LOMBARD

Chairman's Statement to the EGM 10 November 2022

The purpose of today's Extraordinary General Meeting of Lombard Bank Malta p.l.c. (the Bank) has been explained in detail in my letter of the 17th October 2022 and in the accompanying Notice and Circular to Shareholders. Please allow me a few minutes to provide some background information, before proceeding with the business to be considered in terms of the agenda of today's meeting.

The core function of a commercial bank, such as Lombard, is to promote and facilitate economic activity, primarily by providing loans and overdrafts. Such lending activity calls for capital- so the more lending that a bank grants, the higher the capital it requires.

Capital is largely built up by the retention of part of a bank's annual profit and/or issuing new shares and/or the raising of a bond. In the specific case of banks, the banking regulations draw a distinction between these three methods of raising capital. Capital may be termed Tier 1 Capital or Tier 2 Capital – whereas Tier 1 capital is permanent, Tier 2 capital expires and would need to be repaid.

In terms of the various banking regulations, the retention of profits and the issue of new shares are classed as Tier 1 Capital, whereas the issue of a bond is classed as Tier 2 and only limitedly considered suited for the calculation of the Total Capital Requirements of a bank. As an indigenous Maltese bank, Lombard Bank wishes to increase its capital so as to be able to proceed with expanding its activities in line with its vision of becoming a more meaningful player in the local community.

Throughout its 50 year-plus history Lombard has invariably sought to increase its capital base in the form of Tier 1 capital – that is by reinvesting part of its profits. In fact, in the past 25 years, it has grown its capital base from €25m to circa €125m by prudently retaining the profits it makes, having invested judiciously, while at the same time also issuing a dividend to its shareholders. From time to time, however, situations arise when a bank also needs to supplement this process by raising its capital through a share issue. In these past 25 years it was only on one occasion that Lombard Bank sourced capital in this way, when in the year 2000, it raised just €7 million by way of a Rights Issue. That Issue was overwhelmingly subscribed confirming the high degree of confidence enjoyed by the Bank.

However, the recent implementation by the MFSA of EU banking regulations, that were imposed without allowing for any form of transition period, together with the steady growth of the Bank, now necessitates the increase of capital.

This explains why the Bank, by means of a Company Announcement issued on 20 September 2022, informed the public that it intended to access the capital markets. The Board of Directors duly considered the options available for doing so. The pros and cons of a bond issue were evaluated but this option was not considered to be in the best interests of the Bank, also because in regulatory terms such a bond is considered a 'complex product'; it would have to be repaid at maturity; the bond funds raised would not be fully eligible for meeting the regulatory capital requirements; the interest payable to bondholders would be a permanent charge to the Bank's annual income, irrespective of the financial performance during the year; and finally, in the current environment of rising interest rates the coupon to be offered on a bond would need to be at a premium to that on government bonds which would result in a significant claim on the profit available for distribution to shareholders as dividends.

The Board, having also sought the opinion of professional advisers, therefore opted for the more cost effective and permanent capital-raising mechanism of a share issue which would be eligible as Tier 1 capital, which is universally acknowledged as "…..*the highest quality of regulatory capital…..*"

This will enable the Bank to continue executing its strategy for growth and to further increase its contribution to the Maltese economy without assuming a higher risk appetite than at present. The components of our forward-looking plans have been outlined to the market in the Company Announcement referred to earlier and in the Circular to Shareholders but I would emphasise in particular the Bank's intention to scale up the range of its traditional commercial and retail banking services and to further diversify its credit offering; to continue providing a personalised customer service while not ignoring the potential benefits of digitisation; and to increase its presence in the community by expanding its branch network. At the same time, the process of modernisation will continue, including further investment in distribution channels, in IT infrastructure, customer relationship management systems and human resources.

The Board of Directors remains confident that this strategy, coupled with the Bank's tried and tested business model, intimate knowledge of the Maltese market and its business culture, industry positioning and wider community presence will allow the Bank to raise its profile within the Maltese economy to the benefit of its stakeholders, including through the continued payment of regular and consistent dividends.

It is for these reasons that the Board of Directors firmly believes that the proposed resolutions being put forward for shareholder approval today, are in the best interests of the Bank, and therefore recommends that shareholders vote in favour of these resolutions.