

26 April 2023

COMPANY ANNOUNCEMENT

The following is a Company Announcement issued by Izola Bank p.l.c. (“the Bank”) pursuant to the Capital Markets Rules.

Quote

The Board of Directors of Izola Bank p.l.c. has approved the Annual Report for the financial year ended 31 December 2022 and its publication. The Bank’s ESEF Annual Report and Financial Statements have been made available publicly on the Company’s website at <https://www.izolabank.com/mt-en/who-we-are/investor-information/annual-reports-financial-statements>.

The ESEF Annual Report & Financial Statements for the year ended 31 December 2022, and Directors’ Declaration on ESEF Annual Report & Financial Statements 2022 can be viewed on the Malta Stock Exchange website (the officially appointed mechanism) at <https://borzamalta.com.mt/>.

The Directors’ Declaration is attached to this company announcement.

Overview of performance

During the year ended 31 December 2022, the Bank managed to generate growth in its revenue streams, increasing its net interest income by 24% over 2022 levels. Net interest income, which is by far the primary indicator of business performance, grew by €1,484,302 compared to the previous year. This increase resulted in an overall 16% improvement in operating income.

The Financial Year 2022 was also characterised by several exceptional charges, which ultimately resulted in the Bank registering a marginal loss after tax for the year of €284,219. These exceptional charges included one-time costs related to the exchange offer accompanying our subordinated bond issue and a change in IFRS9 provisioning models, resulting in higher Expected Credit Loss (ECL) charges. The Bank also recognised accelerated depreciation on various IT systems that are being replaced as part of the digital transformation programme. Finally, increases in Depositor Compensation Scheme (DCS) contributions due to changes in relevant legislation also contributed to these extraordinary charges.

The impact of these items on the final results is tabulated below, showing clearly a strong improvement in core profitability of 58%.

	2022	2021	
(Loss)/Profit before tax	(387,806)	820,157	
<i>Less</i>			
Trading Gains (one-off)	-	(442,395)	
<i>Add back</i>			
Accelerated depreciation	313,442	379,605	
Impairment provisions from a change in the ECL model	548,632	-	
Depositor Compensation Scheme	345,048	-	
Bond Issue Costs	377,366	-	
Profit before tax from core operations	1,196,682	757,367	58%

The Bank's total assets increased by 4.7% to €421,489,266, mainly driven by growth in the lending and factoring portfolios. Factored receivables increased by €23.3 million, or 25%, on the prior year, whilst lending increased by €29 million, or 22%, compared to 2021. The investment portfolio decreased by €25.7m compared to December 2021, mainly driven by the liquidation of treasury assets to partially fund new business and fair value adjustments due to increased yields.

As of 31 December 2022, the Bank remained well capitalised, with the Capital Adequacy Ratio (CAR) and Core Equity Tier 1 (CET1) Ratio standing at 22.12% and 13.35%, respectively, well within the capital requirements established following the Supervisory Review and Evaluation Process (SREP) by the Malta Financial Services Authority (MFSA). The downward movement in the Bank's CET1 ratio was mainly a result of adverse movements on highly rated sovereign bonds classified as hold-to-collect-and-sell (HTC&S), which, following the increase in term market yield curves, impacted revaluation reserves negatively by €10.3m.



izola Bank

In Financial Year 2022, the Board determined that this portfolio of high-quality liquid assets would be specifically allocated solely to manage liquidity buffers due to its eligibility as collateral that enables funding through, amongst others, ECB operations. Tighter management of liquidity buffers was deemed even more important in light of the significant launch of the mortgage business line, first locally in 2022, followed by the Netherlands in 2023.

Accordingly, management reconfirms the decision taken in 2022 to reclassify this bond portfolio out of the FVOCI category into the amortised cost category in Financial Year 2023, as these financial instruments are exclusively held within a business model whose objective is to hold financial assets to collect contractual cash flows. This direction is clearly demonstrated by the fact that no selling activity was conducted in 2022 in relation to such instruments. This will result in a positive impact on capital ratios.

The Bank's Liquidity Cover Ratio (LCR) of 725% is significantly above European banking sector norms and results from the Bank's stable, predominantly retail funding base with a high percentage of fixed-term rather than demand deposit funding.

Besides focusing on growing the retail mortgage portfolio, in 2023, the Bank will remain committed to nurturing its factoring operations, corporate lending activity, and deposit-raising capacity, mainly through our Izola Saver platform. Current economic and market conditions brought about by the unexpected resurgence of an unstable geopolitical and macroeconomic climate due to the Russian invasion of Ukraine, supply chain disruptions and rising interest rates, as Central Banks attempted to rein in inflation after over a decade of very loose monetary policy, merit that we approach the future with restraint.

Finally, 2023 will also be a milestone year when, after 29 years of operations from our various premises in East Street, Valletta, we will move to our new head office at Castille Place, Valletta. This will allow the Bank's staff to work together under one roof and provide more brand visibility due to the landmark location.

Unquote



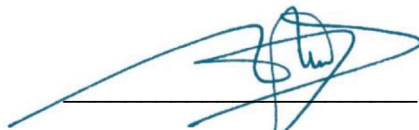
Calvin Bartolo
Company Secretary

26 April 2023

**DIRECTORS' DECLARATION
ON ESEF ANNUAL REPORT AND FINANCIAL STATEMENTS 2022**

We, Guido Mizzi and Andrew Mifsud, in our capacity as Directors of Izola Bank p.l.c. (Company registration number: C 16343), hereby **certify**:

- i. That the Annual Report and Financial Statements 2022 ("ARFS") for the year ended 31 December 2022 has been approved by the Board of Directors of the Company and is hereby being made available to the public.
- ii. That the ARFS has been prepared in terms of the applicable rules and regulations, including the Commission Delegated Regulation on the European Single Electronic Format ("ESEF")¹ and the Capital Markets Rules².
- iii. That the Audit Report on the ESEF ARFS is an exact copy of the original signed by the auditor and that no alterations have been made to the audited elements of the ARFS including the annual financial statements.
- iv. That the ARFS shall serve as the official document for the purposes of the Capital Markets Rules and the Companies Act (Chapter 386 of the Laws of Malta).



Mr. Andrew Mifsud
Director



Francis Gouder
Director

¹ Commission Delegated Regulation 2019/815 on the European Single Electronic Format, as may be further amended from time to time.

² Capital Markets Rules as issued by the Malta Financial Services Authority (MFSA).