	USD	USD
On amounts owed to banks	743,430	869,371
On amounts owed to customers	522,068	998,555
	<u>1,265,498</u>	<u>1,867,926</u>

5. ADMINISTRATIVE EXPENSES

	2002	2001
	USD	USD
Staff costs		
- wages, salaries and allowances	1,720,266	1,497,498
- social security costs	75,553	53,578
Other administrative expenses	2,475,684	2,050,093
	<u>4,271,503</u>	<u>3,601,169</u>

<i>Average number of Employees</i>	<i>Number</i>	<i>Number</i>
Executive and senior managerial	7	7
Other managerial, supervisory and clerical	48	39
Others	5	3
	<u>60</u>	<u>49</u>

The Bank has Executive Share Option Scheme Rules that were approved by the shareholders by an extraordinary resolution dated 28 April 2001. Under the Executive Share Option Scheme Rules, the Bank awards share options to executives for targeted performance based on the results of the proceeding year at nil consideration.

Movements in the number of share options held by executives are as follows:

	2002	2001
	No.	No.
As at 1 January	138,580	-
Issued	400,000	138,580
	<u>435,580</u>	<u>138,580</u>
As at 31 December	435,580	138,580

Details of share options granted during the period:

Exercise period	01.01.05	01.01.03
	to	to
	31.12.09	31.12.07
Exercise price per USD0.50 share	USD 1.285	USD 0.5845

Notes to the Financial Statements

for the year ended 31 December 2002

6. NET IMPAIRMENT LOSSES

	2002 USD	2001 USD
Write downs:		
Loans and advances to banks		
- specific allowances	(1,630,920)	-
	<hr/>	<hr/>
	(1,630,920)	-
	<hr/>	<hr/>
Loans and advances to customers		
- specific allowances	(8,365,683)	(223,475)
- general allowances	-	(53,722)
	<hr/>	<hr/>
	(8,365,683)	(277,197)
	<hr/>	<hr/>
	(9,996,603)	(277,197)
	<hr/>	<hr/>
Reversals:		
Loans and advances to customers		
- general allowances	60,999	-
	<hr/>	<hr/>
Net Impairment losses	(9,935,604)	(277,197)
	<hr/>	<hr/>

7. (LOSS)/PROFIT ON ORDINARY ACTIVITIES BEFORE TAX

	2002 USD	2001 USD
Profit before tax is stated after charging:		
Auditors' remuneration	42,811	34,326
	<hr/>	<hr/>
Directors' Remuneration:		
Fees	75,000	26,250
Other emoluments	48,000	43,451
	<hr/>	<hr/>
	123,000	69,701
	<hr/>	<hr/>

8. TAX ON PROFIT ON ORDINARY ACTIVITIES

	2002 USD	2001 USD
Current tax expense - income tax at 35% on the taxable profit for the year comprises		
- current	(361,003)	(353,043)
- deferred	588,922	19,575
	<hr/>	<hr/>
	227,919	(333,468)
	<hr/>	<hr/>

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

	2002 USD	2001 USD
(Loss)/Profit on ordinary activities before tax	(6,356,818)	2,471,018
Tax credit/(expense) at the applicable rate of 35%	2,224,887	(864,856)
Tax effect of non deductible expenses	(8,543)	(11,097)
Tax effect of temporary differences previously not recognised	8,504	(12,637)
Tax effect of allowances received in terms of Income Tax Act exemption order	-	555,122
Tax effect of temporary differences not recognised	(1,996,929)	-
	<hr/>	<hr/>
Tax on profit on ordinary activities	227,919	(333,468)
	<hr/>	<hr/>

9. (LOSS)/EARNINGS PER SHARE

The calculation of basic (loss)/earnings per share at 31 December 2002 was based on the loss (2001: profit) attributable to ordinary shareholders of USD6,128,899 (2001: USD2,137,550) and the number of ordinary shares in issue during the year ended 31 December 2002 of 46,000,000 (2001: weighted average 42,542,765).

