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Chairman's Statement to the Members

I am pleased to report that the Lombard Bank Group turned in another solid performance in 2024. Both members of the Group, Lombard Bank Malta p.l.c ('the Bank') and MaltaPost p.l.c, made increased profits in the context of a favourable operating and macroeconomic environment, which contributed to the achievement of the respective business plan targets. The Group's pre-tax profit amounted to €19.4 million compared with €14.5 million in 2023.

At the Bank the determined but prudent pursuit of sustainable growth remained the Board's guiding principle. As I had anticipated last year, the increase in capital resulting from the successful Rights Issue at the end of 2023 permitted the Bank to apply its healthy levels of liquidity to satisfy the demand for credit while remaining compliant with regulatory capital requirements. The Bank's lending operations, as shareholders are aware, are traditionally the largest single source of revenue. Last year was no exception. Interest income from this activity reflected the record increase of €114.4 million in the loan book as average interest rates were broadly unchanged. This was supplemented by inflows from the Bank's money market operations, which benefitted from the prevailing positive interest rates, and by higher net fees and commission income.

These inflows were partly offset by interest paid out on deposits, which increased strongly by €100.6 million in a further demonstration of customer trust. No less than €50 million of this amount were fixed deposits with a five- to-eight-year term which carry more attractive rates, and are therefore more costly for the Bank, but are less volatile and therefore represent a more stable source of funds.

These balance sheet movements gave rise to an 8% increase in the Bank's total operating income to €35.6 million. The Bank's running costs absorbed just over 54% of this income, much the same as in the previous year. In line with past trends, employee compensation and benefits accounted for about half of total expenditure. While the staff complement was virtually unchanged, the recruitment and retention of qualified employees in a competitive labour market necessarily entailed a higher cost. Compliance with regulatory requirements, and the maintenance and upgrading of card services and IT systems also absorbed considerable human and financial resources.

These income and expenditure movements resulted in a profit before tax of €16.1 million, compared with €13.9 million in 2023, which took the Bank's total equity to a new high of €202.8 million. On the basis of this performance and in line with the proposal made at the time of the Rights Issue to distribute about one-third of annual profits, the Board has decided to recommend an increased gross dividend of 3.40 cent per share.

The growth achieved in 2024 was supported by the Bank's prudent and cautious management culture. This is governed by our structured risk management framework and Risk Appetite Statement and again last year contributed to the maintenance of strong fundamentals. These are reflected primarily in the Total Capital Ratio and the Liquidity Coverage Ratio, which stood at 20.0% and 231.8%, respectively at year end. Both these ratios are well above the minimum regulatory requirements, thus leaving room for further balance sheet growth. The Leverage Ratio, another key indicator of exposure to risk, meanwhile stood at 13.9%, more than four times the required level. Two other risk-mitigating factors were the further progress achieved in credit diversification, particularly the increase in retail lending, mainly home loans, which now accounts

LOMBARD

for 33% of the loan book; and high levels of collateral, on average equivalent to three times the amount of total lending.

Apart from being characterised by low-risk banking practices, the Bank's business model places equal importance on ensuring long-term sustainability. This for two reasons: first, to meet shareholder and customer expectations; and second, to remain competitive in a fast-changing financial market. To this end, work continued during the year on several initiatives designed to deliver more modern and cost-effective banking services. Most of these projects involve investment in advanced technologies and operational systems. These included a round-the-clock instant payments system, which allows the almost instantaneous transfer of funds between accounts; the replacement of our core banking system, for which agreements are being reviewed and further updating of our KYC Platform and transaction monitoring system, and of our cybersecurity infrastructure. Another aspect of the Bank's efforts to improve the customer banking experience was the further improvement of the facilities at our eleven branches.

Other projects are related to the Bank's regulatory responsibilities, such as the updating of reporting systems; the alignment of our policies with emerging regulations such as DORA; and implementation of the Action Plan to achieve compliance with ESG obligations. The ongoing initiatives I have mentioned together constitute an integral part of the gradual transformation of the Bank in accordance with the objectives of the Business Plan 2023 – 2025.

As I remarked in my introduction, MaltaPost p.l.c. also contributed to the Group's positive performance in 2024. Our subsidiary in fact registered a pre-tax profit of €4.7 million, compared with €2.3 million the previous year. The continued evolution of the company into a tech-driven postal services provider is clearly producing the desired results. Greater operational efficiencies were derived from strategic investments in logistics and e-commerce services, in the company's digital infrastructure and in making more services available online. The approval of some tariff increases by the regulator also impacted the profit figure positively. Meanwhile, MaltaPost's focus on green technologies and on meeting its ESG obligations continued apace. Among developments in this area were further additions to the company's fleet of electrically-operated vehicles and improvements in the existing photovoltaic system. We believe that MaltaPost is well positioned to exploit new opportunities for innovation and growth while meeting its sustainability objectives and offering efficient postal services, and increasingly also financial and insurance products.

You will recall that I have often spoken about the heavy burden of regulation. For a small bank like ours, the growing cost of compliance is exacerbated by the insufficient application of the principle of proportionality to take account of the Bank's small size and conservative business model. It now seems that regulators have finally acknowledged that regulation has become excessively onerous and is stifling innovation at the expense of competitiveness. Earlier this year the ECB and the EC announced the imminent introduction of a significant easing of regulation, including a far-reaching simplification of legislation on sustainable finance reporting and due diligence. In Malta similar thinking seems to be developing within the national regulator. This was embodied in the recent floating of a proposal whereby supervision of less complex banks in the EU would be scaled according to each bank's size and risk profile, avoiding a repressive one-size-fits-all approach. The implied radical change in banking regulation is welcome. It now remains for the new thinking to be translated into meaningful action.

On this occasion last year I said that the Board would continue to give close attention to the long-outstanding matter of the disposal by the Qualifying Shareholder of its shares in the Bank. We have in fact stepped up our efforts in this regard while reaffirming our belief that this is in the best interest of all stakeholders of the Group. Apart from providing clarity to prospective investors, such a development is particularly desirable in the context of the structural changes that are likely to materialise in the Maltese banking industry in the near term.

Looking back on another successful year during which all our key objectives were achieved, the Board believes that we can face the future with confidence. We shall continue to apply the Bank's time-tested business model to the generation of sustainable growth for the benefit of our shareholders, customers and staff. Apart from our belief that the Bank's strategy is well suited to the evolving characteristics of the domestic financial market and the expectations of the Maltese community we serve, our measured optimism is also comforted by the positive outlook for the domestic economy, even though we do not discount the possibility of unexpected challenges arising from geo-political events abroad.

In conclusion, on behalf of the Board I would like to express my gratitude to the Bank's staff and management team, ably led by the Chief Executive Officer, Joseph Said, for their decisive role in delivering the past year's encouraging results and in holding high the reputation of the Lombard brand. I would also like to thank my fellow directors and all our stakeholders for their loyalty and support.

Michael C Bonello
Chairman