COMPANY ANNOUNCEMENT

Condensed Interim Financial Statements 2021

Date of Announcement: 29 July 2021
Reference No: APSB14

The following is a Company Announcement issued by APS Bank plc (or the "Bank") pursuant to the Listing Rules of the Listing Authority.

Quote

The Board of Directors of APS Bank plc met on 29 July 2021 and approved the attached Condensed Interim Financial Statements for the period ended 30 June 2021.

During the six months under review, the business landscape remained over-shadowed by the COVID-19 pandemic. Against this background, the financial results for the period reflect the strength and resilience of the Group's business model, taking a pragmatic approach and adjusting itself throughout the various pandemic phases. The Bank continued growing the retail and commercial loan book through new or renewed support measures. It is encouraging to note that the vast majority of lending moratoria granted to personal clients have returned to satisfactory performance, reflecting in a release of credit losses recognised in the prior financial year. During the period the Bank has ably managed its position across liquidity and funding costs, maintaining a level of liquidity commensurate with the business risks whilst safeguarding interest margins. Concurrently it continued executing its investment programme in digital and physical infrastructure, innovation, risk and compliance management – all supported by capacity strengthening with the engagement and skilling of the human talent.

The following is an extract from the Condensed Interim Financial Statements for the period ended 30 June:

	The Group		**The Bank**	
	Jun-21	**Jun-20**	**Jun-21**	**Jun-20**
Net interest income (€ mio)	26.3	23.9	25.6	23.4
Operating income before net impairments (€ mio)	30.4	26.7	29.1	27.5
Net impairment gains / (losses) (€ mio)	1.7	(1.4)	1.7	(1.4)
Operating costs (€ mio)	(19.8)	(15.9)	(19.3)	(15.8)
Profit before tax (€ mio)	12.2	8.9	11.5	10.3
ROAE (%)	7.7	5.6	7.8	7.5
Capital Adequacy Ratio (%)	17.5	15.5	17.3	14.7
Cost/Income (%)	65.2	59.7	66.4	57.6
	Jun-21	**Dec-20**	**Jun-21**	**Dec-20**
Loan book (€ mio)	1,932	1,802	1,932	1,802
Customer deposits (€ mio)	2,305	2,123	2,305	2,124
Total equity (€ mio)	212	206	193	192
Total assets/liabilities (€ mio)	2,641	2,421	2,622	2,407

Financial Performance

For the period ended 30 June 2021, APS Group registered a pre-tax profit of €12.2 million (2020: €8.9 million) while the Bank posted a pre-tax result of €11.5 million (2020: €10.3 million).

Net interest income was the main contributor to the Group's profitability registering a total of €26.3 million (2020: €23.9 million). This was mainly attributable to interest receivable on loans and advances, which as at 30 June 2021 amounted to €30.3 million (2020: €27.8 million). The growth in interest revenue was a direct result of 10% growth in both personal and commercial lending. Interest expense was consistent with the comparative period as the Group's funding and related costs continue being managed with the aim to preserve superior net interest margins.

Net fee and commission income for the period was €2.8 million marginally lower than the result for the comparative period (2020: €2.9 million). Whilst fee income increased by €0.7 million (18%), this was offset by an increase in card and other financial charges.

Other operating income totalled €1.3 million (2020: loss of €0.1 million loss). This was mainly due to net gains on foreign exchange and net gains on financial instruments, which registered an increase of €0.5 million and €0.8 million respectively compared to €0.1 million loss in the comparative period. Notwithstanding the ongoing market volatility, the Group's subsidiaries, APS Diversified Bond Fund and APS Global Equity Fund returned a positive performance, effectively contributing to the net gain on financial instruments realised by the Group of 0.6 million (2020: €0.03 million loss).

Operating expenses for the period increased by 24.2% to €19.8 million. The rise was anticipated and mainly driven by factors that have been dominating the Group's focus in the current environment. Foremost is the continuous investment in human resources in a market where pressures on labour and talent have never been greater. Cost increases are also arising from regulatory requirements, telecommunications, licences, insurance and maintenance agreements, to name a few. Furthermore, several projects are also underway aimed to achieve a stronger position for the Group in the market.

Net impairment charges on expected credit losses amounted to a write back of €1.7 million compared to the charge of €1.4 million for the corresponding 2020 period. This drop is mainly related to the loans and advances to customers portfolio which during the reporting period posted a write back of €1.9 million – a reflection of the performance of underlying loans which had indications of a significant increase in credit risk at the end of the last financial year and also affirming the Group's prudent approach toward its risk appetite and credit lending policies.

Financial Position

At 30 June 2021, the Group's total assets reached €2.64 billion, recording an additional growth of €220.2 million. Loans and advances to customers and additional cash balances held at the Central Bank of Malta were the key drivers to this, increasing by €122.4 million and €89.1 million respectively. Overall, the growth in loans and advances to customers particularly stemmed from the demand for home finance which expanded by 7.4% (€83.1million) to €1.21 billion.

The Group's funding grew by 9.7%, mainly resulting from an increase in customers' deposits by €181.3 million. The Liquidity Coverage Ratio ("LCR") at June 2021 stood at 174.2% (31 December 2020: 138.9 %). Group Total Equity at 30 June 2021 stood at €212.4 million, increasing by €6.2 million (December 2020: €206.2 million). At Group level, CET1 ratio was at 13.4% whilst the Capital Adequacy Ratio at 17.5% (December 2020: 15.1% and 19.5% respectively).

Interim dividend

Taking into account the regulatory limitations in force and the prevailing economic uncertainty resulting from the pandemic, the Board of Directors is not recommending an interim dividend at this stage. The position will continue being assessed in the coming months with a view to consider the payment of a dividend later in the year.

Outlook

The increasing vaccination rate, low level of hospitalisations and deaths caused by the COVID-19 pandemic are favouring a continued easing of virus containment measures across Europe and in Malta, bringing economies towards a gradual improvement. Compared with six months ago, the outlook for the Maltese economy appears to be brighter for the second half of 2021 and 2022, with the European Commission and the IMF increasing their Malta real GDP growth forecasts. Several downside risks, however, remain. Firstly, the emergence and spread of new virus variants and secondly, the economic risks related to the possible negative consequences of the decision of the Financial Action Task Force (FATF) to add Malta to the list of jurisdictions under increased monitoring.

CEO Marcel Cassar commented:

"We are pleased to report this strong interim performance for APS Group which evinces the resilience of our business model to endure the prevailing uncertainty. As the pickup in business sentiment sees its way also in the impairment write-backs for the period, we maintain a prudent watch on credit underwriting and asset quality, mindful that pandemic-related developments, including the extent of rebound of key sectors such as tourism, continue to shape the landscape. The coming months will also see us invest further in enriching the customer experience, via our digital offering, product suite and accelerated transformation of the network. We shall also be focusing on more diversification of funding sources and developing new streams of non-banking income. Work has now started on the strategic discussion that will drive the 2022-2024 Business Plan and there is full alignment within the Management body about the key role which we must play in the community banking space. The wheels are also in motion for the Bank to approach the market in 2022 for Phase 3 of its Capital Development Plan, strengthening the equity base while also setting the platform for our next stage of development."

The Condensed Interim Financial Statements for the period ending 30 June 2021 can be viewed on the Bank's website https://www.apsbank.com.mt/financial-information

Unquote

Graziella Bray B.A., LL.D
Company Secretary

APS bank
values you can bank on

CONDENSED INTERIM FINANCIAL STATEMENTS 2021

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DIRECTORS' REPORT PURSUANT TO LISTING RULE 5.75.2

The Directors present their report together with the Condensed Interim Financial Statements of APS Bank plc (the Bank) for the six months ended 30 June 2021. The report is prepared in accordance with Rule 5.75.2 in terms of the Listing Rules issued by the Listing Authority.

APS Group comprises APS Bank plc, ReAPS Asset Management Limited, APS Diversified Bond Fund and APS Global Equity Fund (sub-funds of APS Funds SICAV plc). The Group also has a significant investment in its associates IVALIFE Insurance Limited, APS Income Fund and APS Regular Income Ethical Fund (the latter funds are also sub-funds of APS Funds SICAV plc).

RESULTS FOR THE PERIOD

The Condensed Interim Financial Statements have been prepared in accordance with IAS 34 Interim Reporting as adopted by the EU. These published financial statements have been extracted from the Group's unaudited accounts for the six months ended 30 June 2021 as approved by the Board of Directors on 29 July 2021.

For the six months ending 30 June 2021, the Group posted a pre-tax profit of €12.2 million compared to the €8.9 million in the comparative period, registering a post-tax return on average equity of 7.7% (2020: 5.6%).

