

CONDENSED INTERIM FINANCIAL REPORT

30 June 2020



izola Bank

Review of Operations

Commentary

The Directors present the unaudited condensed interim financial results of Izola Bank p.l.c. ("the Bank") for the period ended 30 June 2020.

In one of the most turbulent economic periods in recent years, the Bank experienced a challenging first six months following the COVID-19 outbreak in March with various economic sectors grinding to a halt. Profit before tax for the first six months of 2020 amounted to €0.57 million compared to €1.26 million registered during the comparative period. From an operational aspect, the Bank immediately implemented various measures, including remote working with the main aim of safeguarding the wellbeing of its employees whilst ensuring the same high level of quality of service to its clients.

Interest and similar income improved by 9% from the prior-year period, increasing from EUR 4.8 million to EUR 5.2 million due primarily to the continued growth in the Bank's factoring and third-party lending business throughout the second half of 2019. The uncertainty surrounding the economic outlook together with heavy reduction in business volumes experienced both in Malta and Belgium between late February and early June meant that new lending business and factoring turnover was lower than anticipated. As a result, net interest income decreased from €3.17 million in June 2019 to €2.72 million in June 2020; a 16.5% reduction over the corresponding period.

The decline in profitability can also be partly attributable to the higher allowances for credit losses recorded during the period. Whilst the quality of the Bank's lending and factoring books remained strong during the first six months of the year, with no notable deteriorations in non-performing exposures and with the majority of customers not even opting to avail themselves of moratoria periods, the negative macroeconomic expectations necessitated that the Bank increase its allowances for expected credit losses on existing lending.

In collaboration with the Malta Development Bank (MDB), in May 2020, the Bank launched 'Izola Boost', a product designed to support businesses experiencing cash flow issues as a result of the COVID-19 crisis. The Bank was encouraged by the response and remains committed to support business clients in making sure that they have access to enough funding to keep their companies operational. As of late June, the Bank also notes the return of some cautiously optimistic sentiment and expects that its financial results will improve thanks to a strong pipeline of new business. Naturally, the outlook remains uncertain until an effective vaccination against Covid-19 is in place.

Finally, the Bank continues to retain high levels of capital and liquidity buffers to enable it to withstand economic shocks. As at the end of June 2020, the regulatory capital remained stable with the Capital Adequacy Ratio (CAR) and Liquidity Coverage Ratio (LCR) being 18.3% and 2,340%, both well above the statutory minimum levels of 8% and 100% respectively.

Review of Operations (continued)

Financial Highlights for the half year ended 30 June 2020

- » Profit before tax of €0.57 million for the six months ended 30 June 2020 – down €0.68 million (54%), compared with €1.26 million for the same period in 2019.
- » Operating income of €2.99 million for the six months ended 30 June 2019, down €0.47 million (14%), compared with €3.46 million for the same period in 2019.
- » Loans and advances to customers (including factoring) of €211 million at 30 June 2020, up €18.8 million (10%), compared with 31 December 2019.
- » Customer deposits of €322 million as at 30 June 2020, up €2 million (0.63%), compared with 31 December 2019.
- » Treasury portfolio of €108 million as at 20 June 2020, up €27 million (33%) compared with 31 December 2019.
- » Total assets of €369 million at 30 June 2020, marginally up by just 0.31%, compared with 31 December 2019.
- » Earnings per share of €0.88 for the six months ended 30 June 2020 were 52% lower than the earnings per share for the same period in 2019 (€1.83).

Outlook

The ongoing robustness of the Bank's capital and liquidity ratios provide a stable foundation from which to produce attractive and sustainable returns going forward. In the current circumstances, the Bank continues to monitor the evolution of the local and global economic scenarios but notes the return of some cautiously optimistic sentiment and expects that its financial results will improve by year end thanks to a strong pipeline of new business.