10. BALANCES WITH CENTRAL BANK OF MALTA AND CASH

	2002 USD	2001 USD
Balances with the Central Bank of Malta	2,726,224	2,412,101
Cash	32,500	65,657
	<hr/>	<hr/>
	2,758,724	2,477,758
	<hr/>	<hr/>

Balances with the Central Bank of Malta include a reserve deposit in terms of Section 37 of the Central Bank of Malta Act, Cap. 204 amounting to USD2,574,540 (2001: USD1,988,240).

11. FINANCIAL INSTRUMENTS HELD-FOR-TRADING

	2002 USD	2001 USD
<i>Financial assets held for trading</i>		
	<hr/>	<hr/>
Derivative financial instruments	10,072	-
	<hr/>	<hr/>

Notes to the Financial Statements

for the year ended 31 December 2002

	Notional amount with remaining life of:			Fair value	
	Less than three months	Between three months and one year	More than one year	Total	2002 Assets
	USD	USD	USD	USD	USD
Currency derivatives					
Forward exchange contracts	-	4,012,470	-	4,012,470	10,072

12. INVESTMENTS

Investments comprise available-for-sale equity instruments in unlisted entities as follows:

	2002 USD	2001 USD
Foreign	111,405	63,343
Local	22,195	22,195
	<u>133,600</u>	<u>85,538</u>

There is no market for these investments, and there have not been any recent transactions that provide evidence of the current fair value. Discounted cash flow techniques would not provide a reliable measure of fair value for these equity instruments. Accordingly, these instruments are stated at cost less impairment losses.

13. LOANS AND ADVANCES TO BANKS

	2002 USD	2001 USD
Repayable on call and at short notice	12,861,524	5,680,858
Term loans and advances	79,227,751	71,176,561
Total loans and advances to banks	<u>92,089,275</u>	<u>76,857,419</u>
Allowances for uncollectibility - specific	(1,630,920)	-
Net loans and advances to banks	<u>90,458,355</u>	<u>76,857,419</u>

Loans and advances to banks include blocked funds amounting to USD 655,293 pursuant to US Sanctions.

14. LOANS AND ADVANCES TO CUSTOMERS

	2002 USD	2001 USD
Repayable on call and at short notice	11,981,435	12,624,944
Term loans and advances	21,828,098	13,844,818
	<hr/>	<hr/>
Total loans and advances to customers	33,809,533	26,469,762
Allowances for uncollectibility	(9,406,046)	(1,101,362)
	<hr/>	<hr/>
Net loans and advances to customers	24,403,487	25,368,400
	<hr/>	<hr/>
	2002 USD	2001 USD
Allowances for uncollectibility		
- specific allowances	8,939,061	573,378
- general allowances	466,985	527,984
	<hr/>	<hr/>
	9,406,046	1,101,362
	<hr/>	<hr/>

Loans and advances to customers include a term loan to a related company amounting to USD1,706,092 bearing interest at 4.02% per annum and repayable within one month.

The aggregate amount of impaired loans and advances to customers amounted to USD10,117,871 (2001: USD2,182,274).

The following industry concentrations, of loans and advances are considered significant

	2002 USD	2001 USD
Industrial raw materials	14,253,116	13,388,564
Ship scrapping/pre-demolition	13,522,045	4,751,973
Wholesale and retail trade	3,575,324	7,114,662
Other services	2,459,048	1,214,563
	<hr/>	<hr/>
	33,809,533	26,469,762
	<hr/>	<hr/>

Notes to the Financial Statements

for the year ended 31 December 2002

15. TANGIBLE FIXED ASSETS

	Premises USD	Computer System USD	Furniture, Fixtures & Fittings USD	Computer Equipment USD	Others USD	Total USD
Cost						
At 1 January 2002	-	573,380	251,880	385,450	632,753	1,843,463
Additions during year	221,708	83,258	-	102,297	140,997	548,260
At 31 December 2002	221,708	656,638	251,880	487,747	773,750	2,391,723
Depreciation						
At 1 January 2002	-	163,821	69,955	224,024	490,659	948,459
Charge for year	4,435	93,806	17,991	74,502	72,012	262,746
At 31 December 2002	4,435	257,627	87,946	298,526	562,671	1,211,205
Net Book Amount						
At 31 December 2002	217,273	399,011	163,934	189,221	211,079	1,180,518
At 31 December 2001	-	409,559	181,925	161,426	142,094	895,004

