INTERIM REPORT

30 June 2020

APS bank

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are responsible for the preparation and fair presentation of the interim condensed 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 interim condensed 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 interim condensed 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 2020

	The Group		The Bank	
	Jun 20	Jun 19	Jun 20	Jun 19
	€000	€000	€000	€000
Interest receivable and similar income:				
On loans and advances, balances with the Central Bank of Malta and treasury bills	27,822	24,401	27,816	24,381
On debt securities:				
measured at amortised cost	852	1,523	852	1,523
Amortisation on premiums and discounts on debt securities measured at amortised cost	(361)	(101)	(361)	(101)
measured at fair value through profit or loss (FVTPL)	561	332	7	12
Other debt securities	2,408	2,666	2,408	2,666
Amortisation on premiums and discounts on other debt securities	(521)	(191)	(521)	(191)
	2,939	3,079	2,385	3,309
Total interest receivable and similar income	30,761	26,350	30,201	27,090
Interest payable	(6,840)	(3,322)	(6,840)	(3,322)
Net interest income	23,921	21,758	23,361	21,068
Dividend income	118	74	955	149
Fees and commission income	3,456	3,548	3,419	3,542
(Losses) / gains on foreign exchange	(281)	357	184	215
Net (losses) / gains on financial instruments	(90)	2,753	(57)	17
Other operating income	200	76	200	76
Operating income	27,324	28,602	28,062	26,067
Personnel expenses	(8,336)	(7,827)	(8,336)	(7,827)
Fees and commission expenses	(252)	(210)	(252)	(210)
Other administrative expenses	(6,083)	(4,921)	(5,944)	(4,871)
Amortisation of intangible assets	(756)	(579)	(755)	(578)
Depreciation of property and equipment	(888)	(558)	(888)	(558)
Depreciation of right of use assets	(236)	(133)	(236)	(133)
Net operating profit before associates' results and impairment gains and losses	10,773	14,714	11,651	12,270
Share of results of associates, net of tax	(525)	1,129		
Operating profit before impairment gains and losses	10,248	15,843	11,651	12,270
Net impairment losses	(1,383)	(835)	(1,383)	(835)
Profit before tax	8,865	15,008	10,268	11,435
Income tax expense	(3,463)	(4,030)	(3,425)	(4,002)
Profit for the period	5,402	10,978	6,843	7,433
Profit for the period attributable to:				
Equity holders of the parent	5,502	10,802	6,843	7,433
Non controlling interest	(100)	176		
	5,402	10,978	6,843	7,433

STATEMENTS OF COMPREHENSIVE INCOME

for the six months ended 30 June 2020

	The Group		The Bank	
	Jun 20 €000	Jun 19 €000	Jun 20 €000	Jun 19 €000
Profit for the period	5,402	10,978	6,843	7,463
Other comprehensive income:				
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)	(1,971)	3,207	(1,971)	3,207
Release of fair value on disposal of debt instruments measured at fair value through other comprehensive income (FVTOCI)	(117)	(2)	(117)	(2)
Items that may not be subsequently reclassified to profit and loss:				
Change in fair value on equity instruments held at FVTOCI	25	10	25	10
Other comprehensive (loss) / income for the period, net of tax	(2,063)	3,215	(2,063)	3,215
Total comprehensive income for the period, net of tax	3,339	11,223	4,780	10,678
Total comprehensive income for the period attributable to:				
Equity holders of the parent	3,439	11,047	4,780	10,678
Non-controlling interest	(100)	176		
	3,339	11,223	4,780	10,678

