Chairman's Address to the Members

The Lombard Bank Group registered a record pre-tax profit of €27.7 million in the financial year 2022. For Lombard Bank Malta p.l.c. (the 'Bank') the year's performance was facilitated by a generally improved operating environment characterised by the return to positive interest rates after years of a highly accommodative monetary policy, a marked recovery of the domestic economy and the resolution of a large non-performing credit exposure. The operations of the Bank's subsidiary, MaltaPost p.l.c., on the other hand, continued to be affected by pandemic and Brexit-related logistical difficulties, generally higher operating costs and unsustainably low postal tariffs, leading to reduced profitability.

As in previous years net interest income was the Bank's main revenue source, reflecting the strong growth in loans and advances to customers in the first half of the year and increased earnings on balances with counterparties and on the securities portfolio, in part the result of asset switching to take advantage of higher market rates. Net fees and commission income from our credit and other activities also made a positive contribution to earnings such that the Bank's total income resumed its rising trend to reach €29.7 million.

Operating costs partly offset these income flows, though to a lesser extent than in the previous year. Employee compensation and benefits remained the major cost item. While the staff complement did not increase on average, the need to attract and retain professional expertise in a highly competitive segment of the labour market implied greater outlays. The Bank also continued to invest in new information technologies, with an emphasis on automation of reporting and other systems. Staff training was given increased attention, with several new internal and external courses being introduced. The Bank's cost to income ratio eased to 57.4%.

During 2022, after years of judicious management and guidance, the Bank secured the repayment of a large corporate loan. This was a concrete example of effective credit risk management. This one-off factor contributed significantly to the Bank's profit before tax of €28.8 million, making for a return on equity of 14.0%.

At the same time, the Bank's low-risk business model continued to deliver sound financial fundamentals. This is an important consideration for both existing and prospective shareholders. The Total Capital Ratio and the Liquidity Coverage Ratio were both above the statutory minimum levels at 15.4% and 210.7%, respectively, while the leverage ratio, at 10.8%, was more than three times the required level. The Lombard brand continued to enjoy the trust of the market, as reflected in the steady growth of deposits and lending and a prudent ratio of loans to deposits of 70.4%. The Bank's sound banking practices and reputation were also recognised abroad in 2022 when a leading US bank accepted to enter into a correspondent banking relationship for dealings in US dollars.

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Another encouraging development during the year was the further decline to 3.5% in the ratio of facilities that are classified as Non-Performing Loans. This ratio is well below the regulatory threshold. The good quality of the Bank's loan book is also reflected in our relatively low loan-to-value ratios and high levels of collateral. The planned process of credit diversification meanwhile continued with the share of personal and retail lending increasing to 26%, mainly reflecting growth in the home loan portfolio.

In a forward-looking perspective, the consolidation of the Bank's market position called for more investment in a number of operational areas, not least in our automated anti-money laundering transaction monitoring system, the IT infrastructure and the introduction of a new core banking system. Specialised personnel were recruited in the process, while external consultants were contracted to complement in-house expertise in areas such as the ESG Action Plan. As part of the Bank's strategy of providing its services to a wider customer base in response to market demand, new branches were opened so that nine branches are now in operation while work on others is underway.

Translating the Bank's undoubted potential to create further value for its stakeholders into tangible results depends on the availability of sufficient capital. To this end, each year in the past the Bank retained a part of its profits to strengthen its capital base, without the need to resort to the shareholders for further capital. However, due to the imposition by regulators of ever-higher capital requirements for banks and the steady growth of the Bank, this method has proved insufficient. The Board therefore drew up a Capital Plan, validated by external consultants, which concluded that in the current market conditions the interests of the Bank would be best served by a Rights Issue of shares. As you are aware, however, at a specially convened EGM in November 2022 the Bank's proposal was blocked and cconsequently plans for further growth were temporarily placed on hold.

In such circumstances the conservation of capital was considered a priority and therefore the Board reluctantly decided not to recommend the payment of a dividend. Instead, it proposes to issue one bonus share for every forty-five shares held, such that the Bank's capital is not reduced. However, a resolution is being put before today's Annual General Meeting as Resolution 7, the adoption of which would allow the Bank to strengthen its capital base by means of a Rights Issue and thus facilitate the implementation of its growth strategy.

The Bank's subsidiary, MaltaPost p.l.c. experienced another challenging year in its financial year ending September 2022 and recorded a reduced net profit after tax of €0.3 million. The persisting economic fallout from the COVID-19 pandemic was compounded by the wider effects of the war in Ukraine, notably disruptions in global supply chains and widespread inflationary pressures, and of Brexit on UK-EU trade. The company's financial performance was also significantly impacted by low postal tariffs that do not cover the related cost, and this in the context of further declines in

Letter Mail volumes and marked increases in labour and other operating costs. These factors, however, were not allowed to interrupt the company’s investment programme, including the provision of a wider range of postal services, life and general insurance products as well as initiatives designed to further reduce carbon emissions.

While the Bank started this year from a strong position, numerous challenges still need to be faced if our growth momentum is to be maintained. These include the unpredictable effects of higher interest rates on business cash flows, the economic fallout of the heightened geopolitical tensions in Europe and the increasingly costly one-size-fits-all regulatory regime.

The Board is nevertheless determined to ensure the sustainability of its business model which has consistently created wealth and earned the Bank a reputation for delivering reliable banking services to both personal and corporate customers underpinned by solid values and best-practice standards. In this spirit the Board will continue to implement the growth strategy we outlined to shareholders last November, taking advantage of the market opportunities we have identified while addressing wider stakeholder interests, but without assuming a higher risk appetite than at present. If the necessary capital becomes available, which would be the case as a result of the proposed Rights Issue, Lombard Bank is well positioned to realise its potential for the benefit of all its stakeholders.

In conclusion, on behalf of the Board I would like to thank the Bank’s staff and management team, ably led by the Chief Executive Officer, Joseph Said, whose professional expertise and unwavering efforts made the past year’s encouraging results possible in spite of the capital constraint and other challenges I have described. I would also like to thank my fellow directors and all our stakeholders for their loyalty and commitment.

Michael C. Bonello
Chairman