



LOMBARD

24 August 2017

***LOMBARD BANK MALTA p.l.c.
HALF-YEARLY RESULTS FOR 2017***

- Group Profit Before Tax stood at €4.7m (H1 2016: €4.4m).
- Profit Attributable to Equity Holders was €2.7m (H1 2016: €2.5m).
- Group Operating Income reached €26.8m (H1 2016: €23.9m).
- Customer Deposits stood at €713.6m (FYE 2016: €721.6m).
- Loans and Advances to Customers stood at €390.9m (FYE 2016: €343.5m).
- Bank Cost-to-Income Ratio stood at 49.0% (H1 2016: 43.1%).
- Impairment Allowances increased by €0.8m (H1 2016: €2.1m).
- Group Total Assets stood at €866.5m (FYE 2016: €862.7m).
- Liquidity Ratio was 66.6% (regulatory minimum requirement of 30%).
- CRDIV Total Capital Ratio of 14.0% (regulatory minimum requirement of 8%).



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Commentary

Profit before Tax for the Lombard Bank Group increased by 7.6% to €4.7m for the first six months of 2017, compared to €4.4m in the same period last year. This result was achieved despite the impact of historically-low and, at times, even negative interest rates and more costly regulatory compliance requirements. The Bank experienced strong activity in most of its business lines but remained cognisant of its prudential limits. MaltaPost, the Bank's main subsidiary, also achieved its objectives providing an increase in Profit before Tax of 9.8% during the first six months of its financial year.

The results for the Bank in 2016 had included a one-time significant item which amounted to €1.3m and was included under Other Operating Income.

Net Interest Income at Bank level for H1 2017 rose by 1.9% from €7.0m to €7.1m. The unfavourable interest rate environment persisted, putting further downward pressure on Interest Margin. The Bank managed these rates, which were absorbed and not passed on to its customers. This cost was mitigated by additional interest earned from a volume increase of 13.5% in Customer Loans and Advances, thus resulting in a positive net interest margin. Customer deposits decreased marginally by 1.2% since December 2016 with customers opting for shorter deposit maturities, and this contributed to a lower Interest Expense. The Bank remains well funded and supported by a diversified portfolio of retail deposits.

The increase of 39.5% in Fee and Commission Income for the Bank was mainly attributable to higher levels of credit activity as noted above. Postal sales and other revenues continued to experience positive trends in international mail services, registered mail and parcel volumes.

Costs relating to Employee Compensation and Benefits reflect the highly competitive labour market and are currently proving to be challenging. Other significant costs associated with Risk Management and Compliance continued to rise resulting in a Cost-to-Income Ratio of 49.0%, up from 43.1%.

The Bank increased Impairment Allowances to €24.6m thereby hedging against any possible adverse developments in its lending activity, in line with its prudential financial management practices. Given the high level of tangible security held against the loan portfolio as well as an overall satisfactory asset quality, the Bank considers this level of provisioning to be adequate.

Common Equity Tier 1 Ratio (CET1), for which the Regulatory minimum is 4.5% in terms of EU Regulation No. 575/2013, stood at 13.8% while Total Capital Ratio was 14.0%, well above the transitional and fully loaded regulatory requirements. The Bank experienced an expected increase in its Risk Weighted Assets as a result of the expansion in lending and investment activities during the period reviewed. Group Loan to Deposit Ratio stood at 54.8%.

The Board of Directors notes that despite the persistently difficult operating environment, the Bank's performance continues to be characterised by robust operating fundamentals, prudent financial management and a high quality customer base. For the second part of the current financial year, the Board is confident that the current momentum of business growth will deliver a strong earnings performance, as the Group remains committed to increase stakeholder value.



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Lombard Bank Malta p.l.c.

