ANNUAL REPORT & FINANCIAL STATEMENTS

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CONTENTS

CHAIRMAN'S STATEMENT TO THE MEMBERS

It is indeed my privilege to present the Annual Report and Financial Statements of FIMBank plc for the financial year ended 31 December 2004. I feel especially honoured at the opportunity to be chairing the Group at a time of exciting change, this being the first full year of London Forfaiting Company Limited's (LFC) contribution to the consolidated result. During 2004 we also completed our acquisition of a 38.5% stake in Global Trade Finance Private Limited (GTF), India, as well as paved the way for new ventures in other markets. Against a background of challenging business conditions moderated by an appetite for growth, the Group posted a profit after tax of $1.54 million in 2004, compared with $2.30 million in the preceding financial year.

We are pleased to report that the Group's Operating Income performance improved from 2003's $9.17 million to $12.25 million, an increase of 33%. FIMBank's core banking operations, namely Net Interest Income and Fees and Commissions, contributed positively to this result, as did LFC's trading activities. On the other hand, the Group now absorbs the full impact of LFC's operation as shown by an increase in overheads from 2003's US$6.28 million to US$11.00 million. We note that whilst these figures represent the significant restructuring efforts that have taken place in LFC during 2004, they do not sufficiently reveal the subsidiary's contribution to the Group bottom-line or the considerable business potential that it is poised to exploit in the years ahead. The Board of Directors is pleased to note that the anticipated turnaround in LFC has been realised and the subsidiary contributed a positive operating performance to the Group's result in 2004. However, the results for 2004 reflect the early adoption of the requirements of IFRS 3 Business Combinations, including the testing for impairment of the carrying amount of goodwill and consequently, a considerable proportion of LFC's post-tax profit has been adjusted against goodwill at consolidated level, and therefore not directly reflected in the Group's profit performance. We wish to underline that LFC's future is very promising and we foresee that greater profit opportunities are likely to be limited only by current funding limitations. We are pleased to report that plans are under way to secure wider-based and more independent funding capabilities for LFC.

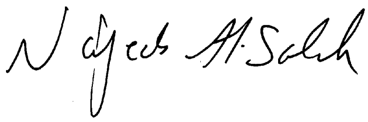
The consolidated after-tax result of US$1.54 million translates into Group Earnings per Share of 2.34c (2003 - 4.99c). The expansion in the Group's activity is also reflected in balance-sheet growth, with total assets increasing by 23% to US$216 million, and the main business areas - funding and credit - showing healthy increases. Commitments, comprising confirmed letters of credit, undrawn credit facilities and documentary credits, more than doubled to US$129 million. Consolidated adjusted Own Funds of US$49 million represent a Basle I solvency ratio of 30%, well above the regulatory minimum of 8%.

At the forthcoming Annual General Meeting we shall be outlining to our shareholders the Group's plans for developing its business, markets and products in the months ahead. These include joint ventures in Egypt and Argentina, where agreement in principle has been reached with our prospective partners, as well as the opening of new representative offices in Libya and Dubai. These developments will further strengthen the Group's global presence, which already comprises the United Kingdom, Brazil, the United States of America, Russia and Turkey. We are also privileged to be in the company of excellent partners and shareholders in our factoring venture GTF, based in Mumbai, India and we look forward to many years of fruitful business co-operation with them, namely the Export-Import Bank of India (EXIMBank), Bank of Maharashtra and International Finance Corporation (IFC), a member of the World Bank Group.

With a view to consolidating our growth plans we shall be asking our shareholders to support a number of resolutions at the Annual General Meeting, including one which will prepare the way for strengthening the Group's capital resources. The decision taken by the Board of Directors to not recommend the payment of a dividend is in fact driven by a consideration to preserve our Own Funds base, highlighting also that we are identifying better opportunities for projects and profitable assets to invest in within the scope of the Group's business. FIMBank is a relatively young group highly focused on establishing a track record in growing its business, and by reinvesting profits in a period of consolidation and growth we are actually increasing the value of the Group. We are confident that our shareholders will support this strategy, and we have no doubt that our energy to create and deliver value will be correlated in future dividends.

During 2004 we have taken a number of steps to further strengthen the high standards of Corporate Governance to which the Group already adheres. The Statement of Compliance included in this Annual Report describes in more detail the processes and structures aimed at ensuring transparency and accountability: at all levels and at all times. We believe that these practices are in the best interests of the shareholders, and also generate confidence with the other main stakeholders of the Group - customers and staff. The Group also remains committed to its "good citizen" responsibilities towards the community, the environment and society in general, and its policies are particularly mindful of such obligations in the diverse regions and markets in which it is active. We are confident that such policies ultimately enhance the Group's standing and reputation.

With great pleasure, I reserve my final thanks to all shareholders and customers whose support and confidence in FIMBank continue to be the bedrock of our progress. I also extend my sincere appreciation to my fellow Directors and Committee members, for their valued advice and contribution. My special thanks go to the Management and Staff without whose dedication, professionalism and unstinting commitment the Group would not have achieved such success. As in previous years . . . thank you for your efforts and loyalty.



Najeeb H M Al-Saleh
Chairman

تقرير رئيس مجلس الإدارة

أنه حقا من دواعي سروري أن أقدم التقرير السنوي والبيانات المالية الخاصة بـ FIMBank PLC للسنة المالية المنتهية في 31 ديسمبر 2004. وإنه ليشرفني بشكل خاص أن تتاح لي الفرصة لرئاسة المجموعة في وقت التغيير المذهل هذا حيث أن هذا هو العام الأول الكامل لمساهمة شركة London Forfaiting Company Ltd (LFC) في نتيحة الأعمال المجمعة. خلال عام 2004، قمنا أيضا بإتمام تملكنا لمساهمة بنسبة 38.5% بشركة Global Trade Finance Private Ltd (GTF) الهند وكذلك تمهيد الطريق للقيام بمشاريع جديدة في السوق. وفي ضوء خلفية ظروف النشاط التجاري الصعبة التي تم تخفيفها بسبب الرغبة في النمو، حققت المجموعة ربح بعد خصم الضريبة بقيمة 1,54 مليون دولار أمريكي في عام 2004 بالمقارنة بمبلغ 2,30 مليون دولار أمريكي في السنة المالية السابقة.

يسرنا أن نعلن أن داء الإيرادات التشغيلية الخاصة بالمجموعة قد شهد تحسنا عن مبلغ 9.17 مليون دولار أمريكي الذي تحقق في عام 2003 حيث ارتفع إلى 12.25 مليون دولار أمريكي أي بزيادة بنسبة 33%. إن العمليات المصرفية الأساسية الخاصة بـ FIMBank وهي ايرادات الفائدة الصافية والأتعاب والعمولات ساهمت بشكل إيجابي في هذه النتيجة تماماً كما فعلت الأنشطة التجارية الخاصة لشركة LFC. ومن جانب آخر، تستوعب المجموعة الآن التأثير الكامل لعملية LFC حسبما يظهر من زيادة المصاريف العمومية من 6.28 مليون دولار أمريكي في عام 2003 إلى 11.00 مليون دولار أمريكي. ونشير إلى أنه بينما تمثل هذه الأرقام جهود إعادة الهيكلة الرئيسية التي تم بذلها في LFC في عام 2004، فإنها لا تكشف بدرجة كافية عن مساهمة الشركة التابعة في الحد الأدنى للمجموعة أو الإمكانيات التجارية الكبيرة التي من المقرر أن تستغلها في السنوات القادمة. يسر مجلس الإدارة أن يشير إلى أنه قد تم تحقيق استرداد رأس المال المتوقع في LFC وإن الشركة التابعة ساهمت في الأداء التشغيلي الإيجابي في نتيجة أعمال المجموعة في عام 2004. ولكن تعكس نتائج عام 2004 التطبيق المبكر لمستلزمات مجموعات النشاط IFRS3 بما في ذلك التدقيق في ضعف القيمة الحاملة للشهرة التجارية وبالتالي تم تسوية جزء كبير من أرباح LFC بعد خصم الضريبة مقابل الشهرة التجارية في المستوى المجمع وبالتالي لم تنعكس بصورة مباشرة في أداء ربح المجموعة. ونود أن نؤكد أن مستقبل LFC واعد جدا ونتوقع أن تكون فرص تحقيق ربح أكبر مقيدة فقط بقيود التمويل الحالية. ويسرنا أن نعلن أن هناك خطط قيد الإعداد حالياً للحصول على وتأمين قدرات تمويل أكثر استقلالاً وذات قاعدة أوسع لشركة LFC.

النتيجة المجمعة بعد خصم الضريبة والتي تبلغ 1.54 مليون دولار أمريكي تمثل أرباح المجموعة لكل سهم من رأس المال البالغ 2.34 (2003 – 4.99). ينعكس اتساع نشاط المجموعة أيضا في نمو الميزانية مع زيادة إجمالي الأصول بنسبة 23% حيث وصل إلى 216 مليون دولار أمريكي وبيان مجالات النشاط الرئيسية وهي التمويل والإئتمان زيارات صحية. إن الالتزامات التي تشتمل على خطابات ائتمان مؤكدة وتسهيلات ائتمانية غير مسحوبة والاعتمادات المستندية تضاعفت بأكثر من الضعف حيث وصلت إلى مبلغ 129 مليون دولار. الأموال الخاصة المجمعة المسواة بمبلغ 49 مليون دولار تمثل نسبة ملاءة مالية أساسية قدرها 30% وهي أعلى من الحد الأدنى التنظيمي البالغ 8%.

في الجمعية العمومية السنوية القادمة، سوف نحدد ونبين للمساهمين خطط المجموعة لتطوير نشاطها التجاري وأسواقها ومنتجاتها في الشهور القادمة. وتشمل هذه الخطط مشاريع مشتركة في مصر والأرجنتين حيث تم فعلياً إبرام شروط الاتفاق مع شركائنا المحتملين وكذلك فتح مكاتب تمثيلية جديدة في ليبيا ودبي. سوف تؤدي هذه التطورات إلى المزيد من تقوية حضور المجموعة على المستوى العالمي الذي يشمل فعليا في المملكة المتحدة والبرازيل والولايات المتحدة الأمريكية وروسيا وتركيا. ونحن نتميز أيضاً بصحبة شركاء ممتازين في مشروعنا التجاري GTF الكائن في مومباي، الهند. وجنبا إلى جنب مع المساهمين الآخرين في هذه الشركة الزميلة، وهم بنك التصدير-الاستيراد الهندي EXIMBank، بنك مهاراشترا ومؤسسة التمويل الدولية IFC وهي عضو بمجموعة البنك الدولي، فإننا نتطلع إلى سنوات كثيرة من التعاون التجاري المثمر.

وبهدف تعزيز خطط النمو الخاصة بنا، سوف نطلب من مساهمينا دعم عدد من الحلول في الجمعية العمومية السنوية بما في ذلك تلك الخطة التي سوف تمهد الطريق لتقوية موارد المجموعة الرأس مالية. إن القرار الذي اتخذه مجلس الإدارة بعدم التوصية بدفع أرباح أسهم هو في الواقع نتيجة للقرار الخاص بالمحافظة على قاعدة أموالنا الخاصة ومما يعكس أيضا أننا نحدد فرص أفضل للمشاريع والأصول المربحة للاستثمار فيها ضمن نطاق نشاط المجموعة. FIMBank يعتبر مجموعة حديثة نسبياً وتركز بشكل عال على تحقيق سجل قياسي في نمو نشاطه التجاري وإعادة استثمار الأرباح في فترة تتميز بالتجمع والنمو التي نقوم فعلياً خلالها بزيادة قيمة المجموعة. نحن واثقون من أن مساهمينا سوف يؤيدون هذه الاستراتيجية وليس لدينا أي شك بأن طاقتنا وقدراتنا على خلق وتوفير القيمة سوف تتلاقى وتنعكس في أرباح الأسهم المستقبلية.

خلال عام 2004، اتخذنا عدد من الخطوات لتعزيز المعايير العالية للإدارة التجارية التي تلتزم بها المجموعة فعليا. إن بيان الالتزام المشمول في هذا التقرير السنوي يصف بمزيد من التفصيل العمليات والهياكل التي تهدف إلى ضمان الشفافية والمسئولية في كافة المستويات وفي كافة الأوقات. إننا نعتقد أن هذه الممارسات هي في صالح المساهمين وتوفر أيضاً الثقة لدى المساهمين الرئيسيين الآخرين في المجموعة – العملاء والموظفين. تبقى المجموعة أيضاً ملتزمة في مسئولياتها الأخلاقية تجاه المجتمع والبيئة والشعب عموماً وتأخذ سياستها بشكل خاص في الاعتبار تلك الالتزامات في المناطق والأسواق المتنوعة التي تعمل فيها. إننا واثقون من أن تلك السياسات سوف تعزز في النهاية من موقف وسمعة المجموعة.

وإنه لمن عظيم سروري أن أوجه الشكر النهائي لكافة المساهمين والعملاء الذين يبقى دعمهم وثقتهم في FIMBank هو حجر الأساس في تقدمنا. وأقدم خالص تقديري أيضاً إلى زملائي أعضاء مجلس الإدارة وأعضاء اللجنة لمشورتهم ومساهمتهم القيمة. وأقدم شكري الخاص إلى الإدارة والعاملين الذين لولا تفانيهم ومهارتهم والتزامهم الذي لا ينضب لم تكن المجموعة لتحقق ذلك النجاح. وكما في السنوات السابقة. شكراً لكم على جهودكم وإخلاصكم.

نجيب حمد مساعد الصالح

رئيس مجلس الإدارة

DÉCLARATION DU PRÉSIDENT AUX MEMBRES

J'ai le grand privilège de présenter le Rapport Annuel et les relevés financiers de la FIMBank p.l.c. pour l'année financière qui s'est achevée le 31 décembre 2004. Je suis tout particulièrement honoré d'avoir l'opportunité de présider le Groupe dans une période de changements passionnants, cette année étant la première année complète de contribution de la London Forfaiting Company Limited (LFC) au résultat consolidé. En 2004 nous avons également achevé notre acquisition de 38.5% du capital de Global Trade Finance Private Limited (GTF) en Inde, et aussi ouvert la voie à de nouveaux projets sur d'autres marchés. Dans un contexte difficile pour les affaires modéré par un goût pour la croissance, le Groupe a affiché un résultat net après impôts de 1.54 millions de Dollars US en 2004, à comparer aux 2.30 millions de Dollars US pour l'année financière précédente.

Nous avons le plaisir de rapporter que la performance des recettes d'exploitation du Groupe s'est améliorée de 9.17 millions de Dollars US pour 2003 à 12.25 millions, soit une augmentation de 33%. Les opérations bancaires principales de la FIMBank, à savoir le revenu d'intérêt net et les honoraires et commissions, ont contribué positivement à ce résultat, tout comme les activités commerciales de la LFC. D'autre part, le Groupe absorbe désormais le plein impact des opérations de la LFC comme le montre l'augmentation des frais généraux de 6.28 millions de Dollars US en 2003 à 11 millions de Dollars US. Nous remarquons qu'alors que ces chiffres rendent compte des efforts significatifs de restructuration qui ont eu lieu au sein de la LFC au cours de l'année 2004, ils ne révèlent pas suffisamment la contribution de la filiale au résultat financier du Groupe ou le potentiel d'affaires considérable qu'elle est prête à exploiter dans les années à venir. Le conseil d'administration est heureux de remarquer que le redressement prévu de la LFC a été réalisé et que la filiale a contribué à une performance d'exploitation positive au résultat du Groupe en 2004. Cependant, les résultats pour 2004 reflètent l'adoption prématurée des exigences de l'IFRS 3 Business Combinations, y compris les tests de diminution du volume de portage du survaloir, et par conséquent une proportion considérable du bénéfice net de la LFC a été ajusté par rapport au survaloir au niveau consolidé, et n'a donc pas été directement reflété dans la performance de bénéfice du Groupe. Nous souhaitons souligner que le futur de la LFC est très prometteur et nous prévoyons que de plus grandes opportunités de profit ne sont susceptibles d'être limitées que par les restrictions de financement actuelles. Nous avons le plaisir d'annoncer que des projets sont en cours pour sécuriser des capacités de financement plus élargies et plus indépendantes pour la LFC.