16. DEFERRED TAX ASSET

	2002 USD	2001 USD
The deferred tax asset is analysed as follows:		
Tax effect of temporary differences relating to:		
- excess of capital allowances over depreciation	(15,609)	(26,607)
- allowances for uncollectibility	634,386	56,462
	<u>618,777</u>	<u>29,855</u>

17. PREPAYMENTS AND ACCRUED INCOME

	2002 USD	2001 USD
Accrued income	177,682	100,884
Prepayments	151,535	162,114
	<u>329,217</u>	<u>262,998</u>

18. AMOUNTS OWED TO BANKS

	2002	2001
	USD	USD
Term Deposits	30,767,498	35,958,687
Repayable on Demand	12,430,327	6,424,776
	<hr/>	<hr/>
	43,197,825	42,383,463
	<hr/>	<hr/>

19. AMOUNTS OWED TO CUSTOMERS

	2002	2001
	USD	USD
Term deposits	16,545,276	9,469,661
Repayable on demand	29,179,860	16,103,632
	<hr/>	<hr/>
	45,725,136	25,573,293
	<hr/>	<hr/>

20. ACCRUALS AND DEFERRED INCOME

	2002	2001
	USD	USD
Accrued interest	52,257	55,411
Other	572,534	589,857
	<hr/>	<hr/>
	624,791	645,268
	<hr/>	<hr/>

21. SHARE CAPITAL

	2002		2001	
	Shares of 50 cents		Shares of 50 cents	
	<i>Number</i>	<i>Value</i>	<i>Number</i>	<i>Value</i>
	<i>000's</i>	<i>USD000's</i>	<i>000's</i>	<i>USD000's</i>
Authorised				
Ordinary shares	100,000	50,000	100,000	50,000
Issued and fully paid up				
Ordinary shares	<hr/>	<hr/>	<hr/>	<hr/>
	46,000	23,000	46,000	23,000
	<hr/>	<hr/>	<hr/>	<hr/>

22. SHARE PREMIUM

The share premium represents the difference between the net proceeds on the issue of 6,000,000 ordinary shares and their nominal value. This reserve is non-distributable.

23. OTHER RESERVE

The reserve represents the difference between the net proceeds received on the sale and the cost of acquisition of own shares.

Notes to the Financial Statements

for the year ended 31 December 2002

24. CONTINGENT LIABILITIES

	2002 USD	2001 USD
Guarantee obligations incurred on behalf of third parties	3,174,578	7,277,376

25. COMMITMENTS

	2002 USD	2001 USD
Undrawn credit facilities	9,077,260	9,302,490
Documentary credits	70,480,644	46,716,432
Risk Participations	1,000,000	1,000,000
Confirmed Letters of Credit	48,435,694	31,318,387
	<u>128,993,598</u>	<u>88,337,309</u>

The Bank has total assigned credit limits to customers amounting to USD187,106,872 of which USD94,389,248 had been sanctioned as at balance sheet date.

26. CASH AND CASH EQUIVALENTS

	2002 USD	2001 USD
Analysis of balances of cash and cash equivalents		
Cash	184,184	489,518
Loans and advances to banks	71,566,139	67,580,671
Amounts owed to banks	(35,186,802)	(36,493,640)
	<u>36,563,521</u>	<u>31,576,549</u>
Adjustment to reflect balances with contractual maturity of more than three months	13,455,733	5,375,165
	<u>50,019,254</u>	<u>36,951,714</u>
At 31 December		
Analysed in the balance sheet as follows:		
Balances with the Central Bank of Malta and cash	2,758,724	2,477,758
Loans and Advances to banks	90,458,355	76,857,419
Amounts owed to banks	(43,197,825)	(42,383,463)
	<u>50,019,254</u>	<u>36,951,714</u>

27. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Bank's financial instruments consist of primary instruments and include cash balances with banks, loans and advances to customers and amounts due to banks and customers. The accounting policies for these assets and liabilities, which are set out in note 2 to these financial statements, are directed towards the establishment of fair values. The principal categories of risk are credit risk, liquidity risk and market risk (which includes interest rate risk and currency risk).

a) *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. The Bank provides trade finance and is most susceptible to credit risk.