Income Statements for the period 1 January 2017 to 30 June 2017

	Group		Bank	
	30/06/17 €000	30/06/16 €000	30/06/17 €000	30/06/16 €000
Interest receivable and similar income				
- on loans and advances, balances with Central Bank of Malta and treasury bills	9,270	9,508	9,268	9,501
- on debt and other fixed income instruments	979	995	913	926
Interest expense	(3,041)	(3,421)	(3,045)	(3,425)
Net interest income	7,208	7,082	7,136	7,002
Fee and commission income	2,260	1,797	1,746	1,252
Fee and commission expense	(188)	(125)	(188)	(125)
Net fee and commission income	2,072	1,672	1,558	1,127
Postal sales and other revenues	17,040	13,474	16	69
Dividend income	143	225	1,697	1,603
Net trading income	356	196	318	294
Other operating income	-	1,290	-	1,290
Operating income	26,819	23,939	10,725	11,385
Employee compensation and benefits	(9,669)	(9,166)	(3,080)	(2,969)
Other operating costs	(10,689)	(7,302)	(1,865)	(1,670)
Depreciation and amortisation	(682)	(685)	(312)	(264)
Net operating income before impairment charges and provisions	5,779	6,786	5,468	6,482
Net impairment losses	(826)	(2,116)	(822)	(2,116)
Provisions for liabilities and other charges	(55)	(239)	(11)	(209)
Operating profit	4,898	4,431	4,635	4,157
Share of results of associates, net of tax	(155)	(22)	-	-
Profit before taxation	4,743	4,409	4,635	4,157
Income tax expense	(1,734)	(1,544)	(1,611)	(1,358)
Profit for the period	3,009	2,865	3,024	2,799
Attributable to:				
Equity holders of the Bank	2,671	2,536	3,024	2,799
Non-controlling interests	338	329	-	-
Profit for the period	3,009	2,865	3,024	2,799
Earnings per share	6.0c	5.7c		



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Lombard Bank Malta p.l.c.

Statements of Comprehensive Income for the period 1 January 2017 to 30 June 2017

	Group		Bank	
	30/06/17 €000	30/06/16 €000	30/06/17 €000	30/06/16 €000
Profit for the period	3,009	2,865	3,024	2,799
Other comprehensive income				
<i>Items that may be subsequently reclassified to profit or loss:</i>				
Fair valuation of available-for-sale financial assets:				
Net changes in fair value arising during the year, before tax	(1,641)	1,607	(1,531)	1,556
Reclassification adjustments- net amount reclassified to profit or loss, before tax	(7)	(1,290)	(7)	(1,290)
Income tax relating to components of other comprehensive income	536	(93)	536	(93)
<i>Items that will not be reclassified to profit or loss:</i>				
Remeasurements of defined benefit obligations	62	(9)	-	-
Other comprehensive income for the period, net of income tax	(1,050)	215	(1,002)	173
Total comprehensive income for the period, net of income tax	1,959	3,080	2,022	2,972
Attributable to:				
Equity holders of the Bank	1,634	2,738		
Non-controlling interests	325	342		
Total comprehensive income for the period, net of income tax	1,959	3,080		



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Lombard Bank Malta p.l.c.

Statements of Financial Position at 30 June 2017

	Group		Bank	
	30/06/17 €000	31/12/16 €000	30/06/17 €000	31/12/16 €000
Assets				
Balances with Central Bank of Malta, treasury bills and cash	199,506	218,148	198,718	217,398
Cheques in course of collection	4,077	1,374	4,077	1,374
Investments	78,214	80,515	74,604	76,358
Loans and advances to banks	132,411	161,728	124,847	155,966
Loans and advances to customers	390,860	343,487	390,860	344,456
Investment in subsidiaries	-	-	15,732	13,186
Investment in associates	1,526	1,681	1,645	1,645
Intangible assets	1,843	1,809	587	554
Property, plant and equipment	31,426	30,198	17,629	16,826
Assets classified as held for sale	834	833	834	833
Current tax assets	-	190	-	190
Deferred tax assets	9,301	8,973	8,980	8,634
Inventories	1,182	1,197	415	398
Trade and other receivables	9,330	8,136	3,382	3,312
Accrued income and other assets	5,973	4,462	2,882	2,555
Total assets	866,483	862,731	845,192	843,685
Equity and Liabilities				
Equity				
Share capital	11,044	11,044	11,044	11,044
Share premium	18,530	18,530	18,530	18,530
Revaluation and other reserves	12,689	13,723	12,432	13,434
Retained earnings	51,635	50,541	50,257	48,381
Equity attributable to equity holders of the Bank	93,898	93,838	92,263	91,389
Non-controlling interests	6,586	6,510	-	-
Total equity	100,484	100,348	92,263	91,389
Liabilities				
Amounts owed to banks	5,820	9,036	5,820	9,036
Amounts owed to customers	713,573	721,559	716,797	725,383
Provisions for liabilities and other charges	2,632	2,823	1,084	1,114
Current tax liabilities	1,948	310	1,202	-
Deferred tax liabilities	3,905	4,449	3,128	3,671
Other liabilities	28,473	16,100	20,330	8,829
Accruals and deferred income	9,648	8,106	4,568	4,263
Total liabilities	765,999	762,383	752,929	752,296
Total equity and liabilities	866,483	862,731	845,192	843,685
Memorandum items				
Contingent liabilities	10,557	8,775	10,572	8,887
Commitments	259,983	182,919	259,983	182,919