Le résultat net consolidé de 1.54 millions de Dollars US se traduit par un bénéfice par action du Groupe de 2.34 cents (2003 : 4.99 cents). L'expansion dans les activités du Groupe est également reflétée par la croissance du bilan, avec les actifs totaux augmentant de 23% à 216 millions de Dollars US, et les domaines d'affaires principaux - financement et crédit - présentant des accroissements confortables. Les engagements, comprenant les lettres de crédit confirmées, les systèmes de crédit non utilisé et les crédits documentaires, ont plus que doublé pour atteindre 129 millions de Dollars US. Les fonds propres consolidés et ajustés de 49 millions de Dollars US représentent un ratio de solvabilité Bâle I de 30%, bien au-dessus du minimum réglementaire de 8%.

Lors de la prochaine Assemblée Générale Annuelle, nous exposerons à nos actionnaires les plans du Groupe pour développer ses affaires, ses marchés et ses produits dans les mois à venir. Ceux-ci incluent des entreprises communes en Egypte et en Argentine, où un accord de principe a été conclu avec nos partenaires potentiels, ainsi que l'ouverture de nouveaux bureaux de représentation en Libye et à Dubaï. Ces développements renforceront encore la présence mondiale du Groupe, qui comprend déjà le Royaume-Uni, le Brésil, les Etats-Unis, la Russie et la Turquie. Nous avons également le privilège d'être en compagnie d'excellents partenaires et actionnaires dans notre société de factorage GTF, basée à Mumbai en Inde, et nous nous réjouissons à l'avance des nombreuses années de coopération fructueuse à venir avec eux, nommément la Banque Indienne d'import-export (EXIMBank), la Banque du Maharashtra et la Société Financière Internationale (SFI), membre du Groupe de la Banque mondiale.

En vue de consolider nos plans de croissance, nous demanderons à nos actionnaires de soutenir un certain nombre de résolutions lors de l'Assemblée Générale Annuelle, y compris une qui préparera la voie pour le renforcement des infrastructures du Groupe. La décision prise par le conseil d'administration de ne pas recommander le paiement d'un dividende est en fait motivée par la considération de préserver notre base de fonds propres, soulignant également que nous sommes en train d'identifier de meilleures opportunités pour des projets et actifs profitables dans lesquels investir dans le cadre des affaires du Groupe. La FIMBank est un groupe relativement jeune, très désireux de faire ses preuves en accroissant son activité, et en réinvestissant les profits dans une période de consolidation et de croissance nous augmentons en fait la valeur du Groupe. Nous avons confiance en nos actionnaires pour soutenir cette stratégie, et ne doutons aucunement que notre énergie pour créer et distribuer de la valeur sera corrélée à de futurs dividendes.

En 2004 nous avons fait un certain nombre de pas pour renforcer plus avant les critères élevés de gouvernement d'entreprise auxquels le Groupe obéit déjà. L'état de conformité inclus dans ce rapport annuel décrit avec plus de détail les procédures et structures visant à assurer la transparence et l'obligation de rendre compte : à tous niveaux et à tout moment. Nous croyons que ces pratiques sont dans le meilleur intérêt des actionnaires, et qu'elles génèrent également de la confiance auprès des autres parties intéressées du Groupe – les clients et le personnel. Le Groupe reste aussi engagé dans ses responsabilités de "bon citoyen" envers la communauté, l'environnement et la société en général, et ses politiques sont particulièrement attentives à ces obligations dans les diverses régions et marchés où il est actif. Nous avons confiance dans le fait que de telles politiques finissent par améliorer le standing et la réputation du Groupe.

C'est avec grand plaisir que je réserve mes remerciements finaux à tous les actionnaires et clients dont le soutien et la confiance dans la FIMBank continuent d'être la base de notre progrès. J'étends ma sincère reconnaissance à mes Directeurs associés et aux membres du Comité pour leurs conseils et leur contribution précieux. Mes remerciements vont tout particulièrement à la direction et au personnel sans le dévouement, le professionnalisme et l'engagement sans réserves desquels le Groupe n'aurait pas atteint pareil succès. Comme pour les années précédentes… merci de vos efforts et de votre loyauté.

Najeeb H M Al-Saleh
Président

REVIEW OF OPERATIONS

First International Merchant Bank p.l.c. Group ("FIMBank Group" or the "Group") registered a profit after tax of USD 1.54 million in 2004, compared to USD 2.30 million for the financial year ended 31 December 2003.

The Annual Financial Statements covered by this review refer to the consolidated results of First International Merchant Bank p.l.c. ("FIMBank" or the "Bank") and its subsidiary companies FIMBank UK Limited and London Forfaiting Company Limited and its subsidiaries (collectively referred to as the Group) and its associated undertaking, Global Trade Finance Private Limited ("GTF").

ECONOMIC CHALLENGES IN 2004

The financial year under review saw the global economic recovery becoming well-established, with world GDP growth projected to average 5 percent - the highest for three decades. Strong growth was witnessed in most OECD industrial countries (with the exception of the EU) and exceptionally rapid expansion was achieved by emerging markets, notably China, the former Soviet bloc countries, Turkey and Latin America. This was accompanied by a strong upturn in industrial production and global trade flows, a pick-up in private consumption growth and continued strength in cross-border investments. The US current account deteriorated further in 2004 on the back of a weakened dollar, offset by higher surpluses in Asia and the euro area. Buoyant global demand caused a strong pick-up in commodity and oil prices, in the latter case fuelled by supply-side concerns in several oil-exporting countries, including Iraq, Russia and Venezuela, and demand pressures from major developing markets such as China. Among the oil exporters, Libya saw a revived interest from Western investors, as the country is gradually opening its economy to foreign investment. On the back of commodity price increases, and after falling to unusually low levels in mid-2003, inflation across the world turned up, although inflationary risks appear moderate. Financial markets across the globe generally held up well, aided by rising corporate profitability and continued progress in balance sheet restructuring.

GROUP ACTIVITIES AND OPERATIONS

2004 was the first full year for the enlarged FIMBank Group, with London Forfaiting Company Limited group ("LFC") under the ownership of FIMBank. This process gave the Group the opportunity to revisit its business model, seek further diversification of its revenue streams as well as to carry out such organizational and operational changes as would enable it to pursue its revamped strategy.

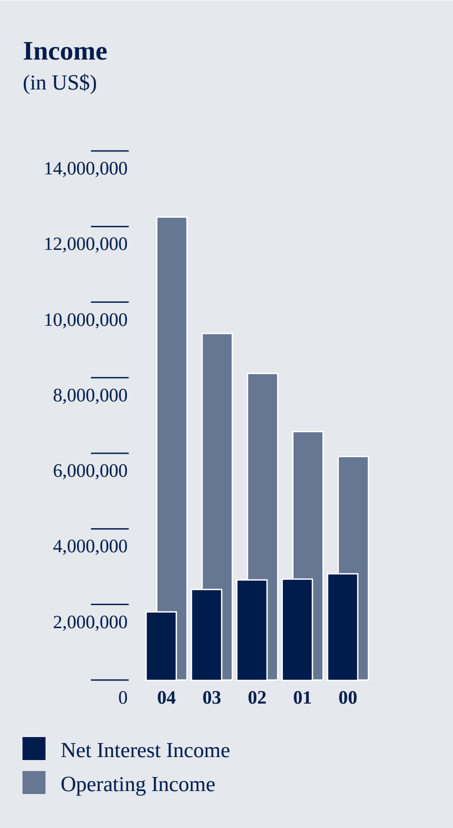
LONDON
FIMBank Representative Office

LONDON
London Forfaiting Company Limited

MALTA

MOSCOW

REVIEW OF OPERATIONS



The "new" FIMBank model sees the Group becoming a one-stop financial services shop offering a whole range of international trade related services, namely trade finance, structured commodity finance, international factoring, forfaiting and supporting banking services. Apart from developing new business ideas along product lines, the model makes an effort to diversify revenue streams and risk spreads towards developed markets while catering for changing market needs. Concurrently, steps were taken in 2004 at strengthening and organizing the Group's operational risk management capabilities, streamlining business development and marketing, sharpening the focus on corporate client needs and on promoting treasury activities as a business with considerable scope for development. This was assisted by enhancements to the Bank's technology platforms, including upgrades to the core banking system, continuous investment in staff resources and training and various organizational changes to improve efficiency and accountability. Concurrently, measures were taken at Board and Management level to strengthen the Group's corporate governance structures, including reviewing of codes of conduct, committee terms of reference and procedures.

The renewed attention on business development and marketing as a focused unit of activity, quite separate from the Group's operational apparatus, took shape in 2004. Whilst reaching out for new markets and regions with renewed product offers and ideas, no efforts were lost in consolidating the core business and the Bank's extensive network of correspondent banking relationships continued to strengthen in 2004. In April, the Bank once again hosted an international gathering of bankers from a selection of its correspondent partners to an international conference convened in Malta.

During the course of the year a substantial amount of progress was made in reshaping and regenerating LFC into a robust, efficient and operationally profitable organization capable of re-establishing itself as a world leader in the global forfaiting market. The programmed closure of non-strategic offices and overseas subsidiaries, started soon after LFC's acquisition in 2003, continued in earnest, and the result is a slimmed-down subsidiary with an ideal network of offices and back-office operation in Malta which strikes the optimum balance between cost and global reach. LFC itself has undergone significant changes in its systems and procedures, including the introduction of a new accounting installation and a bespoke forfaiting management software system.

In December 2004, the Group completed the acquisition of a 38.5% share in Global Trade Finance Private Limited, India at a cost of USD 4. 7 million. The other shareholders in the resultant new structure are as follows:

1. 40% - Export-Import Bank of India (“EXIM”);
2. 12.5% - International Finance Corporation (“IFC”);
3. 9% - Bank of Maharashtra.

The acquisition was executed by purchasing 12.5% of the shareholding held by IFC and 26% from WestLB AG. As part of the deal on the acquisition of shares, FIMBank also entered into a Put Option Agreement with GTF, EXIM and IFC.

INCOME STATEMENT

Against a background of tight interest rate conditions, FIMBank increased its Net Interest Income by 32% to USD 2.86 million. Interest receivable on loans, advances and balances with the Central Bank of Malta increased to USD 4.27 million in 2004, reflecting a diversified activity base of lending to banks, corporate customers and other trade finance business. Just over USD 1 million of Interest Revenue is derived from funding, on a strictly arm’s length basis, the operations of LFC, which income is of course eliminated on consolidation. The growth in absolute terms in interest payable is represented by the increased availability of bank lines and customer deposits during 2004. In spite of strong competitive pressures, the Bank maintained its Net Interest Margin at the previous year’s levels; consolidation, on the other hand, reveals the extent of LFC’s dependence on FIMBank for funding of its forfaiting portfolio, with FIMBank’s interest income on its funding of LFC being netted off at a Group level. Group Fees and Commissions Receivable increased by 37% to USD 6.99 million, reflecting strong growth in the Bank’s business performance as well as a contribution from LFC. In contrast, Net Trading Income for the Bank returned to expected operating levels after a one-off foreign exchange gain of USD 2.0 million in 2003 arising on re-denomination of a loan to LFC was not repeated in 2004. Net trading income from forfaiting assets, LFC’s main source of trading revenue, contributed USD 3.17 million to the result, an encouraging performance when considering that 2004 was still a turnaround year for the forfaiting subsidiary. Group Operating Income increased by 34% from 2003’s USD 9.17 million to USD 12.25 million.


SÃO PAULO

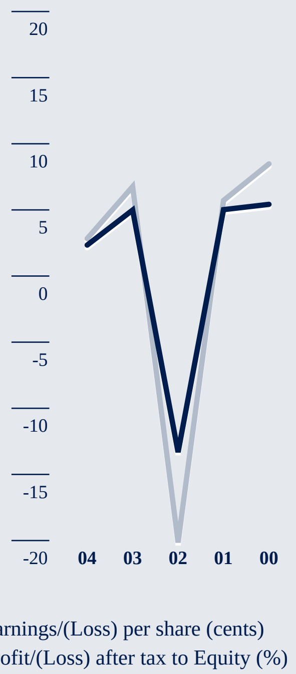

MUMBAI


ISTANBUL


NEW YORK

REVIEW OF OPERATIONS

Profitability



Group Administrative Expenses increased from USD 6.28 million in 2003 to USD 11.00 million in 2004, reflecting in great part the enlarged business activity and, particularly, the absorption of LFC's activities for the full year under review. At both the Bank and Group levels, expenditure is roughly equally represented by staff costs and other administrative overheads. The absolute increase in Administrative Expenses does not give sufficient credit to the considerable success achieved in pruning LFC's operations to more efficient and economically feasible levels. Most of LFC's previous global network of subsidiary companies was closed down, staff numbers were decreased to a minimum core and the company itself transferred to a more convenient and cost-effective office location which it shares with the Bank's UK representative office in the heart of London's financial district. Nevertheless, efforts will be stepped up in 2005 to derive more efficiencies from the Group's high cost base and a zero-based budgeting approach has been adopted in this regard.

Net reversals of provisions for potential claims at the acquired subsidiaries amounted to USD 0.5 million. Based on the profit forecasts of LFC as well as its results for the year, the Group recognized a deferred tax asset amounting to USD 1.9 million out of the subsidiary's unused tax losses of USD 94 million that are available against future profits. This figure was adjusted to the gross carrying amount of goodwill and charged to the profit and loss account accordingly. This adjustment, which is reflected in a loss on ordinary activities before tax of USD 0.3 million, is "reversed" through the recognition of the deferred tax credit resulting in a post-tax profit for the year of USD 1.54 million.

Group Earnings per Share for 2004 amount to 2.34c (2003 - 4.99c), while for the Bank, Earnings per Share decreased from 7.12c in 2003 to 2.11c for the year under review. The decline reflects the ordinary result for 2004 as well as the diluting effect on FIMBank resulting from the rights offer late in 2003.

When comparing the results with previous years, and in particular reviewing the consistency of application of the accounting policies, it must be highlighted that the 2004 results reflect the adoption of IFRS 3 Business Combinations, IAS 36 (Revised 2004) Impairment of Assets and IAS 38 (Revised 2004) Intangible Assets before their effective date. Consequently, goodwill arising on the acquisition of LFC was no longer amortised in 2004 but tested for impairment after allocation to the cash-generating capability of LFC. Such testing for impairment, in accordance with fair valuation principles, should take place at least annually. Further details are provided in Note 3 to the Financial Statements - "Significant Accounting Policies".

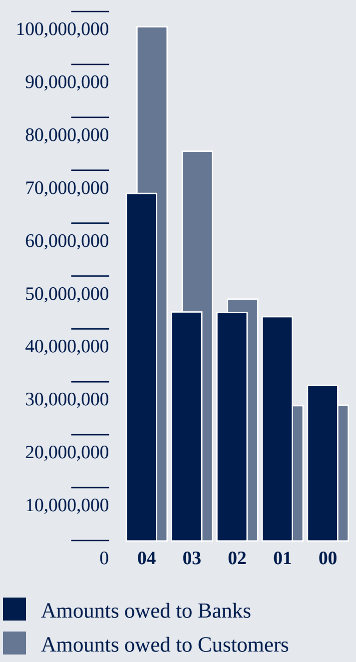
BALANCE SHEET DEVELOPMENTS

Group customer deposits increased by 32% to USD 97 million, reflecting a significant growth in demand balances for FIMBank as well as an increase in collateral deposits for LFC. Amounts owed to banks also increased by 52% to USD 65.7 million, entirely from increases in lines made available to the Bank. Plans for LFC to develop its independent funding capabilities will be stepped up as the subsidiary's business matures. Correspondingly, loans and advances to banks increased by 26% to USD 108 million, while loans and advances to customers, net of allowances for uncollectibility, reduced to USD 26 million. This latter decrease has to be seen in the light that the Bank doubled its lending support to LFC to USD 60 million, an increase which is not reflected at a consolidated level.