Strict credit assessment and control procedures are in place to monitor this exposure on loans and advances to customers. Loans are adequately secured either by the pledged goods, cash collateral or by personal or bank guarantees which are reviewed periodically by management both in terms of exposure to the Bank and to ensure the validity of security.

The bank also ensures that it has a reasonable sectorial mix of loans to customers as disclosed in note 14, mitigating the higher risk industries by charging higher interest rates. At balance sheet date, the most significant credit risk exposure to a single debtor amounted to USD3,809,235.

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

The risks associated with off balance sheet assets and liabilities disclosed in the memorandum items arise from the normal course of banking operations. In the case of risks associated with inter-bank participations under letters of credit the Bank exercises the same credit controls as those applied to on balance sheet risks.

b) *Interest Rate and Liquidity Risk*

i) *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 Bank'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 Bank does not have any significant funding or asset deployment at fixed rates of interest. The table below summarises re-pricing mismatches at balance sheet date together with the effective interest rates where applicable.

Notes to the Financial Statements

for the year ended 31 December 2002

	Effective Interest Rate %	Per Balance Sheet USD	Three months or less USD	One year or less but over three months USD	Five Years or less but over one year USD	Other USD
Assets						
Balances with Central Bank of Malta and cash	2.70	2,758,724	184,184	-	-	2,574,540
Financial asset held for Trading		10,072	-	10,072	-	-
Loans and advances to banks	2.59	90,458,355	70,742,076	17,914,405	1,801,874	-
Loans and advances to customers	5.29	24,403,487	24,403,487	-	-	-
Investments		133,600	-	-	-	133,600
Other assets		2,334,170	-	-	-	2,334,170
Total assets		120,098,408	95,329,747	17,924,477	1,801,874	5,042,310

	Effective Interest Rate %	Per Balance Sheet USD	Three months or less USD	One year or less but over three months USD	Five Years or less but over one year USD	Other USD
Liabilities						
Amounts owed to banks	2.08	43,197,825	39,137,049	4,060,776	-	-
Amounts owed to customers	1.14	45,725,136	43,610,433	2,114,703	-	-
Other liabilities		760,787	-	-	-	760,787
Shareholders' funds		30,414,660	-	-	-	30,414,660
Total Liabilities		120,098,408	82,747,482	6,175,479	-	31,175,447

Interest rate sensitivity gap			12,582,265	11,748,998	1,801,874	26,133,137
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Cumulative gap			12,582,265	24,331,263	26,133,137	-
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ii) **Liquidity risk**

Liquidity risk arises in the general funding of the Bank's activities and in the management of positions. It includes both the risk of being unable to fund assets at appropriate maturities and rates as well as the risk of being unable to liquidate an asset at a reasonable price and in an appropriate time frame.

The Bank raises funds from deposits, other financial institutions and share capital. Liquidity risk is managed by maintaining significant levels of liquid funds, and identifying and monitoring changes in funding required to meet business goals driven by management.