These condensed financial statements were approved by the Board on 24 August 2017 and signed on its behalf by:

Michael C. Bonello, *Chairman*

Joseph Said, *Chief Executive Officer*



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Statements of Changes in Equity for the period 1 January 2017 to 30 June 2017

Group	Attributable to equity holders of the Bank				Total €000	Non- controlling interests €000	Total equity €000
	Share capital €000	Share premium €000	Revaluation and other reserves €000	Retained earnings €000			
At 1 January 2016	10,943	17,746	13,152	47,556	89,397	6,101	95,498
Comprehensive income							
Profit for the period	-	-	-	2,536	2,536	329	2,865
Other comprehensive income							
Fair valuation of available-for-sale financial assets:							
Net changes in fair value arising during the period	-	-	1,047	-	1,047	16	1,063
Reclassification adjustments	-	-	-	-	-	-	-
Net amounts reclassified to profit or loss	-	-	(839)	-	(839)	-	(839)
Remeasurements of defined benefit obligations	-	-	(6)	-	(6)	(3)	(9)
Total other comprehensive income for the period	-	-	202	-	202	13	215
Total comprehensive income for the period	-	-	202	2,536	2,738	342	3,080
Transactions with owners, recorded directly in equity							
Contributions by and distributions to owners:							
Dividends to equity holders	-	-	-	(1,138)	(1,138)	(435)	(1,573)
Rights issue of ordinary shares	101	784	-	-	885	-	885
Changes in ownership interests in subsidiaries that do not result in a loss of control							
Change in non-controlling interests in subsidiary	-	-	1	(113)	(112)	316	204
Total transactions with owners	101	784	1	(1,251)	(365)	(119)	(484)
At 30 June 2016	11,044	18,530	13,355	48,841	91,770	6,324	98,094
At 1 January 2017	11,044	18,530	13,723	50,541	93,838	6,510	100,348
Comprehensive income							
Profit for the period	-	-	-	2,671	2,671	338	3,009
Other comprehensive income							
Fair valuation of available-for-sale financial assets:							
Net changes in fair value arising during the period	-	-	(1,074)	-	(1,074)	(31)	(1,105)
Reclassification adjustments	-	-	-	-	-	-	-
Net amounts reclassified to profit or loss	-	-	(7)	-	(7)	-	(7)
Remeasurements of defined benefit obligations	-	-	44	-	44	18	62
Total other comprehensive income for the period	-	-	(1,037)	-	(1,037)	(13)	(1,050)
Total comprehensive income for the period	-	-	(1,037)	2,671	1,634	325	1,959
Transactions with owners, recorded directly in equity							
Contributions by and distributions to owners:							
Dividends to equity holders	-	-	-	(1,148)	(1,148)	(433)	(1,581)
Changes in ownership interests in subsidiaries that do not result in a loss of control							
Change in non-controlling interests in subsidiary	-	-	3	(429)	(426)	184	(242)
Total transactions with owners	-	-	3	(1,577)	(1,574)	(249)	(1,823)
At 30 June 2017	11,044	18,530	12,689	51,635	93,898	6,586	100,484



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Lombard Bank Malta p.l.c.