Statement of Financial Position

	30.06.2020	31.12.2019
	€	€
	(unaudited)	(audited)
ASSETS		
Cash and items in transit	19,273	24,007
Balances with Central Bank of Malta	10,725,360	39,063,302
Investment securities	107,722,695	81,369,795
Loans and advances to banks	23,619,272	40,549,407
Factored receivables	105,412,145	105,412,199
Other loans and advances to customers	105,311,584	86,522,549
Property and equipment	12,301,972	11,618,961
Intangible assets	1,214,754	1,633,259
Current tax asset	273,033	562,378
Deferred tax asset	254,449	-
Other assets	1,732,778	1,576,048
Total assets	368,587,315	368,331,905
LIABILITIES		
Deposits from banks	250,448	250,322
Deposits from customers	321,518,449	319,737,813
Debt securities issued	11,914,534	11,905,989
Deferred tax liabilities	-	777,023
Accruals and other payables	2,766,582	1,989,742
Total liabilities	336,450,013	334,660,889
EQUITY		
Share capital	10,000,000	10,000,000
Capital contribution	17,032,675	17,032,675
Property revaluation reserve	3,696,144	3,696,144
Fair value reserve	(1,448,459)	436,837
Depositor compensation scheme reserve	628,571	628,571
Reserve for general banking risk	3,860	3,860
Retained earnings	2,224,511	1,872,929
Total equity attributable to equity holders of the Bank	32,137,302	33,671,016
Total liabilities and equity	368,587,315	368,331,905

Statement of Profit or Loss and Other Comprehensive Income

	01.01.2020 to 30.06.2020 (unaudited)	01.01.2019 to 30.06.2019 (audited)
	€	€
Interest income calculated using the effective interest method	5,216,796	4,784,878
Interest expense	(2,486,933)	(1,617,222)
Net interest income	2,729,863	3,167,656
Fee and commission income	57,481	68,104
Fee and commission expense	(34,482)	(43,036)
Net fee and commission income	22,999	25,068
Other revenue	235,074	269,209
Operating income	2,987,936	3,461,933
Depreciation and amortisation	(344,366)	(292,093)
Impairment allowances	(120,239)	(206,258)
Personnel expenses	(878,189)	(847,795)
Other operating expenses	(1,070,326)	(890,317)
Profit before tax	574,816	1,255,470
Income tax expense	(223,234)	(493,566)
Profit for the period	351,582	731,904
Earnings per share	0.88	1.83

Statement of Changes in Equity

	Share Capital €	Property revaluation reserve €	Fair value reserve €	Depositor compensation scheme reserve €	Capital contribution €	Reserve for general banking risk €	Retained earnings €	Total €
Balance at 1 January 2020	10,000,000	3,696,144	436,837	628,571	17,032,675	3,860	1,872,929	33,671,016
Total comprehensive income								
Profit for the year	-	-	-	-	-	-	351,582	351,583
Other comprehensive income, net of tax								
Realised gains on disposal of available-for-sale debt securities	-	-	(80,749)	-	-	-	-	(80,749)
Change in Fair Value of available-for-sale financial assets	-	-	(2,819,707)	-	-	-	-	(2,819,707)
Deferred Tax thereon	-	-	1,015,160	-	-	-	-	1,015,160
Total other comprehensive income, net of tax	-	-	(1,885,296)	-	-	-	-	(1,885,296)
Total comprehensive income for the year	-	-	(1,885,296)	-	-	-	351,582	(1,533,714)
Balance at 30 June 2020	10,000,000	3,696,144	(1,448,459)	628,571	17,032,675	3,860	2,224,511	32,137,302

Statement of Changes in Equity

	Share Capital €	Property revaluation reserve €	Fair value reserve €	Depositor compensation scheme reserve €	Capital contribution €	Reserve for general banking risk €	Retained earnings €	Total €
Balance at 1 January 2019	10,000,000	2,629,651	627,781	409,640	16,032,675	6,470	2,378,510	32,084,727
Total comprehensive income								
Profit for the year	-	-	-	-	-	-	731,904	731,904
Other comprehensive income, net of tax								
Movement in fair value reserve (available- for-sale financial assets):								
- net change in fair value	-	-	184,240	-	-	-	-	184,240
- reclassified to profit or loss	-	-	-	-	-	-	-	-
Tax on other comprehensive income	-	-	(64,484)	-	-	-	-	(64,484)
Total other comprehensive income, net of tax	-	-	119,756	-	-	-	-	119,756
Total comprehensive income for the year	-	-	119,756	-	-	-	731,904	851,660
Balance at 30 June 2019	10,000,000	2,629,651	747,537	409,640	16,032,675	6,470	3,110,414	32,936,387

