COMPANY ANNOUNCEMENT

Quarterly Financial Update – 1Q2023

Date of Announcement:	27 April 2023
Reference No:	APSB45

The following is a Company Announcement issued by APS Bank plc (or the "Bank") pursuant to the Capital Markets Rules issued by the Malta Financial Services Authority.

Quote

Market reclaims and solid operating performance mark strong first quarter

APS Bank plc announces the publication of the financial results extracted from the Group and Bank unaudited management accounts for the first quarter ended 31 March 2023, (also referred to as the "period" or "1Q2023") as presented to the Board of Directors on Thursday 27 April 2023.

Financial Performance

For the three months under review APS Bank plc registered pre-tax profits of €7.9 million (1Q2022: €1.9 million) for the Group and €7.0 million (1Q2022: €8.7 million) for the Bank. These numbers further confirm a rebound from the financial markets turbulence that marked last year as the Group continues to navigate its way through an outlook still clouded by challenges and uncertainties.

As the main contributor to the Group's revenue streams, interest income totalled €23.8 million, €5.8 million or 32.0% higher than the comparative quarter of 2022. This increase was fuelled by consistent growth across the Group's portfolios of retail, commercial and syndicated loan facilities. The Group also benefited from the upward repricing of interest rates in its treasury assets - cash and fixed-income securities - which last year were earning lower or negative returns. Interest expense for the period under review was €5.4 million, increasing by €2.1 million over 1Q2022, as local deposits and non-EUR fund-raising repriced higher in line with rising interest rates.

Net fee and commission income went up to €2.2 million, or 29.5% over the same period last year (€1.7 million for 1Q2022). Such increase is driven by the consistent growth of the Bank's customer base, and is reflected across local and foreign transaction banking, investment services and cards related business. In contrast with the unrealised losses of €3.6 million last year at Group level, fair value changes on financial instruments resulted in a net gain of €0.7 million in 1Q2023. Pertinent to note that the negative Group performance in 2022 had been mitigated by net gains of €2.3 million arising from portfolio disposals at the level of the Bank, which were not repeated this year.

Net impairments against expected credit losses of €0.9 million (1Q2022: €0.6 million) reflect mainly the migration to Stage 3 of specific bonds and syndicated loan participations, offset by a writeback on retail and commercial loans. Once again, this demonstrates the high-quality portfolio of loans and advances and the prudent credit underwriting standards adopted when considering new business opportunities or the monitoring of existing facilities.

Operating expenses of €12.8 million grew by €2.5 million, or 24.4%, compared to the €10.3 million registered for the same quarter last year. Staff costs remain a key driver for the increase, as the Group continues to invest in people, maintaining its human capital and searching for new talent from all over the globe. Despite improvements in efficiency and automation, running a bank operation is ever increasingly demanding, not least due to more onerous risk management, security, regulatory and compliance requirements. Operating overheads are also growing thanks to the Group's ongoing investment in its infrastructure through the adoption of new technologies and improving delivery channels, whilst taking on board more ESG and sustainability considerations. Supported by the strong recovery in Net operating income, the cost-to-income ratio improved to 59.9%.

Financial Position

Total Group Assets expanded by €149.2 million on December 2022 to reach €3.26 billion at the end of the period. Loans and advances to customers were key contributors to the growth, increasing by €122.5 million to reach €2.5 billion. Lending to the household sector - in large part, home loans - remained the main component in the increase, growing by €48.0 million to reach €1.6 billion or about two-thirds of the total loan book. Syndications and trade finance participations followed, expanding by €34.2 million to reach €169.4 million as improved spreads created new market opportunities. Cash and reserves with the Central Bank of Malta also increased by €14.2 million to tip over €100 million.

Over the period under review, liabilities grew by 4.9%, or €140.5 million, to touch €3.0 billion. Customer deposits and drawdowns on ECB facilities were the main contributors, increasing by a net €79.0 million and €45.2 million, respectively. As mounting interest rate pressures heated up competition for funding, the Bank was successful in raising €89.0 million in term deposits, aided in no small way by the launch of the APS Green Term Deposit - the latest in the Bank's suite of environment-friendly and sustainable products.