During the six months under review, the business landscape was over-shadowed, yet again, by the COVID-19 pandemic. Since December the global vaccination programme has picked up pace, aided by a number of approved vaccines and general acceptance by the wider population. The advent of new virus variants has however disrupted government plans to ease mobility restrictive measures and has created a new dimension of uncertainty on the back of the higher contagion incidence the variants brought about. These challenges at the health level extended to the local economic environment. On the credit side, players in different sectors benefitted from the relative ease of restrictive measures. Others, in the sectors critically impacted by the pandemic, sought an extension of the support measures granted in the earlier days of the pandemic as they continue facing a volatile market. Contrasting this, the economy continued experiencing a constant flow of liquidity, providing a measure of reassurance to the banking system, but likewise providing revenue challenges in the prevailing negative interest rate environment.

Against this background, the financial results for the period reflect the strength and resilience of the Group's business model. APS continued taking a pragmatic approach and adjusting itself throughout the various pandemic phases. The Bank continued growing the retail home-loan book and likewise supporting the commercial clients through new lending or renewed support measures. It is encouraging to note that the vast majority of lending moratoria granted to personal clients have returned to satisfactory performance, reflecting in a release of credit losses recognised in the prior financial year. During the period the Bank has ably managed its position across liquidity and funding costs, maintaining a level of liquidity commensurate with the business risks whilst safeguarding interest margins. Concurrently it continued executing its investment programme in digital and physical infrastructure, innovation, risk and compliance management – all supported by capacity strengthening with the engagement and skilling of the human talent.

The Group's vision to be the community bank in Malta continued steering the Bank in supporting its customers to flourish, ensure their business continuity and lessen the impact of the current turbulent economic landscape.

INCOME STATEMENT

Net interest income was the main contributor to the Group's profitability registering a total of €26.3 million (2020: €23.9 million). This was mainly attributable to interest receivable on loans and advances, which as at 30 June 2021 amounted to €30.3 million (2020: €27.8 million). The growth in interest revenue was a direct result of 10% growth in both personal and commercial lending. Interest expense was consistent with the comparative period as the Group's funding and related costs continue being managed with the aim to preserve superior net interest margins.

DIRECTORS' REPORT PURSUANT TO LISTING RULE 5.75.2 (continued)

INCOME STATEMENT (CONTINUED)

Net fee and commission income for the period was €2.8 million marginally lower than the result for the comparative period (2020: €2.9 million). Whilst fee income increased by €0.7 million (18%), this was offset by an increase in card and other financial charges.

Other operating income totalled €1.3 million (2020: loss of €0.1 million loss). This was mainly due to net gains on foreign exchange and net gains on financial instruments, which registered an increase of €0.5 million and €0.8 million respectively compared to €0.1 million loss in the comparative period. Notwithstanding the ongoing market volatility, the Group's subsidiaries, APS Diversified Bond Fund and APS Global Equity Fund returned a positive performance, effectively contributing to the net gain on financial instruments realised by the Group of €0.6 million (2020: €0.03 million loss).

Operating expenses for the period increased by 24.2% to €19.8 million. The rise was anticipated and mainly driven by factors that have been dominating the Group's focus in the current environment. Foremost is the continuous investment in human resources in a market where pressures on labour and talent have never been greater. Cost increases are also arising from regulatory requirements, telecommunications, licences, insurance and maintenance agreements, to name a few. Furthermore, several projects are also underway aimed to achieve a stronger position for the Group in the market.

Net impairment for the period amounted to a write back of €1.7 million compared to the charge of €1.4 million for the previous period. This drop is mainly related to the loans and advances to customers portfolio which during the reporting period posted a write back of €1.9 million – a reflection of the performance of underlying loans which had indications of a significant increase in credit risk at the end of the last financial year and also affirming the Group's prudent approach toward its risk appetite and credit lending policies.

ReAPS, as the Investment Manager of APS Funds SICAV plc, generated pre-tax profit of €0.3 million (2020: €0.1 million). Despite the impact of COVID-19 on financial markets, total assets managed by APS Funds SICAV plc stood at €190.2 million, increasing by 5.0% to year end.

The share of profits from the Group's investments in the APS Regular Income Ethical Fund and the APS Income Fund amounted to €0.1 million (2020: €0.5 million loss). IVALIFE obtained its licence to commence writing insurance business at the start of this reporting period, and the Group is recognising its share of loss of €0.1 million (2020: Nil).

FINANCIAL POSITION

At 30 June 2021, the Group's total assets reached €2.64 billion, recording an additional growth of €220.2 million. Loans and advances to customers and additional cash balances held at the Central Bank of Malta were the key drivers to this, increasing by €122.4 million and €89.1 million respectively. Overall, the growth in loans and advances to customers particularly stemmed from the demand for home finance which expanded by 7.4% (€83.1million) to €1.21 billion.

The Group's liabilities stood at €2.43 billion, growing by 9.7%. Despite the challenges and risks when considering the current economic landscape, the Group remained adequately liquid by growing and diversifying its deposits portfolio. Customers' deposits increased by €181.3 million contributing to 84.7% of the total increase in liabilities, with the main driver being overnight deposits, which amount to 72% of the overall growth. The Liquidity Coverage Ratio ("LCR") at June 2021 stood at 174.2% (31 December 2020: 138.9 %).

Group Total Equity at 30 June 2021 stood at €212.4 million, increasing by €6.2 million (December 2020: €206.2 million). At Group level, CET1 ratio was at 13.4% whilst the Capital Adequacy Ratio at 17.5% (December 2020: 15.1% and 19.5% respectively).

DIRECTORS' REPORT PURSUANT TO LISTING RULE 5.75.2 (continued)

DIVIDENDS PAID

At the Annual General Meeting held on 14 May 2021 shareholders approved the payment of a gross dividend of €3.7 million (total net dividend of €2.4 million). A total net amount of €1.9 million was paid in cash, whilst €0.5 million was distributed as scrip dividend through the issue of 696,461 new ordinary shares.

OUTLOOK

The increasing vaccination rate, low level of hospitalisations and deaths caused by the COVID-19 pandemic are favouring a continued easing of virus containment measures across Europe and in Malta, bringing economies towards a gradual improvement. Compared with six months ago, the outlook for the Maltese economy appears to be brighter for the second half of 2021 and 2022, with the European Commission and the IMF increasing their Malta real GDP growth forecasts for the whole of 2021 to 5.6% and 5.75%, respectively.

Several downside risks, however, remain. Firstly, the emergence and spread of new virus variants, which might result in sudden and unpredictable new lockdown measures, hindering economic recovery and underscoring the importance of a further rapid increase in full vaccination (in Malta and amongst its main trading partners). Secondly, economic risks related to the possible negative consequences of the decision of the Financial Action Task Force (FATF) to add Malta to the list of jurisdictions under increased monitoring. If this status persists for a long period of time and corrective measures are not put in place swiftly, international investment and global financial connections might be significantly impacted.

As pandemic-related relief measures start being withdrawn, the domestic banking system enters a new phase, where private support to corporate and retail customers – where required – will ferry the sectors most affected by the pandemic, like accommodation, hospitality, retail and commercial real estate to the end of this challenging economic cycle. Return to growth will also be supported by a recovery in public and private investment, fuelled by the implementation of the Recovery and Resilience Plan.

When reporting on the first quarter results earlier this year, confidence was expressed that the Group's and Bank's business model was resilient enough to endure and overcome the prevailing uncertainty. At the same time, the extent of the rebound of key sectors such as tourism was going to be critical even for the short-to-medium term economic recovery. Despite the noticeable pickup in business sentiment as also reflected in the impairment write-backs for the period, the Bank is maintaining a prudent watch on credit underwriting and asset quality, mindful that pandemic-related developments continue to shape the landscape. As work now starts on the strategic discussion that will drive the 2022-2024 Business Plan, there is alignment, amongst the Board and Management about the leading role which the Bank must play in the community banking space.

In the coming months the Group will continue investing in its digital offering and product suite, enriching the customer experience also through continued transformation of its network. There is also optimism that the momentum of growth, supported by further diversification of funding sources and through new streams of non-banking income, will continue to create more revenue generating opportunities. The wheels are now also in motion for the Bank to approach the market in 2022 to complete Phase 3 of its Capital Development Plan, solidifying its equity base while also setting the platform for its next stage of development. Backed by a dedicated workforce across the Group, the Board looks forward to overcoming the current economic and market challenges and hopes of calmer waters ahead.

