



CONDENSED INTERIM FINANCIAL REPORT

30 June 2021



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 2021.

Following one of the most turbulent economic periods in recent years, the Bank experienced a positive start to the year mainly driven by a healthy growth in its lending portfolio when compared to the same period in 2020. Reported profit before tax for the first six months of 2021 amounted to €0.69 million compared to €0.57 million registered during the comparative period. The Bank registered a slight improvement in its annualized Return on Equity (ROE), increasing from 3.6% in June 2020 to 4% in June 2021.

Gross Interest income improved by 7% from the prior year period, increasing from €5.22 million to €5.57 million primarily due to the continued growth in the Bank’s lending business throughout the first half of 2021.

The Bank experienced a 2% decrease in interest expense in line with the persistent low interest rate environment, driven by a 7% reduction in customer deposits. As a result, net interest income increased from €2.73 million in June 2020 to €3.32 million in June 2021, a 17% improvement over the corresponding period. Consequently, the annual net interest margin rose to 1.91% from the 1.34% registered in 2020.

Expected Credit Loss (ECL) provisions were broadly maintained at the levels booked at 31 December 2020. 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, the macroeconomic expectations are cautiously optimistic and do not necessitate the Bank to significantly increase its allowances for expected credit losses on existing lending over those taken in 2020. These assumptions are also dependent on the fact that the relevant authorities at all levels, be they governmental and supranational bodies or regulatory and supervisory bodies, continue to take decisive and timely actions to safeguard the physical and economic health of all economies and provide a solid foundation for recovery to take place.

Operating expenses were €0.29m higher than those reported in the comparative period. This was mostly driven by an increase in staff complement as well as investment in technology and ancillary services in line with the Bank’s emphasis towards digital transformation in order to position it for the next growth phase. On a positive note, the annualized cost-to-income ratio decreased from 87% in the financial year 2020 to 76% as of June 2021.

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 2021, the regulatory capital remained stable with the Capital Adequacy Ratio (CAR) and Liquidity Coverage Ratio (LCR) being 18.4% and 2,199%, 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 2021

- » Profit before tax of €0.69 million for the six months ended 30 June 2021 – up €0.12 million (21%), compared with €0.57 million for the same period in 2020.
- » Operating income of €3.39 million for the six months ended 30 June 2021, up €0.4 million (13%), compared with €2.99 million for the same period in 2020.
- » Loans and advances to customers (including factoring) of €232 million as at 30 June 2021, up €11.3 million (5%), compared with 31 December 2020.
- » Customer deposits of €282 million as at 30 June 2021, down €22 million (7%), compared with 31 December 2020.
- » Treasury portfolio of €123 million as at 30 June 2021, up €14 million (13%) compared with 31 December 2020.
- » Total assets of €423 million as at 30 June 2021, an increase of €33 million (9%), compared with 31 December 2020.
- » Earnings per share of €1.04 for the six months ended 30 June 2021, an increase of 18% when compared with the earnings per share for the same period in 2020 (€0.88).

Outlook

At Izola Bank, we remained focused on being of support to our customers, especially those directly impacted by the pandemic, in such difficult times to help safeguard the viability of their businesses and those dependent on them. At the same time, the Bank is committed to seeking further growth in its factoring and corporate lending activities by actively exploring promising niche opportunities. The 2021 financial performance to date is encouraging compared to the relevant period in 2020, and we remain cautiously optimistic on a continued economic recovery.

