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MDB Group Limited

Annual Report

31 December 2019

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CHAIRMAN'S AND CHIEF EXECUTIVE OFFICER'S REVIEW

During the financial period the Group started implementing its new business strategy that outlined our course for the coming years to build a better and stronger MeDirect. As part of its ongoing commitment to improve the long-term profitability and returns to shareholders, the Board decided on a series of measures to diversify risk and to transform the Group's business model and drive long-term growth through the improvement of the competitiveness of our retail proposition by revamping our core offering. We embarked decisively on implementing this new business strategy by reorganising our business divisions to better align them with our clients' needs, to work in a leaner and more efficient way and to diversify and improve our risk profile, while at the same time further strengthening our capital position. We have already made tangible progress in our effort to transform and reshape MeDirect, in line with the new business plan, into a less operationally complex, safer and stronger institution. In 2019, we started off the Dutch mortgages business line, reduced risk exposures through the securitisation structure set up by the Group, built more capital, and implemented certain cost reduction measures with an acute focus on returns.

The appointment of Arnaud Denis as Group Chief Executive Officer and Radoslaw Ksiezopolski as Group Chief Financial Officer brought a wealth of experience in retail banking as they embarked decisively on implementing the Group's new business strategy. This move was also part of a series of changes to reflect the Group's commitment to achieve high standards of corporate governance. In fact, the Group's CRO Alex Konewko was appointed as a director and the Group recently announced that MeDirect Belgium has named Timothy Rooney as its new Chief Executive Officer, effective upon receipt of required regulatory approval. These changes at an executive level were also accompanied by new non-executive appointments as Marcia De Wachter was recently appointed on the Group's board and following regulatory approval Franca Vossen will also be joining the MeDirect Belgium board. These appointments are also in line with the Group's pledged commitment to diversity in its boards and we are confident that these measures will increase the effectiveness of these boards with the right mix of skills and experience.

The Group's strategic focus is to become a pan-European digital retail challenger bank serving affluent clients. We continue to put the client at the centre of everything we do, as our customers are expecting smart tools and easy digital ways of handling their everyday banking. We are continuously innovating to enhance our value proposition and accelerate our speed to market by implementing several digital solutions to transform the client experience. We're streamlining client onboarding, providing more personalised offers, and creating more in-built and convenient self-service platforms. Throughout the period we upgraded our websites with a more contemporary design that is proving to appeal more to online users and we just launched our new mobile app that allows clients a convenient way to take control of their savings and investments.

But though very important, digitization is not just about these customer-facing elements. Now banking is omni-channel as users interact with the Group through more than one channel. That means that we have to be responsive to every approach, offering a seamlessly coherent user experience. Having a solid multi-channel infrastructure and providing an omni-channel experience will allow customers to enjoy personalised service across every touch point, and the Group to take advantage of the wealth of customer information available. This client focused approach should lead to increased customer retention, enhancement of customer loyalty and the strengthening of our brand. There's much more to do, but we feel good about where we are since we have made significant progress in our customer proposition and are transforming the way we work.

Although such transformation and heavy investments in digital development have undoubtedly led to cost increases in the past months, now the Group has a foundation for a long-term improvement in cost efficiency. Furthermore, the improved user experience has led to increased engagement on our portal as these services allow customers to manage their banking and investment needs without the need to visit a physical branch. As a result, MeDirect recently closed two of its Maltese branches in order to consolidate and improve its delivery service. These operations were transferred to the new Investment centre at the Group's Head Office in Sliema, which is dedicated to providing superior banking support and investment services to our customers.

Assets under custody/management continued to grow from €926.7 million to €1,036.3 million. This further growth was achieved through the cross selling of services to our traditional savings customers and by attracting new customers directly with our transparent pricing and product offering. The growth of this business is enhancing and broadening our customer relationships, building brand loyalty, and enabling us to grow our deposit funding at a more advantageous price point.

Consumer confidence was being supported by relatively strong employment markets in the countries in which we operate and, as a result, we recorded good volumes in both our new mortgage business and our long-established wealth management business. The Maltese and Belgian economies that are largely oriented towards services, continued to enjoy employment growth in 2019. In particular, a steady growth rate, one of the strongest in the Eurozone, was being forecast for Malta until the COVID-19 pandemic outbreak. At present our overall client base exceeds seventy-one thousand and throughout the financial period our total deposit base grew by €237 million that was largely driven by our Belgian customer base, where total deposits grew from €1.4 billion to €1.7 billion.

The Group's diversification strategy that kicked off in 2019 was mainly based on the reduction of the International Lending portfolio as a result of the setting up of a securitisation structure and the launch of the Dutch mortgage business line. This business model transformation led to the gradual deployment to the new Dutch mortgages business line of the capital released from the sale of loans to the securitisation structure. Also, the liquidity that had been successfully raised from the regulated savings deposit product that was launched in Belgium at the beginning of 2019 to fund the new Dutch mortgages business line was only effectively put to use when this business line was launched in the last quarter of 2019. This transitory phase, coupled with the increase in the Group's capital requirements, led to a loss of revenues and increase in funding costs respectively in this financial period.

We also initiated comprehensive restructuring measures that led to restructuring costs of €6 million but which will lead to sustainable cost saving potential, to bring the Group's cost structure in line with the revenues, with the aim of improving steadily our cost to income ratio.

As a result of the above factors the Group registered a profit before tax amounting to €7.1 million throughout the financial period ending 31 December 2019, that covered only nine months as we now revert to a standard calendar year as our financial year, compared to a profit before tax of €21.5 million in the 12 month period ending 31 March 2019.

As mentioned above, in September 2019, MeDirect Belgium successfully launched a programme of investing in Dutch NHG (government guaranteed) mortgages, as a first step to diversifying the Group's credit portfolio and expand its presence to a third European market. The Netherlands, which is well known for the stability of its economy and an equally stable political system, is one of Europe's strongest credit markets. Its mortgage market is no exception, with a strong welfare structure that supports borrowers in meeting their mortgage obligations. This market was also deemed attractive as a significant part of Dutch residential mortgages benefit from a government guarantee through the National Mortgage Guarantee Scheme (NHG) and the risk of losses on the outstanding balance not covered by the NHG is relatively low, both due to the strong repayment ethic of Dutch mortgage holders and policies that determine the maximum loan to value ratios for borrowers.

As at 31 December 2019 this lending portfolio amounted to €133.2 million with relative credit commitments amounting to €283.7 million. This business is expected to grow significantly over the coming years. The return on this business line is also expected to improve through wholesale funding via the mortgage securitisation that was successfully set up by MeDirect Belgium in May 2020 with the private placement of €350 million of AAA notes. We consider this to be a landmark transaction at a very challenging time in the market since we successfully completed one of the very few RMBS transactions post the onset of the coronavirus, thus attesting the validity of our current business strategy.

As a result of such expansion of our operations in Belgium, the organisational structure and resourcing in our Belgium office has been enhanced in order to further strengthen its governance and risk management framework.

Another important accomplishment of the risk diversification plan of the Group was the setting up of a securitisation structure to which a portion of the International Lending portfolio was sold, leading to a significant reduction in the Group's risk weighted assets. As at 31 December 2019, the International Lending portfolio stood at €1.2 billion with relative undrawn commitments under revolving credit facilities amounting to €473.4 million.

The regulatory reform of the banking industry continues to evolve, presenting the Board and senior management with new challenges. As a result of further regulatory changes introduced to continue to improve the resilience of individual banks, banks within the EU were subject to more demanding capital requirements. Meeting these new requirements led to restrictions that curtailed the Group's activities and the relevant revenue but the Group has demonstrated its ability to continue to increase its capital base and improve its liquidity position given that at 31 December 2019 the Group's Capital Adequacy Ratio stood at 17.3% compared to 15.2% in March 2019, whilst the Group's Liquidity Coverage Ratio increased from 460.1% as at 31 March 2019 to 716.2%.

We also recognise that we have a role within, and responsibility towards, the community we serve. To discharge these roles and responsibilities, as highlighted within the Corporate Governance report, during this financial period the Group continued to provide various sponsorships, including being the main sponsor of the X Factor Malta TV programme.

Since the end of the financial year, the world has been faced with the challenges of the COVID-19 disease. This current pandemic has no precedent in the modern era and presents extraordinary challenges to the global banking sector, MeDirect included. We have been focused on ensuring that from an operational resilience perspective we come through the crisis successfully, but we expect that this crisis will be impacting the Group's performance as impairment levels are expected to increase during 2020. The deteriorating economic indicators registered so far are expected to increase credit losses and expected credit losses driven by the risk reserving model. Given that the series of measures taken by the European Commission and the regulatory authorities to mitigate the negative economic impact and those taken by governments across the EU as regards both the restriction of movement and financial aid on economies are currently changing on a daily basis, it is not possible to accurately estimate the financial impact that the COVID-19 pandemic will have. Much will depend on the extremity of the containment measures that may prove to be necessary, on the duration of the outbreak and on the economic conditions that will prevail, both in Malta and overseas, once the situation returns to normality. The degree of uncertainty surrounding economic forecasts is unprecedented leading to stress in financial markets and the repercussions of this outbreak will significantly depend on the commitment by governments to do what it takes to slow the spread and ease financial tensions in the global economy and the banking sector.

However, although losses will be registered in the short term, once the storm passes, we are confident that we will be able to progress swiftly towards achieving our long-term ambitions. The current business transformation plan is the right response to the major changes and challenges in the financial industry. With the current strategy in place, we have every reason to look forward with guarded optimism.

We have a talented and dedicated team at the helm to execute the current business plan and eventually ensure sustainable profits over the long term. Operating in three locations, our people are our driving force and, although 2019 was a challenging year and in 2020 the global economy is facing one of its worst recession given the impact of the Coronavirus, the professionalism and expertise of our staff is always to the fore. We are very grateful to them for their hard work and their commitment to our customers, and to each other. We are committed to doing everything in our power to ensure that our personnel identify with MeDirect, to bolster the strengths of our employees and to enhance our organisational capabilities. We are focusing on ensuring that we continue to attract, develop and retain the talent and capabilities we will need in the future. We would like to take this opportunity to thank our staff for their professionalism, diligence and hard work in these very unique and difficult circumstances.

Together, we are building a better MeDirect – which sustainably delivers value to our clients, our shareholders and our communities.

MICHAEL BUSSEY
CHAIRMAN

ARNAUD DENIS
CHIEF
EXECUTIVE OFFICER

20 MAY 2020

DIRECTORS' REPORT

The directors present their annual report of MDB Group Limited (the "Company" or "MDB Holding"), and of the Company and its subsidiaries ("the Group" or "MDB Group") for the period ended 31 December 2019. This report is prepared in terms of the Maltese Companies Act (Cap. 386) and complies with the disclosure requirements of the Sixth Schedule to the same Act.

The Group's results reflect the consolidated position of MDB Holding and its principal subsidiaries, namely MeDirect Bank (Malta) plc ("MeDirect Malta"), MeDirect Malta's wholly owned subsidiary being MeDirect Bank SA ("MeDirect Belgium") (together the "Subsidiaries"). The Group also includes Grand Harbour I B.V., a controlled special purpose entity, established in the Netherlands and Medifin Estates, a property leasing partnership.

PRINCIPAL ACTIVITIES

The Company is mainly involved in the holding of shares in subsidiaries which are mainly credit institutions.

The principal activities of the Group comprise lending to international and Maltese corporates and the provision of banking services primarily to the mass affluent sector in Malta and Belgium, focusing primarily on deposit savings products and wealth management, as well as local corporate banking in Malta.

Throughout the financial period, management was tasked with executing on a series of initiatives that will diversify the Group's business lines from its historic core competencies and grow the Group's financial position. These being the Dutch mortgages and the related management of securitisation structures business lines.

MeDirect Malta is licensed by the Malta Financial Services Authority ("MFSA") in terms of the Maltese Banking Act (Cap. 371) amongst other things, to carry out the business of banking, to undertake money transmission services, to issue and administer means of payment, to issue guarantees and commitments, to trade on own account and/or for the account of customers in a number of instruments, to provide portfolio management and advice and to provide safe keeping services. MeDirect Malta also holds a Category 2 licence and a Category 4 licence issued by the MFSA which authorise MeDirect Malta to provide investment services, to hold or control customers' money and to act as trustee or custodian of collective investment schemes.

The principal customer-related activities of MeDirect Malta include the following:

- The provision of senior secured loans and revolving credit facilities to foreign companies;
- The provision of loans and overdraft facilities to local companies;
- The management of a securitisation structure;
- The receipt and acceptance of customers' monies for deposit in savings and fixed term deposit accounts denominated in euro and other major currencies;
- The provision of wealth management products;
- Trading for the account of customers in foreign exchange;
- The provision of money transmission services; and
- The provision of safe custody services with a wide range of custom-tailored solutions as well as administration and safekeeping of securities.

MeDirect Malta also provides a full range of banking services to corporate clients in Malta, including corporate lending, deposit taking, foreign exchange services and payment services.

MeDirect Malta's wholly owned subsidiary MeDirect Belgium provides a highly competitive online offering for the Belgian market and its operations are based on:

- Online client delivery;
- Competitive and cost-effective savings and wealth management products offered to the Belgian retail market;
- Transparent and customer friendly products and delivery;
- The provision of senior secured loans to foreign companies and the senior loan facility to Grand Harbour I B.V.; and
- The financing of Dutch mortgages.

The Group is made up as follows:

- MDB Group Limited – the holding company.
- MeDirect Bank (Malta) plc, that includes Grand Harbour I B.V. ("GH I") – a controlled special purpose entity, established in The Netherlands, as part of the Group's funding strategy.
- MeDirect Bank SA – a wholly owned subsidiary that handles the Group's operations in Belgium.
- Medifin Estates – a property leasing partnership.

Transfer of shareholding in Charts Investment Management Service Limited ("Charts") to MeDirect Malta and merger of Charts into MeDirect Malta

On 1 February 2018, MeDirect Malta announced that the boards of directors of MeDirect Malta and Charts have each voted to merge Charts into MeDirect Malta, subject to receipt of all applicable regulatory approvals and completion of all legal requirements. Charts was a fully owned subsidiary of MDB Group Limited and was a stockbroking firm authorised to carry out investment services under a Category 3 licence and was mainly engaged in providing stockbroking and corporate finance services.

On 1 April 2018 the shares held by MDB Group Limited in Charts were transferred to MeDirect Malta. With effect from 1 April 2018, the merger between MeDirect Malta and Charts became effective for accounting purposes. Thus, all the transactions of Charts have been treated as being those of MeDirect Malta with effect from 1 April 2018.

Change in accounting reference date

By virtue of a board resolution dated 25 September 2019, the Company, similarly to its subsidiaries, changed its accounting reference date from 31 March to 31 December. Accordingly, these financial statements reflect the period from 1 April 2019 to 31 December 2019 whilst comparative figures cover transactions for the twelve month period 1 April 2018 to 31 March 2019.

Business Development

Change in management and restructuring plan

During the financial period the Group announced the reorganisation of senior management with the appointment of Arnaud Denis as the new Group Chief Executive Officer and Radoslaw Ksiezopolski as the new Group Chief Financial Officer to work closely together to ensure the continued growth of the Group and to develop a more diversified portfolio of businesses across asset classes and the spectrum of risk and return. They were also appointed on the board together with Alex Konewko, the Group's Chief Risk Officer.

The Group's Restructuring Plan was devised setting out the Group's future business strategy and the implementation activity necessary. This restructuring plan entailed a reduction in the head count of employees based in Malta and the closure of the Mosta and Paola branches. The current period's performance was negatively impacted by the restructuring costs amounting to €6.0 million that were incurred throughout this financial period as a result of the above-mentioned changes.

At the moment the Group is looking at broadening its asset base internationally to diversify both its risk and its income. The Group entered into new asset classes and a new jurisdiction in thoughtful and well-planned ways, building on the Group's track record of both organic and inorganic growth.

New Dutch state-guaranteed mortgages business line

On 3 June 2019, the Governing Council of the European Central Bank ("ECB") consented to the strategic decision of MeDirect Belgium to enter into a new business line, namely the origination of Dutch state-guaranteed mortgages ('Nationale Hypotheek Garantie' or NHG) under Article 77 of the Belgian Banking Law. These mortgages are prime Dutch mortgages that benefit from a guarantee from a private non-profit fund and indirectly from a government guarantee. The launch of this new business line as from September 2019 is part of the Group's strategic objective to diversify its business model. MeDirect Belgium is doing this via an established third-party mortgage originator in the Netherlands that after origination transfers the mortgages to MeDirect Belgium.

Reclassification of a portion of the hold to collect lending portfolio and the set up and management of a securitisation structure

During the financial period the Group changed its strategy in relation to a specific sub-portfolio of their International Lending portfolio, classified as hold to collect. The reasons for this change in business model were driven by the Group's intention to set up a securitisation structure ("GH I-2019"), through which part of the International Lending portfolio were sold by the Group to this structured entity and derecognised from the Group's statement of financial position, subsequent to which structured notes were issued by the structured entity to the Group and third party investors.

However, the Group's change in intent was not deemed to constitute a reclassification event, since the Group's remaining hold to collect portfolio retained its classification and the above mentioned sale from the International Lending portfolio for the purpose of setting up a securitisation structure was classified as an isolated non-recurring event. MeDirect Malta acquired a 5% position in each of the structured note tranches for risk retention purposes (a "vertical slice"), for the amount of €20.3 million. MeDirect Belgium acquired a 35% share of the tranche with the highest credit rating for an amount of €87 million which was then disposed at a later stage.

In view of the Group's projected exposure to the total variability of the structured entity's returns, taking into account its maximum exposure as a collateral manager (i.e. incorporating all cash flows, including management and incentive fees) and its exposure to variability of returns from the 5% vertical slice together with other holdings of the structured notes, a significant share of the exposure to variable returns was transferred to other tranche holders. Accordingly, the Group does not consolidate the structured entity

Issue of 4% Subordinated Unsecured Bonds due 2024-2029

MeDirect Malta issued €35 million 4% Subordinated Bonds denominated in Euro and Pound Sterling listed on the Malta Stock Exchange maturing on 5 November 2029 with a 5 November 2024 early redemption option held by MeDirect Malta. The proceeds of this issue were used as follows:

- to early redeem the €25 million Subordinated Unsecured Bonds bearing interest at 6% per annum and maturing on 28 November 2024 with a 28 November 2019 early redemption option held by MeDirect Malta;
- to part-finance the redemption of the 7.5% Subordinated Bonds of MeDirect Malta that were redeemed on 4 December 2019; and
- for general corporate funding purposes of the Group.

Other developments

During the financial period ended 31 December 2019, the Group continued to implement its business plan with the aim of sustaining the Group's long-term profitability by building a diversified asset base and its deposit customer base in the mass affluent market both in Malta and Belgium and also with select corporates in Malta.

The Group continues to fund its portfolios through deposits and through the international wholesale financial markets. The growth of the Group's deposit base in Belgium, especially with the introduction of the regulated savings product, has strengthened and made more robust the Group's funding platform. Access to the Eurex repo platform continues to provide efficient funding for the Group. The Group's core deposit offering is a range of fixed-term and other term deposit savings products. As at 31 December 2019, the Group's deposit base reached €2.4 billion (31 March 2019: €2.2 billion). The growth of the Group's deposit base also provides cross selling opportunities for investment and wealth management products.

The Group's Lending Portfolio primarily consists of senior secured loans and revolving credit facilities to corporate borrowers domiciled in Western Europe. Substantially all loans and revolving credit facilities in the portfolio are denominated in euro, pound sterling and US dollars and substantially all of the loans are floating rate instruments (some have interest rate floors embedded within the contracts) and would not be adversely affected by material changes in interest rates. The Dutch mortgage portfolio is expected to increase significantly over the coming months following the introduction of this new business line in September 2019.

As part of the Group's funding strategy, MeDirect Malta had set up Grand Harbour I B.V. ("GH I"), a controlled special purpose entity which has been consolidated since MeDirect Malta retained all the risks and rewards of the structure. GH I was funded through two intragroup loan facilities subscribed to by MeDirect Malta and MeDirect Belgium. MeDirect Belgium and MeDirect Malta invested in GH I on a 70% - 30% basis (31 March 2019: 74% - 26% basis) respectively with the tranche bought by MeDirect Belgium (the "Senior Loan") having a senior ranking vis-à-vis the facility taken up by MeDirect Malta (the "Junior Loan").

The Group also continues to make significant investments in technology to enhance its retail online banking capabilities with the introduction of the new public website the pilot phase of the new digital on-boarding process and the development of the mobile app for retail clients that was recently launched. Significant investment went into the systems supporting the new business lines and there is ongoing investment to enhance the Group's anti-money laundering and financial crime controls along with the continued strengthening of the cyber security posture.

Financial Performance

The Group reported a profit before tax of €7.1 million for the nine months ended 31 December 2019 compared with €21.5 million for the twelve months ended 31 March 2019. The results for the period were mainly impacted by the loss of revenues as a result the decrease in the international lending portfolio as part of the Group's diversification strategy towards Dutch mortgages and the increase in operating expenses as a result of the restructuring exercise undertaken during the financial period. These were slightly mitigated by net gains equivalent to €3.4 million on disposal of investments and loans and advances and lower expected credit losses registered throughout this financial period at approximately €0.1 million compared to €5.8 million in the financial year ending 31 March 2019.

During the nine-months ended 31 December 2019, the Group registered net interest income of €44.0 million (Year ended 31 March 2019: €67.6 million). Total operating income amounted to €55.0 million (Year ended 31 March 2019: €80.4 million). Total operating expenses amounted to €47.8 million (Year ended 31 March 2019: €53.1 million).

As previously mentioned throughout this financial period the Group started diversifying its asset base as the traditional lending portfolio decreased to €1.4 billion, net of expected credit losses of €22.2 million (31 March 2019: €1.8 billion net of expected credit losses of €23.9 million) and as at 31 December 2019 the Group had a Dutch mortgage portfolio amounting to €133.2 million and holdings in securitisation structures amounting to €253.6 million.

In addition, the Group had undrawn commitments of €473.4 million under revolving credit facilities as at 31 December 2019 (31 March 2019: €448.1 million), other undrawn corporate credit facilities of €50.2 million (31 March 2019: €61.3 million). In 2020, the COVID-19 outbreak has given rise to a significant increase in drawdowns of revolving credit facilities that represented 63% of the commitments under revolving credit facilities as at the end of the reporting period. As at 31 December 2019, the Group also had commitments to purchase term loan facilities amounting to €40.1 million (31 March 2019: €60.8 million) of which €29.0 million were subject to a back to back sale agreement with a third party and commitments in relation to Dutch mortgages amounting to €283.7 million.

As at 31 December 2019, the Group's investment treasury portfolio, consisting of debt securities stood at €0.9 billion (31 March 2019: €0.7 billion).

The MDB Group (the "Regulatory Group"), which comprises MDB Group Limited and its subsidiaries, the MeDirect Malta Group, remains committed to operating with strong regulatory ratios and a robust liquidity position. At 31 December 2019 the Group's Capital Adequacy Ratio stood at 17.3% (31 March 2019: 15.21%), whilst the Group's Liquidity Coverage Ratio stood at 716.2% (31 March 2019: 460.1%).

The Group falls under the Single Supervisory Mechanism ("SSM"). The SSM refers to the system of banking supervision in Europe. It comprises the European Central Bank ("ECB") and the national supervisory authorities of the participating countries that is Malta and Belgium. Its main aims are to ensure the safety and soundness of the European banking system, increase financial integration and stability and ensure consistent supervision. MeDirect Malta is also classified as an Other Systemically Important Institution ("OSII").

The Regulatory Group, that is also considered a core domestic bank by the Central Bank of Malta, will continue to ensure that appropriate capital levels are maintained reflecting the economic environment and the challenges that the Regulatory Group is faced with.

Key performance indicators

The evaluation of management's implementation of corporate and financial strategy is based on the use of key performance indicators ("KPIs") enabling the Group to adopt corrective measures. The KPIs (and associated risk appetite and risk tolerance metrics) ensure that key metrics are constantly monitored. KPIs play an essential role within the Group's performance management process.

The Board focuses on quantitative KPIs that are actively monitored on a regular basis through risk appetite dashboards within the monthly risk report. In addition, the Board engages in regular substantive discussions in which it evaluates non-financial metrics such as customer satisfaction, employee engagement and sustainability. The Board has overseen the development of a more granular framework for the regular evaluation and monitoring of such non-financial metrics and the establishment of non-financial KPIs in the last year.

The principal financial KPIs of the MDB Group tracked by the Board of Directors are presented in the following table:

Key performance indicators	**31 December 2019**	**31 March 2019**
Business performance management		
Annualised return on equity	**3.3%**	**7.1%**
Overall net interest margin	**2.1%**	**2.6%**
Capital management		
Common equity tier 1 ("CET 1") ratio	**15.2%**	13.2%
Leverage ratio	**8.8%**	10.0%
Liquidity management		
Liquidity coverage ratio ("LCR")	716.2%	460.1%
Net stable funding ratio ("NSFR") *	**130.1%**	136.1%
Credit management		
Non-performing loans ratio **	6.3%	4.7%
Loan loss ratio	**2.2%**	1.5%

** Based on Short Term Exercise returns and calculated according to Basel Quantitative Impact Study guidelines*
*** Based on Banking Rule 09 framework*

Outlook and future business developments

The ongoing robustness of capital and liquidity ratios provide a stable foundation from which to produce attractive and sustainable returns. Following the restructuring exercise that was announced at the beginning of this financial period and given the strategic evaluation process undertaken by the shareholder, the new management are focusing their efforts on the agreed commercial objectives and the accompanying growth opportunities that they bring, supported by the strong foundations that have been built over the recent past, in which the Group invested and will continue to invest heavily.

The economic activity was marked in 2019 by a slowdown in global growth led by prolonged uncertainty on Brexit, effects of US-China trade tensions and reduced US fiscal stimulus. Brexit remains a major political and economic event that continues to affect sentiment. Depending on the arrangements agreed between the UK and the EU, the key issue that could directly impact our operational performance is a significant revision to macroeconomic performance in our major European markets, including the UK, caused by the uncertainty of the Brexit process.

The coronavirus is recently dominating global news. The banking industry is facing tough challenges as a result of the rapid spreading of the new coronavirus outbreak that is impacting both financial markets and consumer behaviour as never before and is having untold economic consequences. From the global macro-economic perspective, the outbreak of the coronavirus is having a negative impact on global economic growth. The Group is closely following the ongoing global economic developments and is monitoring and assessing the potential economic implications for the countries and sectors where the Group is active in order to identify possible mitigating actions. Through our digital banking services, the quality of our customer services was not impacted and the Group immediately reacted to the workforce challenges through measures to ensure business continuity and also various preventive measures such as instructing at-risk employees to work from home, being proactive in managing business travel by introducing travel restrictions and ensuring a clean and hygienic workplace.

The current COVID-19 outbreak will impact the Group's financial position and results and further details are provided in the "Events after the reporting date" section.

Risk management

A comprehensive risk management framework is embedded across the Group, with effective governance and corresponding risk management tools. This framework is underpinned by the Group's risk culture. The Group is exposed to a range of financial and non-financial risks and hence operates a risk management strategy with the objective of controlling and minimising their impact on the financial performance and operations of the Group.

An established risk governance framework and ownership structure ensures oversight of accountability for the effective management of risk. The Group's risk management framework is designed to provide appropriate risk monitoring and assessment.

The Board is responsible for the overall approval of the Group's Risk Appetite Statement ("RAS"). The principal objective of the Group's RAS is to outline the level and types of risk that the Group is willing to assume, within its risk capacity, to achieve its strategic objectives and business plan. The RAS is a material part of the decision-making processes of the Group.

The Group's RAS articulates the type and quantum of risk that the Group is able and willing to accept in pursuit of delivering its strategy. The Group's RAS articulates both qualitative statements which express the risk-taking intent of the Group, as well as a comprehensive set of quantitative limits and controls, covering both financial and non-financial risk categories. Internal quantitative measures enable measurement of the Group's risk profile against risk appetite and risk capacity.

The risk areas covered by the Group's RAS reflect the material risks contemplated by the Group, proportional to the business model, size and complexity of the Group. The Group has identified a number of risk themes which in turn are classified under two categories, namely Financial and Non-Financial Risks.

Whilst it may be argued that all risks that a banking group may encounter can ultimately have some form of financial impact, for the sake of providing alignment to industry standard approaches to categorising risk themes, the Group adopts a simplistic definition that a financial risk is a risk that directly impacts the financial performance of the Group. Taking into consideration the business model of the Group as well as its strategic objectives, financial risks were categorised under five main themes as follows: capital adequacy, liquidity and funding risk, business model and strategy risk, credit risk and market risk.

Non-financial risks have risen in prominence over the past few years, with many banking groups experiencing increasing impacts as a result of operational risk and associated risk types such as conduct, compliance, reputation and cyber-security risk. The Group has identified the following risk themes under this category: operational risk, IT and information security risk, compliance risk, regulatory risk and reputational risk.

A detailed review of the Group's use of financial instruments, the Group's exposure to liquidity risk, credit risk and market risk, non-financial risk and the respective risk management framework and policies are included in Note 2 to the financial statements.

Environmental and employee matters

Sustainability

At MeDirect, environmental awareness is the footprint that supports business efficiency and is part of our long-term contribution to society. We aim to reduce the direct environmental impact of our operations, namely our branches and offices, which use paper, water and energy. The Group's head office and its branches are equipped with LED lamps and occupancy sensors to reduce energy consumption. Furthermore, the Group encourages its employees to reduce paper printing where possible and to facilitate the recycling of all kinds of waste.

Through its wealth management business, the Group is also promoting mutual funds that specialise in eco-friendly investing as this sector has grown rapidly in the past few years. These environmentally friendly funds invest in companies whose products and services demonstrate a commitment to enhancing and preserving the environment; companies with clean environmental records who disclose their policies and performance on certain environmental criteria; and companies that promote a healthy environment through methods such as renewable energy.

Employees

We believe that if someone is worth talking to, they are worth listening to. Exchange meetings with human resources representatives are our way of doing that. These meetings allow people to express themselves or report concerns without interruption or rebuttal. Our goal is to create the right environment to support ethical behaviour, so all employees know, understand and play their part.

Building a more diverse and inclusive workforce is critical to developing a sustainable and successful business. The Group aims to increase and leverage diversity of thought to improve workforce agility, enhance risk management capability, drive innovation and grow markets. The Group's diversity and inclusion ambitions are focused on attracting, developing and retaining talent and deploying that talent effectively to anticipate and meet expectations.

The Group also remains committed to maintaining its preparedness for emerging and foreseeable risks in ensuring health and safety compliance.

We also offer our employees modern working conditions so they can always be successful in a changing working environment and balance their professional interest with personal interest such as family life. We exceed our legal obligations by offering solutions such as flexible working hours, reduces hours and working from home if this is compatible with operational requirements.

Grievances

The Group's grievance procedures are made available to all employees of the Group, and also to new employees during onboarding. The purpose of the Group's grievance procedures is to enable employees to raise any complaints concerning work-related matters so that any issues may be addressed promptly, within as short a time as possible and to the most appropriate level, yet as close as possible to the point of origin. It establishes a process for employees to express and resolve concerns or grievances in relation to their employment in a fair and equitable manner, maintaining a healthy environment of dialogue and respect.

Financial crime and human rights

Financial crime such as bribery, corruption and money laundering hinders economic progress and harms communities. We ensure that we have strong financial crime compliance standards by making enhancements to our financial crime controls, training our staff and sharing best practice with clients.

As an employer, a provider of financial services and a procurer of goods and services, we have a responsibility to respect human rights across our business. We address human rights through the Group's policies.

BOARD OF DIRECTORS

In accordance with the Company's Articles of Association, during the Annual General Meeting, all the directors serving at that time will retire and may offer themselves for reappointment.

The directors of the Company who held office during the period were:

Michael Bussey - Chairman
Arnaud Denis – Chief Executive Officer – appointed on 15 October 2019
Mark A. Watson - Chief Executive Officer ("CEO") until 24 June 2019 and resigned on 19 December 2019
Philippe Delva – appointed on 26 August 2019 and resigned on 15 October 2019
Benjamin Hollowood
Alex Konewko – appointed on 16 October 2019
Radoslaw Ksiezopolski – appointed on 10 October 2019
Michael Walker – resigned on 31 July 2019
Dominic Wallace
Joaquin Vicent – resigned on 19 December 2019
John Zarb

As from 24 June 2019 Mark A. Watson (CEO) and Joaquin Vicent (Director of Treasury and Investments) no longer served in an executive capacity with the Group. Philippe Delva, the CEO of MeDirect Belgium served as interim CEO of the Group until the Group's new CEO, Arnaud Denis was appointed.

On 24 March 2020, Marcia De Wachter was appointed as a director.

DIVIDENDS AND RESERVES

As at 31 December 2019, retained earnings of the Company amounting to €63.4 million (31 March 2019: €73.2 million) and of the Group amounting to €127.1 million (31 March 2019: €131.3 million) were carried forward to the next financial year.

The directors of the Company do not recommend the payment of a final dividend.

STATEMENT OF DIRECTORS' RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

The directors are required by the Maltese Companies Act (Cap. 386) to prepare financial statements that give a true and fair view of the state of affairs of the Company and the Group as at the end of each reporting year and of the profit or loss for that year.

In preparing the financial statements, the directors are responsible for:

- ensuring that the financial statements have been drawn up in accordance with International Financial Reporting Standards as adopted by the EU;
- selecting and applying appropriate accounting policies;
- making accounting estimates that are reasonable in the circumstances; and
- ensuring that the financial statements are prepared on the going concern basis unless it is inappropriate to presume that the Company and the Group will continue in business as a going concern.

The directors are also responsible for designing, implementing and maintaining internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and that comply with the Maltese Companies Act (Cap. 386). They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The financial statements of MDB Group Limited for the period ended 31 December 2019 are included in the Annual Report 2019, which is published in hard-copy printed form and will be made available on the Group's website. The directors are responsible for the maintenance and integrity of the Annual Report on the website in view of their responsibility for the controls over, and the security of, the website. Access to information published on the Group's website is available in other countries and jurisdictions, where legislation governing the preparation and dissemination of financial statements may differ from requirements or practice in Malta.

RELATED PARTIES

During the period ended 31 December 2019, other than the transactions described under note 34 to the financial statements, there were no material changes in related party transactions as compared with those detailed within the financial statements for the year ended 31 March 2019. During the financial periods ended 31 December 2019 and 31 March 2019, no related party transactions materially affected the financial position or liquidity of the Group, with the exception of loan agreements with group companies, dividend payment and movement in shareholders' contributions as described in Notes 15, 16, 22 and 34.

Furthermore, pursuant to Listing Rule 5.70.1 we confirm that there were no material contracts to which MeDirect Malta, or anyone of its subsidiary undertakings, was party and in which anyone of the directors was directly or indirectly interested.

EVENTS AFTER THE REPORTING DATE

COVID-19 global pandemic outbreak

The Group considers the emergence and spread of COVID-19 to be a non-adjusting subsequent event that impacts the Group's future financial position and results, its turnover, cost of funding, the fair valuation of instruments, and the level of expected credit losses.

The Group has focused on keeping its employees and customers safe and has followed all guidelines and recommendations issued by the relevant authorities. A Group-wide contingency plan is being executed as circumstances evolve, and the Group has successfully managed to alter its day-to-day operations and adapt to the new unprecedented environment. Various measures were taken to ensure business continuity and to safeguard the welfare of employees, now working from home. All processes are continuing as normal without any impact on the Group's operations and services since the digital banking platform allows customers to continue all their banking transactions from the safety of their own homes.

The ongoing COVID-19 pandemic has significantly weakened global growth prospects, with the outlook heavily contingent on how countries across the world successfully contain the pandemic over the remainder of the year. The ECB President has stated that the eurozone economy has contracted at a magnitude and speed unprecedented in peacetime and urged eurozone politicians to cooperate on an ambitious package of spending measures to support economic recovery. Myriad government responses have been announced across Europe such as tax payment deferrals, debt moratoria, credit guarantees, employment support and fiscal injections to mitigate the effects of the crisis.

As a result of the pandemic, the ECB and other bank regulatory authorities have also announced measures aimed at supporting the economy, in part by ensuring that banks properly utilise the capital and liquidity buffers built up in recent years to help deal with crisis situations. These steps include the following:

- A number of measures to ensure that significant banks can continue to fulfil their role in funding the real economy. As such, the ECB will allow significant banks to temporarily operate below the level of capital defined by the Pillar 2 Guidance and the capital conservation buffer, to operate below the liquidity coverage ratio and to partially use capital instruments that do not qualify as Common Equity Tier 1 capital to meet the Pillar 2 Requirements.
- A €750 billion Pandemic Emergency Purchase Programme.
- Further flexibility in prudential treatment of loans backed by public support measures, encouraging banks to avoid excessive procyclical effects when applying IFRS 9.
- The lowering of the countercyclical buffer requirement to zero in a number of countries.
- Requesting banks to suspend shareholder distributions for the 2019 financial year as well as for fiscal year 2020 at least until October.

As regards the Group's international corporate lending portfolio in the current environment, many borrowers have drawn down on their credit facilities, rather than risk cash flow uncertainty at a later stage. This has given rise to a significant increase in drawdowns of revolving credit facilities. A number of borrowers will undoubtedly be impacted by the global disruption to the economy generally, the short term (and potential long-term) impact on revenues caused by decreasing demand for their products and services, general uncertainty in the market or disruptions in the supply chain. The extent of such impacts will hinge on a range of factors, much depending on how long the crisis will last, and on the degree of government responses.

The adverse economic impacts of the pandemic will affect the Group's ability to meet its financial targets, in particular since they adversely influence its international lending portfolio through negative rating migrations, higher expected loan losses and potential credit-impairments of financial assets. It is likely that the Group's expected credit losses will increase significantly as clients struggle with potential declines in business activity.

Determining accurately the impact of COVID-19 on the Group is judgemental and subjective in nature, given that such assessment would also need to consider the likely duration of the crisis and the pandemic emergency measures mentioned above, which are still evolving as a number of countries seek to stimulate economic recovery. The Group has compiled a detailed analysis of potential losses on the basis of information available to it at the date of approval of the consolidated financial statements, which it has incorporated into financial projections covering a period normally utilised for its Supervisory Review and Evaluation Process regulatory submissions. These projections comprise historical financial information up to the date of approval of these financial statements and forecast financial information for the residual period, incorporating the estimated impact of the events referred to above on the projected financial results and financial position of the Group. On this basis, the Group is projecting that it will register losses during the year ending 31 December 2020 and during the initial part of the forecast period, principally attributable to the projected credit losses in respect of the Group's international lending portfolio.

The Group commenced this period with appropriate capital and liquidity levels to potentially absorb the simultaneous impact of severe local and global recessions and a financial markets shock. As at 31 December 2019, the CET 1 ratio and the total capital ratio were equivalent to 15.2% and 17.3% respectively, whereas the LCR ratio stood at 716.2% and the NSFR ratio was 130.1%.

The Group's revised expectations incorporating the envisaged impacts of the pandemic will inevitably give rise to a projected decline in the regulatory capital ratio of the Group. The Group is expected to utilise, in part, the capital buffer defined by the Pillar 2 Guidance and the capital conservation buffer, consistent with the stance announced by the ECB. The Group has tested different scenarios, including a stressed case that excludes future increases in capital, and assumes a more prudent outlook on a number of initiatives and other measures planned by management, also excluding the possibility of asset sales. This testing indicates that the Group will be able to reinstate all regulatory capital buffers at the end of the forecast period. The Directors will nevertheless be taking a number of measures to further strengthen the Group, including the possibility of increasing the regulatory capital.