STATEMENTS OF FINANCIAL POSITION

as at 30 June 2020

	The Group		The Bank	
	Jun 20	Dec 19	Jun 20	Dec 19
	€000	€000	€000	€000
ASSETS				
Cash and balances with Central Bank of Malta	133,285	[illegible]	126,727	132,403
Cheques in course of collection	2,000	128	2,000	128
Loans and advances to banks	30,684	55,811	30,684	54,841
Loans and advances to customers	1,568,414	1,456,569	1,568,414	1,456,503
Syndicated loans	121,664	37,228	121,664	37,228
Financial assets at fair value through profit or loss (FVTPL)	39,877	17,775	256	161
Other debt and fixed income instruments	303,625	275,166	303,625	275,166
Equity and other non-fixed income instruments	1,062	506	1,062	506
Investment in subsidiaries			40,250	10,250
Investment in associates	18,454	18,257	15,262	15,262
Investment properties	1,830	1,530	1,830	1,530
Property and equipment	45,202	43,551	45,202	43,551
Intangible assets	7,938	7,320	7,936	7,316
Right of use assets	4,804	2,502	4,804	2,502
Deferred tax assets	961	160	961	160
Other receivables	7,912	7,199	7,506	[illegible]
TOTAL ASSETS	2,287,712	2,168,929	2,278,183	2,156,598
LIABILITIES				
Amounts owed to banks	9,974	27,512	9,974	27,512
Amounts owed to customers	2,054,879	1,929,692	2,055,548	1,930,225
Current tax	2,743	163	2,710	152
Lease liabilities	4,926	2,628	4,926	2,628
Other liabilities	10,456	10,966	10,456	10,966
Accruals	8,747	8,752	8,687	8,712
TOTAL LIABILITIES	2,091,725	1,977,011	2,092,301	1,977,496
EQUITY				
Issued capital	62,255	62,255	62,255	62,255
Share premium	10,140	10,140	10,140	10,140
Revaluation reserve	28,643	30,706	28,643	30,706
Retained earnings	87,795	82,735	84,844	76,001
Attributable to equity holders of the parent	188,833	185,836	185,882	179,102
Non-controlling interest	7,154	6,029		
TOTAL EQUITY	195,987	191,915	185,882	179,102
TOTAL LIABILITIES AND EQUITY	2,287,712	2,168,929	2,278,183	2,156,598
MEMORANDUM ITEMS				
Contingent liabilities	24,859	22,555	24,859	22,555
Commitments	746,665	757,638	746,665	757,638

The interim financial statements were approved by the Board of Directors and authorised for issue on 30 July 2020 and signed on its behalf by:

F. MIFSUD BONNICI
Chairman

F. AZZOPARDI
Director

M. CASSAR
Chief Executive Officer

STATEMENTS OF CHANGES IN EQUITY

for the six months ended 30 June 2020

The Group	Issued capital €000	Share premium €000	Revaluation reserve €000	Dividend reserve €000	Retained earnings €000	Total €000	Non-controlling interest €000	Total €000
PERIOD ENDED 30 JUNE 2020								
Balance at 1 January 2020	[illegible]	[illegible]	[illegible]	-	[illegible]	[illegible]	[illegible]	[illegible]
Profit for the period	-	-	-	-	[illegible]	[illegible]	[illegible]	[illegible]
Other comprehensive loss	-	-	[illegible]	-	-	[illegible]	-	[illegible]
Total comprehensive (loss) / income	-	-	(2,063)	-	5,502	3,439	(100)	3,339
Dividends paid	-	-	-	-	[illegible]	[illegible]	[illegible]	[illegible]
Net share capital issued in subsidiary company	-	-	-	-	-	-	[illegible]	[illegible]
Balance at 30 June 2020	62,255	10,140	28,643	-	87,795	188,833	7,154	195.987
PERIOD ENDED 30 JUNE 2019								
Balance at 1 January 2019	[illegible]	[illegible]	[illegible]	-	[illegible]	[illegible]	[illegible]	[illegible]
Profit for the period	-	-	-	-	[illegible]	[illegible]	[illegible]	[illegible]
Other comprehensive income	-	-	[illegible]	-	-	[illegible]	-	[illegible]
Total comprehensive income	-	-	3,245	-	10,802	14,047	176	14,223
Dividends paid	-	-	-	-	(2,824)	-	[illegible]	[illegible]
Increase in share capital	[illegible]	-	-	-	-	-	-	[illegible]
Increase in share premium	-	[illegible]	-	-	-	-	-	[illegible]
Net share capital issued in subsidiary company	-	-	-	-	-	-	[illegible]	[illegible]
Balance at 30 June 2019	62,255	10,140	15,643	-	76,456	154,298	3,070	167,564

