

Stock Market Review



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Lombard Bank declares unchanged dividend of €0.10 per share

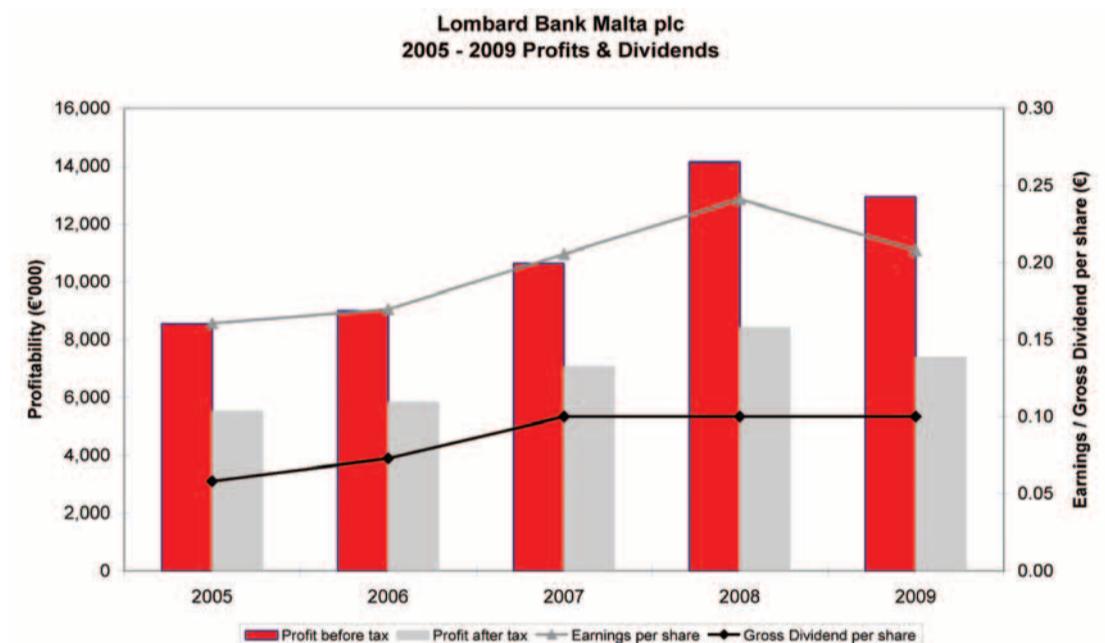
Bank profits up €0.4 million; Group profits down by €1.2 million

The 2009 full-year results recently published by Lombard Bank Malta plc show a pre-tax profit of €12.9 million for the Lombard Group (including the consolidated accounts of their subsidiary Maltapost plc). This represents a decline of €1.2 million (8.6 per cent) from the record profitability achieved in 2008. An analysis of the income statement published by Lombard reveals that the sole reason for this decline was a lower level of impairment reversals compared to the previous year.

In fact, the group operating profit before impairment allowances was only €75,000 lower than the previous year as the lower level of total income was mostly matched by a corresponding decrease in costs. The financial statements of the bank on a solo basis show a 3.5 per cent increase in profits to €11.6 million with the dividend income of €1.9 million (mainly from the Maltapost investment) contributing to the improvement in the bank's profitability.

Despite the slight decrease in group profitability, Lombard's directors are proposing an unchanged dividend of €0.10 per share. The bank continued to favour a high profit retention policy as evidenced by the low payout ratio of 31.2 per cent compared to the higher distributions by BoV (53 per cent of profits) and HSBC with a dividend payout of 65 per cent. Lombard shareholders, however, have the added benefit of a choice of their dividend either in cash or in shares. The attribution price for those shareholders requesting the dividend in new shares rather than cash has been established at €3.04 per share compared to last year's attribution price of €2.50 per share. The increase represents the upturn in Lombard's share price in recent months which recovered to a recent level of €3.10 from a low of €2.43 last year.

One of the distinguishing features of the Lombard results when compared to the financials of its largest competitors is that despite



the decline in official interest rates during the final quarter of 2008 and the first few months of 2009, Lombard maintained its net interest income of €14.6 million, whereas BoV and HSBC both suffered declines in net interest income of 8.5 per cent and 14.7 per cent respectively. While the two larger local banks have focused on increasing non-interest income through fund management and investment banking activities in recent years, Lombard Bank instead pursued the acquisition of Maltapost to generated increased levels of non-interest income.

Lombard initially purchased a minority shareholding in Maltapost in August 2006 and acquired majority control in September 2007. The contribution from the Maltapost shareholding to the financial statements is evident as postal sales and services revenue have amounted to over €19 million in each of the two last financial years, accounting for over 50 per cent of total operating income. The contribution to profitability is also evident from the graph depicting the level of profits in the last five financial years with the Maltapost results helping profitability growth since 2007. Lombard is now the

only bank which derives a higher percentage of its revenue from non-interest income rather than traditional interest income.

The overall cost base of the Lombard Group declined by just over €400,000 and is mainly attributable to a reduction in costs at Maltapost plc. This comes out from the postal operator's September 2009 full-year results published recently. The ongoing review of operational processes at Maltapost should lead to further cost containment in future years. While the cost to income ratio of the Lombard Group (including Maltapost) at 64.4 per cent remained above that of the other banks, the Lombard Bank ratio on a solo basis remains extremely attractive at only 35.5 per cent.

As indicated earlier on the main reason behind the profitability decline is attributable to the lower level of impairment reversals. While in 2008 Lombard benefited from net reversals of €1.4 million, this amounted to only €125,000 in 2009. The fact that Lombard did not need to take any significant impairment provisions is very positive in the light of the recessionary environment in 2008/9.

An analysis of the balance sheet as at December 31, 2009 reveals

the prudent approach taken by Lombard. In fact, holdings of money-market instruments increased from €68.5 million in 2008 to €116.4 million as the maturing investments and most of the new deposits taken during the year (especially in the first half) were placed in short-term instruments. The loan book remained flat over last year at €327.8 million as repaid loans were matched by new lendings. Net fee and commission income of €2.09 million largely reflects the processing fees on new loans taken out during the year.

While Lombard Bank's aim is to retain its niche market and selectively increase its branch network and product offering in certain areas, the main strategic focus is on its postal subsidiary. Lombard's objective is to start offering savings products through the Maltapost branches and customer network while at the same time continuing to take advantage of the opportunities for increased postal revenue generation from internet shopping and the strong demand for philately. The transformation of Maltapost is well under way and will benefit all Maltapost shareholders as well as those of Lombard Bank.

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