Izola Bank p.l.c.

Annual Report

2020

Company Registration Number: C 16343

Izola Bank p.l.c.

Annual Report 2020

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Chairperson's Statement

For the Year Ended 31 December 2020

2020 has undoubtedly been a challenging year with the global economy experiencing unprecedented shocks from the outbreak of the Covid-19 pandemic and the ongoing economic uncertainty brought about by such an event. It remains imperative that the relevant authorities, at all levels, be they government, supranational bodies and 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.

At Izola Bank, we have remained focused on being of support to our customers, especially those directly impacted by the pandemic, in such difficult times in order to help safeguard the viability of their businesses and those dependant on them.

Bank Performance

During the year ended 31 December 2020, despite the pandemic, the Bank managed to generate growth in its revenue streams, growing its interest income by 4% over 2019 levels. This growth was significantly below projected levels which resulted in the Bank holding excess liquidity, built over the last months of 2019, with the consequence that interest expense increased by 26%. Compared to the previous year, net interest income decreased by €621,627 (10%).

This decrease coupled with the increase in related Depositor Compensation Scheme contributions resulted in a profit before tax for the year of €604,891; a decrease of 76% on 2019. Profit after tax was €385,220, down 74% compared to the previous year.

Against this background and whilst containing spend on recurrent expenditure, the Bank continued investing in staff complement and key ancillary support services, all geared towards positioning the Bank for its next growth phase.

The Bank's Cost-to-Income ratio increased to 86.9% (2019: 61.4%) which is primarily the result of the impact of the Depositor Compensation Scheme contribution; a contribution supporting the 2019 levels of covered deposits and therefore a non-recurrent item. Adjusted for this contribution, the cost-to-income ratio would be 68.5%, which is very much in line with the industry norm.

The total assets of the Bank increased by 5.7% to €389,296,940, mainly driven by increases in the loan and treasury portfolios. Factored receivables, a key component of the Bank's business, declined marginally by 6%. This was mostly expected as the factoring business depends mostly on the purchasing of receivables from customers, which is in turn directly related to economic activity.

As at 31 December 2020, the Bank remained well capitalised and liquid with the Capital Adequacy Ratio (CAR) standing at a healthy 20% and a Liquidity Cover Ratio (LCR) of 4,322% significantly above European banking sector norms.

Regulatory Environment

In 2020 the Bank continued to invest in compliance and risk management and remains committed to monitor all upcoming relevant regulatory developments to ensure full compliance with its legal and regulatory obligations. The Bank also welcomes the Malta Financial Services Authority's proactive approach to supervision and looks forward to more dialogue with the Authority to ensure timely guidance.

The Board

In this challenging year the number of meetings of the Board and its Committees was increased substantially in order for members to maintain focus on unfolding developments and take appropriate actions as necessary. In this regard, I would like to convey my gratitude to my fellow board members for their insights and debate during these unprecedented times.

Solidarity with the community

Having been an integral part of the Maltese economy for the last 25 years, the Bank strongly believes in taking an active role in society by investing in community-based organisations that directly address pressing issues within the country. In 2017, the Bank partnered with Foodbank Lifeline Foundation, a registered NGO which provides short-term emergency food packs to people in desperate need, regardless of race, religion and gender, until they find a path to stability.

In 2020, Izola Bank continued its support, both financially and in practical terms, to meet the increasing demand for Foodbank Lifeline's services which became even more relevant this year. Our ambition is to continue helping Foodbank Lifeline not only ease hunger in Malta, but also to significantly reduce food waste and carbon emissions.

Looking ahead

The Bank is committed to its long-term plans to continue seeking further growth in its factoring operations, and lending activity by further exploring promising niche lending opportunities.

The outbreak of the pandemic last year, which still poses significant uncertainty, has adversely impacted global commercial activities. The quantum of this ongoing impact on economic and market conditions and the shape and speed of an eventual recovery warrant that we approach 2021 with caution. Having said so, we continue to look forward with cautious optimism.

Conclusion

On behalf of the Board, I would like to thank our customers for their continued loyalty and support. Finally, I would like to express my thanks to the management team and all staff members for their hard work and unfaltering commitment to the Bank.

Ms. Magdalena De Roeck
Chairperson/Director
Izola Bank p.l.c.

26 March 2021

Izola Bank p.l.c.

Directors' Report

For the Year Ended 31 December 2020

The directors have prepared this report for Izola Bank p.l.c ("the Bank") in accordance with Article 177 of the Companies Act 1995 (Chapter 386, Laws of Malta) ("the Act") including the further provisions as set out in the sixth schedule of the Act, together with the financial statements of the Bank for the year ended 31 December 2020.

Board of directors

Ms. Magdalena De Roeck (Chairperson)
Ms. Caroline Van Marcke
Mr. Simon Azzopardi (i)
Mr. Joseph C. Caruana (i)
Mr. Francis Gouder (i)
Mr. Andrew Mifsud
Mr. Guido Mizzi (i)
Mr. Patrick H. Van Leynseele (i)

(i) independent directors

Company secretary

Mr. Calvin Bartolo

Principal activities

Izola Bank p.l.c. is registered in Malta as a public limited liability company under the Companies Act, 1995 (Chapter 386, Laws of Malta). The Bank is licensed by the Malta Financial Services Authority to carry out the business of banking in terms of the Banking Act, 1994 (Chapter 371, Laws of Malta).

The Bank is principally engaged in providing corporate banking and factoring services to resident and non-resident customers including to related parties with simple and easy to use savings products for both local and foreign individuals and businesses.

Operational Review

During the financial period under review, the Bank continued growing and diversifying its retail customer depositor base, raising funding from Malta, Belgium and Germany and continued building its factoring business both in Belgium and in Malta. Furthermore, the Bank also carried on developing niche commercial lending services both in Malta and abroad and intends to continue strengthening these activities in the years ahead.

A review of the business of the Bank for the year ended 31 December 2020 and an indication of future developments are provided in the Chairperson's Statement, which can be found in the front section of this Annual Report.

Principal risks and uncertainties

The main risks that the Bank has identified are credit risk arising from changes in credit quality and the recoverability of loans and amounts due from Belgian and Maltese counterparties, concentration risk arising from an uneven distribution of counterparties mainly drawn from the Belgian property, building and construction and related services sector, the Bank's exposure to the retail sector in Malta, and liquidity and interest rate risks which are inherent in the nature of the business of banking. Other risks which are closely monitored by management include foreign exchange risk and investment price risk, reputational risk, operational risk as well as cyber-security and business continuity risks.

Risk management policies have been established to identify and analyse the risks faced by the Bank, to set out appropriate risk limits and controls, and to monitor risks and adherence to limits. A detailed overview of these risks, together with the respective financial metrics are outlined in note 4 of the Financial Statements.

Directors' responsibilities

The Companies Act, 1995 (Chapter 386, Laws of Malta) (the 'Act') requires the directors of Izola Bank p.l.c. to prepare financial statements for each financial period which give a true and fair view of the financial position of the Bank as at the end of the financial year and of the profit or loss of the Bank for that period in accordance with the requirements of International Financial Reporting Standards as adopted by the EU.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy, at any time, the financial position of the Bank and to enable them to ensure that the financial statements have been properly prepared in accordance with the provisions of the Act and the Banking Act, 1994 (Chapter 371, Laws of Malta).

The directors are also responsible for safeguarding the assets of the Bank and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors, through oversight of management, are responsible to ensure that the Bank establishes and maintains internal controls to provide reasonable assurance regarding reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations.

Management is responsible, with oversight by the directors, to establish a control environment and maintain policies and procedures to assist in achieving the objective of ensuring, as far as possible, the orderly and efficient conduct of the Bank's business. This responsibility includes establishing and maintaining controls pertaining to the Bank's objective of preparing financial statements as required by the Act and managing risks that may give rise to material misstatements in those financial statements. In determining which controls to implement to prevent and detect fraud, management considers the risks that the financial statements may be materially misstated as a result of fraud.

Dividends and reserves

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 withdrew the proposed dividend payment in relation to financial year 2019.

Moreover, in interest of preservation of capital and liquidity, the Directors do not propose any dividends for financial year ended 31 December 2020.

Going concern pursuant to Listing Rule 5.62

The financial statements are prepared on a going concern basis. The directors regard that pursuant to Listing Rule 5.62, this is appropriate, after due consideration of the Bank's profitability, liquidity, the statement of financial position, capital adequacy and solvency. Specifically, the directors have prepared financial and capital plans for the next three years which show that the Bank is able to continue operating as a going concern for the foreseeable future.

Information pursuant to Listing Rule 5.64

The Bank does not have any listed securities carrying voting rights.

Information pursuant to Listing Rule 5.70.1

The Bank provides a range of banking services to the Van Marcke Group, of which the Bank itself is a member. Ms. Magdalena de Roeck, Ms. Caroline Van Marcke and Mr. Patrick Van Leynseele are indirectly interested in this business relationship by virtue of their directorships of various companies within the Van Marcke Group.

Further details can be found within note 31 of the Financial Statements.

Izola Bank p.l.c.

Directors' Report (continued)

For the Year Ended 31 December 2020

Auditors

At the 2021 Annual General Meeting a resolution will be presented proposing the appointment of PwC Malta as Auditors as from the financial year ending 31 December 2021. The Directors take the opportunity to express their gratitude to KPMG for their years of sterling service to the Bank.

Approved by the Board of Directors on 26 March 2021 and signed on its behalf by:

Mr. Andrew Mifsud
Chief Executive Officer/Director

Mr. Francis Gouder
Director

Registered Address

53-58 East Street
Valletta
Malta
Tel: +356 2124 1258

Izola Bank p.l.c.

Statement by the Directors on the Financial Statements included in the Annual Report

For the Year Ended 31 December 2020

Pursuant to Listing Rule 5.68, we, the undersigned, declare that to the best of our knowledge, the financial statements included in the Annual Report, and prepared in accordance with the requirements of International Financial Reporting Standards as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Bank, and that the Directors' Report includes a fair review of the development and performance of the business and position of the Bank, together with a description of the principal risks and uncertainties that it faces.

Signed on behalf of the Board of Directors on 26 March 2021 by:

Mr. Andrew Mifsud
Chief Executive Officer/Director

Mr. Francis Gouder
Director

Izola Bank p.l.c.

Directors' Statement of Compliance with the Code of Principles of Good Corporate Governance

Pursuant to Listing Rule 5.97 as issued by the Listing Authority, Izola Bank p.l.c. (the 'Bank') hereby includes a Statement of Compliance reporting on the extent to which the Bank has adopted the Code of Principles of Good Corporate Governance appended as Appendix 5.1 to the said Listing Rules (the 'Principles') and the effective measures that the Bank has taken to ensure compliance with these Principles during the period under review.

Introduction

The adoption of the Principles is not mandatory, however the Board of Directors (the 'Board') of Izola Bank p.l.c. believes that the adoption of these Principles is in the best interest of the Bank and its shareholders.

The Bank applies all the provisions of the code of Principles of Good Corporate Governance (the "Principles"), save where there exist circumstances that warrant non-adherence thereto, as outlined in Part Two to this Statement. During the year under review, the Bank did not apply any corporate governance practices beyond the provisions under national law.

PART ONE - Compliance with the Code

Principle 1: The Board

The Bank is headed by an effective Board and all directors exercise prudent controls which enable risk to be assessed and managed. The Board is composed of members who are honest and competent, making them fit and proper to conduct the business of the bank. The directors are of the appropriate calibre, having the necessary experience to provide leadership, integrity, and judgement in directing the bank. All directors are responsible for determining the Bank's strategic aims and its organisational structure. The directors regularly review management performance and ensure that the Bank has the appropriate mix of financial and human resources to meet its objectives. Every director is conversant with the statutory and regulatory requirements connected to the business of the Bank and regularly attends meetings of the Board. Directors are appointed by the shareholders during the Bank's Annual General Meeting for a period of one year.

The Board delegates specific responsibilities to the Audit and Risk Committee, the Remuneration and Nomination Committee, the Credit Committee, the Strategy Committee and the Asset and Liability Committee. Each Committee has its own terms of reference which are in turn approved by the Board.

Principle 2: Chairperson and Chief Executive Officer (CEO)

The Bank's current organisational structure incorporate the position of a CEO and that of a Chairperson, both of which are occupied by two different individuals. In line with the Board of Directors' terms of reference, there is a clear division of responsibilities between the running of the Board and the Chief Executive Officer's responsibility in managing the bank's business. The separation of roles of the Chairperson and the CEO avoids concentration of authority and power in one individual.

The Chairperson is responsible to lead the Board and set out the agenda and ensures that the directors receive precise, timely and objective information so that they can take sound decisions and effectively monitor the performance of the bank. During the Board meeting, the Chairperson encourages active engagement by all Board members and ensures that the opinions of all the directors are considered in the discussion of complex or contentious issues.

The Chief Executive Officer is responsible to drive and deliver performance within strategic goals and business plans agreed by the Board. He actively leads the senior management in the day-to-day running of the bank and execution of the agreed strategy. He takes decisions in all matters affecting the operations, performance, and strategy of the business, except for those matters reserved for the Board or specifically delegated by the Board to its Committees.

Principle 3: Composition of the Board

The Board considers that it is of sufficient size for the requirements of the business and its members possess the required diversity of knowledge and experience to properly execute their duties as directors. Each of the directors is skilful, competent, knowledgeable, and experienced to fulfil the role diligently. The Chief Executive Officer (CEO) was appointed to the Board of Directors in 2019 and provides the Board with all necessary management and operational information.

During the year under review, the Board consisted of five independent Non-Executive Directors, two Non-Independent Directors including the Chairperson (as set out in the Directors' Report) and one Executive Director, being the CEO. In determining the independence of its directors, the Board has referred to the principles relating to independence contained in the Code. Each independent non-executive director has made a declaration in writing to that effect. With specific reference to Code Provision 3.2.5, the Board notes that Mr. Joseph Caruana's tenure as a Board member has exceeded 12 years, however it is of the opinion that this in no way impacts his judgement and does not colour his independence in any manner. All directors shall disclose their interests and external commitment, both ahead of their appointment and, where significant changes arise, during their tenue as directors. This ensures that directors' business interests and commitments do not give rise to potential conflicts of interest and allow them to devote the necessary time and attention to properly execute their duties on the Board.

Principle 4: Responsibilities of the Board

The Board's role and responsibility is to execute the four basic roles of corporate governance namely: accountability, monitoring, strategy formation and policy development.

The Board regularly reviews and evaluates corporate strategy, major operational and financial plans, risk policy and performance objectives, and monitors implementation and corporate performance within the parameters of all relevant laws, regulations, and codes of best business practice. The Board ensures that policies and procedures are in place to maintain the highest standards of corporate conduct, including compliance with laws, regulations, business and ethical standards by the Company and its employees. Board members are provided with regular training and information session on topical matters such as developments in banking regulation and emerging trends in the business of banking.

The Board requires management to constantly monitor performance and report to its satisfaction, at least on a quarterly basis, fully and accurately on the key performance indicators (KPI's). Business risks and KPI's are benchmarked against industry norms so that the bank's performance can be effectively evaluated.
The Board delegates specific responsibilities to the following Committees:

Board Committees

Audit and Risk Committee

The Audit & Risk Committee's Terms of Reference include the monitoring of the financial reporting process, the effectiveness of the Bank's internal control, internal audit and risk management systems and the audit of the Bank's annual financial statements. Given that the nature of Related Party Transactions does not change from year to year, the vetting and approving of Related Party Transactions is a matter dealt with by the Board.

The Audit and Risk Committee protects the interests of the Bank's shareholders and assists the directors in conducting their role effectively so that the Bank's decision-making capability and the accuracy of its reporting and financial results are maintained at a high level at all times. It ensures that the Bank maintains a robust finance function responsible for accounting and financial data. This Committee has non-executive responsibility for oversight of, and advice to, the Board on matters relating to financial reporting. The Committee monitors the integrity of the bank's financial statements, any formal announcements relating to the bank's financial performance and reviews significant financial reporting judgements contained in them.

The Committee approves the internal audit work plan, which will include assessment of controls relating to financial reporting and other risks as appropriate. The Audit and Risk Committee also has the responsibility to appoint the external auditors, review and monitor the external auditor's independence and the effectiveness of the audit process.

In terms of Listing Rules 5.117, 5.118 and 5.119, the Audit and Risk Committee is composed of three non-executive directors. All three non-executive directors are considered as independent since they are free from any business, family or other relationship with the Bank or its management that may create a conflict of interest such as to impair their judgement. The Chairman of the Audit and Risk Committee is appointed by the Board of Directors.

In terms of Listing Rule 5.119, Mr Guido Mizzi is the director whom the Board considers as independent of the Bank and competent in accounting, given his extensive experience as a former managing partner of a local accountancy firm. Mr. Van Leynseele is a partner in a Brussels law firm and a member of the Bar in both Brussels and New York. Mr Azzopardi, has an extensive background in product development predominantly in the financial services sector and technology-focussed businesses.

All three directors have experience serving on various other boards and are considered as competent to be a member of the Audit and Risk Committee of the Bank. The Board thus considers that the committee members have the competence relevant to the banking sector.

Meetings held: 4

Members	**Attended**
Mr. Guido Mizzi (Chairman)	4
Mr. Simon Azzopardi	3
Mr. Patrick H. Van Leynseele	4

Other Board members have a right to attend the meetings. The Audit and Risk Committee has direct access to the Head of Finance and Treasury, who is responsible for the preparation and integrity of financial statements, and a direct reporting line to the Risk and Compliance manager, who is responsible for ensuring proper execution of the risk management and control framework. The Head of IT, who is responsible for the maintenance of internal controls in relation to ICT, attends meetings when ICT-related topics are discussed. Both the internal and external auditors are also invited to attend meetings on an ad-hoc basis. The Company Secretary acts as Secretary to the Committee.

Remuneration and Nomination Committee

In its nomination function, the Committee is primarily tasked with identifying and nominating new Board candidates for the approval of the Board. The Committee periodically assesses the structure, size, composition, and performance of the Board and makes recommendations to the Board regarding any changes. It is also tasked with reviewing the remuneration structure for the Bank's senior management and all staff, evaluating the impacts of remuneration considerations on its overall risk profile and corporate culture. This Committee is also responsible to periodically assess the skills, knowledge, and experience of individual directors, and of the Board collectively, and report on this to the Board.

The Remuneration and Nomination Committee is composed of three directors and meets at least once a year. The Remuneration and Nomination Committee is tasked with oversight of performance and remuneration practices, making proposals to the Board on the remuneration policy for directors and leading the process for Board appointments. The Committee also assesses the size, composition and performance of the Board and the individual and collective suitability of directors. The terms of reference of this Committee are in line with Code Provisions of 8.A.2 - 8.A.6 and 8.B.2 - 8.B.8. Further information on the Bank's remuneration practices is included within the Report of the Remuneration and Nomination Committee immediately following this section.

Meetings held: 2

Members	Attended
Mr. Francis Gouder (Chairman)	2
Ms. Caroline Van Marcke	2
Mr. Patrick H. Van Leynseele	2

The Company Secretary acts as Secretary to the Committee.

Credit Committee

The Credit Committee is composed of two independent non-executive directors and the CEO and operates within a Board-approved credit sanctioning limit. Proposals falling outside the Committee's limits are referred together with the Committee's recommendations to the Board for consideration and determination.

Meetings held: 13

Members	Attended
Mr. Joseph C. Caruana (Chairman)	13
Mr. Francis Gouder	13
Mr. Andrew Mifsud	13

The Company Secretary acts as Secretary to the Committee. The Head of Credit regularly attends the meetings.

Strategy Committee

The Committee is responsible for making recommendations to the Board of Directors on the Bank's business model and forward-looking strategy, taking into consideration the risks and opportunities related to various strategies. The Committee is also responsible for analysing the implementation of the business model and strategy or any changes thereof, including any potential ICT consequences.

It is composed of three directors and meets at least once a year. The Bank's Senior Management team and other bank executives may be invited to attend meetings. The Company Secretary acts as Secretary to the Committee.

Meetings held: 3

Members	Attended
Mr. Simon Azzopardi (Chairman)	3
Mr. Andrew Mifsud	3
Ms. Caroline Van Marcke	3

Management Committee

Asset and Liability Management Committee (ALCO)

The ALCO meets quarterly to monitor the Bank's financial performance, and review and manage financial risks in accordance with Bank policies, namely: interest rate, liquidity and funding risk, solvency, market sector and country risk and counterparty and foreign exchange risk. The ALCO reports to the Board on a quarterly basis.

The ALCO is chaired by the CEO and is also composed of the Head of Finance & Treasury, and the Senior Finance & Treasury Manager.

Meetings held: 4

Members	Attended
Mr. Andrew Mifsud (Chairman)	4
Mr. Calvin Bartolo	4
Mr. Kurt Grima (appointed on 1 April 2020)	4
Mr. Matthew Zammit (resigned on 31 March 2020)	-

Principle 5: Board Meetings

During the financial year 2020 the Board met eight times. Notice of the dates of forthcoming meetings together with all board papers were circulated well in advance to the directors so that they had ample opportunity to consider the information and prepare for the next scheduled board meeting. After each board meeting and before the next meeting, minutes that faithfully recorded attendance and decisions were prepared and circulated to all directors.

Attendance of the Board members during the said year was as follows:

Meetings Held: 8

Members	Attended
Ms. Magdalena De Roeck (Chairperson)	8
Ms. Caroline Van Marcke	8
Mr. Simon Azzopardi	8
Mr. Joseph C. Caruana	8
Mr. Francis Gouder	8
Mr. Andrew Mifsud	8
Mr. Guido Mizzi	8
Mr. Patrick H. Van Leynseele	8

Company Secretary
Calvin Bartolo

Principle 6: Information and Professional Development

All new directors are briefed in detail by the CEO and Company Secretary on the Bank's organisation and activities and their responsibilities as directors.

When they judge it necessary, all directors can access independent professional advice at the Bank's expense to discharge their responsibilities as directors. All directors also have access to the services of the Company Secretary for advice on all governance matters.

The Bank is committed to provide for the development and training of management and employees. The Board is updated at least annually with the latest staff development programme. In accordance with Code Provision 6, the Board is responsible for the appointment of the CEO whilst, in line with Code Provision 6.5, the CEO is responsible for the recruitment and appointment of senior management. Training of management and employees is a priority and internal and external training is provided by the Bank. The Bank also has a system in place which monitors management and staff engagement. As part of succession planning and talent management, the Board and the Chief Executive Officer ensure that the Bank implements appropriate schemes to recruit, retain and motivate high quality staff members.

Principle 7: Evaluation of the Board's Performance

The Board has set up the Remuneration and Nomination Committee to periodically review and monitor the effectiveness of the Bank's suitability policy and to guide the execution of suitability assessments of directors. The Chairperson shall report on the Committee's activities and submit recommendations on areas falling within its remit upon request of the Board of Directors.

The Committee may request information or reports from internal departments to facilitate discussions and decision-making. It may also provide guidance on how policies pertaining to performance, remuneration and training are to be communicated internally.

Principle 8: Committees

The Board established a Remuneration and Nomination Committee to oversee matters of remuneration and nomination in line with best practice. More detailed information regarding remuneration is presented in the Report of the Remuneration and Nomination Committee following this Statement of Compliance with the Code of Principles of Good Corporate Governance.

Principle 9 and 10: Relations with Shareholders and with the Market and Institutional Shareholders

The Bank provides the market with regular, timely, accurate and detailed information in accordance with the requirements of the Listing Rules by way of company announcements.

The Bank communicates with its shareholders through the Bank's Annual General Meeting as well as by way of the Annual Report and Financial Statements.