Throughout the forecast period, the Group and its constituent banks are projected to maintain adequate liquidity ratios, in excess of the regulatory minimum.

As noted above, the Group's assessment of going concern considers the exclusion of any future increases in regulatory capital, recognising that future capital market conditions lie beyond the control of the Group. The Directors believe, on the basis of information available as at the date of approval of financial statements, that no material uncertainty exists that may cast significant doubt about the Group's ability to continue as a going concern and that may require disclosure in terms of IAS 1. The assessment of going concern also necessarily entails a number of key judgments, including the following:

- The Group's analysis assumes a sharp downturn in the global economy during the first half of the year, followed by a gradual recovery later in the year and into 2021, but more severe outcomes have also been tested, at this stage excluding the impact of further regulatory and/or government measures which may be taken as a result of this. The eventual outcome of the pandemic nevertheless remains unclear at this time and the Group is accordingly continually working on further measures and plans that could be put into effect should the outcome of the pandemic be materially more adverse than currently envisaged. Alternatively, additional governmental measures may be taken in coming months which lessen the adverse economic impacts assumed in the Group's analysis.

- Within the overall economic scenario arising from the pandemic that is assumed by the Group, the estimation of expected credit losses entails a high degree of judgment at this early stage. The projected expected credit losses, particularly in respect of the Group's international lending portfolio, have a significant impact on the projected financial results during the initial part of the forecast period referred to above. The Directors believe that reasonable judgments have been made by management on the basis of the information in hand in estimating these losses.
- On the basis of a stressed case that excludes from consideration any future increases in capital and also assumes a more prudent outlook on a number of initiatives and other measures planned by management, the Group would partially utilise its capital buffers during the explicit period. In the opinion of the Directors the judgments made on this matter are consistent with the guidance issued by the ECB to all significant banks.

Having concluded the assessment process outlined above, the Directors are confident that the Group has in place the financial resources, proper technical resources and a competent staff complement which together will enable it to meet the challenges that the pandemic presents, The Directors expect that the Group will be able to sustain its operations over the next twelve months, and consider the going concern assumption in the preparation of the Group's financial statements as appropriate as at the date of authorisation for issue of these financial statements.

Dutch Residential Mortgage-Backed Security Transaction

In order to diversify funding sources and reduce funding costs, in May 2020 MeDirect Bank SA securitised part of the Dutch retail mortgages portfolio through a Residential Mortgage-Backed Security ("RMBS") transaction whereby a principal balance of €375.5 million including construction deposits amounting to €8.5 million of the Dutch Mortgage portfolio were sold to a securitisation special purpose entity, called Bastion 2020-1 NHG B.V., established in the Netherlands. MeDirect Belgium, in line with article 6 of the Securitisation Regulation (EU) No 2017/2402 of the European Parliament and of the Council of 12 December 2017 ("the Securitisation Regulation"), undertook to retain, on an ongoing basis, a material net economic interest of not less than five per cent in the securitisation transaction. This implies that the Group will retain substantially all risks and rewards pertaining to the activities of this proposed securitisation structure and hence to assets, liabilities and related income and expenditure attributable to this structure and as such, all assets, liabilities and related income and expenditure of the Dutch securitisation special purpose entity will be reflected in the Group's financial statements.

There were no other events after the reporting date that would have a material effect on the financial statements.

GOING CONCERN

After due consideration of the Group's financial results, financial position and solvency together with the Group's capital adequacy ratio and on the basis of the considerations in the preceding section in relation to the COVID-19 global pandemic outbreak, the directors declare, pursuant to MFSA Listing Rule 5.62, that MeDirect Malta is in a position to continue operating as a going concern for the foreseeable future.

STANDARD LICENCE CONDITIONS APPLICABLE UNDER THE INVESTMENT SERVICES ACT (CAP. 370)

In accordance with SLC 7.60 of the Investment Services Rules for Investment Services providers regulated by the MFSA, licence holders are required to include in the Directors' Report breaches of standard licence conditions applicable under the Investment Services Act (Cap. 370). Accordingly, the directors confirm that no breaches of standard licence conditions and no other breach of regulatory requirements under the Investment Services Act (Cap. 370), which were subject to administrative penalty or regulatory sanction, were reported.

PILLAR 3 DISCLOSURES

The Group is required to publish Pillar 3 quantitative and qualitative disclosure requirements as governed by BR 07: Publication of Annual Report and Audited Financial Statements of Credit Institutions authorised under the Maltese Banking Act (Cap. 371), issued by the MFSA, which follows the disclosure requirements of Directive 2013/36/EU (CRD) and EU Regulation No 575/2013 (CRR) of the European Parliament and of the Council of 26 June 2013.

These disclosures are prepared on an annual basis as a separate document that is appended to the MDB Group Limited financial statements.

AUDITORS

PricewaterhouseCoopers have indicated their willingness to continue in office.

STATEMENT BY THE DIRECTORS PURSUANT TO LISTING RULE 5.68

We, the undersigned, declare that to the best of our knowledge, the financial statements were prepared in accordance with the applicable accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group and the Company and that this report includes a fair review of the performance of the business and the position of the Group and the Company together with a description of the principal risks and uncertainties that it faces.

On behalf of the board

MICHAEL BUSSEY
CHAIRMAN

ARNAUD DENIS
CHIEF EXECUTIVE OFFICER

THE CENTRE, TIGNÉ POINT,
SLIEMA, TPO 0001
MALTA

20 MAY 2020

Statement of compliance with the Principles of good corporate governance

Introduction

The Group hereby reports on the extent to which the Code of Principles of Good Corporate Governance (the "Code") has been adopted by its subsidiary MeDirect Bank (Malta) plc ("MeDirect Malta") as required by the Listing Rules of the Malta Listing Authority.

The Group acknowledges that the Code does not dictate or prescribe mandatory rules but recommends principles of good practice. However, the directors strongly believe that such practices are in the best interests of MeDirect Malta, its shareholders and other stakeholders, primarily because compliance with principles of good corporate governance is expected by investors on the Malta Stock Exchange and evidences the directors' and the Group's commitment to a high standard of corporate governance.

The directors report that since MeDirect Malta is a company that only issues debt securities and has not issued equity securities which are traded in a multilateral trading facility, it is exempt from disclosing the information prescribed in Listing Rules 5.97.1, 5.97.2, 5.97.3, 5.97.6 and 5.97.7 in this corporate governance statement. It is in the light of these factors that the directors are herein reporting on the corporate governance of MeDirect Malta.

The directors are aware that the Code highlights principles which although of general application to listed companies are adaptable by each company depending on its particular circumstances. Those circumstances are more often than not determined by two factors, namely: (i) the specific nature of the business of the company itself; and (ii) the fact that whilst certain principles in the Code are applicable to companies the equity securities of which are listed on the Stock Exchange, they are not altogether applicable, or not applicable in the same manner, to companies that fall within the definition of a listed company by virtue of having issued debt instruments which are listed on the Malta Stock Exchange. In this context, the directors believe that the Group's current organisational set up guarantees the proper and efficient functioning of MeDirect Malta and provides adequate corporate governance safeguards.

Compliance with the Code

Principles 1 and 3: Board of Directors and composition of the Board

MeDirect Malta's Board of Directors (the "Board") is composed of persons with a diverse range of skills and experience acquired in senior roles with international banks and financial organisations, professional firms and governmental entities. At 31 December 2019, the MeDirect Malta Board consisted of four non-executive members and three executive members. Taking into account certain factors such as the size of MeDirect Malta, the size of its Board and the balance of skills and experience represented by its members, the MeDirect Malta directors are considered to be appropriate for the requirements of MeDirect Malta's business.

In line with MeDirect Malta's Articles of Association, the Chairman of the Board and Board directors resign and seek re-election at each Annual General Meeting of MeDirect Malta. All directors are required to be fit and proper to direct the business of MeDirect Malta.

Principle 2: Chairman and Chief Executive Officer

The positions of MeDirect Malta's Chairman and Chief Executive Officer are held by different individuals, avoiding concentration of authority and power in one individual and differentiating the leadership of the Board from that of the running of MeDirect Malta's business.

MeDirect Malta's Chairman is responsible to lead MeDirect Malta's Board and he ensures that MeDirect Malta's Board discussions on any issue put before it go into adequate depth, that the opinions of all the directors are taken into account, and that all MeDirect Malta Board decisions are supported by adequate and timely information. On the other hand, MeDirect Malta's Chief Executive Officer leads the MeDirect Malta Management Executive Committee that is responsible to execute the agreed strategy and manage the business.

Principles 4, 5 and 8: Responsibilities of the Board and Board Meetings and Committees

The MeDirect Malta Board has the first level responsibility for executing the four basic roles of corporate governance namely: accountability, monitoring, strategy formulation and policy development.

Functioning of the Board

MeDirect Malta's Board of Directors reviews and evaluates corporate strategy, major operational and financial plans, risk policy and performance objectives. The MeDirect Malta Board monitors implementation of its decisions and corporate performance, taking into account the requirements of all relevant laws, regulations and codes of best business practice. In particular, the MeDirect Malta Board:

- defines the MeDirect Malta's strategy, policies, management performance criteria and business policies;
- ensures the proper functioning of MeDirect Malta's Audit Committee;
- establishes a clear internal and external reporting system so that the MeDirect Malta Board has continuous access to accurate, relevant and timely information;
- assesses and monitors MeDirect Malta's present and future operations, opportunities, threats and risks in the external environment and current and future strengths and weaknesses;
- evaluates management's implementation of MeDirect Malta's corporate strategy and financial objectives using key performance indicators;
- ensures that MeDirect Malta has appropriate policies and procedures in place to enable MeDirect Malta and its staff to comply with the highest standards of corporate conduct, including compliance with applicable laws, regulations and business and ethical standards; and
- ensures that MeDirect Malta's financial statements and the annual audit of such statements are completed within the stipulated time periods.

Notices of the dates of scheduled meetings of MeDirect Malta's Board together with supporting materials are circulated to the directors well in advance of such meetings. Advance notice is also given of ad hoc meetings of MeDirect Malta's Board to allow directors sufficient time to re-arrange their commitments in order to be able to participate. After each MeDirect Malta's Board meeting and before the next meeting, minutes that faithfully record attendance, deliberations and decisions of MeDirect Malta's Board are prepared and circulated to all directors.

This section provides details of the members of MeDirect Malta's Board of Directors and the members of each of the committees of MeDirect Malta's Board.

Board of Directors

Throughout the financial period, eighteen Board meetings were held. The percentage of meetings attended by the following during their directorship being:

		Meetings attended %
Michael Adrian Bussey	Independent Chairman and Non-Executive Director	100
John Zarb	Independent Non-Executive Director	77
Michael Walker	Independent Non-Executive Director	89
Dominic Wallace	Independent Non-Executive Director	95
Philippe Delva	Non-Executive Director	100
Benjamin Hollowood	Non-Executive Director	59
Arnaud Denis	Chief Executive Officer	100
Radoslaw Ksiezopolski	Executive Director – Finance	100
Alex Konewko	Executive Director – Risk	100
Mark A. Watson *	Executive Director – Chief Executive Officer	23
Joaquin Vicent *	Executive Director –Treasury and Investments	32

* As from 24 June 2019 Mark A. Watson and Joaquin Vicent no longer served in an executive capacity with the Group.

Committees of the Board

Certain responsibilities of MeDirect Malta's Board of Directors are delegated to MeDirect Malta's Board committees. The Board committees play an essential role in supporting MeDirect Malta's Board in fulfilling its responsibilities and ensuring that the highest standards of corporate governance are maintained. When deemed necessary, each MeDirect Malta's Board committee reports to MeDirect Malta's Board following each of its meetings and the minutes of meetings of each MeDirect Malta's Board committee meeting are available to MeDirect Malta's full Board.

Board Committees

A. Audit Committee

MeDirect Malta's Audit Committee is primarily responsible for reviewing and approving specific matters relating to MeDirect Malta's audit, internal control and risk management systems. In particular, MeDirect Malta's Audit Committee:

- reviews and approves the annual internal audit plan and subsequent revisions and monitors progress against the annual audit plan;
- ensures that the scope of work performed in accordance with the audit plan was adequate and appropriate;
- reviews work performed on all internal audit engagements;
- vets and approves related party transactions in accordance with Listing Rule 5.138; and
- reviews and interacts with external auditors on the annual statutory audit to obtain feedback on the internal control framework and financial reporting of MeDirect Malta.

The members of the Audit Committee are:

John Zarb	Committee Chairman and Independent Non-Executive Director
Michael Bussey	Member and Independent Non-Executive Chairman
Dominic Wallace	Member and Independent Non-Executive Director

In terms of Listing Rules 5.117 and 5.118, John Zarb is the non-executive director whom MeDirect Malta's Board considers as competent in accounting and/or auditing. John Zarb retired from his role as partner at PwC at the end of 2014 after a career spanning over 40 years spent within the audit and advisory practices of the firm. He is a past president of the Malta Institute of Accountants and served for a number of years on the Accountancy Board and as Malta's representative on the EU Accounting Regulatory Committee. John is currently the chairman of PG plc, a board member and chairman of the audit committee of Tumas Investments plc and a director of Foster Clark Products Limited.

During the period ended 31 December 2019, thirteen meetings of the MeDirect Malta's Audit Committee were held. The Group Chief Financial Officer, the Chief Internal Audit Officer, the Group Head of Compliance, the Head of Commercial Strategy and Legal and a representative of the external auditors attend the Audit Committee meetings by invitation.

B. Nomination and Remuneration Committee

MeDirect Malta's Nomination and Remuneration Committee is considered under the Remuneration Report. The disclosures in the Remuneration Report reflect the requirements of the EU Capital Requirements Regulation (575/2013) to the extent applicable to the financial year under review. MeDirect Malta's Nomination and Remuneration Committee is composed of non-executive directors with no personal financial interest, being Michael Bussey (Chairman), Benjamin Hollowood and Marcia De Wachter.

C. Board Risk Committee

The Risk Committee is responsible for reviewing the Group's risks in sufficient detail that it can assess whether they are consistent with the Group's risk appetite, and for reviewing management's proposed courses of action if not. It may then approve these plans or require them to be altered, as appropriate. It is also responsible for assessing the Group's high-level controls, limits, and risk aggregation and reporting framework to ensure that these are sufficient to maintain its level of risk (including, but of course not limited to, operational risk) within its appetite.

The current members of the Risk Committee are:

Dominic Wallace	Committee Chairman and Independent Non-Executive Director
Benjamin Hollowood	Member and Non-Executive Director
Marcia De Wachter	Non-Executive Director

The Chief Executive Officer and the Chief Risk Officer attend MeDirect Malta's Risk Committee meetings by invitation. MeDirect Malta's Chairman of the Board and Chairman of the Audit Committee attend MeDirect Malta's Risk Committee meetings as observers.

Amongst the primary responsibilities of the Board Risk Committee are:

- to advise and support the Board by performing in-depth and detailed oversight of the risk management policies and practices, and the risk profile, of the Group, and to present a summary of its conclusions and associated recommendations to the Board for action and/or approval; and
- to ensure that the Group's risk strategy and Risk Appetite Framework (including its Risk Appetite Statement and associated thresholds for escalation – and related controls) are comprehensive and consistent with the Group's business strategy, objectives, corporate culture and values.

The Chairman of the Committee reports on all matters to MeDirect Malta's Board after each meeting and notifies MeDirect Malta's Board of any decisions made. The Committee makes whatever recommendations to the main Board that it deems necessary. The Committee is convened at least on a bi-monthly basis, and more frequently if the need arises. In fact, throughout this financial period the Risk Committee met seven times. All attendees and invitees receive copies of the minutes.

Principal Management Committees

A. Executive Management Committees ("EXCO")

The Group Board delegates the execution of the strategy to the Group's ExCo. This committee serves as a management forum in order to enhance the execution of MeDirect Malta's business priorities and reinforce the governance of MeDirect Malta's activities. It focuses on MeDirect Malta's broader growth strategies and new initiatives and monitors MeDirect Malta's ability to respond to new regulatory developments. It is thus responsible for the formulation and implementation of Board-approved strategies and plans and for ensuring that the Group's business is operated in accordance with such strategies and plans.

The Malta ExCo is chaired by the Chief Executive Officer and includes the Group Chief Financial Officer, the Group Chief Risk Officer, the Chief Investment Officer, the Group Head of Treasury, the Group Head of Human Resources and Administration, the Group Head of Compliance, the Head of Corporate Banking, the Head of Commercial Strategy and Legal, the Group Head of Operations, the Group Head of Change and Technology, the Group Head of Wealth Products, the MeDirect Bank SA Chief Executive Officer and the MeDirect Bank SA Chief Financial Officer. The Chief Internal Audit Officer and the Group Company Secretary are standing invitees to the ExCo.

B. Management Credit Committee

The Group's Management Credit Committees ("MCCs") is responsible for approving credit and investment recommendations and making other credit and investment decisions within its authority as delegated by the Board through its approval of the Group's applicable policies, including approving or rejecting investment and credit recommendations presented by the Treasury and Investments department; taking decisions on individual credits; reviewing and recommending credit and large exposures to the Board; considering credit hedging strategies, and recommending concentration limits for Board approval.

The MCC is composed of three sub-committees:

- International Corporate Lending Management Credit Committee whose purpose is to approve credit and investment recommendations within its authority delegated by the Board and to oversee the credit and investment strategies and objectives of the Group's International Lending portfolio;
- Local Lending Management Credit Committee whose purpose is to approve credit and investment recommendations within its authority delegated by the Board and to oversee the credit and investment strategies and objectives of the Group's local (Maltese) lending portfolio; and
- Treasury Management Credit Committee whose purpose is to approve credit and investment recommendations within its authority delegated by the Board and to oversee the credit and investment strategies and objectives of the Group's Treasury portfolio.

The MCC is chaired by the Group Chief Risk Officer who carries the casting vote and a right of veto in all Management Credit Committees. Members of the MCC include at least two other members, with representation from the respective corporate credit teams or treasury function, and a member from the risk function.

The MCC meets from time to time as required for the proper fulfilment of their duties. It will meet at least quarterly to review the Group's respective Lending portfolios and to make decisions on internal credit ratings and recommendations on any impairments to be taken.

C. Asset and Liability Committee ("ALCO")

The Group's Asset and Liability Committee ("ALCO") ensures that the Group has in place, and operates effectively, appropriate and robust strategies and policies to manage and optimise the Group's asset-liability mix and oversee the Group's capital, liquidity, funding, interest rate risk and foreign exchange ("FX") risk position. Group ALCO cascades Group strategies down across each business line and legal entities and across risk types and products. Group ALCO oversees and, where necessary, approves Group policies and objectives for assets and liability management, capital and funding management and allocation, market risk position and hedging activity, liquidity monitoring, capital usage and efficiency, product-pricing, fund transfer pricing, dealing and trading activities according to the risk appetite statement set by the Group Board. Group ALCO's authority covers MDB Group Limited and MeDirect Bank (Malta) plc. Belgium ALCO authority's covers MeDirect Bank SA (Belgium). Group ALCO provides oversight and ensures that decisions taken at Belgium ALCO are aligned to the interests of the Group. Group ALCO is a sub-committee of the Group EXCO.

The members of ALCO include MeDirect Malta's Group Head of Treasury (Committee Chairman), Group Chief Executive Officer, Group Chief Risk Officer, Group Chief Financial Officer, the MeDirect Bank SA – Chief Financial Officer and Chief Investment Officer. ALCO convenes meetings monthly but also holds additional ad hoc meetings.

D. Operations Committee

The purpose of the Group Operations Committee is to ensure that the Group has in place, and operates effectively, appropriate and robust change management, project management, outsourcing and vendor management processes and procedures as well as an oversight of the ICT strategy implementation, monitoring if the complex ICT changes, budget spending related to change management, status of the operational and cyber security risks, arrangements related to Business Continuity and Disaster Recovery. The Group Operations Committee is a sub-committee of the Group Executive Management Committee and is the decision-making body for issues relating to change management, project management, outsourcing and vendor management, under the delegated authority from the Group's Executive Management Committee.

The Committee's terms of reference are to oversee and take any necessary decisions in the following areas:

- Feasibility of the business and regulatory change requests;
- Operational feasibility of the new products and services;
- Governance of the key third party vendors on-boarding and monitoring;
- Governance of the arrangements related to budget spending on change initiatives, business continuity and disaster recovery and data retention and archiving; and
- Awareness and oversight of the arrangements related to ICT strategy and its implementation, operational risk and cyber security and organisational design of the Group from the point of view of efficiency and change sustainability.

The members of this committee include the Group Head of Change and Technology (Chairman), Group Head of Operations, Group Chief Risk Officer, Chief Risk Officer – MeDirect Belgium, Group Chief Financial Officer, Chief Financial Officer – MeDirect Belgium, Head of Commercial Strategy and Legal and the Supply and Procurement Senior Manager.

E. Management Risk Committee

This committee oversees, monitors, assesses and drives risk management activities across the Group under the oversight of the Board of Directors, with a functional reporting line to the Board Risk Committee. The purpose of this Committee is to provide executive risk management oversight and steering within the Group and its subsidiaries. It oversees that the Group and its subsidiaries remain adequately capitalised and funded while ensuring a strong risk culture is embedded across the organisation.

The key "MRC" responsibilities are to:

- Oversee risk assessments and internal controls across the Group and across the risk taxonomy of the Group;
- Monitor and oversee compliance with risk appetite limits and risk strategy;
- Maintain clear escalation channels for risk issues and act as the executive point of escalation for all portfolio and process risk related decisions;
- Cascade Group risk appetite down across each business line and legal entity, and across all risk types and products;
- Manage scenario development and stress testing as a strategic tool to inform business and risk decisions and meet regulatory requirements;
- Maintain, drive development and embed the Group's recovery plan;
- Assess the impact of regulatory developments on the risk management framework and risk policies recommending changes to the Board Risk Committee as necessary;
- Steer the development and implementation of risk frameworks, projects and strategic initiatives;
- Drive and oversee major deliverables such as ICAAP/ ILAAP and the Recovery Plan;
- Oversee risk related action plans, regulatory and audit findings;
- Promote risk awareness and a strong risk culture within the organisation; and
- Review and executive management approval of collective and specific provisions.

The membership of this committee consists of the Group Chief Risk Officer (Committee Chairman), Group Deputy Chief Risk Officer, Senior Manager Risk Analytics, Senior Manager Corporate Credit Risk and Group Regulatory Liaison Manager.

F. Commercial Committee

The purpose of this committee is to drive synergies across the Group's client offering, between Malta and Belgium and ensure consistent quality of offering, from a client experience, operational and regulatory perspective.

The purpose of this committee is to discuss, review and oversee matters relating to:

- The strategy for the savings and investment proposition including all deposit and investment products;
- New products and services discussion, review and approval;
- Changes to interest rate on savings and deposit products, which are then recommended to the Asset and Liabilities Management Committee and to ExCo for approval;
- Changes to charges and fees associated with the Group's products and services;
- Delivery channels from which products and services are accessed, most notably, branch network, contact centre, website and applications;
- Content promoting the product offering, including webpages and social media content, marketing ads etc.;
- Measurement and analysis of customer activity through key performance indicators and tracking of customers behaviour; and
- Performance and suitability of the Group's product offering on an ongoing basis.

The membership of this committee consist of the Group CEO (Chair), Belgium CEO (Chair Delegate), Group Head – Wealth Products, Head – Marketing (Belgium), Head – Marketing (Malta), Head - Consumer Banking (Malta), Head – Corporate Banking (Malta) and Senior Manager - Customer Service (Belgium).

G. Compliance and client acceptance committee

This committee is in place to evaluate and either accept or reject new clients proposed by business lines, review periodically existing client and oversee and, if appropriate, recommend approval of compliance related policies, action plans, risk assessments and methodologies.

Other general compliance-related responsibilities of this committee being:

- Review and recommend for approval, if appropriate, financial crime compliance policies, including, without limitation, anti-money laundering, market abuse, bribery and corruption and sanctions-related policies;
- Review and recommend for approval, if appropriate, conduct of business-related policies, including, without limitation, conflicts of interest and best execution policies; and
- Oversee compliance-related action plans in response to regulatory and audit findings.

The permanent voting members of this committee are Group Head of Legal (Chairman), Group Head of Compliance, Group Head of Operations and Head - Operational and IT Risk.

Code Provision 4.2.7 - Succession planning

MeDirect Malta has established a list of Key Personnel Substitutes to cover instances in which executive directors or other key personnel are temporarily incapacitated or otherwise unable to complete their duties for a significant period of time.

If such directors or key personnel are permanently unable to re-assume their duties, MeDirect Malta's management, in consultation with the Board, will designate permanent successors, either from MeDirect Malta's existing management team or, if appropriate, by selecting an outside candidate.

As part of succession planning and talent management, MeDirect Malta's Board and the Chief Executive Officer ensure that MeDirect Malta implements appropriate schemes to recruit, retain and motivate high quality executive officers. They also encourage members of management to move to higher ranks, seek to maintain high morale amongst MeDirect Malta's personnel and identify high performing employees with the potential to take on more responsibilities.

The succession plan ensures that MeDirect Malta is constantly empowering and developing existing employees, guaranteeing that there is a pool of talent ready and waiting for advancement and promotion into ever more challenging roles when they arise. This requires developing employees at every level of MeDirect Malta and not just at the top.

Principle 6: Information and professional development

In addition to the responsibilities of MeDirect Malta's Board previously listed, MeDirect Malta's Board actively participates in the appointment of senior management. Board members receive regular updates on MeDirect Malta's strategic, operational, corporate governance, compliance, risk management and financial plans and objectives.

MeDirect Malta's Board appoints the Chief Executive Officer of MeDirect Malta taking into account the view of the ultimate controlling party. The Board has engaged third party consultants to work with it to update and enhance its Board evaluation and training programmes. The training programmes have the aim of improving the Board's awareness of risk, regulation, and compliance developments in the financial services sector, with topics to be covered ranging from the new regulatory environment to managing risk.

MeDirect Malta Directors are given opportunities to update and develop their skills and knowledge, through briefings by senior executives and externally-run seminars throughout their directorship. Moreover, Directors have access to independent professional advice, at MeDirect Malta's expense.

MeDirect Malta Directors also have access to the advice and services of the Company Secretary who is responsible for adherence to MeDirect Malta's Board procedures as well as effective information flows within the Board, its Committees and with senior management.

Principle 7: Evaluation of the Board's performance

Periodically, MeDirect Malta's Board carries out an evaluation procedure whereby Board members are requested to complete a questionnaire on the Board's performance and that of its committees. The evaluation is co-ordinated by the Board's Chairman, an independent non-executive director, and all directors participate in the process. Feedback from the evaluation is presented to the Board for analysis. An external independent evaluation (which occurs every three years) was due to take place in mid-2020 but this may be deferred if the Boards of the Group and MeDirect Belgium have to continue to operate remotely through the year as a result of the COVID-19 crisis.

Principles 9 and 10: Relations with shareholders and with the market and institutional shareholders

MeDirect Malta maintains on-going communication with its shareholders and the market on its strategy and performance in order to enhance trust and confidence in MeDirect Malta. During the period under review MeDirect Malta issued various company announcements and media releases to explain ongoing corporate developments and material events and transactions which have taken place and their impact on its financial position. Through public announcements, MeDirect Malta's website, financial reports and interaction with the general media in Malta, MeDirect Malta provides the market with regular, timely, accurate, comprehensive and comparable information in sufficient detail to enable investors to make informed investment decisions in respect of MeDirect Malta's listed securities.

MeDirect Malta's ultimate controlling party is represented on its Board of Directors and actively monitors its investment in MeDirect Malta.

The Chairmen of MeDirect Malta's Audit, Nomination and Remuneration and the Risk Committees are available to answer questions at the Annual General Meeting. The conduct of the meeting is conducive to valid discussion and appropriate decision making. In terms of MeDirect Malta's Articles of Association, the Directors shall, on the request of members of the company holding not less than one-tenth of the paid-up share capital, proceed duly to convene an Extraordinary General Meeting of MeDirect Malta.

Principle 11: Conflicts of interest

MeDirect Malta's Articles of Association provide that any director who is in any way, whether directly or indirectly, interested in a transaction or proposed transaction with MeDirect Malta must (i) declare to the other directors the nature of such interest, (ii) not participate in or be present for any discussion relative to any such transaction or proposed transaction, and (iii) not vote in respect of any such transaction or proposed transaction.

On joining the MeDirect Malta Board and regularly thereafter, directors are informed and reminded of their obligations in respect of dealing in MeDirect Malta's securities within the parameters of law and the Listing Rules.

Principle 12: Corporate social responsibility

During the financial period ended 31 December 2019, MeDirect Malta continued to support local talent in sports, culture, and charitable institutions, causes and events. MeDirect Malta's commitment to these initiatives is established through the various sponsorships and donation agreements that support a wide variety of community organisations.

MeDirect Malta has always supported local talent, including music and performing arts and hence continues to support and promote the music and performing arts scene. In fact MeDirect Malta was the main sponsor of the second edition of X Factor Malta as an endorsement to the increasing popularity of local talent and to the importance which music plays in people's lives. In line with this commitment, MeDirect Malta is once again the main benefactor of the Manoel Theatre for this current season as the official Patron of the Manoel Theatre.

MeDirect Malta also continues its' support towards the Malta Philharmonic Orchestra where with its donation it helps support the orchestra, its events and most importantly its musicians to maintain a level of quality that would otherwise be difficult without the help of sponsors.

MeDirect Malta's patronage of the sporting community was strengthened with a donation to Raiders GFC to help incentivise students in their progression and development towards becoming more successful athletes.

MeDirect Malta is also present in Gozo where it is an active supporter of the Otters Water Polo Club/Aquatic club. The club was founded back in 1971 and is to date the only surviving water polo club in Gozo. In the beginning, it used to participate only in the Water Polo League but now also participates in the ASA Malta League. The Water Polo National Team under 13 now also has two Gozitan members coming from Otters ASC.

Providing support to the community and giving back to society is very important to MeDirect Malta, especially towards emerging businesses and organisations that have excellent ideas but not enough funding – this is why MeDirect is also a member of the Social Impact Awards. These are awards designed for the general public or emerging companies/organisations where they submit ideas and business plans. These business plans are evaluated and short listed to participate in a competition for the general sponsors vote and then the judges' panel eventually vote in to award this funding.

Amongst other organisations, that MeDirect Malta helped during its financial period, there is The National Blood Transfusion Unit to whom MeDirect donates freebees mainly t-shirts to blood donors. The food donations collected by the staff towards the reverse advent calendar in December was in aid of the Richmond Foundation and the Food Bank in Valletta.

MeDirect Malta also maintained the small donation to the Cystic Fibrosis (CF) Foundation and the Muscular Dystrophy Group (MDG) by supporting their annual fundraising events. MeDirect Malta also kept its yearly appointment and presented a donation to the President's Community Chest Fund Campaign - L-Istrina on Boxing Day during a nation-wide charity campaign.

Finally, upon MeDirect Bank's staff initiative and supported by MeDirect Malta, the annual Christmas Donation with proceeds entirely from the Group raffle, were donated to Puttinu, making every Christmas special.

Other Disclosures

There were no material contracts to which MeDirect Malta, or its subsidiary were a party, and in which any one of MeDirect Malta's Directors was directly or indirectly interested.

Management's internal controls over financial reporting

MeDirect Malta's Board is responsible for ensuring that MeDirect Malta's senior management develops and implements a sound system of internal controls and for reviewing its effectiveness. Such a system is designed to manage, rather than eliminate, the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss. MeDirect Malta operates a system of internal control that provides reasonable assurance of effective and efficient operations covering all controls, including financial and operational controls and compliance with laws and regulations. Processes are in place for identifying, evaluating and managing the significant risks facing MeDirect Malta.

The management of MeDirect Malta is responsible for instituting and preserving sufficient internal control over financial reporting. Internal control over financial reporting is a process designed under the supervision of the Group Chief Financial Officer to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external reporting purposes in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union.

Internal control over financial reporting includes policies and procedures that pertain:

- to maintaining records that, in reasonable detail, accurately and fairly reflect transactions and dispositions of assets;
- to providing reasonable assurances that transactions are recorded as necessary to permit preparation of financial statements in accordance with IFRS as adopted by the EU;
- to ensuring that receipts and expenditures are made only in accordance with authorisations of management and the respective directors; and
- to providing reasonable assurance regarding prevention or timely detection of unauthorised acquisition, use or disposition of assets that could have a material effect on the financial statements.

MICHAEL BUSSEY
CHAIRMAN

ARNAUD DENIS
CHIEF EXECUTIVE OFFICER

THE CENTRE, TIGNÉ POINT,
SLIEMA, TPO 0001
MALTA

20 MAY 2020

Remuneration report

Remuneration governance

The primary purpose of the Nomination and Remuneration Committee of the Group (that also covers MeDirect Malta) and MeDirect Belgium (“NRCs”) is to review remuneration levels in the Group and to consider whether to approve performance-related and retention bonus awards that may be delivered in cash or share linked instruments.

The NRCs are charged with aligning the Group’s remuneration policy, approved by the Group board of directors, and in particular performance-related elements of remuneration, with the Group’s business strategy and risk tolerance, objectives, values and long-term interests. The key objectives of the NRCs in this regard are the following:

- annual review of the proposals put forward by management relating to the principles of the remuneration policy and verification with management that they are effectively implemented. In particular, monitoring of the budgets allocated to the fixed salary increases for the forthcoming year and the variable remuneration pools for the previous financial year; and
- annual review of the individual remuneration of senior management and staff members who are employed in control functions, as well as that of staff with total remuneration above a threshold fixed by the NRCs.

One of the NRCs primary functions is to ensure that the Group is able to attract and retain suitable employees at all levels at an acceptable cost. It may request market-related information from time to time, to verify the recommendations made by management. On an annual basis, the NRCs review the budgets allocated to the fixed salary increases for the forthcoming year and the variable remuneration pools for the previous financial year and review the individual remuneration of senior management and staff members who are employed in control functions such as Risk and Compliance, as well as that of staff with total remuneration above a threshold fixed by the relative NRC.

Membership and meetings

The members of the Group’s NRC are:

Michael Bussey	Committee Chairman/Independent Non-Executive Board Chairman
Marcia De Wachter	Independent Non-Executive Director
Benjamin Hollowood	Non-Executive Director

The Group’s Head of Administration and Human Resources is invited as an attendee.

During the period ended 31 December 2019, the Group’s NRC met on six occasions. These meetings were attended by all members of the Group’s NRC.

Remuneration policy statement

The remuneration policy is owned by the Chairman of the Group’s NRC and is approved by the Group’s board of directors. The policy was developed in conjunction with the Group’s principal shareholder and the NRCs. The policy is reviewed on an annual basis by the NRCs or when significant changes occur in related directives, guidance, best practice and technical standards. The policy is also reviewed on an annual basis by the internal Audit function to ensure that it is in compliance with all applicable legal and regulatory requirements. The NRCs may also require review of this policy by external advisors to the extent it is deemed necessary or appropriate.

The purpose of the remuneration policy is to set out the overall principles that the Banks, whether direct or indirect, must follow when determining the remuneration and compensation of its management and staff members. This policy establishes an effective framework for determining role descriptions, performance measurement, risk adjustment of compensation and the linkages to reward. The Group’s Board and the MeDirect Belgium board are responsible for ensuring that this statement and its contents adhere to all laws, rules and regulations issued by the Malta Financial Services Authority, particularly BR 12, the National Bank of Belgium and international regulations incorporated in the Capital Requirement Directive, and to ensure that the remuneration practices are based on sound governance processes that take the Group’s risk strategy and profile into account.

The Boards, directly and through the NRCs, carry out effective monitoring and evaluation of adherence to the remuneration policy and of the Group’s remuneration system on an on-going basis. The NRCs and the Boards monitor the on-going performance by executive directors and senior management and determine the design and implementation of an effective remuneration system. They also ensure that the remuneration policies and practices are consistent with a prudent, forward-looking approach aimed at maintaining a sound capital base and that all awards of variable remuneration to Material Risk Takers are subject to malus and clawback arrangements and are otherwise consistent with the remuneration policy.

Remuneration consists of base salary and, where applicable, performance based or retention bonus awards. Performance-related compensation is determined both on (i) a Group wide basis, and (ii) an individual employee basis.

Compliance with the Group's rules and requirements and involvement on a continuing basis in risk management are taken into account when determining performance-based remuneration for all employees. Other non-financial factors are considered such as skills acquired, personal development, commitment to the Group's business strategies and policies and contribution to the performance of the team. Performance is measured in relation to non-financial and financial goals and, where appropriate, failure to perform in non-financial areas of responsibility outweighs success in profit generation in determining compensation. The remuneration of staff in control functions should allow the Group to employ qualified and experience personnel in those functions and should be predominantly be fixed so as to reflect the nature of their responsibilities.

The Group Risk team provides advice in respect of the definition of suitable risk-adjusted performance measures, as well as in assessing how the variable remuneration structure affects the risk profile and culture of the Group. The Risk team provides input into the process for determining bonus pools and the allocations of variable remuneration awards to ensure that all relevant factors are considered by the relevant decision-making body. The Risk team also validates and assesses risk adjustment data and a member of the Risk Committee provides input to the NRCs on this matter.

The Group Compliance function analyses how the remuneration policy affects the Group's compliance with legislation in all jurisdictions in which the Group operates, regulations and internal policies and conducts an annual review of the implementation of the remuneration policy. The Compliance function would report all identified compliance risks and issues of non-compliance and these findings are taken into account during the approval and review procedures and oversight of the remuneration policy.

The Internal Audit team carries out an annual independent review of the design, implementation and effects of the remuneration policy on the Group's risk profiles and the way these effects are managed.

The Group's remuneration policy includes "malus and clawback" provisions applicable to all material risk takers and key personnel in control functions, even if variable compensation is remunerated in cash, it is possible for the Group to clawback variable remuneration such as performance related bonuses or retention bonuses if the respective employees were responsible for circumstances that resulted in significant losses to the Group or in situations where the most appropriate standards of fitness and propriety were not met during the period for which the performance or retention bonus was awarded. Clawback will apply during the period of five years from the date of award or until the end of the applicable retention period, as applicable. The malus provisions may be applied in respect of deferred elements of Variable remuneration at any time during the applicable deferral period.

Conflicts of interests with regard to the implementation of this remuneration policy and the award of remuneration in accordance with the provisions of this policy are identified and appropriately mitigated.

The Group did not change this policy throughout the financial period and at present no changes are being proposed to the remuneration policy.

The Group's reward strategy

The quality and long term-commitment of all employees is fundamental to the Group's success. The Group therefore aims to attract, retain and motivate the very best people who are committed to maintaining a long-term career with the Group and who will perform their role in the long term interest of the shareholders. The Group's reward package may comprise fixed remuneration and variable remuneration.

Fixed remuneration

The fixed remuneration reflects the individual's role, experience and responsibility. It comprises the base salary and in some cases a pay allowance of a fixed nature such as overtime allowances or public holiday allowances as detailed in their employment conditions. Base salaries are expected to comprise the majority of the Group's overall compensation cost, are paid in cash on a monthly basis and are benchmarked on an annual basis. Pay allowances are also paid in cash on a monthly basis.

Fixed remuneration includes also benefits (of a fixed nature as these are pre-determined). Benefits take account of market practice and include the provision of medical insurance and life assurance to all employees across the Group. In Belgium and UK the Group provides defined contribution pension schemes whereby the Group's fixed contribution is set for each employee on the basis of the relevant salary and the payment of such contributions would stop on termination of employment by the employee.

The employees of MeDirect Malta are also entitled to the following benefits:

Staff savings account

All of the Group's Malta-based employees are entitled to make equal monthly deposits of a specified amount direct from after tax payroll into an employee savings account. At the end of the financial year, MeDirect Malta will pay a beneficial interest rate on the accumulated savings remaining in the account in December. On such date, amounts remaining in such savings accounts may be withdrawn and the terms of such accounts may be reset.