STATEMENTS OF CHANGES IN EQUITY

for the six months ended 30 June 2020

The Bank	Issued capital €000	Share premium €000	Revaluation reserve €000	Dividend Reserve €000	Retained earnings €000	Total €000
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
Dividends paid						
Increase in share capital						
Balance at 30 June 2020	62,255	10,140	28,643		84,844	185,882
PERIOD ENDED 30 JUNE 2019						
Balance at 1 January 2019	57,605	7,770	12,398		67,242	145,015
Profit for the period					7,433	7,433
Other comprehensive income			3,245			3,245
Total comprehensive income			3,245		7,433	10,678
Dividends paid					(2,275)	(2,275)
Increase in share capital	4,650					4,650
Increase in share premium		2,370				2,370
Balance at 30 June 2019	62,255	10,140	15,643		72,400	160,438

STATEMENTS OF CASH FLOWS

for the six months ended 30 June 2020

	The Group		The Bank	
	Jun 20	Jun 19	Jun 20	Jun 19
	€000	€000	€000	€000
OPERATING ACTIVITIES				
Interest and commission receipts	30,877	27,928	30,725	27,822
Interest and commission payments	(6,236)	(16,013)	(6,784)	(16,592)
Cash paid to employees and suppliers/depositors	(15,315)	(9,147)	(15,262)	(9,121)
Operating profit before changes in operating assets and liabilities	9,326	2,768	8,679	2,109
(Increase) / decrease in operating assets				
Loans and advances to customers	(107,095)	(76,558)	(107,095)	(76,558)
Reserve deposit with Central Bank of Malta	(1,654)	(306)	(1,654)	(306)
Cheques in course of collection	(1,872)	27	(1,872)	27
Other assets	23	(27)		
Increase / (decrease) in operating liabilities				
Amounts owed to customers	127,760	30,635	127,898	30,722
Amounts owed to banks		(74,069)		(74,069)
Other liabilities	(2,497)	5,533	(2,491)	5,510
Cash from / (used in) operating activities before tax	23,991	(32,272)	23,465	(32,815)
Income tax paid	(1,165)	(1,048)	(1,148)	(1,037)
Net cash flows from / (used in) operating activities	22,826	(33,320)	22,317	(33,852)
INVESTING ACTIVITIES				
Dividends received	298	947	955	1,149
Interest income from debt securities	3,268	1,204	3,268	1,204
Purchase of debt instruments measured at FVTOCI	(89,574)	(7,382)	(89,574)	(7,382)
Proceeds on disposal of debt instruments measured at FVTOCI	45,788	3,015	45,788	3,015
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	(19,310)	(7,256)		
Proceeds on disposal of financial assets at FVTPL	20,728	14,299	217	13
Purchase of equity and other non fixed income instruments	(737)		(737)	
Purchase of property, equipment and intangible assets	(3,486)	(3,568)	(3,486)	(3,568)
Net cash flows (used in) / from investing activities	(68,468)	1,259	(69,012)	3,651
FINANCING ACTIVITIES				
Dividends paid	(50)	(2,235)		(2,275)
Proceeds from issue of shares	1,448	11,056		15,020
Amounts paid on redemption of shares	(173)	(169)		
Cash payment for the principal portion of lease liability	(207)	(219)	(207)	(219)
Net cash flows from / (used in) financing activities	1,018	8,434	(207)	12,526
Net decrease in cash and cash equivalents	(44,624)	(80,028)	(46,902)	(79,695)
Cash and cash equivalents at 1 January	182,332	210,978	178,330	210,081
Cash and cash equivalents at 30 June	137,708	130,950	131,428	130,386

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

for the six months to 30 June 2020

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.

2. BASIS OF PREPARATION

The 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 management accounts for the six months ended 30 June 2020 and have been reviewed in terms of ISRE 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*.

The financial information as at 30 June 2020 and for the six months then ended reflect the financial position and the performance of APS Bank plc and its subsidiaries APS Diversified Bond Fund and ReAPS Asset Management Ltd. The comparative amounts reflect the financial position as included in the audited financial statements ended 31 December 2019 and the financial results for the period ended 30 June 2019.

The 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 2019, which form the basis for these Interim Financial Statements. These Interim Financial Statements are intended to provide an update on the latest complete set of annual financial statements and accordingly they focus on 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 2019, 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 2019. In preparing these 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.

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

Standards, interpretations and amendments to published standards as endorsed by the EU 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.