Statement of Financial Position

	30.06.2021	31.12.2020
	€	€
	(unaudited)	(audited)
ASSETS		
Cash and cash equivalents	5,858,130	1,531,011
Balances with Central Bank of Malta	28,075,395	18,581,607
Investment securities	123,280,493	109,304,630
Loans and advances to banks	16,632,447	22,695,594
Factored receivables	97,088,411	99,155,608
Other loans and advances to customers	134,931,811	121,555,833
Property and equipment	12,952,396	11,994,449
Intangible assets	1,036,901	1,550,091
Current tax asset	424,761	824,359
Deferred tax asset	2,231,921	2,103,758
Total assets	422,512,666	389,296,940
LIABILITIES		
Balance owed to Central Bank of Malta	90,000,000	35,000,000
Deposits from banks	274,588	250,576
Deposits from customers	282,398,469	304,384,729
Debt securities issued	11,931,623	11,923,078
Deferred tax liabilities	497,087	845,309
Accruals and other payables	479,940	237,322
Accrued Interest payable	2,896,746	2,572,183
Total liabilities	388,478,453	355,213,197
EQUITY		
Share capital	10,000,000	10,000,000
Capital contribution	17,032,675	17,032,675
Property revaluation reserve	3,530,411	3,521,238
Fair value reserve	164,573	639,250
Depositor compensation scheme reserve	1,431,397	1,707,717
Reserve for general banking risk	3,860	3,860
Retained earnings	1,871,297	1,179,003
Total equity attributable to equity holders of the Bank	34,034,213	34,083,743
Total liabilities and equity	422,512,666	389,296,940

Statement of Profit or Loss and Other Comprehensive Income

	01.01.2021 to 30.06.2021 (unaudited)	01.01.2020 to 30.06.2020 (unaudited)
	€	€
Interest income calculated using the effective interest method	5,572,700	5,216,796
Interest expense	(2,252,477)	(2,486,933)
Net interest income	3,320,223	2,729,863
Fee and commission income	71,990	57,481
Fee and commission expense	(69,735)	(34,482)
Net fee and commission income	2,255	22,999
Other revenue	69,902	235,074
Operating income	3,392,380	2,987,936
Depreciation and amortisation	(376,741)	(344,366)
Impairment allowances	(116,103)	(120,239)
IT Expenditure	(373,956)	(293,180)
Personnel expenses	(1,069,108)	(878,189)
Other operating expenses	(768,653)	(777,146)
Profit before tax	689,819	574,816
Income tax expense	(271,845)	(223,234)
Profit for the period	415,974	351,582
Earnings per share	1.04	0.88

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 2021	10,000,000	3,521,238	639,250	1,707,717	17,032,675	3,860	1,179,003	34,083,743
Total comprehensive income								
Profit for the period	-	-	-	-	-	-	415,974	415,974
Other comprehensive income, net of tax								
Transfer from retained earnings	-	-	-	(276,320)	-	-	276,320	
Realised gains on disposal of available-for-sale debt securities	-	-	79,571	-	-	-	-	79,571
Change in Fair Value of available-for-sale financial assets	-	-	(809,843)	-	-	-	-	(809,843)
Deferred Tax thereon	-	9,173	255,595	-	-	-	-	264,768
Total other comprehensive income, net of tax	-	9,173	(474,677)	(276,320)	-	-	276,320	(465,504)
Total comprehensive income for the period	-	9,173	(474,677)	(276,320)	-	-	692,294	(49,530)
Balance at 30 June 2021	10,000,000	3,530,411	164,573	1,431,397	17,032,675	3,860	1,871,297	34,034,213

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	627,781	628,571	17,032,675	3,860	1,872,929	33,671,016
Total comprehensive income								
Profit for the period	-	-	-	-	-	-	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 period	-	-	119,756	-	-	-	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 Cash Flows

	01.01.2021 to 30.06.2021 (unaudited) €	01.01.2020 to 30.06.2020 (unaudited) €
Cash flows from operating activities		
Interest and commission receipts	5,410,451	5,274,277
Interest and commission payments	(1,939,277)	(1,374,786)
Payments to employees and suppliers	(1,805,818)	(1,834,824)
Cash from operations before changes in operating assets/liabilities	1,665,356	2,064,667
Increase/(decrease) in operating assets:		
- other loans and advances to customers	(13,322,370)	(18,896,516)
- factored receivables	1,981,098	54
Increase/(decrease) in operating liabilities:		
- deposits from customers	(21,986,260)	1,780,764
- amounts owed to Central Bank of Malta	55,000,000	-
Net cash generated from operating activities before income tax	23,337,824	(15,051,031)
Income tax paid	44,296	(144,752)
Net cash from/(used in) operating activities	23,382,120	(15,195,783)
Cash flows from investing activities		
Payments to acquire property, equipment, and intangible assets	(821,497)	(608,872)
Proceeds from disposals of investment securities	20,680,374	30,513,341
Payments to acquire investment securities	(35,877,000)	(59,765,111)
Interest received from investment securities	909,751	323,488
Net cash used in investing activities	(15,108,372)	(29,537,154)
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 increase/(decrease) in cash and cash equivalents	7,733,748	(45,272,937)
Cash and cash equivalents at beginning of period	42,557,636	79,386,394
Cash and cash equivalents at end of the period	50,291,384	34,113,457