The Bank has an Internal Code of Dealing Policy to give guidance to the Bank's directors and employees on procedures to be followed when dealing in the Bank's securities and on the treatment of Inside Information in line with the provisions of the Prevention of Financial Markets Act and any related subsidiary legislation and regulations.

Principle 11: Conflicts of Interest

The directors are always strongly aware of their responsibility to act in the interest of the Bank and its shareholders as a whole and of their obligation to avoid conflicts of interest. The latter may and do arise on specific matters. In such instances, the Bank ensures that such conflicts, actual or potential, are managed in the best interest of the Bank. Each director is required to disclose in full any matter where there is a potential or actual conflict of interest, whether such conflict arises from personal interests or the interests of the companies in which such person is a director or officer. A director shall not participate in a discussion concerning matters in which he has a conflict of interest unless the Board finds no objection to the presence of such director. In any event, the director shall refrain from voting on the matter.

On joining the Board, and regularly thereafter, the directors are informed of their obligations on dealing in securities of the Bank within the parameters of the law, including the Listing Rules and the directors follow the required procedures. Interests of directors are disclosed within note 31. Related Parties of the accompanying Financial Statements.

Principle 12: Corporate Social Responsibility

Over the past 25 years, the Bank has transformed itself to be in a better position to deliver on its purpose: enabling growth. This value is at the heart of the Bank's CSR initiatives, as it continues to provide both tangible and immediate contributions to the community's welfare. The Bank's approach to CSR is through investing in community-based organisations that directly address pressing issues within the country – issues if left unattended would have dire consequences for people in need.

Foodbank Lifeline Foundation

In 2018, the Bank became an official sponsor of Foodbank Lifeline Foundation Malta, a registered NGO, which provides short-term emergency food packs to people in desperate need, regardless of race, religion and gender – till they find a path to stability. Over the course of this relationship, the Bank has increased its support, both financially and in practical terms to meet the increasing demand for Foodbank Lifeline's services – presently feeding thousands every year.

The Bank identified ways that went beyond one-off monetary donations, wanting to contribute on a continuous basis, with long-term benefits for the Foodbank. The Bank and Foodbank Lifeline share a joint vision of hoping that one day there will be no need for a foodbank in Malta. Until that day comes, the Bank is committed to supporting the community and ensuring that where possible no one should suffer the indignity of hunger.

- Supporting Foodbank Foundation's Digital Presence.

The Bank sponsored the design, development and hosting of the Foodbank Lifeline's new website. The website includes a platform where Care Professionals can enter quick referrals online, where visitors can access information on how to help Foodbank Lifeline or catch up on the latest updates and where people in need can follow the steps required to obtain a referral. Maintaining a regular presence in the community is vital for Foodbank Lifeline. The Bank also sponsors the management of the Foodbank's social pages (Facebook and Instagram), through hiring interns that oversee the day-to-day posts, comments and messages. The Bank also injects funds to promote various campaigns that need boosting.

Principle 12: Corporate Social Responsibility (continued)

- Reverse Advent Calendar Campaign

Held once a year in the run up to Christmas, the Reverse Advent Calendar Campaign is a way for the community to get involved in helping the less fortunate. The campaign is hugely popular with local schools, businesses, and families. The Bank oversees the entire campaign including the media productions and bookings and press coverage.

PART TWO – Non-Compliance with the Code

Principle 2 – Code Provision 2.3

The Chairperson of the Bank cannot be considered independent in accordance with the principles relating to independence contained in the Code.

Principle 4 – Code Provision 4.2.7

The Code Provision recommends that the Board should develop a succession policy for the future composition of the Board and particularly the executive component thereof, for which the Chairman should hold key responsibility. The Board does not have a succession policy in place for the future composition of the Board of Directors. This approach may be revised in the future in line with changes to the Bank's size and/or organisational structure.

Principle 6 – Code Provision 6.4.4

Code Provision 6.4.4 recommends the CEO to establish a succession plan for senior management. The Board does not have a succession policy in place for senior management. This approach may be revised in the future in line with changes to the Bank's size and/or organisational structure.

Listing Rule 5.97.4

The information required by this Listing Rule is found in the Directors' Report, within the Directors' Responsibilities section.

Approved by the Board of Directors on 26 March 2021 and signed on its behalf by:

Mr. Andrew Mifsud
Chief Executive Officer/Director

Mr. Francis Gouder
Director

Izola Bank p.l.c.

Report of the Remuneration and Nomination Committee
For the Year Ended 31 December 2020

Remuneration Policy

The aim of the Bank's Remuneration Policy is to increase transparency in remuneration matters, to support the business goals of the Bank by efficient remuneration structures, and to create common basic values and guidelines for the Bank when offering remuneration and benefits to the senior management team of the Bank.

Remuneration Statement

Executive Management

Reference to senior management shall mean the CEO, the Head of Finance & Treasury, the Head of Operations, the Head of Credit, and the Head of IT. The Board is of the opinion that the remuneration packages for senior management are in line with local market expectations and are at an appropriate level to attract and retain executives with the appropriate skills, qualities, and experience to ensure the effective management of the Bank.

The terms and conditions of employment of senior management are set out in the respective indefinite contracts of employment. Senior management are not entitled to share options or profit sharing. There are no supplementary pension or early retirement schemes in place and notice periods are as established by law. Senior management are eligible for an annual salary increase and discretionary performance bonus in line with the Bank's overall performance.

Non-cash benefits to which senior management are entitled are the use of a company car. Other benefits afforded to all staff member, including senior management are personal accident, life, and health insurance cover.

Loans amounting to €317,100 were advanced to key management personnel as disclosed in note 31.3 to the financial statements.

There have been no significant changes in the Bank's remuneration policy for senior management during the year under review. During 2020, the Bank continued offering all staff members, including senior management, subsidies on home loan interest rates and intends to start contributing to a personal pension scheme during 2021.

Total emoluments of senior management for the year ended 31 December 2020 are as follows:

Fixed Remuneration	Variable Remuneration	Share Options	Others
€344,656	€64,000	None	Non-cash benefits referred to immediately above.

Directors

As of 31 December 2020, the Board was composed of 7 non-executive directors and one executive director.

The maximum annual aggregate emoluments that may be paid to the directors are approved by the shareholders in a General Meeting. This amount was fixed at an aggregate sum of €150,000 at the Annual General Meeting held on 4 April 2020.

None of the directors had service contracts with the Bank as at the end of the financial year.

Furthermore, none of the directors, in their capacity as a director of the Bank, is entitled to profit sharing, share options, pension benefits or any other remuneration.

Total emoluments of directors from the Bank for the year ended 31 December 2020 are as follows.

Fixed Remuneration	Variable Remuneration	Share Options	Others
€105,000	None	None	None

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Independent Assurance Report

To the Shareholders of Izola Bank p.l.c.

Report required by Listing Rule 5.98 issued by the Listing Authority in Malta

We were engaged by the Directors to report on specific disclosures in the Corporate Governance Statement (the "Disclosures") of Izola Bank p.l.c. (the "Bank") as at 31 December 2020 as to whether these are in compliance with corporate governance regulations set out in the Listing Rules issued by the Listing Authority, the Malta Financial Services Authority (the "Listing Rules"). We are required to report in the form of an independent reasonable assurance conclusion as to whether:

(a) in light of our knowledge and understanding of the Bank and its environment obtained during the course of the statutory audit, we have identified material misstatements with respect to the information requirements referred to in Listing Rule 5.97.4. Where material misstatements are identified in relation to the requirements of Listing Rule 5.97.4, as applicable, we shall, in addition to our opinion, provide an indication of the nature of such misstatement; and,

(b) the Disclosures include the other information required by Listing Rule 5.97, insofar as it is applicable to the Bank.

Responsibilities of the Directors

The Directors are responsible for the compliance of the Bank, and of the Disclosures, with the Listing Rules.

The Directors are also responsible for preparing and presenting the Disclosures that are free from material misstatement and for the information contained therein.

This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and presentation of the Disclosures that is free from material misstatement whether due to fraud or error. It also includes ensuring that the Bank complies with the Listing Rules, selecting and applying policies and procedures in relation to both financial and non-financial information, making estimates and judgement that are reasonable in the circumstances and for maintaining adequate records in relation to the Disclosures. The Directors are also responsible for preventing and detecting fraud and for identifying and ensuring that the Bank complies with laws and regulations applicable to its activities.

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Independent Assurance Report (continued)

To the Shareholders of Izola Bank p.l.c.

Responsibilities of the Directors (continued)

The Directors are also responsible for ensuring that staff involved with the preparation and presentation of the Disclosures are properly trained, information systems are properly updated and that any changes in reporting encompass all significant reporting units relevant to the Disclosures encompass all significant business units. This responsibility also includes informing us of any changes in the Bank's operations since the date of the Disclosures and since the date of our most recent assurance report on the Disclosures.

Our Responsibilities

Our responsibility is to examine the Disclosures and to report thereon in the form of a reasonable assurance conclusion based on the evidence obtained. We conducted our engagement in accordance with International Standard on Assurance Engagements 3000, *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information* issued by the International Auditing and Assurance Standards Board.

That standard requires that we plan and perform our procedures to obtain reasonable assurance about whether the Disclosures are properly prepared and presented, in all material respects, in accordance with the requirements set out in the relevant Listing Rules.

The firm applies International Standard on Quality Control 1 *Quality Control for Firms that Perform Audits and Reviews of Historical Financial Information, and Other Assurance and Related Services Engagements* and, accordingly, maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

We have complied with the independence and other ethical requirements of the International Ethics Standards Board for Accountants' International *Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code)*, together with the ethical requirements that are relevant to our assurance engagement in accordance with the *Accountancy Profession (Code of Ethics for Warrant Holders) Directive* issued in terms of the Accountancy Profession Act (Chapter 281, Laws of Malta), and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

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Independent Assurance Report (continued)

To the Shareholders of Izola Bank p.l.c.

Our Responsibilities (continued)

The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the Disclosures whether due to fraud or error.

In making those risk assessments, we have considered internal control relevant to the preparation and presentation of the Disclosures in order to design assurance procedures that are appropriate in the circumstances, but not for the purposes of expressing a conclusion as to the effectiveness of Bank's internal control over the preparation and presentation of the Disclosures. Our engagement also included assessing the appropriateness of the Disclosures, the suitability of the criteria, being the relevant Listing Rules, in preparing and presenting the Disclosures in the circumstances of the engagement and evaluating the appropriateness of the method used in the preparation and the overall presentation of the Disclosures. Reasonable assurance is less than absolute assurance.

We are not required to, and we do not, consider whether the directors' statements on internal control and risk management systems cover all the risks and controls in relation to the financial reporting process or form an opinion on the effectiveness of the Bank's corporate governance procedures or its risks and control procedures, nor on the ability of the Bank to continue in operational existence. Our opinion in relation to the disclosures pursuant to Listing Rule 5.97.4 is based solely on our knowledge and understanding of the Bank and its environment obtained in forming our opinion on the audit of the financial statements. We have not performed any procedures by way of audit, verification or review on the underlying information from which the other disclosures required by Listing Rule 5.97 is derived.

We also read the other information included in the Annual Report in order to identify any material inconsistencies with the Disclosures.

Conclusion

Our conclusion has been formed on the basis of, and is subject to, the matters outlined in this report.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our conclusion.

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Independent Assurance Report (continued)

To the Shareholders of Izola Bank p.l.c.

Conclusion (continued)

In our opinion:

(a) in light of the knowledge and understanding of the Bank and its environment obtained during the course of our statutory audit, we have not identified material misstatements with respect to the information requirements referred to in Listing Rule 5.97.4; and,

(b) the Disclosures include the other information required by Listing Rule 5.97 insofar as it is applicable to the Bank.

The Principal authorised to sign on behalf of KPMG on the work resulting in this assurance report is Claude Ellul.

KPMG
Registered Auditors

26 March 2021

Izola Bank p.l.c.

Financial Statements

2020

Izola Bank p.l.c.

Izola Bank p.l.c.

Statement of Financial Position

As at 31 December 2020

	Note	2020 €	2019 €
ASSETS			
Cash and cash equivalents	29	**1,531,011**	24,007
Balances with Central Bank of Malta	29	**18,581,607**	39,063,302
Investment securities	13	**109,304,630**	81,369,795
Loans and advances to banks	14	**22,695,594**	40,549,407
Factored receivables	15	**99,155,608**	105,412,199
Other loans and advances to customers	16	**121,555,833**	86,522,549
Property and equipment	17	**11,994,449**	11,618,961
Intangible assets	18	**1,550,091**	1,633,259
Current tax asset		**824,359**	562,378
Other assets	19	**2,103,758**	1,576,048
Total assets		**389,296,940**	368,331,905
LIABILITIES			
Balance owed to Central Bank of Malta	20	**35,000,000**	-
Deposits from banks	21	**250,576**	250,322
Deposits from customers	22	**304,384,729**	319,737,813
Debt securities issued	23	**11,923,078**	11,905,989
Deferred tax liabilities	24	**845,309**	777,023
Accruals	25	**2,809,505**	1,989,742
Total liabilities		**355,213,197**	334,660,889
EQUITY			
Share capital	26	**10,000,000**	10,000,000
Capital contribution	26	**17,032,675**	17,032,675
Property revaluation reserve	26	**3,521,238**	3,696,144
Fair value reserve	26	**639,250**	436,837
Depositor compensation scheme reserve	26	**1,707,717**	628,571
Reserve for general banking risk	26	**3,860**	3,860
Retained earnings	26	**1,179,003**	1,872,929
Total equity attributable to equity holders of the Bank		**34,083,743**	33,671,016
Total liabilities and equity		**389,296,940**	368,331,905
Memorandum items			
Commitments	27	**96,000,451**	71,868,667

The accompanying notes are an integral part of these financial statements.

The financial statements on pages 1 to 76 were approved by the Board of Directors on 26 March 2021 and signed on its behalf by:

Mr. Andrew Mifsud
Chief Executive Officer/Director

Mr. Francis Gouder
Director

Izola Bank p.l.c.

Statement of Profit or Loss and Other Comprehensive Income

For the Year Ended 31 December 2020

	Note	**2020**	2019
		€	€
Interest income calculated using the effective interest method	5	**10,575,188**	10,158,455
Interest expense	5	**(5,011,314)**	(3,972,954)
Net interest income		**5,563,874**	6,185,501
Fee and commission income	6	**136,427**	135,013
Fee and commission expense	6	**(69,535)**	(72,662)
Net fee and commission income		**66,892**	62,351
Other revenue	7	**311,098**	210,986
Operating income		**5,941,864**	6,458,838
Depreciation and amortisation	17 & 18	**(594,913)**	(577,919)
Impairment losses on financial instruments	8	**(172,797)**	(90,400)
Personnel expenses	9.2	**(1,765,851)**	(1,613,018)
Other expenses	9.4	**(2,803,412)**	(1,682,288)
Profit before tax	9	**604,891**	2,495,213
Income tax expense	10	**(219,671)**	(1,034,473)
Profit for the year		**385,220**	1,460,740
Other comprehensive income			
Items that will not be reclassified to profit or loss			
Property revaluation		**(135,382)**	1,228,073
Deferred tax		**(39,524)**	(161,580)
		(174,906)	1,066,493
Items that are or may be reclassified subsequently to profit or loss			
Movement in fair value reserve (FVOCI debt instruments):			
- net change in fair value		**374,919**	(25,000)
- reclassified to profit or loss		**(63,515)**	(255,243)
Deferred tax		**(108,991)**	89,299
		202,413	(190,944)
Other comprehensive income for the year, net of income tax		**27,507**	875,549
Total comprehensive income for the year		**412,727**	2,336,289
Earnings per share	11	**0.96**	3.65

The accompanying notes are an integral part of these financial statements.

Izola Bank p.l.c.

Statement of Changes in Equity

For the Year Ended 31 December 2020

	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	-	-	-	-	-	-	**385,220**	**385,220**
Other comprehensive income, net of tax								
Transfer from retained earnings	-	-	-	**1,079,146**	-	-	**(1,079,146)**	-
Revaluation adjustment	-	**(135,382)**	-	-	-	-	-	**(135,382)**
Fair value reserve								
- net change in fair value	-	-	**374,919**	-	-	-	-	**374,919**
- reclassified to profit or loss	-	-	**(63,515)**	-	-	-	-	**(63,515)**
Deferred tax on other comprehensive income	-	**(39,524)**	**(108,991)**	-	-	-	-	**(148,515)**
Total other comprehensive income	-	**(174,906)**	**202,413**	**1,079,146**	-	-	**(1,079,146)**	**27,507**
Total comprehensive income for the year	-	**(174,906)**	**202,413**	**1,079,146**	-	-	**(1,079,146)**	**27,057**
Balance at 31 December 2020	**10,000,000**	**3,521,238**	**639,250**	**1,707,717**	**17,032,675**	**3,860**	**1,179,003**	**34,083,743**

The accompanying notes are an integral part of these financial statements.

Izola Bank p.l.c.

Statement of Changes in Equity

For the Year Ended 31 December 2020

	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	-	-	-	-	-	-	1,460,740	1,460,740
Other comprehensive income, net of tax								
Transfer from retained earnings	-	-	-	218,931	-	(2,610)	(216,321)	-
Revaluation Surplus	-	1,228,073	-	-	-	-	-	1,228,073
Fair value reserve								
- net change in fair value	-	-	(255,243)	-	-	-	-	(255,243)
- reclassified to profit or loss	-	-	(25,000)	-	-	-	-	(25,000)
Deferred tax on other comprehensive income	-	(161,580)	89,299	-	-	-	-	(72,281)
Total other comprehensive income	-	1,066,493	(190,944)	218,931	-	(2,610)	(216,321)	875,549
Total comprehensive income for the year	-	1,066,493	(190,944)	218,931	-	(2,610)	(216,321)	2,336,289
Transactions with equity holders								
Contributions and distributions								
Dividends to equity holders (note 26.8)	-	-	-	-	-	-	(1,750,000)	(1,750,000)
Contributions paid by equity holders	-	-	-	-	1,000,000	-	-	1,000,000
Total contributions and distributions	-	-	-	-	1,000,000	-	(1,750,000)	(750,000)
Balance at 31 December 2019	10,000,000	3,696,144	436,837	628,571	17,032,675	3,860	1,872,929	33,671,016

The accompanying notes are an integral part of these financial statements.

Izola Bank p.l.c.

Statement of Cash Flows

For the Year Ended 31 December 2020

	Note	2020 €	2019 €
Cash flows from operating activities			
Interest and commission receipts		**9,483,998**	9,599,107
Interest and commission payments		**(3,416,827)**	(2,911,749)
Payments to employees and suppliers		**(5,046,594)**	(4,068,351)
Cash from operations before changes in operating assets/liabilities		**1,020,577**	2,619,007
Increase/(decrease) in operating assets:			
- other loans and advances to customers		**(35,181,903)**	(12,260,011)
- factored receivables		**6,405,210**	(18,699,166)
Increase/(decrease) in operating liabilities:			
- deposits from customers		**(15,352,830)**	142,580,727
- balance owed to Central Bank of Malta		**35,000,000**	(13,000,000)
Net cash absorbed from operating activities before income tax	28	**(8,108,946)**	101,240,557
Income tax paid		**(561,879)**	(2,190,616)
Net cash movement in operating activities		**(8,670,825)**	99,049,941
Cash flows from investing activities			
Payments to tangible and intangible assets		**(1,022,615)**	(683,999)
Proceeds from disposals of investment securities		**59,299,333**	10,672,792
Payments to acquire investment securities		**(87,609,086)**	(50,641,277)
Interest received from investment securities		**1,714,435**	1,227,372
Net cash movement in investing activities		**(27,617,933)**	(39,425,112)
Cash flow from financing activities			
Dividends paid to shareholders		**-**	(1,750,000)
Capital contributed by shareholders		**-**	1,000,000
Interest paid on debt securities		**(540,000)**	(540,000)
Net cash movement in financing activities		**(540,000)**	(1,290,000)
Net movement in cash and cash equivalents		**(36,828,758)**	58,334,829
Cash and cash equivalents at beginning of year		**79,386,394**	21,051,565
Cash and cash equivalents at end of year	29	**42,557,636**	79,386,394

The accompanying notes are an integral part of these financial statements.

Izola Bank p.l.c.

Notes to the Financial Statements

For the Year Ended 31 December 2020

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

2.1 Statement of compliance

These financial statements have been drawn up in accordance with International Financial Reporting Standards as adopted by the EU ("IFRS"). All references in these financial statements to IAS, IFRS or SIC/IFRIC interpretation refer to those adopted by the EU.

These financial statements have also been prepared and presented in accordance with the provisions of the Companies Act, 1995 (Chapter 386, Laws of Malta) and the Banking Act, 1994 (Chapter 371, Laws of Malta).

2.2 Basis of measurement

The financial statements have been prepared on a historical cost basis, except for the following material items:

Items	***Measurement basis***
Financial assets at FVTPL and at FVOCI	Fair value
Premises and improvements	Revalued amount.

2.3 Functional and presentation currency

These financial statements are presented in Euro (€), which is the Bank's functional currency.

2.4 Use of judgements and estimates

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.

Information about judgements, assumptions and estimation uncertainties as at 31 December 2020 is included as follows:

- Expected credit losses — Note 4
- Fair values of financial instruments — Note 4
- Property revaluations — Note 17

2.2 Basis of measurement (continued)

2.5 Going Concern

The financial statements are prepared on a going concern basis, as the Directors are satisfied that the local Bank has the resources to continue in business for the foreseeable future. In making this assessment, the Directors have considered a wide range of information relating to present and future conditions, including future projections of profitability, cash flows, capital requirements and capital resources. These considerations include stressed scenarios that reflect the increasing uncertainty that the global Covid-19 pandemic has had on the Bank's operations, as well as considering potential impacts on profitability, capital, and liquidity.

3 Significant accounting policies

3.1 Financial assets and financial liabilities

3.1.1 Recognition and initial measurement

The Bank initially recognises factoring receivables and other loans and advances, deposits by customers and banks and debt securities issued on the date on which they are originated. All other financial instruments (including regular-way purchases and sales of financial assets) are recognised on the trade date, which is the date on which the Bank becomes a party to the contractual provisions of the instrument. A financial asset or financial liability is measured initially at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue.

3.1.2 Classification

3.1.2.1 Financial assets

On initial recognition, a financial asset is classified as measured at: amortised cost, FVOCI or FVTPL.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI.

A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI.

3 Significant accounting policies (continued)

3.1 Financial assets and financial liabilities (continued)

3.1.2 Classification (continued)

3.1.2.1 Financial assets (continued)

On initial recognition of an equity investment that is not held for trading, the Bank may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an investment-by-investment basis. All other financial assets are classified as measured at FVTPL. In addition, on initial recognition, the Bank may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Business model assessment

The Bank makes an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed, and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Bank's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and its strategy for how those risks are managed;
- how managers of the business are compensated (e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected); and
- the frequency, volume, and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Bank's stated objective for managing the financial assets is achieved and how cash flows are realised.

Financial assets that are held for trading or managed and whose performance is evaluated on a fair value basis are measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

Assessment of whether contractual cash flows are solely payments of principal and interest

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin.

3 Significant accounting policies (continued)

3.1 Financial assets and financial liabilities (continued)

3.1.2 Classification (continued)

3.1.2.1 Financial assets (continued)

Assessment of whether contractual cash flows are solely payments of principal and interest

In assessing whether the contractual cash flows are SPPI, the Bank considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Bank considers:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Bank's claim to cash flows from specified assets; and
- features that modify consideration of the time value of money.