Home loan subsidy

MeDirect Malta continues to grant its Malta employees an annual subsidy in respect of the home loans up to a certain size, that such employees have acquired from third party banks.

Variable remuneration

Variable remuneration may consist of performance bonuses and retention bonuses awarded in cash or share linked instruments and guaranteed sign on payments and severance payments awarded in cash. In accordance with Article 92(1) (q) of directive 2013/36/EU ("CRD"), variable remuneration is not paid through vehicles or methods that facilitate the non-compliance with this Directive or Regulation (EU) No 575/2013.

Performance bonuses represents additional remuneration payable to employees as a reward for achieving specific goals or hitting predetermined targets.

Retention bonus is variable remuneration awarded on the condition that staff stays at the group or subsidiary company of the Group for a predefined period of time. So far retention bonuses have only been awarded by the Group in the financial year ended 31 March 2019 and no such bonuses were awarded in the financial period ending 31 December 2019.

During the financial period severance payments were agreed with previous members of the management function for the loss of office. Such payments were not included in the relevant employment contract and are subject to a non-competition clause.

Guaranteed sign on payments that are sums of money paid to new employees as an incentive to join the Group were paid during the financial period ending 31 December 2019.

Any consideration given to granting retention bonuses, guaranteed remuneration and/or severance payments is made in light of the applicable regulatory requirements in order to ensure that such remuneration is only awarded where to do so is compliant with the applicable regulatory requirements and any such remuneration is awarded in such form as is determined by the NRCs, taking account of applicable regulatory requirements (including in respect of deferral, payment in the form of a share-linked instruments and the application of Malus and Clawback).

(a) Determination of the performance bonus variable remuneration pools

A performance bonus pool is established for the Group as a whole and is calculated at Group level based on the success of the Group in meeting its business objectives. The variable remuneration pool shall not be directly or solely linked to the amount of profits or revenues generated. Assessment of performance shall be made in the context of a multi-year analysis, taking into account the business cycle and the Group's business risks. In determining the variable remuneration pool the Group applies a prudent, forward-looking approach, consistent with maintaining a sound capital base. The Group expects that in aggregate variable remuneration shall not have a significant impact on its capital base and is immaterial in relation to its overall capital and operating income.

The performance bonus variable remuneration pool is set and is calculated on the basis of the following qualitative and quantitative factors:

- Financial results of the Group after taking into account the cost of risk, capital and liquidity, with the aim of ensuring that the total amount of variable remuneration does not undermine the Group's capacity to meet its objectives in terms of capital requirements; and
- Qualitative factors such as market practices, conditions under which activities are carried out and risk management.

The pool will be further adjusted to the extent required to ensure that all relevant identified current and future risks are reflected or in light of the Group's capital position. Such an adjustment may include the NRCs reducing pools of Variable remuneration in the event of a breach (or un acceptable risk of a breach) of any key regulatory ratios and/or reducing or not paying variable remuneration to any employee (whether or not a Material Risk Taker) who the NRC determines has caused or contributed to any such breach (or risk of a breach).

The variable remuneration pool is split between entities by taking into consideration the pools allocated in the previous financial period but also taking into consideration other factors such as change in composition of staff and senior management.

The variable remuneration pool is approved by the Group Chief Executive Officer, the MeDirect Belgium Chief Executive Officer and the Boards of Directors of each of MeDirect Malta and MeDirect Belgium.

(b) Measures of performance as basis for awarding of bonuses

Individuals, including executive directors, are compensated out of the variable remuneration bonus pool based on their contribution to the achievement of the Group's business objectives as well as personal objectives. Such individual criteria depend on the role of the individual in the Group. The allocations of individual variable remuneration awards are correlated to the staff member's formalised annual individual appraisal, that takes into consideration quantitative and qualitative objectives known to the employee, as well as risk management considerations. Individuals are compensated out of that bonus pool based on their contribution to the achievement of the Group's and/or the subsidiary's business objectives. Such individual criteria will depend on the role of the individual in the Group. For example, portfolio managers are judged on factors such as risk management, overall continuing performance of the portfolio, contribution to development of the Group's systems, while members of the Treasury team are assessed on effectiveness in managing liquidity. The amount of variable remuneration will vary depending on the performance of the staff member, as well as of the staff member's business unit and the institution as a whole.

The appraisal process for all employees is a continuous process which involves the following stages:

- Objective setting at the beginning of the year
  Goals are set that revolve around the development of the employee allowing for progression. Objectives may be technical (related to area of expertise and day-to-day role) or behavioural (related to a desired change in personal development).

- Mid-year appraisal
  Employees have to carry out a self-review whereby they assess their own performance and contribution towards the goals assigned. This is followed by a manager review where the manager assesses and considers the performance during the period under review and rates the employee accordingly. The manager and employee would then discuss objectives and actions for development.

- End of year appraisal
  As above employees would do a self-review followed with a manager review together with a one to one meeting to discuss overall performance and rating. The employee rating is based on a 5-point rating scale.

(c) Individual allocation of the variable remuneration

i. All staff (including material risk takers)

The Group Head of Administration and Human Resources initiates the process of gathering recommendations for salary revisions, bonuses and promotions from ExCo members. A bonus pool is allocated per department based on the bonus pool of the group. A percentage of fixed salary performance bonus is allocated to each performance rating scale in each jurisdiction.

All staff are eligible for performance related variable remuneration delivered in cash, though this is not contractual and depends on both individual and collective performance. It takes into account quantitative and qualitative criteria and is not directly or solely linked to the amount of profits or revenues generated. Assessment of performance is made taking into account the business cycle and the Group's business risks. The criteria used to set variable remuneration pools, as well as their allocation, takes into account all risks, both qualitative and quantitative.

The amount payable to any individual under the annual variable remuneration plan is based on a balanced scorecard taking into consideration the following:

- The Group's financial performance in particular the profit before tax, the cost to income ratio and maintenance of all regulatory ratios across the Group within established risk appetite levels;
- Customer satisfaction based on the subjective assessment of the NRC;
- Conduct risk based on the Risk Committee's recommendation to the NRC; and
- Personal performance against personal objectives.

Depending on the performance of the employee and the financial performance of the Group, variable remuneration can be reduced to zero. Variable remuneration is significantly reduced or nullified in the case of any kind of unethical or non-compliant behaviour.

The Group Head of Administration and Human Resources ensures that recommendations for salary revisions and bonuses do not exceed the allocated pool. The Group Chief Risk Officer and the Chief Risk Officer of MeDirect Belgium are to confirm that the bonus allocation is consistent with sound and effective risk management practices and does not impact the capital adequacy of both entities. Recommendations are then discussed with the Group Chief Executive Officer and the Chief Executive Officer of MeDirect Belgium for approval before presenting to the Nominations and Remuneration Committee of the relevant entity.

Internal control functions

Whilst the general bonus pool of the Group is based on the Group's financial results, compensation of control functions is not directly tied to the results of any business unit but should provide incentives for such staff to deliver the best performance in their role. Thus control functions are judged on success in developing and implementing appropriate policies, developing effective risk management controls and procedures, monitoring risk and building control systems. The Group's remuneration practices shall ensure that no material conflict of interest arise in respect or remuneration for staff in the Group's control functions.

The methods used for determining the variable remuneration of control functions are designed to encourage staff not to compromise their objectivity and independence. Where control function staff receive variable remuneration, it is appraised and the variable part of remuneration determined separately from the business units they control, including the performance which results from business decisions where the control function is involved. The criteria used for assessing performance and risk is based exclusively on internal control objectives.

Other matters on variable remuneration

The ratio between the variable components of remuneration and the fixed components is limited to 100% (200% with shareholders' approval subject to certain conditions being met) for variable remuneration paid to MeDirect Malta staff and 50% for variable remuneration paid to MeDirect Belgium staff.

Where variable remuneration is more than €100,000 for MeDirect Malta employees and €75,000 for MeDirect Belgium employees, or for lower values which are more than 100% of the fixed remuneration, a minimum of 50% of the variable remuneration cannot be delivered in the form of cash. These are the only deviation for staff in Belgium compared to staff in other jurisdictions. There were no instances throughout the current financial period and the preceding financial year when the 100% ratio for MeDirect Malta staff and 50% for the MeDirect Belgium Staff was exceeded.

Variable remuneration may be paid in the form of the following: 1) upfront cash; 2) an upfront share-linked instrument award and/or 3) a deferred award representing an award granted in respect of share-linked instruments subject to deferral. Upfront share linked awards and deferred awards may be allocated only to material risk takers. Such award of share-linked instruments for the purpose of Article 94 (1) (i) of CRD entitles the material risk taker to a cash payment based on the market value of a share of the Group but does not entitle the employee to shares or any interest in or right over such shares. The upfront share-linked award and the deferred share-linked award are subject to a retention period as determined by the NRCs, of not less than 12 months but not greater than 5 years. Any tranche of a deferred award which has not yet been paid will lapse if the material risk taker leaves employment before the end of the deferral period, unless the material risk taker leaves due to certain specific reasons as listed in the bonus plan rules approved by the Group's NRC. The share linked instruments awarded by the Group so far were to current and previous executive directors that fall under the management function described above.

Variable remuneration awarded in cash is normally paid out in the first quarter of the subsequent financial year as determined by the NRCs. Variable remuneration paid to Material Risk Takers is subject to malus and clawback provisions.

The clawback provisions state that the bonus may have to be repaid to the Group in certain circumstances that would have led to significant losses to the Group or in case of failure to meet appropriate standards of fitness and propriety, including cases of fraud, dishonesty or gross negligence. Clawback provisions may be applied ex post to variable remuneration paid in cash and share linked instruments.

Malus may be applied at the discretion of the relevant NRC, and examples of the circumstances in which such discretion to impose Malus may be exercised are included in the Group's remuneration policy. Malus provisions may be applied ex ante to share linked instruments.

Subject to regulatory de minimis limits, for Material Risk Takers deferral will apply to at least 40% of annual variable remuneration (depending on the quantum of each individual's total remuneration, and being at least 60% where annual variable remuneration outcomes are significant according to the NRC, as determined in accordance with applicable regulations), including both cash and instrument payments. No discount rate is applied by the Group to variable remuneration.

As per Article 450 of the CRR we confirm that there was remuneration that was subject to deferral, that will vest over a period of five years and that is subject to malus or clawback provisions.

In accordance with Article 450 of the CRR we also confirm that, after extrapolation of the fixed remuneration from nine months to twelve months given that this financial period covers the period April – December 2019, there were three employees that received a total extrapolated remuneration greater than €1 million. The total extrapolated remuneration of one of these employees was in the range €1 million - €1.5 million whereas the total extrapolated remuneration of the other two employees was in the range €1.5 million - €2 million.

ii. Material Risk Takers

Material Risk Takers, that consist of members of staff whose actions have a material impact on the risk profile of the Group, are identified on the basis of the qualitative and quantitative criteria set out in the Regulatory Technical Standard EU 604/2014. Material Risk Takers are also identified on the basis of additional criteria developed internally.

For the purposes of remuneration, Material Risk Takers across the Group have been aggregated and split into business areas according to the European Banking Authority ("EBA") guidelines on the remuneration benchmarking exercise EBA/GL/2014/08 dated 16 July 2014.

Thus, Material Risk Takers are classified as follows:

- Supervisory function

  The supervisory function consists of non-executive directors of any board in the scope of consolidation. They are responsible for providing a monitoring role and thus their remuneration is not performance based and is not linked to the Group's results. . Non-executive directors are non-employees and receive a fee for their services as directors. They are not eligible to receive a base salary, fixed pay allowance, pension or any variable pay.

  The fee levels payable reflect the time commitment and responsibilities required of a non-executive director. It is determined based on remuneration levels for directors of similar financial companies and takes into account factors such as time invested and responsibilities.

- Management function

  The management function consists of members of the board of directors who have executive functions, maybe responsible for certain business units and includes all executive directors of any board in the scope of consolidation. Members of the management function are awarded a performance bonus delivered in cash and certain current and prior members of the management function based in Malta were also awarded performance bonuses delivered in share linked instruments and retention bonuses delivered in cash and share linked instruments. For the purposes of meeting the requirements of Appendix 5.1 of the Listing rules, senior executives represent the executive directors.

- Retail and corporate banking

  This category would include the following people that would benefit from a performance bonus delivered in cash.

  - Heads and key personnel of retail and corporate banking material business units/business lines.
  - Staff members responsible for initiating credit proposals or structuring credit products which relate to material credit risk exposures.

- Corporate functions

  Heads and key personnel within Finance, Administration, Treasury and Human Resources are included in this category and they benefit from a performance bonus delivered in cash. This category includes all functions that have responsibilities for the whole institution at the consolidated level and for subsidiaries with such functions at the solo level.

- Independent control functions

  As described in the EBA's guidelines on internal governance, this category would consist of the Heads and key personnel active in the independent control functions such as the internal audit, compliance and risk functions of the Group and subsidiaries. They benefit from performance bonuses delivered in cash.

The above Material Risk Takers would also include:

- Staff members authorised to approve or veto the introduction of new products; and
- Staff members authorised to take, approve or veto discussions on material credit risk exposures or is a member of a committee which has authority to take decisions on material credit risk exposures.
- Staff members that have been awarded total remuneration in the previous financial year equal to or in excess of other material risk takers (excluding non-executive, support function and control function roles).

The list of Material Risk Takers is reviewed and reconsidered by the Group's NRC on at least an annual basis. The target population defined as Material Risk Takers for the purposes of this report (excluding those allocated to the Supervisory function) represents 9% of the average total number of employees in the Group throughout the financial period.

For the purposes of information provided hereunder 'Senior Management' means the Directors of any board in the scope of consolidation, Group Management Executive Committee members and the Chief Internal Audit Officer. Recommendations as to the fixed and variable remuneration of members of senior management and control functions are made by the Chief Executive Officers. Such recommendations are reviewed and approved or rejected by the NRCs.

The following tables include total fixed and variable remuneration and number of beneficiaries per and within each business area. Remuneration disclosed within these tables in the remuneration report represents the remuneration that was charged to the Group's statement of comprehensive income.

	Supervisory function	Management function	Retail and corporate banking	Corporate functions	Independent control functions
Financial period ended 31 December 2019					
Material risk takers	**7**	**9**	**8**	**9**	**7**
: of which senior management	7	9	4	6	2
: of which non-senior management	-	-	4	3	5
Total remuneration	**451,696**	**6,856,557**	**2,673,364**	**1,351,258**	**549,697**
: of which total fixed remuneration (€)[1]	451,696	3,155,675	1,595,579	1,233,471	540,947
: of which total variable remuneration (€)	-	3,700,882	1,077,785	117,787	8,750
- delivered in cash	-	*2,789,824*	*1,077,785*	*117,787*	*8,750*
- delivered in share-linked instruments	-	*911,058*	-	-	-
Financial year ended 31 March 2019					
Material risk takers	**7**	**6**	**6**	**11**	**5**
: of which senior management	7	6	4	8	3
: of which non-senior management	-	-	2	3	2
Total remuneration	**565,316**	**4,848,428**	**1,778,870**	**2,194,914**	**789,262**
: of which total fixed remuneration (€)[1]	565,316	3,508,436	1,590,160	1,924,835	581,862
: of which total variable remuneration (€)	-	1,339,992	188,710	270,079	207,400
- delivered in cash	-	*489,200*	*188,710*	*270,079*	*207,400*
- delivered in share-linked instruments	-	*850,792*	-	-	-

[1] Total fixed remuneration comprises non-cash benefits such as life and health insurance, pension and accommodation benefits.

The comparative table above has been reclassified to conform with the current period's presentation for the purposes of fairer representation.

The total remuneration of the material risk takers for the nine-month financial period ended 31 December 2019 is higher than that for the financial year ended 31 March 2019 if extrapolated to twelve months. This increase is attributable to the guaranteed sign on bonuses included in variable remuneration and the changes in executive directors within the management function during the financial period as the previous executive directors were paid garden leave included in fixed remuneration and awarded severance payments included in variable remuneration. The increase in remuneration in the retail and corporate banking function is attributable to an increase in the amount of material risk takers employed within this function and the higher variable remuneration.

During the period ended 31 December 2019, there were new sign-on charges (included within variable remuneration in the preceding table) equivalent to €1.1 million attributable to 2 beneficiaries (one beneficiary within the management function and one beneficiary within retail and corporate banking) and new severance charges equivalent to €2.3 million attributable to 2 beneficiaries that used to form part of the management function (included within variable remuneration in the preceding table), with the highest such award to a single person amounting to €1.4 million. Such sign on and severance charges are not included in the calculation of the variable to fixed remuneration in line with section 139 and section 153 (c) of Banking Rule 21 respectively.

Remuneration – MeDirect Malta directors

This section includes other remuneration disclosures in line with Chapter 8 of the Listing rules and CRR 450 (2).

MeDirect Malta Non-executive directors

Fees are determined by reference to other Maltese companies and comparable entities within Europe. Based on the recommendations of the Group's NRC, the directors' fees earned by the MeDirect Malta's non-executive directors, representing 4 out of the 7 members of the supervisory function in the preceding table, including the Chairman, for the period ended 31 December 2019 amounted to €0.3 million (Year ended 31 March 2019: €0.4 million).

MeDirect Malta Executive directors

All the MeDirect Malta executive directors as of 31 December 2019 were engaged under indefinite employment contracts. Total emoluments earned by the executive directors of MeDirect Malta, representing 5 out of the 9 members of the management function in the preceding table, during the period ended 31 December 2019, are reported below. Remuneration disclosed within these tables in the remuneration report represents the remuneration that was charged to the Group's statement of comprehensive income.

	Financial period ended 31 December 2019		Financial year ended 31 March 2019	
	€	%	€	%
Fixed remuneration				
- Awarded in cash	**2,212,858**	38	2,325,935	64
- Non-cash benefits	**38,122**	1	65,661	2
Variable remuneration				
- Awarded in cash	**2,545,628**	45	359,200	10
- Share linked instruments	**911,058**	16	850,792	24
	5,707,666	100	3,601,588	100

Non-cash benefits relate to health and life insurance premiums paid by the Group on behalf of its senior management since the Group provides a health and life insurance policy to all its employees. The provision of such insurance policies form part of the contract of employment of each staff member.

The directors' total remuneration for the nine month period ending 31 December 2019 is significantly higher than the total directors' remuneration in the financial year ended 31 March 2019. This is attributable to the change in executive directors during the financial period as the previous executive directors were paid garden leave and awarded severance payments.

The following is an analysis of the outstanding deferred remuneration and the deferred remuneration awarded during the financial period to MeDirect Malta executive directors:

	Financial period ended 31 December 2019		Financial year ended 31 March 2019	
	Vested	**Unvested**	Vested	Unvested
	€000	**€000**	€000	€000
Group				
Total outstanding deferred remuneration – share-based payments				
At beginning of period	**467**	**1,325**	-	-
Awarded throughout the period	**-**	**300**	-	1,792
Vested throughout the period	**75**	**(75)**	467	(467)
At end of period	**542**	**1,550**	467	1,325

The total expense recognised during the current financial period ended 31 December 2019 amounted to €0.9 million (Year ended 31 March 2019: €0.9 million) and the resultant liability as at 31 December 2019, arising from deferred share-based payments, amounted to €1.8 million (Year ended 31 March 2019: €0.9 million).

There were no changes in deferred remuneration throughout the financial period as a result of payments or through performance adjustments.

Michael Bussey

Chairman

Arnaud Denis

Chief Executive Officer

20 May 2020

Independent auditor's report

To the Shareholders of MDB Group Limited

Report on the audit of the financial statements

Our opinion

In our opinion:

- MDB Group Limited's consolidated and parent company financial statements (the "financial statements") give a true and fair view of the Group and the Company's financial position as at 31 December 2019, and of the Group's and the Company's financial performance and cash flows for the period then ended in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the EU; and
- The financial statements have been prepared in accordance with the requirements of the Maltese Companies Act (Cap. 386).

Our opinion is consistent with our additional report to the Audit Committee.

What we have audited

MDB Group Limited's financial statements, set out on pages 41 to 147, comprise:

- the consolidated and parent company statements of financial position as at 31 December 2019;
- the consolidated and parent company statements of comprehensive income for the period then ended;
- the consolidated and parent company statements of changes in equity for the period then ended;
- the consolidated and parent company statements of cash flows for the period then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group and the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements of the Accountancy Profession (Code of Ethics for Warrant Holders) Directive issued in terms of the Accountancy Profession Act (Cap. 281) that are relevant to our audit of the financial statements in Malta. We have fulfilled our other ethical responsibilities in accordance with these Codes.

Independent auditor's report - continued

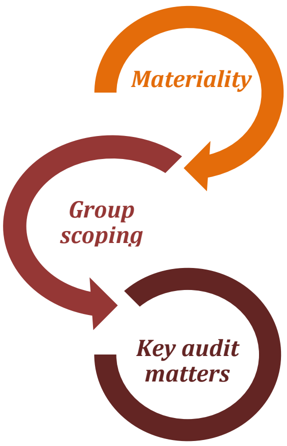
To the Shareholders of MDB Group Limited

Emphasis of matter - COVID-19

We draw attention to Note 39 in the financial statements, which describes the directors' assessment of the estimated impacts of COVID-19 on the Group's projected financial results and financial position. This matter is considered to be of fundamental importance to the understanding of the financial statements, due to its nature and significance. Our opinion is not modified in respect of this matter.

Our audit approach

Overview



- Overall group materiality: €871,000, which represents 5% of annualised profit before tax adjusted for one-time items.

- The audit carried out by the group engagement team covered the local component as at and for the period ended 31 December 2019 being MeDirect Bank (Malta) plc.

- Credit loss allowances in respect of loans and advances to customers of the Group
- Recognition of interest income on loans and advances utilising the effective interest rate method.

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated financial statements. In particular, we considered where the Directors made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall group materiality for the consolidated financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Independent auditor's report - continued

To the Shareholders of MDB Group Limited

Overall group materiality	€871,000
How we determined it	5% of annualised profit before tax adjusted for one-time items
Rationale for the materiality benchmark applied	We chose annualised profit before tax adjusted for one-time items as the benchmark because, in our view, it is the benchmark against which the performance of the Group is most commonly measured by users and is a generally accepted benchmark. We chose 5% based on professional judgement, noting that it is also within the range of commonly accepted profit related benchmarks.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above €87,000 as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the Key audit matter
Credit loss allowances in respect of loans and advances to customers of the Group Credit loss allowances in respect of loans and advances to customers represent management's best estimate of expected credit losses ('ECLs') within the loan portfolios at the balance sheet date. During the preceding financial period, the Group transitioned to IFRS 9, a new and complex accounting standard which introduced the measurement of credit loss allowances based on an expected loss model rather than an incurred loss model previously applied. The Group have three principal lending portfolios: • the international lending portfolio, comprising syndicated senior secured loans to international large corporates, with a gross carrying amount at 31 December 2019 of €1,159.1 million;	Subsequent to the first year of adoption of IFRS 9, we continued to focus on the key drivers of the estimation of ECL. Apart from assessing the continued appropriateness of management assumptions, we evaluated and tested updates to key parameters and enhancements to the ECL calculation. Discussions with the Audit Committee included: • the final ECL for Stage 1 and 2 exposures estimated by the vendor's model, focusing on key parameters driving movements in ECL during the period; • changes to the model during the period, such as updates to the underlying parameters used in the conversion of Through-The-Cycle (TTC) PDs to Point-in-Time (PiT) PDs; • the reasonableness of management overlays in the ECL calculation for Stage 1 and 2 exposures, in particular the reversal of the management overlay which had been applied in preceding financial reporting periods for UK exposures to reflect the increased level of

Key audit matter	How our audit addressed the Key audit matter
• the Dutch mortgage portfolio originated by the Group during the current financial period, which includes secured residential mortgages offered in the Netherlands, with a gross carrying amount of €133.5 million at 31 December 2019; and • a local lending portfolio, predominantly consisting of loans to the real estate activities sector in Malta, with a gross carrying amount at 31 December 2019 of €89.3 million. The measurement of ECLs in respect of loans and advances to customers is considered a key area of focus particularly for the international lending portfolio. All loans within the Group's international portfolio are considered individually significant. As a result, credit loss allowances relating to all loans and advances within the international portfolio are calculated at an instrument level. A considerable level of judgement is required in the development and / or calibration of the models designed to estimate ECLs on loans measured at amortised cost in accordance with the requirements of IFRS 9. In general, the Group calculates ECL by using the following key inputs: probability of default (PD), loss given default (LGD) and exposure at default (EAD). The maximum period considered when measuring ECL is the maximum period over which the Group is exposed to credit risk. In general, the EAD for exposures within the international portfolio is based on behavioural maturity, reflecting management expectations on the exercise of prepayment or extension options. For non-defaulted (Stages 1 and 2) exposures, the Group uses a model developed by an external vendor in which key risk parameters, including both PDs and LGDs, are estimated using statistical models mainly by benchmarking exposure-specific characteristics against an underlying dataset. Specifically, the PDs and	uncertainty in the geographical area due to Brexit; and • impairment allowances in respect of exposures classified as Stage 3. In respect of the Group's ECL models used for estimating credit loss allowances attributable to defaulted and non-defaulted exposures respectively, the continued appropriateness of the modelling policy and methodology used was independently assessed by reference to the requirements of IFRS 9. *ECL calculation for non-defaulted exposures within the International lending portfolio* We understood and critically assessed the model used by the Group to measure expected credit loss allowances on international lending portfolio exposures classified within Stages 1 and 2. In this regard, we obtained an understanding of updates and enhancements to the model parameters and the algorithmic processes underlying the model. Accordingly, our audit approach focused specifically on: • obtaining comfort over the accuracy and completeness of model inputs, with the updating process being largely manual; • testing the reasonableness of key parameters driving the measurement of credit loss allowances for such exposures, including the staging logic built into the Group's ECL model, the logic for TTC to PiT conversion and the macroeconomic modelling aspect within the ECL model; • challenging judgemental aspects made by management (such as staging criteria overlays); and • backtesting the ECL outcome against the Group's historical experience. The design and operating effectiveness of specific control activities relevant to the ECL calculation process, specifically in respect of stage classification, were tested.

Key audit matter	How our audit addressed the Key audit matter

LGDs of the Group's international portfolio are developed on a name by name basis by reference to the default and loss history of comparable borrowers with similar characteristics in terms of size, industry and country of operations.
 	
The Group's ECL model estimates Through-The-Cycle (TTC) PDs at a borrower level based on quantitative (financial statement information) and qualitative (borrower characteristics such as management's ability to create realistic budgets through a comparison of actual to budgeted performance) model inputs, benchmarking these model inputs against those of peers with similar credit risk characteristics and operating in the same industry. TTC PDs are then adjusted using a macroeconomic modelling tool to first reflect current macroeconomic conditions (unconditional Point-in-Time or PiT PD) and then simulate the PD under multiple macroeconomic forecasts developed by the external vendor (conditional PiT PD).
 	
On the other hand, the LGD is estimated at a facility level to reflect the effect of relative seniority of facilities on expected losses. Similar to PDs, the Group's ECL model estimates the LGD by benchmarking facility-specific model inputs against observed losses for facilities which are similar in nature. In this respect, the model takes into consideration both quantitative and qualitative aspects when developing LGDs. The quantitative aspect is principally driven by the nature of the exposure (term vs. revolver), the relative ranking of the facility in the borrower's capital structure, the country and industry in which the borrower operates, together with the borrower-specific PD. The qualitative aspect, in turn, differentiates between exposures in terms of the borrower's covenant violation history as well as the relative creditor friendliness across legal jurisdictions.
 	
The same macroeconomic modelling elements used to transform TTC PDs to PiT PDs is then used to convert the TTC LGDs to conditional PiT
	In this respect, we specifically obtained comfort around monitoring of Stage 1 exposures by both the Group's first and second lines of defence through control procedures. We determined that we could rely on such controls for the purpose of our audit.
	
	In order to obtain comfort on the credit loss allowances for Stage 1 and 2 exposures within the international lending portfolio, which is vendor model driven, we carried out the following substantive procedures:
	
	• Tested the completeness and accuracy of the model data inputs used for the purposes of the period end ECL calculation against source data. This included testing of financial statement inputs, qualitative inputs (e.g. covenant breaches), as well as instrument-specific inputs (e.g. nature of loan, exposure amount, effective interest rate, etc.).
	
	• Performed backtesting to obtain comfort on key variables / parameters such as:
	    ○ Expected maturities – assessed the historical accuracy of management predictions of expected maturities compared to actual maturities.
	    ○ PDs – assessed the reasonableness of PDs through a comparison of predicted vs. actual default rates, as well as assessing observed trends in movements in PiT PDs across countries; and
	    ○ LGDs – benchmarked the LGDs estimated by the model with the Group's own history of losses on defaulted exposures.
	
	• Evaluated the continuing appropriateness of the model calibration of TTC PDs produced by the model.
	
	• Assessed the appropriateness of the Group's SICR criteria used for downgrading exposures to Stage 2, including quantitative SICR staging criteria used in the model. We performed procedures to obtain comfort on the manual model overrides effected by management in

Key audit matter	How our audit addressed the Key audit matter
LGDs. In this regard, macroeconomic conditioning is applied to the LGD term structure through a modelled correlation between PD and LGD term structures. During the previous financial year, Management also applied an overlay for UK exposures to reflect the increased level of uncertainty due to Brexit. As at the end of the current financial period, the overlay which was previously applied to UK exposures was not deemed necessary as the effects of Brexit were deemed to be adequately considered within the macro-economic scenarios developed by the vendor and accordingly utilised within the Group's ECL model. Staging is determined based on a combination of quantitative and qualitative criteria. Quantitative criteria are based on a comparison of model-calculated PDs/implied ratings as at reporting date with the calculated PDs/implied ratings on origination. Meanwhile, qualitative criteria are based on aspects such as the regular monitoring of the financial performance of borrowers against forecasts, compliance with covenants, as well as strategic developments affecting the borrowers' future repayment abilities. In this regard, the Group applies a set of Significant Increase in Credit Risk (SICR) and Unlikeliness-to-Pay (UTP) criteria in order to determine staging on a qualitative basis, which requires a significant element of judgement. For those loans which are classified as Stage 3 (defaulted) exposures, judgement is required to estimate the expected future cash flows related to that loan. In this regard, the ECL calculation for defaulted exposures is manually driven, based on an internally developed methodology. Estimated future cash flows are generally dependent on parameters or assumptions such as market multiples in relation to borrowers' enterprise values, the estimation of borrowers' operating cash flows, and the use of multiple scenarios to determine a probability weighted recoverable amount of the loan. In this respect,	respect of exposures downgraded to Stage 2 on a quantitative basis and migrated back to Stage 1 on the basis of a qualitative assessment. The reasonableness and appropriateness of manual model overrides was assessed through examination of relative factual information and circumstances attributable to a risk-based sample of exposures. • Assessed the reasonableness of the movements in credit loss allowances for Stage 1 and 2 exposures during the period to ensure that these were in line with expectations. • Challenged the impact of changes that were implemented during the period to the logic/algorithms within the vendor model affecting the PiT conversions as well as the macroeconomic modelling within the ECL calculation. • Tested the multiple macroeconomic scenarios and variables to assess their reasonableness. We assessed the economic scenarios being used against publicly available macroeconomic information to obtain comfort on the general direction of forecasted macroeconomic variables. • Assessed the appropriateness of the removal of the management overlay previously applied to UK exposures through the model. Based on the evidence obtained, we found the model assumptions, data used within the model, the model staging overrides and the ECL calculation logic to be reasonable. In respect of staging classification of exposures within the international lending portfolio, principally between Stage 2 and Stage 3, we reviewed the internal processes for identifying Unlikeliness-to-Pay (UTP) trigger events used to classify exposures into Stage 3 and also performed a comprehensive credit file review for Stage 2 exposures to ensure that these are appropriately classified as non-defaulted exposures.

Key audit matter	How our audit addressed the Key audit matter
depending on particular circumstances of the borrower in question, the Group either takes into consideration different work-out options, or develops different scenarios under the same work-out option, adjusting key parameters in the ECL calculation, such as estimated future market multiples and forecasted operating cash flows. The methodology implemented by the Group to measure credit loss allowances in line with the requirements of IFRS 9 increases the significance of data management since a number of data inputs are required for the impairment calculation. The process remains largely manual, although there are plans to automate the process and enhance the governance structure around the impairment calculation process. This increases risk around completeness and accuracy of model data inputs. The estimation of ECLs is subjective in nature and inherently judgemental, also in respect of both timing of recognition of impairment and the estimation of the size of any such impairment. Whilst the current level of delinquencies and defaults remains low, the risk of misstatement in credit loss allowances remains significant. In view of the above reasons, the Group's application of the IFRS 9 impairment requirements is deemed to be an area of focus. Accordingly, summarising the key areas relevant to the Group's measurement of ECLs would include: • Allocation of international corporate loans to stage 1, 2, or 3 using criteria in accordance with IFRS 9; • Accounting interpretations and modelling assumptions used to build the models that calculate the ECL; • Completeness and accuracy of data used to calculate the ECL; • Inputs and assumptions used to estimate the impact of multiple macroeconomic scenarios; and	In this regard, our audit procedures provided us with sufficient comfort on the appropriateness of the Group's exposures' staging classification. *ECL calculation for defaulted exposures within the International lending portfolio* For Stage 3 exposures within the international lending portfolio, the appropriateness of provisioning methodologies and policies was independently assessed. A substantive testing approach has been adopted in this respect. For Stage 3 loans, we performed tests of detail to review and challenge the Group's estimate of credit loss allowances, in the light of the latest developments at the level of the borrower, together with the appropriateness of key parameters used. We also considered whether key judgements were appropriate given the borrowers' circumstances. An independent view was formed on the level of credit loss allowances recorded based on the detailed loan and customer information available. In particular, we formed our view on key inputs to the ECL calculation including market multiples used to determine borrowers' enterprise values, the suitability of peers when determining such multiples, the estimation of borrowers' operating cash flows as well as the plausibility of the scenarios used and the probabilities associated with such scenarios. We engaged our valuation experts to review and critique the market multiples applied by management. In fact, our valuation experts performed work to provide comfort about the reasonableness and appropriateness of multiples used by the Group to arrive at the borrower's enterprise value. Based on the evidence obtained, we formed a different view from that of management on the level of credit loss allowances recorded by management in respect of a limited number of exposures, but in our view the differences were within a reasonable range of outcomes.

Independent auditor's report - continued

To the Shareholders of MDB Group Limited

Key audit matter	How our audit addressed the Key audit matter
• Measurements of individually assessed provisions including the assessment of multiple scenarios. Relevant references in the Annual Report and Financial Statements: • Accounting policy: Note 1.5; • Credit risk: Note 2.2; • accounting estimates and judgements: Note 3.3; • Note on Loans and advances to customers: Note 7; and • Note on Change in expected credit losses and other impairment charges: Note 28.	
Recognition of interest income on loans and advances utilising the effective interest rate method Interest income on loans and advances to customers is recognised using the effective interest rate method. Measuring interest income on loans and advances to customers under the effective interest rate method requires management to apply judgement, particularly in the case of the Group's senior secured loans to international borrowers, constituting the international lending portfolio. A model is utilised by the Group to compute the impact of application of the effective interest rate method on an individual loan basis, by discounting estimated future cash flows through the expected life of the instrument to the net carrying amount, including all fees paid or received that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts. A key judgement in respect of the application of the effective interest rate method to the international lending portfolio is the assumed expected life for the loans, effectively determining the period over which interest income is recognised utilising the effective interest rate method, and accordingly determining the pattern of	Our audit procedures in respect of the application of the effective interest rate method to loans and advances within the international lending portfolio, in particular relating to the assumptions on loan expected lives and to the determination of which fees are considered to form an integral part of the effective interest rate, included the following: • We assessed the historical accuracy of management predictions of expected maturities by comparing with actual maturities. • We challenged the appropriateness of changes to assumed expected lives in relation to specific loans by reference to the available emerging information in relation to such borrowers. • We assessed the accuracy of the model used for the recognition of interest income and for the measurement of loans and receivables at amortised cost using the effective interest rate method by re-performing a sample of effective interest rate calculations at individual loan level. Our audit procedures comprised performing tests of detail on the selected sample of lending arrangements by agreeing transaction details

Key audit matter	How our audit addressed the Key audit matter
recognition of income throughout different accounting periods. The determination as to which fees are considered an integral part of the effective interest rate and hence included within the effective interest rate calculations is also judgemental for the international lending portfolio. Management determines an assumed expected life for each individual loan within its international lending portfolio. The sensitivity to a change in assumed expected life can vary significantly between different loans, depending on the characteristics, terms and conditions of the underlying lending transaction and parameters included within the respective effective interest rate calculation such as fee income and discounts or premiums identified at inception. The Group has historical experience in respect of the international lending portfolio, for the purposes of supporting the expected life assumption applied to each loan. Consequently, the Group determines loan expected life assumptions on the basis of its forecasting process, which takes into account historical data but also the Group's expertise and experience in this specialised lending sector. Any changes in the expected loan life assumptions are based on management's assessment of emerging market trends (for instance changes in market interest rates and the ability of the borrower to re-finance in the circumstances) and borrower specific information that indicates changes to repayment profiles and the extent of such changes. Relevant references in the Annual Report and Financial Statements: Accounting policy: Note 1.5; and Accounting estimates and judgements: Note 3.2.	within the respective model to loan agreements and other supporting documentation. • For the selected sample, we also assessed whether all the appropriate fees had been reflected within the effective interest rate calculations based on the requirements within the relevant accounting pronouncements. Based on the results of our audit procedures we concluded that the assumptions used by management were reasonable and that the model gives rise to accurate calculations.

How we tailored our group audit scope

The Group is composed of two components: MDB Group Limited (the parent company), and its subsidiary MeDirect Bank (Malta) plc, which is determined to be a financially significant entity.

We tailored the scope of our audit in order to perform sufficient work on all components to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates, and local statutory requirements.

The audit team of the Group performed all the work implied in a full scope audit on the parent company. In relation to MeDirect Bank SA, a subsidiary of MeDirect Bank (Malta) plc based in Belgium, we reported to PwC Brussels office on specific control procedures and specific substantive procedures on a substantial part of the financial statement line items, in view of the fact that a significant element of the subsidiary's operational, accounting and financial reporting procedures are outsourced to MeDirect Bank (Malta) plc. We received reporting from PwC Brussels office on limited scope procedures in respect of specific balances and transactions that are managed directly in Belgium. A full scope audit was carried out in respect of this entity. These procedures are performed by applying the overall materiality at the level of the Group's consolidated financial statements, together with additional procedures performed on the consolidation. This gave us sufficient appropriate audit evidence for our opinion on the Group financial statements as a whole.

Other information

The Directors are responsible for the other information. The other information comprises the:

- Chairman's and Chief Executive Officer's review;
- Directors' report;
- Statement of compliance with the Principles of good corporate governance;
- Remuneration report; and
- Pillar 3 disclosures annual report in terms of CRR

but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information, including the Directors' report.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

With respect to the Directors' report, we also considered whether the Directors' report includes the disclosures required by Article 177 of the Maltese Companies Act (Cap. 386).

Based on the work we have performed, in our opinion:

- the information given in the Directors' report for the financial period for which the financial statements are prepared is consistent with the financial statements; and
- the Directors' report has been prepared in accordance with the Maltese Companies Act (Cap. 386).

Independent auditor's report - continued

To the Shareholders of MDB Group Limited

In addition, in light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we are required to report if we have identified material misstatements in the Directors' report and other information that we obtained prior to the date of this auditor's report. We have nothing to report in this regard.