- IFRS 9 Amendment 'Prepayment Features with Negative Compensation' (effective for financial years beginning on or after 1 January 2019) - endorsed by the EU
- IAS 1 and IAS 8 (Amendment) - 'Definition of material' (effective for financial years on or after 1 January 2020) - endorsed by the EU
- The Conceptual Framework and Amendments to References to the Conceptual Framework in IFRS Standards - endorsed by the EU
- Amendments to IFRS 9, IAS 39 and IFRS 7 - Interest Rate Benchmark Reform (effective for financial years on or after 1 January 2020) - endorsed by the EU
- IFRS 3 (Amendment) - 'Definition of a Business' (acquisitions that occur on or after the 1 January 2020) - endorsed by the EU

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

for the six months to 30 June 2020

2. BASIS OF PREPARATION (continued)

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

The following standards, interpretations and amendments have been issued by the IASB but not yet endorsed by the EU, except as disclosed below:

- IFRS 17 – Insurance Contracts (effective for financial years on or after 1 January 2021)
- Amendments to IAS 1 – Classification of Liabilities as Current or Non-Current (effective for financial years on or after 1 January 2022)
- Amendments to IFRS 3 – Reference to the conceptual framework (effective for financial years on or after 1 January 2022)
- Amendments to IFRS 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 concessions (effective for financial years on or after 1 June 2020, 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)

The changes resulting from these standards, interpretations and amendments are not expected to have a material effect on the financial statements of the Group.

3. EFFECTS OF COVID 19 ON THE INTERIM FINANCIAL REPORTING

With the recent and rapid development of the Coronavirus (COVID-19) outbreak the world economy entered a period of health care crisis that has already caused and will continue to cause a major global disruption not only in business activity but in everyday life as well. Many countries have adopted extraordinary and economically costly containment measures requiring in some cases companies to limit or even suspend normal business operations and to implement restrictions on travelling and strict quarantine measures.

Certain industries such as tourism, hospitality and entertainment are expected to be disrupted significantly by these measures whereas others like manufacturing, real estate and financial services are expected to incur sideway losses.

Moratoria on loan repayments

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. Central Bank of Malta ("CBM") have issued Directive 18 for Moratoria on Credit Facilities in Exceptional Circumstances to which the Group has abided to.

As per CBM Directive 18 all suspended capital and/or interest payments during the moratorium period shall be spread evenly throughout the remaining term of the facility after the moratorium period. The Group did not capitalise any deferred interest throughout the period of the moratorium.

Loans which have been granted a moratorium and on which capital and/or interest payments have been suspended as at June 2020 are as follows:

	€000
Commercial facilities	150,000
Retail facilities	81,000
	231,000

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

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

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

Facilities sanctioned under the MDB Guarantee Scheme as at 30 June 2020 was Eur5,950k of which Eur1,320k was drawn down. The Guarantee covers 90% of each loan individual facility, capped at 50% of the actual portfolio volume.

Expected credit loss measurement

The effects of COVID 19 on the Expected Credit Loss was not material as at 30 June 2020 and is explained further below. However, considering that the economic situation is still fluid and the extent and impact of the pandemic, including the possibility of a second wave, is still developing, the outlook may change during the course of 2020. Given the significant degree of uncertainty attributed to the outbreak of COVID 19 we expect the outlook to continue to evolve during the year 2021.

During the coming months, the Group will closely monitor the economic situation together with the performance of the Bank's facilities, in order to calibrate the Expected Credit Loss accordingly.

Considering the unfortunate circumstances, the pace at which the outbreak expands and because of the high level of uncertainties due to the unpredictable outcome of this outbreak, the financial effect that the current crisis could have on the global economy and the overall business activities going forward is not possible to be estimated with reasonable certainty at this stage.

a) Loss allowance movement

The following table explains changes in loss allowance during the period for each portfolio:

	Jun 20 €000	Dec 19 €000	Movement in H1 2020 €000
Loans and advances to customers amortised cost	16,186	15,953	533
Debt securities - amortised cost	69	16	53
Debt securities - FVTOCI	314	143	171
Syndicated loans	1,612	1,179	163
Loans and advances to banks amortised cost	16		16
Total	**18,587**	**17,321**	**1,266**
Write offs during the period			117
Net impairment losses			**1,383**

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

Expected credit loss measurement (continued)

a) Loss allowance movement (continued)