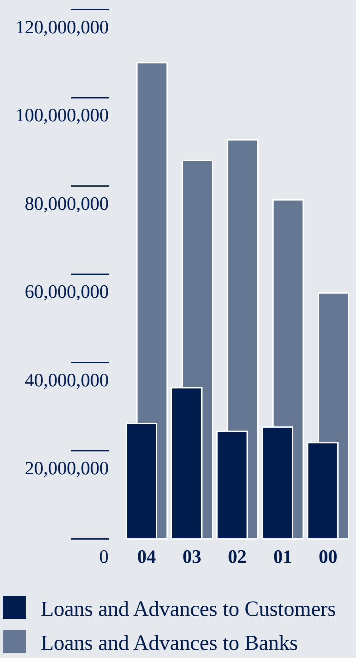
In 2004, Group financial assets held for trading – made up entirely of LFC's forfaiting portfolio – increased to USD 63 million, net of specific impairment allowances. Part of this increase came from FIMBank's forfaiting book, which stood at USD 11.4 million in 2003 but was transferred to the subsidiary early in the financial year under review. The decision by the Central Bank of Malta in October to exempt FIMBank from reserve deposit requirements – taken in terms of CBM Directive No. 1 and reviewable after a period of one year – helped the Bank improve its liquidity cushion; however Group funding requirements remained demanding. Analyses of the industry concentration of loans and advances reveal that "industrial raw materials" and "ship scrapping/pre-demolition" business have now made way to "wholesale and retail" and "other services". Further details are available in the "Notes to the Financial Statements".

The Group upholds fair value measurement principles when estimating the worth of its assets and liabilities, however it is also committed to ensuring that its policies for calculating impairment allowances represent at all times a prudent estimate of loss in its loans and advances, and forfaiting portfolios. Its approach to provisioning is therefore conservative. Specific impairment allowances on loans and advances to customers remained largely unchanged in 2004, while those on loans and advances to banks increased –to reflect provisioning circumstances in terms of the Banking Directives issued by the Maltese supervisory authorities. Specific impairment allowances on forfaiting assets decreased from 2003's 31.3% to 17.3% of gross assets in 2004, reflecting the improvement in the quality of the trading book.

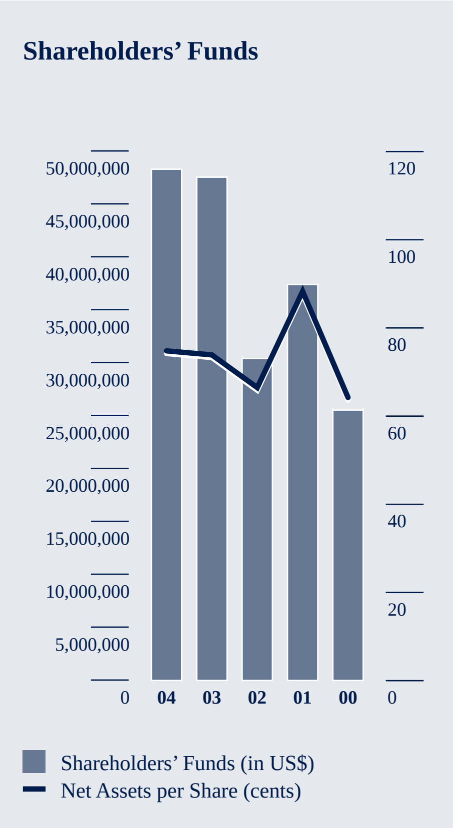
Fund Raising
(in US$)

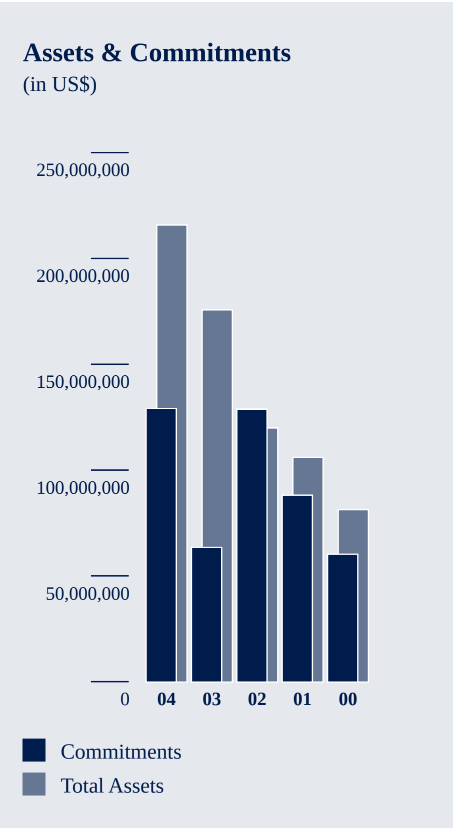


Loans and Advances
(in US$)



REVIEW OF OPERATIONS





Group Shareholders' funds at the end of December 2004 amounted to USD 48.3 million, an increase of 2% on 2003. Return on shareholders' funds (ROE) and Return on Assets (ROA) remained subdued. With total statutory own funds of USD 49.4 million and a solvency ratio of 30%, the Bank exceeds the minimum regulatory ratio of 8% established by the Banking Directives. By reinvesting profits in a period of consolidation and growth, the Group is acknowledging that there are projects to consider, companies and profitable assets to acquire and invest in, which should lead to an increase in the value of the Group. The decision not to recommend the payment of a dividend for 2004 is in fact motivated by a belief that for a young group such as FIMBank, establishing a track record in growing the business, and creating and delivering value, is the best guarantee of a consistent and reliable dividend policy for the future.

Overall, the growth in the Group's business can be gauged from the 23% increase in total assets, which reached USD 216 million in 2004, and trade related commitments which more than doubled to reach USD 129 million. Total assets for the Bank itself grew by 21% to USD 203 million. Trade related commitments consisted of undrawn credit facilities (USD 25.4 million), documentary credits (USD 29.3 million), risk participation (USD 7.8 million) and confirmed letters of credit (USD 66.7 million).

OUTLOOK FOR 2005

Global growth is expected to moderate to an estimated 4.3 percent in 2005, as the growth drivers of 2004 face the challenges of oil price volatility, a gradual solution to the world's current account imbalances, and the addressing of still significant growth-restraining structural weaknesses in emerging markets. Emerging Asia is expected to continue to grow significantly, led by booming manufacturing activity in China and services outsourcing to India. Large current account surpluses and foreign reserves will increasingly complicate the conduct of monetary policy. In Latin America, recovery appears to be sustained, aided by rising commodity prices, prudent fiscal policies and, increasingly, domestic demand. In the Arab world, notwithstanding the still fragile security situation, the impact of higher oil prices will positively affect most oil-exporting countries (including Saudi Arabia, Libya, Iran and Sudan). The already strong growth momentum in the former Soviet bloc region is expected to be boosted by rising global demand for oil and metals and the resolved political impasse in Ukraine, although there is a risk that the oil sector crowds off the rest of the economy. In Sub-Saharan Africa, improved macroeconomic stability and prudent fiscal policies, together with a recovery in agricultural production following severe droughts in 2003-2004, should prove a catalyst for growth for most countries; however some countries affected by continued political instability are likely to stand out as exceptions.

Against the wider background of the 2004 financial year which, fundamentally, has to be viewed as a restructuring and consolidation period – particularly the considerable change and reorganization that have taken place at LFC - the Group is now set to take advantage of accelerating business activity and growth potential in the markets where it has been sowing its seeds. LFC's profile and presence in the global trade finance marketplace has been re-established and, subject to more funding being gradually made available, is being geared up to continue riding on the positive trends in evidence. 2005 should also see the fruition of developments in Latin America and the Near East where partners in factoring projects have been identified.

Without losing focus on its core activities, the Group will continue diversifying its revenue streams and also drawing on the full potential of its banking franchise. Supported by careful positioning in the markets, continuous investment in staff and technology, adherence to the highest standards of professionalism and disciplined cost management, 2005 promises to be a good year for the Group to increase shareholders' value.

DIRECTORS AND SENIOR MANAGEMENT

BOARD OF DIRECTORS

Najeeb H.M. Al-Saleh *(Chairman)*
John C. Grech *(Vice Chairman)*
Mehdi Ouazzani Hassani
Fouad M.T. Alghanim
Mohammed I.H. Marafie
Duco Reinout Hooft Graafland
Hamad Musaed Bader Mohammed Al-Sayer
Francis J. Vassallo
Tareq M. Al-Saleh
Jacques Leblanc

SENIOR MANAGEMENT

PRESIDENT	Margrith Lütschg-Emmenegger	
EXECUTIVE VICE PRESIDENTS	Marcel Cassar	*Chief Financial Officer*
	Raymond Busuttil	*Head of Business Development & Marketing*
SENIOR VICE PRESIDENTS	Andrew T.M. Freeman	*Managing Director, London Forfaiting Company Ltd*
	Nassif A. Chehab	*Correspondent Banking & Syndications*
	Mostafa Chenbout	*Correspondent Banking & Commodity Finance*
	Nigel Harris	*Head of FIMBank London Representative Office*
	Silvio Mifsud	*Head of Information & Operations*
	Carmelo Occhipinti	*Head of Risk Management*
	Renald Theuma	*Head of Corporate Clients*
	Charles Wallbank	*Correspondent Banking*

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Contact person: Nigel Harris

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E-mail: arvind_sonmale@gtfindia.com
Contact person: Arvind Sonmale

REPORT OF THE DIRECTORS

For the Year Ended 31 December 2004

The Directors are pleased to present their report together with the audited financial statements of the Bank and the Group for the year ended 31st December 2004. This report is prepared in terms of the Companies Act, 1995 and complies with the disclosure requirements of the Sixth Schedule to the same Act.

Results for the Year

The Group reported a profit after tax of USD1.54 million for the year under review. The Board of Directors is not recommending the payment of a dividend.

Further information about the results is provided in the “Profit and Loss Account” on page 24 and in the “Review of Operations” on pages 5 to 11.

Principal Activities

The First International Merchant Bank Group (the “Group”) comprises First International Merchant Bank p.l.c., Malta (the “Bank”) and London Forfaiting Company Ltd., London (“LFC”) together with its subsidiary companies, the latter group wholly owned by FIMBank (UK) Limited.

The Bank is a public limited company registered under the laws of Malta, and listed on the Malta Stock Exchange. It is licensed as a credit institution under the Banking Act, 1994. The Bank’s principal activity is that of providing short-term international trade finance to corporate traders and to act 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. The Bank acquired full control of LFC in 2003. The FIMBank Group is supervised on a consolidated basis by the Malta Financial Services Authority.

LFC is registered in the United Kingdom as a private limited liability company. It was founded in 1984 and provides international trade finance services with particular focus on forfaiting business through an international network of offices. Some of these offices have distinct corporate status in the various jurisdictions where they are providing the service. LFC’s main activities are the purchasing of bills of exchange, promissory notes, deferred payment letters of credit and transferable financial loans from exporters or their banks and subsequently selling these instruments to customers or other institutions.

On 24th December 2004, the Bank completed the acquisition of 38.5% of the shares of Global Trade Finance Private Limited, a company incorporated in Mumbai, India and predominantly engaged in factoring business. The other shareholders in this associated company are the Export-Import Bank of India (EXIMBank), Bank of Maharashtra and International Finance Corporation (IFC), a member of the World Bank Group.

Business Review and Future Developments

A review of the business of the Group during the year under review and an indication of likely future developments are given in the “Review of Operations” on pages 5 to 11.

Dividends and Reserves

The Directors are not recommending the payment of a dividend and, consequently, the balance of the profit and loss account for the Group and the Bank amounting to USD3,764,384 and USD4,594,077, respectively, is being carried forward.

Standard Licence Conditions and Regulatory Sanctions

During the year under review, there were no breaches of standard licence conditions and/or regulatory sanctions.

REPORT OF THE DIRECTORS

For the Year Ended 31 December 2004

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

During the year ended 31 December 2004, no shares in the Bank were:

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

During the year under review, under the Executive Share Option Scheme Rules executives exercised 4,174 share options, with an exercise period from 1 January 2003 to 31 December 2007, at a price of USD0.50.

Directors

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

Najeeb H.M. Al-Saleh (Chairman)
John C. Grech (Vice Chairman) *(appointed 5 May 2004)*
Mehdi Ouazzani Hassani
Fouad M.T. Alghanim
Mohammed I.H. Marafie
Duco Reinout Hooft Graafland
Hamad Musaed Bader Mohammed Al-Sayer
Francis J. Vassallo
Tareq M. Al-Saleh *(appointed 5 May 2004)*
Jacques Leblanc *(appointed 5 May 2004)*
Saad A. A. Al-Mutawa *(resigned 5 May 2004)*
Fawzi Al-Jouder *(resigned 5 May 2004)*
Marwan Ahmad Salamah *(resigned 5 May 2004)*

Auditors

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

Approved by the Board of Directors on 28 February 2005 and signed on its behalf by:

Najeeb Al-Saleh

Najeeb H.M. Al-Saleh
Chairman

John C. Grech
Vice Chairman

Registered Address
7th Floor, The 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 Financial Services Authority Listing Rules 8.26, the Board of Directors (the "Board" or "Directors") of First International Merchant Bank p.l.c. (the "Bank") presents its Statement of Compliance which deals with the extent to which the Code of Principles of Good Corporate Governance ("the Principles"), published as Appendix 8.1 to the Listing Rules, have been adopted and the effective measures taken to ensure compliance with such Principles.

Compliance with the Principles

Even though the Principles are not mandatory, the Board strongly believes that the practices they recommend are in the best interests of the shareholders because they evidence the Directors' and the Bank's commitment to high standards of corporate governance.

Ultimate responsibility for good corporate governance is of the Directors who believe in the adoption of the Principles and endorse them, except for those instances where there exist particular circumstances that warrant non-adherence thereto.

Roles and Responsibilities

The Board is responsible for the overall long-term direction of the Bank, its subsidiaries and investments (the "Group"), for setting the strategy and policies of the Group and ensuring that they are pursued through good management practices. The Board discharges its responsibilities by:

a) agreeing business objectives, financial plans and general parameters within which Board Committees and Management are to function;
b) ensuring that systems and procedures are in place for significant business risks and exposures to be identified and properly managed;
c) ensuring that adequate systems of internal control are in place, and appropriately reviewed for effectiveness and monitored for compliance on a regular basis;
d) setting appropriate business standards and codes of corporate governance and ethical behaviour for all Directors and employees, and monitoring their performance;
e) appointing the President who is entrusted with day-to-day management of the Group and its operations, together with members of Management.

The Board has over the years created a framework through which it effectively discharges its functions. The Board has also established terms of reference and charters for the various Board meetings.

The suitability of any individual to become a Director is, in the first place, assessed by the Malta Financial Services Authority, as competent regulatory authority in Malta, which reviews the individual's competence to serve as Director against established 'fit and proper' criteria. In this connection, the individual provides any information, including detailed personal questionnaires, as the competent regulatory authority may require.

Board Composition and Appointment of Directors

Clauses 93 to 114 of the Bank's Articles of Association provide for the manner of appointment and retirement of Directors. Directors hold office from the close of the Annual General Meeting at which they are appointed until the end of the consecutive one, at which meeting they become eligible for re-election. The Articles of Association provide that the Chairman and Vice-Chairman are to be appointed by the Directors from amongst their number and shall hold office for a period of one year, unless otherwise decided by a simple majority of the Board. The procedure for election of Directors is governed by the Articles. Any member may nominate an individual in the manner prescribed by the Articles, provided that such nomination is seconded by a member or members who in the aggregate hold at least 20,000 shares between them.