Responsibilities of the Directors and those charged with governance for the financial statements

The Directors are responsible for the preparation of financial statements that give a true and fair view in accordance with IFRSs as adopted by the EU and the requirements of the Maltese Companies Act (Cap. 386), and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Group's and the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or the Company or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.

- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's or the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's and the Company's ability to continue as a going concern. In particular, it is difficult to evaluate all of the potential implications that COVID-19 will have on the Group's and the Company's operations, assets and liabilities, and the disruption to its business and the overall economy.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Independent auditor's report - continued

To the Shareholders of MDB Group Limited

Report on other legal and regulatory requirements

Other matters on which we are required to report by exception

We also have responsibilities under the Maltese Companies Act (Cap. 386) to report to you if, in our opinion:

- adequate accounting records have not been kept, or that returns adequate for our audit have not been received from branches not visited by us;
- the financial statements are not in agreement with the accounting records and returns; and
- we have not received all the information and explanations we require for our audit.

We have nothing to report to you in respect of these responsibilities.

PricewaterhouseCoopers
78, Mill Street
Qormi
Malta

Fabio Axisa
Partner

20 May 2020

Statements of financial position

	Notes	Group 31 December 2019 €000	Group 31 March 2019 €000	Company 31 December 2019 €000	Company 31 March 2019 €000
ASSETS					
Balances with central banks and cash	4	**241,726**	146,988	**-**	-
Derivative financial instruments	5	**2,020**	716	**-**	-
Loans and advances to financial institutions	6	**223,505**	118,721	**218**	282
Loans and advances to customers	7	**1,359,377**	1,842,555	**-**	-
Investments					
- Treasury portfolio	8	**930,491**	690,581	**-**	-
- Securitisation portfolio	8	**253,626**	-	**-**	-
- Subsidiary	9	**-**	-	**264,110**	274,110
Property and equipment	10	**12,443**	2,071	**-**	-
Intangible assets	11	**16,928**	6,324	**-**	-
Non-current assets classified as held for sale	12	**1,785**	1,785	**-**	-
Current tax assets		**3,091**	10,797	**2**	-
Deferred tax assets	13	**25,705**	24,586	**3,426**	3,248
Prepayments and accrued income	14	**15,979**	18,383	**-**	-
Other assets	15	**50,200**	24,883	**1,611**	1,599
Total assets		**3,136,876**	2,888,390	**269,367**	279,239
EQUITY					
Called up issued share capital	16	**55,738**	55,738	**55,738**	55,738
Share premium	16	**13,756**	13,756	**13,756**	13,756
Shareholders' contributions	16	**136,300**	136,300	**136,300**	136,300
Reserve for general banking risks	16	**3,357**	3,081	**-**	-
Other reserves	16	**(4,005)**	(404)	**-**	-
Retained earnings	16	**127,113**	131,290	**63,365**	73,186
Total equity		**332,259**	339,761	**269,159**	278,980
LIABILITIES					
Derivative financial instruments	5	**4,182**	11,327	**-**	-
Amounts owed to financial institutions	17	**224,012**	198,887	**-**	-
Amounts owed to customers	18	**2,439,126**	2,202,091	**-**	-
Subordinated liabilities	19	**54,820**	67,138	**-**	-
Current tax liabilities		**276**	158	**-**	-
Deferred tax liabilities	13	**199**	491	**-**	-
Provisions for liabilities and other charges	20	**4,528**	1,633	**-**	-
Accruals and deferred income	21	**40,926**	39,459	**9**	9
Other liabilities	22	**36,548**	27,445	**199**	250
Total liabilities		**2,804,617**	2,548,629	**208**	259
Total equity and liabilities		**3,136,876**	2,888,390	**269,367**	279,239
Memorandum items					
Commitments to purchase financial assets	7	**40,073**	60,843	**-**	-
Commitments to extend credit, guarantees and other commitments	32 - 33	**814,210**	523,991	**-**	-

The notes on pages 46 to 147 are an integral part of these financial statements. The financial statements on pages 41 to 147 were approved and authorised for issue by the Board of Directors on 20 May 2020 and signed on its behalf by:

Michael Bussey

Chairman

Arnaud Denis

Director

Statements of comprehensive income

	Notes	Group: Period ended from 1 April to 31 December 2019 €000	Group: Year ended 31 March 2019 €000	Company: Period ended from 1 April to 31 December 2019 €000	Company: Year ended 31 March 2019 €000
Interest income		**67,924**	96,192	**-**	9
Interest expense		**(23,897)**	(28,581)	**-**	-
Net interest income	23	**44,027**	67,611	**-**	9
Fee and commission income		**5,593**	7,066	**-**	-
Fee and commission expense		**(1,375)**	(1,509)	**-**	(1)
Net fee and commission income	24	**4,218**	5,557	**-**	(1)
Net trading income	25.1	**3,001**	3,128	**-**	-
Net income from other financial instruments at fair value through profit or loss		**187**	3,448	**-**	-
Other operating income					
– Realised gains on disposal of other investments	25.2	**5,092**	87	**-**	-
– Realised (losses)/gains on disposal of loans and advances		**(1,647)**	412	**-**	-
– Other income		**148**	134	**15**	-
Total operating income		**55,026**	80,377	**15**	8
Personnel expenses	26	**(22,824)**	(21,411)	**-**	-
Depreciation and amortisation	10-11	**(3,853)**	(827)	**-**	-
Other administrative expenses	27	**(21,115)**	(30,833)	**(12)**	(13)
Total operating expenses		**(47,792)**	(53,071)	**(12)**	(13)
Net operating income before changes in expected credit losses		**7,234**	27,306	**3**	(5)
Change in expected credit losses and other credit impairment charges	28	**(136)**	(5,795)	**-**	-
Profit/(loss) before tax		**7,098**	21,511	**3**	(5)
Taxation	29	**(853)**	1,795	**176**	397
Profit for the period		**6,245**	23,306	**179**	392
Other comprehensive income					
Items that may be reclassified subsequently to profit or loss					
Fair valuation of financial investments measured at fair value through other comprehensive income:					
- Net change in fair value, before tax		**(28)**	1,651	**-**	-
- Net amount reclassified to profit or loss, before tax		**(5,098)**	-	**-**	-
Income tax relating to other comprehensive income		**1,379**	(475)	**-**	-
Other comprehensive income, net of tax		**(3,747)**	1,176	**-**	-
Total comprehensive income, net of tax		**2,498**	24,482	**179**	392

The notes on pages 46 to 147 are an integral part of these financial statements.

Statements of changes in equity

Group	Share capital €000	Share premium €000	Shareholders' contributions €000	Reserve for general banking risks €000	Other reserves €000	Retained earnings €000	Total €000
Balance at 1 April 2018	55,738	13,756	136,300	1,694	(1,630)	116,651	322,509
Total comprehensive income							
Profit for the year	-	-	-	-	-	23,306	23,306
Other comprehensive income, net of tax:							
Fair valuation of financial investments measured at fair value through other comprehensive income:							
- Net change in fair value arising during the period, net of tax	-	-	-	-	1,176	-	1,176
- Reclassification to retained earnings, net of tax	-	-	-	-	50	(50)	-
Total comprehensive income, net of tax	-	-	-	-	1,226	23,256	24,482
Transfer to Reserve for general banking risks	-	-	-	1,387	-	(1,387)	-
Transactions with owners							
Dividends paid	-	-	-	-	-	(7,230)	(7,230)
Balance at 31 March 2019	**55,738**	**13,756**	**136,300**	**3,081**	**(404)**	**131,290**	**339,761**
Balance at 1 April 2019	55,738	13,756	136,300	3,081	(404)	131,290	339,761
Total comprehensive income							
Profit for the period	-	-	-	-	-	6,245	6,245
Other comprehensive income, net of tax:							
Fair valuation of financial investments measured at fair value through other comprehensive income:							
- Net change in fair value arising during the period, net of tax	-	-	-	-	(20)	-	(20)
- Reclassification adjustments: net amount reclassified to profit or loss, net of tax	-	-	-	-	(3,727)	-	(3,727)
Total comprehensive income, net of tax	-	-	-	-	(3,747)	6,245	2,498
Transfer to Legal reserve	-	-	-	-	146	(146)	-
Transfer to Reserve for general banking risks	-	-	-	276	-	(276)	-
Transactions with owners							
Dividends paid	-	-	-	-	-	(10,000)	(10,000)
Balance at 31 December 2019	**55,738**	**13,756**	**136,300**	**3,357**	**(4,005)**	**127,113**	**332,259**

The notes on pages 46 to 147 are an integral part of these financial statements.

Statements of changes in equity - continued

Company

	Share capital €000	Share premium €000	Shareholders' contributions €000	Retained earnings €000	Total €000
Balance at 1 April 2018	55,738	13,756	136,300	80,024	285,818
Total comprehensive income					
Profit for the year	-	-	-	392	392
Transactions with owners					
Dividends paid	-	-	-	(7,230)	(7,230)
Balance at 31 March 2019	**55,738**	**13,756**	**136,300**	**73,186**	**278,980**
Balance at 1 April 2019	55,738	13,756	136,300	73,186	278,980
Total comprehensive income					
Profit for the period	-	-	-	179	179
Transactions with owners					
Dividends paid	-	-	-	(10,000)	(10,000)
Balance at 31 December 2019	**55,738**	**13,756**	**136,300**	**63,365**	**269,159**

The notes on pages 46 to 147 are an integral part of these financial statements.

Statements of cash flows

	Note	Group		Company	
		Period from 1 April to 31 December 2019 €000	Year ended 31 March 2019 €000	**Period from 1 April to 31 December 2019 €000**	Year ended 31 March 2019 €000
Cash flows from operating activities					
Interest and commission receipts		**78,617**	118,465	**-**	-
Interest and commission payments		**(22,724)**	(30,186)	**-**	-
Payments to employees and suppliers		**(33,468)**	(57,183)	**-**	-
Operating cash flows before changes in operating assets/liabilities		**22,425**	31,096	**-**	-
(Increase)/decrease in operating assets:					
- Reserve deposit with central banks		**(117,930)**	(108,313)	**-**	-
- Loans and advances to financial institutions and customers		**472,552**	(182,119)	**-**	-
Increase/(decrease) in operating liabilities:					
- Amounts owed to financial institutions and customers		**33,616**	312,344	**-**	-
- Other payables		**(14,645)**	14,816	**176**	361
- Derivative financial instruments		**-**	(2,234)	**-**	-
Tax refunded/(paid)		**6,937**	(1,880)	**(4)**	(3)
Net cash from operating activities		**402,955**	63,710	**172**	358
Cash flows from investing activities					
Acquisition of property and equipment		**(325)**	(884)	**-**	-
Acquisition and development of intangible assets		**(3,419)**	(3,301)	**-**	-
Acquisition of investments measured at amortised cost		**(264,593)**	(31,107)	**-**	-
Acquisition of investments measured at fair value through other comprehensive income		**(654,640)**	(164,713)	**-**	-
Acquisition of investments measured at fair value through profit or loss		**(1,750)**	-	**-**	-
Disposal/redemption of investments measured at fair value through other comprehensive income		**417,842**	58,903	**-**	-
Disposal/redemption of investments measured at fair value through profit or loss		**-**	3,368	**-**	-
Net cash used in investing activities		**(506,885)**	(137,734)	**-**	-
Cash flows from financing activities					
Decrease in shareholder's contribution to subsidiary		**-**	-	**10,000**	7,230
Dividends paid		**(10,000)**	(7,230)	**(10,000)**	(7,230)
Issuance of subordinated liabilities		**35,044**	-	**-**	-
Redemption of subordinated liabilities		**(47,229)**	-	**-**	-
Principal element of lease payments		**(1,892)**	-	**-**	-
Net advances from/(to) immediate parent company		**2,378**	(2,729)	**-**	(107)
Net advances from/(to) other group companies		**2,292**	2,030	**(236)**	-
Net cash used in financing activities		**(19,407)**	(7,929)	**(236)**	(107)
Net (decrease)/increase in cash and cash equivalents		**(123,337)**	(81,953)	**(64)**	251
Cash and cash equivalents at beginning of period		**69,365**	151,318	**282**	31
Cash and cash equivalents at end of period	30	**(53,972)**	69,365	**218**	282

The notes on pages 46 to 147 are an integral part of these financial statements.

Notes to the financial statements

1. Summary of significant accounting policies

1.1 Reporting entity

MDB Group Limited (the "Regulatory Parent" or the "Company") is a limited liability company domiciled and incorporated in Malta.

By virtue of a board resolution dated 25 September 2019, the Company changed its accounting reference date from 31 March to 31 December. Accordingly, these financial statements cover the period from 1 April 2019 to 31 December 2019, presenting the statement of financial position as at 31 December 2019 and the statements of comprehensive income, changes in equity and cash flows for the nine-month period ended 31 December 2019. Comparative figures within these financial statements cover the twelve-month period from 1 April 2018 to 31 March 2019, presenting the statement of financial position as at 31 March 2019 and the statements of comprehensive income, changes in equity and cash flows for the twelve-month period ended 31 March 2019.

The consolidated financial statements of the Company as at and for the financial period ended 31 December 2019 comprise the financial statements of the Company and its subsidiaries, together referred to as "the Group". Therefore, these financial statements report the consolidated financial results of MDB Group Limited for the financial period ended 31 December 2019, including the financial results of MeDirect Bank (Malta) plc ("MeDirect Malta"), its principal subsidiary, namely MeDirect Bank SA ("MeDirect Belgium"), and Grand Harbour I B.V. ("GH I"), a controlled special purpose entity utilised as part of the Group's funding strategy. The Group has retained substantially all risks and rewards pertaining to the activities of GH I and hence to assets, liabilities and related income and expenditure attributable to GH I, and as such, all assets, liabilities and related income and expenditure have been reflected within the Group's consolidated financial statements.

MeDirect Belgium is a credit institution licensed in Belgium and is carrying out all of the Group's activities in Belgium.

GH I is funded through two intragroup loan facilities subscribed to by MeDirect Malta and MeDirect Belgium. MeDirect Belgium and MeDirect Malta invested in GH I on a 70% - 30% basis (31 March 2019: 74% – 26% basis) respectively, with the tranche bought by MeDirect Belgium (the "Senior Loan") amounting to €737.6 million (31 March 2019: €1,029 million) having a senior ranking vis-à-vis the tranche acquired by MeDirect Malta (the "Junior Loan") amounting to €314.1 million (31 March 2019: €361 million).

On 1 February 2018, MeDirect Malta announced that the boards of directors of MeDirect Malta and Charts Investment Management Service Limited ("Charts"), a subsidiary of MDB Group Limited, have each voted to merge Charts into MeDirect Malta, subject to receipt of all applicable regulatory approvals and completion of all legal requirements. On 1 April 2018 the shares held by MDB Group Limited in Charts were transferred to MeDirect Malta for a consideration of €0.7 million. With effect from 1 April 2018, the merger between MeDirect Malta and Charts became effective for accounting purposes. Thus, all the transactions of Charts have been treated as being those of MeDirect Malta with effect from 1 April 2018.

Medifin Estates, a property leasing partnership, was set up to lease property which is then leased back to the Group. Medifin Estates is also included within the consolidated financial statements.

1.2 Basis of preparation

The Company's consolidated financial statements have been prepared in accordance with the requirements of International Financial Reporting Standards as adopted by the European Union.

These financial statements have also been drawn up in accordance with the provisions of the Maltese Banking Act (Cap. 371) and the Maltese Companies Act (Cap. 386).

These financial statements have been prepared on the basis of the historical cost convention, except for:

- financial investments measured at fair value through other comprehensive income and at fair value through profit or loss;
- derivative financial instruments which are measured at fair value; and
- recognised financial assets designated as hedged items in qualifying fair value hedge relationships which are measured at amortised cost adjusted for changes in fair value attributable to the risk being hedged.

The principal accounting policies adopted in the preparation of these financial statements are set out below. Unless otherwise stated, these policies have been consistently applied to all the years presented, with the exception of the accounting policy in relation to leases.

The preparation of financial statements in conformity with IFRSs as adopted by the EU requires the use of certain accounting estimates. It also requires the Directors to exercise their judgment in the process of applying the Group's accounting policies (see Note 3.1 – Critical accounting estimates and judgments in applying the Group's accounting policies).

The financial statements are prepared on a going concern basis, as the Directors are satisfied that the Group have the resources to continue in business for the foreseeable future. In making this assessment, the Directors have considered a wide range of information relating to present and future conditions, including future projections of profitability, cash flows and capital resources.

Standards, interpretations and amendments to published standards effective in 2019

During the financial period ended 31 December 2019, the Group adopted new standards, amendments and interpretations to existing standards that are mandatory for the Group's accounting period beginning on 1 April 2019.

The Group has adopted the requirements of IFRS 16 'Leases' from 1 April 2019. Under International Accounting Standard ('IAS') 17 'Leases', leases were classified as either finance or operating leases. Payments made under operating leases were charged to profit or loss on a straight-line basis over the period of the lease.

IFRS 16 results in lessees accounting for most leases within the scope of the standard in a manner similar to the way in which finance leases were accounted for under IAS 17. Lessees will recognise a right of use ('ROU') asset and a corresponding financial liability on the statement of financial position. The asset will be amortised over the length of the lease, and the financial liability measured at amortised cost. Lessor accounting remains substantially the same as under IAS 17.

The Group's lease arrangements comprise long-term leasehold properties, other immovable property leaseholds and IT infrastructure/software arrangements which were classified as operating leases under IAS 17. Under IFRS 16, the Group recognised ROU assets within property, plant and equipment or intangible assets and lease liabilities within other liabilities for all its lease arrangements which were previously classified as operating leases under IAS 17, with the exceptions of some arrangements of low value items or short-term arrangements of one year or less.

The Group applied IFRS 16 on its mandatory adoption date of 1 April 2019 using a modified retrospective approach with no restatement of comparative information. Under this approach, the lease liability was measured at the present value of the remaining lease payments as at 1 April 2019, which management has estimated to amount to €21.4 million, and the right-of-use assets at that date were equivalent to this lease liability (with no adjustment to equity). In general, it is not expected that the discount rate implicit in the lease is available for the Group's lease arrangements, so the lessee's incremental borrowing rate is used. This is the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset in a similar economic environment with similar terms and conditions. The weighted average rate applied at 1 April 2019 is 4.25%. As at 31 December 2019 the carrying amount of right-of-use assets within property and equipment was equivalent to €10.5 million and within intangible assets was equivalent to €8.4 million. The relative lease liability as at 31 December 2019 amounted to €17.7 million.

At 1 April 2019, the contractual terms and conditions of the existing agreement with Medifin Leasing Limited, a related party of the Group, in respect of leases of IT infrastructure and software contemplated a one-year term for such arrangements and did not contemplate extension options. However, the Group resolved that for financial reporting purposes, upon adoption of IFRS 16, it will give more weight to the envisaged substance rather than form of the agreement, which substance will unfold once the planned changes to the arrangements with Medifin Leasing are implemented. These changes, constituting extension options to cover the remaining useful life of the assets, were implemented during the current financial period. Hence the lease term in respect of these arrangements, for IFRS 16 purposes upon adoption, was considered as the remaining useful life of the respective IT infrastructure and software rather than the existing contractual term, with the consequent recognition of ROU assets and lease liabilities without application of the short-term lease exemption.

In the Group's statement of cash flows, rental payments are allocated between interest payments and a reduction in the lease liability. The interest payments are presented under operating cash flows in accordance with the Group's existing policy for interest payments; the portion of the payments relating to reduction in the lease liability are presented within financing cash flows under IFRS 16. Rental payments have been presented as operating cash flows under IAS 17 until 31 March 2019.

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

Certain new accounting standards and interpretations have been published, which are mandatory for reporting periods commencing after 1 April 2019 and which have not been early adopted by the Group. There are no standards that are not yet effective and that would be expected to have a material impact on the Group in future reporting periods and on foreseeable future transactions.

1.3 Consolidation

Subsidiaries are all entities over which the Group has control. The Group controls an entity where the group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The Group uses the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair value of the assets transferred, the liabilities incurred, and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If this aggregate is less than the fair value of the identifiable net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in profit or loss.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Consistent accounting policies are applied throughout the Group for the purposes of consolidation

Accounting for investments in subsidiaries in the parent company's stand-alone financial statements

In the Company's separate financial statements, investments in subsidiaries are accounted for by the cost method of accounting i.e. at historical cost less impairment. Provisions are recorded where, in the opinion of the Directors, there is an impairment in value. Where there has been an impairment in the value of an investment in a subsidiary, it is recognised as an expense in the period in which the diminution is identified. The results of subsidiaries are reflected in the Company's separate financial statements only to the extent of dividends receivable. On disposal of an investment, the difference between the net disposal proceeds and the carrying amount is charged or credited to profit or loss.

1.4 Foreign currency transactions and balances

a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The functional currency of all Group entities is the euro. The financial statements are presented in euro, which is also the Group's presentation currency.

b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

1.5 Financial assets

Initial recognition and derecognition

The Group recognises a financial asset in its statement of financial position when it becomes a party to the contractual provisions of the instrument.

The Group initially recognises loans and advances to customers at the date of transfer of beneficial ownership or when cash is advanced to borrowers. Investments and transactions in all other financial instruments consisting of regular way purchases and sales are recognised on settlement date.

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership or the Group has not retained control of the asset.

When assets are sold to a third party with a concurrent total return swap on the transferred assets, the transaction is accounted for as a secured financing transaction, retaining the asset on the statement of financial position because the Group retains all or substantially all the risks and rewards of ownership of such assets.

Similarly, when assets are sold to a structure through which the Group is deemed to have retained all, or substantially all, risks and rewards, the transferred assets are not derecognised.

In transactions in which the Group neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset and it retains control over the asset, the Group continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

In certain transactions the Group retains the obligation to service the transferred financial asset for a fee. The transferred asset is derecognised if it meets the derecognition criteria. An asset or liability is recognised for the servicing contract, if the servicing fee is more than adequate (asset) or is less than adequate (liability) for the performance of the servicing.

Modification of terms

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognised. If the cash flows of the renegotiated asset are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised, and the new financial asset is recognised at fair value.

When a loan is restructured as part of forbearance strategy and the restructuring results in derecognition of the existing loan, the new loan is disclosed as forborne.

The accounting treatment in respect of the modification of terms of financial assets, including considerations made to determine whether the terms of the renegotiated asset are substantially different, is described in more detail in the 'Modified financial assets' sub-section.

Classification and measurement

The classification and measurement criteria under IFRS 9 are driven by the entity's business model for managing the financial instruments and the contractual cash flow characteristics of the financial instruments.

In line with the provisions of IFRS 9, the Group classifies and measures all financial assets under any one of the following three categories:

- Amortised cost;
- Fair value through other comprehensive income (FVOCI); or
- Fair value through profit or loss (FVTPL).

The Group determines the classification and measurement basis for financial assets based on an assessment of both the business model within which the financial assets are held and a review of the contractual terms of each financial asset to determine if cash flows are solely payments of principal and interest (SPPI).

For financial assets where the intention of the business model is to hold the financial assets to collect the contractual cash flows or to hold to collect and to sell, the Group assesses whether the contractual cash flow characteristics of these assets meet the SPPI requirements of IFRS 9. In this respect, the contractual cash flow characteristics are deemed to be SPPI if the terms are consistent with a basic lending arrangement.

The contractual cash flows are assessed based on conditions at the date of initial recognition of the instrument. However, if a loan modification occurs resulting in the existing loan being derecognised and a new loan recognised, the modified asset is considered as a new loan under IFRS 9 and as such is considered for the SPPI assessment. In such a case, the date of the modification is treated as the date of initial recognition of the new financial asset. If, however, the existing loan was renegotiated or modified but was not derecognised, then the contractual cash flows of the modified loan are not considered for the SPPI assessment.

The 'principal' of a financial asset refers to the fair value of the financial instrument at initial recognition rather than the amount that is due under the contractual terms of the instrument. On the other hand, 'interest' is the compensation for time value of money and credit risk, may include consideration for other basic lending risks (e.g. liquidity risk), costs associated with holding the financial assets for a particular period of time (e.g. administrative costs) and/or a profit margin.

In performing the SPPI assessment, the Group considers the following contractual terms to determine whether these introduce variability in contractual cash flows that is inconsistent with a basic lending arrangement, amongst others:

(i) variable interest rates, which typically consider the time value of money, credit risk and other basic lending risks and costs;

(ii) leverage, which is a contractual cash flow characteristic that results in increased variability in contractual cash flows;

(iii) modifications of the time value of money; and

(iv) contractual features that could alter the timing or amount of contractual cash flows of a financial asset, such as contingent events, prepayment and extension options.

A business model refers to the manner in which financial assets are managed in order to achieve a particular business objective, whether by collecting contractual cash flows only, selling financial instruments, or both. The Group's business model is determined by 'key management personnel' (as defined in Note 34 of this set of financial statements) and the assessment is based on matters of fact, reflecting the strategic purpose and intention for the portfolio and how the performance of the portfolio is assessed.

The business model is determined at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. Therefore, if the business model is set at a portfolio level, the classification assessment for this criterion is assessed at that level. Accordingly, it is not an instrument-by-instrument analysis but is determined at a higher level of aggregation.

The Group's business model for managing financial assets is observable through the activities that are undertaken by management to achieve the objective of the business model. The following aspects are considered in determining the IFRS 9 accounting classification:

(i) the stated policies and objectives for the portfolio and the operation of those policies in practice;

(ii) how the performance of the business model and the financial assets held within it are evaluated and reported to key management personnel;

(iii) consideration of risks affecting performance and how they are managed; and

(iv) how managers are compensated for business performance (e.g. whether the compensation is based on the fair value of the assets managed or the contractual cash flows collected).

This means that the Group is not required to hold all financial instruments in a 'Hold to Collect' portfolio until maturity. On the contrary, the business model can be to hold financial assets to collect contractual cash flows even where sales of financial assets occur or are expected to occur in the future.

In this regard, the Group performs an assessment to determine whether the sale of financial instruments from a portfolio implies that the classification of the exposures to the 'Hold to Collect' business model is inappropriate. This assessment is based on information about past sales and expectations about future sales, and in the determination of the business model, the Group takes into consideration the following:

(i) The historical frequency, timing and value of sales;

(ii) The reason for the sales (such as credit deterioration); and

(iii) Expectations about future sales activity.

A key distinction between business models relates to whether the 'sale' of financial instruments is integral to the achievement of the desired business objectives. In order for a sale of financial instruments to steer the classification of the entire portfolio away from a 'Hold to Collect' business model towards a 'Hold to Collect and Sell' business model, sales need to be integral to the objective of the business model, rather than incidental to it.

In this regard, subsequent to initial recognition, financial instruments are measured at:

(i) amortised cost if the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows ('Hold to Collect') and the contractual terms of the financial asset give rise to cash flows that are SPPI;

(ii) FVOCI if the financial asset is held within a business model whose objective is achieved by both holding financial assets in order to collect contractual cash flows and selling financial assets ('Hold to Collect and Sell') and the contractual terms of the financial asset give rise to cash flows that are SPPI; or

(iii) FVTPL if the financial asset does not pass the business model assessment referred to above and SPPI criteria.

The Group has identified five separate portfolios which require separate business model assessments due to the fact that these are managed separately and by different business units / management teams, namely (i) the International Lending portfolio; (ii) the Local Lending portfolio; (iii) the Dutch Mortgage portfolio; (iv) the Treasury Investment portfolio; and (v) the Securitisation Investment portfolio

Financial assets measured at amortised cost

Financial assets that are held to collect the contractual cash flows and which contain contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest are measured at amortised cost. These financial assets are initially measured at fair value, which is generally the cash consideration to originate or purchase the asset including any direct and incremental transaction costs, upon recognition. The Group's financial assets measured at amortised cost comprise primarily loans and advances to banks, loans and advances to customers, comprising the International Lending, Local Lending and Dutch Mortgage portfolios, and a portfolio of debt securities classified under the Treasury Investment portfolio.

In addition, financial assets measured at amortised cost comprise the Group's investments in the Grand Harbour CLO 2019-1 Designated Activity Company ("GH1-2019") structured note tranches, with the exception of the equity tranche which is measured at fair value through profit or loss ("FVTPL"), as well as the Group's investments in CLO transactions managed by third-party entities. Both investments are classified under the Securitisation Investment portfolio.

The amortised cost is the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount and the maturity amount (refer to note 1.16) and adjusted for any credit loss allowance.

Financial assets measured at fair value through other comprehensive income

Financial assets held for a business model that is achieved by both collecting contractual cash flows and selling and which contain contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest are measured at fair value through other comprehensive income ("FVOCI"). These financial assets are initially measured at fair value, which is generally the cash consideration to originate or purchase the asset including any direct and incremental transaction costs, upon recognition. The Group's financial assets measured at FVOCI comprise primarily a portfolio of debt securities, held for liquidity purposes and classified under the Treasury Investment portfolio.

Debt investments measured at FVOCI are subsequently remeasured at fair value and changes therein (except for those relating to impairment, interest income and foreign currency exchange gains and losses) are recognised in other comprehensive income until the assets are sold. Upon disposal, the cumulative gains or losses in other comprehensive income on these investments are recognised in profit or loss. Such investments measured at FVOCI are included in the expected credit loss calculations set out below and expected credit losses are recognised in profit or loss.

Financial instruments mandatorily measured at fair value through profit or loss

Once the contractual cash flows of a financial instrument fail the SPPI criterion, the instrument is automatically classified and measured at FVTPL, irrespective of the result of the business model assessment.

Financial assets held for trading are held principally for the purpose of selling in the near term or are part of a portfolio of financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit taking. These financial instruments are initially recognised at fair value and subsequent changes in fair value are recognised in profit or loss.

The Group's financial assets mandatorily measured at FVTPL comprise primarily the Group's investment in GH1-2019's equity tranche.

Financial instruments designated at fair value through profit or loss

Financial instruments, other than those held for trading, are classified in this category if they meet one or more of the criteria set out below and are so designated irrevocably at inception:

- the use of the designation removes or significantly reduces an accounting mismatch;
- a group of financial assets and liabilities or a group of financial liabilities is managed, and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; and
- the financial liability contains one or more non-closely related embedded derivatives.

These financial instruments are initially recognised at fair value and subsequent changes in fair value are recognised in profit or loss.

Assets acquired in exchange for loans

When non-financial assets acquired in exchange for loans as part of an orderly realisation are held for sale, these assets are recorded as 'Assets held for sale' and reported in 'Non-current assets classified as held for sale'.

Impairment of amortised cost and FVOCI financial assets

IFRS 9 requires the measurement of credit loss allowances on financial instruments using the expected credit loss ("ECL") impairment model using a forward-looking approach that emphasises shifts in the credit risk attached to a financial instrument, and consequently the probability of future credit losses, even if no loss events have yet occurred.

Since movements in the fair value of financial instruments measured at FVTPL are recognised directly in profit or loss, no credit loss allowances are deemed necessary for these financial instruments.

In contrast, financial assets measured at amortised cost or FVOCI are subject to impairment requirements using the general impairment model stipulated by IFRS 9. This is due to the fact that, since an integral aspect of both business models is to collect contractual cash flows, the effects of changes in credit risk are more relevant to a user's understanding than the effects of other changes, such as changes in market interest rates.

IFRS 9 impairment requirements are also applicable to loan commitments that are not measured at FVTPL (if the terms and conditions of the arrangement give rise to an enforceable contract to extend credit), financial guarantee contracts and recognised lease receivables to which IFRS 16 Leases applies. None of these are within the scope of IFRS 9 but are still subject to impairment requirements in accordance with IFRS 9.

Expected credit losses may be recognised for loans and advances to banks and customers, other financial assets measured at amortised cost, debt instruments measured at amortised cost and at FVOCI, and certain loan commitments and financial guarantee contracts. The Group may commit to underwrite loans on fixed contractual terms for specified periods of time. When the Group intends to hold the loan, the loan commitment is included in the impairment calculations set out below.

Three stage expected credit loss approach

IFRS 9 outlines a 'three-stage' model for impairment based on changes in credit quality since initial recognition. The key driver of the measurement of ECLs therefore relates to the level of credit risk for each exposure and, as a result, an assessment of the change in credit risk over the expected life of an asset is a core element in determining the staging criteria under IFRS 9. The three stages under IFRS 9 are as follows:

- Stage 1 - Financial instruments that have not had a significant increase in credit risk (SICR) since initial recognition, or that have "low credit risk" at the reporting date are classified in Stage 1. 12-month ECLs are recorded to measure the expected losses that result from default events that are possible within 12 months after the reporting date;
- Stage 2 - Financial instruments that have experienced a SICR since initial recognition are classified in Stage 2. Lifetime ECLs are recorded to measure the expected losses that result from all possible default events over the expected life of the financial instrument; and
- Stage 3 - Financial instruments that demonstrate objective evidence of impairment, and which are considered to be in default or credit-impaired, are classified in Stage 3, also requiring the measurement of lifetime ECLs.

Non credit-impaired and without significant increase in credit risk (Stage 1)

ECL resulting from default events that are possible within the next 12 months (12-month ECL) are recognised for financial instruments that remain in Stage 1.

Financial instruments are all classified within Stage 1 upon initial recognition, unless a financial instrument is purchased or originated credit-impaired (POCI) in which case the exposure is classified within Stage 3 upon initial recognition and will remain classified as such until derecognition. Therefore, the Group calculates a credit loss allowance based on 12-month ECL. Subsequent changes in credit risk will be reflected in the staging of the exposure, with a transfer of the exposure to Stage 2 or 3 conditional upon the identification of a SICR or impairment respectively.

The provisions of IFRS 9 include a practical expedient to measure credit loss allowances using 12-month ECL for financial instruments having low credit risk as at the reporting date. In practical terms, this means that, in those cases where a financial instrument is deemed to have low credit risk, management is not required to perform an assessment to determine whether a SICR has occurred. The Group considers "low credit risk" to exist in case of selected financial instruments, for example listed bonds with an investment grade credit rating by at least one major rating agency.

For all Stage 1 and 2 financial assets, interest income is recognised by applying the effective interest rate to the gross carrying amount, prior to deduction of credit loss allowances.

Significant increase in credit risk (SICR) or Stage 2

The concept of default risk is central to IFRS 9. Therefore, a key risk parameter used by the Group in its credit risk management activities is the probability that the obligor defaults, either within the next 12-month period (in case of Stage 1 exposures) or over the lifetime of the exposure (in case of Stage 2 exposures).

An assessment of whether credit risk has increased significantly since initial recognition is performed at least at each reporting date by considering the change in the risk of default occurring over the remaining life of the financial instrument. The assessment explicitly or implicitly compares the risk of default occurring at the reporting date compared with that at initial recognition, taking into account reasonable and supportable information, including information about past events, current conditions and future economic conditions.

To assess a SICR event, the Group considers both actual and forward-looking information relating to external market indicators, internal factors and borrower-specific information. The assessment is unbiased and to the extent relevant, uses forward-looking information consistent with that used in the measurement of ECL. The analysis of credit risk is based on multiple factors, and their relevance is driven by product type, characteristics of the financial instrument and the obligor. Therefore, it is not possible to provide a single set of criteria that will determine what is considered to be a significant increase in credit risk, and these criteria will differ for different types of lending. The internal credit risk management framework comprises the use of both qualitative and quantitative SICR triggers.

An overview of the Group's qualitative SICR assessment is provided below, however, the quantitative assessment performed by the Group to identify a SICR varies across each of the Group's portfolios of financial instruments and is disclosed in the relevant sub-sections below.

It is possible for multiple instruments to the same customer to be classified under different stages. This may occur when the Group holds exposures originated at differing points in time thereby potentially giving rise to differing default risk at initial recognition, causing a variation in the relative increase in credit risk since origination between the different instruments.

The Group does not expect in normal circumstances to observe a single qualitative SICR trigger to signal a SICR event, unless where the event is material. Therefore, the Group has defined likely SICR triggers that are deemed most relevant in the Group Credit Risk policy. However, triggers are not treated as exhaustive and are subject to robust credit risk management assessments. Qualitative SICR trigger assessments are undertaken at least quarterly for each instrument and any identified SICR trigger events are presented to the appropriate Management Credit Committee.

The following table lists the qualitative triggers which are taken into consideration by the Group in the quarterly SICR trigger assessments:

Qualitative SICR themes
Evidence of past due information
General business performance
Loss of major contract or tenant
Project delays or overruns
Macroeconomic conditions
Pricing of debt and equity (relative to market)
Forbearance
Major threat to business model
Sector, industry or territory concerns
Sponsor support
Covenant waivers or forecast breach of covenant
SICR observed on related financial instruments

- *International Lending portfolio:*

Financial instruments within the Group's International Lending portfolio are managed on an individual basis for credit purposes, whereby the Group's credit analysts have access to the obligors and their financial information, the latter comprising both historical and forecasted financial information. The Group's credit risk rating processes are designed to highlight exposures which require closer management attention because of their greater probability of default and potential loss.

The five credit quality classifications below describe the credit quality of the Group's key financial assets. Further detail on internal credit risk management is outlined in Section 2 (Financial Risk Management, Credit Risk). An internal risk grade is assigned to each obligor by the Corporate Credit Team which is reviewed by the Credit Risk Team. The Management Credit Committee then reviews the proposed risk grade. The following are the internal risk grades:

- Regular - No material credit concerns.
- Focus - No immediate prospect that a credit loss will ultimately be suffered, but worthy of closer credit oversight.
- Under Surveillance - Significant increase in credit risk with identified concerns and some prospect that a credit loss may ultimately be suffered.
- Doubtful - Likely that the contractual terms of the debt will not be met and that a credit loss will be suffered (Impaired).
- Write-off – Full or partial write-down of exposures with little prospect of recovery.

SICR assessment for the International Lending portfolio*:*

- Use of qualitative SICR triggers - as previously described
- Use of quantitative SICR assessment based on a ratings-based approach using lifetime 'Point in Time' (PiT) PDs (i.e. PD in current economic conditions)
- Hard trigger (Internal credit classification) - financial asset that has a credit quality classification of "Under surveillance" is Stage 2, classification of "Impaired" is Stage 3

For the purposes of the quantitative SICR assessment, the Group has adopted a ratings-based approach (i.e. based on notch deterioration) for its SICR assessment.

Due to the lack of internal history of defaults, the Group uses a credit risk modelling solution developed by an external vendor to estimate unconditional PiT PDs by: (i) benchmarking the obligor's financial statements with those of the underlying model dataset; and (ii) applying a qualitative scorecard to adjust the quantitative unconditional PiT PDs to better reflect obligor-specific peculiarities.

A forward-looking, probability weighted PiT PD estimated by the model is mapped to an implied default rating, which adopts Moody's public ratings agency scale terminology from C up to Aaa. When performing the SICR assessment, the Group compares the implied rating at origination to the implied rating at the reporting date and determines the difference in notches between them. The Group's staging criteria is therefore deemed to be based on a ratings/notch deterioration approach.

The quantitative SICR staging decision uses both a relative and an absolute threshold approach. The relative threshold approach involves calculating the magnitude of the difference between the reporting date rating and the origination date rating based on the deterioration in the number of notches between the two ratings. The appropriate stage is determined based on the magnitude of this difference. The absolute threshold determines the stage based on the reporting date rating of the instrument. The following table presents the relative and absolute thresholds applied by the Group in the quantitative assessment of SICR.