Non-recourse loans

In some cases, loans made by the Bank that are secured by collateral of the borrower limit the Bank's claim to cash flows of the underlying collateral (non-recourse loans). The Bank applies judgment in assessing whether the non-recourse loans meet the SPPI criterion.

The Bank typically considers the following information when making this judgement:

- whether the contractual arrangement specifically defines the amounts and dates of the cash payments of the loan;
- the fair value of the collateral relative to the amount of the secured financial asset;
- the ability and willingness of the borrower to make contractual payments, notwithstanding a decline in the value of collateral;
- whether the borrower is an individual or a substantive operating entity or is a special-purpose entity;
- the Bank's risk of loss on the asset relative to a full-recourse loan;
- the extent to which the collateral represents all or a substantial portion of the borrower's assets; and
- whether the Bank will benefit from any upside from the underlying assets.

Reclassifications

Financial assets are not reclassified after their initial recognition, except in the period after the Bank changes its business model for managing financial assets.

3 Significant accounting policies (continued)

3.1 Financial assets and financial liabilities (continued)

Financial liabilities

The Bank classifies its financial liabilities, other than financial guarantees and loan commitments, as measured at amortised cost.

3.1.3 Derecognition

3.1.3.1 Financial assets

The Bank derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Bank neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in OCI is recognised in profit or loss.

Any cumulative gain/loss recognised in OCI in respect of equity investment securities designated as at FVOCI is not recognised in profit or loss on derecognition of such securities. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Bank is recognised as a separate asset or liability.

3.1.3.2 Financial liabilities

The Bank derecognises a financial liability when its contractual obligations are discharged, cancelled, or expire.

3.1.4 Modifications of financial assets and financial liabilities

3.1.4.1 Financial assets

If the terms of a financial asset are modified, then the Bank evaluates whether the cash flows of the modified asset are substantially different.

If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised (Note 3.1.3) and a new financial asset is recognised at fair value plus any eligible transaction costs. Any fees received as part of the modification are accounted for as follows:

3 Significant accounting policies (continued)

3.1 Financial assets and financial liabilities (continued)

3.1.4 Modifications of financial assets and financial liabilities (continued)

3.1.4.1 Financial assets (continued)

- fees that are considered in determining the fair value of the new asset and fees that represent reimbursement of eligible transaction costs are included in the initial measurement of the asset; and
- other fees are included in profit or loss as part of the gain or loss on derecognition.

If cash flows are modified when the borrower is in financial difficulties, then the objective of the modification is usually to maximise recovery of the original contractual terms rather than to originate a new asset with substantially different terms. If the Bank plans to modify a financial asset in a way that would result in forgiveness of cash flows, then it first considers whether a portion of the asset should be written off before the modification takes place. This approach impacts the result of the quantitative evaluation and means that the derecognition criteria are not usually met in such cases.

If the modification of a financial asset measured at amortised cost or FVOCI does not result in derecognition of the financial asset, then the Bank first recalculates the gross carrying amount of the financial asset using the original effective interest rate of the asset and recognises the resulting adjustment as a modification gain or loss in profit or loss. For floating-rate financial assets, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification. Any costs or fees incurred, and fees received as part of the modification the gross carrying amount of the modified financial asset is adjusted and amortised over the remaining term of the modified financial asset. If such a modification is carried out because of financial difficulties of the borrower then the gain or loss is presented together with impairment losses. In other cases, it is presented as interest income calculated using the effective interest rate method.

3.1.4.2 Financial liabilities

The Bank derecognises a financial liability when its terms are modified, and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability derecognised and consideration paid is recognised in profit or loss. Consideration paid includes non-financial assets transferred, if any, and the assumption of liabilities, including the new modified financial liability.

3 Significant accounting policies (continued)

3.1 Financial assets and financial liabilities (continued)

3.1.4 Modifications of financial assets and financial liabilities (continued)

3.1.4.2 Financial liabilities (continued)

If the modification of a financial liability is not accounted for as derecognition, then the amortised cost of the liability is recalculated by discounting the modified cash flows at the original effective interest rate and the resulting gain or loss is recognised in profit or loss. For floating-rate financial liabilities, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification. Any costs and fees incurred are recognised as an adjustment to the carrying amount of the liability and amortised over the remaining term of the modified financial liability by re-computing the effective interest rate on the instrument.

3.1.3 Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Bank currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted under IFRS, or for gains and losses arising from a group of similar transactions such as in the Bank's trading activity.

3.1.4 Fair value measurement

'Fair value' is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Bank has access at that date. The fair value of a liability reflects its non-performance risk.

When one is available, the Bank measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as ' active' if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the Bank uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all the factors that market participants would take into account in pricing a transaction.

3 Significant accounting policies (continued)

3.1 Financial assets and financial liabilities (continued)

3.1.5 Fair value measurement (continued)

The best evidence of the fair value of a financial instrument on initial recognition is normally the transaction price - i.e. the fair value of the consideration given or received. If the Bank determines that the fair value on initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique for which any unobservable inputs are judged to be insignificant in relation to the measurement, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value on initial recognition and the transaction price.

Subsequently, that difference is recognised in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

If an asset or a liability measured at fair value has a bid price and an ask price, then the Bank measures assets and long positions at a bid price and liabilities and short positions at an ask price.

Portfolios of financial assets and financial liabilities that are exposed to market risk and credit risk that are managed by the Bank on the basis of the net exposure to either market or credit risk are measured on the basis of a price that would be received to sell a net long position (or paid to transfer a net short position) for the particular risk exposure. Portfolio-level adjustments - e.g. bid-ask adjustment or credit risk adjustments that reflect the measurement on the basis of the net exposure - are allocated to the individual assets and liabilities on the basis of the relative risk adjustment of each of the individual instruments in the portfolio.

The fair value of a financial liability with a demand feature (e.g. a demand deposit) is not less than the amount payable on demand, discounted from the first date on which the amount could be required to be paid.

The Bank recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

3.1.6 Impairment

The Bank recognises loss allowances for ECL on the following financial instruments that are not measured at FVTPL:

- financial assets that are debt instruments;
- factored receivables;
- loans and advances to banks; and
- other loans and advances to customers.

No impairment loss is recognised on equity investments.

3 Significant accounting policies (continued)

3.1 Financial assets and financial liabilities (continued)

3.1.7 Impairment (continued)

The Bank measures loss allowances at an amount equal to lifetime ECL, except for the following, for which they are measured as 12-month ECL:

- debt investment securities that are determined to have low credit risk at the reporting date; and
- other financial instruments on which credit risk has not increased significantly since their initial recognition.

The Bank considers *nostro* balances held with credit institutions in reputable jurisdictions and debt investment securities to have low credit risk when its credit risk rating is equivalent to the globally understood definition of 'investment grade'. The Bank does not apply this low credit risk exemption to any other financial instruments.

12-month ECL are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Financial instruments for which a 12-month ECL is recognised are referred to as 'Stage 1 financial instruments'.

Lifetime ECL are the ECL that result from all possible default events over the expected life of the financial instrument. Financial instruments for which a lifetime ECL is recognised but which are not credit-impaired are referred to as 'Stage 2 financial instruments'.

Measurement of ECL

ECL are a probability-weighted estimate of credit losses. They are measured as follows:

- financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Bank expects to receive);
- financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows;
- undrawn loan commitments: as the present value of the difference between the contractual cash flows that are due to the Bank if the commitment is drawn down and the cash flows that the Bank expects to receive; and
- financial guarantee contracts: the expected payments to reimburse the holder less any amounts that the Bank expects to recover.

3 Significant accounting policies (continued)

3.1 Financial assets and financial liabilities (continued)

3.1.7 Impairment (continued)

Restructured financial assets

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognised and ECL are measured as follows.

- If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset.

- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

Credit-impaired financial assets

At each reporting date, the Bank assesses whether financial assets carried at amortised cost and debt financial assets carried at FVOCI are credit-impaired (referred to as 'Stage 3 financial assets'). A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:
- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- the restructuring of a loan or advance by the Bank on terms that the Bank would not consider otherwise;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for a security because of financial difficulties.

A loan that has been renegotiated due to a deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment. In addition, a loan that is overdue for 90 days or more is considered credit-impaired even when the regulatory definition of default is different.

In assessing whether an investment in sovereign debt is credit-impaired, the Bank considers the following factors.
- The market's assessment of creditworthiness as reflected in the bond yields.
- The rating agencies' assessments of creditworthiness, if any.

3 Significant accounting policies (continued)

3.1 Financial assets and financial liabilities (continued)

3.1.7 Impairment (continued)

Credit-impaired financial assets (continued)

- The country's ability to access the capital markets for new debt issuance.
- The probability of debt being restructured, resulting in holders suffering losses through voluntary or mandatory debt forgiveness.
- The international support mechanisms in place to provide the necessary support as 'lender of last resort' to that country, as well as the intention, reflected in public statements, of governments and agencies to use those mechanisms. This includes an assessment of the depth of those mechanisms and, irrespective of the political intent, whether there is the capacity to fulfil the required criteria.

Presentation of allowance for ECL in the statement of financial position

Loss allowances for ECL are presented in the statement of financial position as follows:

- financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets;
- loan commitments and financial guarantee contracts: generally, as a provision;
- where a financial instrument includes both a drawn and an undrawn component, and the Bank cannot identify the ECL on the loan commitment component separately from those on the drawn component: the Bank presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision; and
- debt instruments measured at FVOCI: no loss allowance is recognised in the statement of financial position because the carrying amount of these assets is their fair value.

Write-off

Loans and debt securities are written off (either partially or in full) when there is no reasonable expectation of recovering a financial asset in its entirety or a portion thereof. This is generally the case when the Bank determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. This assessment is carried out at the individual asset level.

Recoveries of amounts previously written off are included in 'impairment losses on financial instruments' in the statement of profit or loss and OCI.

Financial assets that are written off could still be subject to enforcement activities to comply with the Bank's procedures for recovery of amounts due.

3 Significant accounting policies (continued)

3.2 Cash and cash equivalents

Cash and cash equivalents comprise notes and coins in hand, unrestricted balances held with the Central Bank of Malta and highly liquid financial assets with original maturities of three months or less from the date of acquisition that are subject to an insignificant risk of changes in their fair value, and are used by the Bank in the management of its short-term commitments.

Cash and cash equivalents are carried at amortised cost in the statement of financial position.

3.3 Loans and advances

Factored receivables and other loans and advances captions in the statement of financial position include factoring receivables and other loans and advances measured at amortised cost; they are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method.

3.4 Investment securities

The 'investment securities' caption in the statement of financial position includes:

- equity investment securities mandatorily measured at FVTPL. These are at fair value with changes recognised immediately in profit or loss;
- debt securities measured at FVOCI; and
- equity investment securities designated as at FVOCI.

For debt securities measured at FVOCI, gains and losses are recognised in OCI, except for the following, which are recognised in profit or loss in the same manner as for financial assets measured at amortised cost:

- interest revenue using the effective interest method;
- ECL and reversals; and
- foreign exchange gains and losses.

When debt security measured at FVOCI is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss.

The Bank elects to present in OCI changes in the fair value of certain investments in equity instruments that are not held for trading. The election is made on an instrument-by-instrument basis on initial recognition and is irrevocable. Gains and losses on such equity instruments are never reclassified to profit or loss and no impairment is recognised in profit or loss. Dividends are recognised in profit or loss unless they clearly represent a recovery of part of the cost of the investment, in which case they are recognised in OCI. Cumulative gains and losses recognised in OCI are transferred to retained earnings on disposal of an investment.

3 Significant accounting policies (continued)

3.5 Property and equipment

3.5.1 Recognition and measurement

Items of property and equipment are measured at cost or revalued amount less accumulated depreciation and any accumulated impairment losses.

Freehold property is shown at open market value based on periodic valuations by the directors in consideration of a fair value determined by an external independent valuer less subsequent depreciation. A revaluation is carried out if the fair value of the property would otherwise differ materially from the carrying amount as at the reporting date. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset.

3.5.2 Revaluation surplus or deficit

Increases in the carrying amount arising on revaluation of property are credited to the revaluation reserve in the statement of changes in equity. Decreases that offset previous increases of the same individual asset are charged against revaluation reserve directly in equity; all other decreases are expensed in the statement of profit or loss and other comprehensive income. Any subsequent increases are credited to the statement of profit or loss and other comprehensive income up to the amount previously debited, and then to the revaluation reserve. Upon disposal of premises, the relevant portion of the revaluation reserve realised is released and transferred from revaluation reserve to retained earnings.

Where parts of an item of property and equipment have different useful lives, they are accounted for as separate items of property and equipment.

3.5.3 Subsequent costs

The cost of replacing a component of an item of property and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits emanating from such component will flow to the Bank and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of property and equipment are recognised in profit or loss as incurred.

3 Significant accounting policies (continued)

3.5 Property and equipment (continued)

3.5.4 Depreciation

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property and equipment from the date they are available for use.

Land is not depreciated. Upon revaluation of property, accumulated depreciation is eliminated against the gross carrying amount of the asset.

The estimated useful lives for the current and comparative years are as follows:

Premises and improvements	10 – 100 years
Computer hardware	5 years
Motor vehicles	5 years
Other equipment	5 – 7 years.

Items with an initial cost of less than EUR250 (including taxes) are expensed immediately.

Property and equipment are derecognised upon disposal or when no future economic benefits are expected from its use. Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statements of profit or loss in the year the asset is derecognised. The asset's residual value, useful life and method is reviewed, and adjusted if appropriate, at each financial year end.

3.6 Intangible assets - software

Software acquired by the Bank is stated at cost less accumulated amortization and any accumulated impairment losses.

Subsequent expenditure on software assets is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Software is amortised on a straight-line basis in profit or loss over its estimated useful life, from the date on which it is available for use. The estimated useful life of software for the current and comparative periods is three to fifteen years.

Amortisation methods, useful lives and residual values are reviewed at each financial year end and adjusted if appropriate.

3 Significant accounting policies (continued)

3.7 Impairment of non-financial assets

The carrying amounts of the Bank's non-financial assets, other than deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

The recoverable amount of an asset is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

For impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets.

An impairment loss is recognised if the carrying amount of an asset or cash-generating unit (CGU) exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

3.8 Deposits and debt securities issued

Deposits and debt securities issued are the Bank's sources of debt funding. These are initially measured at fair value less incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method. The Bank did not designate any liabilities at fair value through profit or loss.

3.9 Interest

Effective interest rate

Interest income and expense are recognised in profit or loss using the effective interest method. The 'effective interest rate' is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to:
- the gross carrying amount of the financial asset; or
- the amortised cost of the financial liability.

When calculating the effective interest rate for financial instruments other than purchased or originated credit-impaired assets, the Bank estimates future cash flows considering all contractual terms of the financial instrument, but not ECL. For purchased or originated credit-impaired financial assets, a credit-adjusted effective interest rate is calculated using estimated future cash flows including ECL.

3 Significant accounting policies (continued)

3.9 Interest (continued)

Effective interest rate (continued)

The calculation of the effective interest rate includes transaction costs and fees paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability.

Amortised cost and gross carrying amount

The 'amortised cost' of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured on initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any expected credit loss allowance.

The 'gross carrying amount of a financial asset' is the amortised cost of a financial asset before adjusting for any expected credit loss allowance.

Calculation of interest income and expense

The effective interest rate of a financial asset or financial liability is calculated on initial recognition of a financial asset or a financial liability. In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit impaired) or to the amortised cost of the liability. The effective interest rate is revised because of periodic re-estimation of cash flows of floating rate instruments to reflect movements in market rates of interest.

However, for financial assets that have become credit-impaired after initial recognition, interest income is calculated by applying the effective interest rate to the amortised cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

For financial assets that were credit-impaired on initial recognition, interest income is calculated by applying the credit-adjusted effective interest rate to the amortised cost of the asset. The calculation of interest income does not revert to a gross basis, even if the credit risk of the asset improves.

3 Significant accounting policies (continued)

3.9 Interest (continued)

Presentation

Interest income calculated using the effective interest method presented in the statement of profit or loss and OCI includes:

- interest on financial assets and financial liabilities measured at amortised cost; and
- interest on debt instruments measured at FVOCI.

Interest expense presented in the statement of profit or loss and OCI includes:

- financial liabilities measured at amortised cost.

Interest income and expense on other financial assets and financial liabilities carried at FVTPL were presented in other income under the category net income from other financial instruments at FVTPL.

3.10 Fees and commission

Fees and commission income and expense that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate.

Other fees and commission income, including account servicing fees, credit administration charges and similar fees, are recognised as the related services are performed. When a loan commitment is not expected to result in the draw-down of a loan, the related loan commitment fees are recognised on a straight-line basis over the commitment period.

A contract with a customer that results in a recognised financial instrument in the Bank's financial statements may be partially in the scope of IFRS 9 and partially in the scope of IFRS 15. If this is the case, then the Bank first applies IFRS 9 to separate and measure the part of the contract that is in the scope of IFRS 9 and then applies IFRS 15 to the residual.

Other fees and commission expense relate mainly to transaction and service fees, which are expensed as the services are received.

3.11 Dividend income

Dividend income is recognised when the right to receive income is established. Usually, this is the ex-dividend date for quoted equity securities. Dividends are presented in net trading income, net income from other financial instruments at FVTPL or other revenue based on the underlying classification of the equity investment.

Dividends on equity instruments designated as at FVOCI that clearly represent a recovery of part of the cost of the investment are presented in OCI.

3 Significant accounting policies (continued)

3.12 Foreign currency transactions

Transactions in foreign currencies are translated into the functional currency of the Bank at the spot exchange rates at the date of the transactions.

Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the spot exchange rate at the reporting date. The foreign currency gain or loss on monetary items is the difference between the amortised cost in the functional currency at the beginning of the year, adjusted for effective interest and payments during the year, and the amortised cost in the foreign currency translated at the spot exchange rate at the end of the year.

Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated into the functional currency at the spot exchange rate at the date on which the fair value is determined. Non-monetary items that are measured based on historical cost in a foreign currency are translated using the spot exchange rate at the date of the transaction.

Foreign currency differences arising on translation are generally recognised in profit or loss save for foreign currency differences arising from equity investments in respect of which an election has been made to present subsequent changes in fair value in OCI.

3.13 Leases

At inception of a contract, the Bank assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Bank uses the definition of a lease in IFRS 16.

The Bank does not have right-of-use over assets that span over a long term or that are of significant value.

<u>Short term leases and leases of low-value assets</u>
The Bank has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets and short-term leases. The Bank recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

3.14 Employee benefits

The Bank contributes towards the State pension defined contribution plan in accordance with local legislation and to which it has no commitment beyond the payment of fixed contributions. Obligations for contributions to the defined contribution plan are recognised as an expense in profit or loss as they fall due.

3.15 Income tax

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognised in profit or loss except to the extent that it relates to items recognised directly in equity, or in other comprehensive income.

3 Significant accounting policies (continued)

3.15 Income tax (continued)

Current tax comprises the expected tax payable or receivable on the taxable income or loss for the year and any adjustment to the tax payable or receivable in respect of previous years. The amount of current tax payable or receivable is the best estimate of the tax amount expected to be paid or received that reflects uncertainty related to income taxes, if any. It is measured using tax rates enacted or substantively enacted at the reporting date. Current tax also includes any tax arising from dividends. Current tax assets and liabilities are offset only if certain criteria are met.

Deferred tax assets are recognised for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Future taxable profits are determined based on the reversal of relevant taxable temporary differences. If the amount of taxable temporary differences is insufficient to recognise a deferred tax asset in full, then future taxable profits, adjusted for reversals of existing temporary differences, are considered, based on business plans. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised; such reductions are reversed when the probability of future taxable profits improves.

Unrecognised deferred tax assets are reassessed at each reporting date and recognised to the extent that it has become probable that future taxable profits will be available against which they can be used. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date. Deferred tax assets and liabilities are offset only if certain criteria are met.

3.16 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from the equity net of any tax effects. The Bank presents basic earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the period.

3.17 Financial guarantees and loan commitments

'Financial guarantees' are contracts that require the Bank to make specified payments to reimburse the holder for a loss that it incurs because a specified debtor fails to make payment when it is due in accordance with the terms of a debt instrument. 'Loan commitments' are firm commitments to provide credit under pre-specified terms and conditions.

Financial guarantees issued or commitments to provide a loan at a below-market interest rate are initially measured at fair value. Subsequently, they are measured at the higher of the loss allowance determined in accordance with IFRS 9 and the amount initially recognised less, when appropriate, the cumulative amount of income recognised in accordance with the principles of IFRS 15; and, for other loan commitments the Bank recognises a loss allowance.

Liabilities arising from financial guarantees and loan commitments are included within provisions

3 Significant accounting policies (continued)

3.18 Segment reporting

An operating segment is a component of the Bank that engages in business activities from which it may earn revenues and incur expenses, including revenue and expenses that relate to transactions with any of the Bank's other components, whose operating results are reviewed regularly by the Bank's Board of Directors (being the chief operating decision maker), to make decisions about resources allocated to each segment and assess its performance, and for which discrete financial information is available.

3.19 Changes in accounting policies and disclosures

3.19.1 Standards, interpretations and amendments to published standards, which are effective in the current year

The following standards, interpretations and amendments are applicable in the current year:
- IFRS 3 (Amendment) – Definition of Business (effective for financial years beginning on or after 1 January 2020)
- IAS 1 and IAS 8 (Amendment) – Definition of material (effective for financial years on or after 1 January 2020)
- Amendments to IFRS 9, IAS 39 and IFRS 7- Interest Rate Benchmark Reform (effective for financial years on or after 1 January 2020)
- • IFRS 16 (Amendment) – COVID-19 Related Rent Concessions (effective for financial years on or after 1 January 2020)

The above standards, interpretations and amendments did not have a material effect on the financial statements of the Bank.

3.19.2 Standards, interpretations, and amendments to published standards that are not yet endorsed by the European Union

The following standards, interpretations and amendments have been issued by the IASB but not yet endorsed by the EU, except as disclosed below:
- Amendments to IAS 1 – Classification of Liabilities as Current or Non-Current (effective for financial years on or after 1 January 2023 by virtue of the July 2020 Amendments).
- Amendments to IAS37 – Onerous Contracts – Cost of Fulfilling a Contract (effective for financial years on or after 1 January 2022).
- Amendments to IFRS 3 – Reference to the Conceptual Framework (effective for financial years on or after 1 January 2022).
- Amendments to IAS 16 – Property, plant and equipment – proceeds before intended use (effective for financial years on or after 1 January 2022).
- Amendments to IFRS 9, IFRS 16 and IAS 41 (as part of the 2018 – 2020 Annual Improvements Cycle) (effective for financial years on or after 1 January 2022).
- IFRS 17 Insurance Contracts (effective for financial years on or after 1 January 2023).
- Amendments to IAS 1 and IFRS Practice Statement 2 – Disclosure of Accounting Policies (effective for financial years on or after 1 January 2023).
- Amendments to IAS 8 – Definition of Accounting Estimates (effective for financial years on or after 1 January 2023).

3 Significant accounting policies (continued)

3.19 Changes in accounting policies and disclosures (continued)

The changes resulting from the above standards, interpretations and amendments are not expected to have a material effect on the financial statements of the Bank. The Bank will assess the potential impact, if any, resulting from the following Amendments:

- Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 – Interest Rate Benchmark Reform – Phase 2 (effective for financial years on or after 1 January 2021 and endorsed by the European Union). Phase 2 of the project addresses issues that might affect financial reporting when an existing interest rate benchmark is replaced. The changes relate to the modification of financial assets, financial liabilities and lease liabilities, specific hedge accounting requirements, and disclosure requirements applying IFRS 7 to accompany the amendments regarding modifications and hedge accounting. In respect of the modification of financial assets, financial liabilities, and lease liabilities, the IASB introduces a practical expedient for modifications required by the reform (modifications required as a direct consequence of the IBOR reform and made on an economically equivalent basis). These modifications are accounted for by updating the effective interest rate. All other modifications are accounted for using the current IFRS requirements.