STATEMENT OF COMPLIANCE WITH THE PRINCIPLES OF GOOD CORPORATE GOVERNANCE

In view that the appointment and election of Directors is regulated by the aforementioned provisions, the Board considers that there is no need for a Nominations Committee.

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

	Year when first appointed	No. of shares held in the Bank directly in his name
Najeeb H.M. Al-Saleh *(Chairman)*	1994	430,435
John C. Grech *(Vice Chairman)*	2004	200,000
Mehdi Ouazzani Hassani	1994	2,000,000
Mohammed I.H. Marafie	1994	3,500,000
Fouad M.T. Alghanim	1997	2,000,000
Duco Reinout Hooft Graafland	2000	Nil
Hamad Musaed Bader Mohammed Al-Sayer	2002	Nil
Francis J. Vassallo	2003	Nil
Tareq M. Al-Saleh	2004	Nil
Jacques Leblanc	2004	Nil

The participation of Directors on Board Committees, as provided for by the Articles, is decided upon by the Board. All such committees include at least one Director.

Proceedings of Directors

The proceedings of Directors are regulated by the Bank's Articles of Association. Meetings of the Board are held as frequently as necessary and are notified by the Company Secretary with the issue of the agenda for the forthcoming meeting. The agenda is accompanied by such papers and documents as are necessary to make Directors informed of issues relating to their roles and responsibilities, and in particular the decisions they are expected to take. Meetings also include presentations by Management, whilst other information and documentation is made available for perusal by the Directors at their request. Members of senior management, who invariably include the President, attend all Board meetings.

All Board members have access to the services of the Company Secretary and supporting legal advice and are entitled, in the furtherance of their duties, to take independent professional advice on any matter relating to their duties, at the Bank's expense.

In terms of the Articles of Association whenever a conflict of interest situation, real or potential, arises in connection with any matter, the interest is declared. It is best practice that the Director concerned refrains from taking part in proceedings relating to the matter or decision. The minutes of Board meetings, as well as those of Board committees, invariably include a suitable record of such declaration and of the action taken by the individual Director concerned. In all other circumstances, the Directors are expected to play a full and constructive role in the Group's affairs.

The Board held four meetings during 2004.

Board Committees

The Bank's Articles of Association establish that the Directors may delegate certain powers, authorities and discretions to any person and/or Committee appointed by them. Accordingly the Board has established the following committees:

Executive Committee
Audit Committee
Credit Committee
Asset-Liability Committee

STATEMENT OF COMPLIANCE WITH THE PRINCIPLES OF GOOD CORPORATE GOVERNANCE

The Executive Committee

The Executive Committee acts as the highest delegated authority by the Board in overseeing the activities and management of the Group and approving limits beyond the powers of the other committees.

The members of the Executive Committee are:
- Najeeb H.M. Al-Saleh *(Chairman)*
- Mohammed I.H. Marafie
- Francis J. Vassallo
- Jacques Leblanc
- Claude L. Roy
- Margrith Lütschg-Emmenegger
- Marcel Cassar

The Executive Committee met on five occasions during 2004, however communication with and between Management and the Committee's members is regular and ongoing.

The Audit Committee

The Audit Committee assists the Board in fulfilling its supervisory and monitoring responsibilities by reviewing the systems and procedures of internal control established by Management, the financial statements and disclosures and the external and internal audit processes. The Committee's terms of reference are included in the Audit Charter and are modelled upon current best recommendations and practices of good governance. During 2004 the Audit Charter was revised and brought in line with updated requirements of the Listing Rules. Both the Audit Committee's and the Internal Auditor's terms of reference clearly stipulate their independence from other Board committees and Management. The Internal Auditor has direct access to the Committee Chairman at all times. The Internal Auditor attends all meetings and acts as Secretary of the Audit Committee.

The members of the Audit Committee are:
- Duco Reinout Hooft Graafland *(Chairman)*
- Hamad Musaed Bader Mohammed Al-Sayer
- Ibrahim Hammad

At meetings of the Audit Committee members of Management and the external auditors may be required to attend. The Audit Committee met on three occasions during 2004, however communication with and between the Secretary/Internal Auditor and the Committee's members is regular and ongoing.

The Credit Committee

The Credit Committee is responsible for overseeing the Group's credit policy and risk, and for approving individual limits for banks and corporates within its delegated parameters of authority. The Credit Committee also recommends country limits for approval by the Executive Committee.

The members of the Credit Committee are:
- Francis J. Vassallo *(Chairman)*
- John C. Grech
- Margrith Lütschg-Emmenegger
- Marcel Cassar
- Raymond Busuttil
- Carmelo Occhipinti

The Credit Committee met on thirty-eight occasions during 2004.

STATEMENT OF COMPLIANCE WITH THE PRINCIPLES OF GOOD CORPORATE GOVERNANCE

The Asset-Liability Committee

The Asset & Liability Committee (ALCO) is responsible for establishing appropriate asset and liability management policies, monitoring their application and reviewing financial information on the basis of which investment and funding decisions are taken.

The members of the Asset-Liability Committee are:

Francis J. Vassallo *(Chairman)*
Margrith Lütschg-Emmenegger
Marcel Cassar
Raymond Busuttil
Martin Chetcuti *(Head of Treasury)*
Carmelo Occhipinti

The ALCO met on twelve occasions during 2004.

Additionally, the Group's structures provide for an International Advisory Board which may be called upon by the Directors to advise on overall or specific aspects of the Group's international strategy. The International Advisory Board may also be called to give its opinion on new market opportunities and to recommend about strategy accordingly. The members of this Board are John C. Grech (who acts as Chairman), Najeeb H.M. Al-Saleh, Jacques Leblanc and Abdulaziz S. Al-Saleh, an independent advisor. The International Advisory Board met on one occasion during 2004.

Internal Control

The Board is ultimately responsible for the identification and evaluation of key risks applicable to the different areas of the business of the Group, and for ensuring that proper systems of internal control are in place. The Board has delegated Management with the task of creating an effective control environment to the highest possible standards. The internal audit function monitors compliance with policies, standards and procedures and the effectiveness of the internal control environment within the Group. To ensure the effectiveness of the internal systems of control the Internal Auditor reviews and tests such systems independently from Management, adopting a risk-based approach. The Internal Auditor reports to the Audit Committee, however, the Chairman of the Board of Directors is copied with all internal audit reports issued. The Board has identified key features within the Group's environment of internal controls to ensure compliance with the Principles. The Management is responsible for the identification and evaluation of key risks applicable to the respective areas of business. The Board receives regular reports from Management giving detailed and comprehensive analysis of financial and operational performance, including variance analysis between budgeted and actual figures, activities and prospects.

Terms and Remuneration

The Annual General Meeting of shareholders approves the maximum annual aggregate remuneration which the Directors may receive for the holding of their office. At the Annual General Meeting of 5 May 2004, the shareholders established USD200,000 as the maximum aggregate amount to which Directors would be entitled in 2004. Further details about the remuneration received by Directors in 2004 is provided in the Notes to the Audited Financial Statements. The Board decides and approves how individual remuneration is to be allocated amongst Directors for the roles that they carry out, such as participation at committees, and acting as Chairman of the Board and of committees. None of the Directors is on a contract of service with the Bank. No Director is entitled to profit sharing, share options or pension benefits from the Bank or other member of the Group.

The Board considers that the terms and remuneration of the Executives should reflect their responsibilities whilst taking account of industry and market benchmarks and reflecting internationally established criteria. The terms and remuneration of the President and Executives, including entitlements under the Executive Share Option Scheme, are determined and approved by the Board of Directors which, in doing so, effectively carries out the function of Remuneration Committee. For this reason the Board has decided that there is no scope for an apposite Remuneration Committee. The Management determines the remuneration and bonuses of all other members of staff, within the parameters of an aggregate amount of bonus allocation as approved by the Board.

STATEMENT OF COMPLIANCE WITH THE PRINCIPLES OF GOOD CORPORATE GOVERNANCE

Commitment to Shareholders and an Informed Market

The Board adheres to the rules prescribed by the Bank's Memorandum and Articles of Association, as well as all legislation, rules and regulations that oblige it to maintain a fair and informed market in the Bank's equity securities. It discharges its obligations by having in place formal procedures for dealing with potentially price-sensitive information and ensuring the proper conduct of its officers and staff in that regard. These procedures are incorporated in a 'Code of Conduct for Dealing in Securities by Directors, Executives and Employees' which is drawn up in accordance with the requirements of the Listing Rules, and which applies to all Directors and employees of the Group. Directors and employees are also notified and reminded by the Company Secretary to observe the 'time-windows' accompanying the publication of twice-yearly financial results during which no dealing in the Bank's equity securities is allowed.

Regular contact with shareholders is also maintained through company announcements, which are issued in conformity with the obligations arising from the Listing Rules. During 2004 the Bank issued eleven announcements.

All eligible shareholders are served with a notice to attend the Annual General Meeting, which is held during the first half of the year. The notice contains all the resolutions proposed for approval by the Annual General Meeting and, as necessary, notes accompanying such resolutions. In terms of statute, notices are delivered to shareholders at least 14 clear days before the date of the Annual General Meeting. Advance notification of the resolutions is also given by way of a Company Announcement as soon as these are decided and approved, normally at the same Board meeting that approves the Annual Financial Statements. The Board also considers the Annual Report to be an effective document which, in addition to the normal statutory disclosures, contains detailed information about the Group's performance. Moreover, the Board ensures that the Annual General Meeting serves as a medium at which information is communicated to shareholders in a transparent and accountable manner. Additionally the Bank holds meetings from time to time with financial intermediaries and practitioners at which the Management informs about the Group's progress and makes presentations on the activities and financial performance. These meetings are usually organized to follow the publication of the interim and annual financial results.

Approved by the Board of Directors on 28 February 2005 and signed on its behalf by:

Najeeb Al-Saleh

Najeeb H.M. Al-Saleh
Chairman

John C. Grech
Vice Chairman

REPORT OF THE AUDITORS

To the Members of First International Merchant Bank p.l.c.
Pursuant to Listing Rule 8.28 issued by the Listing Authority

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

Our responsibility, as auditors of the Bank, is laid down by Listing Rule 8.28, which requires us to include a report 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 Annual Report.

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

In our opinion, the Statement of Compliance set out on pages 16 to 20 provides the disclosures required by the Listing Rules 8.26 and 8.27 issued by the Listing Authority.

Ray Azzopardi (Partner)
for and on behalf of

KPMG
Certified Public Accountants

28 February 2005

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The following statement, which should be read in conjunction with the Report of the Auditors on page 23, is made to enable shareholders to distinguish between the respective responsibilities of the Directors and 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 financial position of the Bank and the Group as at the end of the financial period and of the profit or loss of the Bank and the Group for that period.

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

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

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

Signed on behalf of the Board
Francesco Apap Bologna
Company Secretary

28 February 2005

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 24 to 58. As described on page 22, 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 these financial statements are in agreement with the books.

We conducted our audit in accordance with International Standards on Auditing issued by the International Auditing and Assurance Standards Board. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes 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 financial position of the Bank and the Group as at 31 December 2004 and of the results of operations and cash flows for the year then ended in accordance with the requirements of International Financial Reporting Standards promulgated by the International Accounting Standards Board, and have been properly prepared in accordance with the provisions of the Companies Act, 1995 and the Banking Act, 1994 enacted in Malta.

Ray Azzopardi (Partner)
for and on behalf of

KPMG
Certified Public Accountants

28 February 2005

PROFIT AND LOSS ACCOUNT

For the Year Ended 31 December 2004

		GROUP		BANK	
	Note	**2004 USD**	2003 USD	**2004 USD**	2003 USD
Interest receivable on loans and advances and balances with Central Bank of Malta	4	**3,214,345**	3,440,895	**4,273,583**	3,235,211
Interest payable	5	**(1,411,020)**	(1,045,161)	**(1,416,423)**	(1,077,834)
Net interest income		**1,803,325**	2,395,734	**2,857,160**	2,157,377
Fees and commissions receivable		**6,989,311**	5,083,621	**6,147,131**	5,083,621
Fees and commissions payable		**(342,250)**	(357,688)	**(307,177)**	(357,688)
Net trading income	6	**3,313,678**	2,024,806	**409,450**	2,559,523
Loss on disposal of non-trading financial asset		**-**	(30,000)	**-**	(30,000)
Other operating income	7	**486,258**	53,512	**51,321**	53,512
Operating income		**12,250,322**	9,169,985	**9,157,885**	9,466,345
Administrative expenses	8	**(10,998,357)**	(6,280,585)	**(6,512,918)**	(5,748,045)
Depreciation		**(481,705)**	(507,753)	**(409,496)**	(311,958)
Net reversal of provision for potential losses	29	**496,778**	-	**-**	-
Net impairment reversal / (losses)	9	**309,293**	554,865	**(810,834)**	(60,289)
Amortisation of intangible assets	20 (a)	**-**	(571,846)	**-**	-
Adjustment to intangible assets	20 (b)	**(1,902,900)**	-	**-**	-
(Loss) / profit on ordinary activities before tax	10	**(326,569)**	2,364,666	**1,424,637**	3,346,053
Taxation	11	**1,868,639**	(62,319)	**(34,261)**	(62,319)
Profit for the year		**1,542,070**	2,302,347	**1,390,376**	3,283,734
Earnings per share	12	**2.34c**	4.99c	**2.11c**	7.12c

BALANCE SHEET

At 31 December 2004

	Note	GROUP 2004 USD	GROUP 2003 USD	BANK 2004 USD	BANK 2003 USD
ASSETS					
Balances with Central Bank of Malta and cash	13	**139,563**	4,393,757	**59,834**	4,393,757
Financial assets held-for-trading	14	**63,281,081**	35,939,274	**-**	11,391,282
Investments	15	**133,600**	133,600	**133,600**	133,600
Loans and advances to banks	16	**107,948,101**	85,818,706	**106,813,271**	83,584,730
Loans and advances to customers	17	**26,190,662**	34,268,827	**85,939,813**	64,936,427
Shares in subsidiary companies	18	**-**	-	**2**	2
Shares in associated company	19	**4,703,330**	-	**4,703,330**	-
Intangible assets	20	**5,235,887**	8,005,843	**-**	-
Tangible assets	21	**2,972,697**	3,468,381	**1,527,189**	1,259,859
Deferred tax asset	22	**2,645,188**	684,407	**742,288**	684,407
Other assets	23	**1,563,618**	1,315,520	**1,054,458**	1,315,520
Prepayments and accrued income	24	**1,161,292**	1,841,638	**1,886,267**	360,998
Total assets		**215,975,019**	175,869,953	**202,860,052**	168,060,582
LIABILITIES					
Amounts owed to banks	25	**65,697,692**	43,282,344	**65,697,692**	43,282,344
Amounts owed to customers	26	**97,204,814**	73,675,060	**86,619,942**	75,298,813
Other liabilities	27	**1,975,711**	6,386,104	**58,101**	-
Accruals and deferred income	28	**1,604,504**	3,416,558	**1,341,512**	937,006
Provisions	29	**1,179,186**	1,548,855	**-**	-
		167,661,907	128,308,921	**153,717,247**	119,518,163
SHAREHOLDERS' FUNDS					
Called up issued share capital	30	**33,005,316**	33,003,229	**33,005,316**	33,003,229
Share premium	31	**8,862,371**	8,862,371	**8,862,371**	8,862,371
Other reserve	32	**2,681,041**	2,681,041	**2,681,041**	2,681,041
Profit and loss account		**3,764,384**	2,222,314	**4,594,077**	3,203,701
Dividend reserve		**-**	792,077	**-**	792,077
		48,313,112	47,561,032	**49,142,805**	48,542,419
Total liabilities		**215,975,019**	175,869,953	**202,860,052**	168,060,582

BALANCE SHEET

At 31 December 2004

		GROUP		BANK	
	Note	**2004 USD**	2003 USD	**2004 USD**	2003 USD
MEMORANDUM ITEMS					
Contingent liabilities	33	**4,563,943**	3,829,531	**4,221,546**	3,829,531
Commitments	34	**129,261,867**	63,645,130	**109,628,881**	63,645,130

The official closing middle rate of exchange between the US Dollar and the Maltese Lira issued by the Central Bank of Malta for 31 December 2004 stood at 3.1044.