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

	Total USD	One year Three months or less USD	Five years or less but over three months USD	or less but over one year USD
At 31 December 2002				
Financial assets				
Financial asset held for trading	10,072	-	10,072	-
Loans and advances to banks*	92,089,275	80,539,034	10,894,948	655,293
Loans and advances to customers *	33,809,533	21,220,538	5,765,065	6,823,930
<hr/>				
Financial Liabilities				
Amounts owed to banks	43,197,825	39,830,208	3,367,617	-
Amounts owed to customers	45,725,136	43,874,429	1,850,706	-
<hr/>				
At 31 December 2001				
Financial assets				
Loans and advances to banks	76,857,419	69,097,373	7,760,046	-
Loans and advances to customers *	26,469,762	16,250,319	9,992,146	227,297
<hr/>				
Financial Liabilities				
Amounts owed to banks	42,383,463	37,730,087	4,653,376	-
Amounts owed to customers	25,573,293	23,283,286	2,260,056	29,951
<hr/>				

* *Loans and advances to banks and customers are stated before allowances for uncollectibility (notes 13 and 14).*

Notes to the Financial Statements

for the year ended 31 December 2002

c) Currency Risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates.

Currency risk is managed through matching within the foreign currency portfolio. Mismatches, which are only allowed temporarily for small amounts, are continuously monitored and regularised immediately. The Bank's transactional exposures give rise to foreign currency gains and losses that are recognised in the profit and loss account. These exposures comprise the monetary assets and monetary liabilities of the Bank that are not denominated in the measurement currency of the Bank. The Bank ensures that its net exposure is kept to an acceptable level by buying and selling foreign currencies at spot rates when considered appropriate.

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

At 31 December	US	2002	Total	Dollar	2001	Total
	Dollar	Other		Dollar	Other	
	USD	Currencies	USD	USD	Currencies	USD
Assets						
Balances with Central Bank of Malta and cash	2,753,995	4,729	2,758,724	2,476,548	1,210	2,477,758
Financial assets held for trading	-	10,072	10,072	-	-	-
Investments	133,600	-	133,600	83,820	1,718	85,538
Loans and advances to banks	51,333,583	39,124,772	90,458,355	40,470,417	36,387,002	76,857,419
Loans and advances to customers	20,809,467	3,594,020	24,403,487	21,841,625	3,526,775	25,368,400
Other assets	2,116,974	217,196	2,334,170	51,994	1,361,112	1,413,106
Total Assets	77,147,619	42,950,789	120,098,408	64,924,404	41,277,817	106,202,221
Liabilities						
Amounts owed to banks	14,771,580	28,426,245	43,197,825	14,913,938	27,469,525	42,383,463
Amounts owed to customers	29,746,502	15,978,634	45,725,136	13,221,058	12,352,235	25,573,293
Other liabilities	458,677	302,110	760,787	14,087	814,868	828,955
Shareholders' Funds	30,414,660	-	30,414,660	37,416,510	-	37,416,510
Total Liabilities	75,391,419	44,706,989	120,098,408	65,565,593	40,636,628	106,202,221

d) Fair Values

Certain of the Bank's financial assets and liabilities are carried at amortised cost and not at fair value.

The fair value of loans and advances to banks repayable on demand or at short notice approximate the carrying amount. Term loans and advances to banks are at market rates and have a contractual repricing of not more than one year. The carrying amount therefore approximates the fair value of these advances. Term loans and advances to customers are priced above market rates and repricable on a weekly basis. The Bank's loan portfolio is subject to continuous review. Therefore taking into consideration the impact of credit and interest rate risk, the carrying amount approximates fair value.

The carrying amount of amounts owed to banks and customers repayable on call and at short notice is taken to be the fair value. Bank term deposits are priced at market rates and customer deposits are priced at lower than market rates and are repricable within one year. Therefore fair value is expected to approximate the carrying amount.

28. RELATED PARTY TRANSACTIONS

During the year transactions were undertaken with shareholders for the provision of marketing and consultancy services amounting to USD218,000 (2001: USD185,000).

Other operating income amounting to USD50,000 (2001: USD 200,000) represents a fee arising from a consultancy agreement with a related party in relation to the formation of the related entity.

