Chairman's Address to the Members

The Lombard Bank Group's financial position strengthened further in 2023 in the context of a sustained economic recovery, registering a pre-tax profit of €14.5 million. Both components of the Group, Lombard Bank Malta p.l.c ('the Bank') and MaltaPost p.l.c, contributed to this satisfactory outcome. While the Bank operated with a reduced lending, and therefore earnings, capacity for most of the year for reasons that will be explained later, its income stream benefitted from the higher prevailing market interest rates. At MaltaPost p.l.c, meanwhile, improved profitability was driven mainly by growth in the parcel and e-commerce business, but also by increased efficiency in the delivery of postal services and minor revisions to some postal tariffs.

The Bank's main revenue source in 2023 was again net interest income, accounting for almost four-fifths of the total. Two factors in the main were responsible for the increase, namely the Bank's money market operations and its credit activity. In the case of the former, the higher inflows reflected the pronounced move of the ECB's benchmark rates from negative to positive territory. With regard to the Bank's lending activity, which nevertheless remained the single largest source of interest income, the pace of credit creation was influenced for most of the year by the need to remain compliant with regulatory capital requirements. This, combined with the fact that average lending rates did not increase, had a calming effect on income flows from this source. Net fees and commission income as well as dividends also contributed. As a result of all these movements, the Bank's total operating income reached a new high of €32.9 million.

The Bank's running costs grew at a slower rate than in 2022 and totalled €17.7 million. Employee compensation and benefits again accounted for just above half of the total. Though the staff complement increased only marginally, the attraction and retention of qualified expertise in a tight labour market necessarily implied higher outlays. For this same reason, as well as the need to ensure compliance with the ever-growing body of regulation, staff training was allocated more time and resources. The Bank's other major cost items, notably related to information systems, card services and regulation and compliance, did not experience significant variations.

As a result of a judicious management of costs, which grew considerably less than the Bank's income, and the setting aside of a precautionary amount for potential credit losses as required by regulation, the cost to income ratio improved further in 2023. The outcome of these movements resulted in the Bank's total equity rising to €186 million.

The Bank's time-tested, business model meanwhile continued to produce sound financial fundamentals, reflective of a risk-averse management culture. At the end of the year the Total Capital Ratio and the Liquidity Coverage Ratio were well above the minimum regulatory requirements at 21.0% and 301.8%, respectively, as was the Leverage Ratio which was almost five times the required regulatory level. Other financial soundness indicators, notably the ratio of Loans to Deposits and the ratio of facilities technically termed as Non-Performing Loans stood at prudent levels of 74.3% and 3.7%, respectively. Equally significant is the fact that the average Loan-to-Value Ratio of these facilities was only around 50%.

Another noteworthy aspect of the Bank's risk management was the process of credit diversification. Continuing an established trend, the share of retail lending increased to almost a third of the total, mainly reflecting strong growth in the home loan portfolio. In this field the Bank employs an automated loan management system and the entire process is supported by a team of qualified home loan officers. The quality of the Bank's loan book is also reflected in our relatively high levels of collateral, on average equivalent to almost three times the amount of total lending.

On the liabilities side of the balance sheet, the Bank continued to attract a steady inflow of customer deposits. Significantly, however, most of the growth last year took the shape of longer-term fixed deposits in response to the attractive rates offered.

During the year the Bank continued to implement the strategic priorities spelled out in the Business Plan 2023-2025, notably the expansion of its physical presence in the country and the replacement of the core banking system, including digital channels and payments systems. Our automated customer onboarding platform, which also includes anti-money laundering monitoring, is now fully operational. Important progress has also been registered in meeting the Bank's ESG obligations, where a working group is implementing the Action Plan, and in strengthening our cyber security defences.

As I remarked earlier, the Bank's subsidiary, MaltaPost p.l.c. also contributed to the Group's positive performance, registering a pre-tax profit of €2.3 million. Reflecting success in the ongoing process of diversification, the parcel and e-commerce business produced higher revenues. This factor largely offset the losses incurred due to the continuing decline in Letter Mail volumes and in fulfilling the company's Universal Postal Service Obligation. In this regard, although some minor tariff revisions were approved by the regulator, domestic postal service tariffs in Malta remain the lowest in Europe. Increased efficiency in mail delivery was also achieved, including through investment in more electric vehicles. In terms of new revenue sources, positive returns are expected to accrue from the company's insurance and financial services business.

The past year was not without its challenges for the Bank either. Two in particular deserve mention. The first was the one-year delay in launching the share Rights Issue. The Bank's Qualifying Shareholder only supported a resolution for this purpose in 2023 so that we were obliged to forego several bankable lending opportunities. The second, and long standing, challenge has been the ever-increasing burden of regulation, which is absorbing considerable human and financial resources. For a small bank such as Lombard, this factor is exacerbated by the insufficient application of the principle of proportionality to take account of the Bank's small size and conservative business model.

As I have noted, the Rights Issue was successfully implemented, though late in the year so that the Bank could only earn a fraction of the income which would have been derived from the increase in lending that the new capital would have permitted in a full year. As a result of this brake on profitability, as well as the expectation that regulatory minimum capital requirements will rise further in the near future, the Board of Directors considered it prudent to recommend a gross dividend of 1.63 cent per share. The full benefit of the capital raise will only be taken during the current year, on the basis of which we expect to be in a position to propose a distribution of about one-third of annual profits, subject to regulatory approval and business requirements.

Going forward, the Board believes that following the capital increase the conditions now exist for the opportunities for growth which have been identified to be exploited. This will be done without making any fundamental changes to the Bank's business model, which has consistently created shareholder value without weakening our commitment to maintain a prudent risk appetite. The main focus will be on growing the Bank's loan book, which is the primary source of income, while seeking a greater balance between commercial and retail lending, particularly home loans. At the same time, however, we also plan to grow our non-interest income, including through the funds business, wealth management services and the offering of pension products. Further investment will be undertaken in the areas of human and information technology resources, in the Bank's distribution channels and in seeking synergies with our postal subsidiary.

Last but not least the Board will continue in its endeavours to ensure that the Bank's Qualifying Shareholder meets its 2018 commitment to dispose of its shareholding. Settlement of this long-outstanding matter stands to benefit all stakeholders, not least our correspondent banking relationships, as well as provide visibility to prospective investors.

In conclusion, Lombard Bank is well equipped to build on last year's satisfactory performance and on behalf of the Board I would like to thank the staff and management team, ably led by the Chief Executive Officer, Joseph Said, whose expertise and commitment made these encouraging results possible. I would also like to thank my fellow directors and all our stakeholders for their loyalty and support.

Michael C. Bonello
Chairman