Statement of Cash Flows

	01.01.2020 to 30.06.2020 (unaudited) €	01.01.2019 to 30.06.2019 (audited) €
Cash flows from operating activities		
Interest and commission receipts	5,274,277	4,681,552
Interest and commission payments	(1,374,786)	(1,120,258)
Payments to employees and suppliers	(1,834,824)	(1,841,597)
Cash from operations before changes in operating assets/liabilities	2,064,667	1,719,697
Increase/(decrease) in operating assets:		
- other loans and advances to customers	(18,896,516)	(6,266,921)
- factored receivables	54	(20,729,390)
Increase/(decrease) in operating liabilities:		
- deposits from customers	1,780,764	25,842,220
Net cash generated from operating activities before income tax	(15,051,031)	565,606
Income tax paid	(144,752)	(194,473)
Net cash (used in)/from operating activities	(15,195,783)	371,133
Cash flows from investing activities		
Payments to acquire property, equipment, and intangible assets	(608,872)	(195,714)
Proceeds from disposals of investment securities	30,513,341	1,500,000
Payments to acquire investment securities	(59,765,111)	(1,505,548)
Interest received from investment securities	323,488	644,332
Net cash (used in)/from investing activities	(29,537,154)	443,070
Cash flow from financing activities		
Interest paid on debt securities	(540,000)	(540,000)
Net cash used in financing activities	(540,000)	(540,000)
Net (decrease)/increase in cash and cash equivalents	(45,272,937)	274,203
Cash and cash equivalents at beginning of year	79,386,394	21,051,565
Cash and cash equivalents at end of the period	34,113,457	21,325,768

Notes to the Condensed Financial Statements

1. Reporting entity

Izola Bank p.l.c. (the “Bank”) is a public limited liability company domiciled and incorporated in Malta. The Bank is primarily involved in corporate and retail banking.

2. Basis of preparation

This interim financial report is being published in terms of Listing Rule 5.74 issued by the Malta Financial Services Authority – Listing Authority and in terms of the Prevention of Financial Markets Abuse Act, 2005. The unaudited interim financial statements for the six months ended 30 June 2020 have 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 2019, 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. In terms of Listing Rule 5.75.5, the Directors are stating that this interim financial report 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 Bank’.

The significant accounting policies adopted are set out further below.

3. Judgements in applying accounting policies and key sources of estimation uncertainty

In preparing these financial statements, management has made judgements, estimates and assumptions that affect the application of the Bank’s accounting policies and the reported amounts of assets, liabilities, income, and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

In the opinion of the directors, the accounting estimates and judgements made while preparing this condensed interim financial report are not difficult, subjective, or complex to a degree which would warrant their descriptions as significant and critical.

4. Accounting policies

The accounting policies applied in these condensed interim financial statements are the same as those applied by the bank in its financial statements as at, and for the year ended, 31 December 2019. The Bank did not early adopt any new standards, amendments, and interpretations to existing standards applicable to periods after 31 December 2020 and the Bank’s management is of the opinion that there are no requirements that will have a possible significant impact on the Bank’s financial statements in the period of initial application.

Notes to the Condensed Financial Statements (continued)

5. IFRS 9

The following table summarises the loss allowance by class of financial instrument.