29. COMPARATIVE AMOUNTS

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

Notes to the Financial Statements

for the year ended 31 December 2002

30. SEGMENTAL INFORMATION

a) International trade finance activities originating in:

Geographical segments

	Malta		Other Countries		Total	
	2002	2001	2002	2001	2002	2001
	USD	USD	USD	USD	USD	USD
Interest receivable and similar income	697,719	1,073,682	3,216,949	3,465,247	3,914,668	4,538,929
Fees and commissions receivable	1,551,613	1,705,754	4,006,242	2,164,518	5,557,855	3,870,272
Gross Income	2,249,331	2,779,436	7,223,191	5,629,765	9,472,523	8,409,201
Segment profit	1,984,316	2,334,669	5,618,892	3,782,200	7,603,208	6,116,869
Other operating income					509,827	457,001
Common Costs					(4,534,249)	(4,102,852)
Profit on ordinary activities before tax and net impairments					3,578,786	2,471,018
Segment assets	11,620,244	21,781,595	108,478,164	83,363,651	120,098,408	105,145,246
Unallocated assets					-	1,056,975
Total assets					120,098,408	106,202,221

b) The Bank's main activity is providing trade finance related services and there are no identifiable business segments.

Schedules to the Financial Statements

Schedule I PROFIT AND LOSS ACCOUNT Five Year Summary

	2002 USD	2001 USD	2000 USD	1999 USD	1998 USD
Interest receivable and similar income	3,914,668	4,538,929	4,900,972	3,064,245	1,962,804
Interest payable	(1,265,498)	(1,867,926)	(2,089,154)	(1,065,276)	(469,501)
Net interest income	2,649,170	2,671,003	2,811,818	1,998,969	1,493,303
Fees and commissions receivable	5,557,855	3,870,272	3,161,704	2,544,464	1,261,630
Fees and commissions payable	(603,818)	(424,406)	(295,165)	(197,325)	(145,025)
Foreign exchange gains	459,828	257,001	236,646	128,953	75,475
Other operating income	50,000	200,000	-	-	-
Operating income	8,113,035	6,573,870	5,915,003	4,475,061	2,685,383
Administrative expenses	(4,271,503)	(3,601,169)	(2,994,263)	(2,411,682)	(1,895,752)
Depreciation	(262,746)	(224,486)	(219,686)	(127,297)	(107,732)
Net impairment losses	(9,935,604)	(277,197)	(336,690)	(249,839)	(118,143)
(Loss)/Profit on ordinary activities before tax	(6,356,818)	2,471,018	2,364,364	1,686,243	563,756
Tax on profit on ordinary activities	227,919	(333,468)	(196,009)	(116,729)	(59,157)
Profit for the financial year after tax	(6,128,899)	2,137,550	2,168,355	1,569,514	504,599
(Loss)/Earnings per share	(13.32c)	5.02c	5.42c	3.92c	1.26

The Earnings per share for the years 1998 to 2000 has been restated as a result of the conversion of the issued share capital from 20,000,000 ordinary shares of USD1 each to 40,000,000 ordinary shares of USD0.50 each following a shareholders' extraordinary resolution dated 17 March 2001.