FREDERICK MIFSUD BONNICI
Chairman

FRANCO AZZOPARDI
Director

29 July 2021

STATEMENT OF DIRECTORS' RESPONSIBILITES

The Directors are responsible for the preparation and fair presentation of the condensed interim financial statements in accordance with the recognition and measurement principles of International Financial Reporting Standards as adopted by the EU and the presentation and disclosure requirements of IAS 34 *Interim Financial Reporting.* In preparing the condensed interim financial statements, the Directors should:

- Select suitable accounting policies and apply them consistently;
- Make judgements and estimates that are reasonable; and
- Prepare the financial statements on a going concern basis, unless it is inappropriate to presume that the Group will continue in business as a going concern.

The Directors are responsible for ensuring that proper accounting records are kept which disclose with reasonable accuracy at any time the financial position of the Group. This responsibility includes designing, implementing and maintaining such internal controls as the Directors determine is necessary to enable the preparation of these condensed interim financial statements that are free from material misstatement, whether due to fraud or error. The Directors are also responsible for safeguarding the assets of the Group, and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

STATEMENTS OF PROFIT OR LOSS

for the six months ended 30 June 2021

	Note	The Group Jun - 21 €000	The Group Jun - 20 €000	The Bank Jun - 21 €000	The Bank Jun - 20 €000
Interest receivable and similar income:					
On loans and advances and balances with the Central Bank of Malta		**30,315**	27,822	**30,315**	27,816
On debt and other fixed income instruments		**2,903**	2,939	**2,215**	2,385
Total interest receivable and similar income		**33,218**	30,761	**32,530**	30,201
Interest payable		**(6,905)**	(6,840)	**(6,905)**	(6,840)
Net interest income		**26,313**	23,921	**25,625**	23,361
Fee and commission income		**4,086**	3,456	**3,651**	3,419
Fee and commission expense		**(1,282)**	(606)	**(1,282)**	(606)
Net fee and commission income		**2,804**	2,850	**2,369**	2,813
Dividend income		**150**	118	**604**	955
Net gains / (losses) on foreign exchange		**179**	(281)	**157**	184
Net gains / (losses) on financial instruments		**753**	(90)	**196**	(57)
Other operating income		**182**	200	**182**	200
Operating income before net impairments		**30,381**	26,718	**29,133**	27,456
Net impairment gains / (losses)	3	**1,705**	(1,383)	**1,705**	(1,383)
Net operating income		**32,086**	25,335	**30,838**	26,073
Personnel expenses		**(10,404)**	(8,336)	**(10,196)**	(8,336)
Other administrative expenses		**(7,218)**	(5,729)	**(6,946)**	(5,590)
Depreciation of property and equipment		**(996)**	(888)	**(996)**	(888)
Amortisation of intangible assets		**(934)**	(756)	**(934)**	(755)
Depreciation of right-of-use assets		**(258)**	(236)	**(258)**	(236)
Operating expenses		**(19,810)**	(15,945)	**(19,330)**	(15,805)
Net operating profit before associates' results		**12,276**	9,390	**11,508**	10,268
Share of results of associates, net of tax		**(45)**	(525)	**-**	-
Profit before tax		**12,231**	8,865	**11,508**	10,268
Income tax expense	8	**(4,153)**	(3,463)	**(4,036)**	(3,425)
Profit for the period		**8,078**	5,402	**7,472**	6,843
Profit for the period attributable to:					
Equity holders of the parent		**7,731**	5,502	**7,472**	6,843
Non-controlling interest		**347**	(100)	**-**	-
		8,078	5,402	**7,472**	6,843

STATEMENTS OF COMPREHENSIVE INCOME

for the six months ended 30 June 2021

	The Group		The Bank	
	Jun - 21 €000	Jun - 20 €000	Jun - 21 €000	Jun - 20 €000
Profit for the period	**8,078**	5,402	**7,472**	6,843
Other comprehensive loss:				
Items that may be subsequently reclassified to profit and loss:				
Change in fair value on debt instruments measured at fair value through other comprehensive income (FVTOCI)	**(3,752)**	(1,461)	**(3,752)**	(1,461)
Release of fair value on disposal of debt instruments measured at FVTOCI	**(177)**	(117)	**(177)**	(117)
Deferred income tax related to the components of other comprehensive income (OCI)	**(298)**	(510)	**(298)**	(510)
Items that may not be subsequently reclassified to profit and loss:				
Change in fair value on equity instruments held at FVTOCI	-	25	-	25
Other comprehensive loss for the period, net of tax	**(4,227)**	(2,063)	**(4,227)**	(2,063)
Total comprehensive income for the period, net of tax	**3,851**	3,339	**3,245**	4,780
Total comprehensive income for the period attributable to:				
Equity holders of the parent	**3,504**	3,439	**3,245**	4,780
Non-controlling interest	**347**	(100)	-	-
	3,851	3,339	**3,245**	4,780

STATEMENTS OF FINANCIAL POSITION

as at 30 June 2021

	Note	The Group Jun - 21 €000	The Group Dec - 20 €000	The Bank Jun - 21 €000	The Bank Dec - 20 €000
ASSETS					
Cash and balances with Central Bank of Malta		**197,390**	108,330	**197,390**	108,330
Cheques in course of collection		**1**	103	**1**	103
Loans and advances to banks		**47,605**	51,068	**44,860**	46,281
Loans and advances to customers		**1,811,387**	1,689,003	**1,811,387**	1,689,003
Syndicated loans		**120,274**	113,152	**120,274**	113,152
Derivative financial instruments		**756**	499	**756**	499
Financial assets at fair value through profit or loss		**57,525**	50,636	**-**	251
Other debt and fixed income instruments		**313,412**	315,983	**313,412**	315,983
Equity and other non-fixed income instruments		**305**	303	**305**	303
Investment in subsidiaries		**-**	-	**45,250**	45,250
Investment in associates	9	**19,907**	18,641	**16,762**	15,262
Investment properties		**1,830**	1,830	**1,830**	1,830
Property and equipment	4	**45,636**	46,180	**45,636**	46,180
Intangible assets	4	**9,738**	8,848	**9,738**	8,848
Right of use assets		**5,052**	5,235	**5,052**	5,235
Deferred tax assets		**1,399**	2,553	**1,399**	2,553
Other receivables		**9,011**	8,619	**8,146**	7,974
TOTAL ASSETS		**2,641,228**	2,420,983	**2,622,198**	2,407,037
LIABILITIES					
Derivative financial instruments		**1,022**	499	**756**	499
Amounts owed to banks		**33,951**	9,304	**33,951**	9,304
Amounts owed to customers		**2,304,735**	2,123,446	**2,304,970**	2,124,149
Debt securities in issue		**54,574**	54,558	**54,574**	54,558
Current tax		**2,647**	1,399	**2,534**	1,354
Lease liabilities		**5,232**	5,365	**5,232**	5,365
Other liabilities		**14,766**	10,090	**15,474**	10,090
Accruals		**11,878**	10,103	**11,688**	10,031
TOTAL LIABILITIES		**2,428,805**	2,214,764	**2,429,179**	2,215,350
EQUITY					
Share capital		**62,429**	62,255	**62,429**	62,255
Share premium		**10,453**	10,140	**10,453**	10,140
Revaluation reserve		**28,033**	32,260	**28,033**	32,260
Retained earnings		**97,067**	91,736	**92,104**	87,032
Attributable to equity holders of the parent		**197,982**	196,391	**193,019**	191,687
Non-controlling interest		**14,441**	9,828	**-**	-
TOTAL EQUITY		**212,423**	206,219	**193,019**	191,687
TOTAL LIABILITIES AND EQUITY		**2,641,228**	2,420,983	**2,622,198**	2,407,037
MEMORANDUM ITEMS					
Contingent liabilities		**25,320**	23,128	**25,320**	23,128
Commitments		**831,560**	786,427	**831,560**	786,427

The interim financial statements were approved by the Board of Directors and authorised for issue on 29 July 2021 and signed on its behalf by:

FREDERICK MIFSUD BONNICI
Chairman

FRANCO AZZOPARDI
Director

MARCEL CASSAR
Chief Executive Officer

RONALD MIZZI
Chief Financial Officer

STATEMENTS OF CHANGES IN EQUITY

for the six months ended 30 June 2021

	Attributable to equity holders of the parent						
The Group	Share capital €000	Share premium €000	Revaluation reserve €000	Retained earnings €000	Total €000	Non-controlling interest €000	Total €000
PERIOD ENDED 30 JUNE 2021							
Balance at 1 January 2021	62,255	10,140	32,260	91,736	196,391	9,828	206,219
Profit for the period	-	-	-	7,731	7,731	347	8,078
Other comprehensive loss	-	-	(4,227)	-	(4,227)	-	(4,227)
Total comprehensive (loss) /income	**-**	**-**	**(4,227)**	**7,731**	**3,504**	**347**	**3,851**
Dividend payable by parent	174	313	-	(2,400)	(1,913)	-	(1,913)
Dividends paid by subsidiary company	-	-	-	-	-	(75)	(75)
Net share capital issued by subsidiary company	-	-	-	-	-	4,341	4,341
Balance at 30 June 2021	**62,429**	**10,453**	**28,033**	**97,067**	**197,982**	**14,441**	**212,423**
PERIOD ENDED 30 JUNE 2020							
Balance at 1 January 2020	62,255	10,140	30,706	82,785	185,886	6,029	191,915
Profit for the period	-	-	-	5,502	5,502	(100)	5,402
Other comprehensive loss	-	-	(2,063)	-	(2,063)	-	(2,063)
Total comprehensive (loss) /income	**-**	**-**	**(2,063)**	**5,502**	**3,439**	**(100)**	**3,339**
Dividends paid	-	-	-	(492)	(492)	(50)	(542)
Net share capital issued by subsidiary company	-	-	-	-	-	1,275	1,275
Balance at 30 June 2020	**62,255**	**10,140**	**28,643**	**87,795**	**188,833**	**7,154**	**195,987**