The financial statements on pages 24 to 58 were approved by the Board of Directors on 28 February 2005 and were signed on its behalf by:

Najeeb H.M. Al-Saleh
Chairman

John C. Grech
Vice Chairman

STATEMENT OF CHANGES IN EQUITY

For the Year Ended 31 December 2004

	Called up Issued Share Capital USD	Share Premium USD	Other Reserve USD	Dividend Reserve USD	Profit and Loss Account USD	Total USD
GROUP						
At 1 January 2003	23,000,000	4,021,575	2,681,041	-	712,044	30,414,660
Exercised share options	2,250	380	-	-	-	2,630
Issue of share capital	10,000,979	5,000,489	-	-	-	15,001,468
Share issue costs	-	(160,073)	-	-	-	(160,073)
Profit for the year	-	-	-	-	2,302,347	2,302,347
Dividend proposed	-	-	-	792,077	(792,077)	-
At 31 December 2003	33,003,229	8,862,371	2,681,041	792,077	2,222,314	47,561,032
Exercised share options	2,087	-	-	-	-	2,087
Profit for the year	-	-	-	-	1,542,070	1,542,070
Dividend paid	-	-	-	(792,077)	-	(792,077)
At 31 December 2004	**33,005,316**	**8,862,371**	**2,681,041**	**-**	**3,764,384**	**48,313,112**
BANK						
At 1 January 2003	23,000,000	4,021,575	2,681,041	-	712,044	30,414,660
Exercised share options	2,250	380	-	-	-	2,630
Issue of share capital	10,000,979	5,000,489	-	-	-	15,001,468
Share issue costs	-	(160,073)	-	-	-	(160,073)
Profit for the year	-	-	-	-	3,283,734	3,283,734
Dividend proposed	-	-	-	792,077	(792,077)	-
At 31 December 2003	33,003,229	8,862,371	2,681,041	792,077	3,203,701	48,542,419
Exercised share options	2,087	-	-	-	-	2,087
Profit for the year	-	-	-	-	1,390,376	1,390,376
Dividend paid	-	-	-	(792,077)	-	(792,077)
At 31 December 2004	**33,005,316**	**8,862,371**	**2,681,041**	**-**	**4,594,077**	**49,142,805**

CASH FLOW STATEMENT

For the Year Ended 31 December 2004

		GROUP		BANK	
	Note	**2004 USD**	2003 USD	**2004 USD**	2003 USD
Cash Flows from Operating Activities					
Interest and commission receipts		**13,068,146**	8,559,372	**10,050,355**	8,261,954
Exchange received		**386,034**	1,904,601	**409,450**	2,569,595
Interest and commission payments		**(1,756,839)**	(1,385,970)	**(1,732,169)**	(1,418,642)
Payments to employees and suppliers		**(16,911,814)**	(6,045,068)	**(6,568,753)**	(5,759,993)
Operating (loss) / profit before changes in operating assets / liabilities		**(5,214,473)**	3,032,935	**2,158,883**	3,652,914
Decrease / (increase) in operating assets:					
- Reserve deposit with Central Bank of Malta		**3,799,014**	(1,224,474)	**3,799,014**	(1,224,474)
- Forfaiting assets		**(26,216,830)**	(28,359,812)	**11,391,282**	(11,204,780)
- Loans and advances to customers and banks		**8,767,290**	(15,551,134)	**8,767,290**	(14,615,348)
- Other assets, prepayments and accrued income		**480,636**	(45,394)	**(257,535)**	-
(Decrease) / increase in operating liabilities:					
- Amounts owed to customers and banks		**23,529,754**	27,949,924	**11,321,129**	29,573,677
- Other liabilities		**587,018**	(2,947,539)	**58,101**	-
Net cash flows from / (used in) operating activities before income tax		**5,732,409**	(17,145,494)	**37,238,164**	6,181,989
Income tax paid		**(361,075)**	(353,044)	**(361,075)**	(353,044)
Net Cash Flows from / (used in) Operating Activities		**5,371,334**	(17,498,538)	**36,877,089**	5,828,945
Cash Flows from Investing Activities					
- Payments to acquire tangible assets		**(1,029,224)**	(550,521)	**(676,760)**	(404,038)
- Proceeds on disposal of tangible assets		**1,115,225**	-	**-**	-
- Net advance to subsidiary companies		**-**	-	**(29,723,577)**	(30,667,600)
- Purchase of shares in associated company		**(4,648,205)**	-	**(4,648,205)**	-
- Payment to acquire subsidiary company		**-**	(58,027,830)	**-**	-
Net Cash Flows used in Investing Activities		**(4,562,204)**	(58,578,351)	**(35,048,542)**	(31,071,638)
Cash Flows from Financing Activities					
- Proceeds from issue of share capital		**789,617**	14,056,495	**789,617**	14,056,495
- Dividends paid		**(792,077)**	-	**(792,077)**	-
Net Cash Flows (used in) / from Financing Activities		**(2,460)**	14,056,495	**(2,460)**	14,056,495
Increase / (Decrease) in Cash and Cash Equivalents		**806,670**	(62,020,394)	**1,826,087**	(11,186,198)
Cash and cash equivalents of acquired subsidiaries		**-**	53,068,172	**-**	-
Cash and cash equivalents at beginning of year		**27,611,299**	36,563,521	**25,377,323**	36,563,521
Cash and Cash Equivalents at End of Year	35	**28,417,969**	27,611,299	**27,203,410**	25,377,323

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2004

1. BASIS OF PREPARATION

First International Merchant Bank p.l.c. ("the Bank") is a company domiciled in Malta.

The financial statements have been prepared in accordance with the provisions of the Banking Act, 1994 and Companies Act, 1995 (the "Act") enacted in Malta, which require adherence to International Financial Reporting Standards (IFRSs) and their interpretations adopted by the International Accounting Standards Board (IASB). The Act specifies that in the event that any one of its provisions is in conflict or not compatible with IFRSs or its application is incompatible with the obligation for the financial statements to give a true and fair view, that provision shall be departed from in order to give a true and fair view.

The financial statements are prepared on the historical cost basis except that derivative financial instruments, financial assets and liabilities held-for-trading and available-for-sale assets are stated at fair value, other than 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.

IFRS 3, *Business Combinations*, IAS 36 (Revised 2004), *Impairment of Assets*, and IAS 38 (Revised 2004), *Intangible Assets* have been adopted before their effective date.

Except as stated above, the accounting policies have been consistently applied by the Bank and the Group and are consistent with those used in the previous year.

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

2. BASIS OF CONSOLIDATION

The consolidated financial statements of the Bank for the year ended 31 December 2004, comprise the financial statements of First International Merchant Bank p.l.c., its subsidiary companies FIMBank UK Limited and London Forfaiting Company Limited (collectively referred to as the "Group") and the Group's interest in its associated undertaking, Global Trade Finance Private Limited.

(i) Subsidiaries

Subsidiaries are those entities controlled by the Bank. Control exists when the Bank has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

(ii) Associates

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. The consolidated financial statements include the Group's share of the total recognised gains and losses of associates on an equity accounting basis, from the date that significant influence commences until the date that significant influence ceases. When the Group's share of losses exceeds its interest in associate, the Group's carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of an associate.

(iii) Transactions eliminated on consolidation

Intra-group balances and any unrealised gains and losses or income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with associates are eliminated to the extent of the Group's interest in the entity. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2004

3. SIGNIFICANT ACCOUNTING POLICIES

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

a) Revenue Recognition

Interest income is recognised in the profit and loss account as it accrues.

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 Group principally holds for the purpose of short-term profit taking. These include investments, forfaiting assets, 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 Group 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 Group 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 Group, or held-to-maturity.

ii) Recognition

The Group 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 Group.

iii) Measurement

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

Subsequent to initial recognition all trading instruments and all available-for-sale assets are measured at fair value, except that any instrument that does not have a quoted market price in an active market and 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. Premia and discounts, including initial transactions costs, are included in the carrying amount of the related instrument and amortised over the period to maturity based on the effective interest rate of the instrument.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2004

3. SIGNIFICANT ACCOUNTING POLICIES (Cont.)

b) Financial Instruments (Cont.)

iv) Fair value measurement principles

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

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

The fair value of derivatives that are not exchange traded is estimated at the amount that the Group would receive or pay to terminate the contract at the balance sheet date taking into account current market conditions and the current credit worthiness of the counter parties.

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 profit and loss account.

Gains or losses arising from a change in the fair value of trading instruments are recognised in the profit and loss account.

c) Derecognition

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

Available-for-sale assets and assets held-for-trading that are sold are derecognised and corresponding receivables from the buyer for the payment are recognised as at the date the Group commits to sell the assets.

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

d) Impairment

The carrying amount of the Group's assets, other than deferred tax asset (refer to accounting policy h), are reviewed at each balance date to determine whether there is any indication of impairment. If any such indications exist, the asset's recoverable amount is estimated.

i) Goodwill

For goodwill, assets that have an indefinite useful life and intangible assets that are not yet available for use, the recoverable amount is estimated at each balance sheet date. An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the profit and loss account. Impairment losses recognised in respect of cash generation units are allocated first to reduce the carrying amount of any goodwill allocated to cash generation units (group of units) and then, to reduce the carrying amount of the other assets in the unit (group of units) on a prorata basis.

An impairment loss in respect of goodwill is not reversed.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2004

3. SIGNIFICANT ACCOUNTING POLICIES (Cont.)

d) Impairment (Cont.)

ii) 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 collective impairment allowances for uncollectibility. Specific impairment allowances are made against the carrying amount of loans and advances that are identified as being impaired based on regular reviews of outstanding balances to reduce these loans and advances to their recoverable amounts. Collective impairment 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 amount are recognised in the profit and loss account. When a loan is known to be uncollectible, all the necessary legal procedures have been completed, and the final loss has been determined, the loan is written off.

If in a subsequent period the amount of 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 profit and loss account.

iii) 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 profit and loss account 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 profit and loss account.

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 profit and loss account.

e) Investment in Associated and Subsidiary Companies

The Bank's investment in associated and subsidiary companies is carried at cost less impairment losses (refer to accounting policy d).

f) Tangible Assets and Depreciation

Tangible 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
Freehold premises	50
Computer system	7
Furniture, fixtures and fittings	14
Computer equipment	5
Others	5 - 14

At balance sheet date, the carrying amounts of tangible assets are reviewed for indication of impairment.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2004

3. SIGNIFICANT ACCOUNTING POLICIES (Cont.)

g) Intangible Assets

Goodwill

All business combinations are accounted for by applying the purchase method.

Goodwill, arising on acquisition of subsidiaries and associates, represents the difference between the cost of the acquisition and the fair value of the net identifiable assets acquired. On initial recognition goodwill is measured at its cost. Effective 1 January 2004, applying the requirements of IFRS 3 *Business Combinations* before its effective date, after initial recognition goodwill is measured at cost less impairment losses. Accordingly goodwill is allocated to cash-generating units and is no longer amortised but is tested annually for impairment (refer to accounting policy d). In respect of associates, the carrying amount of goodwill is included in the carrying amount of the investment in the associate.

Negative goodwill arising on acquisition is recognised directly in the profit and loss account.

h) Taxation

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the profit and loss account 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.

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

i) 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.

Bonuses received by employees are based on target performance. The estimated amount of the bonus is recognised as an expense on the accruals basis.

The foreign sub-group operates insured money purchase schemes to which it has no commitment beyond the payment of fixed contributions which are recognised as an expense during the year in which these are incurred.

j) Equity Related Compensation Benefits

Equity related compensation benefits relate to a share option scheme that 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.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2004

3. SIGNIFICANT ACCOUNTING POLICIES (Cont.)

k) Foreign Currency

i) Foreign currency transactions

Transactions in foreign currencies are translated to US Dollars at the rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to US Dollars at the rates of exchange ruling at that 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.

Non-monetary assets and liabilities denominated in foreign currencies that are stated at historic cost, are translated at the foreign exchange rate ruling at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to the reporting currency at the foreign exchange rates ruling at the date that the values were determined.

ii) Financial statements of foreign operations

For Group's foreign operations that are not considered an integral part of the entity's operations, the assets and liabilities, including goodwill and fair value adjustments arising on consolidation are translated to US Dollars at the rates of exchange ruling at the balance sheet date. The revenues and expenses of foreign operations, are translated to US Dollars at rates approximating the rates of exchange ruling at the dates of the transactions. Foreign exchange differences arising on translation are recognised directly to equity.

For Group's foreign operations that are considered to be an integral part of the entity's operations, the revenues and expenses are translated to US Dollars at the rates of exchange ruling at the dates of the transactions as if all transactions had been entered into by the reporting entity itself. Foreign exchange differences arising on translation are recognised in the profit and loss account.

l) Operating Leases

Rentals payable under operating leases are accounted for on a straight line basis over the period of the lease and are included in administrative expenses.

m) Cash and Cash Equivalents

Cash and cash equivalents comprise cash and balances with the Central Bank of Malta, excluding the reserve deposit 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.

n) Segmental Information

A segment is a distinguishable component of the Group and 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 other segments.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2004

4. INTEREST RECEIVABLE AND SIMILAR INCOME

	GROUP		BANK	
	2004	2003	**2004**	2003
	USD	USD	**USD**	USD
On loans and advances to banks	**1,470,528**	1,843,964	**1,455,312**	1,638,280
On loans and advances to customers	**1,176,044**	992,094	**1,176,044**	992,094
On loans and advances to subsidiary companies	**-**	-	**1,074,454**	-
On balances with Central Bank of Malta	**37,279**	84,490	**37,279**	84,490
	2,683,851	2,920,548	**3,743,089**	2,714,864
On other trade finance activities	**530,494**	520,347	**530,494**	520,347
	3,214,345	3,440,895	**4,273,583**	3,235,211

5. INTEREST PAYABLE

	GROUP		BANK	
	2004	2003	**2004**	2003
	USD	USD	**USD**	USD
On amounts owed to banks	**608,660**	565,344	**608,660**	565,195
On amounts owed to customers	**802,360**	479,817	**807,763**	512,639
	1,411,020	1,045,161	**1,416,423**	1,077,834

6. NET TRADING INCOME

	GROUP		BANK	
	2004	2003	**2004**	2003
	USD	USD	**USD**	USD
Net trading income arises from:				
Net trading income from forfaiting assets	**3,170,537**	155,368	**-**	-
Foreign exchange rate fluctuations	**143,141**	1,869,438	**409,450**	548,068
Foreign exchange gain arising on re-denomination of loan to subsidiary	**-**	-	**-**	2,011,455
	3,313,678	2,024,806	**409,450**	2,559,523

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2004

7. OTHER OPERATING INCOME

	GROUP		BANK	
	2004 USD	2003 USD	**2004 USD**	2003 USD
Loss on disposal of fixed assets	**(223,481)**	-	**-**	-
Consultancy fees receivable	**51,321**	53,512	**51,321**	53,512
Other non-trading income	**658,418**	-	**-**	-
	486,258	53,512	**51,321**	53,512

Other non-trading income represents recoveries of non-trading assets of a subsidiary by balance sheet date.

8. ADMINISTRATIVE EXPENSES

	GROUP		BANK	
	2004 USD	2003 USD	**2004 USD**	2003 USD
Staff costs				
- wages, salaries and allowances	**5,182,394**	2,730,608	**2,933,313**	2,446,321
- social security costs	**507,358**	139,506	**173,466**	107,630
- other pension costs	**164,095**	54,485	**-**	-
	5,853,847	2,924,599	**3,106,779**	2,553,951
Staff costs	**5,853,847**	2,924,599	**3,106,779**	2,553,951
Other administrative expenses	**5,144,510**	3,355,986	**3,941,062**	3,194,094
Recharge to subsidiary	**-**	-	**(534,923)**	-
	10,998,357	6,280,585	**6,512,918**	5,748,045
	Number	Number	Number	Number
Average number of employees				
- executive and senior managerial	**21**	10	**10**	8
- other managerial, supervisory and clerical	**84**	85	**66**	53
- others	**3**	3	**3**	3
	108	98	**79**	64

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.