Schedules to the Financial Statements

Schedule II BALANCE SHEET Five Year Summary

	2002 USD	2001 USD	2000 USD	1999 USD	1998 USD
ASSETS					
Balances with Central Bank and cash	2,758,724	2,477,758	2,361,271	2,213,528	747,933
Financial asset held for trading	10,072	-	-	-	-
Investments	133,600	85,538	52,843	1,718	1,718
Loans and advances to banks	90,458,355	76,857,419	55,757,761	52,542,645	25,122,320
Loans and advances to customers	24,403,487	25,368,400	21,819,292	23,135,975	19,871,791
Tangible fixed assets	1,180,518	895,004	901,747	297,924	270,486
Deferred tax	618,777	29,855	10,280	-	-
Other assets	205,658	225,249	98,521	43,432	2,303
Prepayments and accrued income	329,217	262,998	466,619	275,056	315,474
Total assets	120,098,408	106,202,221	81,468,334	78,510,278	46,332,025
LIABILITIES					
Amounts owed to banks	43,197,825	42,383,463	29,421,152	29,940,980	14,048,823
Amounts owed to customers	45,725,136	25,573,293	25,671,473	24,553,510	10,165,768
Other liabilities	135,996	183,687	175,744	164,993	75,115
Accruals and deferred income	624,791	645,268	644,572	463,757	224,795
	89,683,748	68,785,711	55,912,941	55,123,240	24,514,501
SHAREHOLDERS' FUNDS					
Called up share capital	23,000,000	23,000,000	20,000,000	20,000,000	20,000,000
Share premium account	4,021,575	4,034,140	-	-	-
Other reserve	2,681,041	2,689,427	-	-	-
Dividend reserve	-	852,000	-	-	-
Profit and loss account	712,044	6,840,943	5,555,393	3,387,038	1,817,524
	30,414,660	37,416,510	25,555,393	23,387,038	21,817,524
	120,098,408	106,202,221	81,468,334	78,510,278	46,332,025
MEMORANDUM ITEMS					
Contingent liabilities	3,174,578	7,277,376	5,378,911	405,825	669,178
Commitments outstanding	128,993,598	88,337,309	60,431,799	79,065,849	33,115,392

Schedules to the Financial Statements

Schedule III

CASH FLOW STATEMENT

Five Year Summary

	2002 USD	2001 USD	2000 USD	1999 USD	1998 USD
Net cash from operating activities	6,421,187	559,509	4,212,841	10,779,605	7,214,764
Cash flows from investing activities					
Payments to acquire tangible fixed assets	(534,153)	(217,744)	(823,509)	(154,735)	(43,836)
Purchase of equity shares	(48,062)	(32,695)	(51,125)	-	-
Cash outflows from investing activities	(582,215)	(250,439)	(874,634)	(154,735)	(43,836)
Cash flows from financing activities					
Proceeds from issue of share capital	-	9,723,567	-	-	-
Dividends paid	(852,000)	-	-	-	-
Cash inflows from financing activities	(852,000)	9,723,567	-	-	-
Increase in cash and cash equivalents	4,986,972	10,032,637	3,338,207	10,624,870	7,170,928
- Effect of exchange rate changes on cash and cash equivalents	1,044,313	389,028	250,770	44,335	230,124
- Net increase in cash and cash equivalents	3,942,659	9,643,609	3,087,437	10,580,535	6,940,804
Increase in cash and cash equivalents	4,986,972	10,032,637	3,338,207	10,624,870	7,170,928
Cash and cash equivalents at beginning of year	31,576,549	21,543,912	18,205,705	7,580,835	409,907
Cash and cash equivalents at end of year	36,563,521	31,576,549	21,543,912	18,205,705	7,580,835

Schedules to the Financial Statements

Schedule IV **ACCOUNTING RATIOS** *Five Year Summary*

	2002	2001	2000	1999	1998
	%	%	%	%	%
Net interest income and other operating income to total assets	7.26	6.59	7.62	5.79	5.95
Operating expenses to total assets	4.28	4.26	4.72	3.64	4.73
(Loss)/Profit before tax to total assets	(5.10)	2.33	2.90	2.15	1.22
Pre-tax return on capital employed	(20.90)	6.60	9.25	7.21	2.58
(Loss)/Profit after tax to equity	(20.15)	5.71	8.48	6.71	2.31
	2002	2001	1998	1997	1996
Weighted average number of Shares in issue (000's) (note 9)	46,000	42,543	40,000	40,000	40,000
Net assets per share (cents)	66.12	87.95	63.89	58.47	54.54
(Loss)/Earnings per share (cents)	(13.32)	5.02	5.42	3.92	1.26