Implied Rating	Relative threshold (SICR Deterioration Trigger)	Absolute threshold (SICR Trigger Floor)
Aaa	-10 notches	-
Aa1	-8 notches	-
Aa2	-7 notches	-
Aa3	-6 notches	-
A1	-5 notches	-
A2	-5 notches	-
A3	-5 notches	-
Baa1	-5 notches	-
Baa2	-5 notches	-
Baa3	-4 notches	-
Ba1	-4 notches	-
Ba2	-4 notches	-
Ba3	-4 notches	-
B1	-3 notches	-
B2	-3 notches	-
B3	-2 notches	-
Caa1	-1 notches	-
Caa2	-0 notches	Stage 2 SICR Trigger Floor
Caa3	-0 notches	Stage 2 SICR Trigger Floor
Ca	-0 notches	Stage 2 SICR Trigger Floor
C	-0 notches	Stage 3 SICR Trigger Floor

Although the Group has adopted a ratings-based approach (i.e. based on notch deterioration) for its SICR assessment, each implied rating is represented by an underlying PD.

Lifetime PDs are determined by estimating the marginal PD for each year over the life of the financial instrument. For example, for a five-year loan, PDs are calculated for each of the five years. The year-1 PD is calculated as the probability of the loan defaulting within the first year of it being issued, whereas the year-2 PD is calculated as the probability of the loan surviving the first year but defaulting in the second year. The same principle of survival applies to the PDs for the remaining years. The summation of marginal PDs results in the derivation of the cumulative lifetime PD term structure. Cumulative lifetime PDs increase at a diminishing rate as the residual life of the loan shortens.

“Unconditional” PDs refer to the PD term structure based on historical information and prior to the application of forward-looking economic scenarios. Multiple forward-looking macroeconomic scenarios are applied to the unconditional PiT PD term structure in order to estimate a forward-looking probability-weighted “conditional” PiT PD at an obligor level.

PDs are determined upon origination date and at each subsequent reporting date at an obligor level rather than at a facility level. Therefore, at any given date, multiple facilities attributable to the same obligor are assigned the same PD, reflecting the borrower’s financial condition as at the date of the assessment. In this regard, different facilities with the same obligor originated at the same time are expected to have an identical PD both at origination date as well as subsequent reporting dates. However, facilities with the same obligor originated at different time intervals can have different PDs upon origination, reflecting the borrower’s financial condition and credit risk at each respective origination date, whereas identical PDs are determined at each subsequent reporting date in respect of all such facilities.

In this regard, a simple or absolute comparison of PDs at initial recognition and at the reporting date is not appropriate to determine the stage of an exposure. All other things kept constant, the PD of a financial instrument is expected to reduce with the passage of time. Thus, in order to take this into consideration, the Group estimates the annualised PD over the remaining life of the financial asset as at the origination date and the annualised PD over the remaining life of the financial asset as at the reporting date. The annualised PD measure is the cumulative PD for a given period, stated on a per-year basis. These are then mapped to implied ratings which are used to determine potential SICR events and consequently the credit stage of a financial instrument through a combination of relative and absolute thresholds using the implied credit ratings.

Hard Trigger based on Internal Risk Classifications

The quantitative assessment through the Group’s implied credit rating staging criteria is considered alongside qualitative SICR triggers and forms part of the overall SICR trigger assessment. In this regard, where qualitative SICR triggers are observed by credit analysts, the Group applies a hard trigger based on the internal credit classification (Stage 2 for all borrowers classified as “Under surveillance”, and Stage 3 for all borrowers classified as “Impaired).

- *Local Lending portfolio*

For Local Lending assets, the Group is unable to use external credit ratings as all exposures are unrated, nor rely on external risk-modelling providers for benchmarking the portfolio as no robust database or provider exists for the asset class. The Group therefore uses the evidence of past-due information as the primary quantitative driver of SICR triggers, alongside qualitative forward-looking SICR assessment.

For the purposes of quantitative SICR trigger analysis, any instrument that is more than 30-days past due is considered as evidencing a SICR trigger.

Similar to the approach taken for the International Lending portfolio, the Group categorises exposures in the Local Lending portfolio within one of the five internal risk classification grades. This determination is based on a review by respective relationship managers which takes into consideration evidence of past-due information as well as the qualitative SICR triggers.

Exposures within the Local Lending portfolio are therefore managed at an individual exposure level for credit purposes, through relationship managers who have access to the customers and their financial information. An internal risk grade is assigned to each borrower and reviewed at least annually.

Although assigned at an obligor level rather than at facility level, internal risk grades can still be used to assess and identify SICR since initial recognition. In this regard, the Group’s internal risk grades are aligned to the three stages contemplated by IFRS 9.

Financial instruments that:

(i) have not deteriorated significantly in credit quality since initial recognition must be recognised as either “1-Regular” or “2-Focus” within the Group’s internal risk grading system;

(ii) incurred a SICR are classified as “3-Under Surveillance”, in which case the Group recognises lifetime ECLs; and

(iii) demonstrate objective evidence of default are classified as “4-Doubtful” and assessed individually for provisioning purposes.

- *Dutch Mortgage portfolio*

In respect of the Dutch state-guaranteed residential mortgage assets (for which losses are capped at 10% of expected losses through the ‘Nationale Hypotheek Garantie’ or NHG) within the Group’s Dutch Mortgage portfolio, the primary determinant of SICR is a quantitative rule based on the change in PD between origination and reporting date, and based on absolute PD thresholds. SICR is determined at “loan part” level – i.e. each loan part is assessed for SICR.

The quantitative SICR trigger compares residual lifetime PD at reporting date versus residual lifetime PD at origination. To identify whether an account experienced a SICR since initial recognition, a lifetime PD threshold is used.

The quantitative SICR trigger uses a change in log of the PD rather than proportionate percentage change. This is due to technical modelling reasons for this portfolio whereby changes in PD can be very small in absolute terms, and small changes in the natural log of a variable are directly interpreted as percentage changes. Therefore, applying a natural log or diff-log transformation is more appropriate for this portfolio.

Additional SICR hard triggers or backstops are applied:

- Change in Probability of Default: lifetime PD of the exposure on the reporting date exceeds its lifetime PD at initial recognition by more than 200%
- Absolute PD level: 12-month PD of the exposure on the reporting date exceeds 20%
- Delinquency (days past due, DPD): payments on the exposure are 30 DPD

As this portfolio includes exposures of low credit risk, the quantitative SICR criteria consider mortgages / loan parts with PD of 0.03% or below at reporting date as qualifying for the low credit risk exemption (Stage 1 without further staging assessment).

- *Treasury Investment portfolio*

In order to monitor SICR in relation to its Treasury Investment portfolio, the Group refers to external credit ratings from at least one of the following rating agencies: Moody's; Fitch or Standard & Poor's. In this regard, an exposure is deemed to have low credit risk if it is assigned an investment grade status by one of these three external credit rating agencies.

Should the credit rating of a financial instrument fall below the investment grade threshold, i.e. BBB (or equivalent) the financial instrument is deemed to have suffered a SICR. As a result, the financial instrument will be re-classified as a Stage 2 exposure, which will impact the measurement of the ECL charges, moving from a 12-month ECL calculation to a lifetime ECL calculation.

- *Securitisation Investment portfolio*

Investment in tranches within a Collateralised Loan Obligation Structured Entity ("CLO SE") originated and managed by the Group: The Group assesses the staging of the tranche rather than the facilities within the underlying portfolio of financial assets. The Group determines an Implied Rating (as a proxy measure of credit risk) for each tranche at different points in time. Expected losses and average life are used to assign an Implied Rating to each tranche based on an external vendor's methodology and observed defaults in the industry. The Implied Rating at reporting date is benchmarked to the Implied Rating at origination date of the tranche in order to determine whether a SICR has occurred since initial recognition.

In line with the Group's approach for the identification of SICR events and the determination of staging for the International Corporate Credit and Treasury portfolio, a quantitative ratings-based approach is utilised in order to assess the movement in credit risk since initial recognition of the Group's investment in the tranches of the CLO.

In respect of tranches of CLOs to which an investment-grade Implied Rating is assigned, the Group makes use of the low credit risk exemption. As a result, the Group assumes that no SICR has occurred since initial recognition as long as the tranche retains an investment-grade Implied Rating. Hence, the Group assumes that the credit risk attributable to tranches to which the low credit risk exemption is applied has not increased significantly since initial recognition, and therefore does not perform an SICR assessment for such tranches unless their Implied Rating falls to sub-investment grade.

Investment in tranches within a publicly rated CLO SE originated and managed by a third party, with a public investment grade rating assigned by reputable agency: Similar to the Treasury Portfolio criteria, investment grade rating is an example of a financial instrument that may be considered as having low credit risk; therefore the Group only needs to measure 12-month ECL for publicly rated investment grade tranches of CLOs.

Credit impaired (Stage 3)

The Group defines a financial asset as credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

In order to assess whether there has been an increase in credit risk of a financial instrument since initial recognition, changes in default risk are considered over the remaining life of the financial instrument. The definition of default is therefore critical to the application of IFRS 9 requirements. However, IFRS 9 does not specifically define default, but requires the Group to apply a definition that is consistent with the definition used for internal credit risk management purposes, requiring consideration of qualitative indicators, where appropriate.

IFRS 9 introduces a rebuttable presumption that default does not occur later than when a contractual repayment relating to a financial asset is 91 days past due, unless reasonable and supportable information is available to demonstrate that a more lagging criterion is more appropriate. This presumption has not been rebutted by the Group for its lending portfolios, meaning that default is deemed not to have occurred later than when a financial asset is 91 days past due. Although this presumption is applicable to all lending portfolios managed by the Group, it is much more relevant for identifying defaulted exposures within the Local Lending portfolio and the Dutch Mortgage portfolio.

The definition of default is addressed in more detail by guidelines issued by the European Banking Authority (EBA) and the Basel Committee on Banking Supervision (BCBS). These guidelines provide detailed definitions of what should be considered in the determination of defaulted exposures for regulatory purposes. As a result, the Group has decided to align the IFRS 9 definition of default, used for accounting purposes, to the definitions provided in the EBA and BCBS guidelines, thereby ensuring that a single consistent view of credit risk is applied for internal risk management, regulatory capital and the measurement of ECLs.

In this regard, defaulted exposures are those that satisfy either or both of the following criteria:

(i) material exposures which are past due by more than 90 days;

(ii) the debtor is assessed as unlikely to pay its credit obligations in full without realisation of collateral, regardless of the existence of any past-due amount or of the number of days past due.

Therefore, since the criteria for credit-impaired under IFRS 9 can be interpreted consistently with the definition of default for regulatory purposes, all defaults in terms of regulation are deemed to be credit-impaired, and vice versa. Defaulted exposures are therefore classified under Stage 3 for IFRS 9 purposes.

In order to define which events trigger "unlikeliness to pay", the Group takes into account the situations and events listed in the Capital Requirements Regulation ("CRR") definition of default and in the IFRS definition of impairment requirements.

IFRS 9 provides a list of events that may indicate that a financial asset is credit-impaired. The criteria that the Group uses to determine that there is objective evidence of an impairment loss include:

- Significant financial difficulty of the issuer or borrower;
- A breach of contract, such as default or past due event;
- The lender(s) of the borrower having granted a concession(s) to the borrower for economic or contractual reasons relating to the borrower's financial difficulty (this would not have otherwise been considered);
- It is becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
- The disappearance of an active market for that financial asset because of financial difficulties; or
- The purchase or recognition of a financial asset at a deep discount that reflects the incurred credit losses.

Further, in respect of exposures within the International Lending and Local Lending portfolios, the Group has determined triggers that should lead to the recognition of a non-performing or defaulted exposure, or a thorough assessment of whether an unlikely-to-pay event has occurred. Unlikely to pay events and triggers are listed below but this is not used as an exhaustive list:

Unlikely to pay events	Indicative triggers
1) The Group considers that the obligor is unlikely to pay its debt obligations to the Group without recourse by the Group to actions such as realising security.	▪ Loan is accelerated or called ▪ Group has called any collateral including a guarantee ▪ Lawsuit, execution or enforced execution in order to collect debt ▪ The borrower is a co-debtor when the main debtor is in default ▪ It is expected that a bullet loan cannot be refinanced at standard market conditions with less than a 6-month contractual maturity
2) Group puts the credit obligation on non-accrued status	▪ Group stops charging of interest (also partially or conditionally) ▪ Any direct write-off
3) Group recognises a specific credit adjustment resulting from a significant perceived decline in credit quality subsequent to the institution taking on the exposure.	▪ Any specific loan loss provisions booked ▪ Any write-off against provisions
4) Group sells the credit obligation at a material credit-related economic loss.	▪ An asset is sold or partially sold with material loss (>15% loss on book value) due to credit-related concerns (i.e. not as a result of market risk)
5) Group consents to a distressed restructuring of the credit obligation where this is likely to result in a diminished financial obligation caused by the material forgiveness or postponement of principal, interest, or fees.	▪ Restructuring with a material part which is forgiven giving rise to net present value (NPV) loss ▪ Restructuring where the institution also considers the obligor is unlikely to pay its debt obligations without recourse to actions such as realising security
6) The Group filed for the obligor's bankruptcy or a similar order in respect of an obligor's credit obligation to the institution.	▪ It is becoming probable that the borrower will enter bankruptcy or other financial reorganisation ▪ Credit institution or leader of consortium starts bankruptcy/insolvency proceedings ▪ International Swaps and Derivatives Association ("ISDA") credit event declared ▪ Out-of-court negotiations for settlement or repayment (e.g. stand-still agreements)
7) Obligor has sought or has been placed in bankruptcy or similar protection, where this would avoid or delay repayment of a credit obligation to the Group.	▪ Obligor has filed for bankruptcy or insolvency ▪ Third party has started bankruptcy or insolvency proceedings

In certain instances, it might not be possible to identify a single discrete event which leads to the classification of an exposure as credit-impaired. However, the Group takes a holistic view of the performance of the exposure, where the combined effect of several events may be deemed to have caused financial assets to become credit-impaired. Generally, the Group expects that a SICR be identified before a financial asset becomes credit-impaired or an actual default occurs. Therefore, exposures that are treated as credit-impaired in most cases are transferred from Stage 2 to Stage 3.

In respect of the Dutch Mortgage portfolio, the key indicator of credit-impairment arises when exposures are past due by more than 90 days.

For the Securitisation Investment portfolio, the 90 DPD presumption has been rebutted by the Group for the purposes of the investment in tranches in CLO SE measured at amortised cost. All tranches in the Group's securitisation investments are deemed to have defaulted in the event that the CLO is unable to partially or fully repay the Senior Notes, and / or the interest thereon. This might be driven by a significant level of defaults occurring in the underlying portfolio, which might lead to an insufficient level of cash flows to honour the payment commitments linked with each tranche within the funding structure. Similarly, the 90 DPD presumption has also been rebutted by the Group with respect to exposures within the treasury portfolio. In this regard, an exposure is deemed to be defaulted in the event that the obligor is unable to partially or fully repay any amount due.

For all Stage 3 financial assets, interest income is recognised by applying the effective interest rate to the amortised cost amount, i.e. gross carrying amount less credit loss allowances.

Write-offs

Financial assets and the associated credit loss allowances are normally written off, either partially or in full, when there is no realistic prospect of recovery. Where loans are secured, this is generally after receipt of any proceeds from the realisation of security. In circumstances where the net realisable value of any collateral has been determined and there is no reasonable expectation of further recovery, write-off may be earlier (see Note 2.2.7).

Modified financial assets

In accordance with IFRS 9, the modification of contractual cash flows of a financial instrument could result in one of two possible outcomes:

(i) If the modification is not considered to be significant, the modified cash flows are considered to pertain to the original financial asset; or

(ii) If the modification is considered to be significant, the original asset is considered to be extinguished and accordingly the original asset is derecognised and replaced by a new financial asset.

The assessment of whether a modification is considered to be significant is therefore critical in determining the accounting implications of modifications to an asset's contractual cash flows. The Group applies judgement in assessing whether a change in contractual terms (such as a change in interest rates, currency or the remaining term of the loan) is substantial enough to represent an expiry of the original instrument.

In this regard, when considering a change in the contractual terms, the Group evaluates how the cash flows under the revised terms compare with the cash flows under the original terms of the loan and also takes into consideration qualitative factors. Qualitative considerations include extension of terms, insertion of credit enhancements, changes in interest rates, etc. If the modification is deemed substantial, derecognition of the financial instrument is warranted.

When the modification is not substantial enough to result in the derecognition of that financial asset, the Group recalculates the gross carrying amount of the financial asset as the present value of the modified contractual cash flows discounted at the original effective interest rate (or credit-adjusted effective interest rate for POCI financial assets). The difference is recognised as a modification gain or loss in profit or loss.

When there is a substantial modification to the terms of a financial asset resulting in the derecognition of the existing financial asset and the subsequent recognition of the modified financial asset, the modified asset is considered a 'new' financial asset. Any new financial assets that arise following derecognition events as a result of substantial modification to the terms of the instrument are classified as Stage 1 assets, unless the new financial asset is credit-impaired on initial recognition, in which case it will be classified as a POCI financial asset. A loss is booked in profit or loss (normally as a write-off) since the new instrument is recognised at fair value.

When the modification is not substantial enough to result in the derecognition of the financial asset, renegotiated loans are considered credit-impaired and accordingly classified as Stage 3 assets. They can be cured out of credit-impaired status subsequently as described below. When evidence suggests that the renegotiated loan is no longer credit-impaired, the asset is transferred out of Stage 3. This is assessed on the basis of historical and forward-looking information and an assessment of the credit risk over the expected life of the asset, including information about the circumstances that led to the renegotiation. A full assessment from the appropriate Management Credit Committee is required for approval that the exposure is no longer considered as credit-impaired.

Other than originated credit-impaired loans, all other modified loans could be transferred out of Stage 3 if they no longer exhibit any evidence of being credit-impaired and, in the case of renegotiated loans, there is sufficient evidence to demonstrate a significant reduction in the risk of non-payment of future cash flows over the minimum observation period, and there are no other indicators of impairment. These loans could be transferred to Stage 1 or 2 based on the mechanism as described below by comparing the risk of a default occurring at the reporting date (based on the modified contractual terms) and the risk of a default occurring at initial recognition (based on the original, unmodified, contractual terms). Any amount written off as a result of the modification of contractual terms would not be reversed.

Purchased or originated credit-impaired

Financial assets that are purchased or originated at a deep discount that reflects the incurred credit losses are considered to be POCI. This population includes the recognition of a new financial instrument at a discount following renegotiations where concessions have been granted for economic or contractual reasons relating to the borrower's financial difficulty that otherwise would not have been considered. The amount of change in lifetime ECL is recognised in profit or loss until the POCI is derecognised, even if the lifetime ECL are less than the amount of ECL included in the estimated cash flows on initial recognition.

Movement between stages

Financial instruments are transferred out of Stage 2 if their credit risk is no longer considered to be "significantly increased" since initial recognition. Stage classification under IFRS 9 is distinct from regulatory requirements for performing status classification. That is, it should not be assumed that a regulatory "probation" period and EBA pre-requisites must be used as the criteria needed to move from Stage 2 to Stage 1 for IFRS 9 purposes.

For IFRS 9, the Group has determined the below guideline approach to determine whether movement from Stage 2 to Stage 1 is appropriate:

- Where qualitative triggers were used to determine SICR: Stage transfer from Stage 2 to Stage 1 is subjective. Where implied rating SICR triggers were not a determinant for reclassification in the first instance, it is expected that any qualitative SICR triggers that were observed that derived the SICR event must be fully resolved and evidenced for a 90-day period prior to any reclassification.
- Where quantitative triggers were used to determine SICR:
    - Rating and PD SICR triggers: Asset must evidence an improvement and return to the external or implied default risk rating at the point of inception (instrument should evidence an implied default rating in line or better than the original inception rating in order to trigger a reclassification from Stage 2 to Stage 1).
    - Days past-due criteria: Any instrument that is no longer 30-days past due can only be reclassified to Stage 1 when: (i) all contractual arrears have been remediated (Nil days past due); and (ii) no further non-payment has been observed for a minimum of 90 days. This is subject to regulatory materiality thresholds defined in Credit Risk policy.

Curing of Stage 2 exposures is governed by the Management Credit Committee Quarterly Portfolio Review process where supportive evidence of improved performance and thereby stage transfer is reviewed and approved by the committee.

For movement of Stage 3 assets to either Stage 2 or Stage 1, a full assessment from the appropriate Management Credit Committee is required for approval that unlikeliness to pay criteria are no longer present, the exposure is no longer considered as impaired and there is no past due amount on the exposure. For loans that are assessed for impairment on a portfolio basis, the evidence to support the stage transfer assessment typically comprises a history of payment performance against the original or revised terms, as appropriate to the circumstances. For loans that are assessed for impairment on an individual basis, all evidence is determined on a case-by-case basis.

Movement between stages is aligned with Credit Risk policy, and any exceptions are governed by the Management Credit Committee.

Measurement of Expected credit losses

The Group first determines whether objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, and then measures credit loss allowances using different models for non credit-impaired and credit-impaired financial assets, as follows:

- If no evidence of impairment exists (Stage 1 and Stage 2 assets), the Group uses statistical models developed by an external vendor to measure ECLs for exposures within the International Lending portfolio and Local Lending portfolio at facility level.
- For credit-impaired exposures (Stage 3 assets), the Group generally models ECLs based on an internally developed methodology to estimate expected cash flows by reference to borrowers' enterprise values and forecasted operating cash flows for exposures within the International Lending portfolio and the individual valuation of the underlying asset / collateral for exposures within the Local Lending portfolio.

With respect to the Dutch Mortgage, Securitisation Investment and Treasury Investment portfolios, the ECLs on all assets (irrespective of staging) are modelled using statistical models developed by an external vendor.

ECLs are defined as the probability-weighted estimate of credit losses over the expected life of a financial instrument. Credit losses are in turn defined as the present value of all expected cash shortfalls between contractual and expected cash flows, discounted using the original effective interest rate (EIR).

Lifetime ECLs refer to the ECLs that result from all possible default events over the expected life of a financial instrument, whilst 12-month ECLs are a portion of lifetime ECLs and represent the lifetime cash shortfalls that result if a default occurs in the 12 months after the reporting date, weighted by the probability of the default occurring.

For each portfolio, the Group calculates ECLs on its financial instruments based on three key inputs, namely: probability of default ("PD"), loss given default ("LGD") and exposure at default ("EAD"). The 12-month ECL is calculated by multiplying the 12-month PD, LGD and EAD. Lifetime ECL is calculated on a similar basis for the entire residual life of the exposure.

Non credit-impaired financial assets (Stage 1 & 2)

This section provides a detailed description of the methodology used by the Group to measure credit loss allowances in respect of exposures classified as Stage 1 and Stage 2 assets using statistical models developed by an external vendor.

Probability of Default

As outlined previously, the concept of default risk is central to IFRS 9 – therefore, one of the key risk parameters used by the Group in its ECL calculation is the probability that the obligor defaults either within the next 12-month period (in case of Stage 1 exposures) or over the lifetime of the exposure (in case of Stage 2 / 3 exposures).

The 12-month and lifetime PDs therefore represent the probability of default occurring over the next 12 months and the residual life of the instrument, respectively. Since the PD is a probability measure used to capture the likelihood that a customer will default over a defined period of time, this is estimated at a customer level.

PDs for the Group's portfolios are estimated based on statistical models developed by external vendors. In particular, the models used for the International Lending, Local Lending, Securitisation Investment and Treasury Investment portfolios use rating scale to PD matrices calibrated based on historical default data observed in the market and compiled by the external vendor. In respect of the International Lending portfolio, PDs and implied ratings are modelled by benchmarking borrower-specific characteristics, including financial performance and qualitative characteristics captured through a scorecard, with the underlying dataset. In respect of the Local Lending portfolio, PDs are estimated through rating scale to PD matrices by mapping internal risk grades to public ratings. In respect of exposures within the Treasury Investment and Securitisation Investment portfolios, PDs are generally estimated using public ratings through rating scale to PD matrices. With regard to the Dutch Mortgage portfolio, PDs are generated using historical default rates observed in the Netherlands for similar assets.

Loss Given Default

The second key risk parameter used by the Group relates to the estimation of the recovery rate expected to be observed in the event that a 'default' occurs. In this regard, the Group uses the LGD to capture this element within the ECL calculation.

The LGD of an exposure measures the size of the estimated loss (as a proportion of the total EAD) that is expected to materialise in the event of default. It is based on the difference between the contractual cash flows due and the cash flows that the Group expects to receive, whether from cash flows or from any collateral. It takes into account the mitigating effect of collateral value at the time it is expected to be realised and the time value of money. LGD for ECL measurement includes the expected impact of future economic conditions and discounting back from estimated time of default to reporting date using the original EIR.

In contrast with PDs, LGDs are estimated at a facility level. Whilst linked to the general credit risk of the obligor, recovery rates are also impacted by the relative ranking of a particular facility within the obligor's debt structure.

For assets within the Group's International Lending portfolio, estimated recovery rates are measured using statistical models developed by external vendors by benchmarking exposure-specific characteristics with the underlying dataset.

The Group's Treasury Investment portfolio consists of covered bonds, bonds issued by supranational organisations, sovereign bonds and corporate bonds. For its supranational exposures and sovereign exposures, the Group uses the LGD values obtained from the statistical model developed by an external vendor while for covered bonds the LGD is aligned with regulatory standards. The LGD for corporate bonds is modelled using the same methodology as for the International Lending portfolio.

The LGD used for the Local Lending portfolio is driven by the loan-to-value ratio of the individual facilities, whilst also taking into consideration other factors such as costs to sell, valuation haircuts and the time value of money.

The LGD for the Dutch Mortgage portfolio is modelled using the loan-to-value ratio of individual loan parts. Expected recoveries are used to determine the expected loss and are modelled by reference to assumptions in relation to valuations of different property types, haircut to sale proceeds and the time value of money. The LGD is then estimated at 10% of expected losses, since the NHG absorbs 90% of losses, adjusted for assumptions on expected NHG pay-outs and claim rejection rates.

For the Securitisation Investment portfolio, as for PDs, the LGDs are obtained through statistical models developed by an external vendor using estimated recovery rates.

Exposure at Default

The EAD is used to estimate the Group's expected exposure at the time of default of an obligor, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, and any expected drawdowns on committed facilities.

The maximum period over which ECLs are measured is the maximum contractual period over which the Group is exposed to credit risk.

- *International Lending portfolio*

For the Group's International Lending portfolio, the Group makes use of behavioural rather than contractual maturity, thereby reflecting expectations on the exercise of prepayment or extension options. In this regard, for Revolving Credit Facilities and Term Loans containing a prepayment option which is expected to be exercised by the obligor, the Group adjusts the contractual maturity date to reflect the expected maturity date, thereby reflecting the expected payment profile. Expected maturities are assessed quarterly, on a case by case basis, in order to determine any change to the expected maturity.

To measure the EAD of off-balance sheet exposures, including loan commitments, the Group aligns the expected drawdown on committed facilities with the credit conversion factors (CCFs) as set out in the Standardised Approach to Credit Risk under the CRR.

- *Local Lending portfolio*

For the Local Lending portfolio, the maturity date is deemed to be equal to the contractual maturity of the exposure with the exception of assets assigned an internal risk classification of "Doubtful" that have gone beyond their contractual maturity, where a one-year maturity is assumed.

To measure the EAD of Revolving Credit Facilities the Group applies a 100% CCF, whereas the EAD for Term Loans is assumed to be equivalent to the drawn amounts as at reporting date.

- *Dutch Mortgage portfolio*

The EAD for the Dutch Mortgage portfolio is based on amortisation per the contractual payment profiles, taking into account modelled prepayments. The maturity date is deemed to be equal to the contractual maturity of the mortgage. To measure the EAD of off-balance sheet assets, the Group applies a 75% CCF.

- *Treasury Investment portfolio*

For the Group's Treasury Investment portfolio, the maturity date is deemed to be equal to the contractual maturity of the exposure, and the EAD assumed to be the full committed exposure.

- *Securitisation Investment portfolio*

For the Group's Securitisation Investment portfolio, the external vendor analyses underlying assets in the CLO, capturing the inherent risk of each tranche (based on relative seniority and contractual terms), simulating the losses that would be incurred by each tranche under multiple scenarios and calculates the average life of the tranche. The average life of the tranche is equivalent to the expected lifetime.

Credit-Impaired financial assets (Stage 3)

For Stage 3 assets in the International and Local Lending portfolios, the Group estimates ECL on an individual basis. When assessing impairment for these assets, the Group applies a true and fair view to the estimation of both the future cash flows and the collateral valuations. The estimated recoverable amount corresponds to the present value of estimated future cash flows (excluding future losses not incurred) discounted at the financial asset's original effective interest rate. In addition, the estimation of the recoverable amount of a collateralised exposure typically reflects the cash flows that may result from the liquidation of the collateral.

For exposures in the International Lending portfolio, the Group deems these assets as very rarely secured by assets whose value is easily observable. Therefore, recoverable amounts are usually calculated by projecting expected cash flows for the purposes of determining enterprise valuations using a multiples approach rather than by estimating the value of any collateral held.

Hence for Stage 3 exposures the amount of the loss is measured as the difference between the asset's outstanding exposure, which is measured as the sum of the carrying amount and the expected future drawdown on off-balance sheet commitments estimated by reference to CCFs, and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in profit or loss. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in profit or loss.

For exposures in the Local Lending portfolio, these are typically secured by real estate assets, cash collateral or tradeable equities whose value is more easily observable. In this respect, the recoverable amount is usually calculated on the basis of the present value of the estimated future cash flows of a collateralised financial asset, reflecting the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the Treasury Investment portfolio, recoverable amounts are assessed on a mark-to-market basis, using observable market prices for the instruments held.

For the Dutch Mortgage and the Securitisation Investment portfolios, the ECL on Stage 3 exposures is modelled through statistical models developed by external vendors in a similar manner as the methodology used for the estimation of ECL for Stage 1 and Stage 2 assets, as explained in the section titled "Measurement of Expected credit losses".

Forward looking information

The recognition and measurement of ECL requires the incorporation of forward-looking information into the ECL estimates to meet the measurement objective of IFRS 9. A particularly complex aspect is the need to consider a range of possible forward-looking economic scenarios when calculating ECL, given the potential effect of non-linearities on ECL. Based on the principle of non-linearity, the modelled increase in credit losses if conditions are expected to deteriorate exceeds the decrease in credit losses if conditions improve. The Group takes into consideration reasonable and supportable information relating to forecasts of future macroeconomic conditions in order to determine the expected level of and movement in credit risk for specific obligors.

The Group first identifies macroeconomic variables (MEVs) which have the highest correlation to systemic credit risk factors for its obligors using statistical methods developed by external vendors. These macroeconomic variables include country-level variables that are deemed to have the highest correlation to the Group's portfolios. The MEVs applied for ECL calculations for each portfolio may differ. The MEVs that exhibit the highest level of correlation for exposures classified within the International Lending, Local Lending and Treasury Investment portfolios principally comprise country-specific Gross Domestic Product ("GDP"), unemployment levels and the performance of stock market indices. In addition, the House Price Index and unemployment rate in the Netherlands are key for exposures within the Dutch Mortgage portfolio, whereas interest rates are used for calculating ECLs for exposures within the Securitisation Investment portfolio.

IFRS 9 does not require every possible scenario to be identified. However, it requires the Group to estimate ECLs by taking into consideration multiple forward-looking macroeconomic scenarios, since the use of a single 'most likely' scenario is not deemed sufficient. As a result, the measurement of ECLs in line with IFRS 9 involves the use of significant judgement in developing alternative macroeconomic scenarios and/or management adjustments. In this regard, the Group uses an external vendor solution to determine multiple forecasts of macroeconomic conditions (reflecting future paths of the selected key macroeconomic variables). The Group then estimates an unbiased, forward-looking, probability-weighted ECL by assigning probability weights to expected losses under each of the macroeconomic scenarios.

IFRS 9 does not require forecasts of future conditions to extend over the entire expected life of the financial instrument in question. The Group uses macroeconomic forecasts from the external vendor for up to 20 quarters to estimate a forward-looking ECL. For maturities that go beyond this 5-year period, the Group extrapolates projections from available data.

Multiple forward-looking scenarios for Stage 3 Credit-impaired exposures

With regards to Stage 3 exposures within the Group's International Lending portfolio, ECLs are based on a fundamental analysis aimed at assessing the level of credit risk in detail and estimating the recoverable amount for the instrument. In line with IFRS 9 requirements, such exposures still require a consideration of multiple forward-looking scenarios. The scenarios are designed specifically for each obligor in question by considering the different cash flows that may accrue to the Group under the contractual agreement including those resulting from potential restructuring, which may include derivative features including pay-outs if certain targets or objectives are met at a future date.

With regards to Stage 3 exposures within the Group's Local Lending portfolio, different work-out options available to the Group in respect of each impaired exposure, such as the initiation of court proceedings to enforce foreclosure of collateral or reaching an amicable out-of-court agreement with the obligor to sell the collateral in the market and repay the exposure from the sales proceeds, are taken into consideration.

In line with the requirements of IFRS 9, the Group assigns a probability weight, based on management judgement, to each of the scenarios considered in the estimation of ECLs. Due to the high level of subjectivity involved, decisions relating to the selection of scenarios, probabilities and multiples are subject to scrutiny through the Group's governance structure around credit risk.

In respect of exposures within the Dutch Mortgage and Investment portfolios, the ECL on Stage 3 exposures is modelled based on an identical methodology as that used for Stage 1 and Stage 2 exposures.

Presentation of ECL in the Statement of financial position

Credit loss allowances are presented in the statement of financial position as follows:

- Financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets;
- Loan commitments and financial guarantee contracts: as a provision;
- Where a financial instrument includes both a drawn and undrawn component, and the Group cannot identify the ECL on the loan commitment component separately from those on the drawn component: the Group presents a combined credit loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the credit loss allowance over the gross amount of the drawn component is presented as a provision; and
- Debt instruments measured at FVOCI: no credit loss allowance is recognised in the statement of financial position because the carrying amount of these assets is their fair value. However, the credit loss allowance is presented and recognised in the fair value reserve.

1.6 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the consolidated statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

1.7 Intangible assets

1.7.1 Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the identifiable net assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in 'intangible assets'.

Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose, identified according to operating segment. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired, by comparing the carrying amount of the unit, including the goodwill, with the recoverable amount of the unit. The recoverable amount is the higher of fair value less costs to sell and value in use.

1.7.2 Computer software

Intangible assets with finite useful lives, such as purchased computer software and developed computer software, are amortised, on a straight-line basis, over their estimated useful lives. Estimated useful life is generally the lower of legal duration, where applicable, and expected useful life. The estimated useful life of purchased software and developed computer software ranges between 3 to 5 years. Costs incurred in the ongoing maintenance of software are expensed immediately as incurred.

Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Group are recognised as intangible assets when the following criteria are met:

- it is technically feasible to complete the software product so that it will be available for use;
- management intends to complete the software product and use it;
- there is an ability to use the software product;
- it can be demonstrated how the software product will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use the software product are available; and
- the expenditure attributable to the software product during its development can be reliably measured.

Directly attributable costs that are capitalised as part of the software product include the software development employee costs and an appropriate portion of relevant overheads.

Capitalised development costs are amortised from the point at which the asset is ready for use. Other development expenditure that does not meet these criteria is recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

1.8 Property, plant and equipment

All property, plant and equipment used by the Group is initially recorded at historical cost, including transaction costs and borrowing costs. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

All property, plant and equipment is subsequently stated at historical cost less accumulated depreciation and impairment losses.

Borrowing costs which are incurred for the purpose of acquiring or constructing a qualifying asset are capitalised as part of its cost. Borrowing costs are capitalised while acquisition or construction is actively underway. Capitalisation of borrowing costs is ceased once the asset is substantially complete and is suspended if the development of the asset is suspended.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of any part accounted for separately is derecognised when replaced. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

Depreciation on assets, recognised in profit or loss, is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

- improvements to premises	4 – 10 years
- computer equipment	3 – 5 years
- other equipment	4 years
- fixtures and fittings	10 years
- motor vehicles	5 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in profit or loss.

1.9 Impairment of non-financial assets

Assets that have an indefinite useful life, for example goodwill or certain intangible assets, are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows (cash-generating units). The impairment test also can be performed on a single asset when the fair value less costs to sell or the value in use can be determined reliably. Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

1.10 Non-current assets classified as held for sale

Non-current assets are classified as held for sale when their carrying amounts will be recovered principally through a sale transaction rather than through continuing use, they are available for sale in their present condition and their sale is highly probable. Immediately before the initial classification as held for sale, the carrying amount of the assets is measured in accordance with the Group's accounting policies. Non-current assets classified as held for sale are generally measured at the lower of their carrying amount and fair value less costs to sell. Impairment losses for any initial or subsequent write-down of an asset to fair value less costs to sell are recognised in profit or loss. Gains for any subsequent increase in fair value less costs to sell of an asset are recognised only up to the extent of the cumulative impairment loss recognised and are reflected within profit or loss.

1.11 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In the latter case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period.

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill; deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

1.12 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new ordinary shares are shown in equity as a deduction, net of tax, from the proceeds.

1.13 Financial liabilities

The Group recognises a financial liability on its statement of financial position when it becomes a party to the contractual provisions of the instrument. The Group's financial liabilities, other than derivative financial liabilities (refer to Note 1.14), are classified as financial liabilities measured at amortised cost.

Financial liabilities measured at amortised cost, i.e. not at fair value through profit or loss are recognised initially at fair value, being the fair value of consideration received, net of transaction costs that are directly attributable to the acquisition or the issue of the financial liability. These liabilities are subsequently measured at amortised cost using the effective interest method to amortise the difference between proceeds received, net of directly attributable transaction costs incurred, and the redemption amount over the expected life of the instrument.

The Group derecognises a financial liability from its statement of financial position when it is extinguished, that is the obligation specified in the contract or arrangement is discharged, is cancelled or expires. Financial liabilities measured at amortised cost comprise principally amounts owed to financial institutions, amounts owed to customers, other payables and other liabilities.

1.14 Derivative financial instruments

Derivative financial instruments, including currency forwards and swaps, interest rate swaps and other derivative contracts, are classified as held for trading derivatives unless designated as hedging instruments, and are initially recognised at fair value on the date on which a derivative contract is entered into, and are subsequently remeasured at their fair value. Fair values are obtained from valuation techniques for over-the-counter derivatives, including discounted cash flow models. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative. Fair values for currency forwards and swaps are determined using forward exchange market rates at the end of the reporting period. Discounting techniques, reflecting the fact that the respective exchange or settlement will not occur until a future date, are used when the time value of money has a significant effect on the fair valuation of these instruments.

Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognised immediately in profit or loss. If a derivative is not designated in a qualifying hedge relationship, then all changes in its fair value are recognised immediately in profit or loss as a component of net trading income.

The Group designates certain derivatives as hedging instruments in qualifying hedging relationships. On initial designation of the hedge, the Group formally documents the relationship between the hedging instrument/s and hedged item/s, including the risk management objective and strategy in undertaking the hedge, together with the method that will be used to assess the effectiveness of the hedging relationship. The Group makes an assessment, both at the inception of the hedge relationship as well as on an ongoing basis, as to whether the hedging instrument/s is/are expected to be 'highly effective' in offsetting the changes in the fair value of the respective hedged item/s during the period for which the hedge is designated, and whether the actual results of each hedge are within a range of 80-125 percent.

1.14.1 Fair value hedges

When a derivative is designated as a hedging instrument in a hedge of the change in fair value of a recognised asset or liability or a firm commitment that could affect profit or loss, changes in the fair value of the derivative are recognised immediately in profit or loss together with changes in the fair value of the hedged item that are attributable to the hedged risk.

If the hedging derivative expires or is sold, terminated, or exercised, or the hedge no longer meets the criteria for fair value hedge accounting, or the hedge designation is revoked, then hedge accounting is discontinued prospectively.