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

	Jun 20
	€000
Charge for the year:	
Collective impairment	1,995
Individual impairment	2,125
Bad debts written off	17
	4,137
Reversal of write downs:	
Collective impairment	(413)
Individual impairment	(2,341)
	(2,754)
Net impairment losses	1,383

The loss allowance recognised in the period was mostly impacted by the following factors:

- Additional allowance for new financial instruments recognised during the period;
- Growth in loans and advances to customers portfolio, attributable to the introduction of the MDB Guarantee Scheme and the Jet Pack product launched by the Group;
- Owing to the outbreak of COVID 19 and subsequent market responses, Probability of Defaults (PDs) obtained from a third party service provider have been negatively impacted and thus increased. These stressed PDs are used for the investment portfolio, syndicated loans, balances with CBM and loans and advances to banks; and
- Variations in the forecasted macro economic scenarios which are also obtained from a third party service provider on a regular basis. These indicators are being used to stress the internally generated PDs for the loans and advances to customers.

b) Grouping shared risk characteristics

The groupings selected by the Group are subject to regular review to ensure that exposures within a particular group remain appropriately homogenous. During the period, the Group has performed a modification within the segmentation of the loans and advances to customers' portfolio as there were no sufficient historical data for particular segments to produce accurate results and at present the groups are classified as follows:

- Loans and advances to customers;
  - a) Mortgages;
  - b) Personal;
  - c) Commercial;
- Loans and advances to banks;
- Debt instruments; and
- Syndicated loans.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

for the six months to 30 June 2020

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

Additional costs incurred

Since the outbreak of COVID 19 earlier this year, the Group has taken steps to safeguard the health of its clients as well as its employees, by implementing a number of measures that as a minimum met the recommendations of the Health Authorities. To implement these measures 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.

The Group also implemented a number of measures that allowed staff maximum flexibility in their working hours in order to manage their specific personal and family circumstances. Other measures included those enabling staff members to work from home thus reducing the number of employees present at the office. To support these decisions the Group incurred additional capital expenditure such as the acquisition of a substantial amount of new laptops, softphones, headsets and a number of new mobile phones. The cost which the Group incurred in this regard amounted to circa Eur 350k.

Fair value movement

The COVID 19 pandemic and related confinement measurements caused an unprecedented contraction in the economic activity. To this effect, the Group has recorded in profit or loss a net loss on financial instruments amounting to Eur 90[illegible]k for the period ended 30 June 2020 (2019: gain of Eur 2,798K). The Group has also recorded a loss amounting to Eur 1,971K in the statements of comprehensive income brought about by a change in fair value on debt instruments measured at FVTOCI.

As at the date of approval of the condensed interim financial statements the economic situation has already started to improve with part of the loss incurred already being reversed. The Group will continuously monitor the economic development with the aim of minimizing the financial impact.

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 2020, including additional assets acquired following the implementation of COVID 19 measures.

	€000
Land and buildings	303
Computer software	2,056
Computer hardware	227
Other fixed assets	119

Also, up to the date of approval of the condensed interim financial statements the Group entered into a number of commitments amounting to Eur 2,211K.

There were no disposals of assets as at end of June 2020.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

for the six months to 30 June 2020

5. RELATED PARTY DISCLOSURES

The Group structure

The condensed interim financial statements of the Group include the financial statements of APS Bank plc and its subsidiaries and associates.

The registered office of APS Funds SICAV plc, APS Regular Income Ethical Fund, APS Income Fund, APS Diversified Bond Fund and ReAPS Asset Management Ltd is APS Centre, Tower Street, Birkirkara, BKR 4012.

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

Related party transactions

The following table provides the total amount of transactions, which have been entered into by the Bank with the subsidiaries and associates for the relevant period.

Related parties	Period / Year	Income from related parties €000	Expenses charged to / (by) related parties €000	Amounts owed by related parties €000	Amounts owed to related parties €000
Subsidiaries					
APS Diversified Bond Fund	Jun 20				49
APS Diversified Bond Fund	Dec 19				3
ReAPS Asset Management Limited	Jun 20	547		216	539
ReAPS Asset Management Limited	Dec 19	287		220	530
Associates:					
APS Income Fund	Jun 20		32		4,561
APS Income Fund	Dec 19		170		3,771
APS Regular Income Ethical Fund	Jun 20				51
APS Regular Income Ethical Fund	Dec 19		10		220

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

for the six months to 30 June 2020

5. RELATED PARTY DISCLOSURES (continued)

Transactions with key management personnel of the Group/Bank

(a) Other transactions with Directors

	Jun 20 €000	Dec 19 €000
Loans and advances	642	[illegible]
Commitments	194	203

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.