STATEMENTS OF CHANGES IN EQUITY

for the six months ended 30 June 2021

The Bank	Share capital €000	Share premium €000	Revaluation reserve €000	Retained earnings €000	Total €000
PERIOD ENDED 30 JUNE 2021					
Balance at 1 January 2021	62,255	10,140	32,260	87,032	191,687
Profit for the period	-	-	-	7,472	7,472
Other comprehensive loss	-	-	(4,227)	-	(4,227)
Total comprehensive (loss) / income	**-**	**-**	**(4,227)**	**7,472**	**3,245**
Dividend payable	174	313	-	(2,400)	(1,913)
Balance at 30 June 2021	**62,429**	**10,453**	**28,033**	**92,104**	**193,019**
PERIOD ENDED 30 JUNE 2020					
Balance at 1 January 2020	62,255	10,140	30,706	78,001	181,102
Profit for the period	-	-	-	6,843	6,843
Other comprehensive loss	-	-	(2,063)	-	(2,063)
Total comprehensive (loss) / income	**-**	**-**	**(2,063)**	**6,843**	**4,780**
Balance at 30 June 2020	**62,255**	**10,140**	**28,643**	**84,844**	**185,882**

STATEMENTS OF CASH FLOWS

for the six months ended 30 June 2021

	The Group		The Bank	
	Jun - 21	Jun - 20	Jun - 21	Jun - 20
	€000	€000	€000	€000
OPERATING ACTIVITIES				
Interest and commission receipts	34,810	30,877	33,604	30,725
Interest and commission payments	(6,841)	(6,236)	(6,841)	(6,784)
Cash paid to employees and suppliers/depositors	(16,637)	(15,315)	(16,223)	(15,262)
Operating profit before changes in operating assets and liabilities	11,332	9,326	10,540	8,679
(Increase) / decrease in operating assets				
Loans and advances to customers	(127,822)	(107,095)	(127,822)	(107,095)
Reserve deposit with Central Bank of Malta	(1,778)	(1,654)	(1,778)	(1,654)
Cheques in course of collection	101	(1,872)	101	(1,872)
Other assets	34	23	-	-
Increase / (decrease) in operating liabilities				
Amounts owed to customers	181,289	127,760	181,583	127,898
Amounts owed to banks	(775)	-	(775)	-
Other liabilities	5,102	(2,497)	5,075	(2,491)
Net cash generated from operating activities before tax	67,483	23,991	66,924	23,465
Income tax paid	(1,454)	(1,165)	(1,409)	(1,148)
Net cash flows generated from operating activities	66,029	22,826	65,515	22,317
INVESTING ACTIVITIES				
Dividends received	330	298	604	955
Interest income from debt securities	3,471	3,268	3,471	3,268
Purchase of debt instruments measured at FVTOCI	(13,049)	(89,574)	(13,049)	(89,574)
Proceeds on disposal of debt instruments measured at FVTOCI	10,075	45,788	10,075	45,788
Purchase of debt instruments measured at amortised cost	-	(27,443)	-	(27,443)
Proceeds on maturity of debt instruments measured at amortised cost	-	2,000	-	2,000
Purchase of financial assets measured at FVTPL	(23,953)	(19,310)	-	-
Proceeds on disposal of financial assets at FVTPL	17,653	20,728	250	217
Purchase of equity and other non-fixed income instruments	-	(737)	-	(737)
Additional investment in associate	(1,500)	-	(1,500)	-
Purchase of property, equipment and intangible assets	(2,729)	(3,486)	(2,729)	(3,486)
Net cash flows used in investing activities	(9,702)	(68,468)	(2,878)	(69,012)
FINANCING ACTIVITIES				
Dividends paid	(1,988)	(50)	(1,913)	-
Amounts received on creation of shares by subsidiaries	4,520	1,448	-	-
Amounts paid on redemption of shares by subsidiaries	(179)	(173)	-	-
Cash payment for the principal portion of lease liability	(272)	(207)	(272)	(207)
Net cash flows from / (used in) financing activities	2,081	1,018	(2,185)	(207)
Net increase / (decrease) in cash and cash equivalents	58,408	(44,624)	60,452	(46,902)
Cash and cash equivalents at 1 January	142,821	182,332	138,034	178,330
Cash and cash equivalents at 30 June	201,229	137,708	198,486	131,428

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

for the six months to 30 June 2021

1. CORPORATE INFORMATION

APS Bank plc is incorporated and domiciled in Malta as a public limited company under the Companies Act, Cap. 386 of the Laws of Malta. The registered office of APS Bank plc is APS Centre, Tower Street, Birkirkara, BKR 4012 and the registration number is C2192.

APS Group comprises APS Bank plc, ReAPS Asset Management Limited, APS Diversified Bond Fund and APS Global Equity Fund (sub-funds of APS Funds SICAV plc). The Group also has a significant investment in its associates IVALIFE Insurance Limited, APS Income Fund and APS Regular Income Ethical Fund (the latter funds are also sub-funds of APS Funds SICAV plc).

2. BASIS OF PREPARATION

The condensed interim financial statements have been prepared in accordance with IAS 34 Interim Financial Reporting, as adopted by the EU. The condensed interim financial statements have been extracted from the unaudited accounts for the six months ended 30 June 2021 and have been reviewed in terms of ISRE 2410 Review of Interim Financial Information Performed by the Independent Auditor of the Entity.

The comparative amounts reflect the position of the Group and the Bank as included in the audited financial statements ended 31 December 2020 and the unaudited results, changes in equity and cash flows for the period ended 30 June 2020.

The condensed interim financial statements do not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the Group's and the Bank's annual financial statements as at 31 December 2020, which form the basis for these interim financial statements. These condensed interim financial statements are intended to provide an update from the most recent audited annual financial statements and accordingly disclose material new activities, events and circumstances.

The significant accounting policies and methods of computation used in the preparation of these condensed interim financial statements are consistent with those used in the Group's and the Bank's audited financial statements for the year ended 31 December 2020, unless otherwise disclosed below in the Section entitled 'IFRS applicable in the current year'. These policies are described in Note 2 of the audited financial statements for the year ended 31 December 2020. In preparing these condensed interim financial statements, management has made judgements and estimates that affect the application of accounting policies and that can significantly affect the amounts recognised. The significant judgements made in applying the Group's and the Bank's accounting policies and the key sources of estimation uncertainty were the same as those described in the last annual financial statements.

Use of judgements and estimates

Significant judgements made in applying the Group's accounting policies with respect to investments in which the Group controls less than 20%, deferred tax assets and impairment losses on financial assets were the same as those described in the last annual financial statements. The significant estimates which have the most significant effect on amounts recognised in the financial statements continue to relate to the fair value of investment properties and land and buildings included within property, plant and equipment and impairment losses on financial assets.

In preparing these condensed interim financial statements, certain significant judgements made by management in applying the Group accounting policies and certain key sources of estimating uncertainty were impacted by the volatility resulting from the COVID-19 pandemic. Such impact on specific areas is disclosed separately in Note 3 to these condensed interim financial statements.

The interim financial reporting has been prepared keeping in mind the financial impact and the economic downturn which was brought about by the COVID-19 pandemic. Considering the fact that the economic situation might still continue to be impacted, the Group will continue monitoring the developments with the aim of minimizing the financial impact.

2. BASIS OF PREPARATION (continued)

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

The following amendments are effective in the current year:

- Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 – Interest Rate Benchmark Reform – Phase 2 (effective for financial years beginning on or after 1 January 2021).

The Bank does not have significant exposure to Interbank Offered Rates (IBOR), which will be reformed or phased out as part of this global market-wide initiative.