4 Financial risk management and review

4.1 Organisation

The Board of Directors has overall responsibility for the establishment and oversight of the Bank's risk management framework. The Board has established the Audit and Risk Committee and the Credit Committee with the responsibility for monitoring risk in their specified areas. Non-executive directors sit on these Committees whereas the Chief Executive Officer, an executive director, is either a member of, or otherwise attends all Committees. The Committees report regularly to the Board of Directors on their activities. The Board has also established an Asset and Liability Management Committee (ALCO) which is a management committee that reports to the Board of Directors on a quarterly basis.

Risk management policies have been established to identify and analyse the risks faced by the Bank, to set out appropriate risk limits and controls, and to monitor risks and adherence to limits. The risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Bank has developed appropriate risk management training for the needs of the relevant staff members.

4.2 Risk exposure

The Bank is exposed to a number of risks, which it manages at different organisational levels.

The main categories of risk are:

- *Credit risk;*
- *Market risk;*
- *Liquidity risk; and*
- *Operational risk.*

4 Financial risk management and review (continued)

4.3 Capital base

The Bank is a licensed financial services provider and must therefore comply with the laws and regulations on capital requirements. The Bank has adopted the Standardised Approach to calculate its capital requirements.

4.3.1 Capital management

The Bank must have sufficient capital to comply with regulatory capital requirements. The purpose of the Bank's capital management is to ensure an efficient use of capital in relation to risk appetite as well as business development. The Bank's regulatory capital is analysed into two tiers:

- Tier 1 capital, which includes ordinary share capital, capital contribution, retained earnings and accumulated other comprehensive income.
- Tier 2 capital consisting of any general loan-loss reserves and other reserves

Banking operations are categorised as banking book, and risk-weighted assets are determined according to specified requirements that seek to reflect the varying levels of risk attached to assets and to exposures not recognised in the statement of financial position.

The Bank has complied with all capital requirements directives and rules throughout the year.

There have been no material changes in the Bank's management of capital during the year.

4.3.2 Calculation of minimum capital requirement and risk-weighted assets

The minimum capital requirements are calculated for the credit, market, and operational risk. The capital ratio is calculated using the definition of regulatory capital and risk-weighted assets. The total capital ratio must not be lower than 8%.

Total risk-weighted assets are determined by multiplying the capital requirements for market risk and operational risk by 12.5 (i.e., the reciprocal of the minimum capital ratio of 8%) and adding the resulting figures to the sum of risk-weighted assets for credit risk. Below is the Bank's capital requirements and capital adequacy ratio computation.

	2020	2019
	€	€
Tier 1 capital		
Ordinary share capital	**10,000,000**	10,000,000
Capital contribution	**17,032,675**	17,032,675
Retained earnings	**1,179,003**	1,872,929
Property revaluation reserve	**3,521,238**	3,696,144
Fair value movement reserve	**639,250**	436,837
Other reserves	**3,860**	3,860
Deductions related to intangible assets	**(1,550,091)**	(1,633,259)
Total regulatory capital	**30,825,935**	31,409,186

4 Financial risk management and review (continued)

4.3.2 Calculation of minimum capital requirement and risk-weighted assets (continued)

Further information on the Bank's capital adequacy ratios may be found in sections 3 and 4 of Appendix 1 - Pillar 3 disclosures as at 31 December 2020, which are subject to internal review by the Bank.

4.4 Credit risk

Credit risk is the risk of financial loss to the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Bank's factored receivables, other loans and advances to customers and banks, and investment debt securities. For risk management reporting purposes, the Bank considers and consolidates all elements of credit risk exposure (such as individual obligor default risk, country and sector risk). The Bank's credit risk policies and procedures are reviewed through internal audit.

The Bank follows standards, policies and procedures established by the Bank's Board of Directors for the control and monitoring of all risks. The Board of Directors has delegated the responsibility for the management of credit risk to the Credit Committee within a Board-approved credit sanctioning limit. The Bank's management is responsible for the oversight of the Bank's credit risk. The Bank's management, reporting to the Credit Committee and the Board of Directors, is responsible for managing the Bank's credit risk, including the following.

- Formulating credit policies in consultation with business units, covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements.
- Establishing the authorisation structure for the approval and renewal of credit facilities. Authorisation limits are allocated to the CEO, the Head of Finance and Treasury, the Credit Committee or the Board of Directors, as appropriate.
- Reviewing and assessing credit risk: the Bank's Credit department assesses all credit exposures in excess of designated limits, before facilities are committed to customers by the business unit concerned. Renewals and reviews of facilities are subject to the same review process.
- Limiting concentrations of exposure to counterparties, geographies and industries (for loans and advances and similar exposures) and by issuer, credit rating band, market liquidity and country (for investment securities).
- Developing and maintaining the Bank's risk gradings to categorise exposures according to the degree of risk of default. The current risk grading framework consists of 6 grades reflecting varying degrees of risk of default. The responsibility for setting risk grades lies with the final approving executive or committee, as appropriate. Risk grades are subject to regular reviews by senior management.
- Developing and maintaining the Bank's processes for measuring ECL: This includes processes for:
  - initial approval, regular validation and back-testing of the models used;
  - determining and monitoring significant increase in credit risk; and
  - incorporation of forward-looking information.

4 Financial risk management and review (continued)

4.4 Credit risk (continued)

- Reviewing compliance of business units with agreed exposure limits, including those for selected industries, country risk and product types. Regular reports on the credit quality of local portfolios are provided to the Credit Committee, which may require appropriate corrective action to be taken. These include reports containing estimates of ECL allowances.
- Providing advice, guidance and specialist skills to business units to promote best practice throughout the Bank in the management of credit risk.

The current financial year has been characterised by unprecedented economic conditions because of the Covid-19 outbreak, which have impacted a significant number of the local group's customers' business models, income levels or cash flow generation. The Bank has continued to support its customers and adapted its credit risk operational processes accordingly. During the year ended 31 December 2020, the Bank granted moratoria on capital and/or interest payments and originated new loans to provide relief to customers experiencing liquidity pressures because of the prevailing macroeconomic scenario.

4.4.1 Maximum exposure to credit risk

The Bank's maximum credit risk exposure to on and off-balance sheet financial instruments, before taking account of any collateral held or other credit enhancements can be classified in the following categories:

- Financial assets recognised in the statement of financial position comprise balances with Central Bank of Malta, financial investments, factored receivables, and other loans and advances. The maximum exposure to credit risk of these financial assets equals their carrying amount.

- Commitments for factored receivables, overdrafts, and credit cards - the maximum exposure to credit risk is the full amount of the committed facilities (note 27).

4.4.2 Credit quality analysis

The following table sets out information about the credit quality of financial assets measured at amortised cost and FVOCI debt investments. Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts.

	2020			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Loans and advances to banks at amortised cost				
Grade 1: Low risk	**22,695,594**	-	-	**22,695,594**
Grade 2: Fair risk	-	-	-	-
Grade 3: Substandard	-	-	-	-
Grade 4: Doubtful	-	-	-	-
Grade 5: Loss	-	-	-	-
Loss allowance	-	-	-	-
Carrying amount	**22,695,594**	-	-	**22,695,594**

4 Financial risk management and review (continued)

4.4 Credit risk (continued)

4.4.2 Credit quality analysis (continued)

	2019			
Loans and advances to banks at amortised cost	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Grade 1: Low risk	**40,549,407**	-	-	**40,549,407**
Grade 2: Fair risk	-	-	-	-
Grade 3: Substandard	-	-	-	-
Grade 4: Doubtful	-	-	-	-
Grade 5: Loss	-	-	-	-
Loss allowance	-	-	-	-
Carrying amount	**40,549,407**	-	-	**40,549,407**

	2020			
Debt investment & equity securities at FVOCI	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Grade 1: Low risk	**88,735,815**	-	-	**88,735,815**
Grade 2: Fair risk	-	-	-	-
Grade 3: Substandard	-	-	-	-
Grade 4: Doubtful	-	-	-	-
Grade 5: Loss	-	-	-	-
Total gross carrying amount	-	-	-	-
Loss allowance (OCI)	-	-	-	-
Carrying amount – fair value	**88,735,815**	-	-	**88,735,815**

	2019			
Debt investment & equity securities at FVOCI	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Grade 1: Low risk	**55,928,490**	-	-	**55,928,490**
Grade 2: Fair risk	-	-	-	-
Grade 3: Substandard	-	-	-	-
Grade 4: Doubtful	-	-	-	-
Grade 5: Loss	-	-	-	-
Total gross carrying amount	**55,928,490**	-	-	**55,928,490**
Loss allowance (OCI)	-	-	-	-
Carrying amount – fair value	**55,928,490**	-	-	**55,928,490**

4 Financial risk management and review (continued)

4.4 Credit risk (continued)

4.4.2 Credit quality analysis (continued)

The ECL charge for the financial year ended 31 December 2020 was higher compared to the prior financial year charge, driven by charges relating to the impact of the outbreak of the Covid-19 pandemic on economic conditions. The notable increase in credit loss allowances estimated in respect of exposures classified within stage 1 reflects the general deterioration of economic conditions, as well as a significant deterioration in the forward economic outlook because of the pandemic.

Other loans and advances to customers at amortised cost	**2020**			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Grade 1: Low risk	**117,599,558**	**-**	**-**	**117,599,558**
Grade 2: Fair risk	**4,168,465**	**-**	**-**	**4,168,465**
Grade 3: Substandard	**-**	**-**	**-**	**-**
Grade 4: Doubtful	**-**	**-**	**167,520**	**167,520**
Grade 5: Loss	**-**	**-**	**-**	**-**
Loss allowance	**(212,190)**	**-**	**(167,520)**	**(379,710)**
Carrying amount	**121,555,833**	**-**	**-**	**121,555,833**

Other loans and advances to customers at amortised cost	**2019**			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Grade 1: Low risk	**85,250,045**	**-**	**-**	**85,250,045**
Grade 2: Fair risk	**1,345,199**	**-**	**-**	**1,345,199**
Grade 3: Substandard	**-**	**-**	**-**	**-**
Grade 4: Doubtful	**-**	**-**	**158,396**	**158,396**
Grade 5: Loss	**-**	**-**	**-**	**-**
Loss allowance	**(74,798)**	**-**	**(156,293)**	**(231,091)**
Carrying amount	**86,520,446**	**-**	**2,103**	**86,522,549**

Loan commitments subject to credit loss provision (included with other loans and advances to customers) are rated as Grade 1 – Low risk and are classified within Stage 1.

The following tables sets out information about the overdue status of the carrying amount of factored receivables and loans and advances to customers in Stages 1, 2 and 3.

4 Financial risk management and review (continued)

4.4 Credit risk (continued)

4.4.2 Credit quality analysis (continued)

	2020			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Factored receivables				
Grade 1: Low risk	**94,701,728**	**-**	**-**	**94,701,728**
Grade 2: Fair risk	**2,341,212**	**-**	**-**	**2,341,212**
Grade 3: Substandard	**887,718**	**-**	**-**	**887,718**
Grade 4: Doubtful	**665,768**	**-**	**346,085**	**1,011,853**
Grade 5: Loss	**354,515**	**134,426**	**525,642**	**1,014,583**
Loss allowance	**(84,165)**	**-**	**(717,320)**	**(801,486)**
Carrying amount	**98,866,776**	**134,426**	**154,407**	**99,155,608**

	2019			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Factored receivables				
Grade 1: Low risk	**93,116,157**	**-**	**-**	**93,116,157**
Grade 2: Fair risk	**9,434,281**	**-**	**-**	**9,434,281**
Grade 3: Substandard	**973,624**	**-**	**-**	**973,624**
Grade 4: Doubtful	**1,422,167**	**-**	**1,093,945**	**2,516,112**
Grade 5: Loss	**200,528**	**-**	**-**	**200,528**
Loss allowance	**(124,541)**	**-**	**(703,962)**	**(828,503)**
Carrying amount	**105,022,216**	**-**	**389,983**	**105,412,199**

4 Financial risk management and review (continued)

4.4 Credit risk (continued)

4.4.2 Credit quality analysis (continued)

	2020				**2019**			
Factored receivables	**Stage 1**	**Stage 2**	**Stage 3**	**Total**	Stage 1	Stage 2	Stage 3	Total
Current	**87,420,402**	**-**	**-**	**87,420,402**	92,274,826	-	-	92,274,826
Overdue < 30 days	**7,281,326**	**-**	**-**	**7,281,326**	10,093,342	-	-	10,093,342
Overdue > 30 days	**4,165,049**	**134,426**	**154,407**	**4,453,881**	2,654,048	-	389,983	3,044,031
Total	**98,866,777**	**134,426**	**154,407**	**99,155,609**	105,022,216	-	389,983	105,412,199
Other loans and advances to customers	**Stage 1**	**Stage 2**	**Stage 3**	**Total**	Stage 1	Stage 2	Stage 3	Total
Current	**121,555,833**	**-**	**-**	**121,555,833**	86,520,446	-	-	86,520,446
Overdue < 30 days	**-**	**-**	**-**	**-**	-	-	-	-
Overdue > 30 days	**-**	**-**	**-**	**-**	-	-	2,103	2,103
Total	**121,555,833**	**-**	**-**	**121,555,833**	86,520,446		2,103	86,522,549

The following table shows a reconciliation from the opening to the closing balance of the loss allowance of all classes of financial instruments. The basis for determining transfers due to changes in credit risk is set out in accounting policy.

	2020			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Balance as at 1 January	**199,339**	**-**	**860,255**	**1,059,594**
Transfer to Stage 1	115,050	-	63,694	**178,744**
Transfer to Stage 2	-	-	-	**-**
Transfer to Stage 3	16,250	-	(16,250)	**-**
Net remeasurement of loss allowance	**131,300**	-	**47,444**	**178,744**
New financial assets originated or purchased	59,324	-	-	**59,324**
Financial assets that have been derecognised	(93,609)	-	273	**(93,336)**
Write-offs	-	-	(23,132)	**(23,132**
Balance as at 31 December	**296,355**	-	**884,840**	**1,181,194**

4 Financial risk management and review (continued)

4.4 Credit risk (continued)

4.4.3 Analysis of collateral

The Bank holds collateral against loans and advances to customers in the form of pledges over deposits held with the Bank, collateralised by receivables or by real estate. Factored receivables are without recourse but are covered by credit insurance or asset backed and partially cash secured on a first loss basis. No collateral is held against investment and loans and advances to banks.

At the reporting date, 32% (2019: 50%) of other loans and advances to customers were secured by cash amounting to €38,993,761 (2019: €43,694,521), 4% (2019: 4%) of other loans and advances to customers were secured against Bills of Exchange, 37% (2019: 35%) of other loans and advances to customers were secured against property, 2% (2019: 2%) of other loans and advances to customers were secured against receivables and shares whilst 18% (2019: nil) of other loans and advances to customers were guaranteed by the Malta Development Bank. The remaining 7% (2019: 9%) were unsecured.

The collateralised loans are as follows:

	Carrying amounts	
	Loans and advances to customers	
	2020	2019
	€	€
Type of collateral		
Deposits held with the Bank	**38,993,761**	43,694,521
Bills of exchange	**4,428,565**	3,697,259
Real estate	**44,410,783**	30,065,090
Unlisted shares	**796,478**	904,044
Assignment of receivables	**902,206**	700,215
Guaranteed by the Malta Development Bank	**21,816,167**	-
	========	========

During 2020, the bank also confirmed its participation in the Malta Development Bank Covid-19 Guarantee Scheme, whereby the risk of newly originated loans under the scheme to viable businesses experiencing liquidity pressures resulting from the effects of the pandemic are mitigated by a government guarantee. In this respect, as at 31 December 2020, newly originated gross loans subject to the Malta Development Bank Covid-19 Guarantee Scheme amounted to €21,816,167, of which a maximum amount of €19,634,550 is considered guaranteed.

	Factored receivables	
	2020	2019
	€	€
Type of collateral		
Motor vehicles	**69,015,861**	72,241,169
	========	========

4 Financial risk management and review (continued)

4.4 Credit risk (continued)

4.4.4 Amounts arising from Expected Credit Losses

Significant increase in credit risk

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Bank considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Bank's historical experience and expert credit assessment and including forward-looking information.

The objective of the assessment is to identify whether a significant increase in credit risk has occurred for an exposure by comparing:
- the remaining lifetime probability of default (PD) as at the reporting date; with
- the remaining lifetime PD for this point in time that was estimated at the time of initial recognition of the exposure (adjusted where relevant for changes in prepayment expectations).

The Bank uses three criteria for determining whether there has been a significant increase in credit risk:
- quantitative test based on movement in PD;
- qualitative indicators; and
- a backstop of 30 days past due (excluding factored receivables).

Credit risk grades

The Bank allocates each exposure to a credit risk grade based on a variety of data that is determined to be predictive of the risk of default and applying experienced credit judgement.

Credit risk grades are defined using qualitative and quantitative factors that are indicative of risk of default. These factors vary depending on the nature of the exposure and the type of borrower.

Credit risk grades are defined and calibrated such that the risk of default occurring increases exponentially as the credit risk deteriorates so, for example, the difference in risk of default between credit risk grades 1 and 2 is smaller than the difference between credit risk grades 2 and 3.

Each exposure is allocated to a credit risk grade on initial recognition based on available information about the borrower. Exposures are subject to ongoing monitoring, which may result in an exposure being moved to a different credit risk grade.

4 Financial risk management and review (continued)

4.4 Credit risk (continued)

4.4.4 Amounts arising from Expected Credit Losses (continued)

Generating the term structure of PD

Credit risk grades are a primary input into the determination of the term structure of PD for exposures.

The Bank collects performance and default information about its credit risk exposures analysed by jurisdiction or region and by type of product and borrower as well as by credit risk grading. For some portfolios, information purchased from external credit reference agencies is also used.

On commercial loans and advances, the Bank employs statistical models to analyse the data collected and generate estimates of the remaining lifetime PD of exposures and how these are expected to change because of the passage of time.

Modified financial assets

The contractual terms of a loan may be modified for several reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer. An existing loan whose terms have been modified may be derecognised and the renegotiated loan recognised as a new loan at fair value. When the terms of a financial asset are modified and the modification does not result in derecognition, the determination of whether the asset's credit risk has increased significantly reflects comparison of:
-its remaining lifetime PD at the reporting date based on the modified terms; with
-the remaining lifetime PD estimated based on data on initial recognition and the original contractual terms.

When modification results in derecognition, a new loan is recognised and allocated to Stage 1 (assuming it is not credit-impaired at that time).

The Bank renegotiates loans to customers in financial difficulties (referred to as ' forbearance activities') to maximise collection opportunities and minimise the risk of default. Under the Bank's forbearance policy, loan forbearance is granted on a selective basis if the debtor is currently in default on its debt or if there is a high risk of default, there is evidence that the debtor made all reasonable efforts to pay under the original contractual terms and the debtor is expected to be able to meet the revised terms.

The revised terms usually include extending the maturity, changing the timing of interest payments, and amending the terms of loan covenants. Both retail and corporate loans are subject to the forbearance policy. The Bank Credit Committee regularly reviews reports on forbearance activities.

4 Financial risk management and review (continued)

4.4 Credit risk (continued)

4.4.4 Amounts arising from Expected Credit Losses (continued)

For financial assets modified as part of the Bank's forbearance policy, the estimate of PD reflects whether the modification has improved or restored the Bank's ability to collect interest and principal and the Bank's previous experience of similar forbearance action. As part of this process, the Bank evaluates the borrower's payment performance against the modified contractual terms and considers various behavioural indicators.

Generally, forbearance is a qualitative indicator of a significant increase in credit risk and an expectation of forbearance may constitute evidence that an exposure is credit impaired. A customer needs to demonstrate consistently good payment behaviour over a period before the exposure is no longer considered to be credit-impaired/in default or the PD is considered to have decreased such that the loss allowance reverts to being measured at an amount equal to Stage 1.

Measurement of ECL

The key inputs into the measurement of ECL are the term structure of the following variables: probability of default (PD), loss given default (LGD) and exposure at default (EAD).

ECL for exposures in Stage 1 is calculated by multiplying the 12-month PD by LGD and EAD. Lifetime ECL is calculated by multiplying the lifetime PD by LGD and EAD.

LGD is the magnitude of the likely loss if there is a default. The Bank estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD models consider the structure, collateral, seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the financial asset. For loans secured by retail property, LTV ratios are a key parameter in determining LGD. LGD estimates are recalibrated for different economic scenarios and, for real estate lending, to reflect possible changes in property prices. They are calculated on a discounted cash flow basis using the effective interest rate as the discounting factor.

EAD represents the expected exposure in the event of a default. The Bank derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract and arising from amortisation. The EAD of a financial asset is its gross carrying amount at the time of default. For lending commitments, the EADs are potential future amounts that may be drawn under the contract, which are estimated based on historical observations and forward-looking forecasts. For some financial assets, EAD is determined by modelling the range of possible exposure outcomes at various points in time using scenario and statistical techniques.

As described above, and subject to using a maximum of a 12-month PD for Stage 1 financial assets, the Bank measures ECL considering the risk of default over the maximum contractual period (including any borrower's extension options) over which it is exposed to credit risk, even if, for credit risk management purposes, the Bank considers a longer period. The maximum contractual period extends to the date at which the Bank has the right to require repayment of an advance or terminate a loan commitment or guarantee.

4 Financial risk management and review (continued)

4.4 Credit risk (continued)

4.4.4 Amounts arising from Expected Credit Losses (continued)

However, for retail overdrafts and credit card facilities that include both a loan and an undrawn commitment component, the Bank measures ECL over a period longer than the maximum contractual period if the Bank's contractual ability to demand repayment and cancel the undrawn commitment does not limit the Bank's exposure to credit losses to the contractual notice period. These facilities do not have a fixed term or repayment structure and are managed on a collective basis. The Bank can cancel them with immediate effect, but this contractual right is not enforced in the normal day-to-day management, but only when the Bank becomes aware of an increase in credit risk at the facility level. This longer period is estimated considering the credit risk management actions that the Bank expects to take, and that serve to mitigate ECL. These include a reduction in limits, cancellation of the facility and/or turning the outstanding balance into a loan with fixed repayment terms.

Loss allowance

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

2020	Gross carrying amount	Stage 1	Stage 2	Stage 3	Net amount as per SOFP
	€	€	€	€	€
Loans and advances to customers at amortised cost	**121,935,543**	**(212,190)**	**-**	**(167,520)**	**121,555,833**
Factored receivables at amortised cost	**99,957,094**	**(84,166)**	**-**	**(717,320)**	**99,155,608**
Investment securities at FVOCI – Debt & Equity instruments	**88,735,815**	**-**	**-**		**88,735,815**
Loss allowance per stage		**(296,356)**	**-**	**(884,840)**	**(1,181,196)**

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

4 Financial risk management and review (continued)

4.4 Credit risk (continued)

4.4.4 Amounts arising from Expected Credit Losses (continued)

2019	**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 & Equity instruments	55,928,490	-	-	-	55,928,490
Loss allowance per stage		(199,341)	-	(860,253)	(1,059,594)

4.4.5 Loans with renegotiated terms and forbearance

The Bank has adopted the additional accounting policies, in note 3.1.7, as requested by the European Securities and Markets Authority (ESMA) Public Statement on the Treatment of Forbearance Practices in IFRS Financial Statements of Financial Institutions. Loans with renegotiated terms are loans that have been restructured due to changing market conditions, deterioration in the borrower's financial position and other factors not related to the current or potential credit deterioration of a customer. Under certain circumstances, the Bank may renegotiate the terms and conditions of a loan in response to actual or perceived financial difficulties of a customer. This practice of renegotiation for credit purposes is known as loan forbearance.