Statements of Changes in Equity for the period 1 January 2017 to 30 June 2017

Bank	Share capital €000	Share premium €000	Revaluation and other reserves €000	Retained earnings €000	Total equity €000
At 1 January 2016	10,943	17,746	12,869	45,551	87,109
Comprehensive income					
Profit for the period	-	-	-	2,799	2,799
Other comprehensive income					
Fair valuation of available-for-sale financial assets:					
Net changes in fair value arising during the period	-	-	1,012	-	1,012
Reclassification adjustments					
Net amounts reclassified to profit or loss	-	-	(839)	-	(839)
Total other comprehensive income for the period	-	-	173	-	173
Total comprehensive income for the period	-	-	173	2,799	2,972
Transactions with owners, recorded directly in equity					
Contributions by and distributions to owners:					
Dividends to equity holders	-	-	-	(1,138)	(1,138)
Rights issue of ordinary shares	101	784	-	-	885
Total transactions with owners	101	784	-	(1,138)	(253)
At 30 June 2016	11,044	18,530	13,042	47,212	89,828
At 1 January 2017	11,044	18,530	13,434	48,381	91,389
Comprehensive income					
Profit for the period	-	-	-	3,024	3,024
Other comprehensive income					
Fair valuation of available-for-sale financial assets:					
Net changes in fair value arising during the period	-	-	(995)	-	(995)
Reclassification adjustments					
Net amounts reclassified to profit or loss	-	-	(7)	-	(7)
Total other comprehensive income for the period	-	-	(1,002)	-	(1,002)
Total comprehensive income for the period	-	-	(1,002)	3,024	2,022
Transactions with owners, recorded directly in equity					
Contributions by and distributions to owners:					
Dividends to equity holders	-	-	-	(1,148)	(1,148)
Total transactions with owners	-	-	-	(1,148)	(1,148)
At 30 June 2017	11,044	18,530	12,432	50,257	92,263



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Lombard Bank Malta p.l.c.

Statements of Cash Flows for the period 1 January 2017 to 30 June 2017

	Group		Bank	
	30/06/17 €000	30/06/16 €000	30/06/17 €000	30/06/16 €000
Cash flows from operating activities				
Interest and commission receipts	11,541	11,526	11,547	10,532
Receipts from customers relating to postal sales and other revenue	14,498	14,175	17	69
Interest and commission payments	(3,082)	(3,560)	(3,086)	(3,564)
Payments to employees and suppliers	(17,668)	(18,142)	(4,908)	(4,794)
Cash flows from operating profit before changes in operating assets and liabilities	5,289	3,999	3,570	2,243
<i>(Increase)/decrease in operating assets:</i>				
Treasury bills	36,770	(33,420)	36,770	(33,420)
Deposits with Central Bank of Malta	(484)	724	(484)	724
Loans and advances to banks and customers	(96,283)	(21,219)	(94,814)	(21,220)
Other receivables	(2,625)	(2,340)	(2,791)	(2,488)
<i>(Decrease)/increase in operating liabilities:</i>				
Amounts owed to banks and to customers	(8,085)	13,503	(8,585)	14,276
Other payables	11,335	1,028	11,500	1,177
Net cash used in operations	(54,083)	(37,725)	(54,834)	(38,708)
Net income tax paid	(237)	(644)	(61)	(658)
Net cash flows used in operating activities	(54,320)	(38,369)	(54,895)	(39,366)
Cash flows from investing activities				
Dividends received	143	225	143	225
Interest received from investments	1,030	1,231	939	1,127
Proceeds on maturity/disposal of investments	792	1,050	357	1,050
Purchase of investments	(431)	(4,952)	(430)	(4,854)
Purchase of property, plant and equipment	(1,834)	(851)	(1,148)	(382)
Acquisition of non-controlling interests	(429)	-	-	-
Investment in subsidiary	-	-	(1,500)	-
Net cash flows used in investing activities	(729)	(3,297)	(1,639)	(2,834)
Cash flows from financing activities				
Dividends paid to equity holders of the Bank	(1,149)	(252)	(1,148)	(252)
Dividends paid to non-controlling interests	(244)	(226)	-	-
Net cash flows used in financing activities	(1,393)	(478)	(1,148)	(252)
Net decrease in cash and cash equivalents	(56,442)	(42,144)	(57,682)	(42,452)
Cash and cash equivalents at beginning of period	296,385	307,730	289,923	304,031
Cash and cash equivalents at end of period	239,943	265,586	232,241	261,579



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Lombard Bank Malta p.l.c.