The present transition to Risk Free Rates includes assessing all the existing assets and liabilities that are based on IBOR cashflows. The process includes review of contracts to check whether there is the need to amend as a result of the IBOR reform, drafting of new legal clauses, changes to the Bank's IT system, and subsequently communication of the IBOR reform to customers and counterparties.

The absolute majority of the Bank's loan portfolio is priced over the Bank's internal base rate and only some loans are linked to either LIBOR (in the case of foreign currency denominated loans) or EURIBOR (in the case of Euro denominated loans). As at end of February 2021, the carrying amount were €1.0 million and €213.0 million respectively. The Bank is in the process of gathering further data as part of the interest rate benchmark reform exercise. All syndicated loans with a carrying amount of €96.0 million and trade finance transactions with a carrying amount of €23.9 million are also priced over LIBOR or EURIBOR (both 3/6-month tenures), with 29% of these being linked to LIBOR and the remaining 71% being linked to EURIBOR. Bonds linked to EURIBOR amount to €1.3 million, whilst those linked to GBP SONIA (overnight rate) amount to €1.2 million. The Bank has two floating-rate financial liabilities held with the European Investment Bank and the European Investment Fund (both 6-month EURIBOR), with a carrying amount of €8.5 million. All maturing and non-maturing deposits are linked to fixed rates of interest and so not dependent on IBOR. With respect to derivative instruments, the Bank holds no such positions which are linked to IBOR rates.

Presently, fall back rates have been identified and discussions are at an advanced stage for such rates to be approved and subsequently implemented. The EURIBOR is nowadays EU Benchmark Regulation compliant, and it is expected that it will not be replaced by an alternative risk-free rate. Given that the absolute majority of our IBOR linked instruments are linked to EURIBOR, the Bank expects that this reform will have an insignificant impact on its financial statements.

Standards, interpretations and amendments to published standards that are not yet effective

Up to the date of approval of these condensed interim financial statements, certain new standards, amendments and interpretations to existing standards have been published but are not yet effective for the current reporting period and which have not been adopted early.

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 IFRS 4 – Extension of the Temporary Exemption from applying IFRS 9 (in which the fixed expiry date of the amendment was deferred to annual periods beginning on or after 1 January 2023).
- IFRS 17 – Insurance Contracts (effective for financial years on or after 1 January 2023 by virtue of the 25 June 2020 Amendments).
- 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 IAS 37 – 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).

2. BASIS OF PREPARATION (continued)

Standards, interpretations and amendments to published standards that are not yet effective (continued)

- Amendments to IAS 16 – Property, plant and equipment – proceeds before intended use (effective for financial years on or after 1 January 2022).
- Amendment to IFRS 16 – COVID-19 – Related Rent Concessions beyond 30 June 2021 (effective for financial years on or after 1 April 2021, earlier application permitted).
- Amendments to IFRS 9 (as part of the 2018 – 2020 Annual Improvement cycle) – Financial instruments (effective for financial years on or after 1 January 2022).
- Amendments to IAS 41 (as part of the 2018 – 2020 Annual Improvements Cycle) (effective for financial years on or after 1 January 2022).
- 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).
- Amendments to IAS 12 – Deferred Tax related to Assets and Liabilities arising from a Single Transaction (effective for financial years on or after 1 January 2023).

The changes resulting from these standards, interpretations and amendments are in the process of being assessed by the Group to determine their applicability and potential effect on the financial statements of the Group and the Bank.

3. EFFECTS OF COVID-19 ON THE INTERIM FINANCIAL REPORTING

The period under review was characterised by the continued impact of the COVID-19 pandemic on global economies. Normal business operations had to be limited or even suspended, especially in certain sectors such as tourism, hospitality and the entertainment industry.

The following are the effects that the pandemic had on the Group's and the Bank's interim financial reporting:

Moratoria on loan repayments

Following the issuance of Directive-18 by the Central Bank of Malta ("CBM") in 2020 whereby, credit and financial institutions licensed by the Malta Financial Services Authority have been directed to offer a moratorium on repayments on capital and interest for borrowers who have been negatively affected by COVID-19, the CBM has deemed it appropriate to extend the applicability of Directive-18 by reactivating the application period for moratoria until the 31 March 2021.

Directive-18 has been extended with targeted conditions according to which an applicant can benefit from, either an extension of an existing moratorium or else a completely new moratorium.

As at the date of the interim financial reporting, the amount of loans still benefiting from a moratorium on capital and/or interest payments in line with CBM Directive-18 are as follows:

The Group/The Bank

	Jun-21 €000	Dec-20 €000
Commercial facilities	17,430	139,570
Retail facilities	2,377	19,058
	19,807	**158,628**

3. EFFECTS OF COVID-19 ON THE INTERIM FINANCIAL REPORTING (continued)

Moratoria on loan repayments (continued)

Clients who have been granted a moratorium on their loans and advances in line with Directive-18 since the beginning of COVID-19, amounted to a gross carrying amount of €283 million (Dec-20: €272 million).

Following the expiry of CBM Directive-18 on 31 March 2021, the Bank decided to continue supporting its clients by extending the moratorium on a case-by-case basis. The gross carrying amount of these moratorium amounted to €124.2 million.

As at 30 June 2021, the Bank's total lending under moratoria on a client basis amounted to €144 million (Dec-20: €159 million), out of which €19.8 represent loans still benefiting from a moratorium in line with CBM Directive-18 and €124.2 which represent the moratorium extended by the Bank.

Malta Development Bank ("MDB") COVID-19 Guarantee Scheme

The MDB COVID-19 Guarantee Scheme was launched in 2020 to support businesses who were negatively impacted by COVID-19. Following the introduction of the scheme, the Group launched the "Jet Pack" product which allowed eligible local businesses to apply for a working capital loan which amount depended on the size, wage bill and turnover of the business amongst other things.

Facilities sanctioned under the MDB COVID-19 Guarantee Scheme as at 30 June 2021 amounted to €32,729K (Dec-20: €32,269K) of which €32,179K (Dec-20: €30,813K) was drawn down. The Guarantee covers 90% of each individual loan facility, capped at 50% of the actual portfolio level.

MDB loan exposures covered by government guarantees amount to €14,728K (Dec-20: €14,521K) and by hypothecs which amount to €2,594K (Dec-20: €2,384K).

Expected Credit Loss ("ECL") Measurement

As expected, during the first half of the year 2021, the pandemic outlook continued to evolve, and a significant degree of uncertainty still exists. During the second half of last year, the Group introduced a post-model adjustment, by triggering a forward transition on specific performing exposures, operating in sectors impacted by the pandemic. The aim behind such decision is to mitigate the risk of not capturing Significant Increase in Credit Risk ("SICR") due to the suspension of capital and interest payments during the moratorium period. The Group considers the post-model adjustments to represent the best estimate of the possible outcomes.

As new information and lending performance metrics were made available to the Group, it continued assessing its judgement and assumptions when applying the post-model adjustment. Whilst, the initial post-model adjustment was based at portfolio level, the Group has now adopted a more granular approach by looking at customer-specific factors and circumstances. This entails assessing the customer's ability to generate sufficient cash flows to be able to maintain their respective repayment obligations and determine whether the client requires a forward transition. Facilities impacted by the Group's recent decisions and judgements relate only to loans and advances to customers as follows;

a) Retail loan facilities which include only customers whose income depends on the following sectors, and customer has benefitted or is still benefitting from a moratoria initiative;

- Accommodation & food services;
- Real estate activities;
- Transportation & storage;
- Art, entertainment & recreation activities.

3. EFFECTS OF COVID-19 ON THE INTERIM FINANCIAL REPORTING (continued)

Expected Credit Loss ("ECL") Measurement (continued)

b) For commercial facilities, all lending facilities which have benefitted from a moratorium, have been assessed individually to identify whether a forward transition is required or otherwise. The assessment also considered the duration of the moratorium, whether the moratorium is for capital only or including also interest however disregarding the economic sector of the facility.

i) Post-Model Adjustment Impact

The impact of the post-model adjustment on the ECL charge on the loans and advances to customers portfolio is illustrated in the table below;

The Group/The Bank

	Additional ECL Jun-21 €000
Commercial	108
Retail	718
Total	**826**

ii) Loss Allowance Movement

The following table provides the changes in loss allowance during the period for each portfolio;

The Group/The Bank

	June 2021 €000	December 2020 €000	Movement in H1 2021 €000
Loans and advances to banks - amortised cost	68	54	(14)
Loans and advances to customers – amortised cost	18,113	17,096	(1,017)
Syndicated loans	1,354	1,396	42
Debt securities – amortised cost	62	75	13
Debt securities - FVTOCI	223	246	23
Total	**19,820**	**18,867**	**(953)**
Write offs during the period			**(295)**
Post-model adjustment			**2,953**
Net impairment gains			**1,705**