Total Equity of €270.1 million (December 2022 - €261.5 million) reflects the profit results of the period as well as some reversal of the unrealised fir value losses in the investments portfolio which had characterised most of 2022. The Bank's capital adequacy ratio stands at 18.7% with CET1 ratio at 15.1%.

CEO Marcel Cassar commented:

"The outlook for the global economy in 2023 is again uncertain amid financial sector turmoil, high inflation, the ongoing effects of war and three years of COVID. With a baseline forecast expecting growth to fall from 3.4% in 2022 to 2.8% this year, and a more pronounced slowdown for advanced economies, the picture is even bleaker for the EU with forecast growth of 0.7% for 2023 and 1.5% for 2024. Such modest improvement is driven by declining energy prices, which however remain relatively high compared to pre-war, helping to boost purchasing power and contributing to lower headline inflation. At the same time, the forceful response by regulators to stem potential systemic fallouts from the Silicon Valley Bank and Credit Suisse failures has reduced market anxiety and possibly induced a policy shift which might reduce the need for aggressive interest rate hikes going forward.

Closer to home, Malta's economic growth is expected to continue outpacing that of its trading partners, with forecast GDP to increase 3.7% in 2023 and remain close to that level in 2024. This performance is complemented by milder inflation and lower unemployment than our EU counterparts, thanks also to Government subsidies which however contribute to a build-up in public debt. With tourism forecasts for the year being strong and the real estate market remaining buoyant, new challenges, and pressures, build on local policymakers to put in place long-term strategies for sustainable economic growth. And while banks adjust to the reality of higher interest rates, dynamic liquidity management becomes even more important as customers search to optimise yields and pricing causing more pressure on our spreads.

The quarter under review showed us delivering yet again on our promises, across all fronts. We made new, exciting inroads in commercial and corporate business, increased our share in the home finance market, managed liquidity and capital efficiently while keeping our sustainability agenda a priority. As also anticipated, after successive quarters of market turbulence negatively impacting our investments portfolio valuations, we are now seeing some of these unrealised losses coming back and hope for this trend to continue in the coming financial periods. Our commitment remains to manage the transmission of interest rate developments with the concerns of all our customers in mind. Against this background, our business model continues to be underpinned by strong investor support and market confidence, which we reciprocate by keeping the customer central to all our activities. This places continuous demands and challenges on our resources, not least on the need to accelerate transformation and to build on the most valuable resource of all – human capital.

Overall, it has been a great start to the year, and we look forward to the coming months with optimism while mindful that global economic recovery remains fragile - or, to use IMF language, 'rocky'!"

Unquote

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

STATEMENTS OF PROFIT OR LOSS *(unaudited)*

for the three months ended 31 March 2023

	The Group		The Bank	
	Mar-23	**Mar-22**	**Mar-23**	**Mar-22**
	€000	**€000**	**€000**	**€000**
Interest receivable and similar income:				
On loans and advances and balances with the Central Bank of Malta	21,998	16,620	21,998	16,620
On debt and other fixed income instruments	1,774	1,387	1,427	1,004
Total interest receivable and similar income	**23,772**	**18,007**	**23,425**	**17,624**
Interest payable	(5,420)	(3,312)	(5,420)	(3,312)
Net interest income	**18,352**	**14,695**	**18,005**	**14,312**
Fee and commission income	2,982	2,356	2,770	2,105
Fee and commission expense	(748)	(631)	(745)	(631)
Net fee and commission income	**2,234**	**1,725**	**2,025**	**1,474**
Dividend income	-	82	158	927
Net gains on foreign exchange	13	363	198	178
Net gains/(losses) on other financial assets	669	(3,623)	(7)	2,349
Other operating income	37	57	37	57
Operating income before net impairments	**21,305**	**13,299**	**20,416**	**19,297**
Net impairment charges	(912)	(576)	(912)	(576)
Net operating income	**20,393**	**12,723**	**19,504**	**18,721**
Employee compensation and benefits	(6,939)	(5,828)	(6,775)	(5,716)
Other administrative expenses	(4,530)	(3,331)	(4,385)	(3,176)
Depreciation of property and equipment	(474)	(498)	(474)	(498)
Amortisation of intangible assets	(671)	(457)	(671)	(457)
Depreciation of right-of-use assets	(154)	(142)	(154)	(142)
Operating expenses	**(12,768)**	**(10,256)**	**(12,459)**	**(9,989)**
Net operating profit before associates' results	**7,625**	**2,467**	**7,045**	**8,732**
Share of results of associates, net of tax	283	(613)	-	-
Profit before tax	**7,908**	**1,854**	**7,045**	**8,732**
Income tax expense	(2,470)	(2,524)	(2,466)	(2,469)
Profit/(loss) for the period	**5,438**	**(670)**	**4,579**	**6,263**