Schedules to the Financial Statements

Schedule V
SOLVENCY RATIO
31 December 2002

	Note	Balance Sheet Value USD	Weighted Amount USD
On-balance sheet assets	(a)		
Balances with Central Bank of Malta,			
Treasury Bills and cash		2,758,724	-
Financial assets held for trading		10,072	10,072
Investments		133,599	133,599
Loans and advances to banks		90,458,356	29,052,423
Loans and advances to customers	(b)	24,870,472	10,431,727
Tangible fixed assets		1,180,519	1,180,519
Deferred tax asset		618,777	123,755
Other assets		205,658	41,133
Prepayments and accrued income		329,218	164,609
		<hr/>	<hr/>
		120,565,395	41,137,837
		<hr/>	<hr/>
Off-balance sheet assets	(c)		
Contingent liabilities and commitments		132,168,176	72,618,078
		<hr/>	<hr/>
Total adjusted assets and off-balance sheet items			113,755,915
			<hr/>
Own Funds			
Original own funds	(d)		30,414,660
Additional own funds	(e)		466,984
			<hr/>
Gross own funds			
Deductions	(f)	-	-
			<hr/>
Total own funds			30,881,644
			<hr/>
Solvency ratio	(g)		27.15%
			<hr/>

Schedules to the Financial Statements

Schedule VI **SOLVENCY RATIO** *31 December 2002*

Notes

- (a) For on-balance sheet assets four basic scales of risk weighting are applied based primarily on the credit rating of the counterparty (0%, 20%, 50% and 100%).
- (b) Loans and advances to customers are grossed up with general 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.

Schedules to the Financial Statements

Schedule VII

OTHER RELEVANT COMPANY INFORMATION

Shareholder Information

The following shareholder information is being published in terms of Bye Law 6.05.06 (ii) of the Malta Stock Exchange.

Directors' interest in the shareholding of the Company at 31 December 2002

	<i>Number of Shares</i>
Mr. Najeeb H.M. Al-Saleh	300,000
Mr. Mohammed I.H. Marafie	3,000,000
Mr. Mehdi Ouazzani	2,000,000
Mr. Marwan Ahmad Salamah	600,000
Mr. Saad A.A. Al-Mutawa	80,000
Mr Emanuel Ellul	10,000

Mr. Najeeb H.M. Al-Saleh has 0.125% beneficial interest in Kuwaiti Interest for Financial Investment KSC.

Shareholding Holding 5% or more of the Share Capital as at 7 January 2003.

	Ordinary share of 50 cents each	
	<i>Number of shares</i>	<i>Percentage holding</i>
Global Financial Holdings N.V.	15,600,000	33.91
Kuwaiti Interests for Financial Investment KSC	2,600,000	5.65
Mohammed I.H. Marafie	3,000,000	6.52

Shareholding details as at 7 January 2003.

All shares are of equal class and carry equal voting rights.

<i>Range</i>	<i>Total Shareholders</i>	<i>Shares</i>
1 - 500	-	-
501 - 1000	2	1,580
1001 - 5000	241	637,949
5001 and over	114	45,360,471
Totals	357	46,000,000

Company Secretary, Registered Address and Contact Number

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Bisazza Street,
Sliema SLM 15
MALTA

Tel: 00 356 2132 2100

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President

Mr Claude L. Roy

General Manager Head Office

Mr Raymond Busuttil

Financial Controller

Mr Reuben Xuereb

Operations

Mr Renald Theuma

Customer Services

Mr Josman Cilia

Trade Services / Documentary Credits

Ms Lorraine Pace (*Head*)

Mr Dennis Camilleri

Ms Doreen Saliba

Mr Joseph Rodgers

Trade Services / Marketing

Mr Charles Wallbank

Advances - Corporate

Mr Vince Farrugia

Bank and Country Risk

Ms Josephine Grima

I.T. and Administration

Mr Silvio Mifsud

S.W.I.F.T.

Mr Jason Zammit

Systems

Mr Gilbert Coleiro

Human Resources

Mr Bruno Cassar

Finance

Mr Richard Scerri

Treasury

Mr Martin Chetcuti

Correspondent Banking / Syndications

Mag. Nassif A. Chehab
Mr Nourreddine Taoufikallah

North Africa Regional Manager

Mr Bashir Omar Hagul

Trade and Commodity Finance

Mr Mostafa Chenbout

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Mr David Lendon

Senior Marketing Advisor

Mr Arun Chauhan

Your Notes