During the financial year ended 31 December 2020, several government support schemes and regulatory relief measures were announced in response to the outbreak of the Covid-19 pandemic, one of which being the granting of moratoria on capital and/or interest payments to provide relief to individual and corporate customers during the ensuing macroeconomic recession triggered by the pandemic. In this regard, the Central Bank of Malta issued Directive No. 18 On Moratoria on Credit Facilities in Exceptional Circumstances ('Directive No. 18') to provide guidance on the treatment of such instances, in line with European Banking Authority ('EBA') Guidelines on legislative and non-legislative moratoria on loan repayments applied in the light of the Covid-19 crisis (the 'EBA Guidelines')1. These are referred to as general payment moratoria.

In line with the EBA Guidelines and Directive No. 18, exposures meeting established criteria and eligible for the granting of a general payment moratorium are not classified as forborne/renegotiated, unless the borrower was already experiencing financial difficulties prior to the pandemic.

4 Financial risk management and review (continued)

4.4 Credit risk (continued)

4.4.5 Loans with renegotiated terms and forbearance (continued)

The following tables provide information on moratoria and forbearance measures on existing loans in relation to COVID-19:

Information on loans and advances subject to CBM compliant moratoria

2020	Number of obligators	Gross Carrying Amount	Of which active	Of which expired
	€	€	€	€
of which granted	**200**	**14,668,299**	**12,645,229**	**2,023,070**
of which: Households		**3,472,982**	**1,998,846**	**1,474,136**
of which: Households – collateralized by residential immovable property		***221,799***		***221,799***
of which: Non-financial corporations		**7,778,668**	**7,229,734**	**548,934**
of which: Non-financial corporations – SME's		***7,778,668***	***7,229,734***	***548,934***
of which: Non-financial corporations collateralized by commercial immovable property		***1,438,318***	***1,183,016***	***255,303***
of which: Other financial corporations		**3,416,649**	**3,416,649**	**-**
of which: Other financial corporations collateralized by commercial immovable property		***1,120,977***	***1,120,977***	**-**

4.4.6 Write-off policy

The Bank writes off a loan, security and/or factored receivable balance (and any related expected credit loss) when management determines that the loan, security and/or factored receivable is uncollectible. This determination is reached after considering information such as occurrence of significant changes in the borrower/issuer's financial position such that the borrower/issuer can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure. During the current year, amounts receivable of €51,196 (2019: €44,965) were written off by the Bank.

4 Financial risk management and review (continued)

4.4 Credit risk (continued)

4.4.7 Settlement risk

'Settlement risk' is the risk of loss due to the failure of an entity to honour its obligations to deliver cash, securities or other assets as contractually agreed. The Bank's activities do not expose it to significant settlement risk.

4.4.8 Industry concentration

The following industry concentrations relating to loans and advances to customers are considered significant:

	2020		2019	
	€	**%**	€	%
Other sectors	**48,439,537**	**40**	27,329,608	32
Wholesale and retail trade	**32,862,061**	**27**	26,585,666	31
Real estate, renting and business activities	**40,254,235**	**33**	32,607,275	37
	121,555,833	**100**	86,522,549	100

4.4.9 Concentration risk

In addition to the industry concentration mentioned in note 4.4.8, the Bank monitors concentration of credit risk by sector and by geographic location. An analysis of concentrations of credit risk (net of loss allowances) is shown on the next page.

4 Financial risk management and review (continued)

4.4 Credit risk (continued)

4.4.9 Concentration risk (continued)

	Loans and advances to customers		Factored receivables		Loans and advances to banks		Investment securities	
	2020	2019	**2020**	2019	**2020**	2019	**2020**	2019
	€	€	**€**	€	**€**	€	**€**	€
Carrying amount	**121,555,833**	86,522,549	**99,155,608**	105,412,199	**22,695,594**	40,549,407	**109,304,630**	81,369,795
Concentration by sector								
Corporate	**120,299,601**	85,224,462	**40,945,564**	44,236,954	**-**	-	**16,836,782**	17,461,003
Private individuals	**1,256,232**	1,298,087	**57,549,312**	61,175,245	**-**	-	**-**	-
Banks	**-**	-	**-**	-	**22,695,594**	40,549,407	**900,000**	-
Sovereign	**-**	-	**660,732**	-	**-**	-	**70,959,098**	38,429,757
Equity	**-**	-	**-**	-	**-**	-	**20,608,750**	25,479,035
	121,555,833	86,522,549	**99,155,608**	105,412,199	**22,695,594**		**109,304,630**	81,369,795
Concentration by location								
Europe	**120,542,072**	85,358,098	**99,155,608**	105,412,199	**22,695,594**	40,549,407	**109,304,630**	81,369,795
USA	**1,013,761**	1,164,451	**-**	-	**-**	-	**-**	-

4 Financial risk management and review (continued)

4.4 Credit risk (continued)

4.4.9 Concentration risk (continued)

Concentration by location for loans and advances to customers and banks and investment securities is measured based on the location of the borrower or issuer of the security.

4.5 Market risk

Market risk comprises the risk of losses in value caused by unexpected changes in market prices (interest rates, equity prices, foreign exchange rates and credit spreads) before the affected positions can be closed out or hedged.

Market risk for the Bank consists of three elements:

- Interest rate risk, which is the risk of losses because of changes in interest rates.
- Exchange rate risk, which is the risk of losses on the Bank's positions in foreign currency because of changes in exchange rates.
- Investment price risk, which is the risk of losses because of changes in investments prices.

4.5.1 Interest rate risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The Bank's operations are subject to the risk of interest rate fluctuations to the extent that interest-earning assets and interest-bearing liabilities mature or re-price at different times or at different amounts. The Bank accepts deposits from customers at both fixed and floating rates and for varying maturity periods. This risk is managed through the matching of the interest resetting dates on assets and liabilities. However, the Bank seeks to maximise the spread over the cost of capital by investing funds in a portfolio of securities and loans and receivables with a longer tenure than the liabilities (therefore carrying a negative maturity gap position) through the efficient management of shorter-term liabilities over the medium to longer term. The table on the next page summarises re-pricing mismatches at reporting date together with the effective interest rates where applicable.

4 Financial risk management and review (continued)

4.5 Market risk (continued)

4.5.1 Interest rate risk (continued)

2020	Carrying amount	Effective interest rate	Less than three months	Between three months and one year	Between one year and five years	More than five years	Others
	€	%	€	€	€	€	€
Assets							
Cash	1,531,011	-	1,531,011	-	-	-	-
Balances receivable from Central Bank of Malta	18,581,607	-0.50%	18,581,607	-	-	-	-
Investments:							
- Debt securities at FVOCI	88,695,880	1.53%	3,694,895	7,472,085	41,090,000	36,438,900	-
- Equity instruments	20,608,750		20,608,750				
Loans and advances to banks	22,695,594	-0.05%	22,695,594	35,719,204	33,463,479	2,258,638	
Other loans and advances to customers	121,555,833	3.46%	50,114,512				
Factored receivables	99,155,608	-	-	-	-	-	99,155,608
Other assets	16,472,656	-	-	-	-	-	16,472,656
Total assets	389,296,940		117,226,369	43,191,289	74,553,479	38,697,538	115,628,264
Liabilities							
Balance owed to Central Bank of Malta	35,000,000	-0.25%	-	35,000,000	-	-	-
Deposits from banks	250,576	0.10%	250,576	-	-	-	-
Deposits from customers	304,384,729	1.26%	102,520,536	50,862,078	128,767,430	22,234,686	-
Debt securities issued	11,923,078	4.53%	-	-	11,923,078	-	-
Other liabilities	3,654,814	-	-	-	-	-	3,654,814
	355,213,197		102,771,112	85,862,078	140,690,508	22,234,686	3,654,814
Equity							
Issued capital	10,000,000	-	-	-	-	-	10,000,000
Property revaluation reserve	3,521,238	-	-	-	-	-	3,521,238
Depositors' compensation scheme reserve	1,707,717	-	-	-	-	-	1,707,717
Fair value reserve	639,250	-	-	-	-	-	639,250
Retained earnings	1,179,003	-	-	-	-	-	1,179,003
Reserve for general banking risk	3,860	-	-	-	-	-	3,860
Capital contribution	17,032,675	-	-	-	-	-	17,032,675
	34,083,743	-	-	-	-	-	34,083,742
Total liabilities and equity	389,296,940		102,771,112	85,862,078	140,690,508	22,234,686	37,738,555
Gap			14,455,258	(42,670,789)	(66,137,029)	16,462,852	77,889,708
Cumulative gap			14,455,258	(28,215,531)	(94,352,561)	(77,889,708)	-

4 Financial risk management and review (continued)

4.5 Market risk (continued)

4.5.1 Interest rate risk (continued)

2019	Carrying amount €	Effective interest rate %	Less than three months €	Between three months and one year €	Between one year and five years €	More than five years €	Others €
Assets							
Cash	24,007	-	24,007	-	-	-	-
Balances receivable from Central Bank of Malta	39,063,302	-0.5%	39,063,302	-	-	-	-
Investments:							
- Debt securities at FVOCI	55,890,760	2.5%	2,049,775	3,500,000	20,472,085	29,868,900	-
- Equity instruments	25,479,035	-	25,479,035	-	-	-	-
Loans and advances to banks	40,549,407	-0.3%	40,549,407	-	-	-	-
Other loans and advances to customers	86,522,549	3.5%	17,843,919	28,653,971	8,561,455	31,463,204	-
Factored receivables	105,412,199	-	-	-	-	-	105,412,199
Other assets	15,390,647	-	-	-	-	-	15,390,647
Total assets	368,331,905		125,009,445	32,153,971	29,033,540	61,332,104	120,802,846
Liabilities							
Balance owed to Central Bank of Malta	-	-	-	-	-	-	-
Deposits from banks	250,322	0.1%	250,322	-	-	-	-
Deposits from customers	319,737,813	1.2%	96,014,744	113,457,585	95,759,777	14,505,707	-
Debt securities issued	11,905,989	4.5%	-	-	-	11,905,989	-
Current tax payable	-	-	-	-	-	-	-
Other liabilities	2,766,765	-	-	-	-	-	2,766,765
	334,660,889		96,265,066	113,457,585	95,759,777	26,411,696	2,766,765
Equity							
Issued capital	10,000,000		-	-	-	-	10,000,000
Property revaluation reserve	3,696,144		-	-	-	-	3,696,144
Depositors' compensation scheme reserve	628,571		-	-	-	-	628,571
Fair value reserve	436,837		-	-	-	-	436,8837
Retained earnings	1,872,929		-	-	-	-	1,872,929
Reserve for general banking risk	3,860		-	-	-	-	3,860
Capital contribution	17,032,675		-	-	-	-	17,032,675
	33,671,016		-	-	-	-	33,671,016
Total liabilities and equity	368,331,905		96,265,066	113,457,585	95,759,777	26,411,696	26,411,696
Gap			28,744,379	(81,303,614)	(66,726,237)	34,920,408	84,365,064
Cumulative gap			28,744,379	(52,559,235)	(119,285,472)	(84,365,064)	-

4 Financial risk management and review (continued)

4.5 Market risk (continued)

4.5.1 Interest rate risk (continued)

4.5.1.1 Interest rate profile

At the reporting date, the interest rate profile of the Bank's interest-bearing financial instruments was:

	2020	2019
	€	€
Fixed rate instruments		
Investments – Debt securities	**88,695,880**	55,390,760
Loans and advances to customers	**94,906,061**	52,202,382
Balance owed to Central Bank of Malta	**(35,000,000)**	-
Debt securities in issue	**(11,923,078)**	(11,905,989)
Deposits from customers	**(217,642,313)**	(244,681,046)
	(80,963,450)	(148,993,893)
Variable rate instruments		
Investments – Debt securities	**-**	500,000
Loans and advances to customers	**26,649,771**	34,320,166
Balance receivable from Central Bank of Malta	**18,581,607**	39,063,302
Loans and advances to banks	**22,695,594**	40,549,407
Deposits from banks	**(250,576)**	(250,322)
Deposits from customers	**(86,742,416)**	(75,056,767)
	(19,066,020)	39,125,786

4.5.1.2 Fair value sensitivity analysis for fixed rate instruments

The Bank does not account for any fixed rate financial assets and liabilities at fair value through profit or loss. Therefore, a change in interest rates at the reporting date would not affect profit or loss.

A sudden increase of 50 basis points in the yield to maturity of the benchmark 10-year Malta Government Stock would lead to a decrease in value of investments at FVOCI amounting to €637,821 (2019: €140,411). Such a decrease would be recognised in other comprehensive income and in equity. A decrease of 50 basis points in interest rates would have an equal but opposite effect on other comprehensive income and equity.

4 Financial risk management and review (continued)

4.5 Market risk (continued)

4.5.1 Interest rate risk (continued)

4.5.1.3 Cash flow sensitivity analysis for variable rate instruments

The sensitivity of the interest rate gaps to various interest rate scenarios is also monitored by management. Standard scenarios that are considered on a quarterly basis include a 50-basis point (bp) parallel rise or fall in all the yield curves. An analysis of the Bank's sensitivity to an increase or decrease in market interest rates is as presented below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

	Impact on	
	Profit or loss	**Equity**
	€	**€**
2020		
+ 50 basis points	**113,877**	**113,877**
- 50 basis points	**(84,522)**	**(84,522)**
2019		
+ 50 basis points	195,629	195,629
- 50 basis points	(178,522)	(178,522)

4.5.1.4 Interest rate benchmark reform

A fundamental reform of major interest rate benchmarks is being undertaken globally to replace or reform Interbank Offered Rates (IBOR) with alternative nearly risk-free rates (referred to as 'IBOR reform'). The Bank does not have a significant exposure to IBORs on its financial instruments that will be replaced or reformed as part of this market-wide initiative, since the Bank's exposures are either fixed rate in nature or short term and the Bank does not deal in derivative financial instruments. Furthermore, the reform of Euribor has included a change to the underlying calculation methodology but it is not expected that the Euribor benchmark rate will be replaced with a new rate.

4.5.2 Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to the changes in foreign exchange rates. The Bank holds and deals in foreign currency with the aim to service the foreign exchange buying and selling activity by its clients. The Bank does not speculate on its foreign exchange holdings. The Bank's foreign exchange exposure is mainly limited to the United States Dollar and Swiss Francs originating from the Bank's corporate banking business. The Bank manages this risk by ensuring that its foreign currency denominated liabilities are matched to corresponding assets in the same currency.

Exposure to foreign currencies is maintained at minimum levels and within the prescribed limits set by the Bank's Board of Directors. In the scenario whereby all foreign currencies fluctuate up or down by 20% against the Euro, the carrying amounts of financial assets and liabilities would fluctuate, up or down by €229,954 and €153,302 (2019: €290,388 and €193,592) respectively.

4 Financial risk management and review (continued)

4.5 Market risk (continued)

4.5.2 Currency risk (continued)

The following table provides an analysis of the financial assets and liabilities of the Bank into relevant currency groupings:

	2020			2019		
	Euro	**Other currencies**	**Total**	Euro	Other currencies	Total
	€	**€**	**€**	€	€	€
Financial assets						
Cash	**1,531,011**	**-**	**1,531,011**	24,007	-	24,007
Investment securities:						
- Debt securities	**88,695,880**	**-**	**88,695,880**	55,890,760	-	55,890,760
- Equities securities	**20,608,750**	**-**	**20,608,750**	25,479,035	-	25,479,035
Loans and advances to banks and balances receivable from Central Bank of Malta	**40,661,675**	**615,526**	**41,277,201**	78,934,468	678,241	79,612,709
Loans and advances to customers	**120,542,072**	**1,013,761**	**121,555,833**	85,358,098	1,164,451	86,522,549
Factored receivables	**99,155,608**	**-**	**99,155,608**	105,412,199	-	105,412,199
	371,194,996	**1,629,287**	**372,824,283**	351,098,567	1,842,692	352,941,259
Financial liabilities						
Balance owed to Central Bank of Malta	**35,000,000**	**-**	**35,000,000**	-	-	-
Debt securities issued	**11,923,078**	**-**	**11,923,078**	11,905,989	-	11,905,989
Deposits from banks	**250,576**	**-**	**250,576**	250,322	-	250,322
Deposits from customers	**303,675,256**	**709,473**	**304,384,729**	319,056,674	681,139	319,737,813
	350,848,910	**709,473**	**351,558,383**	331,212,985	681,139	331,894,124

At the reporting date, the Bank was not exposed to any significant off-balance sheet currency risk.

4 Financial risk management and review (continued)

4.5 Market risk (continued)

4.5.3 Investment price risk

The exposure of the Bank to this risk is not significant. Frequent management reviews are carried out to ensure high quality of the portfolio.

4.5.4 Fair values of financial instruments

The fair values of financial assets that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments, the Bank determines fair values using other valuation techniques.

(a) Valuation models

The Bank measures fair values using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurements.

- Level 1: inputs that are quoted market prices (unadjusted) in active markets for identical instruments.

- Level 2: inputs other than quoted prices included within Level 1 that are observable either directly (i.e., as prices) or indirectly (i.e., derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data.

- Level 3: inputs that are unobservable. This category includes all instruments for which the valuation technique includes inputs that are not observable, and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

Valuation techniques include net present value and discounted cash flow models. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates.

Fair values reflect the credit risk of the instrument and include adjustments to take account the credit risk of the counterparty as appropriate.

The objective of valuation techniques is to arrive at a fair value measurement that reflects the price that would be received to sell the asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Bank has access at that date.

4 Financial risk management and review (continued)

4.3 Market risk (continued)

4.5.4 Fair values of financial instruments (continued)

(b) Valuation framework

The Bank's only assets which are measured at fair value are the investments in Malta Government Stocks, corporate bonds which are listed on the Malta Stock Exchange and collective investment schemes. Malta Government Stocks, corporate bonds and unquoted equity securities are classified as investment securities at FVOCI. Equity investments representing units in investment schemes are classified as FVTPL. The Head of Finance and Treasury has overall responsibility for independently verifying the results of all fair value measurements.

(c) Financial instruments measured at fair value – Fair value hierarchy

The table below analyses financial instruments measured at fair value at the reporting date by the level in fair value hierarchy into which the fair value measurement is categorised. The amounts are based on the value recognised in the statement of financial position.

	Level 1	Level 2	Level 3	Total
	€	€	€	€
31-Dec-20				
Investment securities:				
- Debt instruments	**88,695,880**	**-**	**-**	**88,695,880**
- Equity instruments	**20,568,815**	**-**	**39,935**	**20,608,750**
	109,294,695	**-**	**39,935**	**109,304,630**
31-Dec-19				
Investment securities:				
- Debt instruments	55,890,760	-	-	55,890,760
- Equity instruments	25,441,305	-	37,730	25,479,035
	81,332,065	-	37,730	81,369,795

Investment securities – Debt instruments

This category of assets is carried at fair value. The instrument included in this category is quoted and its fair value has been determined by reference to the market price as at 31 December 2020.

Investment securities – Equity instruments

The Bank has an interest in an open-ended investment fund as disclosed in note 13.4. This asset is carried at fair value and its fair value has been determined by reference to the net asset value of this security as at 31 December 2020.

The Bank does not have a material exposure to unquoted equity investments.

4 Financial risk management and review (continued)

4.5 Market risk (continued)

4.5.4 Fair values of financial instruments (continued)

(d) Financial instruments not measured at fair value

The fair value of the debt securities issued as of 31 December 2020 amounted to €12,000,000 (2019: €12,960,000) whilst its carrying amount was €11,923,078 (2019: €11,905,989). The carrying amount of all the other financial instruments not measured at fair value approximates their fair value for the following reasons:

Loans and advances to banks and factored receivables

This category of assets is reported net of allowances for expected credit losses to reflect the estimated recoverable amounts. Loans and advances to banks are re-priceable within 3 months whilst factored receivables are measured at amortised cost. The carrying amounts of these financial assets therefore approximate their fair values.

Loans and advances to customers

41% (2019: 21%) of loans and advances to customers mature within 3 months and hence, the carrying amounts of these financial assets approximate their fair values. 57% (2019: 36%) mature after more than three months and within five years. The other 2% (2019: 43%) mature after more than five years. Around 32% of these instruments are cash secured by deposits from customers held by the Bank. There were no significant changes in the market interest rates during the term of these advances. Fair values in relation to loans and advances to customers, which also includes customer accounts repayable on demand are deemed to be fairly close to carrying amounts principally in view of the fact that the majority of the exposures are reprice at its discretion within a period of short notice of up to a maximum of 12 months.

Balance owed to Central Bank of Malta

The loans contracted by the Bank during the year, €35,000,000 (2019: €NIL) with Central Bank of Malta under the Program 'Eurosystem Monetary Policy Operations - Central Bank of Malta Directive No.8' are carried at amortised cost. Part of the Malta Government Stocks held by the Bank were pledged in favour of Central Bank of Malta as disclosed in note 13.2. The fair values of these loans approximate their respective carrying amount.

Deposits from customers

This category of liabilities is carried at amortised cost and amounts to €304,384,729 (2019: €319,737,813). 34% (2019: 38%) of the Bank's deposits from customers have a contractual repricing term of three months or less. The carrying value of these amounts approximates their fair values. In respect of other longer-term fixed-maturity deposits, which are re-priceable upon their contractual maturity date, given the insignificant changes in market interest rates, the fair values of these liabilities approximate their respective carrying amount.

4 Financial risk management and review (continued)

4.5 Market risk (continued)

4.5.4 Fair values of financial instruments (continued)

(d) Financial instruments not measured at fair value (continued)

Deposits from banks

This category of liabilities is carried at amortised cost and amounts to €250,576 (2019: €250,322). These are short term and the carrying value of these amounts approximates their fair values.

Debt securities issued

This category of liabilities is carried at amortised cost. The instrument included in this category is quoted and its fair value has been determined by reference to the market price as at 31 December 2020 which was EUR 100.00 per EUR 100.00 resulting in a fair value of EUR 12,000,000.

4.6 Liquidity risk

Liquidity risk is the risk that the Bank's obligations to repay liabilities or fund new loans exceeds the Bank's ability to raise funds from either the liquidation of assets or the acceptance of new deposits. Liquidity risk arises because a bank does not exactly match the maturity of assets with the maturity of liabilities but must always be able to meet its liabilities as they fall due. Liquidity risk may also be affected by the depth of the market in which the Bank has its assets and liabilities.

Liquidity risk is divided into two categories:

- *Market (product) liquidity risk*: risk of losses arising from difficulty in accessing a product or market at the required time, price and volume.
- *Funding liquidity risk*: risk of losses arising from a timing mismatch between investing, *placements* and funds arising from activities resulting in obligations missing the settlement date or satisfied at higher than normal rates.

The Bank's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Bank's reputation. The key elements of the Bank's liquidity strategy are as follows.

- Maintaining a diversified funding base consisting of customer deposits (both retail and corporate) and wholesale market deposits and maintaining contingency facilities.
- Carrying a portfolio of highly liquid assets, diversified by currency and maturity.
- Monitoring maturity mismatches, behavioural characteristics of the Bank's financial assets and financial liabilities, and the extent to which the Bank's assets are encumbered and so not available as potential collateral for obtaining funding.