Segmental analysis for the period 1 January 2017 to 30 June 2017

	Banking services		Postal services		Total	
	30/06/17 €000	30/06/16 €000	30/06/17 €000	30/06/16 €000	30/06/17 €000	30/06/16 €000
Net operating income	<u>9,099</u>	<u>9,939</u>	<u>17,720</u>	<u>14,000</u>	<u>26,819</u>	<u>23,939</u>
Segment result - Profit before taxation	<u>2,925</u>	<u>2,753</u>	<u>1,818</u>	<u>1,656</u>	<u>4,743</u>	<u>4,409</u>
	30/06/17 €000	31/12/16 €000	30/06/17 €000	31/12/16 €000	30/06/17 €000	31/12/16 €000
Segment total assets	<u>827,040</u>	<u>826,403</u>	<u>39,443</u>	<u>36,328</u>	<u>866,483</u>	<u>862,731</u>



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Asset encumbrance

Banking Rule 07 transposed the provisions of the EBA Guidelines on Disclosure of Encumbered and Unencumbered Assets (EBA/GL/2014/03) and introduced the requirement to disclose information about asset encumbrance.

This disclosure is meant to facilitate an understanding of available and unrestricted assets that could be used to support potential future funding and collateral needs. An asset is defined as encumbered if it has been pledged as collateral against an existing liability, and as a result is no longer available to the group to secure funding, satisfy collateral needs or be sold to reduce the funding requirement.

The disclosure is not designed to identify assets which would be available to meet the claims of creditors or to predict assets that would be available to creditors in the event of a resolution or bankruptcy.

Encumbered and unencumbered assets

	Carrying amount of encumbered assets	Fair value of encumbered assets	Carrying amount of unencumbered assets	Fair value of unencumbered assets
Bank	€000	€000	€000	€000
At 30 June 2017				
Equity Instruments	-	-	8,859	8,859
Debt Securities	9,212	9,212	57,274	57,274
Other Assets	2,809	2,809	767,038	767,038
	12,021	12,021	833,171	833,171
At 31 December 2016				
Equity Instruments	-	-	9,406	9,406
Debt Securities	9,854	9,854	57,813	57,813
Other Assets	3,437	3,437	763,175	763,175
	13,291	13,291	830,394	830,394

Lombard Bank does not encumber any collateral received. As at 30 June 2017, the Bank did not have any outstanding liabilities associated with encumbered assets and collateral received.

The Bank undertakes the following types of encumbrance:

- i. Pledging of a deposit with the Central Bank of Malta in favour of the Depositor Compensation Scheme.
- ii. Pledging of Malta Government Stocks held in terms of Directive No. 8 (Chapter 204 of the Central Bank of Malta Act) as security for a facility not currently utilised.



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Explanatory Notes

1. *Basis of preparation*

The condensed consolidated interim financial information for the six months ended 30 June 2017 has been prepared in accordance with International Accounting Standard 34 - 'Interim Financial Reporting'. The interim financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2016, which have been prepared in accordance with International Financial Reporting Standards as adopted by the EU.

The condensed interim financial information has been extracted from the Bank's unaudited half yearly financial statements. It has not been subject to an audit in accordance with the requirements of International Standards on Auditing nor to a review in accordance with the requirements of ISRE 2410 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity'.

2. *Accounting policies*

The accounting policies applied are consistent with those of the annual consolidated financial statements of Lombard Bank Malta p.l.c. for the year ended 31 December 2016, as described in those financial statements. Adoption of new standards, amendments and interpretations to existing standards that are mandatory for the Group's accounting period beginning on 1 January 2017 did not result in changes to the Group's accounting policies.