On 5 May 2004 the Bank's Executive Committee awarded 400,000 share options at the price of USD1.24 having an exercise period from 1 January 2006 to 31 December 2010.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2004

8. ADMINISTRATIVE EXPENSES (Cont.)

Movements in the number of share options awarded to executives are as follows:

	GROUP		BANK	
	2004	2003	**2004**	2003
	No of shares	No of shares	**No of shares**	No of shares
As at 1 January	**276,394**	274,833	**276,394**	274,833
Exercised	**(4,174)**	(4,500)	**(4,174)**	(4,500)
Awarded	**400,000**	6,061	**400,000**	6,061
As at 31 December	**672,220**	276,394	**672,220**	276,394

Details of Share Options Granted:

		Exercise Period		
	Total	01.01.06 to 31.12.10	01.01.04 to 31.12.08	01.01.03 to 31.12.07
Exercise price per USD0.50 share		USD1.24	USD 1.1439	USD 0.50
No of share options unexercised as at 31 December 2004	672,220	400,000	136,253	135,967

During the year executives exercised 4,174 share options, with an exercise period from 1 January 2003 to 31 December 2007, at a price of USD 0.50.

9. NET IMPAIRMENT REVERSAL / (LOSSES)

	GROUP		BANK	
	2004	2003	**2004**	2003
	USD	USD	**USD**	USD
Write Downs:				
Loans and advances to banks				
- specific impairment allowances	**(473,314)**	-	**(473,314)**	-
Loans and advances to customers				
- specific impairment allowances	**(568,701)**	(390,991)	**(568,701)**	(390,991)
- collective impairment allowances	**(6,486)**	-	**(6,486)**	-
	(575,187)	(390,991)	**(575,187)**	(390,991)
Forfaiting assets				
- written-off assets	**(2,940,638)**	-	**-**	-
	(3,989,139)	(390,991)	**(1,048,501)**	(390,991)

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2004

9. NET IMPAIRMENT REVERSAL / (LOSSES) (Cont.)

	GROUP		BANK	
	2004 USD	2003 USD	**2004 USD**	2003 USD
Recoveries and Reversals:				
Loans and advances to customers				
- specific impairment allowances	**237,667**	84,176	**237,667**	84,176
- collective impairment allowances	**-**	246,526	**-**	246,526
	237,667	330,702	**237,667**	330,702
Forfaiting assets				
- specific impairment allowances	**3,186,274**	615,154	**-**	-
- recoveries from written-off assets	**874,491**	-	**-**	-
	4,060,765	615,154	**-**	-
	4,298,432	945,856	**237,667**	330,702
Net Impairment Reversal / (Losses)	**309,293**	554,865	**(810,834)**	(60,289)

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

	GROUP		BANK	
	2004 USD	2003 USD	**2004 USD**	2003 USD
Profit / (loss) before tax is stated after charging:				
Auditors' remuneration	**190,074**	96,376	**54,510**	52,963
Directors' remuneration				
- fees	**50,000**	50,000	**50,000**	50,000
- other emoluments	**443,089**	86,784	**142,667**	86,784
	493,089	136,784	**192,667**	136,784

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2004

11. TAXATION

	GROUP		BANK	
	2004 USD	2003 USD	**2004 USD**	2003 USD
The credit / (charge) for income tax, which is based on the taxable profit / (loss) for the year at a rate of 35% comprises:				
- current tax	**(92,142)**	(127,949)	**(92,142)**	(127,949)
- deferred	**1,960,781**	65,630	**57,881**	65,630
	1,868,639	(62,319)	**(34,261)**	(62,319)

The foreign subsidiaries were not subject to tax in view of losses sustained during the year.

The tax credit / (expense) and the result of the accounting profit / (loss) multiplied by the applicable tax rate are reconciled as follows:

	GROUP		BANK	
	2004 USD	2003 USD	**2004 USD**	2003 USD
(Loss) / profit on ordinary activities before tax	**(326,569)**	2,364,666	**1,424,637**	3,346,053
Tax credit / (expense) at the applicable rate of 35%	**114,299**	(827,633)	**(498,623)**	(1,171,119)
Tax effect of non deductible expenses	**(3,378)**	(6,543)	**(3,378)**	(6,543)
Tax effect of temporary differences previously not recognised	**1,904,580**	4,890	**1,680**	4,890
Tax effect of allowances received in terms of Income Tax Act exemption order	**466,060**	1,110,453	**466,060**	1,110,453
Tax effect on group losses not deductible	**(612,922)**	(343,486)	**-**	-
Tax credit / (charge)	**1,868,639**	(62,319)	**(34,261)**	(62,319)

12. EARNINGS PER SHARE

The calculation of the Group and Bank earnings per share at 31 December 2004 is based on the profit attributable to ordinary shareholders of USD1,542,070 and USD1,390,376 (2003: USD2,302,347 and USD 3,283,734) for the Group and Bank respectively divided by the weighted average number of ordinary shares in issue during the year ended 31 December 2004 of 66,006,811 (2003: weighted average 46,110,216).

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2004

13. BALANCES WITH CENTRAL BANK OF MALTA AND CASH

	GROUP		BANK	
	2004 USD	2003 USD	**2004 USD**	2003 USD
Balances with the Central Bank of Malta	**-**	4,336,014	**-**	4,336,014
Cash	**139,563**	57,743	**59,834**	57,743
	139,563	4,393,757	**59,834**	4,393,757

The Bank is exempt from holding a Reserve Deposit Requirement under Article 11 of the Central Bank of Malta Directive No.1 with effect from 15 October 2004.

14. FINANCIAL ASSETS HELD-FOR-TRADING

	GROUP		BANK	
	2004 USD	2003 USD	**2004 USD**	2003 USD
Financial assets held-for-trading				
Forfaiting assets	**76,490,611**	52,335,079	**-**	11,391,282
Allowance for uncollectibility				
- specific impairment allowance	**(13,209,530)**	(16,395,805)	**-**	-
	63,281,081	35,939,274	**-**	11,391,282

15. INVESTMENTS

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

	GROUP		BANK	
	2004 USD	2003 USD	**2004 USD**	2003 USD
Foreign	**111,405**	111,405	**111,405**	111,405
Local	**22,195**	22,195	**22,195**	22,195
	133,600	133,600	**133,600**	133,600

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 any impairment losses.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2004

16. LOANS AND ADVANCES TO BANKS

	GROUP		BANK	
	2004 USD	2003 USD	**2004 USD**	2003 USD
Repayable on call and at short notice	**7,583,995**	28,522,951	**6,449,165**	26,288,975
Term loans and advances	**102,468,340**	58,926,675	**102,468,340**	58,926,675
Total loans and advances	**110,052,335**	87,449,626	**108,917,505**	85,215,650
Allowances for uncollectibility				
- specific impairment allowances	**(2,104,234)**	(1,630,920)	**(2,104,234)**	(1,630,920)
Net loans and advances	**107,948,101**	85,818,706	**106,813,271**	83,584,730

Loans and advances to banks include blocked funds amounting to USD113,096 (2003: USD780,440) pursuant to US Sanctions.

Further disclosure as required by the publication of audited financial statements of credit institutions under the Banking Act, 1994 Directive:

The aggregate amount of impaired loans to banks amounted to USD3,613,768 (2003: USD1,630,920). Total interest that would have accrued on the impaired loans in the current and preceding financial years would have amounted to USD238,680 (2003: USD113,033).

17. LOANS AND ADVANCES TO CUSTOMERS

	GROUP		BANK	
	2004 USD	2003 USD	**2004 USD**	2003 USD
Repayable on call and at short notice	**26,091,156**	16,390,246	**26,091,156**	16,390,246
Term loans and advances	**9,903,361**	27,344,916	**9,903,361**	27,344,916
Total loans and advances	**35,994,517**	43,735,162	**35,994,517**	43,735,162
Amounts owed by subsidiary companies	**-**	-	**59,749,151**	30,667,600
Allowances for uncollectibility	**(9,803,855)**	(9,466,335)	**(9,803,855)**	(9,466,335)
Net loans and advances	**26,190,662**	34,268,827	**85,939,813**	64,936,427
Allowances for Uncollectibility				
- specific impairment allowances	**9,576,910**	9,245,876	**9,576,910**	9,245,876
- collective impairment allowances	**226,945**	220,459	**226,945**	220,459
	9,803,855	9,466,335	**9,803,855**	9,466,335

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2004

17. LOANS AND ADVANCES TO CUSTOMERS (Cont.)

Further disclosure as required by the publication of audited financial statements of credit institutions under the Banking Act, 1994 Directive:

The aggregate amount of impaired loans and advances to customers amounted to USD13,211,630 (2003: USD11,163,533). Total interest that would have accrued on the impaired loans in the current and preceding financial years would have amounted to USD2,008,055 (2003: USD1,147,074).

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

	GROUP		BANK	
	2004 USD	2003 USD	**2004 USD**	2003 USD
Industrial raw materials	**809,359**	13,464,801	**809,359**	13,464,801
Ship scrapping/pre-demolition	**736,850**	12,751,511	**736,850**	12,751,511
Wholesale and retail trade	**17,950,400**	11,755,475	**17,950,400**	11,755,475
Financial intermediaries	**1,456,992**	-	**1,456,992**	-
Other services	**15,040,916**	5,763,375	**15,040,916**	5,763,375
	35,994,517	43,735,162	**35,994,517**	43,735,162

18. SHARES IN SUBSIDIARY COMPANIES

These consist of:

Name of Company	Incorporated In	Nature of Business	Current Equity Interest %	BANK 2004 USD	BANK 2003 USD
FIMBank UK Limited	UK	Holding Company	100	2	2

The Bank holds indirectly, through FIMBank UK Limited, 100% shareholding in London Forfaiting Company Limited, a company registered in Great Britain, which in turns wholly-owns the following subsidiaries:

Entity	**Registered in**
London Forfaiting Asia Pacific Limited *	Cyprus
London Forfaiting Americas Inc. *	United States of America
London Forfaiting Deutschland GmbH * #	Germany
London Forfaiting do Brasil Ltda. *	Brazil
London Forfaiting a Paris S.A. * #	France
London Forfaiting International Limited (formerly London Forfaiting International plc)	Great Britain

* *A wholly-owned subsidiary of London Forfaiting International Ltd. (formerly London Forfaiting International plc)*

\# *In course of liquidation at the date of this report*

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2004

19. SHARES IN ASSOCIATED COMPANY

These consist of:

Name of Company	Incorporated In	Nature of Business	Current Equity Interest	GROUP / BANK 2004	GROUP / BANK 2003
			%	USD	USD
Globe Trade Finance Private Limited	India	Factoring	38.5	4,703,330	-

These shares were acquired on 24 December 2004. On the same date, the Bank also entered into a Put Option Agreement with the Associated Company (GTF) and the other shareholders, namely Export-Import Bank of India (EXIMBank) and International Finance Corporation (IFC) (the "Put Option Agreement"). By virtue of this Put Option Agreement, IFC has the right, by sending a notice of exercise to EXIMBank and/or FIMBank, at any time and from time to time during the Exercise Period, to sell to EXIMBank and/or FIMBank, jointly and severally, all or part of IFC's shareholding in GTF at the Exercise Price.

The Exercise Period means the period beginning 31st March, 2007 and ending on either of the following:
(i) the date when all the shares have been disposed of by IFC; or
(ii) the date when all the shares of GTF are listed on the Bombay Stock Exchange or any other exchange acceptable to IFC; or
(iii) 30th September, 2010.

The Exercise Price has been fixed at one point eight five (1.85) times the Book Value per share of the Company worked out on the pro rata amount of the Shareholders Equity as derived from the most recent audited financial statements of GTF for the financial year ended immediately preceding the date of delivery of the notice of exercise, multiplied by the number of shares subject to the Put Option.

20. INTANGIBLE ASSETS

(a)	**Goodwill**
	USD
Cost	
At 1 January 2004	8,577,689
Accumulated amortisation eliminated on adoption of IFRS 3	(571,846)
Adjustments resulting from the recognition by a subsidiary of:	
- subsequent identification or changes in value of identifiable assets and liabilities	(867,056)
- deferred tax asset	(1,902,900)
At 31 December 2004	5,235,887
Amortisation and Impairment Loss	
Amortisation at 1 January 2004	571,846
Accumulated amortisation eliminated on adoption of IFRS 3	(571,846)
Amortisation at 31 December 2004	-
Carrying Amount	
At 31 December 2003	8,005,843
At 31 December 2004	5,235,887

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2004

20. INTANGIBLE ASSETS (Cont.)

(b) *Subsequent changes in the carrying amount of goodwill*

During the year, the fair value assigned at the date of acquisition to the identifiable assets and liabilities acquired were adjusted as additional evidence became available to assist the directors with the estimation of the value of the identifiable assets and liabilities at the date of acquisition. Consequently, as the subsequent identification or changes in value did not relate to specific events or changes in circumstances occurring after the date of acquisition, the gross carrying amount of goodwill was adjusted by USD154,381. Moreover, the gross carrying amount of goodwill was also adjusted by a decrease in restructuring provision amounting to USD1,021,437.

During the year one of the subsidiaries recognised a deferred tax asset amounting to USD1,902,900 (refer to note 22). The Group adjusted the gross carrying amount of goodwill to the amounts that would have been recorded if the deferred tax asset had been recognised as an identifiable asset at acquisition date. The reduction in the carrying amount of goodwill was recognised in the profit and loss account accordingly.

(c) *Impairment test for the cash-generating containing goodwill*

The recoverable amount of the London Forfaiting Company Limited (‘the cash-generating unit’) is based on value in use calculations. Those calculations use cash flow projections based on actual operating results and the five-year business plan approved by the board of directors. Cash flows beyond the five-year period have been extrapolated using a steady 2.0% growth rate. A pre-tax discount rate of 15.2% has been used in discounting the projected cash flows.

The key assumptions and the approach to determine their value are:

Assumptions	**How determined**
Volume of forfaiting assets	Applying growth rates to reflect the opportunities existing within the forfaiting business over the period of the projections.
Cost of funding	Assumption of basis points over LIBOR in relation to the credit rating of the bank.