4 Financial risk management and review (continued)

4.6 Liquidity risk (continued)

- Stress testing of the Bank's liquidity position against various exposures and global, country-specific and Bank-specific events.

Liquidity policies and procedures are reviewed by internal audit. All liquidity policies are subject to the review by the Asset and Liability Management Committee and the approval of the Board of Directors.

The following table provides an analysis of the financial assets and liabilities of the Bank into relevant remaining maturity groupings based on the ability of recovery or repayment:

At 31 December 2020	Less than one month	Between one and three months	Between three months and one year	Between one and five years	More than five years	Total
	€	€	€	€	€	€
Financial assets						
Cash	1,531,011	-	-	-	-	1,531,011
Investment securities:		-	-	-	-	
- Equity securities	20,568,815	-	-	-	39,935	20,608,750
- Debt securities	3,694,895	-	7,472,085	41,090,000	36,438,900	88,695,880
Loans and advances to banks and balances receivable from Central Bank of Malta	41,277,201	-	-	-	-	41,277,201
Loans and advances to customers	20,100,313	9,588,683	13,255,043	54,074,406	24,537,388	121,555,833
Factored receivables	20,571,657	14,571,990	16,782,116	46,628,999	600,848	99,155,608
	107,743,892	24,160,673	37,509,245	141,793,404	61,617,071	372,824,285
Financial liabilities						
Amounts owed to CBM	-	-	35,000,000	-	-	35,000,000
Deposits from banks	250,576	-	-	-	-	250,576
Deposits from customers	87,695,426	18,605,252	47,082,661	128,774,105	22,227,286	304,384,729
Debt securities issued	-	-	-	12,000,000	-	12,000,000
	87,946,002	18,605,252	82,082,661	140,774,105	22,227,286	351,635,305

4 Financial risk management and review (continued)

4.6 Liquidity risk (continued)

At 31 December 2019	Less than one month	Between one and three months	Between three months and one year	Between one and five years	More than five years	Total
	€	€	€	€	€	€
Financial assets						
Cash	24,007	-	-	-	-	24,007
Investment securities:						
- Equity securities	25,441,305	-	-	-	37,730	25,479,035
- Debt securities	2,049,775	-	3,500,000	20,472,085	29,868,900	55,890,760
Loans and advances to banks and balances receivable from Central Bank of Malta	79,612,709	-	-	-	-	79,612,709
Loans and advances to customers	17,252,283	806,799	21,034,576	10,368,875	37,060,016	86,522,549
Factored receivables	25,028,551	13,909,616	15,557,908	50,770,167	145,957	105,412,199
	149,408,630	14,716,415	40,092,484	81,611,127	67,112,603	352,941,259
Financial liabilities						
Deposits from banks	250,322	-	-	-	-	250,322
Deposits from customers	75,397,749	45,353,246	88,721,333	95,759,777	14,505,708	319,737,813
Debt securities issued	-	-	-	12,000,000		12,000,000
	75,648.071	45,353,246	88,721,333	107,759,777	14,505,708	331,988,135

4 Financial risk management and review (continued)

4.6 Liquidity risk (continued)

4.6.1 Exposure to liquidity risk (continued)

The key measure used by the Bank for managing liquidity risk is the Liquidity Coverage Ratio (LCR). This ratio measures the Bank's level of High-Quality Liquid Assets (HQLAs) versus it expected net cash outflows over a period of one month. This calculation is used to measure the Bank's compliance with the ratio established by Credit Requirements Regulation. Details of the Bank's ratio at the reporting date and during the reported period are as follows:

	2020	2019
As at 31 December	**4,322%**	7,810%
Average for the year	**5,141%**	5,121%
Maximum for the year	**11,011%**	9,198%
Minimum for the year	**1,066%**	1,315%

4.6.2 Residual contractual maturities of financial liabilities

The table below shows a maturity analysis for financial liabilities by remaining contractual maturities of undiscounted cash flows:

	Carrying Amount	**Gross Normal Outflow**	**Repayable on Demand**	**Less than three months**	**Between three months and one year**	**Between one and five year**	**More than five years**
	€	**€**	**€**	**€**	**€**	**€**	**€**
At 31 December 2020							
Debt securities issued	**11,923,078**	**(14,700,000)**	**-**	**-**	**(540,000)**	**(14,160,000)**	-
Balance owed to Central Bank of Malta	**35,000,000**	**(35,000,000)**	**-**	**-**	**(35,000,000)**	**-**	**-**
Deposits from banks	**250,576**	**(250,576)**	**(250,576)**	**-**	**-**	**-**	**-**
Deposits from customers	**304,384,729**	**(315,380,277)**	**(86,742,416)**	**(20,059,489)**	**(50,992,699)**	**(137,155,106)**	**(20,430,568)**
	351,558,384	**(365,330,853)**	**(86,992,992)**	**(20,059,489)**	**(86,532,699)**	**(151,315,106)**	**(20,430,568)**

4 Financial risk management and review (continued)

4.6.2 Residual contractual maturities of financial liabilities (continued)

	Carrying Amount	Gross Normal Outflow	Repayable on Demand	Less than three months	Between three months and one year	Between one and five year	More than five years
	€	€	€	€	€	€	€
At 31 December 2019							
Debt securities issued	11,905,989	(15,240,000)	-	-	(540,000)	(2,160,000)	(12,540,000)
Balance owed to Central Bank of Malta	-	-	-	-	-	-	-
Deposits from banks	250,322	(250,322)	(250,322)	-	-	-	-
Deposits from customers	319,737,813	(333,058,233)	(75,397,749)	(45,698,352)	(89,932,084)	(103,296,874)	(18,723,174)
	331,894,124	(348,548,555)	(75,648,071)	(45,698,352)	(90,472,084)	(105,456,874)	(31,263,174)

4.7 Operational risks

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Bank's processes, personnel, technology, and infrastructure, and from external factors other than credit, market, and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all the Bank's operations.

Management of operational risk

The Bank's objective is to manage operational risk to balance the avoidance of financial losses and damage to the Bank's reputation with overall cost effectiveness. To manage this risk in an appropriate manner the following policies have been adopted:

- To adopt policies, processes, and procedures to control and/or mitigate material operational risks.
- To identify and assess the operational risk inherent in all material products, activities, processes, and systems. Before new products, activities, processes, and systems are introduced or undertaken, the operational risk inherent in them is subject to adequate assessment.
- To monitor all potential operational risks and material exposures to losses.
- To monitor whether there is motive, means and opportunity, within the overall control environment to commit fraudulent acts.
- To adopt contingency and business continuity plans to ensure ability to operate on an ongoing basis and limit losses in the event of severe business disruption.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management. Periodic operational risk reports are submitted to the Bank's Audit and Risk Committee. A financial measurement of this risk is arrived at by the Bank for the purpose of allocating risk capital using the Basic Indicator Approach under the Capital Requirements Directive rules. The capital requirement for operational risk under this method was calculated at €913,256 as at 31 December 2020 (2019: €959,000).

5 Net interest income

	Note	**2020**	2019
		€	€
Interest income			
Loans and advances to customers		**3,645,882**	2,845,844
Factored receivables		**6,020,648**	6,489,408
Financial assets measured at FVOCI		**1,672,784**	1,301,489
Amortisation on financial assets measured at FVOCI		**(764,126)**	(478,286)
Total interest income		**10,575,188**	10,158,455
Interest expense:			
Loans and advances to banks		**(97,607)**	(182,515)
Deposits from customers		**(4,356,618)**	(3,233,349)
Debts securities issued		**(540,000)**	(540,000)
Amortisation of debt issuance costs	21	**(17,089)**	(17,090)
Total interest expense		**(5,011,314)**	(3,972,954)
Net interest income		**5,563,874**	6,185,501

The amounts reported above include interest income and expense, calculated using the effective interest method, that relate to the following financial assets and financial liabilities.

	2020	2019
	€	€
Financial assets measured at amortised cost	**9,666,530**	9,335,252
Financial assets measured at FVOCI	**908,658**	823,203
Total	**10,575,188**	10,158,455
Financial liabilities measured at amortised cost	**5,011,314**	3,972,954

6 Net fee and commission income

	2020	2019
	€	€
Account maintenance and other bank charges	**136,427**	135,013
Fee and commission income	**136,427**	135,013
SWIFT and bank charges	**(69,535)**	(72,662)
Fee and commission expense	**(69,535)**	(72,662)
Net fee and commission income	**66,892**	62,351

Performance obligations and revenue recognition policies
Fee and commission income from contracts with customers is measured based on the consideration specified in a contract with a customer. The Bank recognises revenue when it transfers control over a service to a customer.

The following table provides information about the nature and timing of the satisfaction of performance obligations in contracts with customers, including significant payment terms, and the related revenue recognition policies.

Type of service	Nature and timing of satisfaction of performance obligations, including significant payment terms	Revenue recognition under IFRS 15
Retail and corporate banking service	The Bank provides banking services to corporate customers, including the provision of credit facilities, foreign currency transactions, account maintenance and servicing fees. Transaction-based fees for foreign currency transactions and credit facilities are charged to the customer's account when the transaction takes place. Servicing fees are charged on a periodical basis and are based on fixed rates reviewed annually by the Bank. No fees are charged to the Bank's retail customer base.	Revenue from account maintenance and servicing fees is recognised over time as the services are provided. Revenue related to transactions is recognised at the point in time when the transaction takes place.

7 Other revenue

	2020	2019
	€	€
Net gain from other financial instruments at FVTPL	**110,889**	47,102
Net gain on sale of debt investment securities measured at FVOCI	**172,944**	25,000
Net (loss)/gain from foreign exchange	**(46,172)**	50,554
Other income	**73,437**	88,330
	------------	------------
	311,098	210,986
	=======	=======

8 Impairment allowances

	2020	2019
	€	€
Write-offs		
Factored receivables	**(51,196)**	(23,694)
Other loans and advances to customers	**-**	(21,271)
	------------	-----------
	(51,196)	(44,965)
	------------	-----------
Loss allowance		
Factored receivables		
- Stage 1 and 2	**(137,390)**	122,357
- Stage 3	**(11,229)**	(143,716)
Overdraft and other advances		
- Stage 1 and 2	**40,376**	(47,888)
- Stage 3	**(13,358)**	23,812
	------------	-----------
	(121,601)	(45,435)
	------------	-----------
	------------	-----------
Total impairment	**(172,797)**	(90,400)
	=======	=======

9 Profit before tax

9.1 Profit before income tax is stated after fees, exclusive of VAT, charged by the Bank's statutory auditor during 2020 for:

	€
Auditors' remuneration	**54,600**
Other assurance services	**2,300**
Other non-audit services	**8,300**

9.2 Personnel expenses incurred by the Bank during the year are analysed as follows:

	2020	2019
	€	€
Directors' fees	**105,000**	106,826
Staff costs:		
- wages, salaries and allowances	**1,559,965**	1,422,018
- defined contribution social security costs	**100,886**	84,174
	1,765,851	1,613,018

9.3 The weekly average number of persons employed by the Bank during the year was as follows:

	2020	2019
	No.	No.
Managerial	**5**	5
Supervisory and clerical	**43**	37
	48	42

9.4 Other expenses incurred by the Bank during the year are analysed as follows:

	2020	2019
	€	€
IT support and maintenance costs	**501,248**	302,973
Marketing expenses	**56,050**	4,617
Deposit compensation scheme contributions	**1,089,904**	219,710
Other expenses	**1,156,210**	1,154,988
	2,803,412	1,682,288

10 Income tax expense

10.1 Total income tax expense

	Note	2020	2019
		€	€
Current tax expense			
Current year		**(299,900)**	(904,480)
Change in estimates for prior years		-	14,265
Deferred tax			
Origination and reversal of temporary differences	24	**80,229**	(144,258)
Total income tax expense		**(219,671)**	(1,034,473)

10.2 The income tax expense for the year and the result of the accounting profit multiplied by the tax rate applicable in Malta, the Bank's country of incorporation, are reconciled as follows:

	2020	2019
	€	€
Profit before income tax	**604,891**	2,495,213
Income tax at the applicable tax rate of 35%	**(211,711)**	(873,325)
Income tax effect of:		
- Depreciation charges not deductible by way of capital allowances	**(24,740)**	(15,902)
- Change in estimates for prior years	-	14,265
- Non-taxable income	**339**	307
- Change in unrecognised deductible temporary differences	**16,441**	(159,818)
Tax expense	**(219,671)**	(1,034,473)

11 Earnings per share

Earnings per share is calculated on the profit attributable to ordinary shareholders of the Bank for the year ended 31 December 2020 amounting to €385,220 (2019: €1,460,740) divided by 400,000 (2019: 400,000), being the equivalent number of ordinary shares in issue and ranking equally for dividend during the year.

12 Financial assets and financial liabilities

12.1 Classification of financial assets and financial liabilities

The following table provides a reconciliation between line items in the statement of financial position and categories of financial instruments.

2020	**Note**	**Mandatory at FVTPL**	**FVOCI – debt instruments**	**FVOCI – equity instruments**	**Amortised cost**	**Total carrying amount**
Cash and items in transit	**29**	**-**	**-**	**-**	**1,531,011**	**1,531,011**
Balances with Central Bank of Malta	**29**	**-**	**-**	**-**	**18,581,607**	**18,581,607**
Investment securities	**13**	**20,568,815**	**88,695,880**	**39,935**	**-**	**109,304,630**
Loans and advances to banks	**14**	**-**	**-**	**-**	**22,695,594**	**22,695,594**
Factored receivables	**15**	**-**	**-**	**-**	**99,155,608**	**99,155,608**
Other loans and advances to customers	**16**	**-**	**-**	**-**	**121,555,833**	**121,555,833**
Other assets	**19**	**-**	**-**	**-**	**2,103,758**	**2,103,758**
Total financial assets		**20,568,815**	**88,695,880**	**39,935**	**265,623,411**	**374,928,041**
Balance owed to Central Bank of Malta	**20**	**-**	**-**	**-**	**35,000,000**	**35,000,000**
Deposits from banks	**21**	**-**	**-**	**-**	**250,576**	**250,576**
Deposits from customers	**22**	**-**	**-**	**-**	**304,384,729**	**304,384,729**
Debt securities issued	**23**	**-**	**-**	**-**	**11,923,078**	**11,923,078**
Accruals	**25**	**-**	**-**	**-**	**2,809,505**	**2,809,505**
Total financial liabilities		**-**	**-**	**-**	**354,367,888**	**354,367,888**

2019	**Note**	**Mandatory at FVTPL**	**FVOCI – debt instruments**	**FVOCI – equity instruments**	**Amortised cost**	**Total carrying amount**
Cash and items in transit	**29**	-	-	-	24,007	24,007
Balances with Central Bank of Malta	**29**	-	-	-	39,063,302	39,063,302
Investment securities	**13**	25,441,305	55,890,760	37,730	-	81,369,795
Loans and advances to banks	**14**	-	-	-	40,549,407	40,549,407
Factored receivables	**15**	-	-	-	105,412,199	105,412,199
Other loans and advances to customers	**16**	-	-	-	86,522,549	86,522,549
Other assets	**19**	-	-	-	1,576,048	1,576,048
Total financial assets		25,441,305	55,890,760	37,730	273,147,512	354,517,307
Balance owed to Central Bank of Malta	**20**	-	-	-	-	-
Deposits from banks	**21**	-	-	-	250,322	250,322
Deposits from customers	**22**	-	-	-	319,737,813	319,737,813
Debt securities issued	**23**	-	-	-	11,905,989	11,905,989
Accruals	**25**	-	-	-	1,989,742	1,989,742
Total financial liabilities		-	-	-	333,883,866	333,883,866

13 Investment securities

13.1 Composition of investment portfolio

	2020	2019
	€	€
Debt securities measured at FVOCI	**88,695,880**	55,890,760
Equity investments designated at FVOCI	**39,935**	37,730
Equity investments designated at FVTPL	**20,568,815**	25,441,305
	109,304,630	81,369,795

13.2 Investment securities measured at FVOCI - debt instruments comprise:

	2020	2019
	€	€
Malta Government Stocks	**70,959,098**	38,429,757
Local corporate bonds	**17,736,782**	17,461,003
	88,695,880	55,890,760

In 2020, part of the Malta Government Stocks held by the Bank were pledged in favour of the Central Bank of Malta to cover the Bank's participation in the Euro-system financing operations, €35,000,000 at that date (2019: €13,000,000).

13.3 Equity investments designated at FVOCI comprise:

	2020	2019
	€	€
Unquoted equity holding (Society for Worldwide Interbank Financial Telecommunications SCRL – SWIFT	**39,935**	37,730

13.4 Equity investments designated at FVTPL comprise:

	2020	2019
	€	€
Collective investment schemes	**20,568,815**	25,441,305

13 Investment securities (continued)

13.5 The movement in investment securities may be summarised as follows:

	€
At 1 January 2019	42,111,712
Acquisitions	50,642,207
Disposals	(10,672,795)
Net fair value movement	(711,329)
At 31 December 2019	81,369,795
At 1 January 2020	**81,369,795**
Acquisitions	**87,424,086**
Disposals	**(59,299,332)**
Net fair value movement	**(189,919)**
At 31 December 2020	**109,304,630**

14 Loans and advances to banks

	2020	2019
	€	€
Repayable on call and at short notice	**22,695,594**	40,549,407

15 Factored receivables

	2020	2019
	€	€
Receivables factored without recourse:		
- Invoice factoring	**30,941,233**	33,999,533
- Bills of Exchange factoring	**69,015,861**	72,241,169
	99,957,094	106,240,702
ECL Allowance	**(801,486)**	(828,503)
	99,155,608	105,412,199

16 Other loans and advances to customers

16.1 Loans and advances to customers at amortised cost

	Note	2020 €	2019 €
Term loans and advances to third parties		**52,146,936**	17,689,232
Term loans and advances to related parties	31.3	**45,360,049**	49,165,451
Credit cards and overdrafts		**24,428,558**	19,898,957
Impairment loss allowance		**(379,710)**	(231,091)
		121,555,833	86,522,549

17 Property and equipment

17.1

	Total	Premises and improvements	Computer hardware	Other equipment	Motor vehicles
	€	€	€	€	€
Cost/revalued amount					
At 1 January 2019	11,810,430	10,448,920	609,228	645,658	106,624
Acquisitions	343,555	293,672	33,771	16,112	-
Premises revaluation	1,228,073	1,228,073	-	-	-
At 31 December 2019	13,382,058	11,970,665	642,999	661,770	106,624
At 1 January 2020	13,382,058	11,970,665	642,999	661,770	106,624
Acquisitions	684,845	579,764	96,225	8,856	-
Premises Revaluation	(135,382)	(135,382)	-	-	-
As at 31 December 2020	**13,931,521**	**12,415,047**	**739,224**	**670,626**	**106,624**
Depreciation					
At 1 January 2019	1,545,577	463,000	505,671	523,324	53,582
Charge for year	217,521	117,421	44,701	36,605	18,794
At 31 December 2019	1,763,098	580,421	550,372	559,929	72,376
At 1 January 2020	1,763,098	580,421	550,372	559,929	72,376
Charge for year	173,974	70,686	48,251	36,718	18,319
At 31 December 2020	**1,937,072**	**651,107**	**598,623**	**596,647**	**90,695**
Carrying amount					
At 1 January 2019	10,264,853	9,985,920	103,557	122,334	53,042
At 31 December 2019	11,618,961	11,390,245	92,627	101,841	34,248
At 31 December 2020	**11,994,449**	**11,763,940**	**140,601**	**73,979**	**15,929**

17 Property and equipment (continued)

17.2 The carrying amount of premises and improvements that would have been included in the financial statements had these assets not been revalued (see note 3.5) and had been carried at cost less depreciation is €7,781,672 (2019: €7,012,822).

17.3 As at 31 December 2020, capital expenditure authorised and contracted for amounted to €2,100,000 (2019: €2,500,000). The bulk of this expenditure will be directed toward construction and refurbishment works at what will eventually become the Bank's main premises at Castille Square.

17.4 Revaluation of premises

The Bank's premises are measured at the revalued amount less accumulated depreciation. The revaluation amount is determined based on open market values provided periodically, at least every five years, by independent valuers. The Bank occupies almost the full complement of two adjacent and prestigious houses – Nos. 53 and 58 in East Street, Valletta, close to the 'Lower Barrakka' Gardens and with views of the Grand Harbour and the Three Cities. The buildings date back to the eighteenth century and are structurally sound and complete of finishes of a very high standard. In 2017, the Bank acquired new premises at 4, Castille Place and as at 31 December 2020 was in the process of extensive improvements and refurbishment to the building.

The properties held by the Bank were revalued by an independent professionally qualified architect during 2020 in accordance with accounting policy 3.5. The valuation was principally done using the "income capitalisation approach" whereby market value is derived by capitalising at an appropriate yield rate, the annual income produced, should the property be leased out to third parties. The income is arrived at by analysing several rental rates taking cognisance of the location of the property, its size, layout, and planning and energy performance considerations. Significant unobservable inputs used in the valuation of these properties is the rental income applied in the region of €23.27 per square metre per month for commercial premises, and the percentage capitalisation rate of 6% which indicates the multiplier relationship between Net Rental Income and Property Value.

The valuation is deemed to reflect a level 3 in the fair value hierarchy.

18 Intangible assets

	Computer software
	€
Cost	
At 1 January 2019	3,573,939
Acquisitions	340,444
At 31 December 2019	3,914,383
At 1 January 2020	**3,914,383**
Acquisitions	**337,771**
At 31 December 2020	**4,252,154**
Depreciation	
At 1 January 2019	1,920,725
Charge for year	360,399
At 31 December 2019	2,281,124
At 1 January 2020	**2,281,124**
Charge for year	**420,939**
At 31 December 2020	**2,702,063**
Carrying amount	
At 1 January 2019	1,653,214
At 31 December 2019	1,633,259
At 31 December 2020	**1,550,091**

19 Other assets

	2020	2019
	€	€
Accrued income	**1,563,376**	1,225,828
Accounts receivable and prepayments	**540,382**	350,220
	2,103,758	1,576,048

20 Balance owed to Central Bank of Malta

The Bank participates in the Euro-system financing operations. In this respect, part of the Malta Government Stocks held by the Bank (see note 13) were pledged in favour of the Central Bank of Malta to cover the Bank's participation.

21 Deposits from banks

	2020	2019
	€	€
Other deposits from banks	**250,576**	250,322
	250,576	250,322

22 Deposits from customers

	2020	2019
	€	€
Repayable on demand	**86,742,416**	75,056,767
Term deposits	**217,642,313**	244,681,046
	304,384,729	319,737,813

23 Debt securities issued

	2020	2019
	€	€
Debt securities issued at amortised cost	**11,923,078**	11,905,989
	==========	==========
At 1 January	**11,905,989**	11,888,899
Amortisation of debt issuance costs during the year	**17,089**	17,090
	----------------	----------------
At 31 December	**11,923,078**	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 at all times 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.