Any adjustment up to that point of discontinuation to a hedged item for which the effective interest method is used, is amortised to profit or loss as part of the recalculated effective interest rate of the item over its remaining life.

The Group applies fair value hedge accounting to portfolio hedges of interest rate risk (macro hedging) under the EU carve-out version of IAS 39. The EU carve-out macro hedging rules enable a group of derivatives (or proportions) to be viewed in combination and jointly designated as the hedging instrument in the Group's macro fair value hedging model, and remove some of the limitations in fair value hedge accounting relating to hedging core deposits and under-hedging strategies. Under the EU carve-out, hedge accounting may be applied to core deposits and ineffectiveness only arises when the revised estimate of the amount of cash flows in scheduled time buckets falls below the designated amount of that bucket. The Group applies fair value hedge accounting for portfolio hedges of interest rate risk (macro hedging) under the EU carve-out in respect of its retail operations, with the net exposures of retail funding (savings and current accounts) and retail lending (mortgages) being hedged. The hedging activities are designated as a portfolio fair value hedge in respect of the mortgage book. Changes in the fair value of the derivatives are recognised in the statement of profit or loss, together with the basis adjustment in relation to the mortgages (hedged items) insofar as attributable to interest rate risk (the hedged risk).

The Group applies micro fair value hedging to hedge separate hedged positions on an individual asset basis, generally fixed interest securities, by utilising interest rate swaps as hedging instruments.

1.15 Provisions

Provisions for legal and other claims are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

1.16 Interest income and expense

Interest income and expense for all interest-bearing financial instruments are recognised within 'interest income' and 'interest expense' in profit or loss using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating interest income or interest expense over the relevant period.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Interest income and expense presented in the profit or loss include:

- interest on financial assets and financial liabilities measured at amortised cost calculated using the effective interest method;
- interest on investments measured at fair value through other comprehensive income calculated using the effective interest method; and
- the effective portion of fair value changes attributable to qualifying hedging derivatives designated in fair value hedges of interest rate risk, together with changes in fair value of the hedged items attributable to interest rate risk.

Fair value changes attributable to other derivatives in hedging relationships which are discontinued are presented in 'net trading income' with effect from the last date on which the hedge was demonstrated to be effective.

Interest on credit-impaired financial assets is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the credit loss allowance.

1.17 Fees and commissions

Fee and commission income and expenses that are an integral part of the effective interest rate on a financial asset or liability are included in the calculation of the effective interest rate and treated as part of interest income or interest expense.

Other fee and commission income, comprising account servicing fees, underwriting fees, investment management fees, foreign exchange fees, guarantee fees, placement fees and syndication fees, are recognised in profit or loss as the related services are performed.

Loan commitment fees for loans that are likely to be drawn down are deferred (together with related direct costs) and recognised as an adjustment to the effective interest rate on the loan.

When a loan commitment is not expected to result in the drawdown of a loan, the related loan commitment fees are recognised in profit or loss on a straight-line basis over the commitment period.

Fee and commission expense, relating mainly to transaction and service fees, is expensed as the services are received.

Consideration payable to customers, comprising incremental costs in the form of cash amounts that the Group pays to wealth management customers, are incurred in acquiring new customer contracts. These costs are deferred within "Other assets" and subsequently amortised over the life of the contract, recognised as an offset within income, as follows:

- For customer contracts with a contractual fixed period, these costs are amortised over the contractual life.
- For customer contracts with no contractual fixed period, these costs are amortised over the estimated life of the contract, which is reviewed periodically with reference to the Group's experience with surrenders by wealth management customers.

1.18 Net trading income

Net trading income comprises all realised and unrealised foreign exchange differences and all fair value changes arising on derivatives held for trading, including derivatives that are not designated as hedging instruments and derivatives that no longer meet the criteria for hedge accounting.

1.19 Net income from other financial instruments carried at fair value through profit or loss

Net income from other financial instruments carried at fair value through profit or loss comprises all realised and unrealised fair value changes, interest income, dividends and foreign exchange differences attributable to financial assets carried at fair value through profit or loss.

1.20 Leases

Until the 31 March 2019 financial year, leases were classified as either finance leases or operating leases. From 1 April 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the future lease payments. Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the group, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are measured at cost, generally comprising the amount of the initial measurement of the lease liability and are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated).

1.21 Share-based compensation

The Group operates a deferred bonus plan in the form of a share-based compensation plan whereby selected officers or employees are awarded bonuses upon meeting specific performance conditions. Bonuses comprise upfront cash amounts, upfront share-linked awards and deferred share-linked awards. Share-linked awards consist of share-linked instruments in the form of a number of notional ordinary shares of MDB Group Limited computed by dividing the related portion of the bonus amount by the market value of these ordinary shares at award date. Share-linked award bonuses are eventually settled in cash on the settlement date (the expiry of the retention or delay period) on the basis of the market value of the ordinary shares of MDB Group Limited determined on the settlement date, multiplied by the number of notional shares computed on the date of award. Deferred share-linked awards are subject to a deferral or vesting period during which period the specific officer or employee must remain in employment for vesting to occur. Both upfront and deferred share-linked awards are subject to a retention or delay period, for settlement purposes, post vesting. These share-based payment transactions are considered as cash-settled as the Group pays cash amounts based on the fair value of equity instruments of a group entity.

Share-based compensation is recognised as an employee benefit expense from grant date over the relative vesting period, which is the period over which all of the specified vesting conditions are to be satisfied, through graded vesting. The total amount to be expensed from grant date over the vesting period is determined by reference to the fair value of the awards at the grant date, reflecting the fair valuation of MDB Group Limited's ordinary shares on award date. Accordingly, the Group amortises on a straight-line basis the compensation cost arising on the grant of such awards over the nominal vesting period for employees based on the graded vesting of the plan. The resultant liability is re-measured at the end of each reporting period and at the date of settlement, with changes in fair value recognised in profit or loss.

1.22 Financial guarantee contracts and loan commitments

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Such financial guarantees are given to banks, financial institutions and other bodies on behalf of customers.

In the ordinary course of business, the Group gives financial guarantees, consisting of guarantees and acceptances.

Financial guarantee contracts are initially measured at fair value and subsequently measured at higher of:

- The amount of the credit loss allowance (calculated as described in note 1.5); and
- The premium received on initial recognition less income recognised in accordance with the principles of IFRS 15.

Loan commitments are the Group's commitments to provide credit under pre-specified terms and conditions and are measured at the amount of the credit loss allowance (calculated as described in note 1.5).

For loan commitments and financial guarantee contracts, the credit loss allowance is recognised as a provision. However, for contracts that include both a loan and an undrawn commitment and the Group cannot separately identify the expected credit losses on the undrawn commitment component from those on the loan component, the expected credit losses on the undrawn commitment are recognised together with the credit loss allowance for the loan. To the extent that the combined expected credit losses exceed the gross carrying amount of the loan, the expected credit losses are recognised as a provision.

1.23 Cash and cash equivalents

Cash and cash equivalents are carried in the statement of financial position at face value less expected credit losses. Cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition, including cash in hand, unrestricted balances held with central banks, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less. 'Amounts owed to financial institutions' that are repayable on demand or have a contractual maturity of three months or less and which form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

1.24 Customer assets

Customer assets are held with the Group in a fiduciary capacity and are segregated from the assets of the Group in accordance with the applicable rules and regulations on protection of customer assets, except when such customer assets are held by the Group to cover a required margin or when they are used to secure an obligation towards the Group.

Customer assets are not presented within the Group's statement of financial position.

1.25 Dividend distribution

Dividend distribution to the Group's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Group's shareholders.

2. Financial risk management

2.1 Introduction and overview

The Group's core business activities include:

- deposit taking;
- the provision of wealth management and investment services;
- the granting of loans to international and Maltese corporates; and
- the granting of residential mortgage loans in the Dutch market.

Key developments during the financial period ended 31 December 2019 included the establishment of two new business lines: a new Dutch Mortgage portfolio, and a Securitisation Investment portfolio comprising the Group's investments in GH1-2019 and similar structures managed by third party entities, described in more detail hereunder.

On 3 June 2019, the Governing Council of the ECB consented to the strategic decision of MeDirect Belgium to enter into a new business line, namely the origination of Dutch state-guaranteed mortgages under Article 77 of the Belgian Banking Law. These mortgages are prime Dutch mortgages that benefit from a guarantee from a private non-profit fund and indirectly from a government guarantee (the 'Nationale Hypotheek Garantie' or NHG). The launch of this new business line as from September 2019 is part of the Group's strategic objective to diversify its business model. MeDirect Belgium is doing this via an established third-party mortgage originator in the Netherlands that, subsequent to origination, transfers the mortgages to MeDirect Belgium.

In addition, during the financial period ended 31 December 2019, the Group changed its strategy in relation to a specific sub-portfolio of its International Lending portfolio, classified as hold to collect. The reasons for this change in business model were driven by the Group's intention to set up a securitisation structure as part of a new strategy, through which part of the International Lending portfolio with a total carrying amount of €296.9 million were sold by the Group to this structured entity, Grand Harbour CLO 2019-1 Designated Activity Company ("GH1-2019"), and derecognised from the Group's statement of financial position, subsequent to which structured notes were issued by the structured entity to the Group and third party investors.

However, the Group's change in intent was not deemed to constitute a reclassification event, since the Group's remaining hold to collect portfolio retained its classification and the abovementioned sale from the International Lending portfolio for the purpose of setting up a securitisation structure was classified as an isolated non-recurring event. MeDirect Malta acquired a 5% position in each of the structured note tranches for risk retention purposes (a "vertical slice"), for the amount of €20.3 million. MeDirect Belgium acquired a 35% share of the tranche with the highest credit rating for an amount of €87 million, which was subsequently sold during the financial period ended 31 December 2019.

In view of the Group's projected exposure to the total variability of the structured entity's returns, taking into account its maximum exposure as a collateral manager (i.e. incorporating all cash flows, including management and incentive fees) and its exposure to variability of returns from the 5% vertical slice of the structured notes, a significant share of the exposure to variable returns was transferred to other tranche holders. Accordingly, the Group does not consolidate the structured entity. During the period, the Group also effected investments in CLO transactions managed by third-party entities which together with the structured notes referred to above constitute the Group's Securitisation Investment portfolio.

The Group also provides basic retail services such as money transfer and spot currency exchange. Currency swaps, foreign exchange forwards and interest rate swaps are also entered into for risk management purposes.

In respect of funding, the Group continues to access the international wholesale funding markets through bilateral repo lines and the Eurex repo platform.

The major components within the Group's asset base are: the International Lending portfolio, comprising loans to international corporates; the Local Lending portfolio, comprising loans to Maltese customers, mainly corporates; the Dutch Mortgage portfolio, comprising residential mortgage lending to Dutch customers, which business line was established during the financial period ended 31 December 2019 (as described above); the Treasury Investment portfolio principally comprising investment-grade debt securities; and the Securitisation Investment portfolio, comprising investments in CLO transactions managed by the Group and other third party entities (as reflected above).

Therefore, the main risks assumed by the Group are: (a) counterparty credit risk arising primarily from loans and advances to customers, but also from other financial instruments; (b) liquidity risk arising from maturity mismatches; (c) market risk; and (d) operational risk.

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing these risks and the Group's management of capital.

These risks principally relate to the Group's banking activities and are managed by MeDirect Malta's Board of Directors. As a result, this note presents information about the financial risk management of the Group, which comprises MeDirect Malta and MeDirect Belgium.

2.1.1 Risk management framework

The Group recognises the need to have an effective and efficient Risk Management Function (RMF) and therefore it has adopted a comprehensive risk management process that provides an appropriate balance between the growth of the Group, maximising its profitability and managing the associated risks.

This RMF aims to outline and define the Group's risk management processes to enable informed risk-based decision-making. This framework outlines the process of how the Group identifies, manages and monitors material risks. It refers to the risk management processes that include policies, procedures, risk limits and risk controls ensuring adequate, timely and continuous identification, measurement or assessment, monitoring, management, mitigation and reporting of the risks at the business line, institution and consolidated or sub-consolidated levels.

The Group's objective is to deploy an integrated risk management approach that ensures an awareness of, and accountability for, the risks taken throughout the Group and also to develop the tools needed to address those risks.

Strong risk management and internal controls are core elements of the Group's strategy. The Group has adopted a risk management and internal control structure, referred to as the Three Lines of Defence (Figure 1), to ensure it achieves its strategic objectives while meeting regulatory and legal requirements and fulfilling its responsibilities to shareholders, customers and staff.

Figure 1: Three Lines of Defence Model

In the three lines of defence model, business line management is the first line of defence (including those functions that are responsible for day-to-day operations and treasury function), the various risk control and compliance oversight functions established by management represent the second line of defence, and internal audit is the third.

Each of these three "lines" play a distinct role within the Group's wider governance framework. Although the Group adopts a "three lines of defence" model, it is worth mentioning the additional interaction between the Group and its external auditors and regulatory bodies adds further "lines of defence", albeit they are not depended upon internally by the Group to act in such capacities.

2.2 Credit risk

Credit risk is the risk of loss to the Group's business or of adverse change in its financial position, resulting from fluctuations in the credit standing of issuers of securities, customers, counterparties and any debtors in the form of default or other significant credit loss event (e.g. downgrade or spread widening).

2.2.1 Management of credit risk

The Group has in place standards, policies and procedures for the control and monitoring of credit risk. The purpose of the Group's Credit Policy is to establish the credit standards, internal controls, reporting requirements and approval processes that govern the selection and ongoing management of the investment assets of the Group.

The Group's Board of Directors has established risk appetite limits for exposures to individual credits based on the Capital Requirements Regulation ("CRR") regulatory requirements governing large exposures of credit institutions as well as prudential requirements. Exposure limits are monitored on an ongoing basis by the Risk, Corporate Credit and Treasury teams. The Credit Policy among others also outlines the following specific exposures and trading limits:

- Concentration limits;
- Country limits;
- Portfolio limits; and
- Minimum credit quality within each asset class.

Limits on counterparty exposure are established by the Group's Asset and Liability Committee ("ALCO"). Such limits relate to net exposure, after application of cash (and cash equivalent) collateral, as provided in industry-standard documentation such as the International Swaps and Derivative Association ("ISDA") master agreements and Global Master Repurchase Agreements ("GMRA"), and the Group's Treasury credit framework. The Group's Credit Policy permits it to manage its credit risk through credit derivatives, subject to Board approval, although to date it has never done so.

The Group's objective is to maximise its returns while maintaining a sound and prudent credit risk profile. To facilitate achieving this target, the Group invests in a diversified portfolio of financial assets, including both high quality securities with strong ratings stability and a diversified portfolio of loans to/securities issued by corporates, whose higher returns are viewed as justifying a greater level of risk.

The Group's financial assets are managed on a portfolio basis, taking into account correlations between asset classes. The Group diversifies its exposures to avoid excessive concentration in particular countries, industries or types of financial institutions. The Group also considers the impacts of lending to corporate borrowers within the Group's portfolio on its risk assessment.

Accordingly the Group's credit risk taking activities comprise principally loans to international and local corporate clients, classified under the International Lending and Local Lending portfolios respectively; residential mortgage lending classified under the Dutch Mortgage portfolio; investments in debt securities classified under the Treasury Investment portfolio; and investments in CLO structures classified under the Securitisation Investment portfolio, which activities are described below.

All exposures classified under the International Lending and Securitisation Investment portfolios undergo a thorough analysis process, not only from an internal credit perspective but also from a legal, financial and credit ratings perspective. The Group's Corporate Credit and Risk teams, which manage the credit analysis and research process, are composed of highly-trained individuals with specialised skill sets and years of experience in the Securities and Corporate Syndicated Loans markets. The credit analysis and research process subjects potential investments to scenario analysis to determine whether they can withstand significant adverse credit, idiosyncratic and market events. Additionally, the portfolio is subject to a continual, thorough monitoring and oversight process in order to identify any financial instruments which require increased monitoring of performance. Further details on the credit approval and monitoring processes are provided within the Group's Pillar III Disclosures.

In respect of the Local Lending portfolio, the Group's Corporate Credit and Risk teams are responsible for the credit quality of the portfolio, performing regular reviews to monitor the performance of underlying exposures and evaluate the level of credit risk within the portfolio, including concentrations by market sector, with the objective to build and maintain risk assets of high quality.

As described in section 2.1, the Group established a new Dutch state-guaranteed mortgage business line during the financial period ended 31 December 2019, where the credit risk is deemed to be low on the basis that these prime Dutch mortgages benefit from a guarantee from a private non-profit fund and indirectly from a government guarantee. The residual credit risk arising therefrom is managed by MeDirect Belgium's Corporate Credit and Risk teams.

With respect to its Treasury Investment portfolio, managed by the Group's Treasury and Risk teams, the Group focuses on acquiring debt securities (mainly covered bonds) meeting the criteria of high-quality liquid assets ("HQLA"), issued by financial institutions (some of which may carry a government guarantee), supranational agencies and governments.

The following table presents the maximum exposure to credit risk from on-balance sheet and off-balance sheet financial instruments, before taking account of any collateral held or other credit enhancements. For financial assets recognised on balance sheet, the maximum exposure to credit risk equals their carrying amount. For financial guarantees granted, it is the maximum amount that the Group would have to pay if the guarantees were called upon. For loan commitments and other credit-related commitments, it is generally the full amount of the committed facilities.

For the purposes of Note 2.2 – Credit risk, amounts related to "Investments measured at amortised cost" are inclusive of basis adjustments attributable to the hedged risk.

	MeDirect Malta Group	
	31 December 2019	31 March 2019
	€000	€000
Net exposure:		
Financial assets measured at amortised cost		
Balances with central banks	**241,723**	146,985
Loans and advances to financial institutions	**223,287**	118,439
Loans and advances to customers	**1,359,377**	1,842,555
- International Lending portfolio	**1,137,273**	1,756,729
- Local Lending portfolio	**88,962**	85,826
- Dutch Mortgage portfolio	**133,511**	-
- IFRS basis adjustment: Dutch Mortgage portfolio	**(369)**	-
Investments measured at amortised cost	**682,378**	425,009
- Treasury portfolio	**430,199**	425,009
- Securitisation portfolio	**252,179**	-
Accrued income	**14,381**	16,800
Loans to related parties (included in other assets)	**13,044**	15,305
Other receivables (included in other assets)	**34,336**	6,105
	2,568,526	2,571,198
Investments measured at fair value through other comprehensive income		
- Treasury portfolio	**500,292**	265,572
Investments mandatorily measured at fair value through profit or loss	**3,467**	716
- Securitisation portfolio	**1,447**	-
- Held for trading derivative financial instruments	**2,020**	716
	3,072,285	2,837,486
Commitments to purchase financial assets	**40,073**	60,843
Commitments to extend credit, guarantees and other commitments (excluding capital commitments and, for 31 March 2019, lease commitments)	**814,210**	517,936

Summary of financial instruments to which the impairment requirements in IFRS 9 are applied

The following disclosures present the gross carrying/nominal amount of financial instruments measured at amortised cost to which the impairment requirements in IFRS 9 are applied and the associated credit loss allowances, as well as the fair value of financial instruments measured at FVOCI and the associated credit loss allowances. Due to the forward-looking nature of IFRS 9, the scope of financial instruments on which ECL are recognised is greater than the scope of IAS 39.

MeDirect Malta Group	At 31 December 2019		At 31 March 2019	
	Gross carrying/ nominal amount	**Credit loss allowance**	Gross carrying/ nominal amount	Credit loss allowance
	€000	**€000**	€000	€000
Financial assets measured at amortised cost				
Balances with central banks	**241,724**	**(1)**	146,986	(1)
Loans and advances to financial institutions	**223,288**	**(1)**	118,440	(1)
Loans and advances to customers	**1,381,596**	**(22,219)**	1,866,408	(23,853)
- International Lending portfolio	**1,159,131**	**(21,858)**	1,779,210	(22,481)
- Local Lending portfolio	**89,315**	**(353)**	87,198	(1,372)
- Dutch Mortgage portfolio	**133,519**	**(8)**	-	-
- IFRS basis adjustment: Dutch Mortgage portfolio	**(369)**	**-**	-	-
Investments measured at amortised cost	**682,646**	**(268)**	425,074	(65)
- Treasury portfolio	**430,448**	**(249)**	425,074	(65)
- Securitisation portfolio	**252,198**	**(19)**	-	-
Accrued income	**14,517**	**(136)**	16,862	(62)
Loans to related parties (included in other assets)	**13,044**	**-**	15,305	-
Other receivables (included in other assets)	**34,336**	**-**	6,105	-
	2,591,151	**(22,625)**	2,595,180	(23,982)
Commitments to purchase financial assets	**40,073**	**-**	60,843	(52)
Commitments to extend credit, guarantees and other commitments (excluding capital commitments and, for 31 March 2019, lease commitments)	**814,210**	**(2,112)**	517,936	(1,581)
	854,283	**(2,112)**	578,779	(1,633)
Total	**3,445,434**	**(24,737)**	3,173,959	(25,615)

	Fair value	**Credit loss allowance**	Fair value	Credit loss allowance
	€000	**€000**	€000	€000
Investments measured at fair value through other comprehensive income				
- Treasury portfolio	**500,292**	**(144)**	265,572	(23)

The following table contains an analysis of the maximum credit risk exposure from financial assets not subject to impairment (i.e. FVTPL).

	MeDirect Malta Group	
	At 31 December 2019	At 31 March 2019
	€000	€000
Held for trading derivative financial instruments	**2,020**	716
Investments – Securitisation portfolio	**1,447**	-

2.2.2 Summary of credit quality of financial assets to which impairment requirements in IFRS 9 are applied

The Group's credit risk rating processes are designed to highlight exposures which require closer management attention because of their greater probability of default and potential loss.

As previously explained in the accounting policy (refer to note 1.5), the Group adopts a five-point internal credit classification rating scale in order to assess the relative credit quality of exposures within its portfolios of financial instruments. Throughout MeDirect Malta Group's Management Credit Committee meetings, the members of the Management Credit Committee review the grading proposed by MeDirect Malta Group's Corporate Credit team and reviewed by MeDirect Malta Group's Risk team. Each of the five internal credit classification ratings within the scale is aligned to the Group's approach for determining the relative staging of financial assets in line with the requirements emanating from IFRS 9 as follows:

Stage 1 (Performing)

1. Regular - no material credit concerns.
2. Focus - no immediate prospect that a credit loss will ultimately be suffered, but worthy of close credit oversight.

Stage 2 (Underperforming)

3. Under Surveillance - significant increase in credit risk with identified concerns and some prospect that a credit loss may ultimately be suffered.

Stage 3 (Non-performing)

4. Doubtful - it is likely that the contractual terms of the debt will not be met and that a credit loss will be suffered.
5. Write-off - full or partial write-down of exposures with little prospect of recovery.

The financial assets recorded in each stage have the following characteristics:

- Stage 1: Non credit-impaired and without significant increase in credit risk on which a 12-month ECL is recognised (Regular and Focus internal classifications).
- Stage 2: A significant increase in credit risk has been experienced since initial recognition on which a lifetime ECL is recognised (Under Surveillance internal classification).
- Stage 3: Objective evidence of impairment and are therefore considered to be in default or otherwise credit-impaired on which a lifetime ECL is recognised (Doubtful and Write-off internal classifications).

Deteriorating Credits

The Group determines that a financial instrument is credit-impaired and in Stage 3 by considering relevant objective evidence, primarily whether:

- contractual payments of either principal or interest are past due by more than 90 days;
- there are other indications that the borrower is unlikely to pay, such as when a concession has been granted to the borrower for economic or legal reasons relating to the borrower's financial condition; and
- the loan is otherwise considered to be in default.

If unlikeliness to pay is not identified at an earlier stage, it is deemed to occur when an exposure is more than 90 days past due. Therefore, the definitions of credit-impaired and default are aligned as far as possible so that Stage 3 represents all loans that are considered defaulted or otherwise credit-impaired.

Credit-impaired loans and advances are those that are classified as "Doubtful" or "Write-off". These grades are assigned when the Group considers that either the customer is unlikely to pay its credit obligations in full, without recourse to security, or when the customer is more than 90 days past due on any material credit obligation to the Group.

The Group is required to identify non-performing exposures ("NPEs") and to assess the recoverability of the recognised exposures.

The principal guidance on the definition of NPEs, as referred to in Commission Implementing Regulation (EU) No 680/2014 (referred to as the "EBA International Technical Standard on supervisory reporting"), seeks to ensure the consistent implementation of the key drivers of the NPE definition, namely the "past-due" and the "unlikely-to-pay" criteria.

According to the EBA International Technical Standards on supervisory reporting, "non-performing exposures" are those that satisfy either or both of the following criteria:

a) material exposures which are more than 90 days past due; and
b) the debtor is assessed as unlikely to pay its credit obligations in full without realisation of collateral, regardless of the existence of any past-due amount or of the number of days past due.

Assessment is made at an obligor (rather than facility) level. This implies that in those cases where a particular debtor has multiple facilities with the Group, the Group considers whether there are indications of unlikeliness to pay at the level of the debtor, irrespective of the different levels of losses that can be incurred in respect of the different facilities resulting from different levels of seniority.

For further clarity, exposures in respect of which a "default" is considered to have occurred, and exposures that have been found "credit-impaired" in accordance with IFRS as adopted by the EU, shall always be considered as "non-performing exposures".

The following table presents information about the credit quality of financial assets held by the MeDirect Malta Group to which the impairment requirements in IFRS 9 are applied:

MeDirect Malta Group	Performing		Under performing	Non-performing	
	Regular	Focus	Under surveillance	Doubtful	Total
	€000	€000	€000	€000	€000
As at 31 December 2019					
On balance sheet at amortised cost:					
Balances with central banks	241,723	-	-	-	241,723
Gross	241,724	-	-	-	241,724
Credit loss allowances	(1)	-	-	-	(1)
Loans and advances to financial institutions	223,287	-	-	-	223,287
Gross	223,288	-	-	-	223,288
Credit loss allowances	(1)	-	-	-	(1)
Loans and advances to customers	810,034	356,225	125,606	67,512	1,359,377
- International Lending portfolio	*605,001*	*351,207*	*121,211*	*59,854*	*1,137,273*
Gross	*608,614*	*355,041*	*123,167*	*72,309*	*1,159,131*
Credit loss allowances	*(3,613)*	*(3,834)*	*(1,956)*	*(12,455)*	*(21,858)*
- Local Lending portfolio	*71,891*	*5,018*	*4,395*	*7,658*	*88,962*
Gross	*72,137*	*5,051*	*4,468*	*7,659*	*89,315*
Credit loss allowances	*(246)*	*(33)*	*(73)*	*(1)*	*(353)*
- Dutch Mortgage portfolio	*133,142*	-	-	-	*133,142*
Gross	*133,519*	-	-	-	*133,519*
Credit loss allowances	*(8)*	-	-	-	*(8)*
- IFRS basis adjustment: Dutch Mortgage portfolio	*(369)*				*(369)*
Investments measured at amortised cost	682,378	-	-	-	682,378
- Treasury portfolio	*430,199*	-	-	-	*430,199*
Gross	*430,448*	-	-	-	*430,448*
Credit loss allowances	*(249)*	-	-	-	*(249)*
- Securitisation portfolio	*252,179*	-	-	-	*252,179*
Gross	*252,198*	-	-	-	*252,198*
Credit loss allowances	*(19)*	-	-	-	*(19)*
Accrued income	11,681	1,771	438	491	14,381
Gross	11,704	1,809	457	547	14,517
Credit loss allowances	(23)	(38)	(19)	(56)	(136)
Loans to related parties (included in other assets)	13,044	-	-	-	13,044
Other receivables (included in other assets)	34,336	-	-	-	34,336
	2,016,483	357,996	126,044	68,003	2,568,526
Off balance sheet at nominal amount:					
Commitments to purchase financial assets					
Nominal amount	40,073	-	-	-	40,073
Credit loss allowances	-	-	-	-	-
Commitments to extend credit, guarantees and other commitments					
Nominal amount	687,632	62,597	55,759	8,222	814,210
Credit loss allowances	(1,239)	(248)	(346)	(279)	(2,112)
	726,466	62,349	55,413	7,943	852,171
Investments measured at fair value through other comprehensive income					
- Treasury portfolio					
Fair value	500,292	-	-	-	500,292
Credit loss allowances	(144)	-	-	-	(144)

	Performing		Under performing	Non-performing	
	Regular	Focus	Under surveillance	Doubtful	Total
MeDirect Malta Group	**€000**	**€000**	**€000**	**€000**	**€000**
As at 31 March 2019					
On balance sheet at amortised cost:					
Balances with central banks	146,985	-	-	-	146,985
Gross	146,986	-	-	-	146,986
Credit loss allowances	(1)	-	-	-	(1)
Loans and advances to financial institutions	118,439	-	-	-	118,439
Gross	118,440	-	-	-	118,440
Credit loss allowances	(1)	-	-	-	(1)
Loans and advances to customers	1,355,802	315,325	97,034	74,394	1,842,555
- International Lending portfolio	*1,282,010*	*314,300*	*95,310*	*65,109*	*1,756,729*
Gross	*1,292,234*	*316,631*	*97,241*	*73,104*	*1,779,210*
Credit loss allowances	*(10,224)*	*(2,331)*	*(1,931)*	*(7,995)*	*(22,481)*
- Local Lending portfolio	*73,792*	*1,025*	*1,724*	*9,285*	*85,826*
Gross	*74,008*	*1,025*	*1,730*	*10,435*	*87,198*
Credit loss allowances	*(216)*	-	*(6)*	*(1,150)*	*(1,372)*
Investments measured at amortised cost					
- Treasury portfolio	425,009	-	-	-	425,009
Gross	425,074	-	-	-	425,074
Credit loss allowances	(65)	-	-	-	(65)
Accrued income	14,574	872	432	922	16,800
Gross	14,623	878	439	922	16,862
Credit loss allowances	(49)	(6)	(7)	-	(62)
Loans to related parties (included in other assets)	15,305	-	-	-	15,305
Other receivables (included in other assets)	6,105	-	-	-	6,105
	2,082,219	316,197	97,466	75,316	2,571,198
Off balance sheet at nominal amount					
Commitments to purchase financial assets					
Nominal amount	60,843	-	-	-	60,843
Credit loss allowances	(52)	-	-	-	(52)
Commitments to extend credit, guarantees and other commitments					
Nominal amount	376,555	78,788	57,099	5,494	517,936
Credit loss allowances	(1,104)	(166)	(311)	-	(1,581)
	436,242	78,622	56,788	5,494	577,146
Investments measured at fair value through other comprehensive income					
- Treasury portfolio					
Fair value	265,572	-	-	-	265,572
Credit loss allowances	(23)	-	-	-	(23)

For securities within both the Treasury Investment and Securitisation Investment portfolios, the Group's credit quality classifications encompass a range of more granular external rating grades attributed by external agencies to debt securities. The following table illustrates this information:

	MeDirect Malta Group			
	Measured at amortised cost		Measured at fair value through other comprehensive income	
	31 December 2019	31 March 2019	**31 December 2019**	31 March 2019
	€000	€000	**€000**	€000
Treasury Investment portfolio				
Regional Government securities				
AAA	**82,742**	84,693	**31,215**	53,159
AA+ to AA-	**142,169**	143,589	**120,096**	27,935
A- to BBB-	**-**	-	**23,493**	-
Other securities				
AAA	**181,571**	185,181	**181,484**	159,453
AA+ to AA-	**11,515**	11,546	**140,464**	25,025
A- to BBB-	**-**	-	**3,540**	-
Not Rated	**12,202**	-	**-**	-
	430,199	425,009	**500,292**	265,572
Securitisation Investment portfolio				
AAA	**247,530**	-	**-**	-
AA+ to AA-	**1,650**	-	**-**	-
A- to BBB-	**1,400**	-	**-**	-
BB+ to B-	**1,599**	-	**-**	-
	252,179	-	**-**	-
Total	**682,378**	425,009	**500,292**	265,572

These portfolios are also categorised under the five credit quality classifications used by the Group (i.e. regular, focus, under surveillance, doubtful and write-off) and these ratings are determined by MeDirect Malta's Management Credit Committee.

All the investments in the Treasury Investment portfolio and the Securitisation Investment portfolio are classified as regular.

2.2.3 Past due but not credit-impaired financial assets

An exposure is "past due" when any amount of principal, interest or fee has not been paid on the date it was due. Past due but not credit-impaired loans are those loans and advances for which contractual interest or principal payments are past due but do not meet the Group's criteria for "credit-impaired" as outlined in the Three stage expected credit loss (ECL) approach. The criteria to assess whether an asset is credit-impaired aligns with the definition of default for regulatory purposes, i.e. all assets which are past due by more than 90 days are deemed to be credit-impaired. Therefore "past due but not credit-impaired" assets would, by definition, only consist of loans and advances which are up to 90 days past due.

MeDirect Malta and MeDirect Belgium do not have any exposures forming part of the International Lending, Dutch Mortgage, Treasury Investment and Securitisation Investment portfolios which are past due but not credit-impaired. All past due but not credit-impaired facilities form part of the Local Lending portfolio and represent exposures to counterparties domiciled in Malta and concentrated within the real estate and construction sector.

The past due but not credit-impaired ageing analysis of the Group's loans and advances to customers within the Local Lending portfolio is shown in section 2.2.4.

2.2.4 Detailed information on credit quality of financial assets

The following table provides an overview of the Group's credit risk by stage and business segment, and the associated ECL coverage.

Summary of credit risk (excluding derivative financial instruments and debt instruments measured at FVTPL) by stage distribution and ECL coverage

	Gross carrying/nominal amount				Credit loss allowance				ECL coverage %			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
MeDirect Malta Group	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000
As at 31 December 2019												
On balance sheet at amortised cost:												
Balances with central banks	241,724	-	-	241,724	(1)	-	-	(1)	-	-	-	-
Loans and advances to financial institutions	223,288	-	-	223,288	(1)	-	-	(1)	-	-	-	-
Loans and advances to customers												
- International Lending portfolio	963,655	123,167	72,309	1,159,131	(7,447)	(1,956)	(12,455)	(21,858)	0.8%	1.6%	17.2%	1.9%
- Local Lending portfolio	77,188	4,468	7,659	89,315	(279)	(73)	(1)	(353)	0.4%	1.6%	-	0.4%
- Dutch Mortgage portfolio	133,519	-	-	133,519	(8)	-	-	(8)	-	-	-	-
- IFRS basis adjustment: Dutch Mortgage portfolio	(369)			(369)	-	-	-	-	-	-	-	-
Investments												
- Treasury portfolio	430,448	-	-	430,448	(249)	-	-	(249)	0.1%	-	-	0.1%
- Securitisation portfolio	252,198	-	-	252,198	(19)	-	-	(19)		-	-	-
Accrued income	13,513	457	547	14,517	(61)	(19)	(56)	(136)	0.5%	4.2%	10.2%	0.9%
Loans to related parties (included in other assets)	13,044	-	-	13,044	-	-	-	-	-	-	-	-
Other receivables (included in other assets)	34,336	-	-	34,336	-	-	-	-	-	-	-	-
Off balance sheet at nominal amount:												
Commitments to purchase financial assets	40,073	-	-	40,073	-	-	-	-	-	-	-	-
Commitments to extend credit, financial guarantees and other commitments	750,229	55,759	8,222	814,210	(1,487)	(346)	(279)	(2,112)	0.2%	0.6%	3.4%	0.3%
	3,172,846	183,851	88,737	3,445,434	(9,552)	(2,394)	(12,791)	(24,737)	0.3%	1.3%	14.4%	0.7%

	Fair value				Credit loss allowance				ECL coverage %			
	Stage 1 €000	Stage 2 €000	Stage 3 €000	Total €000	Stage 1 €000	Stage 2 €000	Stage 3 €000	Total €000	Stage 1 %	Stage 2 %	Stage 3 %	Total %
As at 31 December 2019												
Investments at fair value through other comprehensive income												
- Treasury portfolio	500,292	-	-	500,292	(144)	-	-	(144)	-	-	-	-

	Gross carrying/nominal amount				Credit loss allowance				ECL coverage %			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
MeDirect Malta Group	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000
As at 31 March 2019												
On balance sheet at amortised cost:												
Balances with central banks	146,986	-	-	146,986	(1)	-	-	(1)		-	-	-
Loans and advances to financial institutions	118,440	-	-	118,440	(1)	-	-	(1)		-	-	-
Loans and advances to customers												
- International Lending portfolio	1,608,865	97,241	73,104	1,779,210	(12,555)	(1,931)	(7,995)	(22,481)	0.8%	2.0%	10.9%	1.3%
- Local Lending portfolio	75,033	1,730	10,435	87,198	(216)	(6)	(1,150)	(1,372)	0.3%	0.3%	11.0%	1.6%
Investments measured at amortised cost												
- Treasury portfolio	425,074	-	-	425,074	(65)	-	-	(65)		-	-	-
Accrued income	15,501	439	922	16,862	(55)	(7)	-	(62)	0.4%	1.6%	-	0.4%
Loans to related parties (included in other assets)	15,305	-	-	15,305	-	-	-	-	-	-	-	-
Other receivables (included in other assets)	6,105	-	-	6,105	-	-	-	-	-	-	-	-
Off balance sheet at nominal amount:												
Commitments to purchase financial assets	60,843	-	-	60,843	(52)	-	-	(52)	0.1%	-	-	0.1%
Commitments to extend credit, financial guarantees and other commitments	455,343	57,099	5,494	517,936	(1,270)	(311)	-	(1,581)	0.3%	0.5%	-	0.3%
	2,927,495	156,509	89,955	3,173,959	(14,215)	(2,255)	(9,145)	(25,615)	0.5%	1.4%	10.2%	0.8%

	Fair value				Credit loss allowance				ECL coverage %			
	Stage 1 €000	Stage 2 €000	Stage 3 €000	Total €000	Stage 1 €000	Stage 2 €000	Stage 3 €000	Total €000	Stage 1 %	Stage 2 %	Stage 3 %	Total %
As at 31 March 2019												
Investments at fair value through other comprehensive income												
- Treasury portfolio	265,572	-	-	265,572	(23)	-	-	(23)	-	-	-	-

Unless identified at an earlier stage, all financial assets are deemed to have experienced a significant increase in credit risk when they are more than 30 days past due. As at 31 December 2019, no exposures within the Dutch Mortgage, Treasury Investment and Securitisation Investment portfolios were classified as stage 2. In addition, none of the stage 2 exposures within the International Lending portfolio were past due as at 31 December 2019 and 31 March 2019. In this regard, the following disclosure only presents the ageing of stage 2 financial assets in the Local Lending portfolio. It distinguishes between those assets that are classified as stage 2 when they are up to 30 days past due (1 – 30 DPD) from those that are classified as stage 2 due to ageing and are more than 30 DPD (>30 DPD). Past due financial instruments are those loans where customers have failed to make payments in accordance with the contractual terms of their facilities. None of the exposures which are classified as past due but not credit-impaired were classified as stage 1 exposures as at 31 December 2019 and 31 March 2019.