30.06.20 (unaudited)	Gross carrying amount €	Stage 1 €	Stage 2 €	Stage 3 €	Net amount as per SOFP €
Loans and advances to customers at amortised cost	105,637,799	(169,924)	-	(156,291)	105,311,584
Factored receivables at amortised cost	106,253,005	(124,541)	-	(716,319)	105,412,145
Investment securities at FVOCI – Debt instruments	97,299,715	-	-	-	97,299,715
Loss allowance per stage		(294,465)	-	(872,610)	
Total loss allowance					(1,167,075)

31.12.19	Gross carrying amount €	Stage 1 €	Stage 2 €	Stage 3 €	Net amount as per SOFP €
Loans and advances to customers at amortised cost	86,753,640	(74,800)	-	(156,291)	86,522,549
Factored receivables at amortised cost	106,240,702	(124,541)	-	(703,962)	105,412,199
Investment securities at FVOCI – Debt instruments	55,928,490	-	-	-	55,928,490
Loss allowance per stage		(199,341)	-	(860,253)	
Total loss allowance					(1,059,594)

The provision for credit losses on Balances with Central Bank, loans, and advances to banks and FVOCI securities considered insignificant.

Notes to the Condensed Financial Statements (continued)

6. Fair values of financial assets and liabilities

The Bank's financial instruments categorised as Investments within the Statement of Financial Position are measured at fair value. The Bank is required to disclose fair value measurements according to the following hierarchy:

- 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 2020 and 31 December 2019, 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 Bank's other financial assets and liabilities that are not measured at fair value are considered to approximate their respective carrying values.

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 2019.

7. Debt securities issued

	30.06.2020 (unaudited)	31.12.2019 (audited)
	€	€
4.5% Unsecured Bond 2025	11,914,534	10,000,000
At 1 January	11,905,989	11,888,899
Amortisation of debt issuance costs during the period/year	8,545	17,090
	11,914,534	11,905,989

In 2015, the Bank issued unsecured debt securities amounting €12,000,000 at 4.5% maturing in 2025. The debt securities issued as at 30 June 2015 constitute the general, direct, unconditional, and unsecured obligations of the Bank and shall always rank *pari passu*, without any priority or preference among themselves and with other unsecured debt. The Bank has not had any breaches with respect to debt securities neither this year nor in the comparative year.

The carrying amount of the bond is net of direct issue costs which are being amortized over ten years, being the period from issue to the redemption date.

Notes to the Condensed Financial Statements (continued)

8. Related Party disclosures

8.1 Identity of related parties, parent, and ultimate controlling party

The Bank's immediate parent is IBL T Limited, the registered office of which is 53-58, East Street, Valletta VLT 1251, Malta.

The Bank's ultimate parent is VMKG PLLC, company number 0447.152.677. The financial results and assets and liabilities of the Bank are included in the consolidated financial statements of VMKG PLLC, the registered office of which is Paepsemalaan, 28-30, 1070 Anderlecht, Belgium.

Magdalena De Roeck and Caroline Van Marcke have an indirect beneficial interest in the shareholding of the Bank and have significant control in the ultimate parent.

8.2 Related party transactions

Interest, fees, and other income/charges in respect of related parties in the statement of comprehensive income comprise:

	30.06.2020 (unaudited)	31.12.2019 (audited)
	€	€
Interest receivable and similar income	1,737,04	2,117,281
Fees and commissions receivable	45,50	47,289
Other operating income	39,70	56,048
Interest expense	239,508	244,256

Notes to the Condensed Financial Statements (continued)

8. Related Party disclosures (continued)

8.3 Related party balances

The statement of financial position includes outstanding transactions and balances in respect of related parties as follows:

	30.06.2020 (unaudited)	31.12.2019 (audited)
	€	€
Assets		
Loans and advances to customers	49,369,918	49,165,451
Prepayments and accrued income	352,924	542,605
Liabilities		
Deposits from customers	38,000,647	38,242,014
Debt securities issued to directors	290,000	290,000
Accruals	-	6,525

No changes to report to amounts advanced to key management personnel from what was included in the latest 2019 Financial Statements.