The growth rates applied do not exceed the potential business opportunities within the market in which the generating unit operates. The recoverable amount of the generating unit exceeds its carrying amount. The board of directors believes that any reasonably possible change in the key assumptions on which the generating unit’s recoverable amount is based, would not cause the generating unit’s carrying amount to exceed its recoverable amount.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2004

21. TANGIBLE ASSETS

GROUP

	Freehold Premises USD	Computer System USD	Furniture Fixtures and Fittings USD	Computer Equipment USD	Others USD	Total USD
Cost						
At 1 January 2004	2,586,558	704,842	4,756,365	2,575,174	2,129,157	12,752,096
Additions during year	-	27,544	181,154	487,635	332,957	1,029,290
Disposals	(1,083,169)	-	(1,659,316)	(455,469)	(539,121)	(3,737,075)
At 31 December 2004	1,503,389	732,386	3,278,203	2,607,340	1,922,993	10,044,311
Depreciation						
At 1 January 2004	313,840	358,318	4,547,408	2,316,279	1,747,870	9,283,715
Charge for year	5,754	104,624	39,112	191,768	140,447	481,705
Released on disposal	(99,547)	-	(1,631,799)	(451,702)	(510,758)	(2,693,806)
At 31 December 2004	220,047	462,942	2,954,721	2,056,345	1,377,559	7,071,614
Net Book Amount						
At 31 December 2004	**1,283,342**	**269,444**	**323,482**	**550,995**	**545,434**	**2,972,697**
At 31 December 2003	2,272,718	346,524	208,957	258,895	381,287	3,468,381

BANK

	Freehold Premises USD	Computer System USD	Furniture Fixtures and Fittings USD	Computer Equipment USD	Others USD	Total USD
Cost						
At 1 January 2004	221,708	704,842	275,886	605,274	975,312	2,783,022
Additions during year	-	27,544	156,019	337,108	156,155	676,826
At 31 December 2004	221,708	732,386	431,905	942,382	1,131,467	3,459,848
Depreciation						
At 1 January 2004	8,874	358,318	107,652	393,072	655,247	1,523,163
Charge for year	4,442	104,624	30,837	154,122	115,471	409,496
At 31 December 2004	13,316	462,942	138,489	547,194	770,718	1,932,659
Net Book Amount						
At 31 December 2004	**208,392**	**269,444**	**293,416**	**395,188**	**360,749**	**1,527,189**
At 31 December 2003	212,834	346,524	168,234	212,202	320,065	1,259,859

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2004

22. DEFERRED TAX ASSET

The deferred tax asset is analysed as follows:

	GROUP		BANK	
	2004	2003	**2004**	2003
	USD	USD	**USD**	USD
Tax effect of temporary differences relating to:				
- excess of capital allowances over depreciation	**(9,262)**	(10,081)	**(9,262)**	(10,081)
- allowances for uncollectibility	**751,550**	694,488	**751,550**	694,488
- unabsorbed tax losses	**1,902,900**	-	**-**	-
	2,645,188	684,407	**742,288**	684,407

At balance sheet date, a subsidiary had unused tax losses amounting to USD93.8 million available against future taxable profits, of which USD1,902,900 deferred tax asset was recognised by the directors in the financial statements on the basis of three-year profit forecasts and the results for the current year.

23. OTHER ASSETS

Other assets include tax recoverable amounting to USD521,791 (2003: USD252,858).

24. PREPAYMENTS AND ACCRUED INCOME

	GROUP		BANK	
	2004	2003	**2004**	2003
	USD	USD	**USD**	USD
Accrued income	**699,644**	261,934	**1,527,721**	121,490
Prepayments	**461,648**	1,579,704	**358,546**	239,508
	1,161,292	1,841,638	**1,886,267**	360,998

25. AMOUNTS OWED TO BANKS

	GROUP		BANK	
	2004	2003	**2004**	2003
	USD	USD	**USD**	USD
Term deposits	**61,011,762**	40,373,826	**61,011,762**	40,373,826
Repayable on demand	**4,685,930**	2,908,518	**4,685,930**	2,908,518
	65,697,692	43,282,344	**65,697,692**	43,282,344

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2004

26. AMOUNTS OWED TO CUSTOMERS

	GROUP		BANK	
	2004	2003	**2004**	2003
	USD	USD	**USD**	USD
Term deposits	**13,407,609**	25,414,439	**13,407,609**	25,414,439
Repayable on demand	**83,797,205**	48,260,621	**73,197,108**	48,260,621
	97,204,814	73,675,060	**86,604,717**	73,675,060
Amounts owed to subsidiaries	**-**	-	**15,225**	1,623,753
	97,204,814	73,675,060	**86,619,942**	75,298,813

27. OTHER LIABILITIES

Other liabilities comprise a provision for restructuring costs amounting to USD419,450 (2003: USD5,691,875).

28. ACCRUALS AND DEFERRED INCOME

	GROUP		BANK	
	2004	2003	**2004**	2003
	USD	USD	**USD**	USD
Accrued interest	**119,930**	100,240	**60,568**	96,517
Other	**1,484,574**	3,316,318	**1,280,944**	840,489
	1,604,504	3,416,558	**1,341,512**	937,006

29. PROVISIONS

a) One of the acquired subsidiaries has a pending law suit by a third party for DM4.8 million (USD3.06 million), which has been claimed since 2000. The company is disputing this claim. Following legal advice the directors reduced the provision which was provided prior to acquisition to USD837,982 (2003: USD1,548,855). After providing for the effect of changes in exchange rates, the reduction in the provision amounting to USD837,982.

b) During the restructuring process, the directors became aware of an alleged fraud in one of the subsidiaries. The directors deemed prudent to provide for the estimated loss amounting to USD341,204.

30. SHARE CAPITAL

	2004		2003	
	Shares of 50 cents		Shares of 50 cents	
	Shares	USD	Shares	USD
Authorised				
Ordinary Shares	100,000,000	50,000,000	100,000,000	50,000,000
Issued and fully paid up				
Ordinary Shares	66,010,631	33,005,316	66,006,457	33,003,229

The increase in share capital represents the exercise by executives of 4,174 share options (note 8), at a price of USD 0.50.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2004

31. SHARE PREMIUM

The share premium represents proceeds from the rights issue net of share issue costs together with the premium arising in the exercise of the executive option scheme. This reserve is non-distributable.

32. OTHER RESERVE

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

33. CONTINGENT LIABILITIES

a)

	GROUP		BANK	
	2004 USD	2003 USD	**2004 USD**	2003 USD
Guarantee obligations incurred on behalf of third parties	**4,563,943**	3,829,531	**4,221,546**	3,829,531

b) During the year, the Bank was served with a judicial letter filed against it, requesting payment of USD1,333,480 under a documentary credit. The Bank has rejected this claim. As at the date of approval of these financial statements, no judicial proceedings were taken. Based on legal advice, the directors do not expect the outcome of the action to have a material effect on the Group's financial statements.

34. COMMITMENTS

	GROUP		BANK	
	2004 USD	2003 USD	**2004 USD**	2003 USD
Undrawn credit facilities	**25,388,299**	10,132,643	**45,598,726**	10,132,643
Documentary credits	**29,329,880**	29,751,690	**29,329,880**	29,751,690
Risk participations	**7,823,656**	1,000,000	**2,000,000**	1,000,000
Confirmed letters of credit	**66,720,032**	22,760,797	**32,700,275**	22,760,797
	129,261,867	63,645,130	**109,628,881**	63,645,130

Undrawn credit facilities amounting to USD20,210,427 are assigned to a subsidiary company.

The Bank has total assigned credit limits to customers amounting to USD158,859,591 of which USD95,640,996 had been sanctioned as at balance sheet date.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2004

35. Cash and Cash Equivalents

	GROUP		BANK	
	2004 USD	2003 USD	**2004 USD**	2003 USD
Balances of cash and cash equivalents as shown on the balance sheet are analysed as follows:				
Cash	**139,563**	594,743	**59,834**	594,743
Loans and advances to banks	**78,522,579**	56,980,093	**77,387,749**	54,746,117
Amounts owed to banks	**(50,244,173)**	(29,963,537)	**(50,244,173)**	(29,963,537)
	28,417,969	27,611,299	**27,203,410**	25,377,323
Adjustment to reflect balances with contractual maturity of more than three months	**13,972,003**	19,318,820	**13,972,003**	19,318,820
Per Balance Sheet	**42,389,972**	46,930,119	**41,175,413**	44,696,143
Analysed as follows:				
Balances with the Central Bank of Malta and cash	**139,563**	4,393,757	**59,834**	4,393,757
Loans and advances to banks	**107,948,101**	85,818,706	**106,813,271**	83,584,730
Amounts owed to banks	**(65,697,692)**	(43,282,344)	**(65,697,692)**	(43,282,344)
	42,389,972	46,930,119	**41,175,413**	44,696,143

36. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Group's financial instruments include cash balances with banks, financial assets held-for-trading, loans and advances to customers and amounts owed to banks and customers. The accounting policies for these assets and liabilities, which are set out in note 3 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 Group 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 secured either by 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 Group also ensures that it has a reasonable sectorial mix of loans to customers as disclosed in note 17. In compensation for the higher risk, the bank charges higher interest rates. At balance sheet date, the most significant credit risk exposure to a single debtor amounted to USD8,514,572 (2003: USD4,600,000).

The Group 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 Group exercises the same credit controls as those applied to on balance sheet risks.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2004

36. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Cont.)

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 Group's operations are subject to the risk of interest rate fluctuations to the extent that interest-earning assets and interest-bearing liabilities mature or re-price at different times or at different amounts. Accordingly this risk is managed through the matching of the interest resetting dates on assets and liabilities.

The Group 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.

GROUP

	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						
Cash	-	139,563	139,563	-	-	-
Financial asset held-for-trading	5.53	63,281,081	63,281,081	-	-	-
Loans and advances to banks	3.58	107,948,101	89,486,771	18,177,448	283,882	-
Loans and advances to customers	5.89	26,190,662	20,399,006	5,791,656	-	-
Investments	-	133,600	-	-	-	133,600
Shares in associated company	-	4,703,330	-	-	-	4,703,330
Other assets	-	13,578,682	-	-	-	13,578,682
Total assets		215,975,019	173,306,421	23,969,104	283,882	18,415,612
Liabilities						
Amounts owed to banks	2.02	65,697,692	63,352,669	2,061,141	283,882	-
Amounts owed to customers	1.97	97,204,814	84,976,922	12,227,892	-	-
Other liabilities	-	4,759,401	-	-	-	4,759,401
Shareholders' funds	-	48,313,112	-	-	-	48,313,112
Total liabilities		215,975,019	148,329,591	14,289,033	283,882	53,072,513
Interest rate sensitivity gap			24,976,830	9,680,071	-	(34,656,901)
Cumulative gap			24,976,830	34,656,901	34,656,901	-

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2004

36. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Cont.)

b) Interest Rate and Liquidity Risk (Cont.)

i) Interest rate risk (Cont.)

BANK

	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						
Cash	-	59,834	59,834	-	-	-
Loans and advances to banks	3.58	106,813,271	88,351,941	18,177,448	283,882	-
Loans and advances to customers	3.66	85,939,813	80,148,157	5,791,656	-	-
Investments	-	133,600	-	-	-	133,600
Shares in subsidiary companies	-	2	-	-	-	2
Shares in associated company	-	4,703,330	-	-	-	4,703,330
Other assets	-	5,210,202	-	-	-	5,210,202
Total assets		202,860,052	168,559,932	23,969,104	283,882	10,047,134
Liabilities						
Amounts owed to banks	2.02	65,697,692	63,352,669	2,061,141	283,882	-
Amounts owed to customers	1.97	86,619,942	84,992,147	1,627,795	-	-
Other liabilities	-	1,399,613	-	-	-	1,399,613
Shareholders' funds	-	49,142,805	-	-	-	49,142,805
Total liabilities		202,860,052	148,344,816	3,688,936	283,882	50,542,418
Interest rate sensitivity gap			20,215,116	20,280,168	-	(40,495,284)
Cumulative gap			20,215,116	40,495,284	40,495,284	-

ii) Liquidity risk

Liquidity risk arises in the general funding of the Group'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 Group 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.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2004

36. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Cont.)

b) Interest Rate and Liquidity Risk (Cont.)

ii) Liquidity risk (Cont.)

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

GROUP	Total 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
At 31 December 2004					
Financial Assets					
Financial asset held-for-trading *	76,490,611	76,490,611	-	-	-
Loans and advances to banks *	110,052,335	92,924,903	16,730,454	396,978	-
Loans and advances to customers *	35,994,517	28,839,115	4,718,314	2,437,088	-
Financial Liabilities					
Amounts owed to banks	65,697,692	63,352,669	2,061,141	283,882	-
Amounts owed to customers	97,204,814	85,330,699	11,874,115	-	-
At 31 December 2003					
Financial Assets					
Financial asset held-for-trading *	52,335,079	35,939,274	-	16,395,805	-
Loans and advances to banks *	87,449,626	67,918,042	13,228,798	6,302,786	-
Loans and advances to customers *	43,735,162	29,677,794	12,037,950	2,019,418	-
Financial Liabilities					
Amounts owed to banks	43,282,344	40,146,957	3,135,387	-	-
Amounts owed to customers	73,675,060	72,311,941	1,263,052	100,067	-

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2004

36. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Cont.)

b) Interest Rate and Liquidity Risk (Cont.)

ii) Liquidity risk (Cont.)

BANK	Total 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
At 31 December 2004					
Financial Assets					
Loans and advances to banks *	108,917,505	91,790,073	16,730,454	396,978	-
Loans and advances to customers *	95,743,668	63,628,690	4,718,314	2,437,088	24,959,576
Financial Liabilities					
Amounts owed to banks	65,697,692	63,352,669	2,061,141	283,882	-
Amounts owed to customers	86,619,942	85,345,924	1,274,018	-	-
At 31 December 2003					
Financial Assets					
Financial asset held-for-trading	11,391,282	11,391,282	-	-	-
Loans and advances to banks *	85,215,650	65,684,066	13,228,798	6,302,786	-
Loans and advances to customers *	74,402,762	35,385,818	12,037,950	2,019,418	24,959,576
Financial Liabilities					
Amounts owed to banks	43,282,344	40,146,957	3,135,387	-	-
Amounts owed to customers	75,298,813	73,935,694	1,263,052	100,067	-

* *Financial assets held-for-trading and loans and advances to banks and customers are stated before allowances for uncollectibility (notes 14, 16 and 17).*

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 Group'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 Group that are not denominated in the measurement currency of the Group. The Group ensures that its net exposure is kept to an acceptable level by buying and selling foreign currencies at spot rates when considered appropriate. Forfaiting assets are predominantly denominated in US Dollar thereby reducing substantially the foreign currency exposure and the Group's exposure is limited to assets denominated in other currencies, which are mainly funded through borrowings in the relevant currency.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2004

36. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Cont.)

c) Currency Risk (Cont.)

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

		2004			2003	
GROUP	**US Dollar**	**Other Currencies**	**Total**	**US Dollar**	**Other Currencies**	**Total**
At 31 December	USD	USD	USD	USD	USD	USD
Assets						
Balances with Central Bank of Malta and cash	72,808	66,755	139,563	4,374,000	19,757	4,393,757
Financial assets held-for-trading	59,598,614	3,682,467	63,281,081	31,002,953	4,936,321	35,939,274
Investments	133,600	-	133,600	133,600	-	133,600
Loans and advances to banks	63,277,124	44,670,977	107,948,101	50,328,408	35,490,298	85,818,706
Loans and advances to customers	14,862,334	11,328,328	26,190,662	29,449,377	4,819,450	34,268,827
Shares in associated company	147,017	4,556,313	4,703,330	-	-	-
Other assets	12,050,754	1,527,928	13,578,682	13,519,831	1,795,958	15,315,789
Total assets	150,142,251	65,832,768	215,975,019	128,808,169	47,061,784	175,869,953
Liabilities						
Amounts owed to banks	32,130,375	33,567,317	65,697,692	21,514,279	21,768,065	43,282,344
Amounts owed to customers	69,990,421	27,214,393	97,204,814	50,310,431	23,364,629	73,675,060
Other liabilities	1,672,436	3,086,965	4,759,401	863,825	10,487,692	11,351,517
Shareholders' funds	48,313,112	-	48,313,112	47,561,032	-	47,561,032
Total liabilities	152,106,344	63,868,675	215,975,019	120,249,567	55,620,386	175,869,953

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2004

36. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Cont.)

c) Currency Risk (Cont.)