(b) Transactions with executive employees:

	Jun 20 €000	Dec 19 €000
Loans and advances	3,836	3,751
Commitments	532	205

Transactions with other related parties

	Balances as at Jun 20 €000	Interest receivable Jun 20 €000	Balances as at Dec 19 €000	Interest receivable Dec 19 €000
Amounts due from other related parties:				
Shareholders and entities with common directorship	6,873	105	[illegible]	[illegible]

	Balances as at Jun 20 €000	Interest payable Jun 20 €000	Balances as at Dec 19 €000	Interest payable Dec 19 €000
Amounts due to other related parties:				
Shareholders	17,048	100	21,391	167
Key management personnel	1,855	3	1,524	5
Other related parties	1,872	5	[illegible]	[illegible]

Included in the amounts due to shareholders as at end of 2019 were deposits of €250,000 held as collateral for loan commitments and overdraft facilities granted to related parties. Also included are term deposits of €10,459,112 (2019: €9,553,720) which bear interest at the prevailing Bank rates. Furthermore, the amounts due from other related parties includes a secured element of €6,210,419 (2019: €3,830,620) and €35,021 (2019: €10,017) as unsecured.

For the period ended 30 June 2020, the Bank did not require to provide for impairment of receivables relating to amounts due from related parties (2019: the same).

No guarantees were received by related parties as at end of June 2020 (2019: the same). Specific guarantees given to related parties amount to €233,23[illegible] (2019: €226,353).

NOTES TO THE CONDENSED FINANCIAL STATEMENTS
for the six months to 30 June 2020

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:

The Group	Fair value measurement hierarchy Level 1	Level 2	Level 3	Total
	€000	€000	€000	€000
Assets as at 30 June 2020				
Financial assets at FVTPL				
Fixed income instruments and collective investment schemes	39,877			39,877
equity and other non fixed income instruments	762			762
Financial assets at FVTOCI				
debt and other fixed income instruments	199,025			199,025
equity and other non fixed income instruments			300	300
Total	239,664		300	239,964

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

for the six months to 30 June 2020

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 2019				
Derivative assets not designated as hedges		721		721
Financial assets at FVTPL				
Fixed income instruments and collective investment schemes	41,478			41,478
Financial assets at FVTOCI				
debt and other fixed income instruments	158,595			158,595
equity and other non fixed income instruments			308	308
Total	200,073	721	308	201,102
Liabilities as at December 2019				
Derivative liabilities not designated as hedges		721		721
Total		721		721

	Fair value measurement hierarchy			
The Bank	Level 1	Level 2	Level 3	Total
	€000	€000	€000	€000
Assets as at 30 June 2020				
Financial assets at FVTPL				
Fixed income instruments and collective investment schemes	256			256
equity and other non fixed income instruments	762			762
Financial assets at FVTOCI				
debt and other fixed income instruments	199,025			199,025
equity and other non fixed income instruments			300	300
Total	200,043		300	200,343

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

for the six months to 30 June 2020

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

The Bank	Fair value measurement hierarchy Level 1	Level 2	Level 3	Total
	€000	€000	€000	€000
Assets as at 31 December 2019				
Derivative assets not designated as hedges		721		721
Financial assets at FVTPL				
Fixed income instruments and collective investment schemes	464			464
Financial assets at FVTOCI				
debt and other fixed income instruments	158,595			158,595
equity and other non fixed income instruments			308	308
Total	**159,059**	**721**	**308**	**160,088**
Liabilities as at December 2019				
Derivative liabilities not designated as hedges		721		721
Total		**721**		**721**

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.

Property held by the Bank is valued by an independent architect at the end of the financial year (December 2019). For the six months ended 30 June 2020, there were no fair value movements on the property held by the Bank.

Property and equipment – Land and buildings

For the year ending 2019, an independent architect has been engaged to provide valuations based on a market value basis namely the price at which land and buildings could be sold under private contract between a willing seller and an arm's length buyer on the date of the valuation, it being assumed that the property is publicly exposed to the market, that market conditions permit orderly disposal and that a normal period, having regard to the nature of the property, is available for the negotiation of sale. Market value was based on prices in the range of €1,172 and €10,903 per square metre.