STATEMENTS OF FINANCIAL POSITION *(unaudited)*

as at 31 March 2023

	The Group		The Bank	
	Mar-23	**Dec-22**	**Mar-23**	**Dec-22**
	€000	**€000**	**€000**	**€000**
ASSETS				
Cash and balances with Central Bank of Malta	**100,090**	85,887	**100,090**	85,887
Loans and advances to banks	**71,864**	72,870	**70,761**	71,023
Financial assets at fair value through profit or loss	**43,772**	41,046	**-**	-
Non-current assets held for sale	**1,733**	1,733	**1,733**	1,733
Syndicated loans	**169,397**	135,210	**169,397**	135,210
Loans and advances to customers	**2,312,976**	2,224,694	**2,312,976**	2,224,694
Derivative financial instruments	**717**	738	**717**	738
Other debt and fixed income instruments	**460,338**	459,601	**460,338**	459,601
Equity and other non-fixed income instruments	**298**	303	**298**	303
Investment in subsidiaries	**-**	-	**40,251**	40,251
Investment in associates	**13,794**	13,667	**14,063**	14,063
Investment properties	**6,623**	6,593	**6,623**	6,593
Property and equipment	**39,607**	39,252	**39,607**	39,252
Intangible assets	**14,920**	14,545	**14,920**	14,545
Right of use assets	**4,886**	5,040	**4,886**	5,040
Deferred tax assets	**2,886**	2,957	**2,886**	2,957
Other receivables	**17,431**	8,016	**16,901**	8,202
TOTAL ASSETS	**3,261,332**	3,112,152	**3,256,447**	3,110,092
LIABILITIES				
Derivative financial instruments	**717**	738	**717**	738
Amounts owed to banks	**95,606**	50,387	**95,606**	50,387
Amounts owed to customers	**2,789,654**	2,710,633	**2,791,145**	2,712,804
Debt securities in issue	**54,653**	54,642	**54,653**	54,642
Lease liabilities	**4,992**	5,246	**4,992**	5,246
Other liabilities	**27,566**	15,427	**27,524**	15,386
Accruals	**18,024**	13,621	**17,400**	13,561
TOTAL LIABILITIES	**2,991,212**	2,850,694	**2,992,037**	2,852,764
EQUITY				
Share capital	**91,729**	91,729	**91,729**	91,729
Share premium	**48,410**	48,410	**48,410**	48,410
Revaluation reserve	**5,411**	2,981	**5,411**	2,981
Other reserve	**221**	147	**221**	147
Retained earnings	**112,455**	107,209	**118,639**	114,061
Attributable to equity holders of the parent	**258,226**	250,476	**264,410**	257,328
Non-controlling interest	**11,894**	10,982	**-**	-
TOTAL EQUITY	**270,120**	261,458	**264,410**	257,328
TOTAL LIABILITIES AND EQUITY	**3,261,332**	3,112,152	**3,256,447**	3,110,092