3. EFFECTS OF COVID-19 ON THE INTERIM FINANCIAL REPORTING (continued)

Expected Credit Loss ("ECL") Measurement (continued)

ii) Loss Allowance Movement (continued)

The Group/The Bank

	June 2020 €000	December 2019 €000	Movement in H1 2020 €000
Loans and advances to banks - amortised cost	46	-	(46)
Loans and advances to customers – amortised cost	16,486	15,953	(533)
Syndicated loans	1,642	1,179	(463)
Debt securities – amortised cost	99	46	(53)
Debt securities - FVTOCI	314	143	(171)
Total	**18,587**	**17,321**	**(1,266)**
Write offs during the period			**(117)**
Net impairment losses			**(1,383)**

The table hereunder analyses further the net impairment loss for the period:

The Group/The Bank	Jun-21 €000	Jun-20 €000
Charge for the year:		
- collective impairment	**(1,124)**	(1,895)
- individual impairment	**(2,153)**	(2,125)
- bad debts written off	**(295)**	(117)
	(3,572)	(4,137)
Reversal of write-downs:		
- collective impairment	**4,058**	443
- individual impairment	**1,219**	2,311
	5,277	2,754
Net impairment gains / (losses)	**1,705**	(1,383)

A significant number of retail clients who had encountered some difficulties to continue repaying their loans during the second half of 2020, have resumed with their regular repayments. This resulted in a reversal in the impairment provisioning.

3. EFFECTS OF COVID-19 ON THE INTERIM FINANCIAL REPORTING (continued)

Additional costs incurred

During the first six months of the year, the Group has continued to take the necessary steps to safeguard the health of its clients as well as its employees, by continuing to adhere to the measures that as a minimum met the recommendations of the Health Authorities. The Group incurred additional operational expenses such as the following:

- More frequent routine cleaning;
- Purchase of personal protective equipment;
- Increase in internet bandwidth to support teleworking; and
- Additional subscriptions to support online meetings.

The above additional costs are not considered to be material for the interim financial reporting.

In addition, the Group continued to support the measures introduced in 2020 whereby staff are allowed maximum flexibility in their working arrangements in order to manage their specific personal and family circumstances during the pandemic. No new additional capital expenditure was incurred by the Group in this regard (Jun-20: €350K).

Fair value movement

During the first six months of the preceding year, the COVID-19 pandemic caused significant volatility in the fair values of the financial instruments, with the Group recording a net loss on financial instruments amounting to €90K. During the second quarter of 2020 certain unrealised losses starting to reverse. The profit and loss impact during the current reporting period until 30 June 2021 amounted to a gain of €753K.

Net losses recorded in the statements of comprehensive income brought about by a change in fair value on debt instruments measured at FVTOCI amounted to €3,752K (Jun-20: €1,461K).

4. TANGIBLE AND INTANGIBLE ASSETS

The following table includes a summary of the tangible and intangible assets acquired by the Group as at 30 June 2021 and 31 December 2020, including additional assets acquired to continue adhere to the COVID-19 measures:

The Group/The Bank

	Jun-21 €000	Dec-20 €000
Land and buildings (including improvements)	458	234
Computer software	1,826	3,179
Computer hardware	56	1,444
Other fixed assets	-	2,547

Also, up to the date of approval of the condensed interim financial statements the Group entered into a number of commitments amounting to €6,510K (Dec-20: €757K).

There was no disposal of assets as at end of June 2021 (Dec-20: same).

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

for the six months to 30 June 2021

5. RELATED PARTY DISCLOSURES

The Group's structure

The interim financial report of the Group includes the financial statements of APS Bank plc and its subsidiaries, together with associates accounted for using the equity method.

APS Group comprises APS Bank plc, ReAPS Asset Management Limited, APS Diversified Bond Fund and APS Global Equity Fund (sub-funds of APS Funds SICAV plc). The Group also has a significant investment in its associates IVALIFE Insurance Limited, APS Income Fund and APS Regular Income Ethical Fund (the latter funds are also sub-funds of APS Funds SICAV plc).

During the course of its normal banking business, the Bank conducts business on commercial terms with its subsidiaries, associates, controlling parties, key management personnel and other related parties.

Related party transactions

The following tables provide the total amount of transactions, which have been entered into by the Group and the Bank with related parties for the relevant period:

	The Group		The Bank	
	Jun-21	Jun-20	Jun-21	Jun-20
	€000	€000	€000	€000
Interest receivable on loans and advances:				
Controlling parties	12	7	12	7
Key management personnel	13	22	13	22
Other related parties	217	278	217	278
Fee and commission income:				
ReAPS Asset Management Limited	-	-	581	451
APS Income Fund	328	326	-	-
APS Regular Income Ethical Fund	178	162	-	-
IVALIFE Insurance Limited	8	-	-	-
Controlling parties	168	98	31	98
Other related parties	83	96	83	96
Interest payable:				
APS Income Fund	9	23	9	23
Controlling parties	88	100	88	100
Key management personnel	4	3	4	3
Other related parties	14	21	14	21
Personnel expenses:				
Key management personnel	2,147	1,436	2,126	1,432
General administrative expenses:				
Controlling parties	117	177	117	177

5. RELATED PARTY DISCLOSURES (continued)

Related party transactions (continued)

(a) Transactions with Directors:

	Jun-21 €000	Dec-20 €000
Loans and advances	**1,873**	894
Commitments	**643**	432

(b) Transactions with key management personnel (excluding Directors):

	Jun-21 €000	Dec-20 €000
Loans and advances	**5,305**	4,734
Commitments	**317**	624

The above facilities do not involve more than the normal risk of repayment or present other unfavourable features and were made in the ordinary course of business on substantially the same terms as for comparable transactions with persons of a similar standing, or where applicable, other employees.

Included in the amounts owed to customers are term deposits of €10,525,007 (Dec-20: €9,137,120), which bear interest at the prevailing Bank rates. Furthermore, the amounts due from other related parties include secured facilities of €4,554,557 (Dec-20: €6,971,010) and €750,444 (Dec-20: €391,328) unsecured facilities.

For the period ended 30 June 2021, the Bank provided for impairment of receivables relating to amounts due from related parties amounting to €2,465 (Dec-20: €1,745).

No guarantees were received by related parties as at end of June 2021 (Dec-20: Nil). Special guarantees given to related parties amount to €110,500 (Dec-20: €101,162).

6. FAIR VALUE OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

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.

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable;
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

The level within which the fair value measurement is categorised is determined based on the lowest level of input that is significant to fair value measurement. The reporting of fair values is intended to guide users as to the amount, timing and certainty of cash flows.

Fair value measurement hierarchy of the Group's and the Bank's financial assets and financial liabilities are as follows:

	Fair value measurement hierarchy			
The Group	**Level 1**	**Level 2**	**Level 3**	**Total**
	€000	**€000**	**€000**	**€000**
Assets as at 30 June 2021				
Property and equipment				
- Land and buildings	-	-	34,705	34,705
Investment properties				
- Residential property	-	-	400	400
- Commercial property	-	-	1,430	1,430
Derivative assets not designated as hedges	-	756	-	756
Financial assets at FVTPL				
- Fixed income instruments and investment in collective investmer schemes	57,525	-	-	57,525
Financial assets at FVTOCI				
- Other debt and fixed income instruments	209,552	-	-	209,552
- Non-listed equity and other non-fixed income instruments	-	-	305	305
Total	**267,077**	**756**	**36,840**	**304,673**
Liabilities as at 30 June 2021				
Derivative liabilities not designated as hedges	-	1,022	-	1,022
Total	**-**	**1,022**	**-**	**1,022**

6. FAIR VALUE OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

	Fair value measurement hierarchy			
The Group	**Level 1**	**Level 2**	**Level 3**	**Total**
	€000	**€000**	**€000**	**€000**
Assets as at 31 December 2020				
Property and equipment				
- Land and buildings	-	-	34,394	34,394
Investment properties				
- Residential property	-	-	400	400
- Commercial property	-	-	1,430	1,430
Derivative assets not designated as hedges	-	499	-	499
Financial assets at FVTPL				
- Fixed income instruments and investment in collective investment schemes	50,636	-	-	50,636
Financial assets at FVTOCI				
- Other debt and fixed income instruments	211,751	-	-	211,751
- Non-listed equity and other non-fixed income instruments	-	-	303	303
Total	**262,387**	**499**	**36,527**	**299,413**
Liabilities as at 31 December 2020				
Derivative liabilities not designated as hedges	-	499	-	499
Total	**-**	**499**	**-**	**499**