9. Operating segments

9.1 The Bank has identified one reportable operating segment, being corporate banking services, which is its only strategic business unit. Revenues earned and expenses incurred are the result of corporate banking services provided to its clients. Management does not use any other internal report for decision making which is significantly different from information disclosed in the statement of profit or loss and other comprehensive income.

9.2 Geographical information

The Bank provides all its services from Malta. In presenting information based on geographical segments, segment revenue is based on the geographical location of customers. Segment assets are based on the geographical location of the assets.

	30.06.20 (unaudited)	30.06.19 (audited)
	€	€
Revenue		
Malta	3,080,244	2,275,136
Belgium	2,136,552	2,509,742
	8,188,742	7,558,876
Non-current assets		
Malta – property, equipment and intangible assets	13,516,796	13,522,220

The Bank's major customer is the Group of which it forms part. Belgium is the country of domicile of this Group. Information about revenues, costs, and balances because of transactions with this Group is set out in note 8.

Notes to the Condensed Financial Statements (continued)

10. Dividends

In the audited financial statements for the year ending 31 December 2019, the directors proposed a dividend after year end of €3.75 per ordinary share in respect of 2019 amounting to €1,500,000. This amount was not recognised as a liability in the audited financial statements.

Following the ECB 'Recommendation on dividend distributions during the COVID-19 pandemic' (ECB/2020/19) dated 27 March 2020 and the MFSA circular to Credit Institutions on Dividend Distributions or Share Buybacks dated 2 April 2020, recommending that credit institutions conserve capital to retain their capacity to support the economy in an environment of heightened uncertainty caused by COVID-19, the Directors have postponed the dividend recommendation until further guide is issued by the Authority.

This is in line with the same announcement made by the MFSA, confirming that Recommendation ECB/2020/19 of the ECB shall apply in its entirety to all credit institutions licensed in terms of the Banking Act (Chapter 371 of the Laws of Malta), until 1 October 2020.

11. 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 Bank 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.

	Carrying amount of encumbered assets	Fair value of encumbered assets	Carrying amount of unencumbered assets	Fair value of unencumbered assets
	€	€	€	€
At 30 June 2020				
Debt Instruments	-	-	80,930,815	80,930,815
Other assets	628,571	628,571	11,651,034	11,651,034
At 31 December 2019				
Debt Instruments	-	-	38,429,757	38,429,757
Other assets	628,571	628,571	11,618,961	11,618,961

Izola Bank does not encumber any collateral received. As at 30 June 2020, the Bank did not have any outstanding liabilities associated with encumbered assets and collateral received.

The Bank undertakes the following types of encumbrance:

- Pledging of a deposit with the Central Bank of Malta in favour of the Depositor Compensation Scheme.
- Pledging of Malta Government Stocks held in terms of Directive No. 8 (Chapter 204 of the Central Bank of Malta Act) as security for access to the Central Bank's Main and Long-Term Refinancing Operations (MROs and LTROs respectively) not currently being utilised.

Notes to the Condensed Financial Statements (continued)

12. Comparative Information

In the audited financial statements for the year ended 31 December 2019, the Bank had elected to reclassify presentation of the 'Amortisation on financial assets measured at FVOCI' from Other Income in 2018 to 'Interest Income'. Comparative amounts in the audited Statement of Profit and Loss and Other Comprehensive Income as at 30 June 2019 were restated for consistency.

The comparative figure of the 'Other operating expenses' disclosed in the Statement of Profit and Loss and Other Comprehensive Income under been restated to reflect pro-rata the Depositor Compensation Scheme fee charged for the year ending 31 December 2019. Current period figures include a reasonable pro-rata estimate of the fee for the year.

13. Events after the interim period

There have been no significant post interim balance sheet events.

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 statements give a true and fair view of the financial position as at 30 June 2020, financial performance and cash flows for the period then ended, in accordance with accounting standards adopted for use in the EU for interim financial statements IAS 34 'Interim Financial Reporting' for the Bank; and
- » The commentary includes a fair review of the information required in terms of Listing Rules 5.81.



Mr Andrew Mifsud
Chief Executive Office