COMPANY ANNOUNCEMENT

Quarterly Financial Update – 3Q2022

Date of Announcement: 27 October 2022
Reference No: APSB35

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

Outstanding Bank performance contrasted by shifting market conditions

APS Bank plc announces the publication of the financial results extracted from the Group and Bank unaudited management accounts for the nine months ended 30 September 2022, (also referred to as the "period" or "9M") as presented to the Board of Directors on Thursday 27 October 2022.

Financial Performance

For the nine months ended September 2022, APS Bank plc posted €8.4 million pre-tax profit at Group level (9M2021: €16.7 million) and €21.7 million pre-tax profit at Bank level (9M2021: €16.0 million). These contrasting outcomes continue the trend of the first and second quarters, as global markets remain confronted by persistent economic instability and rising inflationary pressures. Notwithstanding these challenges, the Bank registered strong results, increasing the quarterly profit before tax over 2Q by 66.1% which was partly offset by the unrealised negative market trends at Group level.

Net interest income remains a key driver of the revenue mix, growing by €16.9 million during 3Q to a total of €46.7 million for the nine months, increasing by 15.0% or €6.1 million when compared to the same period last year. New business opportunities from both personal and commercial clients supported the expansion of the Group's credit portfolio, reflected in an increase of €6.4m (12.5%) of interest income over the same period last year. Cost of funding remained stable at €10.6 million, increasing only slightly over the comparative period, demonstrating the Group's efficient management of its asset-liability mix and cost of funding.

Net fee and commission income for the period was €5.0 million, marginally higher (2.0%) when compared to 2021. The increase in this revenue source was steered by the general growth in local and foreign banking activities, card related commissions and enlarged customer base. This was offset by reductions in investment services income, which was negatively impacted by the ongoing market volatility.

Continuing the trend of the first half of the year, the Group's results from financial instruments remained in red territory of €8.4 million. This is mainly due to the high economic uncertainty and instability of financial markets which negatively impacted the investment in APS Funds SICAV. Other operating income from business activities amounted to €1.0 million (9M2021: €0.5 million) at Group level. At Bank level, gains on sale of local investments drove other operating income up by €2.8 million to a cumulative amount of €4.3 million for the period under review.

Third quarter operating expenses totalled €10.5 million bringing the aggregate for the period to €33.5 million (9M2021: €30.4 million). Mainly attributing to this is the Group's continuous investment in human capital to motivate and retain skilled workers resulting in increased salaries in all levels and incentive schemes as well as costs for staff training and well-being. In addition, increases were recorded across the board in other areas, such as regulatory and compliance costs, insurance, security and the ongoing investment in technology infrastructure, channels and digitisation, seeking the right balance between more efficiency and customer-centric methods and more Environmental, Social and Governance (ESG) sustainability initiatives.

The Group's cost-to-income ratio from business operations as at 3Q2022 was 63.4% dropping by 1.9% when compared to the 65.3% of 2Q2022, affirming the management's oversight on effectively delivering quality service whilst maintaining prudent cost levels. Impairments against expected credit losses resulted in a writeback of €0.1 million, reflecting the performance of customer loans and advances and the Group's high credit underwriting standards and attitude to risk while actively pursuing new business opportunities.

Financial Position

As at the end of the reporting quarter, total assets stood at €3.1 billion, further expanding by €46.2 million during 3Q and a year-to-date growth of €305.5 million. Loans and advances to customers mainly led this expansion with total growth of €217.2 million during the period. Home loans and personal financing remained the highest contributor, further expanding by €59.5 million in 3Q for a total growth of €174.3 million since December 2021. Syndicated loans and trade financing increased by 22.0%, or €29.5 million, during the period to reach €163.8 million. Concurrently, during the nine months under review, holdings of debt securities grew by €127.6 million whilst cash and reserves with the Central Bank of Malta decreased by €73.0 million, reflecting active liquidity management and the Group's support of Government borrowing programmes.

Corresponding to the increase in the Group's asset base, liabilities grew by 10.5% or €269.3 million, reaching €2.8 billion. Overnight deposits increased by €269.2 million over the nine-month period reconfirming the strength of the APS brand in attracting customer funding. This was counterbalanced by a targeted reduction in term deposits of €14.8 million, further improving the deposit portfolio mix and funding cost.

Total equity amounted to €257.0 million, rising by 16.4% from December 2021's €220.8 million. As cautiously anticipated earlier in the year, market movements resulting from rising interest rates have had a direct, negative impact on reserves (through 'other comprehensive income'). These corrections, albeit unrealised and expected to reverse fully over time, were amply compensated by the €66 million equity capital raised from the successful Initial Public Offering (IPO) of June which was hugely oversubscribed within hours of opening. The same IPO has had the effect of boosting the Bank's capital adequacy ratio to 18.8%, with the CET1 ratio at 15.2%.

CEO Marcel Cassar commented:

"As we enter 4Q2022 and look ahead to 2023, the global economic outlook remains clouded by heavy uncertainty. Following three straight negative quarters, the first since the 2008 financial crisis, the prospects of a strong, post-Covid rebound continued to experience serious shocks that are stretching the resilience of even the strongest nations. The build-up of inflationary pressures, impacting especially energy and food prices, coupled with ongoing supply disruptions, the prolonged conflict between Russia and Ukraine and ensuing geopolitical tensions, are perfecting the conditions for a recession with cross-border implications.

Such international developments are felt also in our widely open economy through higher costs of inputs and imported goods which are being cushioned by Government policies aimed at striking the right socio-economic balance. In this difficult environment, Malta is experiencing higher economic growth, milder inflation and lower unemployment than its EU counterparts, aided in no small way by a stronger than expected tourism recovery and buoyant property market. The lifting of the FATF grey listing in June also helped create a more benign outlook for the Maltese economy. But the challenges of sustainable economic growth, and of skills and job attrition, are weighing in heavily and are not to be under-estimated.