	Gross exposure			Credit loss allowance		
	Stage 2	Of which up to 30 DPD	Of which more than 30 DPD	Stage 2	Of which up to 30 DPD	Of which more than 30 DPD
	€000	€000	€000	€000	€000	€000
MeDirect Malta Group						
As at 31 December 2019						
Local Lending portfolio						
- Loans and advances to customers	**4,468**	**4,468**	**-**	**(73)**	**(73)**	**-**
- Accrued income	**28**	**28**	**-**	**-**	**-**	**-**
As at 31 March 2019						
Local Lending portfolio						
- Loans and advances to customers	1,730	1,609	121	(6)	(6)	-
- Accrued income	7	7	-	-	-	-

Distribution of financial instruments to which the impairment requirements in IFRS 9 are applied, by credit quality and stage distribution

	Gross carrying amount/nominal amount						
	Regular €000	Focus €000	Under surveillance €000	Doubtful €000	Total €000	Credit loss allowance €000	Net €000
MeDirect Malta Group							
As at 31 December 2019							
On balance sheet at amortised cost:							
Balances with central banks – Stage 1	241,724	-	-	-	241,724	(1)	241,723
Loans and advances to financial institutions							
- Stage 1	223,288	-	-	-	223,288	(1)	223,287
Loans and advances to customers							
- International Lending portfolio							
- Stage 1	608,614	355,041	-	-	963,655	(7,447)	956,208
- Stage 2	-	-	123,167	-	123,167	(1,956)	121,211
- Stage 3	-	-	-	72,309	72,309	(12,455)	59,854
- Local Lending portfolio							
- Stage 1	72,137	5,051	-	-	77,188	(279)	76,909
- Stage 2	-	-	4,468	-	4,468	(73)	4,395
- Stage 3	-	-	-	7,659	7,659	(1)	7,658
- Dutch Mortgage portfolio							
- Stage 1	133,519	-	-	-	133,519	(8)	133,511
- IFRS basis adjustment: Dutch Mortgage portfolio	(369)	-	-	-	(369)	-	(369)
Investments measured at amortised cost – Treasury portfolio							
- Stage 1	430,448				430,448	(249)	430,199
Investments measured at amortised cost – Securitisation portfolio							
- Stage 1	252,198	-	-	-	252,198	(19)	252,179
Accrued income							
- Stage 1	11,704	1,809	-	-	13,513	(61)	13,452
- Stage 2	-	-	457	-	457	(19)	438
- Stage 3	-	-	-	547	547	(56)	491
Loans to related parties (included in other assets)							
- Stage 1	13,044	-	-	-	13,044	-	13,044
Other receivables (included in other assets)							
- Stage 1	34,336	-	-	-	34,336	-	34,336
Off balance sheet at nominal amount:							
Commitments to purchase financial assets							
- Stage 1	40,073	-	-	-	40,073	-	40,073
Commitments to extend credit, financial guarantees and other commitments							
- Stage 1	687,632	62,597	-	-	750,229	(1,487)	748,742
- Stage 2	-	-	55,759	-	55,759	(346)	55,413
- Stage 3	-	-	-	8,222	8,222	(279)	7,943
	2,748,348	424,498	183,851	88,737	3,445,434	(24,737)	3,420,697

	Fair value					
	Regular €000	Focus €000	Under surveillance €000	Doubtful €000	Total €000	Credit loss allowance €000
MeDirect Malta Group						
As at 31 December 2019						
Investments measures at fair value through other comprehensive income – Treasury portfolio						
- Stage 1	500,292	-	-	-	500,292	(144)

	Gross carrying amount/nominal amount						
	Regular €000	Focus €000	Under surveillance €000	Doubtful €000	Total €000	Credit loss allowance €000	Net €000
MeDirect Malta Group							
As at 31 March 2019							
On balance sheet at amortised cost:							
Balances with central banks – Stage 1	146,986	-	-	-	146,986	(1)	146,985
Loans and advances to financial institutions							
- Stage 1	118,440	-	-	-	118,440	(1)	118,439
Loans and advances to customers							
- International Lending portfolio							
- Stage 1	1,292,234	316,631	-	-	1,608,865	(12,555)	1,596,310
- Stage 2	-	-	97,241	-	97,241	(1,931)	95,310
- Stage 3	-	-	-	73,104	73,104	(7,995)	65,109
- Local Lending portfolio							
- Stage 1	74,008	1,025	-	-	75,033	(216)	74,817
- Stage 2	-	-	1,730	-	1,730	(6)	1,724
- Stage 3	-	-	-	10,435	10,435	(1,150)	9,285
Investments measured at amortised cost – Treasury portfolio							
- Stage 1	425,074	-	-	-	425,074	(65)	425,009
Accrued income							
- Stage 1	14,623	878	-	-	15,501	(55)	15,446
- Stage 2	-	-	439	-	439	(7)	432
- Stage 3	-	-	-	922	922	-	922
Loans to related parties (included in other assets)							
- Stage 1	15,305	-	-	-	15,305	-	15,305
Other receivables (included in other assets)							
- Stage 1	6,105	-	-	-	6,105	-	6,105
Off balance sheet at nominal amount:							
Commitments to purchase financial assets							
- Stage 1	60,843	-	-	-	60,843	(52)	60,791
Commitments to extend credit, financial guarantees and other commitments							
- Stage 1	376,555	78,788	-	-	455,343	(1,270)	454,073
- Stage 2	-	-	57,099	-	57,099	(311)	56,788
- Stage 3	-	-	-	5,494	5,494	-	5,494
	2,530,173	397,322	156,509	89,955	3,173,959	(25,615)	3,148,344

	Fair value					
	Regular €000	Focus €000	Under surveillance €000	Doubtful €000	Total €000	Credit loss allowance €000
MeDirect Malta Group						
As at 31 March 2019						
Investments measured at fair value through other comprehensive income – Treasury portfolio						
- Stage 1	265,572	-	-	-	265,572	(23)

Reconciliation of changes in gross carrying/nominal amount and credit loss allowances for loans and advances to customers, including accrued income and other credit-related commitments.

The following disclosure provides a reconciliation by stage of the Group's gross carrying/nominal amounts and credit loss allowances for loans and advances to customers, including credit-related commitments. On-balance sheet exposures are shown at their gross carrying amounts whereas off-balance sheet exposures are shown at their nominal amounts.

Within the tables below, the line items "New business" and "Repayments and disposals" represent movements within the Group's International Lending portfolio in respect of gross carrying/nominal amounts and associated credit loss allowances. "New business" represents new lending sanctioned during the financial reporting period ended 31 December 2019. Meanwhile, "Repayments and disposals" reflect loan repayments and disposals that occurred during the financial reporting period ended 31 December 2019, which however, would only have existed on the Group's balance sheet as at 31 March 2019. Accordingly, repayments and disposals relating to loans sanctioned during the financial reporting period are netted off against new lending included within "New business".

The line item "Transfers of financial instruments" represents the impact of stage transfers on gross carrying/nominal amounts and associated credit loss allowances determined as at 31 March 2019. The line item "Net re-measurement and movement due to exposure and risk parameter changes" represents the increase or decrease in credit loss allowances due to modified measurement basis from 12-month to lifetime in relation to stage transfers. It also includes the effects of changes in other expected credit loss measurement factors and model parameters such as, but not limited to, change in time to maturity of assets; changes in underlying credit ratings; changes in measurement of loss given default and changes in respect of multiple economic scenarios. Finally, this line item also comprises the increase in ECL in respect of assets written off during the period measured as the movement between 1 April 2019 and the date of write-off.

The line item "UK economic uncertainty adjustment" represents the impact of the overlay to credit loss allowances applied by management in respect of UK exposures within the International Lending portfolio to reflect political and economic uncertainties induced by Brexit. This is described in more detail in Section 2.2.8.

The table below provides a reconciliation of movements in gross carrying/nominal amounts and credit loss allowances, by stage, for the International Lending portfolio.

	Non credit-impaired				Credit-impaired		Total	
	Stage 1		Stage 2		Stage 3			
	Gross carrying/ nominal amount €000	Credit loss allowance €000	Gross carrying/ nominal amount €000	Credit loss allowance €000	Gross carrying/ nominal amount €000	Credit loss allowance €000	Gross carrying/ nominal amount €000	Credit loss allowance €000
International Lending portfolio								
MeDirect Malta Group								
Period ended 31 December 2019								
At beginning of period	2,062,990	(13,932)	154,739	(2,249)	79,514	(7,995)	2,297,243	(24,176)
New business	140,513	(572)	-	-	-	-	140,513	(572)
Repayments and disposals	(687,940)	3,609	(64,923)	476	(6,704)	1,441	(759,567)	5,526
Transfers of financial instruments						-		
- Transfers from Stage 1 to Stage 2	(78,235)	376	78,235	(376)	-	-	-	-
- Transfers to Stage 3	(17,246)	265	(5,978)	363	23,224	(628)	-	-
- Transfers from Stage 3	-	-	14,997	(333)	(14,997)	333	-	-
Net remeasurement of ECL arising from stage transfers and changes in risk parameters	-	(560)	-	(660)	-	(5,941)	-	(7,161)
UK economic uncertainty adjustment	-	1,832	-	458	-	-	-	2,290
At end of period	1,420,082	(8,982)	177,070	(2,321)	81,037	(12,790)	1,678,189	(24,093)
ECL released for the period								83
Effect of foreign exchange differences								96
Change in expected credit losses and other credit impairment charges for the period								179

	As at 31 December 2019		Period ended 31 December 2019
	Gross carrying/ nominal amount €000	Credit loss allowance €000	ECL (charge)/ release €000
MeDirect Malta Group			
As per preceding table	1,678,189	(24,093)	179
Balances at central banks	241,724	(1)	-
Loans and advances to financial institutions	223,288	(1)	-
Loans and advances to customers			
- Local Lending portfolio: drawn exposures	89,315	(353)	1,019
- Local Lending portfolio: undrawn commitments	57,166	-	-
- Local Lending portfolio write-offs	-	-	(1,000)
- Local Lending portfolio recoveries	-	-	11
- Dutch Mortgage portfolio: drawn exposures	133,519	(8)	(8)
- Dutch Mortgage portfolio: undrawn commitments	283,671	(11)	(11)
Investments measured at amortised cost			
- Treasury portfolio	430,448	(249)	(184)
- Securitisation portfolio	252,198	(19)	(19)
Other accrued income	8,905	(2)	(2)
Summary of financial instruments to which the impairment requirements in IFRS 9 are applied through the profit or loss	3,398,423	(24,737)	(15)
Investments measured at fair value through other comprehensive income			
- Treasury portfolio	500,292	(144)	(121)
Total credit loss allowance/total income statement ECL charge for the period	3,898,715	(24,881)	(136)

Movements in expected credit losses measured in respect of exposures within the Local Lending portfolio classified as Stage 1 and Stage 2 exposures, resulted in an increase in related credit loss allowances from €0.2 million to €0.4 million during the period ended 31 December 2019. Such movements were primarily driven by new business during the period. Net movements driven by model and risk parameter changes, and transfers of exposures across stages during the period are negligible. Credit loss allowances measured in respect of exposures within the Local Lending portfolio classified as Stage 3 exposures have decreased from €1.2 million to a negligible amount during the period. This decrease was principally driven by releases in credit loss allowances due to write-offs amounting to €1 million.

The table also includes the credit loss allowances on the Dutch Mortgage portfolio, which business commenced in September 2019, credit loss allowances on the Securitisation Investment tranches that were acquired by the Group, included within "Investments measured at amortised cost" as well as credit loss allowances attributable to the Treasury Investment portfolio measured at FVOCI. The ECL charge for the Group in respect of these portfolios is not considered significant in absolute terms and, as a result, no further disclosures were deemed necessary.

The table below provides a reconciliation of movements in gross carrying/nominal amounts and credit loss allowances by stage for the International Lending portfolio for the financial year ended 31 March 2019:

	Non credit-impaired				Credit-impaired		Total	
	Stage 1		Stage 2		Stage 3			
	Gross carrying/ nominal amount €000	Credit loss allowance €000	Gross carrying/ nominal amount €000	Credit loss allowance €000	Gross carrying/ nominal amount €000	Credit loss allowance €000	Gross carrying/ nominal amount €000	Credit loss allowance €000
International Lending portfolio								
MeDirect Malta Group								
Year ended 31 March 2019								
At beginning of year	1,973,689	(15,269)	111,178	(1,593)	60,317	(13,002)	2,145,184	(29,864)
New business	681,589	(4,460)	2,501	(75)	-	-	684,090	(4,535)
Repayments and disposals	(458,819)	1,708	(25,229)	64	(33,219)	1,900	(517,267)	3,672
Transfers of financial instruments						-		
- Transfers from Stage 1 to Stage 2	(148,122)	947	148,122	(947)	-	-	-	-
- Transfers from Stage 2 to Stage 1	64,730	(623)	(64,730)	623	-	-	-	-
- Transfers to Stage 3	(50,077)	559	(17,103)	208	67,180	(767)	-	-
Net remeasurement and movement due to exposure and risk parameter changes	-	(450)	-	(921)	-	(10,890)	-	(12,261)
UK economic uncertainty adjustment	-	3,656	-	392	-	-	-	4,048
Assets written off	-	-	-	-	(14,764)	14,764	(14,764)	14,764
At end of year	2,062,990	(13,932)	154,739	(2,249)	79,514	(7,995)	2,297,243	(24,176)
ECL released for the period								5,688
Effect of foreign exchange differences								(20)
Change in expected credit losses for the period								5,668
Recoveries								2,746
Assets written off								(14,764)
Change in expected credit losses and other credit impairment charges								(6,350)

	As at 31 March 2019		Year ended 31 March 2019
	Gross carrying/ nominal amount €000	Credit loss allowance €000	ECL (charge)/ release €000
MeDirect Malta Group			
As per preceding table	2,297,243	(24,176)	(6,350)
Balances at central banks	146,986	(1)	(1)
Loans and advances to financial institutions	118,440	(1)	(1)
Loans and advances to customers			
- Local Lending portfolio	87,198	(1,372)	3,160
- Local Lending portfolio write-offs	-	-	(2,547)
Investments measured at amortised cost – Treasury portfolio	425,074	(65)	(42)
Summary of financial instruments to which the impairment requirements in IFRS 9 are applied through the profit or loss	3,074,941	(25,615)	(5,781)
Investments measured at fair value through other comprehensive income – Treasury portfolio	265,572	(23)	(14)
Total credit loss allowance/total income statement ECL charge for the year	3,340,513	(25,638)	(5,795)

Movements in expected credit losses for the year ended 31 March 2019 measured in respect of exposures within the Local Lending portfolio classified as Stage 1 and Stage 2 exposures, result in a reduction in related credit loss allowances from €0.5 million to €0.2 million during the year and are not deemed significant. Such movements are primarily driven by model and risk parameter changes. During the financial reporting period ended 31 March 2019, movements in credit loss allowances due to changes in portfolio size (net new lending and repayments) and composition (transfers of exposures across stages) were negligible, amounting to c. €0.1 million. Credit loss allowances measured in respect of exposures within the Local Lending portfolio classified as Stage 3 exposures had reduced from €4.0 million to €1.2 million during the preceding year. This reduction was principally driven by releases in credit loss allowances due to write-offs (decrease of €1.6 million) and repayments (decrease of €0.6 million), as well as reversals of credit loss allowances in respect of defaulted exposures as at 1 April 2018 (decrease of €0.8 million). This was partially offset by an increase in credit loss allowances due to newly classified Stage 3 exposures transferred from Stage 2 during the preceding year (increase of €0.2 million).

Credit loss allowances attributable to loans and advances to customers

The following table shows the credit loss allowances on loans and advances to customers recognised on the Group's balance sheet as at 31 December 2019 and as at 31 March 2019, excluding credit loss allowances on accrued interest and other credit-related commitments, analysed by stage distribution.

	Stage 1	Stage 2	Stage 3	Total
	€000	€000	€000	€000
MeDirect Malta Group				
As at 31 December 2019				
International Lending portfolio	**7,447**	**1,956**	**12,455**	**21,858**
Local Lending portfolio	**279**	**73**	**1**	**353**
Dutch Mortgage portfolio	**8**	**-**	**-**	**8**
	7,734	**2,029**	**12,456**	**22,219**

	Stage 1	Stage 2	Stage 3	Total
	€000	€000	€000	€000
MeDirect Malta Group				
As at 31 March 2019				
International Lending portfolio	12,555	1,931	7,995	22,481
Local Lending portfolio	216	6	1,150	1,372
	12,771	1,937	9,145	23,853

The movement in credit loss allowances and the ECL charge for the financial period ended 31 December 2019 and the financial year ended 31 March 2019 are analysed in detail in the tables presented in the previous section.

The credit-impaired local loans and advances classified within the Local Lending portfolio are mainly attributable to the real estate and construction sector. Sectorial information in respect of changes in credit loss allowances/impairment charges relating to international loans and advances is presented in Section 2.2.9.

During the period ended 31 December 2019, interest income amounting to €3.8 million (Year ended 31 March 2019: €4.3 million) was recognised in profit or loss on credit-impaired loans.

2.2.5 Loans and advances to customers with renegotiated terms and the Group's forbearance policy

The contractual terms of a loan may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer. An existing loan whose terms have been modified would be derecognised in certain circumstances and the renegotiated loan recognised as a new loan at fair value.

Forbearance measures always aim to return the exposure to a situation of sustainable repayment. Forbearance measures consist of concessions towards a debtor facing or about to face difficulties in meeting its financial commitments ("financial difficulties").

The Group renegotiates loans to customers in financial difficulties (referred to as "forbearance activities") to maximise collection opportunities and minimise the risk of default. Under the Group's forbearance policy, loan forbearance is granted on a selective basis if the debtor is currently in default on its debt or if there is a high risk of default, there is evidence that the debtor made all reasonable efforts to pay under the original contractual terms and the debtor is expected to be able to meet the revised terms.

A concession is defined in the European Banking Authority ("EBA") final draft Implementing Technical Standards (2014) and further set out in the EBA final guidance on Management of Non-performing and Forborne Exposures (2018), which refer to either of the following actions:

- a modification of the previous terms and conditions of a contract which the debtor was considered unable to comply with due to its financial difficulties ("troubled debt") to allow for sufficient debt service ability, that would not have been granted had the debtor not been in financial difficulties; or
- a total or partial refinancing of a troubled debt contract, that would not have been granted had the debtor not been in financial difficulties.

The revised terms usually applied by the Group include extending the maturity, amending the terms of loan covenants and partial write-offs where there is reasonable financial evidence to demonstrate the borrower's inability to repay the loan in full. MeDirect Malta's Management Credit Committee regularly review reports on forbearance activities.

For the purposes of these financial statements, "loans with renegotiated terms" are defined as loans that have been restructured due to a deterioration in the borrower's financial position, for which the Group has made concessions by agreeing to terms and conditions that are more favourable for the borrower than the Group had provided initially and that it would not otherwise consider. A loan continues to be presented as part of loans with renegotiated terms until maturity, early repayment or write-off, unless certain prescriptive conditions are met.

Typically, the Group either categorises a forborne exposure as performing; or classifies the exposure as forborne non-performing if unlikely-to-pay indicators are evidenced, as outlined in the Non-Performing and Default Exposure section of the Group's Credit Policy.

Renegotiated loans can be classified as non credit-impaired where the renegotiation has resulted from significant concern about a borrower's ability to meet their contractual payment terms but the renegotiated terms are based on current market rates and contractual cash flows are expected to be collected in full following the renegotiation.

Non credit-impaired renegotiated loans also include previously impaired renegotiated loans that have demonstrated satisfactory performance over a period of time or have been assessed based on all available evidence as having no remaining indicators of impairment.

On renegotiation, where the existing agreement is cancelled and a new agreement is made on substantially different terms, or if the terms of an existing agreement are modified, such that the renegotiated loan is substantially a different financial instrument, the loan would be derecognised and a new loan is recognised, for accounting purposes. However, newly recognised loans retain the "renegotiated loans" classification.

When determining whether a loan that is restructured should be derecognised and a new loan recognised, the Group considers the extent to which the changes to the original contractual terms result in the renegotiated loan, considered as a whole, being a substantially different financial instrument.

As outlined previously, renegotiated loans which have not had a substantial modification in terms are not derecognised and remain disclosed as credit-impaired / Stage 3 exposures until there is sufficient evidence of cure to demonstrate a significant reduction in the risk of non-payment of future cash flows observed over a one-year period and there are no other indicators of impairment. In contrast, when substantial modification has been made to the terms of the renegotiated loan, the old financial asset is derecognised and a new financial asset is recognised, the latter being classified as a Stage 1 asset unless originated credit-impaired, in which case it is classified as a POCI financial asset.

As at 31 December 2019, all exposures within the Dutch Mortgage, Treasury Investment and Securitisation Investment portfolios are classified as Stage 1 – neither past due nor credit-impaired. In addition, none of the exposures within these portfolios were forborne as at 31 December 2019 reflecting the fact that the Dutch Mortgage and Securitisation Investment portfolios are still at infancy stage whereas the Treasury Investment portfolio consists of investment grade exposures. In this regard, any amounts disclosed in this section relate to forbearance activity within the International Lending and Local Lending portfolios.

The following table shows the carrying amount of the Group's loans and advances to customers classified within the International Lending and Local Lending portfolios reflecting forbearance activity, by stage and by past due status.

MeDirect Malta Group	**International Lending Portfolio**		**Local Lending Portfolio**		
	Non-forborne exposures €000	**Forborne exposures €000**	**Non-forborne exposures €000**	**Forborne exposures €000**	**Total €000**
As at 31 December 2019					
Stage 1					
Neither past due nor credit-impaired	**903,616**	**60,039**	**74,682**	**2,506**	**1,040,843**
Stage 2					
Neither past due nor credit-impaired	**94,644**	**28,523**	**-**	**-**	**123,167**
Past due but not impaired:					
- by up to 30 days	**-**	**-**	**1,180**	**3,288**	**4,468**
Stage 3					
Impaired, net of credit loss allowances	**9,302**	**50,552**	**426**	**7,232**	**67,512**
Loans and advances to customers, net of Stage 3 credit loss allowances	**1,007,562**	**139,114**	**76,288**	**13,026**	**1,235,990**
Stage 1 credit loss allowances	**5,813**	**1,634**	**251**	**28**	**7,726**
Stage 2 credit loss allowances	**1,573**	**383**	**-**	**73**	**2,029**
Stage 3 credit loss allowances	**2,650**	**9,805**	**1**	**-**	**12,456**

MeDirect Malta Group	International Lending Portfolio		Local Lending Portfolio		
	Non-forborne exposures	Forborne exposures	Non-forborne exposures	Forborne exposures	Total
	€000	€000	€000	€000	€000
As at 31 March 2019					
Stage 1					
Neither past due nor credit-impaired	1,578,341	30,524	75,033	-	1,683,898
Stage 2					
Neither past due nor credit-impaired	91,538	5,703	-	-	97,241
Past due but not impaired:					
- by up to 30 days	-	-	1,175	434	1,609
- between 31 to 60 days	-	-	121	-	121
Stage 3					
Impaired, net of credit loss allowances	5,321	59,788	480	8,805	74,394
Loans and advances to customers, net of Stage 3 credit loss allowances	1,675,200	96,015	76,809	9,239	1,857,263
Stage 1 credit loss allowances	11,936	619	216	-	12,771
Stage 2 credit loss allowances	1,913	18	6	-	1,937
Stage 3 credit loss allowances	662	7,333	-	1,150	9,145

As at 31 December 2019, total gross forborne loans and advances to customers as a percentage of total gross loans and advances to customers of MeDirect Malta Group were equivalent to 11.72% (31 March 2019: 6.09%).

Interest income recognised by MeDirect Malta Group during the financial period ended 31 December 2019 in respect of forborne exposures amounted to €7.3 million (Year ended 31 March 2019: €6.8 million).

The movement in the gross carrying amount of forborne loans and advances to customers, before credit loss allowances, is analysed below:

	MeDirect Malta Group	
	31 December 2019	31 March 2019
	€000	€000
At beginning of financial period / year	**113,737**	128,247
Loans to which forbearance measures have been extended during the period / year without derecognition	**83,989**	60,330
Capitalised interest	**507**	1,389
Capitalised fees	**(94)**	(222)
Repayments or disposals	**(34,651)**	(42,324)
Loans exiting forborne status during the period / year without derecognition	**-**	(27,919)
De-recognised forborne loans due to further forbearance measures	**-**	(23,400)
Newly recognised loans as a result of forbearance measures	**-**	16,110
Write-offs	**(1,000)**	(1,671)
Recoveries	**-**	2,125
Amortisation of premium or discount	**(932)**	535
Exchange differences	**389**	537
At end of financial period / year	**161,945**	113,737

Capitalised fees included in the table above reflect amounts disbursed by customers in relation to the origination of the exposure. Such amounts are recognised as part of the gross carrying amount of the exposure in the form of deferred income and amortised over the life of the instrument.

As at 31 December 2019, credit loss allowances on the MeDirect Malta Group's forborne loans were equivalent to €11.9 million (31 March 2019: €9.1 million). Additions to credit loss allowances on forborne loans during the period amounted to €6.5 million (Year ended 31 March 2019: €6.7 million). Reversals of credit loss allowances on forborne loans during the period amounted to €3.7 million (Year ended 31 March 2019: €6.7 million).

The following tables show the gross carrying amounts of the MeDirect Malta Group's holdings of renegotiated loans and advances to customers analysed by industry sector and stage:

	MeDirect Malta Group			
	Stage 1	Stage 2	Stage 3	Total
	€000	€000	€000	€000
As at 31 December 2019				
Administrative and support services	**16,889**	**-**	**-**	**16,889**
Real estate and construction	**2,506**	**18,155**	**7,232**	**27,893**
Information and communication	**13,258**	**-**	**-**	**13,258**
Manufacturing	**-**	**13,656**	**26,792**	**40,448**
Professional, scientific and technical activities	**29,892**	**-**	**17,509**	**47,401**
Wholesale and retail trade; Repair of motor vehicles and motorcycles	**-**	**-**	**16,056**	**16,056**
	62,545	**31,811**	**67,589**	**161,945**
As at 31 March 2019				
Real estate and construction	-	-	23,717	23,717
Manufacturing	14,397	-	-	14,397
Financial and insurance activities	16,127	-	36,379	52,506
Professional, scientific and technical activities	-	5,704	658	6,362
Wholesale and retail trade; Repair of motor vehicles and motorcycles	-	-	15,987	15,987
Other	-	433	335	768
	30,524	6,137	77,076	113,737

The Group's forborne loans within the International Lending portfolio as at 31 December 2019 consist of corporate exposures based in the European Union, amounting to €122 million, and in the United States, amounting to €40 million. All forborne loans within this portfolio as at 31 March 2019 consist of corporate exposures based in the European Union. The forborne loans classified within the Local Lending portfolio are mainly categorised as exposures to corporate customers within the real estate and construction sector.

2.2.6 Write-off policy

The Group writes off financial assets when the relevant Management Credit Committee of MeDirect Malta and MeDirect Belgium determines that the balance is uncollectible. This determination is made after considering information such as the occurrence of significant changes in the borrower's/issuer's financial position such that the borrower/issuer can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure. Financial assets written off by the Group during the financial period ended 31 December 2019 amounted to €1 million (Year ended 31 March 2019: €17.3 million).

2.2.7 Collateral

The Group holds collateral against loans and advances to customers classified under the Local Lending and Dutch Mortgage portfolios in the form of hypothecary rights over immovable assets, registered rights over movable assets and guarantees. The assets held as collateral are assigned a fair value at the time of credit approval. The assigned value is regularly monitored to identify assets that need revaluation.

Depending on the customer's standing and the type of product, in certain circumstances facilities may be provided on an unsecured basis, although the Group has limited appetite for such agreements. In the majority of lending facilities, a charge over collateral is obtained and considered in determining the credit risk appetite and risk-return profile of all lending decisions. In the event of a default, the Group may utilise the collateral as a source of repayment. Depending on its form, collateral can have a significant financial effect in mitigating exposure to credit risk.

Collateral received by the Group includes residential and commercial property, as well as financial collateral such as debt securities and cash on deposit. The immovable property collateral received in respect of exposures within the Local Lending and Dutch Mortgage portfolios is mainly located in Malta and the Netherlands respectively. The Group follows Articles 124 to 126 of the CRR in order to determine whether exposures are fully and completely secured by immovable property, and which risk weight to apply in order to calculate the own funds requirement.

The following tables show the gross carrying amount (before credit loss allowances) of the loans and advances to customers classified under the Local Lending portfolio by level of collateral expressed through the loan-to-value ratio ("LTV"). The collateral measured for the purposes of the tables below consists of fixed first charges on real estate and charges over cash and marketable financial instruments. The collateral amounts represent the expected market value on an open market basis for real estate: no adjustment has been made to the collateral for any expected costs of recovery. Cash is valued at its nominal value and marketable securities at their fair value. If an exposure is fully cash secured (100% LTV), no ECL is measured in this respect, whereas ECL is calculated on exposures which are partially cash secured and having a LTV ratio less than 100%.

MeDirect Malta Group	**Non-forborne**		**Forborne**		**Total**	
	Gross carrying amount €000	**Credit loss allowance €000**	**Gross carrying amount €000**	**Credit loss allowance €000**	**Gross carrying amount €000**	**Credit loss allowance €000**
As at 31 December 2019						
Stage 1						
a) Not collateralised	**338**	**(21)**	**-**	**-**	**338**	**(21)**
b) Fully collateralised						
- Up to 50% LTV	**36,715**	**(38)**	**-**	**-**	**36,715**	**(38)**
- 51% to 75% LTV	**35,750**	**(165)**	**-**	**-**	**35,750**	**(165)**
- 76% to 90% LTV	**1,879**	**(27)**	**2,506**	**(28)**	**4,385**	**(55)**
	74,682	**(251)**	**2,506**	**(28)**	**77,188**	**(279)**
Stage 2						
a) Fully collateralised						
- Up to 50% LTV	**1,134**	**-**	**2,552**	**-**	**3,686**	**-**
- 51% to 75% LTV	**46**	**-**	**736**	**(73)**	**782**	**(73)**
	1,180	**-**	**3,288**	**(73)**	**4,468**	**(73)**
Stage 3						
a) Not collateralised	**73**	**(1)**	**-**	**-**	**73**	**(1)**
b) Fully collateralised						
- Up to 50% LTV	**354**	**-**	**626**	**-**	**980**	**-**
- 91% to 100% LTV	**-**	**-**	**6,606**	**-**	**6,606**	**-**
	427	**(1)**	**7,232**	**-**	**7,659**	**(1)**

MeDirect Malta Group	Non-forborne		Forborne		Total	
	Gross carrying amount €000	Credit loss allowance €000	Gross carrying amount €000	Credit loss allowance €000	Gross carrying amount €000	Credit loss allowance €000
As at 31 March 2019						
Stage 1						
a) Not collateralised	717	-	-	-	717	-
b) Fully collateralised						
- Up to 50% LTV	29,393	(3)	-	-	29,393	(3)
- 51% to 75% LTV	40,588	(161)	-	-	40,588	(161)
- 76% to 90% LTV	4,290	(52)	-	-	4,290	(52)
- 91% to 100% LTV	45	-	-	-	45	-
	75,033	(216)	-	-	75,033	(216)
Stage 2						
a) Fully collateralised						
- Up to 50% LTV	623	-	434	-	1,057	-
- 51% to 75% LTV	673	(6)	-	-	673	(6)
	1,296	(6)	434	-	1,730	(6)
Stage 3						
a) Fully collateralised						
- Up to 50% LTV	443	-	1,361	-	1,804	-
- 51% to 75% LTV	-	-	1,327	(217)	1,327	(217)
- 76% to 90% LTV	37	-	6,609	(275)	6,646	(275)
b) Partially collateralised						
- greater than 100% LTV	-	-	658	(658)	658	(658)
	480	-	9,955	(1,150)	10,435	(1,150)

New business in the Group's Dutch Mortgage portfolio commenced during September 2019. In this regard, all exposures within the Dutch Mortgage portfolio as at 31 December 2019 are non-forborne and classified as Stage 1 exposures. The following table shows the gross carrying amount (before credit loss allowances) of the loans and advances to customers classified under the Dutch Mortgage portfolio by level of collateral expressed through the LTV ratio. The collateral measured for the purposes of the table below consists of fixed first charges on real estate. Guarantees issued by the Dutch government (NHG) in respect of a loan represent additional security.

MeDirect Malta Group	Non-forborne	
	Gross carrying amount €000	Credit loss allowance €000
As at 31 December 2019		
Stage 1		
a) Fully collateralised		
- Up to 50% LTV	**3,015**	**-**
- 51% to 75% LTV	**23,999**	**(2)**
- 76% to 90% LTV	**35,295**	**(2)**
- 91% to 100% LTV	**65,897**	**(2)**
b) Partially collateralised		
- greater than 100%	**5,313**	**(2)**
	133,519	**(8)**

As at 31 December 2019 the Group held senior secured loans to international borrowers classified under the International Lending portfolio which amounted to €1.1 billion (31 March 2019: €1.8 billion). In respect of such financial assets, the Group normally has a right over the borrower's unencumbered assets.

All the Group's exposures classified under the Treasury Investment portfolio as at 31 December 2019 and 31 March 2019 are unsecured with the exception of a sub-portfolio of covered bonds amounting to €518.6 million (31 March 2019: €381.2 million) which are backed by a separate group of assets in the form of loans. Similarly, all exposures classified under the Securitisation Investment portfolio as at 31 December 2019 are also backed by a separate group of assets in the form of loans.

2.2.8 Forward-looking information incorporated in the ECL model

The Group has chosen to apply five macroeconomic scenarios sourced from an external vendor to the PD and LGD term structures for the estimation of credit loss allowances for its stage 1 and stage 2 exposures.

The five macroeconomic scenarios capture non-linearity across the credit portfolios. The scenarios generated include a central, or baseline, scenario and two additional "alternative" scenarios on each side of the baseline to reflect severe and less severe upside and downside scenarios. The scenarios are constructed in accordance with target severity for each of the scenarios. While the baseline scenario is by design in the middle of possible future economic outcomes, the alternative scenarios capture alternative economic conditions that are equally distanced from the baseline in terms of their severity. After their construction, the scenarios are each assigned probability weights based on their severity and on how well they approximate (simulated) possible future economic developments. The scenarios are generated/refreshed on a quarterly basis.

The relative severity of each scenario, together with the relative probability weighting, is disclosed in the table below. The appropriateness of the relative severity and probability weights of the scenarios is re-assessed on a periodic basis in order to ensure that the model is accurately estimating unbiased and probability-weighted ECLs.

Scenarios	**Severe Upside**	**Upside**	**Baseline**	**Downside**	**Severe Downside**
Scenario Description	Exceptionally Strong Growth	Stronger Near-Term Growth	Consensus Scenario	Moderate to Deep Recession	Protracted Slump
Severity	96%	90%	50%	10%	4%
Probability Weight	7%	23%	40%	23%	7%

The following tables describe the key country-level macroeconomic variables ("MEVs") used in the baseline and alternative scenarios for the measurement of ECL for all five portfolios as at 31 December 2019 and 31 March 2019. For exposures within the International Lending and Treasury Investment portfolios, note that Eurozone MEVs are in some cases used in ECL models rather than the country-level MEVs as they are deemed to have a higher correlation to the country specific portfolio assets. For exposures within the Local Lending portfolio, Malta-specific MEVs are used for the measurement of credit loss allowances. The key MEVs used for the estimation of ECL for exposures classified within these three portfolios comprise real GDP growth, the performance of stock market indices and unemployment rates.

With respect to the Dutch Mortgage portfolio, the Group utilises regional-level as well as national-level MEVs as appropriate in order to capture regional level peculiarities. The key MEVs used for the estimation of ECL in respect of exposures classified within the Dutch Mortgage portfolio comprise the House Price Index, unemployment rates and 10-year treasury rates, with the national level forecasts used in the ECL calculation being disclosed in the table hereunder.

The ECL model for the measurement of credit loss allowances for exposures classified within the Securitisation Investment portfolio uses Euribor and Libor GBR 3-month and 1-month rates as well as the same MEVs used for the purposes of the International Lending portfolio, since the pool of underlying assets securing the Group's investment in CLO structured tranches is similar to the exposures classified within the International Lending portfolio.