BANK	**US Dollar**	**2004 Other Currencies**	**Total**	**US Dollar**	**2003 Other Currencies**	**Total**
At 31 December	USD	USD	USD	USD	USD	USD
Assets						
Balances with Central Bank of Malta and cash	27,075	32,759	59,834	4,374,000	19,757	4,393,757
Financial assets held-for-trading	-	-	-	10,488,524	902,758	11,391,282
Investments	133,600	-	133,600	133,600	-	133,600
Loans and advances to banks	63,159,613	43,653,658	106,813,271	50,328,408	33,256,322	83,584,730
Loans and advances to customers	69,433,773	16,506,040	85,939,813	54,408,953	10,527,474	64,936,427
Shares in subsidiary companies	-	2	2	-	2	2
Shares in associated company	147,017	4,556,313	4,703,330	-	-	-
Other assets	4,132,672	1,077,530	5,210,202	3,305,466	315,318	3,620,784
Total assets	137,033,750	65,826,302	202,860,052	123,038,951	45,021,631	168,060,582
Liabilities						
Amounts owed to banks	32,130,375	33,567,317	65,697,692	21,514,279	21,768,065	43,282,344
Amounts owed to customers	59,977,033	26,642,909	86,619,942	51,934,184	23,364,629	75,298,813
Other liabilities	1,029,302	370,311	1,399,613	699,098	237,908	937,006
Shareholders' funds	49,142,805	-	49,142,805	48,542,419	-	48,542,419
Total liabilities	142,279,515	60,580,537	202,860,052	122,689,980	45,370,602	168,060,582

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2004

36. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Cont.)

d) Fair Values

Certain of the Group'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 bank has written a put option under circumstances that reflect specific objectives of all counterparties to the option that are not driven by a profit motive on the part of the option buyer. As a result the directors feel that this reduces the possibility that the option could be out of the money and accordingly no negative fair value movement need be recognised in the financial statements.

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 and customer term deposits are priced at market rates and are repriceable within one year. Therefore fair value is expected to approximate the carrying amount.

37. RELATED PARTY TRANSACTIONS

The Group / Bank has also a related party relationship with an entity invested in exclusively with a view to subsequent disposal. The Group / Bank charged its associated company a consultancy fee of USD50K (2003: USD50K) arising from a consultancy agreement entered into on its formation. This fee is included with other income. Furthermore the Bank received interest amounting to USD67,859 on loans and advances to its associated company.

An amount equivalent to USD93,152 was charged by a shareholding company for travelling and accommodation expenses.

38. OPERATING LEASE

Leases as lessee
Non-cancellable operating lease rentals are payable as follows:

	GROUP / BANK	
	2004	2003
	USD	USD
Less than one year	**26,375**	24,922
Between one and five years	**41,760**	64,382
	68,135	89,304

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2004

38. OPERATING LEASE (Cont.)

The Bank leases a motor vehicle under an operating lease arrangement. During the year ended 31 December 2004, USD21,660 were recognised as an expense in the profit and loss account in respect of operating leases (2003: Lm19,797).

In case of termination of the lease contract the Bank shall become liable for the payment of a penalty equivalent to the rental value of the remaining period of the lease term.

The Bank is expected to terminate the contract on 31 July 2007, being the date of termination of the existing contract.

39. FINANCIAL COMMITMENTS

During the year, the Board approved an investment of USD2 million in a newly incorporated entity to be engaged in factoring.

40. SEGMENTAL INFORMATION

a) The Group's identifiable business segments are the forfaiting and trade finance services. The Group business and geographical segments are analysed as follows:

GROUP

Geographical/Business segments	**Malta**		**Other Countries**		**Total**	
	2004 USD	2003 USD	**2004 USD**	2003 USD	**2004 USD**	2003 USD
Interest receivable and similar income originated from:						
Trade finance	**394,091**	414,895	**2,797,618**	2,820,316	**3,191,709**	3,235,211
Forfaiting activities	**-**	-	**22,636**	205,684	**22,636**	205,684
Fees and commissions receivable originated from:						
Trade finance	**773,026**	1,076,192	**5,374,103**	4,007,429	**6,147,129**	5,083,621
Forfaiting activities	-	-	**842,182**	-	**842,182**	-
Trading income originated from:						
Forfaiting activities	-	-	**3,170,537**	155,368	**3,170,537**	155,368
Gross Income	**1,167,117**	1,491,087	**12,207,076**	7,188,797	**13,374,193**	8,679,884
Interest payable and commission payable originated from:						
Trade finance	**(274,588)**	(198,870)	**(1,443,609)**	(1,203,830)	**(1,718,197)**	(1,402,700)
Forfaiting activities	-	-	**(35,073)**	(149)	**(35,073)**	(149)
	(274,588)	(198,870)	**(1,478,682)**	(1,203,979)	**(1,753,270)**	(1,402,849)
Segmental profit:						
Trade finance	**892,529**	1,292,217	**6,728,112**	5,623,915	**7,620,641**	6,916,132
Forfaiting activities	**-**	-	**4,000,282**	360,903	**4,000,282**	360,903
	892,529	1,292,217	**10,728,394**	5,984,818	**11,620,923**	7,277,035

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2004

40. SEGMENTAL INFORMATION (Cont.)

GROUP

Geographical segments	**Malta**		**Other Countries**		**Total**	
	2004	2003	**2004**	2003	**2004**	2003
	USD	USD	**USD**	USD	**USD**	USD
Other operating income					**629,399**	1,892,950
Common costs:						
Trade finance					**(6,922,414)**	(6,060,003)
Forfaiting activities					**(4,557,648)**	(728,335)
Provision for potential losses					**496,778**	-
Amortisation of intangible assets					**-**	(571,846)
Adjustment to intangible assets					**(1,902,900)**	-
(Loss) / profit on ordinary activities before tax and net impairment					**(635,862)**	1,809,801
Segmental assets:						
Trade finance	**13,444,321**	8,512,485	**123,615,592**	128,880,495	**137,059,913**	137,392,980
Forfaiting assets	**-**	-	**68,975,889**	30,471,130	**68,975,889**	30,471,130
Factoring	**-**	-	**4,703,330**	-	**4,703,330**	-
	13,444,321	8,512,485	**197,294,811**	159,351,625	**210,739,132**	167,864,110
Unallocated assets					**5,235,887**	8,005,843
					215,975,019	175,869,953

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

BANK

Geographical segments	**Malta**		**Other Countries**		**Total**	
	2004	2003	**2004**	2003	**2004**	2003
	USD	USD	**USD**	USD	**USD**	USD
Interest receivable and similar income	**394,091**	414,895	**3,879,492**	2,820,316	**4,273,583**	3,235,211
Fees and commissions receivable	**773,026**	1,076,192	**5,374,105**	4,007,429	**6,147,131**	5,083,621
Gross Income	**1,167,117**	1,491,087	**9,253,597**	6,827,745	**10,420,714**	8,318,832
Segment profit	**892,530**	1,292,198	**7,804,584**	5,591,112	**8,697,114**	6,883,310
Other operating income					**460,771**	2,583,035
Common Costs					**(6,922,414)**	(6,060,003)
Profit on ordinary activities before tax and net impairment					**2,235,471**	3,406,342
Segment assets	**13,444,321**	8,512,485	**189,415,731**	159,548,097	**202,860,052**	168,060,582

SCHEDULES TO THE FINANCIAL STATEMENTS

PROFIT AND LOSS ACCOUNT

Five Year Summary

	2004	**2003**	**2002**	**2001**	**2000**
	USD	USD	USD	USD	USD
Interest receivable and similar income	4,273,583	3,235,211	3,914,668	4,538,929	4,900,972
Interest payable	(1,416,423)	(1,077,834)	(1,265,498)	(1,867,926)	(2,089,154)
Net interest income	2,857,160	2,157,377	2,649,170	2,671,003	2,811,818
Fees and commissions receivable	6,147,131	5,083,621	5,557,855	3,870,272	3,161,704
Fees and commissions payable	(307,177)	(357,688)	(603,818)	(424,406)	(295,165)
Net trading income	409,450	2,529,523	459,828	257,001	236,646
Other operating income	51,321	53,512	50,000	200,000	-
Operating income	9,157,885	9,466,345	8,113,035	6,573,870	5,915,003
Administrative expenses	(6,512,918)	(5,748,045)	(4,271,503)	(3,601,169)	(2,994,263)
Depreciation	(409,496)	(311,958)	(262,746)	(224,486)	(219,686)
Net impairment losses	(810,834)	(60,289)	(9,935,604)	(277,197)	(336,690)
Profit / (loss) on ordinary activities before tax	1,424,637	3,346,053	(6,356,818)	2,471,018	2,364,364
Taxation	(34,261)	(62,319)	227,919	(333,468)	(196,009)
Profit / (loss) for the year	1,390,376	3,283,734	(6,128,899)	2,137,550	2,168,355
Earnings / (loss) per share	2.11c	7.12c	(13.32c)	5.02c	5.42c

The Earnings per share for the years 1999 and 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

BALANCE SHEET

Five Year Summary

	2004 USD	2003 USD	2002 USD	2001 USD	2000 USD
ASSETS					
Balances with Central Bank and cash	59,834	4,393,757	2,758,724	2,477,758	2,361,271
Financial asset held-for-trading	-	11,391,282	10,072	-	-
Investments	133,600	133,600	133,600	85,538	52,843
Loans and advances to banks	106,813,271	83,584,730	90,458,355	76,857,419	55,757,761
Loans and advances to customers	85,939,813	64,936,427	24,403,487	25,368,400	21,819,292
Shares in subsidiary companies	2	2	-	-	-
Shares in associated company	4,703,330	-	-	-	-
Tangible assets	1,527,189	1,259,859	1,180,518	895,004	901,747
Deferred tax	742,288	684,407	618,777	29,855	10,280
Other assets	1,054,458	1,315,520	205,658	225,249	98,521
Prepayments and accrued income	1,886,267	360,998	329,217	262,998	466,619
Total assets	202,860,052	168,060,582	120,098,408	106,202,221	81,468,334
LIABILITIES					
Amounts owed to banks	65,697,692	43,282,344	43,197,825	42,383,463	29,421,152
Amounts owed to customers	86,619,942	75,298,813	45,725,136	25,573,293	25,671,473
Other liabilities	58,101	-	135,996	183,687	175,744
Accruals and deferred income	1,341,512	937,006	624,791	645,268	644,572
	153,717,247	119,518,163	89,683,748	68,785,711	55,912,941
SHAREHOLDERS' FUNDS					
Called up share capital	33,005,316	33,003,229	23,000,000	20,000,000	20,000,000
Share premium account	8,862,371	8,862,371	4,021,575	4,034,140	-
Other reserve	2,681,041	2,681,041	2,681,041	2,689,427	-
Profit and loss account	4,594,077	3,203,701	712,044	6,840,943	5,555,393
Dividend reserve	-	792,077	-	852,000	-
	49,142,805	48,542,419	30,414,660	37,416,510	25,555,393
Total liabilities	202,860,052	168,060,582	120,098,408	106,202,221	81,468,334
MEMORANDUM ITEMS					
Contingent liabilities	4,221,546	3,829,531	3,174,578	7,277,376	5,378,911
Commitments	109,628,881	63,645,130	128,993,598	88,337,309	60,431,799

SCHEDULES TO THE FINANCIAL STATEMENTS

CASH FLOW STATEMENT

Five Year Summary

	2004 USD	**2003** USD	**2002** USD	**2001** USD	**2000** USD
Net Cash Flows from Operating Activities	36,877,089	5,828,945	6,421,187	559,509	4,212,841
Cash Flows from Investing Activities					
Payments to acquire tangible assets	(676,760)	(404,038)	(534,153)	(217,744)	(823,509)
Net advance to subsidiary companies	(29,723,577)	(30,667,600)	-	-	-
Purchase of equity shares	(4,648,205)	-	(48,062)	(32,695)	(51,125)
Cash Flows used in Investing Activities	(35,048,542)	(31,071,638)	(582,215)	(250,439)	(874,634)
Cash Flows from Financing Activities					
Proceeds from issue of share capital	789,617	14,056,495	-	9,723,567	-
Dividends paid	(792,077)	-	(852,000)	-	-
Net Cash Flows (used in) / from Financing Activities	(2,460)	14,056,495	(852,000)	9,723,567	-
Increase / (Decrease) in Cash and Cash Equivalents	1,826,087	(11,186,198)	4,986,972	10,032,637	3,338,207
Cash and cash equivalents at beginning of year	25,377,323	36,563,521	31,576,549	21,543,912	18,205,705
Cash and Cash Equivalents at End of Year	27,203,410	25,377,323	36,563,521	31,576,549	21,543,912

SCHEDULES TO THE FINANCIAL STATEMENTS

ACCOUNTING RATIOS

Five Year Summary

	2004	**2003**	**2002**	**2001**	**2000**
	%	%	%	%	%
Net interest income and other operating income to total assets	4.67	5.85	7.26	6.59	7.62
Operating expenses to total assets	3.96	3.85	4.28	4.26	4.72
Profit / (loss) before tax to total assets	0.70	1.99	(5.10)	2.33	2.90
Pre-tax return on capital employed	2.90	6.89	(20.90)	6.60	9.25
Profit / (loss) after tax to equity	2.83	6.76	(20.15)	5.71	8.48

	2004	**2003**	**2002**	**2001**	**2000**
Weighted average number of shares in issue (000's) (note 12)	66,007	46,110	46,000	42,543	40,000
Net assets per share (cents)	74.45	73.54	66.12	87.95	63.89
Earnings / (loss) per share (cents)	2.11	7.12	(13.32)	5.02	5.42

SCHEDULES TO THE FINANCIAL STATEMENTS

SOLVENCY RATIO

31 December 2004

	Note	Balance Sheet Value	Weighted Amount
		USD	USD
On-balance sheet assets	*(a)*		
Cash		59,834	-
Investments		133,600	133,600
Loans and advances to banks		106,813,271	43,459,664
Loans and advances to customers	*(b)*	86,166,758	82,220,991
Shares in subsidiary companies		2	2
Shares in associated company		4,703,330	4,703,330
Tangible assets		1,527,189	1,527,189
Deferred tax asset		742,288	148,458
Other assets		1,054,458	210,892
Prepayments and accrued income		1,886,267	943,133
		203,086,997	133,347,259
Off-balance sheet assets	*(c)*		
Contingent liabilities and commitments		113,850,427	31,037,891
Total adjusted assets and off-balance sheet items			164,385,150
Own funds			
Original own funds	*(d)*		49,142,805
Additional own funds	*(e)*		226,945
Gross own funds			49,369,750
Deductions	(f)		-
Total own funds			49,369,750
Solvency ratio	*(g)*		30.03%

SCHEDULES TO THE FINANCIAL STATEMENTS

SOLVENCY RATIO

31 December 2004

Notes

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

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

OTHER RELEVANT COMPANY INFORMATION

Shareholder Information

The following shareholder information is being published in terms of Listing Rule 9.51 issued by the Listing Authority.

Directors' interest in the shareholding of the Company at 31 December 2004

	Number of Shares
Najeeb H.M. Al-Saleh	430,435
Mohammed I.H. Marafie	3,500,000
Mehdi Ouazzani Hassani	2,000,000
Fouad M.T. Alghanim	2,000,000
John C. Grech	200,000

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

There were no changes in the Directors' interest in the shareholding of the Company between year-end and 16 February 2005.

Shareholders Holding 5% or more of the Share Capital as at 31 December 2004.

	Ordinary Share of USD0.50 each	
	Number of Shares	Percentage Holding
Kuwaiti Interests for Financial Investment KSC	17,214,398	26.08
Global Financial Holdings N.V.	15,600,000	23.63
Bank of Valletta p.l.c.	6,240,980	9.46
Astrolabe General & Contracting Co.	4,304,348	6.52
Mohammed I.H. Marafie	3,500,000	5.30

The shareholders' interest as at 16 February 2005 was same as above except for Bank of Valletta p.l.c. which held 5,799,480 shares (8.79%)

Number of shareholders

The total number of registered shareholders as at 31 December 2004 was 380, while that as at 16 February 2005 was 393. All shares are of the same class.

SCHEDULES TO THE FINANCIAL STATEMENTS

OTHER RELEVANT COMPANY INFORMATION (Cont.)
Shareholder Information (Cont.)

Shareholding details as at 31 December 2004.

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

Range	Total Shareholders	Shares
1 - 500	5	2,290
501 - 1000	11	9,420
1001 - 5000	219	633,987
5001 and over	145	65,364,934
Totals	**380**	**66,010,631**

Shareholding details as at 16 February 2005.

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

Range	Total Shareholders	Shares
1 - 500	5	2,290
501 - 1000	11	9,620
1001 - 5000	220	629,711
5001 and over	157	65,369,010
Totals	**393**	**66,010,631**

Company Secretary, Registered Address and Contact Number

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