	Fair value measurement hierarchy			
The Bank	**Level 1**	**Level 2**	**Level 3**	**Total**
	€000	**€000**	**€000**	**€000**
Assets as at 30 June 2021				
Property and equipment				
- Land and buildings	-	-	34,705	34,705
Investment properties				
- Residential property	-	-	400	400
- Commercial property	-	-	1,430	1,430
Derivative assets not designated as hedges	-	756	-	756
Financial assets at FVTOCI				
- Other debt and fixed income instruments	209,552	-	-	209,552
- Non-listed equity and other non-fixed income instruments	-	-	305	305
Total	**209,552**	**756**	**36,840**	**247,148**
Liabilities as at 30 June 2021				
Derivative liabilities not designated as hedges	-	756	-	756
Total	**-**	**756**	**-**	**756**

6. FAIR VALUE OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

	Fair value measurement hierarchy			
The Bank	**Level 1**	**Level 2**	**Level 3**	**Total**
	€000	**€000**	**€000**	**€000**
Assets as at 31 December 2020				
Property and equipment				
- Land and buildings	-	-	34,394	34,394
Investment properties				
- Residential property	-	-	400	400
- Commercial property	-	-	1,430	1,430
Derivative assets not designated as hedges	-	499	-	499
Financial assets at FVTPL				
- Fixed income instruments and investment in collective investment schemes	251	-	-	251
Financial assets at FVTOCI				
- Other debt and fixed income instruments	211,751	-	-	211,751
- Non-listed equity and other non-fixed income instruments	-	-	303	303
Total	**212,002**	**499**	**36,527**	**249,028**
Liabilities as at 31 December 2020				
Derivative liabilities not designated as hedges	-	499	-	499
Total	**-**	**499**	**-**	**499**

There were no reclassifications made within the fair value hierarchy and there were no changes in valuation techniques used by the Group during the period.

Investment properties

Investment property held by the Group and the Bank is valued by an accredited external independent architect at the end of the financial year with the latest valuation being carried out as at 31 December 2020. For the six months ended 30 June 2021, there were no fair value movements on the property held by the Group and the Bank (Jun-20: same) based on internal measures used by comparing valuations of similar properties.

6. FAIR VALUE OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

Property and equipment – Land and buildings

Revaluations for land and buildings are made with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the end of the reporting period. A valuation was carried out by an independent architect as at 31 December 2019, however, given the COVID-19 situation, the independent architect was reappointed in the following year and confirmed that the valuations did not change during 2020, except for one property whose valuation decreased by €291,000 during that year. For the six months ended 30 June 2021, there were no fair value movements on the property held by the Group and the Bank (Jun-20: same) based on internal measures used by comparing valuations of similar properties.

Financial assets at fair value through profit or loss – fixed income instruments and collective investments schemes

All of the Group's financial assets at FVTPL are carried at market value using available quoted market prices.

Fair value through other comprehensive income

Fair values of debt and equity instruments classified in this category are generally based on quoted market prices, if available.

Other financial instruments

The amounts stated for cash balances, balances with the Central Bank of Malta and loans and advances to banks which are repayable on call and at short notice are highly liquid assets. The Directors regard the amounts shown in the statements of financial position for these items as reflecting their fair value in that these assets will be realised for cash in the immediate future. The fair value of the placements with other banks not repayable at short notice is not materially different from their carrying amount since these carry an arm's length rate of interest which is reflective of conditions at year end.

At the reporting date debt securities classified at amortised cost amounted to €103.9 million (Dec-20: €104.3 million). Their market value amounted to €112.2 million (Dec-20: €115.6 million), whilst their nominal value amounted to €100.8 million (Dec-20: same).

Loans and advances to customers are stated at the amounts contractually due less provision to reflect the expected recoverable amounts. Their carrying amount is not deemed to differ materially from their fair value as these are re-priced to take into consideration changes in both the Bank's base rate and credit margins.

At the reporting date, syndicated loans and trade finance classified at amortised cost amounted to €120.3 million (Dec-20: €113.2 million). Their market value amounted to €121.3 million (Dec-20: €113.3 million), whilst their nominal value amounted to €121.7 million (Dec-20: €114.5 million).

Amounts owed to banks and customers are mainly deposit liabilities. Of this category of liability 84% (Dec-20: 82%) have contractual re-pricing within one year, whilst 16% (Dec-20: 18%) re-price between one year and over. For demand deposits and term deposits within one year, fair value is taken to be the amount payable on demand at the reporting date. For term deposits after one year with a carrying amount of €384.3 million (Dec-20: €392.1 million), fair value is €392.1 million (Dec-20: €392.1 million). All term deposits at different maturities were revalued to reflect the current interest rates.

6. FAIR VALUE OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

Other financial instruments (continued)

Debt securities in issue have a carrying amount of €54.6 million at 30 June 2021 (Dec-20: €54.6 million). The market value, based on quoted prices in an active market (Level 1), amounted to €56.1 million at 30 June 2021 (Dec-20: €56.1 million).

The reconciliation of Level 3 fair value measurements of financial instruments is disclosed below.

The Group/The Bank

	Jun-21 €000	Dec-20 €000
Opening balance	**303**	308
Fair value movements	**2**	(5)
Closing balance	**305**	303

7. OPERATING SEGMENTS

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses. Operating results of all operating segments are regularly reviewed by the chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

The Group has four reportable segments, as reported below. Based on internal reporting submitted to the Board of Directors, during the current reporting period, the Investments Segment was further split into two (as shown below). In identifying segments, Management follows the Group's service lines which make up its main products and services.

- **Retail:** offers a broad range of products and services to meet the personal banking of individual customers. This includes home loans, personal loans, overdraft facilities and deposits products.

- **Commercial:** offers banking products to meet the needs of commercial customers. This includes all lending facilities falling under the suite of the commercial products as well as deposit products.

- **Investment services:** provides a range of products and services to meet the investment need of clients including a broad range of investment and insurance products, as well as the pension plan product and discretionary investment services.

- **Liquidity management and structured loans:** includes the management of the financial investments portfolio, correspondent bank relationships and the trade finance and syndicated loan portfolios.

Each of these operating segments is managed separately as each requires a different client approach and expertise. As for intersegment transactions, Retail is being compensated for unutilised deposits which are being used by other segments as follows; Investment services amounting to €263K, Commercial amounting to €2,041K and Liquidity Management and Structured Loans amounting to €2,717K. The compensation rate is based on the price charged to unrelated customers in a stand-alone sale of identical services. The total amount of the intersegment transactions amount to €5,021K.

7. OPERATING SEGMENTS (continued)

In addition, several costs, assets, and liabilities which are not directly attributable to the business activities of any operating segment are not allocated to a segment but rather included within the below table under the unallocated items. This primarily applies to the following items which are not included in the tables hereunder:

- Salaries pertaining to staff contributing to other cost centres;
- Recurrent costs of maintenance agreements for software and hardware support, attributed to other cost centres;
- Depreciation charge of fixed assets attributed to other cost centres;
- Property and Equipment; and
- Other assets and liabilities which include tax liability, accruals and accrued income.

All revenues, investment properties, property and equipment, intangible assets and right of use assets are attributed to Malta. The information in this note is based on internal management reports that are reviewed by the Group's Executive Committee.

The Group	Retail		Commercial		Investment Services		Liquidity Management and Structured Loans		Total Reportable Segments	
	Jun-21 €000	Jun-20 €000	**Jun-21 €000**	Jun-20 €000	**Jun-21 €000**	Jun-20 €000	**Jun-21 €000**	Jun-20 €000	**Jun-21 €000**	Jun-20 €000
Interest receivable and similar income from external customers	**16,098**	14,169	**12,707**	11,551	**-**	-	**4,413**	5,041	**33,218**	30,761
Interest payable	**(86)**	218	**(2,788)**	(3,269)	**-**	-	**(3,989)**	(3,733)	**(6,863)**	(6,784)
Net fee and commission income and other income	**681**	213	**964**	1,198	**1,327**	1,522	**1,025**	(325)	**3,997**	2,608
Operating income before net impairments	**16,693**	14,600	**10,883**	9,480	**1,327**	1,522	**1,449**	983	**30,352**	26,585
Impairment gains / (losses)	**2,291**	(475)	**(650)**	(195)	**-**	-	**64**	(713)	**1,705**	(1,383)
Net operating income	**18,984**	14,125	**10,233**	9,285	**1,327**	1,522	**1,513**	270	**32,057**	25,202
Personnel expenses	**(1,861)**	(1,717)	**(653)**	(609)	**(794)**	(675)	**(189)**	(163)	**(3,497)**	(3,164)
Other administrative and operating expenses	**(1,560)**	(1,515)	**(6)**	(54)	**(153)**	(139)	**(299)**	(167)	**(2,018)**	(1,875)
Operating expenses	**(3,421)**	(3,232)	**(659)**	(663)	**(947)**	(814)	**(488)**	(330)	**(5,515)**	(5,039)
Net operating profit / (loss) before associates' results	**15,563**	10,893	**9,574**	8,622	**380**	708	**1,025**	(60)	**26,542**	20,163
Share of results from associates	**-**	-	**-**	-	**-**	-	**(45)**	(525)	**(45)**	(525)
Profit / (loss) before tax as per segments	**15,563**	10,893	**9,574**	8,622	**380**	708	**980**	(585)	**26,497**	19,638
Less: Unallocated items									**(14,266)**	(10,773)
Profit before tax as per Statements of Profit or Loss									**12,231**	8,865