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.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

for the six months to 30 June 2020

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

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 statement of financial position for these items as reflecting their fair value in that these assets will be realized 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. The fair value was determined using a Level 2 valuation technique.

At the reporting date debt securities classified at amortised cost amounted to €101.7 million. Their market value amounted to €11[illegible].0 million (Level 1), whilst their nominal value amounted to €100.8 million.

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. The fair value measurement is classified as Level 2.

At the reporting date, syndicated loans classified at amortised cost amounted to €121.7 million (2019: €126.0 million). Their market value amounted to €119.7 million (2019: €123.1 million) (Level 2), whilst their nominal value amounted to €123.0 million (2019: €126.0 million).

Amounts owed to banks and customers are mainly deposit liabilities. Of this category of liability 80% have contractual repricing within one year, whilst 20% reprice 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 €4.7 million, fair value is €4.7 million. All term deposits at different maturities were revalued to reflect the current interest rates. The fair value measurement is classified as Level 2.

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

	Jun 20
	€000
Opening balance at 1 January 2020	306
Disposals	
Acquisitions	
Fair value movements	(6)
Closing balance at 30 June 2020	**300**

INDEPENDENT AUDITOR'S REPORT

for the six months ended 30 June 2020

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 statement of financial position of APS Bank plc ('the Group' and 'the Bank') as of 30 June 2020 and the related condensed interim statements of profit or loss and other comprehensive income, changes in equity and 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 interim condensed financial report is the responsibility of, and has been approved by the directors. As disclosed in page 2, 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 interim condensed 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.

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

30 July 2020

COMMENTARY ON THE CONDENSED INTERIM FINANCIAL STATEMENTS

for the six months ended 30 June 2020

OVERVIEW OF PERFORMANCE

For the period under review both the Group and the Bank posted lower profits compared to 2019. Group pre-tax profit was of €8.8 million (2019: €15.0 million), while the Bank delivered a pre-tax result of €10.5 million, only marginally less than €11.1 million in 2019. This performance is very satisfactory considering the dramatic impact of the COVID-19 pandemic on business momentum which, after a strong start to 2020, came to a practical halt by March. With great dedication and commitment, the Bank continued with its operations relentlessly, maintaining over 90% of the branch network active, upscaling its digital presence and standing by its customers during these difficult times. All along the Bank was continuously supporting its employees and their families adapt to a new reality, as well as the full spectrum of business, personal and investment customers who likewise experienced uncertain and anxious times.

INCOME STATEMENT

The spread of the pandemic and resultant knock-on economic effects around the world wreaked havoc across financial markets. This directly impacted the performance at Group level as the exposure to the APS Funds SICAV generated a net adverse correction of €0.6 million compared to gains of €5.8 million in the first half of 2019. Considering the extent of market turmoil and prevailing global uncertainty, the downside to these asset classes has been fairly contained and it is hoped that more of the adverse performance to date can be reversed by year end. Foreign currency operations delivered net losses of €0.3 million in 2020 as against a €0.4 million gain in 2019.

In the six months to 30 June 2020, Net Interest Income grew by 10% over the same period last year reaching €23.8 million, mainly a result of growth in the lending book while looking to preserve spread in the portfolio of liquidity reserves, syndicated loans and trade finance participations. This is a remarkable result considering that compressed interest rate conditions continued to prevail and the Bank was largely supporting its business base with moratoria and emergency financial support by the end of Q1. In Q2, in collaboration with the Malta Development Bank, APS Bank announced the launch of its new product – the APS Jet Pack – aimed at local businesses experiencing cash flow problems due to the pandemic. The Bank's response has been timely and comprehensive however the situation remains fluid as the longer term effects of the pandemic, especially on tourism and related sectors such as hospitality, leisure and accommodation, are still premature to gauge.

The slowdown in new credit activity and focus on support also led to a contraction in fees from processing of new facilities as from March. Plans to launch new investment and pension products were also postponed overall resulting in fee and commission revenue remaining largely stable year on year at €3.5 million (2019: €3.5 million). Notwithstanding, Bank Operating Income improved by 7.7% from €26.1 million in 2019 to €28.1 million in 2020.