24 Deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets 2020	**Liabilities 2020**	**Net 2020**	Assets 2019	Liabilities 2019	Net 2019
	€	**€**	**€**	€	€	€
Property and equipment, and intangible assets carried at cost		**(359,958)**	**(359,958)**	-	(377,252)	(377,252)
Property carried at revalued amount		**(558,446)**	**(558,446)**	-	(518,922)	(518,922)
Investment securities - FVOCI		**(344,211)**	**(344,211)**	-	(235,220)	(235,220)
Investment securities - FVTPL	**3,888**		**3,888**	-	(16,486)	(16,486)
Impairment allowance	**413,418**		**413,418**	370,857	-	370,857
	417,306	**(1,262,615)**	**(845,309)**	370,857	(1,147,880)	(777,023)

24 Deferred tax assets and liabilities (continued)

Movement in temporary differences relates to:

	At 1 January 2020	Recognised in profit or loss	Recognised in equity	At 31 December 2020
	€	€	€	€
Property and equipment, and intangible assets carried at cost	(377,252)	17,294		(359,958)
Property carried at revalued amount	(518,922)		(39,524)	(558,446)
Investment securities - FVOCI	(235,220)		(108,991)	(344,211)
Investment securities - FVTPL	(16,486)	20,374		3,888
Allowance for expected credit losses	370,857	42,561		413,418
	(777,023)	80,229	(148,515)	(845,309)

	At 1 January 2019	Recognised in profit or loss	Recognised in equity	At 31 December 2019
	€	€	€	€
Property and equipment, and intangible assets carried at cost	(390,756)	13,504		(377,252)
Property carried at revalued amount	(357,342)	-	(161,580)	(518,922)
Investment securities - FVOCI	(324,519)	-	89,299	(235,220)
Investment securities - FVTPL	157,178	(173,664)	-	(16,486)
Allowance for expected credit losses	354,955	15,902	-	370,857
	(560,484)	(144,258)	(72,281)	(777,023)

25 Accruals

	2020	2019
	€	€
Accrued interest payable	2,663,125	1,556,222
Other accrued expenses	146,380	433,520
	---------------	---------------
	2,809,505	1,989,742
	=========	=========

26 Share capital and reserves

26.1 Share capital

	Ordinary shares	
	2020	2019
	No.	No.
On issue at 1 January and 31 December – fully paid	**400,000**	400,000
	=========	=========

At 31 December 2020, the authorised and issued share capital comprised 400,000 ordinary shares (2019: 400,000) of €25 each.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at shareholders' meetings of the Bank.

26.2 Capital contribution

These amounts represent irrevocable and unconditional contributions by the shareholders and are interest free.

26.3 Property revaluation reserve

The property revaluation reserve represents the surplus arising on the revaluation of the Bank's premises and improvements, net of related deferred tax effects, and net of that part of the surplus realised through use of the revalued property. This reserve is not distributable except on realisation of the assets through sale.

26.4 Fair value reserve

The fair value reserve comprises:

- the cumulative net change in the fair value of equity securities measured at FVOCI net of deferred tax effect; and
- the cumulative net change in the fair value of debt securities measured at FVOCI net of deferred tax effect until the assets are derecognised or reclassified. This amount is increased by the amount of loss allowance, if any.

26.5 Depositor compensation scheme reserve

The depositor compensation scheme reserve represents amounts set aside by the Bank from its retained earnings. As at 31 December 2020, a total amount of €1,707,717, (2019: €628,571) was placed with Central Bank of Malta by the Bank and pledged in favour of the Depositor Compensation Scheme.

26 Share capital and reserves (continued)

26.6 Reserve for general banking risk

Banking Rule 09 (BR09) requires the Bank to hold a Reserve for General Banking Risk, calculated as a percentage of non-performing loans. This reserve is required to be funded from planned dividends. In this respect, the Bank has taken a reserve at the end of this year amounting to €3,860 (2019: €3,860).

26.7 Availability of reserves for distribution

	2020	2019
	€	€
Distributable	**18,211,678**	18,905,604
Non-distributable	**5,872,065**	4,765,412
	24,083,743	23,671,016

26.8 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.

On 27 July 2020, the European Central Bank ('ECB') issued a Recommendation on dividend distributions during the Covid-19 pandemic and repealing Recommendation ECB/2020/19 (ECB/2020/35), which inter alia recommended that no dividends be paid out by credit institutions until 1 January 2021 and that no irrevocable commitment to pay out dividends be undertaken by credit institutions for the financial years 2019 and 2020. Considering the ECB's recommendation, the Board reviewed the position in respect of financial year ended 31 December 2019 and withdrew the recommendation of declare final dividend.

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.

Despite the above recommendation, in interest of preservation of capital and liquidity, the Board of Directors does not propose any dividends for financial year ended 31 December 2020.

27 Commitments

	2020	2019
	€	€
Unutilised factoring, overdraft facilities and credit card commitments	**96,000,451**	71,868,667

The Bank may unconditionally cancel factoring commitments at its discretion, other than amounts being currently utilised by customers.

28 Net cash generated from operating activities

	2020	2019
	€	€
Profit for the year	**385,220**	1,460,740
Adjustments for:		
Depreciation and amortisation	**594,913**	577,920
Income tax expense	**219,671**	1,034,473
Impairment reversals / (losses) on financial instruments	**172,797**	90,400
Interest receivable on investment securities	**(1,672,784)**	(1,301,489)
Interest expense on debt securities issued	**540,000**	540,000
Net gain from other financial instruments at FVTPL	**(110,889)**	(47,102)
Realised gains on disposal of investment securities	**(172,944)**	(25,000)
Amortisation of premiums and discounts- on debt investment securities	**764,126**	478,286
Amortisation of debt issuance costs	**17,089**	17,090
	737,199	2,825,318
Changes in loans and advances to customers and other receivables	**(35,181,902)**	(12,260,011)
Changes in factored receivables	**6,405,210**	(18,699,166)
Changes in deposits from banks, from customers and to Central Bank of Malta	**19,647,170**	129,580,727
Changes in accruals	**283,377**	(206,311)
	(8,108,946)	101,240,557

29 Cash and cash equivalents

	2020	2019
	€	€
Cash and items in transit	**1,531,011**	24,007
Balances with Central Bank of Malta	**18,581,607**	39,063,302
Loans and advances to banks with contractual maturity of three months or less	**22,695,594**	40,549,407
Deposits from banks	**(250,576)**	(250,322)
	42,557,636	79,386,394

Balances with Central Bank of Malta amounting to €1,079,146 (2019: €628,571) are pledged in favour of the Depositor Compensation Scheme.

30 Leases

The Bank had no operating lease agreements in force during the year ended 31 December 2020 (2019: nil).

31 Related parties

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

Related parties are related by virtue of having common directors.

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 Paepsemlaan, 28-30, 1070 Brussels, 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.

31.2 Related party transactions

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

	2020	2019
	€	€
Interest receivable and similar income	**3,550,956**	4,172,307
Fees and commissions receivable	**91,000**	89,279
Other operating income	**73,170**	88,329
	========	========
Interest expense	**487,864**	503,425
	========	========

31 Related parties (continued)

31.3 Related party balances

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

	2020	2019
	€	€
Assets		
Loans and advances to customers	**47,120,714**	49,165,451
Prepayments and accrued income	**589,211**	542,605
	=========	=========
Liabilities		
Deposits from customers	**48,466,322**	38,242,014
Debt securities issued to directors	**290,000**	290,000
Accruals	**39,838**	6,525
	=========	=========

Loans and advances to customers include four outstanding loans amounting to €250,000, €34,933 €21,270 and €10,897 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.

31.4 Transactions with key management personnel

	2020	2019
	€	€
Directors' fees	**105,000**	106,826
Compensation to key management personnel - salaries	**408,656**	439,759
	========	========

32 Operating segments

32.1 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.

32.2 Geographical information

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

32 Operating segments (continued)

	2020	2019
	€	€
Revenue		
Malta	**6,436,545**	4,613,534
Belgium	**4,516,632**	5,853,962
	10,953,177	10,467,496
Non-current assets		
Malta – tangible and intangible assets	**13,544,540**	13,252,220

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 as a result of transactions with this Group is set out in note 31.

33 Subsequent events

No significant events have taken place since the financial reporting date that would have otherwise required adjustment to and/or disclosure in this annual report.

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Independent Auditors' Report

To the Shareholders of Izola Bank p.l.c.

1 Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Izola Bank p.l.c. (the "Bank" or the "Company"), which comprise the statement of financial position as at 31 December 2020, the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements:

(a) give a true and fair view of the financial position of the Bank as at 31 December 2020, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS") as adopted by the EU; and

(b) have been properly prepared in accordance with the provisions of the Companies Act, 1995 (Chapter 386, Laws of Malta) (the "Act") and the Banking Act, 1994 (Chapter 371, Laws of Malta) (the "Banking Act").

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code), together with the ethical requirements that are relevant to our audit of the financial statements in accordance with the Accountancy Profession (Code of Ethics for Warrant Holders) Directive issued in terms of the Accountancy Profession Act (Chapter 281, Laws of Malta), and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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Independent Auditors' Report (continued)

To the Shareholders of Izola Bank p.l.c.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period (selected from those communicated to the audit committee), and include a description of the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We summarise below the key audit matter, together with our response by way of the audit procedures we performed to address that matter in our audit, and key observations arising with respect to such risks of material misstatement.

Our audit approach to the 'expected credit loss' on financial exposures

Accounting policy notes 3.1, 3.3, 3.4 and 3.17 to the financial statements and note 4.4, 12, 13, 14, 15, 16 and 27.

Expected credit loss ("ECL") allowance, amounting to €1,181,196, on:

— financial assets carried at fair value through other comprehensive income ("FVOCI"), net of ECL
Debt securities within 'Investment securities' €88,695,880.
— financial exposures carried at amortised cost, net of ECL and related commitments
'Factored receivables' €99,155,608,
'Other loans and advances to customers' €121,555,833,
'Loans and advances to banks' €22,695,594, and
Commitments related to customer lending and factoring facilities included in 'Commitments' €96,000,451.

The Company is required by the applicable financial reporting framework to estimate impairment provisioning based on ECL models. A higher risk of material misstatement was deemed present given the Company's credit exposures, particularly in assessing the models and related inputs that derive the Probability of Default ("PD"), and the potential impact on the ECL allowance.

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Independent Auditors' Report (continued)

To the Shareholders of Izola Bank p.l.c.

Key audit matters (continued)

Our response

In relation to factored receivables, loans and advances to customers and commitments to lend, as part of our procedures:

- we assessed the design and implementation as well as the operating effectiveness of the control around the sanctioning of facilities in line with the established authorisation limits as per the Company's credit policy.
- specifically in relation to receivables related to bills of exchange factoring, we also assessed the design and implementation as well as the operating effectiveness of the controls which monitor receipts from debtors in accordance with the applicable repayment terms.
- we evaluated the Company's credit risk grading methodology used in determining the PD for these exposures. As part of our testing in relation to that methodology:
  - specifically in relation to loans and advances to customers which are cash secured, we evaluated whether the balance securing the exposure was in excess of the respective exposure amount outstanding;
  - we performed assessments (referred to as credit reviews) on a sample of non-cash secured loans and advances to customers, focusing on the borrowers' ability to repay from normal operations, the performance history and receipts after the financial reporting date, using relevant internal and external information on those exposures. We evaluated those credit reviews in the light of the Company's internal credit risk assessment on those exposures;
  - specifically for factored receivables with overdue exposures at the reporting date, we evaluated the timeliness of receipts, considering the number of days overdue, against the contractual repayment dates, to assess possible indicators of any unidentified non-performing factored receivables;
  - specifically in relation to overdue factoring exposures and for the sample of non-cash secured loans and advances (noted above), we also:
    - assessed whether a significant increase in credit risk was appropriately identified by the Company, if any; and
    - evaluated whether these exposures were graded in line with the Company's credit policy, and evaluated any deviations therefrom by reference to relevant supporting documentation.

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Independent Auditors' Report (continued)

To the Shareholders of Izola Bank p.l.c.

Key audit matters (continued)

- we involved our economics specialist to assist in assessing:
  - the appropriateness of the Company's methodology for determining the macroeconomic scenarios used;
  - the reasonableness of the probability weightings applied to those scenarios;
  - the derivation of PDs from external rating agencies;
  - the relevance and reasonableness of the key macroeconomic variables used in the ECL model;
  - the appropriateness of the LGD model being used; and
  - the overall mathematical accuracy of the model in generating ECLs.
- we involved our financial risk modelling specialists in evaluating the appropriateness of:
  - the Bank's selected IFRS 9 impairment methodologies; and
  - the Significant Increase in Credit Risk ("SICR") criteria used by the Company.

In relation to debt securities and loans and advances to banks, as part of our procedures:

- we evaluated credit risk for each counterparty by reference to the respective counterparty's external credit rating, or to relevant market information (in relation to unrated exposures), in assessing the appropriateness of the Company's credit risk ratings used in determining the PD; and
- we evaluated the appropriateness of the Company's ECL primarily by:
  - evaluating the sensitivity of PDs to reasonably possible changes in credit risk grading and,
  - specifically in the case of debt securities, by also comparing the fair value at initial recognition to the quoted prices in an active market at the financial reporting date, and evaluating whether those differences represent a deterioration in credit risk.

We have no key observations to report, specific to this matter.

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Independent Auditors' Report (continued)

To the Shareholders of Izola Bank p.l.c.

Other information

The directors are responsible for the other information which comprises:

- the 'Chairperson's Statement';
- the 'Directors' Report';
- the 'Statement by the Directors on the Financial Statements included in the Annual Report';
- the 'Directors' Statement of Compliance with the Code of Principles of Good Corporate Governance';
- the 'Remuneration Report'; and
- the appendices to the annual report ('Appendix I – Pillar 3 Disclosures', 'Appendix II – Five-Year Summary' and 'Appendix III – Supplementary Financial Information'),

but does not include the financial statements and our auditors' report thereon.

Our opinion on the financial statements does not cover the other information and, other than in the case of the directors' report on which we report separately below in our 'Opinion on the Directors' Report', we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information, and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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Independent Auditors' Report (continued)

To the Shareholders of Izola Bank p.l.c.

Responsibilities of the directors for the financial statements

The directors are responsible for the preparation of financial statements that (a) give a true and fair view in accordance with IFRS as adopted by the EU, and (b) are properly prepared in accordance with the provisions of the Act and the Banking Act, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

The directors are also responsible for overseeing the financial reporting process.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. 'Reasonable assurance' is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit.

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Independent Auditors' Report (continued)

To the Shareholders of Izola Bank p.l.c.

Auditors' responsibilities for the audit of the financial statements (continued)

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Consider the extent of compliance with those laws and regulations that directly affect the financial statements, as part of our procedures on the related financial statement items. For the remaining laws and regulations, we make enquiries of directors and other management, and inspect correspondence with the regulatory authority, as well as legal correspondence. As with fraud, there remains a higher risk of non-detection of other irregularities (whether or not these relate to an area of law directly related to the financial statements), as these may likewise involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

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Independent Auditors' Report (continued)

To the Shareholders of Izola Bank p.l.c.

Auditors' responsibilities for the audit of the financial statements (continued)

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the audit committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the audit committee with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the audit committee, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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Independent Auditors' Report (continued)

To the Shareholders of Izola Bank p.l.c.

2 Opinion on the Directors' Report

The directors are responsible for preparing a directors' report in accordance with the provisions of article 177 of the Act and other applicable legal requirements, and is to include a statement that the Company is a going concern with supporting assumptions or qualifications as necessary, as required by Listing Rule 5.62 issued by the Listing Authority in Malta.

We are required to consider whether the information given in the directors' report for the accounting period for which the financial statements are prepared is consistent with those financial statements; and, if we are of the opinion that it is not, we shall state that fact in our report. We have nothing to report in this regard.

Pursuant to article 179(3) of the Act, we are also required to:

- express an opinion on whether the directors' report has been prepared in accordance with the applicable legal requirements; and

- state whether, in the light of the knowledge and understanding of the entity and its environment obtained in the course of our audit of the financial statements, we have identified material misstatements in the directors' report, giving an indication of the nature of any such misstatements.

Pursuant to Listing Rule 5.62 of the Listing Rules issued by the Listing Authority in Malta, we are required to review the directors' statement in relation to going concern.

In such regards:

- in our opinion, the directors' report has been prepared in accordance with the applicable legal requirements;

- we have not identified material misstatements in the directors' report; and

- we have nothing to report in relation to the statement on going concern.

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Independent Auditors' Report (continued)

To the Shareholders of Izola Bank p.l.c.

3 Report on Other Legal and Regulatory Requirements

Matters on which we are required to report by the Act, specific to public-interest entities

Pursuant to article 179B(1) of the Act, we report as under matters not already reported upon in our 'Report on the Audit of the Financial Statements':

- we were first appointed as auditors on 8 June 1994 by the board of directors, and subsequently reappointed by the shareholders at the Company's general meetings for each financial year thereafter. Excluding the initial appointment period following the set-up of the Company, the period of total uninterrupted engagement is twenty-six years;

- our opinion on our audit of the financial statements is consistent with the additional report to the audit committee required to be issued by the Audit Regulation (as referred to in the Act); and

- we have not provided any of the prohibited services as set out in the APA.

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Independent Auditors' Report (continued)

To the Shareholders of Izola Bank p.l.c.

Matters on which we are required to report by the Banking Act and by exception by the Act

Pursuant to article 31(3)(a), (b) and (c) of the Banking Act, in our opinion:

- we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purpose of our audit;
- proper books of account have been kept by the Bank so far as appears from our examination thereof; and
- the Bank's financial statements are in agreement with the books of account.

Furthermore, we have nothing to report in respect of the above matters, where the Act requires us to report to you by exception pursuant to articles 179(10) and 179(11).

Pursuant to article 31(3)(d) of the Banking Act, in our opinion and to the best of our knowledge and belief and, on the basis of the explanations given to us, the financial statements give the information required by law in force in the manner so required.

The Principal authorised to sign on behalf of KPMG on the audit resulting in this independent auditors' report is Claude Ellul.

KPMG
Registered Auditors

26 March 2021

Izola Bank p.l.c.

Appendices

2020

Izola Bank p.l.c.

Izola Bank p.l.c.

Appendix I - Pillar 3 Disclosures as at 31 December 2020

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Izola Bank p.l.c.

Appendix I - Pillar 3 Disclosures as at 31 December 2020

INTRODUCTION

Background to Pillar 3 disclosures

The objective of Basel III Pillar 3 is to improve market discipline through effective public disclosure and to complement requirements under Pillar 1 and Pillar 2. To that end, Pillar 3 introduces additional public disclosure requirements and represents an increase in the amount of information made publicly available by banks and investment firms regarding capital structure, capital adequacy, risk management and risk measurement.

Nature of Disclosures

This document serves as the Basel III Pillar 3 disclosures of Izola Bank p.l.c. in accordance with the Malta Financial Services Authority ('MFSA') Banking Rule 7 (BR07). Banking Rule BR/07 follows the disclosure requirements of Directive 2013/36/EU (Capital Requirements Directive — Pillar 1) and EU Regulation No 575/2013 (Capital Requirements Regulation — Pillar 2) of the European Parliament and of the Council of 26 June 2013.

The Annual Report of Izola Bank p.l.c. has been filed with the MFSA Registry of Companies and the MFSA Banking Unit. These Pillar 3 disclosures refer to the financial year ended 31st December 2020 and have been included in the Annual Report for 2020.

The Bank has in place a formal policy to comply with the disclosure requirements laid down in Banking Rule BR/07/2018. The Directors, after due consideration of the size and complexity of the Bank, do not feel it necessary to produce Pillar 3 disclosures more frequently than annually. Banking Rule BR/07 requirements are incorporated in this document if they are deemed relevant for the Bank.

As outlined in the requirements of banking regulations, these disclosures are not subject to an external audit, except to the extent that any disclosures are equivalent to those made in the Financial Statements, which have been prepared in accordance with the International Financial Reporting Standards ('IFRS') as adopted by the EU. The Bank's management is responsible for the verification of these Pillar 3 disclosures. The Bank, through its internal verification process, is satisfied that these disclosures are presented fairly.

1 RISK MANAGEMENT OBJECTIVES AND POLICIES

The principal risks to which Izola Bank p.l.c. is exposed are business, credit concentration, operational and interest rate risk in the non-trading book. Counterparty risk is also recognised as important.

Business risk

Business risk is the risk that the Bank may not be able to carry out its business plan or its desired strategy and could therefore suffer losses if its income falls. This is a risk that every business faces. The two main contributors to the business risk arise from the Bank's dependence on the Group as its anchor client and the general business environment in Malta and Belgium. There are no specific mitigating factors though it is to be noted that the Group is itself diversified and has a large number of clients and suppliers which in turn helps to diversify the underlying risk.

Concentration risk

Concentration risk arises as a result of the concentration of exposures within the same category, whether it is geographical location, product type, industry sector or counterparty type. These risks are managed through adherence to Board approved lending criteria.

The Bank recognizes that credit concentration risk is present in the Bank's factoring business in view of the fact that factored debtors are mainly active in the property, building and construction sector in Belgium and to the retail sector in Malta. Credit concentration risk is mitigated by a comprehensive credit insurance policy covering credit risks arising from the Bank's factoring exposure in Belgium and Malta and by the Group's experience in the property, building and construction sector combined with in depth knowledge of the customer base in Belgium.

The credit risk concentration to the factored receivables in Malta is mitigated through the dispersion of debtors combined with security over the underlying asset. Furthermore, the Bank retains insurance for credit risk on the major part of its invoice factoring business. As the Banks continues its growth path, concentration risk is reduced as each new product or business line launched reduces the overall scale of previous concentrations.

Operational risk

Operational risk is associated with the Bank's internal processes and systems and the potential for these not to function properly. Through implementing a robust internal control system, the Bank is able to mitigate many of the identified risks. The Bank also maintains third party insurance to cover certain risk events such as computer fraud and cybersecurity risk. Regular reporting on operational risk is made to the Audit and Risk Committee.

Interest rate risk in the banking book (IRRBB)

Market risk incorporates the loss of income which in the Bank's case would be as a result of changes to interest rates. Izola Bank p.l.c. limits this exposure to movements in interest rates by matching, as much as possible, its advances to deposits in the same maturity bands.

2 BOARD AND COMMITTEES STRUCTURE

The Bank's Board of Directors comprises seven non-executive directors and one executive director and meets quarterly throughout the year. In addition, the Board delegates specific responsibilities to the Remuneration and Nomination Committee, the Audit and Risk Committee, the Credit Committee, the Strategy Committee and the Asset and Liability Management Committee (ALCO).

Remuneration and Nomination Committee

Composition: The Remuneration and Nomination Committee comprises three non-executive directors.

Main Functions: The Remuneration and Nomination Committee is tasked with delving into the detail of oversight of remuneration and nomination practices.

Frequency: This Committee meets at least once a year.

Credit Committee

Composition: The Credit Committee is made up of two non-executive independent directors and the Chief Executive Officer.

Main Functions: The Credit Committee considers credit applications and keeps credit limits under review.

Frequency: The Committee meets at least four times a year.

Audit and Risk Committee

Composition: The Audit and Risk Committee comprises three non-executive independent directors.

Main Functions: The primary purpose of the Audit and Risk Committee is to protect the interests of the Bank's shareholders and assist the directors in conducting their role effectively so that the Bank's decision-making capability, the accuracy of its reporting and financial results and the Bank's risk management processes are maintained at a high level at all times.

The Committee provides independent review, monitoring, and assessment of:
- the integrity of the annual financial statements
- the effectiveness of management's system of internal control
- the effectiveness of the Bank's risk management processes
- the Bank's compliance with applicable laws and regulations
- the Bank's ethical and business standards
- the appointment of the Bank's internal and external auditors

Frequency: The Committee meets at least four times a year.

Strategy Committee

Composition: This Committee is made up of two non-executive directors and the Chief Executive Officer.

Main Functions: The Committee is responsible for making recommendations to the Board of Directors on the Bank's business model and forward-looking strategy, taking into consideration the risks and opportunities related to various strategies. The Committee is also responsible for analysing the implementation of the business model and strategy or any changes thereof, including any potential ICT consequences.

Frequency: The Committee meets at least once a year.

Asset and Liability Management Committee (ALCO)

Composition: This Committee is made up of the Chief Executive Officer, the Head of Finance and Treasury and the Senior Finance and Treasury Manager.