Certain new standards, amendments and interpretations to existing standards which are mandatory for accounting periods beginning after 1 January 2017 have been published by the date of authorisation for issue of this financial information. The Bank has not early adopted these revisions to the requirements of IFRSs as adopted by the EU and the Bank's management are of the opinion that, with the exception of IFRS 9, 'Financial Instruments', there are no requirements that will have a possible significant impact on the Bank's consolidated financial statements in the period of initial application.

IFRS 9, 'Financial Instruments', addresses the classification and measurement of financial assets, and replaces the multiple classification and measurement models in IAS 39 with a single model that has only two classification categories: amortised cost and fair value. Classification under IFRS 9 is driven by the entity's business model for managing the financial assets and the contractual characteristics of the financial assets. Subject to adoption by the EU, IFRS 9 is effective for financial periods beginning on or after 1 January 2018. The Bank is considering the implications of the standard, its impact on the Bank's financial results and position and the timing of its adoption taking cognisance of the endorsement process by the European Commission.



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3. *Fair values of financial assets and liabilities*

The Group's financial instruments which are measured at fair value comprise available-for-sale financial assets, categorised as Investments within the Statement of Financial Position. The Group is required to disclose fair value measurements by the level of the following fair value measurement hierarchy for financial instruments that are measured in the statement of financial position at fair value:

- Quoted prices (unadjusted) in active markets for identical assets (Level 1).
- Inputs other than quoted prices included within Level 1 that are observable for the asset either directly i.e. as prices, or indirectly i.e. derived from prices (Level 2).
- Inputs for the asset that are not based on observable market data i.e. unobservable inputs (Level 3).

As at 30 June 2017 and 31 December 2016, available-for-sale investments were principally valued using Level 1 inputs.

No transfers of financial instruments measured at fair value between different levels of the fair value hierarchy have occurred during the interim period under review.

The fair values of all the Group's other financial assets and liabilities that are not measured at fair value are considered to approximate their respective carrying values due to their short-term nature, short periods to repricing or because they are repricable at the Group's discretion. The current market interest rates utilised for fair value estimation, which reflect essentially the respective instruments' contractual interest rates, are deemed observable and accordingly these fair value estimates have been categorised as Level 2.

The valuation techniques utilised in preparing these condensed interim financial statements were consistent with those applied in the preparation of the financial statements as at and for the year ended 31 December 2016.



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4. Net Impairment Losses are analysed as follows:

	<u>Group</u>		<u>Bank</u>	
	2017 €000	2016 €000	2017 €000	2016 €000
Write downs:				
Loans and advances to customers				
- specific allowances	(1,903)	(1,983)	(1,903)	(1,983)
- collective allowances	(130)	(1,145)	(130)	(1,145)
- bad debts written off	(8)	(242)	(8)	(242)
Trade receivables	(4)	-	-	-
	(2,045)	(3,370)	(2,041)	(3,370)
Reversal of write downs:				
Loans and advances to customers				
- specific allowances	1,219	1,254	1,219	1,254
	1,219	1,254	1,219	1,254
Net Impairment Losses	(826)	(2,116)	(822)	(2,116)

5. Dividends

	30/06/17	30/06/16
Dividends (net) declared and paid by the Bank (€ 000)	1,148	1,138
€ cent per share - gross	4c0	4c0
€ cent per share - net	2c6	2c6

During the Annual General Meeting of shareholders held on 27 April 2017 the following resolution was approved: "That a final gross dividend of 4 cent (net dividend of 2.6 cent) per share, representing a final gross payment of €1,767,117, as recommended by the Directors, be hereby approved."



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Statement pursuant to Listing Rule 5.75.3 issued by the Listing Authority

I confirm that to the best of my knowledge:

- the condensed interim financial information, prepared in accordance with IAS 34 gives a true and fair view of the financial position of the Group and the Bank as at 30 June 2017 and of their financial performance and cash flows for the six-month period then ended in accordance with International Financial Reporting Standards as adopted by the EU applicable to interim financial reporting, IAS 34, 'Interim Financial Reporting'; and
- the commentary includes a fair review of the information required in terms of Listing Rule 5.81 to 5.84.

Joseph Said, *Chief Executive Officer*