While rising interest rates should generally benefit banks by providing greater opportunity for margins, we shall be managing this new scenario with the concerns of all our customers in mind. As policy makers and central bankers persist in fighting inflation notwithstanding the implications for the capital markets, we remain confident that our investment portfolios are underpinned by sound credit quality and that the slide in valuations will be reversed in due course. We are also reassured by the fact that customer confidence in our model and opportunities to gain market share continue to grow."

Unquote

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

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STATEMENTS OF PROFIT OR LOSS *(unaudited)*

for the nine months ended 30 September 2022

	The Group		The Bank	
	Sep-22	**Sep-21**	**Sep-22**	**Sep-21**
	€000	**€000**	**€000**	**€000**
Interest receivable and similar income:				
On loans and advances and balances with the Central Bank of Malta	52,845	46,370	52,845	46,370
On debt and other fixed income instruments	4,463	4,580	3,375	3,314
Total interest receivable and similar income	**57,308**	**50,950**	**56,220**	**49,684**
Interest payable	(10,596)	(10,341)	(10,596)	(10,341)
Net interest income	**46,712**	**40,609**	**45,624**	**39,343**
Fee and commission income	6,944	6,782	6,818	5,930
Fee and commission expense	(1,909)	(1,848)	(1,481)	(1,848)
Net fee and commission income	**5,035**	**4,934**	**5,337**	**4,082**
Dividend income	112	-	956	741
Net gains on foreign exchange	676	53	696	263
Net (losses)/gains on other financial assets	(8,413)	86	2,353	-
Other operating income	247	408	247	408
Operating income before net impairments	**44,369**	**46,090**	**55,213**	**44,837**
Net impairment reversals	97	994	97	994
Net operating income	**44,466**	**47,084**	**55,310**	**45,831**
Employee compensation and benefits	(19,273)	(15,955)	(19,273)	(15,955)
Other administrative expenses	(10,664)	(11,141)	(10,856)	(10,522)
Depreciation of property and equipment	(1,631)	(1,410)	(1,631)	(1,410)
Amortisation of intangible assets	(1,423)	(1,560)	(1,423)	(1,560)
Depreciation of right-of-use assets	(460)	(383)	(460)	(383)
Operating expenses	**(33,451)**	**(30,449)**	**(33,643)**	**(29,830)**
Net operating profit before associates' results	**11,015**	**16,635**	**21,667**	**16,001**
Share of results of associates, net of tax	(2,581)	79	-	-
Profit before tax	**8,434**	**16,714**	**21,667**	**16,001**
Income tax expense	(7,537)	(5,824)	(7,429)	(5,601)
Profit for the period	**897**	**10,890**	**14,238**	**10,400**

STATEMENTS OF FINANCIAL POSITION *(unaudited)*

as at 30 September 2022

	The Group		The Bank	
	Sep-22	**Dec-21**	**Sep-22**	**Dec-21**
	€000	**€000**	**€000**	**€000**
ASSETS				
Cash and balances with Central Bank of Malta	**134,685**	207,723	**134,685**	207,723
Cheques in course of collection	**4**	2,881	**4**	2,881
Loans and advances to banks	**39,833**	32,296	**33,812**	30,831
Loans and advances to customers	**2,149,260**	1,932,044	**2,149,260**	1,932,044
Syndicated loans	**163,811**	134,262	**163,811**	134,262
Derivative financial instruments	**910**	552	**910**	552
Financial assets at fair value through profit or loss	**37,387**	61,846	**-**	-
Other debt and fixed income instruments	**480,072**	328,041	**480,072**	328,041
Equity and other non-fixed income instruments	**303**	307	**303**	307
Investment in subsidiaries	**-**	-	**40,251**	45,251
Investment in associates	**12,798**	19,803	**13,563**	16,761
Investment properties	**8,212**	6,053	**8,212**	6,053
Property and equipment	**39,258**	40,998	**39,258**	40,998
Intangible assets	**13,447**	11,746	**13,447**	11,746
Right of use assets	**5,442**	5,051	**5,442**	5,051
Deferred tax assets	**2,464**	2,249	**2,464**	2,249
Other receivables	**12,620**	9,152	**12,445**	8,303
TOTAL ASSETS	**3,100,506**	2,795,004	**3,097,939**	2,773,053
LIABILITIES				
Derivative financial instruments	**910**	552	**910**	552
Amounts owed to banks	**58,266**	57,208	**58,266**	57,208
Amounts owed to customers	**2,685,885**	2,431,757	**2,687,700**	2,433,073
Debt securities in issue	**54,630**	54,597	**54,630**	54,597
Current tax	**3,463**	945	**3,414**	758
Lease liabilities	**5,602**	5,348	**5,602**	5,348
Other liabilities	**20,642**	10,450	**20,603**	10,404
Accruals	**14,063**	13,325	**13,995**	13,224
TOTAL LIABILITIES	**2,843,461**	2,574,182	**2,845,120**	2,575,164
EQUITY				
Share capital	**89,929**	62,429	**89,929**	62,429
Share premium	**48,410**	10,453	**48,410**	10,453
Revaluation reserve	**3,520**	25,334	**3,520**	25,334
Other reserve	**50**	-	**50**	-
Retained earnings	**104,106**	103,974	**110,910**	99,673
Attributable to equity holders of the parent	**246,015**	202,190	**252,819**	197,889
Non-controlling interest	**11,030**	18,632	**-**	-
TOTAL EQUITY	**257,045**	220,822	**252,819**	197,889
TOTAL LIABILITIES AND EQUITY	**3,100,506**	2,795,004	**3,097,939**	2,773,053