Operating Expenses & Depreciation for the period totalled €16.0 million, up by 9.2% on the €13.9 million of 2019. The Group continued to invest heavily in human resources and technology while at the same time reinforcing its security and risk management infrastructure. Regulation and compliance driven costs also increased substantially. Significant overheads were also incurred consequent to COVID-19 as the Bank spared no expense in ensuring the continuity of business operations throughout the outbreak: from investing in systems and equipment to facilitate remote working, to protecting the safety and welfare of employees and customers alike. They were indeed testing times for both Bank and Group as revenue growth and efficiency targets made way for higher priorities. The charge for Expected Credit Losses booked for the first six months increased to €1.4 million, mainly attributable to the growth in the loans and advances portfolio and the change in Probability of Default (PD) percentages. Although due to the timely actions by Management as well as the moratoria relief measures COVID-19 has so far not materially affected the impairment charge for the first half year, the volatile economic situation and uncertain medium term outlook make it difficult to estimate how asset quality might be impacted later in the year.

COMMENTARY ON THE CONDENSED INTERIM FINANCIAL STATEMENTS

for the six months ended 30 June 2020

STATEMENT OF FINANCIAL POSITION

Total Group Assets as at 30 June 2020 stood at €2.3 billion, a growth of €119 million, or 5.5%, on 31 December 2019. Bank Gross Loans and Advances to Customers and Debt Securities were the key components of this increase, growing by 3.7% and 22.3%, respectively over the period under review. Demand for new credit was almost 50:50 between Personal and Commercial lines.

At the other end, the Bank remained very liquid mainly raising deposits through its traditional retail channels as it sought to wean itself away from institutional and other sources of funding. This allowed the Bank to benefit from the strength of its brand while lowering its average funding cost in the process. Total Amounts from Customers increased by 6.5% during the six months under review to €2.05 billion. Consolidated Equity at 30 June 2020 was of €196.0 million (2019 – €191.9 million), while for the Bank this amounted to €185.3 million (2019 – €181.1 million).

Ratios and KPIs for Group and Bank are reported in the table below.

LOOKING AHEAD

The Maltese economy headed into the pandemic after a five-year run of strong economic growth – one of the highest in the EU – declining debt/GDP ratio, record low unemployment and a strong fiscal cushion. With the current forecast for 2020 pointing to a decline in GDP of 6% and consequent economic effects, Malta faces the uncertainty ahead with guarded confidence that the Government relief measures already implemented and aid package negotiated with the EU will help the economy to weather the storm at least for the near future.

APS Bank also believes that it has a duty more than ever to continue supporting its community of personal, investment and business customers during these challenging times. But these unprecedented circumstances also require that changing consumer behaviours and the contours of how organisations work are observed closely. This is a time when the Bank must be especially nimble, by adapting its risk appetite, following its customers while striving for more efficiency. If there is any certainty in the months ahead, it is that the medium term effects of COVID-19 and any estimates of the pace of recovery remain unpredictable.

As work on the 2021-2023 Business Plan gathers speed, both Group and Bank look forward to the next level of development which will be assured by an increase in the capital base targeted for Q1 of this year. This, together with the continued investment in technology and human capital, puts a duty on Management to use these scarce and competitive resources most efficiently. There is overall optimism that the strategic focus and tried tested APS business model will enable both Group and Bank to navigate their way forward safely and successfully.

COMMENTARY ON THE CONDENSED INTERIM FINANCIAL STATEMENTS

for the six months ended 30 June 2020

APPENDIX

	The Group		The Bank	
	Jun 20	Jun 19	Jun 20	Jun 19
	%	%	%	%
Return on average capital employed after tax (ROAE)	6.0	15.6	8.4	9.7
Net interest income and other operating income to total assets	1.2	1.5	1.2	1.3
Cost to operating income ratio	60.6	48.6	58.5	52.9
Growth in total assets / liabilities	5.5	2.9	5.5	2.6
Growth in gross loans and advances to customers	6.7	8.6	6.7	8.6
Growth in amounts owed to customers	6.5	5.2	6.5	5.5
Non-performing loans to total gross loans and advances	2.5	3.1	2.5	3.1
CET 1 Capital Ratio	15.5	13.9	14.7	14.0
Total Capital Ratio	15.5	13.9	14.7	14.0