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 2021 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 2020, 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 2020. 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.

30.06.2021 (unaudited)	Gross carrying amount €	Stage 1 €	Stage 2 €	Stage 3 €	Net amount as per SOFP €
Loans and advances to customers at amortised cost	135,257,913	(141,862)	-	(184,240)	134,931,811
Factored receivables at amortised cost	97,975,996	(65,065)	-	(822,520)	97,088,411
Investment securities at FVOCI – Debt instruments	123,360,064	(79,571)	-	-	123,280,493
Loss allowance per stage	-	(286,498)	-	(1,006,760)	-
Total loss allowance	-	-	-	-	(1,293,258)

30.06.2020 (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)

The provision for credit losses on Balances with Central Bank, loans and advances to banks are 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 2021 and 31 December 2020, 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 2020.

7. Debt securities issued

	30.06.2021 (unaudited)	31.12.2020 (audited)
	€	€
4.5% Unsecured Bond 2025	11,931,623	11,914,534
At 1 January	11,923,078	11,905,989
Amortisation of debt issuance costs during the period/year	8,545	8,545
At 30 June/31 December	11,931,623	11,914,534

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:

	30.06.2021 (unaudited)	30.06.2020 (audited)
	€	€
Interest receivable and similar income	1,635,839	1,727,049
Fees and commissions receivable	45,500	45,500
Other operating income	32,100	39,702
Interest expense	215,335	239,508

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:

	30.06.2021 (unaudited)	31.12.2020 (audited)
	€	€
Assets		
Loans and advances to customers	43,727,231	47,120,714
Prepayments and accrued income	405,991	589,211
Liabilities		
Deposits from customers	43,365,161	48,466,322
Debt securities issued to directors	290,000	290,000
Accruals	54,236	39,838

Loans and advances to customers include four outstanding loans amounting to €362,071 advanced to key management personnel. €250,000 is secured against property in Malta, bears interest at 1.75% per annum and is repayable after more than five years from the reporting date. The remaining amounts are unsecured and bear interest between 1% and 1.18% per annum and are repayable after more than five years.

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.

	30.06.2021 (unaudited)	30.06.2020 (audited)
	€	€
Revenue		
Malta	3,479,769	3,080,244
Belgium	2,092,931	2,136,552
	5,572,700	5,216,796
Non-current assets		
Malta – property, equipment and intangible assets	13,989,297	13,516,796

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

On 15 December 2020, the ECB issued another Recommendation on dividend distributions during the Covid-19 pandemic and repealing Recommendation ECB/2020/35 (ECB/2020/62), which encourages prudence on the part of credit institutions when deciding on or paying out dividends.

In interest of preservation of capital and liquidity, the Board of Directors do not propose any interim dividend.

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 2021				
Debt Instruments	90,879,037	90,879,037	14,409,716	14,409,716
Other assets	1,431,397	1,431,397	12,952,396	12,952,396
At 31 December 2020				
Debt Instruments	36,150,020	36,150,020	35,041,961	35,041,961
Other assets	1,707,717	1,707,717	11,994,449	11,994,449

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.

Izola Bank does not encumber any collateral received. As at 30 June 2021, the Bank did not have any outstanding liabilities associated with encumbered assets and collateral received.

The Bank undertakes the following types of encumbrances:

- 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. 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 2021, 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