Main Functions: The Asset and Liability Management Committee:

- monitors the Bank's financial performance, and reviews and manages financial risks in accordance with Bank policies;
- manages the Bank's balance sheet in respect of the adequate matching of assets and liabilities, asset mix, liabilities and balance sheet growth;
- formulates a forward-looking strategy for the Bank in terms of the mix of assets and liabilities given its expectations of the future and the potential consequences of interest rate movements, liquidity constraints, foreign exchange exposure and capital adequacy.

Frequency: The Committee meets at least four times a year.

3 OWN FUNDS

During the year ended 31 December 2020, the Bank complied with all the externally imposed capital requirements to which it was subject. The following table summarises the composition of the Bank's regulatory capital as reported to the MFSA as at 31 December 2020.

Own Funds

	2020
	€
Common Equity Tier 1 (CET1) Capital: instruments and reserves	
Paid up capital instruments	27,032,675
Retained Earnings	1,179,003
Accumulated other comprehensive income (and other reserves)	4,164,348
CET1 Capital before regulatory adjustments	**32,376,026**
Common Equity Tier 2 (CET2) Capital: instruments and reserves	
	-
	-
Regulatory deductions and adjustments	
Deductions related to intangible assets	(1,550,091)
Total Own Funds	**30,825,935**

Composition of Own Funds

i. Ordinary Shares: At 31 December 2020, the authorised share capital comprised 400,000 ordinary shares of €25 each. All shares in issue are fully paid up. The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at shareholders' meetings of the Bank.

ii. Accumulated other comprehensive income: this includes the balance available for distribution to the shareholders.

iii. Capital Contribution: this represents a contribution by the shareholders to the distributable reserves of the Bank.

iv. Fair value reserve: this represents fair value movements on investments classified at Fair Value through Other Comprehensive Income (FVOCI), net of tax.

v. Revaluation Reserve: this represents reserves arising from the revaluation of tangible fixed assets, net of tax.

4 CAPITAL ADEQUACY AND LIQUIDITY

4.1 Internal Capital Adequacy Assessment Process (ICAAP)

ICAAP Methodology

The Bank's latest ICAAP report is based on 31st December 2019 figures.

The Bank has chosen to base its ICAAP on the results of the Pillar 1 calculation with additional Pillar 2 risks – business risk, credit concentration and interest rate risk in the banking book – assessed separately through stress testing and added to Pillar 1. The Bank has also further analysed its operational risk exposure through stress testing in order to determine whether an additional Pillar 2 charge for operational risk may be necessary.

The Bank's ICAAP also contains three-year projections as well as the capital plan, and the Board monitors that there are adequate capital resources to support the corporate goals contained within the plan.

In order to produce a capital plan, the Bank's ICAAP contains calculations of the capital resources requirement (effectively the minimum capital required) for each of the three years using the standardised approach for credit risk and the basic indicator approach for operational risk.

Under the standardised approach for credit risk, the Bank applies a risk weighted asset value to each of its exposure classes and provides 8% of that risk weighted asset value as the minimum capital requirement for credit risk.

Under the basic indicator approach for operational risk, the Bank calculates its average net income over the previous three years and provides 15% of that average net income as the minimum capital requirement for operational risk.

4.2 Credit Risk Capital Requirements by Standardised Approach Exposure Class

Capital Requirement by exposure class as at 31 December 2020	
	Capital Requirement
	€ 000s
Central Government or Central Banks	-
Corporates	3,077
Institutions	366
Retail	4,410
Exposures secured by Mortgages on Immoveable Property	1,660
Collective Investment Undertakings (CIUs)	329
Other	1,230
Total	**11,072**

4.3 Market Risk Capital Requirement

The market risk capital requirement of the Bank is not significant, comprising a foreign exchange risk charge of €74,208.

Appendix I - Pillar 3 Disclosures as at 31 December 2020

4.4 Operational Risk Capital Requirement

The gross income registered by the Bank in 2020, 2019 and 2018 amounted to €5,941,863, €6,458,838 and €5,804,885 respectively. The operational risk capital requirement for 2020 amounted to €910,279.

4.5 Calculation of minimum capital requirement and risk-weighted assets

	Statement of financial position value	Risk weighted exposure	Capital requirement	Statement of financial position value	Risk weighted exposure	Capital Requirement
	2020	**2020**	**2020**	2019	2019	2019
	€	**€**	**€**	€	€	€
On balance sheet assets						
Cash and cash equivalents	**1,531,011**	**-**	**-**	24,007	-	-
Balances with Central Bank of Malta	**18,581,607**	**-**	**-**	39,063,302	-	-
Investments	**109,304,630**	**20,757,598**	**1,660,608**	81,369,795	22,647,483	1,811,799
Loans and advances to banks	**22,695,594**	**4,539,119**	**363,130**	40,549,407	8,109,881	648,790
Factored receivables	**99,155,608**	**46,125,716**	**3,690,057**	105,412,199	97,548,647	7,803,892
Other loans and advances to customers	**121,555,833**	**53,532,546**	**4,282,604**	86,522,549	14,637,194	2,082,760
Property and equipment	**11,994,449**	**11,994,449**	**959,556**	11,618,961	11,618,961	929,517
Intangible assets	**1,550,091**	**-**	**-**	1,633,259	-	-
Prepayments and accrued income	**2,928,117**	**2,928,115**	**234,249**	2,227,725	2,227,725	178,218
	389,296,940	**139,877,543**	**11,190,203**	368,421,204	156,789,891	13,454,976
Off balance sheet items						
Commitments	**96,000,451**			71,868,667		
Credit risk capital requirement		**139,877,543**	**11,190,203**		156,789,891	13,454,976
Foreign exchange risk capital requirement		**927,597**	**74,208**		1,173,412	93,873
Operational risk capital requirement		**11,378,491**	**910,279**		11,987,500	959,000
Total capital requirement		**152,183,631**			169,950,803	
Total own funds	**30,825,934**			**31,514,970**		
Capital adequacy ratio			**20%**			19%

4.6 Liquidity Coverage Ratio

The Liquidity Coverage Ratio (LCR) metric measures a bank's liquidity risk profile based on the stock of unencumbered high-quality liquid assets (HQLA) which can be easily converted in financial markets at no, or little loss of value, in relation to the estimated total net cash outflows over a 30-calendar day stress scenario.

The goal of this stress test is to ensure that the institution can meet its liquidity needs for a 30-day hypothetical financial stress scenario. The LCR is governed by the Liquidity Coverage Ratio Delegated Act (EU) 2015/61 which became a minimum regulatory standard from 1 October 2015. As of January 1, 2019, the minimum LCR regulatory limit required for banks is 100%.

The LCR ratio as at 31 December 2020 was 4,322% (2019: 7,785%). As at 31 December 2020 and 2019 and during the respective financial periods, the LCR ratio was within both the regulatory minimum and the risk appetite set by the Bank.

4.7 Leverage Ratio

The Leverage Ratio (LR) tool was designed by the Basel Committee on Banking Supervision (BCBS) as an easy and understandable metric to mitigate against risks of excessive leverage. This measure was introduced to serve as a complementary tool with other approaches to risk-based capital requirements, and the European Banking Authority (EBA) established, by Regulation (EU) No 1093/2010 of the European Parliament and of the Council, that the leverage ratio requirement should be calibrated at 3%.

The leverage ratio is calculated as the capital measure, which shall be the Tier 1 Capital according to Article 25 of the CRR, divided by the total exposure measure comprising of both on and off-balance sheet exposures, net of any deductions applied directly to Tier 1 Capital.

The leverage ratio as at 31 December 2020 was 8.62% (2019: 8.92%). As at 31 December 2020 and 2019 and during the respective financial periods, the leverage ratio was within both the regulatory minimum and the risk appetite set by the Bank.

5 CREDIT RISK

5.1 Credit risk

Credit risk is the risk of financial loss to the Bank if a customer or counterparty to the financial instrument fails to meet its contractual obligations. For risk management reporting purposes, the Bank considers and consolidates all elements of credit risk exposure (such as individual obligor default risk, country and sector risk).

The Bank follows standards, policies and procedures established by the Board of Directors for the control and monitoring of all risks. The Board of Directors has delegated the responsibility for the management of credit risk to the Credit Committee. The Bank's management is responsible for the oversight of the Bank's credit risk. The Bank's credit risk policies and procedures are reviewed regularly through internal audit.

5.2 Definition of 'past due' and 'impaired' for accounting purposes

Impaired factored receivables

These comprise factored receivables for which the Bank determines an expected credit loss based on the probability that it will be unable to collect all principal and interest due according to the contractual terms of the factored receivables agreements.

Allowance for impairment on factored receivables

	2020	2019
	€	€
Factored receivables – gross	**99,957,094**	**106,240,702**
12-month ECL	**84,165**	**124,541**
Lifetime ECL	**717,320**	**703,961**

Table 5.2 Neither past due nor impaired loans and securities

	2020	2019
	€	€
Loans and advances to customers	**121,768,023**	**86,366,258**
Loans and advances to banks	**22,695,594**	**40,549,407**
Investment securities	**109,304,630**	**81,369,795**
	253,768,247	**208,285,460**

5.3 Description of approaches and methods adopted for determining value adjustments and provisions

Allowances for impairment

The Bank establishes an allowance for expected credit losses that represents its estimate of expected losses in its factored receivables and loans & advances portfolios. The main components of this allowance are outlined in note 4.4 of the financial statements.

	2020	2019
	€	€
Allowance for expected credit losses on factored receivables	**801,485**	828,503
Allowance for expected credit losses on loans and advances	**379,710**	231,091

Izola Bank p.l.c.

Appendix I - Pillar 3 Disclosures as at 31 December 2020

Table 5.3 Total period end and average exposures after individual impairment and prior to credit risk mitigation by exposure class.

	Exposure as at 31/12/2020	Average Exposure for period to 31/12/2020
	€ 000s	€ 000s
Central Government or Central Banks	92,093	89,513
Corporates	110,063	108,526
Institutions	22,696	22,620
Secured by mortgages	48,501	39,788
Retail	79,514	81,899
Equities & CIUs	20,609	14,279
Other	15,821	15,029
Total	**389,297**	**371,654**

Table 5.4 Geographic distribution of exposure classes

	Malta	Europe	Rest of the World	Total
	€ 000s	€ 000s	€ 000s	€ 000s
Central Government or Central Banks	92,035	58	-	92,093
Corporates	39,738	69,312	1,013	110,063
Secured by mortgages	47,731	770	-	48,501
Institutions	5,736	16,960	-	22,696
Equities & CIUs	-	20,609	-	20,609
Retail	70,685	8,829	-	79,514
Other	14,767	1,052	2	15,821
Total	**270,692**	**117,590**	**1,015**	**389,297**

Table 5.5 Distribution of the exposures by industry/counterparty type

	Central Government or Central Banks	Corporates	Institutions	Secured by mortgages	Equities & CIUs	Retail	Other	Total
	€ 000s	€ 000s	€ 000s	€ 000s	€ 000s	€ 000s	€ 000s	€ 000s
Monetary Financial Institutions	20,230	-	22,696	-	20,609	-	-	63,535
Sovereigns	71,863	-	-	-	-	-	-	71,863
Manufacturing	-	10,325	-	-	-	901	-	11,226
Wholesale and retail trade	-	36,711	-	10,454	-	2,959	-	50,124
Real estate, renting and business activities	-	2,791	-	10,274	-	982	-	14,047
Construction	-	12,380	-	9,427	-	8,404	-	30,211
Households	-	-	-	506	-	60,859	-	61,365
Other	-	47,856	-	17,840	-	5,409	15,821	86,926
Total	**92,093**	**110,063**	**22,696**	**48,501**	**20,609**	**79,514**	**15,821**	**389,297**

Table 5.6 Residual Maturity Breakdown of the exposures				
	< 1 year	1 – 5 years	> 5 years	Total
	€ 000s	€ 000s	€ 000s	€ 000s
Central Government or Central Banks	32,068	36,225	23,800	92,093
Corporates	61,114	25,297	23,652	110,063
Institutions	21,796	-	900	22,696
Secured by mortgages	19,703	13,849	14,949	48,501
Retail	23,329	54,706	1,479	79,514
Equities & CIS	20,609	-	-	20,609
Other	1,784	-	14,037	15,821
Total	**180,403**	**130,077**	**78,817**	**389,297**

5.4 Past Due Exposures and Impaired Assets

Table 5.7 Impaired, past due exposures and provisions by industry sector		
Standardised exposure classes	Expected Credit Losses	Charged to income statement in the year ended 31 December 2020
	€ 000s	€ 000s
Central Government or Central Banks	-	-
Corporates	1,071	11
Institutions	-	-
Retail	40	40
Secured by mortgages	70	70
Equities & CIUs	-	-
Other	-	-
Total	**1,181**	**121**

Table 5.8 Impaired, past due exposures and provisions by geographic area		
Standardised exposure classes	Expected Credit Losses	Charged to income statement in the year ended 31 December 2020
	€ 000s	€ 000s
Malta	56	16
Europe	1,125	105
Rest of the World	-	-
Total	1,181	**121**

Table 5.9 Movement in allowances for impaired and past due exposures and provisions	
	Individual & collective provisions
	€ 000s
Opening balance	1,060
Expected credit loss increase	121
Closing balance	**1,181**
Amounts written off	51

6 STANDARDISED APPROACH TO CREDIT RISK

6.1 Exposure to Institutions

Fitch Rating Agency is the External Credit Assessment Institution (ECAI) used to rate exposures to institutions. The external ratings are mapped to the prescribed credit quality assessment scale that in turn produces standard risk weightings in line with Article 119 of the Credit Requirements Regulations (CRR).

The following table shows the exposure values before and after Credit Risk Mitigation associated with the credit quality step under the Standardised Approach.

Table 6.1 Institutions				
Credit Quality Step	Risk Weight	Regulation - Ratings	Exposure	Exposure After CRM
			€ 000s	€ 000s
1	20%	Art. 121(3) - Fitch AAA to A	22,696	4,580

6.2 Exposure to Central Government and Central Bank

Exposures to central government and central bank denominated and funded in the domestic currency of the central government and central bank are assigned a risk weight of 0% in line with Article 114(4) of the CRR.

Table 6.2 Central Government and Central Bank				
Credit Quality Step	Risk Weight	Banking Regulation	Exposure	Exposure After CRM
			€ 000s	€ 000s
1	0%	Art. 114(4)	92,093	-

6.3 Exposure to Retail & Corporates (including SMEs)

A large part of corporate exposures has a 0% risk weighting as it is cash secured. A number of corporate exposures are secured by real estate and are allocated a 35% or 50% risk weighting. The rest are allocated a 75% or 100% risk weighting as they are unsecured with a portion subject to a reduction by virtue of the application of the SME support factor.

Table 6.3 Corporates				
Credit Quality Step	Risk Weight	Banking Regulation	Exposure	Exposure After CRM
			€ 000s	€ 000s
1	0%	Art. 400(1) (g)	49,071	-
2	35%	Art. 125(1) (a)	16,274	5013
3	50%	Art. 126(1) (a)	32,227	15,731
4	75%	Art. 123 (a) (b) (c)	79,514	55,124
5	100%	Art. 122 (2)	39,176	38,463

7 REMUNERATION POLICY

The Board has established a Remuneration Policy the aim of which is to increase transparency when offering remuneration and benefits to the Bank's staff. More details concerning remuneration are provided with the remuneration report as part of the Annual Report 2020.

8 CREDIT RISK MITIGATION

8.1 Collateral

Analysis of collateral is disclosed in Note 4.4.3 of the Annual Report 2020.

Table 8.1 Exposure value covered by eligible financial collateral	
	€ 000s
Central Government or Central Banks	-
Corporates	61,606
Institutions	-
Retail	71,627
Total	**133,233**

9. CONCLUSION

This disclosure document has been prepared in accordance with the requirements of Banking Rule 7 issued by the Malta Financial Services Authority (MFSA).

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Appendix II - Five-Year Summary

Statement of Profit or Loss and Other Comprehensive Income

	2020	2019	2018	2017	2016
	€	€	€	€	€
Interest receivable and similar income	10,575,188	10,158,455	8,081,029	7,065,787	6,299,029
Interest payable and similar charges	(5,011,314)	(3,972,954)	(2,627,953)	(2,544,779)	(2,314,406)
Net interest income	5,563,873	6,185,501	5,453,076	4,521,008	3,984,623
Fee and commission income	66,892	62,351	33,658	431,604	432,094
Other operating income	311,098	210,986	318,151	2,149,619	1,717,951
Other operating charges	(5,164,175)	(3,873,224)	(3,497,085)	(3,195,559)	(2,391,099)
Net impairment gain/losses	(172,797)	(90,400)	134,698	(349,741)	(28,431)
Profit before tax	604,891	2,495,213	2,442,498	3,556,931	3,715,138
Income tax expense	(219,671)	(1,034,473)	(934,319)	(1,295,527)	(1,448,751)
Profit for the year	385,220	1,460,740	1,508,179	2,261,404	2,266,387
Other comprehensive income for the year, net of income tax	27,507	875,549	(245,292)	(117,779)	(431,410)
Total comprehensive income for the year	412,727	2,336,289	1,262,887	2,143,625	1,834,977
Earnings per share	0.96	3.65	3.77	5.65	5.67

Izola Bank p.l.c.

Appendix II - Five-Year Summary

Statement of Financial Position

	2020	2019	2018	2017	2016
	€	€	€	€	€
ASSETS					
Cash and items in transit	1,531,011	24,007	816	2,587	2,084
Balances with Central Bank of Malta	18,581,607	39,063,302	2,512,597	1,948,344	10,351,518
Investments	109,304,630	81,369,795	42,111,712	57,213,412	66,925,325
Loans and advances to banks	22,695,594	40,549,407	18,788,220	20,079,499	31,788,316
Factored receivables	99,155,608	105,412,199	86,260,140	48,583,631	20,237,200
Other loans and advances to customers	121,555,833	86,522,549	74,286,614	65,524,805	61,350,109
Property and equipment	11,994,449	11,618,961	10,264,853	10,343,320	3,226,026
Intangible assets	1,550,091	1,633,259	1,653,214	1,634,529	1,560,192
Other assets	2,103,758	1,576,048	1,275,436	1,299,677	1,979,181
Current tax asset	824,359	562,378	-	-	-
Total assets	389,296,940	368,331,905	237,153,602	206,629,804	197,419,951
LIABILITIES					
Balance owed to Central Bank of Malta	35,000,000	-	13,000,000	16,300,000	21,300,000
Deposits from banks	250,576	250,322	250,068	-	-
Deposits from customers	304,384,729	319,737,813	177,157,086	145,767,422	132,337,023
Debt securities in issue	11,923,078	11,905,989	11,888,899	11,871,811	11,854,721
Deferred tax liabilities	845,309	777,023	560,484	724,009	1,579,636
Current tax payable	-	-	802,074	1,154,671	549,126
Accruals	2,809,505	1,989,742	1,410,264	1,340,051	1,330,887
Total liabilities	355,213,197	334,660,889	205,068,875	177,157,964	168,951,393
EQUITY					
Called up share capital	10,000,000	10,000,000	10,000,000	10,000,000	10,000,000
Property revaluation reserve	3,521,238	3,696,144	2,629,651	2,657,412	961,468
Fair value reserve	639,250	436,837	627,781	876,876	2,663,593
Depositor compensation scheme reserve	1,707,717	628,571	409,640	354,523	238,387
Reserve for general banking risk	3,860	3,860	6,470	36	217
Capital contribution	17,032,675	17,032,675	16,032,675	12,532,675	11,436,521
Retained earnings	1,179,003	1,872,929	2,378,510	3,050,318	3,168,372
Total equity attributable to equity holders of the Bank	34,083,743	33,671,016	32,084,727	29,471,840	28,468,558
Total liabilities and equity	389,296,940	368,331,905	237,153,602	206,629,804	197,419,951
Memorandum items Commitments	96,000,451	71,868,667	88,918,753	60,202,304	42,580,312

Izola Bank p.l.c.

Appendix II - Five-Year Summary

Statement of Cash Flows

	2020	2019	2018	2017	2016
	€	€	€	€	€
Net cash from operating activities	(8,670,825)	99,049,941	(17,094,320)	(23,180,595)	21,140,824
Cash flows from investing activities					
Payments to acquire property, equipment and intangible assets	(1,022,615)	(683,999)	(559,531)	(5,839,157)	(852,138)
Payments to acquire investments	(87,609,086)	(50,641,277)	(9,412,713)	(12,604,899)	(20,884,368)
Proceeds from disposals of investments	59,299,333	10,672,792	24,129,036	21,170,143	7,353,517
Interest received from investments	1,714,435	1,227,372	949,252	1,524,330	1,625,087
Dividend received	-	-	199,411	262,536	227,943
Net cash used in investing activities	(27,617,933)	(39,425,112)	15,305,456	4,512,953	(12,529,959)
Cash flows from financing activities					
Dividends paid to shareholders	-	(1,750,000)	(2,150,000)	(2,000,000)	(2,000,000)
Net capital contribution received	-	1,000,000	3,500,000	1,096,154	953,617
Interest paid on debt securities	(540,000)	(540,000)	(540,000)	(540,000)	(540,000)
Net cash from / (used in) financing activities	(540,000)	(1,290,000)	810,000	(1,443,846)	(1,586,383)
Net movement in cash and cash equivalents	(36,828,758)	58,334,829	(978,865)	(20,111,488)	7,024,482

Izola Bank p.l.c.

Appendix II - Five-Year Summary

Accounting Ratios

	2020	2019	2018	2017	2016
	%	%	%	%	%
Net interest income and other operating income to total assets	1.53	1.75	2.45	3.44	3.11
Operating expenses to total assets	1.37	1.08	1.42	1.72	1.23
Profit before tax to total assets	0.16	0.68	1.03	1.72	1.88
Pre-tax return on capital employed	2.14	8.63	8.60	13.90	15.10
Profit after tax to equity	1.13	4.34	4.70	7.67	7.96

Izola Bank p.l.c.

Appendix III – Supplementary Financial Information

Directors' interest in the share capital of the Bank or in any related company as at 31 December 2020

No director has a direct beneficial or non-beneficial interest in the share capital of the Bank.

Magdalena De Roeck and Caroline Van Marcke have an indirect beneficial interest in the shareholding of the Bank through their indirect shareholding in VMKG PLLC, a company registered in Belgium with registration number 0447.152.677. VMKG PLLC is the ultimate holding company of the Group to which the Bank belongs.

Furthermore, Magdalena De Roeck and Caroline Van Marcke are also directors of IBL I Limited and IBL T Limited and other companies forming part of the Group. VMT S.A and IVM S.A are the trading and industrial holding companies of the Van Marcke Group respectively.

	Type & class of shares	**Issued shares**	**Percentage paid up**	**Nominal value per share**
IBL I Limited C 16321				
VMT S.A	Ordinary	24,999	100	€24.79
IVM S.A	Ordinary	1	100	€24.79
IBL T Limited C 16322				
VMT S.A	Ordinary	24,999	100	€24.79
IVM S.A	Ordinary	1	100	€24.79
Shareholders holding 5% or more of the Share Capital as at 31st December 2020				
IBL I Limited	Ordinary "A"	1	100	€25.00
IBL T Limited	Ordinary "B"	399,999	100	€25.00

Number of Shareholders

Class	**Number of Shares**	**Number of Holders**
Class A	1	1
Class B	399,999	1

Range	**Class "A"**	**Class "B"**
1 – 5,000	1	-
5,001 & over	-	1

As at date of publication of the annual report, no changes were effected to the shareholding structure.