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

for the six months to 30 June 2021

7. OPERATING SEGMENTS (continued)

	Retail		Commercial		Investment Services		Liquidity Management and Structured Loans		Total Reportable Segments	
	Jun-21	Jun-20	**Jun-21**	Jun-20	**Jun-21**	Jun-20	**Jun-21**	Jun-20	**Jun-21**	Jun-20
	€000	€000	**€000**	€000	**€000**	€000	**€000**	€000	**€000**	€000
Total assets as per segments	**1,174,144**	1,061,955	**637,243**	627,048	**-**	-	**757,175**	658,715	**2,568,562**	2,347,718
Add: Unallocated items									**72,666**	73,265
Total assets as per Statements of Financial Position									**2,641,228**	2,420,983
Investment in associates	**-**	-	**-**	-	**-**	-	**19,907**	18,641	**19,907**	18,641
Total liabilities as per segments	**2,158,518**	1,975,781	**146,210**	147,621	**-**	-	**89,554**	64,405	**2,394,282**	2,187,807
Add: Unallocated items									**34,523**	26,957
Total liabilities as per Statements of Financial Position									**2,428,805**	2,214,764

	Jun-21 €000	**Jun-20 €000**
Profit before tax		
As per reportable segments	26,497	19,638
Unallocated items:		
Interest payable	(42)	(56)
Net fee and commission income and other income	71	189
Personnel expenses	(6,907)	(5,172)
Professional fees	(315)	(218)
Repairs and maintenance	(2,035)	(1,445)
Telecommunications	(222)	(276)
Other administrative expenses	(2,628)	(1,915)
Depreciation and amortisation	(2,188)	(1,880)
As per Statements of Profit or Loss	**12,231**	**8,865**

	Jun-21 €000	**Dec-20 €000**
Total assets		
As per reportable segments	2,568,562	2,347,718
Unallocated items:		
Investment properties	1,830	1,830
Property and equipment	45,636	46,180
Intangible assets	9,738	8,848
Right-of use assets	5,052	5,235
Deferred tax assets	1,399	2,553
Other receivables	9,011	8,619
As per Statements of Financial Position	**2,641,228**	**2,420,983**

7. OPERATING SEGMENTS (continued)

	Jun-21 €000	Dec-20 €000
Total liabilities	2,394,282	2,187,807
As per reportable segments		
Unallocated items:		
Current tax	2,647	1,399
Lease liabilities	5,232	5,365
Other liabilities	14,766	10,090
Accruals	11,878	10,103
As per Statements of Financial Position	**2,428,805**	**2,214,764**

8. INCOME TAX EXPENSE

Income tax expense is recognised in each interim period based on the best estimate of the weighted average annual income tax rate expected for the full financial year.

9. INVESTMENT IN ASSOCIATES

In January 2021, the Group made an additional investment of capital of €1.5 million in IVALIFE Insurance Limited, bringing the total cost of investment to €1.9 million. The Group holds a 25% shareholding in the company.

In February 2021, the Malta Financial Services Authority gave its authorisation in terms of the Insurance Business Act to IVALIFE Insurance Limited to write long-term business in relation to risks situated in Malta for Class I (Life and Annuity) and Class III (Linked long-term).

10. DIVIDENDS PAID

Following approval at the Annual General Meeting, during the period under review the Bank paid out a gross dividend amounting to Eur 3,692,307 (total net dividend of Eur 2,400,000). A total net amount of Eur 1,912,477 was paid out in cash while Eur 487,523 was distributed as scrip dividend, through the issue of 696,461 new ordinary shares. No dividends have been paid during the period ending June 2020.

The Group's subsidiaries paid dividends amounting to €490,464 to their shareholders, including the Bank (Jun-20: €542,303).

STATEMENT PURSUANT TO LISTING RULE 5.75.3

We confirm that to the best of our knowledge:

- the interim condensed financial statements give a true and fair view of the financial position of the local Group and the Bank as at 30 June 2021, as well as of their financial performance and cash flows for the period then ended, in accordance with IAS 34 Interim Financial Reporting, adopted by the EU; and

- the Directors' Report includes a fair review of the information required under Listing Rule 5.81 to 5.84.

MARCEL CASSAR
Chief Executive Officer

RONALD MIZZI
Chief Financial Officer

INDEPENDENT REVIEW REPORT OF CONDENSED INTERIM FINANCIAL STATEMENTS

for the six months ended 30 June 2021

Independent review report of condensed interim financial statements
to the members of Board of Directors of APS Bank plc

Introduction

We have reviewed the accompanying condensed interim financial statements of APS Bank plc ('the Bank') and the consolidated condensed interim financial statements of the Bank and its subsidiaries (together 'the Group'), which comprise the interim statements of financial position as at 30 June 2021, and the related statements of profit or loss and other comprehensive income, statements of changes in equity and statements of cash flows for the six month period then ended and other explanatory notes. We have read the other information contained in the financial report and considered whether it contains any apparent misstatement or material inconsistencies with the information in the condensed set of interim financial statements.

Directors' responsibilities

The condensed interim financial report is the responsibility of, and has been approved by the Directors. As disclosed in page 6, the condensed set of interim financial statements have been prepared in accordance with the recognition and measurement principles of International Financial Reporting Standards as adopted by the EU and the presentation and disclosure requirements of IAS 34 Interim Financial Reporting.

Our responsibility

Our responsibility is to express to the Group and the Bank a conclusion on the condensed interim set of financial information based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements 2410, 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity'. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

As with the statutory audit of the Bank and the Group prepared in accordance with articles 179, 179A and 179B of the Companies Act (Cap.386), the scope of our review does not address the future viability of the Bank and the Group or the efficiency or effectiveness with which the directors have conducted or will conduct the affairs of the Bank and the Group. Decisions taken, or to be taken, by the management of the Bank and/or the Group may impact the financial position of the Bank and/or Group as may events occurring after the date of our review, including, but not limited to, events of force majeure.

As such, our review of the Bank's and the Group's historical condensed interim financial statements is not intended to facilitate or enable, nor is it suitable for, reliance by any person, in the creation of any projections or predictions, with respect to the future financial health and viability of the Bank and/or the Group, and cannot therefore be utilised or relied upon for the purpose of decisions regarding investment in, or otherwise dealing with (including but not limited to the extension of credit), the Bank and/or the Group. Any decision-making in this respect should be formulated on the

basis of a separate analysis specifically intended to evaluate the prospects of the Bank and/or the Group and to identify any facts or circumstances that may be materially relevant thereto.

For the avoidance of doubt, any conclusions concerning the adequacy of the capital structure of the Bank, including the formulation of a view as to the manner in which financial risk is distributed between shareholders and/or creditors cannot be reached on the basis of the interim financial statements alone and must necessarily be based on a broader analysis supported by additional information.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed interim financial information does not present fairly, in all material respects, in accordance with the recognition and measurements principles of International Financial Reporting Standards as adopted by the EU and the presentation and disclosure requirements of IAS 34 Interim Financial Reporting.

Sarah Curmi as Director
in the name and on behalf of
Deloitte Audit Limited
Registered auditor
Central Business District, Malta

29 July 2021

PERFORMANCE RATIOS

for the six months ended 30 June 2021

	The Group		The Bank	
	Jun-21 %	Jun-20 %	Jun-21 %	Jun-20 %
Return on average capital employed after tax (ROAE)*	**7.7**	5.6	**7.8**	7.5
Net interest income and other operating income to total assets*	**1.2**	1.1	**1.1**	1.1
Cost to operating income ratio	**65.2**	59.7	**66.4**	57.6
Growth in total assets / liabilities	**9.1**	5.5	**8.9**	5.5
Growth in gross loans and advances to customers	**7.0**	6.7	**7.0**	6.7
Growth in amounts owed to customers	**8.5**	6.5	**8.5**	6.5
Non-performing loans to total gross loans and advances	**4.2**	2.5	**4.2**	2.5
CET 1 Capital Ratio	**13.4**	15.5	**13.2**	14.7
Total Capital Ratio	**17.5**	15.5	**17.3**	14.7

*Annualised over a 12-month period.