Economic Scenarios MEVs used for the Group's portfolios: (5-year average Q1 2020 – Q4 2024)

Economic Scenarios MEVs (5yr average Q1 2020 - Q4 2024)	Severe Upside	Upside	Baseline	Downside	Severe Downside
	"Exceptionally Strong Growth"	"Stronger Near-Term Growth"	"Consensus Scenario"	"Moderate to Deep Recession"	"Protracted Slump"
International Lending and Treasury Investment Portfolios Key MEVs					
Real Gross Domestic Product - Annualised Growth %					
Austria	2.1%	1.8%	1.4%	0.6%	0.4%
Belgium	2.6%	2.0%	1.5%	1.0%	0.6%
Denmark	1.8%	1.7%	1.0%	0.2%	-0.4%
Finland	2.4%	1.8%	1.4%	0.4%	-0.7%
France	2.1%	1.8%	1.4%	0.7%	0.3%
Germany	2.2%	1.6%	1.1%	0.5%	-0.3%
Italy	1.4%	1.3%	1.1%	0.5%	0.0%
Luxembourg	4.1%	3.7%	3.0%	2.1%	1.4%
Netherlands	3.1%	2.7%	1.9%	0.9%	0.0%
Spain	2.3%	1.9%	1.6%	0.3%	-0.2%
Sweden	2.4%	2.2%	1.9%	1.3%	0.8%
Switzerland	2.2%	1.8%	1.3%	0.8%	0.2%
United Kingdom	2.3%	1.8%	1.3%	0.7%	-0.2%
US	3.3%	2.7%	2.2%	1.7%	1.1%
Eurozone	2.3%	1.9%	1.4%	0.6%	-0.1%
Stock Market Index - Annualised Growth %					
Austria	4.9%	3.8%	3.4%	3.4%	1.2%
Belgium	1.8%	0.8%	0.6%	0.8%	-1.4%
Denmark	4.8%	3.6%	3.1%	1.7%	-0.9%
Finland	-0.2%	-1.1%	-1.3%	-2.3%	-3.4%
France	3.3%	2.6%	1.7%	-0.6%	-3.6%
Germany	5.2%	3.4%	2.4%	1.3%	-3.2%
Italy	4.4%	3.2%	2.3%	1.2%	-2.4%
Luxembourg	4.9%	2.6%	0.2%	-3.8%	-9.7%
Netherlands	6.2%	4.5%	3.4%	2.4%	-4.0%
Spain	0.9%	-0.1%	-0.3%	-0.5%	-1.4%
Sweden	-0.7%	-0.8%	-0.9%	-2.0%	-2.7%
Switzerland	1.9%	1.3%	0.9%	0.9%	-2.2%
United Kingdom	3.9%	3.0%	2.5%	2.0%	-0.5%
US	5.8%	4.4%	2.7%	0.6%	-4.2%
Eurozone	4.2%	3.0%	2.1%	0.8%	-2.8%
Unemployment Rate - Annualised Growth %					
Austria	-1.1%	-0.9%	0.0%	1.9%	3.3%
Belgium	-1.0%	1.1%	3.4%	7.8%	10.3%
Denmark	0.0%	0.1%	0.4%	2.7%	4.7%
Finland	1.3%	2.1%	2.8%	5.1%	9.7%
France	-1.6%	-1.3%	-0.8%	1.1%	2.4%
Germany	2.9%	3.2%	3.7	6.5%	9.3%
Italy	0.4%	0.8%	1.4%	8.2%	12.3%
Luxembourg	-1.0%	-0.3%	1.0%	4.7%	6.9%
Netherlands	1.0%	2.9%	4.7%	9.9%	12.5%
Spain	-5.0%	-3.6%	-2.8%	-0.6%	2.1%
Sweden	-0.5%	-0.3%	-0.2%	2.5%	5.6%
Switzerland	-3.4%	-2.7%	-1.4%	-0.6%	0.5%
United Kingdom	-2.9%	-0.3%	3.8%	10.1%	13.8%
US	0.71	3.1%	4.8%	10.0%	14.7%
Eurozone	-1.5%	-0.7%	0.2%	4.0%	6.9%
Local Lending Portfolio Key MEVs - Annualised Growth %					
Malta Real GDP	5.0%	4.2%	3.3%	1.5%	0.2%
Malta Stock Market Index	9.2%	8.1%	7.1%	6.5%	6.1%
Malta Unemployment Rate	-1.0%	1.4%	2.6%	7.7%	10.8%
Dutch Mortgage Portfolio Key MEVs - Annualised Growth %					
Netherlands HPI	1.6%	1.0%	0.1%	-1.0%	-2.5%
Netherlands 10Yr Treasury	2.4%	1.9%	1.2%	0.2%	-0.1%
Netherlands Unemployment Rate	1.0%	2.9%	4.7%	9.9%	12.5%
Securitisation Investment Portfolio Key MEVs - Annualised Growth %					
Euribor 3M	1.8%	1.6%	1.4%	0.23%	0.2%
Libor GBR 3M	1.8%	1.6%	1.5%	0.3%	0.3%

Economic Scenarios MEVs used for the Group's portfolios: (5-year average Q2 2019 – Q1 2024)

Economic Scenarios MEVs (5yr average Q2 2019 – Q1 2024)	Severe Upside "Exceptionally Strong Growth"	Upside "Stronger Near-Term Growth"	Baseline "Consensus Scenario"	Downside "Moderate to Deep Recession"	Severe Downside "Protracted Slump"
Real Gross Domestic Product - Annualised Growth %					
Austria	2.4%	2.1%	1.7%	0.6%	0.2%
Belgium	2.8%	2.3%	1.7%	1.1%	0.3%
Denmark	1.9%	1.8%	1.1%	0.3%	-0.3%
Finland	2.4%	1.7%	1.4%	0.3%	-0.8%
France	2.3%	2.0%	1.6%	0.9%	0.3%
Germany	2.4%	1.8%	1.3%	0.7%	-0.1%
Italy	1.3%	1.2%	1.0%	0.5%	0.1%
Luxembourg	4.0%	3.6%	3.0%	2.3%	1.5%
Malta	2.4%	2.2%	1.8%	1.1%	0.4%
Netherlands	1.2%	1.1%	0.8%	0.4%	0.1%
Spain	2.5%	2.1%	1.8%	0.4%	-0.1%
Sweden	2.1%	2.0%	1.8%	1.7%	1.5%
Switzerland	2.5%	2.1%	1.6%	1.1%	0.5%
United Kingdom	2.5%	2.2%	1.6%	0.9%	0.3%
United States	3.4%	2.8%	2.2%	1.7%	1.2%
Euro Zone	2.3%	1.9%	1.5%	0.8%	0.1%
Stock Market Index - Annualised Growth %					
Austria	8.2%	6.9%	5.0%	1.0%	-3.3%
Belgium	6.3%	5.4%	4.7%	4.3%	1.4%
Denmark	3.8%	2.6%	2.1%	1.0%	-1.5%
Finland	4.9%	3.8%	3.5%	1.9%	0.6%
France	7.8%	7.4%	5.9%	2.3%	-1.4%
Germany	7.1%	5.4%	4.3%	3.3%	-1.1%
Italy	6.2%	5.2%	4.1%	2.3%	-2.3%
Luxembourg	7.8%	5.4%	2.9%	-1.5%	-7.6%
Malta	2.1%	1.8%	1.4%	0.7%	0.2%
Netherlands	7.4%	5.6%	4.6%	3.6%	-2.8%
Spain	6.0%	5.1%	4.5%	3.7%	1.9%
Sweden	1.6%	1.4%	1.3%	1.3%	-0.2%
Switzerland	2.4%	1.9%	1.5%	1.3%	-1.7%
United Kingdom	4.9%	4.3%	3.2%	2.2%	0.3%
United States	6.2%	4.8%	3.7%	1.5%	-3.5%
Euro Zone	7.1%	5.9%	4.7%	2.9%	-1.2%
Unemployment rate - Annualised Growth %					
Austria	0.4%	-0.2%	0.6%	3.4%	5.1%
Belgium	-0.5%	1.6%	3.7%	7.7%	10.1%
Denmark	-3.6%	-3.0%	-0.3%	1.8%	3.8%
Finland	-4.8%	-0.6%	1.7%	7.4%	11.9%
France	-2.9%	-2.2%	-1.2%	0.7%	2.0%
Germany	1.8%	2.2%	3.1%	5.2%	6.1%
Italy	-2.2%	-1.9%	-0.3%	3.8%	6.4%
Luxembourg	-1.3%	-0.1%	1.8%	4.0%	6.1%
Malta	-1.2%	-0.5%	-0.2%	1.2%	2.6%
Netherlands	1.7%	3.5%	5.1%	8.8%	14.3%
Spain	-3.5%	-2.2%	-1.5%	0.5%	2.9%
Sweden	0.7%	1.0%	1.3%	4.9%	8.6%
Switzerland	-4.2%	-3.5%	-2.1%	-1.2%	-0.2%
United Kingdom	-2.6%	0.0%	4.0%	10.2%	13.8%
United States	0.5%	2.6%	4.2%	9.8%	13.1%
Euro Zone	-2.2%	-1.3%	-0.1%	2.9%	5.2%

Management Overlay

As at 31 March 2019, in view of the specific uncertainties facing the UK economy attributable to Brexit uncertainty at time of reporting and following a qualitative assessment of the five macroeconomic scenarios available as at the reporting date, Management invoked an overlay in the ECL measurement for the International Lending portfolio (which has a high proportion of UK exposures) to ensure that such risks were adequately captured in the determination of expected credit losses for this portfolio.

This overlay was effected by applying a one-notch downgrade to the Through-The-Cycle ("TTC") implied ratings (and indirectly to the underlying PDs) of all UK exposures in the International Lending portfolio resulting in the recognition of additional ECL amounting to €1.9 million.

As at 31 December 2019, uncertainty continues to persist around the UK and global economic outlook, including the outcome of EU exit negotiations, the sustainability of global economic growth, trade wars and geopolitical risks.

However, despite the existence of such uncertainty, Management has assessed that the multiple macroeconomic scenarios used in the measurement of ECL for exposures within the International Lending portfolio as at 31 December 2019 are deemed to include reasonable assumptions in terms of the range, severity and probability weightings of possible Brexit outcomes (including downside scenarios with a no-deal Brexit at the end of 2020). Accordingly, as at 31 December 2019, no management overlay was deemed necessary to reflect risks related to Brexit, giving rise to a reversal reflected within profit or loss.

2.2.9 Concentration of credit risk exposures

2.2.9.1 Concentration of investment securities

Treasury Investment portfolio

The Group's exposure to sovereign Eurozone government bonds as at 31 December 2019 and 31 March 2019, representing 11% (31 March 2019: 8%) of the total investment securities within the Treasury Investment portfolio, related to German Government securities. Credit loss allowances amounting to €80 thousand were recognised in respect of these exposures as at 31 December 2019 (31 March 2019: €5 thousand).

The Group monitors concentrations of investment securities for credit risk by type of exposure. An analysis of concentrations of credit risk at the reporting date for the financial period ended 31 December 2019 and the financial year ended 31 March 2019 is shown below.

	Measured at amortised cost		**Measured at fair value through other comprehensive income**	
MeDirect Malta Group	**31 December 2019**	31 March 2019	**31 December 2019**	31 March 2019
	€000	€000	**€000**	€000
Concentration by nature				
Carrying amount:				
Covered bonds	**193,086**	196,727	**325,488**	184,478
National and regional government	**35,466**	35,601	**64,936**	18,976
Supranational and agencies	**189,445**	192,681	**109,868**	62,118
Corporations	**12,202**	-	**-**	-
Total	**430,199**	425,009	**500,292**	265,572

Securitisation Investment portfolio

The Group's Securitisation Investment portfolio comprises the investment in GH1-2019 structured note tranches, amounting to €19.9 million as at 31 December 2019, as well as CLO transactions managed by third-party entities, amounting to €233.7 million. The Group's investment in GH1-2019 comprises a 5% vertical slice of each of the tranches for "Risk Retention" purposes, with a pool of leveraged loans as collateral. The Group's investment in CLO transactions managed by third-party entities comprises positions in the most senior tranche of nine different CLOs, all of which are also collateralised by a pool of leveraged loans.

As at 31 December 2019, credit loss allowances in respect of exposures classified under these two sub-portfolios and measured at amortised cost amounted to €19 thousand. The Group's investment in the equity tranche of GH1-2019, amounting to €1.4 million as at 31 December 2019, is measured at FVTPL and accordingly is not subject to impairment in accordance with IFRS 9.

2.2.9.2 Concentration of loans and advances to customers

An analysis of concentration of loans and advances to customers by industry sector and geography is shown in the following tables.

As at 31 December 2019, exposures to UK counterparties classified under the International Lending portfolio and categorised as EU exposures in the tables below amounted to €312.2 million (31 March 2019: €484.2 million).

Exposures classified under both the Local Lending and Dutch Mortgage portfolios are categorised as EU exposures in the tables below and are mainly attributable to the "real estate activities" and "households and individuals" sectors respectively.

The Group's Dutch Mortgage portfolio consists of Dutch state-guaranteed mortgages (indirectly guaranteed through the NHG). These mortgages are prime Dutch mortgages that benefit from a guarantee from a private non-profit fund and indirectly from a government guarantee.

MeDirect Malta Group	Gross carrying amount					Credit loss allowance				
	EU	Other European countries	North America	Asia	Total	EU	Other European countries	North America	Asia	Total
	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000
Stage 1										
As at 31 December 2019										
Accommodation and food service activities	32,173	-	5,467	-	37,640	(190)	-	(79)	-	(269)
Administrative and support service activities	38,626	-	-	-	38,626	(741)	-	-	-	(741)
Arts, entertainment and recreation activities	50,430	-	14,969	-	65,399	(245)	-	(124)	-	(369)
Construction	1,550	-	-	-	1,550	(13)	-	-	-	(13)
Education	18,946	-	1,311	-	20,257	(107)	-	-	-	(107)
Financial and insurance activities	276,695	20,086	13,265	4,140	314,186	(1,747)	(8)	(49)	(6)	(1,810)
Households and individuals	133,519	-	-	-	133,519	(8)	-	-	-	(8)
Human health and social work activities	69,674	-	-	-	69,674	(413)	-	-	-	(413)
Information and communication	46,688	-	48,350	13,163	108,201	(309)	-	(771)	(316)	(1,396)
Manufacturing	147,246	-	4,149	-	151,395	(931)	-	(20)	-	(951)
Professional, scientific and technical activities	68,871	-	-	-	68,871	(817)	-	-	-	(817)
Public administration and defence; compulsory social security	12,000	-	-		12,000	(53)	-	-	-	(53)
Real estate activities	99,994	-	-	-	99,994	(338)	-	-	-	(338)
Transport and storage	7,884	-	6,855		14,739	(76)	-	(92)	-	(168)
Water supply; sewerage, waste management and remediation activities	11,449	-	-		11,449	(85)	-	-	-	(85)
Wholesale and retail trade, repairs of motor vehicles and motorcycles	26,862	-	-	-	26,862	(196)	-	-	-	(196)
	1,042,607	20,086	94,366	17,303	1,174,362	(6,269)	(8)	(1,135)	(322)	(7,734)
Stage 2										
As at 31 December 2019										
Arts, entertainment and recreation activities	9,497	-	-	-	9,497	(295)	-	-	-	(295)
Construction	14,867	-	-	-	14,867	(305)	-	-	-	(305)
Financial and insurance activities	25,936	-	-	-	25,936	(553)	-	-	-	(553)
Information and communication	31,167	-	-	-	31,167	(357)	-	-	-	(357)
Manufacturing	18,756	-	11,845	-	30,601	(173)	-	(184)	-	(357)
Professional, scientific and technical activities	10,769	-	-	-	10,769	(85)	-	-	-	(85)
Real estate activities	4,468	-	-	-	4,468	(73)	-	-	-	(73)
Wholesale and retail trade, repairs of motor vehicles and motorcycles	330	-	-	-	330	(4)	-	-	-	(4)
	115,790	-	11,845	-	127,635	(1,845)	-	(184)	-	(2,029)
Stage 3										
As at 31 December 2019										
Financial and insurance activities	11,952	-	-	-	11,952	(2,650)	-	-	-	(2,650)
Manufacturing	-	-	26,792	-	26,792	-	-	(1,257)	-	(1,257)
Professional, scientific and technical activities	17,509	-	-	-	17,509	(3,435)	-	-	-	(3,435)
Real estate activities	7,659	-	-	-	7,659	(1)	-	-	-	(1)
Wholesale and retail trade, repairs of motor vehicles and motorcycles	16,056	-	-	-	16,056	(5,113)	-	-	-	(5,113)
	53,176	-	26,792	-	79,968	(11,199)	-	(1,257)	-	(12,456)

MeDirect Malta Group	Nominal amount					Credit loss allowance				
	EU	Other European countries	North America	Asia	Total	EU	Other European countries	North America	Asia	Total
	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000
Commitments to purchase financial assets, commitments to extend credit, guarantees and other commitments										
As at 31 December 2019										
Accommodation and food service activities	12,378	-	-	-	12,378	(16)	-	-	-	(16)
Administrative and support service activities	10,000	-	14,696	-	24,696	(23)	-	(75)	-	(98)
Arts, entertainment and recreation activities	35,713	-	-	-	35,713	(4)	-	-	-	(4)
Construction	17,546	-	-	-	17,546	(98)	-	-	-	(98)
Education	-	-	25,407	-	25,407	-	-	(193)	-	(193)
Electricity, Gas, Steam and Air Conditioning Supply	-	-	17,269	-	17,269	-	-	(46)	-	(46)
Containers, Packaging and Glass	10,000	-	-	-	10,000	-	-	-	-	-
Financial and insurance activities	169,079	10,000	65,582	-	244,661	(506)	(22)	(322)	-	(850)
Households and individuals	283,671	-	-	-	283,671	-	-	-	-	-
Human health and social work activities	42,594	-	8,906	-	51,500	(59)	-	(50)	-	(109)
Information and communication	17,647	-	12,424	-	30,071	(48)	-	(88)	-	(136)
Manufacturing	22,558	-	8,182	-	30,740	(257)	-	(279)	-	(536)
Professional, scientific and technical activities	2,000	-	-	-	2,000	(5)	-	-	-	(5)
Real estate activities	57,450	-	-	-	57,450	(6)	-	-	-	(6)
Wholesale and retail trade, repairs of motor vehicles and motorcycles	8,167	-	-	-	8,167	(15)	-	-	-	(15)
Fishing	14	-	-	-	14	-	-	-	-	-
Transportation and Storage	-	-	3,000	-	3,000	-	-	-	-	-
	688,817	10,000	155,466	-	854,283	(1,037)	(22)	(1,053)	-	(2,112)

MeDirect Malta Group	Gross carrying amount					Credit loss allowance				
	EU	Other European countries	North America	Asia	Total	EU	Other European countries	North America	Asia	Total
	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000
Stage 1										
As at 31 March 2019										
Accommodation and food service activities	1,635	-	-	-	1,635	-	-	-	-	-
Administrative and support service activities	17,480	-	5,731	-	23,211	(135)	-	(23)	-	(158)
Arts, entertainment and recreation activities	44,451	-	-	-	44,451	(301)	-	-	-	(301)
Construction	23,499	-	-	-	23,499	(70)	-	-	-	(70)
Financial and insurance activities	765,372	28,467	60,578	-	854,417	(5,915)	(63)	(555)	-	(6,533)
Human health and social work activities	52,086	-	-	-	52,086	(342)	-	-	-	(342)
Information and communication	117,833	-	66,351	-	184,184	(598)	-	(1,062)	-	(1,660)
Manufacturing	251,390	-	5,404	-	256,794	(1,484)	-	(23)	-	(1,507)
Professional, scientific and technical activities	103,102	13,452	16,950	10,187	143,691	(1,191)	(42)	(535)	(13)	(1,781)
Real estate activities	26,901	-	-	-	26,901	(123)	-	-	-	(123)
Wholesale and retail trade, repairs of motor vehicles and motorcycles	38,218	-	17,373	-	55,591	(220)	-	(40)	-	(260)
Other	17,438	-	-	-	17,438	(36)	-	-	-	(36)
	1,459,405	41,919	172,387	10,187	1,683,898	(10,415)	(105)	(2,238)	(13)	(12,771)
Stage 2										
As at 31 March 2019										
Administrative and support service activities	1,103	-	-	-	1,103	(24)	-	-	-	(24)
Construction	1,296	-	-	-	1,296	(6)	-	-	-	(6)
Financial and insurance activities	86,181	-	2,227	-	88,408	(1,863)	-	-	-	(1,863)
Professional, scientific and technical activities	6,080	-	-	-	6,080	(27)	-	-	-	(27)
Other service activities	-	-	1,650	-	1,650	-	-	(17)	-	(17)
Other	434	-	-	-	434	-	-	-	-	-
	95,094	-	3,877	-	98,971	(1,920)	-	(17)	-	(1,937)
Stage 3										
As at 31 March 2019										
Construction	24,056	-	-	-	24,056	(550)	-	-	-	(550)
Financial and insurance activities	12,903	-	29,458	-	42,361	(2,104)	-	(2,349)	-	(4,453)
Professional, scientific and technical activities	658	-	-	-	658	(933)	-	-	-	(933)
Wholesale and retail trade, repairs of motor vehicles and motorcycles	15,987	-	-	-	15,987	(3,209)	-	-	-	(3,209)
Other	477	-	-	-	477	-	-	-	-	-
	54,081	-	29,458	-	83,539	(6,796)	-	(2,349)	-	(9,145)

MeDirect Malta Group	Nominal amount					Credit loss allowance				
	EU	Other European countries	North America	Asia	Total	EU	Other European countries	North America	Asia	Total
	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000
Commitments to purchase financial assets, commitments to extend credit, guarantees and other commitments										
As at 31 March 2019										
Accommodation and food service activities	2,808	-	-	-	2,808	-	-	-	-	-
Administrative and support service activities	313	-	-	-	313	-	-	-	-	-
Arts, entertainment and recreation activities	16,010	-	-	-	16,010	-	-	-	-	-
Construction	50,742	-	-	-	50,742	(24)	-	-	-	(24)
Financial and insurance activities	216,652	10,000	115,753	-	342,405	(704)	(26)	(389)	-	(1,119)
Human health and social work activities	23,314	-	8,908	-	32,222	(60)	-	-	-	(60)
Information and communication	21,537	-	17,738	-	39,275	(11)	-	(139)	-	(150)
Manufacturing	40,368	-	-	-	40,368	(191)	-	-	-	(191)
Professional, scientific and technical activities	28,456	-	-	-	28,456	(41)	-	-	-	(41)
Real estate activities	7,028	-	-	-	7,028	-	-	-	-	-
Wholesale and retail trade, repairs of motor vehicles and motorcycles	7,435	-	9,000	-	16,435	-	-	-	-	-
Other	2,717	-	-	-	2,717	(14)	-	(34)	-	(48)
	417,380	10,000	151,399	-	578,779	(1,045)	(26)	(562)	-	(1,633)

2.2.10 Offsetting financial assets and financial liabilities

The Group is eligible to present certain financial assets and financial liabilities on a net basis in the statement of financial position in accordance with the Group's policy described in Note 1.6 'Offsetting Financial Instruments'.

The following tables set out:

- the impact of offsetting financial assets and financial liabilities on the consolidated statement of financial position;
- the financial impact of netting for instruments subject to an enforceable master netting arrangement or similar agreement; and
- the available financial collateral received or pledged in relation to the total amounts of assets and liabilities that were not offset.

The Group enters into derivative transactions under International Swap and Derivatives Association (ISDA) master netting agreements. In general, under such agreements the amounts owed by each counterparty on a single day in respect of all transactions outstanding in the same currency are aggregated into a single net amount that is payable by one party to the other. In certain circumstances such as when an event of default occurs, all outstanding transactions under the agreement are terminated and settled in a single net amount per currency.

The ISDA agreements do not meet the criteria for offsetting the positive and negative values in the statement of financial position. This is attributable to the fact that the Group and its counterparties do not have any currently legally enforceable right to settle on a net basis or to realise the asset and settle the liability simultaneously because the right to offset is enforceable only on the occurrence of future credit events.

The Group also enters in certain transactions which are settled through clearing houses. The gross settlement mechanisms used by clearing houses, with features that eliminate credit and liquidity risk in a single settlement process, are effectively equivalent to net settlement. As a result, such financial assets and liabilities are offset, and the net amount is reported in the consolidated statement of financial position.

The Group also pledges and receives collateral in the form of cash and marketable securities primarily for sale and repurchase agreements and for margining purposes on OTC derivative transactions. Pledges are generally conducted under terms that are usual and customary for standard contracts and transactions of this nature. The rights of set off relating to such collateral are conditional upon the default of the counterparty.

The net amount of financial instruments that do not meet the on-balance sheet offsetting criteria, including collateral pledged and received, presented within the following tables is equal to the amount presented in the statement of financial position for that instrument.

Below is a table showing financial instruments subject to offsetting, enforceable master netting arrangements and similar agreements.

	Gross amounts of recognised financial instruments €000	Gross amounts of recognised financial instruments offset in the statement of financial position €000	Net amounts of financial instruments presented in the statement of financial position €000	Related amounts not offset in the statement of financial position: Financial instruments that do not meet offsetting criteria €000	Related amounts not offset in the statement of financial position: Financial collateral pledged /(received) (incl. cash) €000	Net amount €000
MeDirect Malta Group						
As at 31 December 2019						
Financial assets						
Derivative financial instruments	**2,020**	**-**	**2,020**	**(939)**	**-**	**1,081**
Financial liabilities						
Derivative financial instruments	**(4,182)**	**-**	**(4,182)**	**939**	**10,051**	**6,808**
Amounts owed to financial institutions	**(224,012)**	**-**	**(224,012)**	**-**	**226,864**	**2,852**
	(228,194)	**-**	**(228,194)**	**939**	**236,915**	**9,660**
As at 31 March 2019						
Financial assets						
Derivative financial instruments	716	-	716	(144)	-	572
Financial liabilities						
Derivative financial instruments	(11,327)	-	(11,327)	144	23,920	12,737
Amounts owed to financial institutions	(198,887)	-	(198,887)	-	197,500	(1,387)
	(210,214)	-	(210,214)	144	221,420	11,350

2.3 Liquidity risk

2.3.1 Management of liquidity risk

The Group's overall liquidity and funding position is managed in the normal course of business by its Treasury team, under the supervision of the Asset and Liability Committee ("ALCO") and by following processes set out in the Group's Liquidity Risk Management Policy ("LRMP").

The Group's Risk team ensures that all liquidity risks are identified, measured, overseen and appropriately reported. These risks principally relate to the Group's banking activities and are managed by MeDirect Malta's Board of Directors. The Group's risk management activities largely overlap with the roles and responsibilities of the Group's Treasury and Risk teams. In this regard, analysis of liquidity risk is the joint responsibility of the Group's Treasury and Risk teams under the oversight of the ALCO and the Board Risk Committee.

Management Asset and Liability Committee

The Group has established an Asset and Liability Committee ("ALCO") to ensure the Group has in place, and operates effectively, appropriate and robust strategies and policies to manage and optimise the Group's asset-liability mix and oversee the Group's capital, liquidity, funding, interest rate risk and foreign exchange ("FX") risk position. Group ALCO cascades Group strategies down across each business line and legal entities and across risk types and products. Group ALCO oversees and, where necessary, approves Group policies and objectives for assets and liability management, capital and funding management and allocation, market risk position and hedging activity, liquidity monitoring, capital usage and efficiency, product-pricing, fund transfer pricing, dealing and trading activities according to the risk appetite statement set by the Group Board. Group ALCO's authority covers MDB Group Limited and MeDirect Bank (Malta) plc. Belgium ALCO's authority covers MeDirect Bank SA. Group ALCO provides oversight and ensures that decisions taken at Belgium ALCO are aligned to the interests of the Group. Group ALCO is a sub-committee of the Group EXCO.

Board Risk Committee

The Board delegates to the Board Risk Committee its oversight responsibilities of the risk function. Therefore, the Board Risk Committee represents the principal forum for overseeing the Group's liquidity and funding risk. In addition, it is responsible for recommending to the Board an appropriate liquidity and funding risk appetite and for approving liquidity risk-related policies and recommendations. The Board Risk Committee is also responsible for ensuring that all liquidity risk controls are in accordance with regulatory requirements and best practice and for advising the Board on the coordination and prioritisation of liquidity risk management issues throughout the Group.

The Board Risk Committee reviews regular reports on the liquidity position of the Group. It is informed immediately of new and emerging liquidity concerns and ensures that Executive management takes appropriate remedial actions to address the concerns.

Roles and responsibilities

The Group's Treasury team, under the leadership of the Head of Treasury has primary responsibility for managing and reporting the Group's projected liquidity position (the "base case"). For liquidity purposes, the Group's balance sheet, encompassing both assets and liabilities, is managed on an intraday and day-to-day basis, and includes monitoring compliance with metrics of current liquidity. The department is also responsible for forecasting the Group's future cash flow profile, as well as for analysis and management of the Group's deposit book. This is executed under the leadership of the Head of Treasury.

The Group's Risk team, under the leadership of the Chief Risk Officer ("CRO"), has primary responsibility for monitoring current liquidity performance as well as defining potential adverse liquidity scenarios that should be considered, and for reporting exposure to these scenarios (the "downside case"). Under the leadership of the CRO, it is responsible for ensuring that all significant risks relating to liquidity are properly identified and clearly incorporated into the Group's risk management and reporting framework. It is also responsible for producing reports that show and analyse the Group's sensitivity to external events related to liquidity, including the definition of severe but plausible events that could constitute stress scenarios.

Funding strategy

Banks traditionally perform a role of liquidity transformation, whereby they fund through liabilities that are liquid in the short to medium term, in order to invest in longer term and less liquid assets. This mismatch of liquid liabilities and less liquid assets is a near-universal feature of bank balance sheets and clearly leads to a risk if liabilities cannot be rolled over when they mature (which may be every day in the case of money held in current or savings accounts).

The Group's strategy to mitigate this risk has four main components:

- Limiting its exposure to customer deposit withdrawal by use of term and notice accounts rather than overnight deposits as its primary instrument of customer funding, by focusing on the retail market to maximise granularity and by expanding outside Malta to reduce its dependence on a single market;
- Limiting its exposure to wholesale funding withdrawal by locking in term, rather than short-dated, funding against illiquid assets (where this is used at all: illiquid assets are primarily deposit funded) and by either diversifying its sources of funding in general or ensuring that it does not rely on funding that is at the discretion of market counterparties;
- Maintaining a contingency source of funding by ensuring that substantially all of its Treasury Investment portfolio is eligible for funding at the ECB or at Eurex if alternative sources are unavailable; and
- Holding a much higher than typical proportion of assets that could over time be liquidated in the secondary market.

The Group's objective is to maintain a prudent funding structure drawn from diverse funding sources in the short-, medium- and long-term.

Potential funding sources may include, but are not limited to:

- Deposits from retail and corporate customers;
- Bond issuance, either secured (for example through CLO structures), senior unsecured or subordinated;
- Issuance of capital instruments;
- Interbank funding (either secured, for example through repurchase agreements or Total Return Swaps, or unsecured); and
- Central Bank funding (although it is the Group's strategy not to rely on the Central Bank for funding in the normal course of events, but instead only used as a secondary source of financing).

In order to ensure that the Group has adequate liquidity to meet its near-term obligations, the Treasury team projects the Group's expected liquidity position for each day over the subsequent week, as well as the "residual" cash balance that takes into account known inflows and outflows (for example settlements of asset purchases or sales) beyond this period.

MDB Group Limited is the parent company of MeDirect Malta and MDB Group Limited together with its subsidiaries are referred to as “the Regulatory Group” or “MDB Group”. The MDB Group and the MeDirect Malta Group comply with the Liquidity Coverage Ratio (“LCR”) in relation to short-term liquidity and monitor the Net Stable Funding Ratio (“NSFR”) in order to assess long-term liquidity:

- The Liquidity Coverage Ratio (“LCR”): The ratio aims to ensure that institutions are able to withstand a 30-day period of stress by virtue of having sufficient unencumbered High Quality Liquid Assets (“HQLA”). HQLA consist of cash or assets that can be converted into cash at little or no loss of value in the markets. The LCR metric is designed to promote the short-term resilience of the Group’s liquidity profile, and became a minimum regulatory standard from 1 October 2015, under European Commission (“EC”) Delegated Regulation 2015/61.

  The table below displays the Group’s LCR as at 31 December 2019 and 31 March 2019:

	MDB Group	
	31 December 2019	31 March 2019
	%	%
Actual LCR	**716.2**	460.1

  During the period ended 31 December 2019 and the year ended 31 March 2019, the LCR was within both the regulatory minimum and the risk appetite set by the Group. Subsequent to 31 December 2019, as a result of the COVID-19 pandemic outbreak, given that many borrowers wanted to strengthen their balance sheets, in March 2020 MeDirect Malta experienced a significant rapid increase in drawdowns in respect of its revolving credit facilities within the International corporate lending portfolio. These were all honoured by MeDirect Malta. As a result of such unexpected rapid increase in drawdowns resulting from this unprecedented stress to the global economy, MeDirect Malta’s solo standalone LCR ratio fell below the regulatory minimum of 100% for two days. MeDirect Malta. The Bank took corrective actions immediately to ensure that the LCR reverts back to levels above 100%. At all times the Regulatory Group’s LCR ratio was significantly above 100% as overall the Group had strong liquidity levels to withstand these liquidity challenges emanating from the COVID-19 severe downturn.

- The Net Stable Funding Ratio (“NSFR”): This ratio looks at the relationship between long-term assets and long-term funding. The NSFR requires institutions to maintain sufficient stable funding relative to required stable funding and reflects a bank’s long-term funding profile (funding with a term of more than a year). It is designed to complement the LCR.

  The European calibration of NSFR is pending following the European Commission’s proposal in November 2016. As a result, the Regulatory Group calculates NSFR in line with Basel Committee on Banking Supervision Publication 295, pending its implementation in Europe. This calculation requires various interpretations of the text, and therefore the Group’s NSFR may not be directly comparable with the ratios of other institutions.

  The table below displays the Group’s NSFR as at 31 December 2019 and 31 March 2019:

	MDB Group	
	31 December 2019	31 March 2019
	%	%
Actual NSFR*	**130.1**	135.0

** Based on Short Term Exercise returns and calculated according to Basel Quantitative Impact Study guidelines*

2.3.2 Liquidity risk reporting

Reliable management reporting provides the Executive and the Board with timely and forward-looking information on its liquidity position. Reporting of risk measures is done on a frequent basis and compares current liquidity exposures to established limits to identify any emerging pressures and limit breaches.

The Group’s Risk team performs regular stress testing of its liquidity profile, as well as the availability of contingency funding options through both its ILAAP and monthly Maximum Cumulative Outflow (“MCO”) report. The MCO analyses the likely risks to the Group’s liquidity position and quantifies its ability to withstand the associated shocks through deployment of management contingency funding plan options. Summarised results from all of the various analyses are used as inputs to the MCO, with the liquidity impacts of different levels of severity of both idiosyncratic and market-wide scenarios modelled across a twelve-month time horizon.

The MCO reinforces the Group’s oversight of liquidity risk, by not only focusing its risk reporting on the ‘current’ state, but also providing regular and timely reporting of the potential ‘stress’ liquidity profile of the Group.

In addition, the Risk team produces a maturity mismatch report each month to provide oversight and monitoring of the mismatch between assets and liabilities. The Risk team also monitors deposit concentration within its monthly risk management report where the Group’s top ten depositors are monitored by also looking at the corporate sector and the product maturity ladder.

2.3.3 Contractual maturity ladder

The following is an analysis of financial assets and liabilities by remaining contractual maturities as at the reporting date, with the exception of the analysis of loans and advances to customers classified under the International Lending and Dutch Mortgage portfolios, that are based on the expected maturities, since this is how the liquidity of the Group is monitored on a regular basis. Refer also to Note 2.3.5 that provides an analysis of encumbered investments.

MeDirect Malta Group	**Not more than 1 month**	**Between 1 and 3 months**	**Between 3 months and 1 year**	**Between 1 and 5 years**	**More than 5 years**	**No maturity date**	**Total**
	€000	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**
As at 31 December 2019							
Assets							
Balances with central banks	221,859	-	-	-	-	19,864	241,723
Derivative financial instruments	856	30	150	268	268	448	2,020
Loans and advances to financial institutions	223,287	-	-	-	-	-	223,287
Loans and advances to customers	20,078	34,256	217,569	955,321	132,153	-	1,359,377
- International Lending portfolio	20,078	29,010	194,532	893,653	-	-	1,137,273
- Local Lending portfolio	-	5,246	23,037	60,679	-	-	88,962
- Dutch Mortgage portfolio	-	-	-	989	132,153	-	133,142
Investments	43,738	31,405	340,772	349,796	418,406	-	1,184,117
- Treasury portfolio	43,738	31,405	340,772	349,796	164,780	-	930,491
- Securitisation portfolio	-	-	-	-	253,626	-	253,626
Accrued income	4,569	175	4,009	5,550	78	-	14,381
Loans to related parties (included in other assets)	-	-	-	-	-	13,044	13,044
Other receivables (included in other assets)	1,803	-	-	-	-	32,533	34,336
Total financial assets	516,190	65,866	562,500	1,310,935	550,905	65,889	3,072,285
Liabilities							
Derivative financial instruments	1,046	1,816	1,320	-	-	-	4,182
Amounts owed to financial institutions	144,012	30,000	50,000	-	-	-	224,012
Amounts owed to customers	1,198,044	82,960	695,375	461,920	827	-	2,439,126
Subordinated liabilities	-	-	-	34,821	19,999	-	54,820
Accrued interest expense (incl. in accruals and deferred income)	709	910	5,642	57	-	-	7,318
Lease liabilities (incl. in other liabilities)	414	806	3,928	9,980	2,535		17,663
Bills payable (incl. in other liabilities)	5,649	-	-	-	-	-	5,649
Amounts due to related parties (incl. in other liabilities)	-	-	-	-	-	3,350	3,350
Total financial liabilities	1,349,874	116,492	756,265	506,778	23,361	3,350	2,756,120
Liquidity gap	(833,684)	(50,626)	(193,765)	804,157	527,544		
Cumulative liquidity gap	(833,684)	(884,310)	(1,078,075)	(273,918)	253,626		

MeDirect Malta Group	Not more than 1 month	Between 1 and 3 months	Between 3 months and 1 year	Between 1 and 5 years	More than 5 years	No maturity date	Total
	€000	€000	€000	€000	€000	€000	€000
As at 31 March 2019							
Assets							
Balances with central banks	23,373	-	-	-	-	123,612	146,985
Derivative financial instruments	127	-	141	-	-	448	716
Loans and advances to financial institutions	118,439	-	-	-	-	-	118,439
Loans and advances to customers	8,813	10,597	161,994	1,625,934	35,217	-	1,842,555
- International Lending portfolio	-	5,685	149,887	1,601,157	-	-	1,756,729
- Local Lending portfolio	8,813	4,912	12,107	24,777	35,217	-	85,826
Investments – Treasury portfolio	-	22,463	117,143	424,987	125,988	-	690,581
Accrued income	2,056	3,147	3,007	8,427	163	-	16,800
Loans to related parties (included in other assets)	-	-	-	-	-	15,305	15,305
Other receivables (included in other assets)	6,105	-	-	-	-	-	6,105
Total financial assets	158,913	36,207	282,285	2,059,348	161,368	139,365	2,837,486
Liabilities							
Derivative financial instruments	388	2,940	7,495	355	149	-	11,327
Amounts owed to financial institutions	93,887	15,000	90,000	-	-	-	198,887
Amounts owed to customers	816,418	119,634	738,120	527,919	-	-	2,202,091
Subordinated liabilities	-	-	22,342	-	44,796	-	67,138
Accrued interest expense (incl. in accruals and deferred income)	627	691	3,758	398	-	-	5,474
Bills payable (incl. in other liabilities)	4,551	-	-	-	-	-	4,551
Amounts due to related parties (incl. in other liabilities)	-	-	-	-	-	972	972
Total financial liabilities	915,871	138,265	861,715	528,672	44,945	972	2,490,440
Liquidity gap	(756,958)	(102,058)	(579,430)	1,530,676	116,423		
Cumulative liquidity gap	(756,958)	(859,016)	(1,438,446)	92,230	208,653		

Current accounts and savings deposits payable on demand or at short notice amounted to €1,167 million as at 31 December 2019 (31 March 2019: €734 million). This amount is disclosed within the 'Not more than 1 month' maturity grouping. As at 31 December 2019 savings deposits with a withdrawal notice period of one month amounting to €6 million (31 March 2019: €7 million), are disclosed within the 'Between 1 and 3 months' maturity grouping. In addition, as at 31 December 2019 savings deposits with a withdrawal notice period of three to six months amounting to €571 million (31 March 2019: €623 million) are disclosed within the 'Between 3 months and 1 year' maturity grouping. Furthermore, as at 31 December 2019, savings deposits with a withdrawal notice period of one year amounting to €269 million (31 March 2019: €240 million) are disclosed within the 'Between 1 year and 5 years' maturity grouping. However, in practice, these deposits are maintained with the Group for longer periods; hence the effective date of repayment is later than the contractual date.

As of 31 December 2019, unencumbered financial assets classified as Treasury Investments measured at fair value through other comprehensive income with a carrying amount of €175 million (31 March 2019: €223 million) and Treasury Investments measured at amortised cost with a carrying amount of €223 million (31 March 2019: €258 million) form part of the high quality liquid asset portfolio for LCR purposes. Accordingly, they may be liquidated within one month.

The Group's cash from margin balances amounting to €14.1 million (31 March 2019: €26.4 million) can be available upon maturity of the contract, favourable change in the market value/change in the exchange rates or reduction in the initial margins.

2.3.4 Residual contractual maturities of financial liabilities

The following is an analysis of undiscounted cash flows payable under the principal non-derivative financial liabilities by remaining contractual maturities as at the reporting date.

MeDirect Malta Group	Carrying amount €000	Total outflows €000	Less than 1 month €000	Between 1 and 3 months €000	Between 3 months and 1 year €000	Between 1 and 5 years €000	More than 5 years €000
31 December 2019							
Non-derivative liabilities							
Amounts owed to financial institutions							
- Due to clearing houses	**220,000**	**219,566**	**139,859**	**29,964**	**49,743**	**-**	**-**
- Due to other banks	**4,012**	**4,012**	**4,012**	**-**	**-**	**-**	**-**
Amounts owed to customers	**2,439,126**	**2,605,361**	**1,200,625**	**87,151**	**723,434**	**591,757**	**2,394**
Subordinated liabilities	**54,820**	**70,343**	**-**	**-**	**2,444**	**44,801**	**23,098**
Lease liabilities (incl. in other liabilities)	**17,663**	**19,006**	**59**	**812**	**4,035**	**10,758**	**3,342**
Bills payable (included in other liabilities)	**5,649**	**5,649**	**5,649**	**-**	**-**	**-**	**-**
	2,741,270	**2,923,937**	**1,350,204**	**117,927**	**779,656**	**647,316**	**28,834**
31 March 2019							
Non-derivative liabilities							
Amounts owed to financial institutions							
- Due to clearing houses	195,000	194,693	89,899	14,973	89,821	-	-
- Due to other banks	3,887	3,887	3,887	-	-	-	-
Amounts owed to customers	2,202,091	2,409,957	831,193	123,177	783,651	671,936	-
Subordinated liabilities	67,138	87,186	-	-	26,582	10,121	50,483
Bills payable (included in other liabilities)	4,551	4,551	4,551	-	-	-	-
	2,472,667	2,700,274	929,530	138,150	900,054	682,057	50,483

The following is an analysis of undiscounted cash flows relating to the Group's principal derivative financial instruments by remaining contractual maturities as at the reporting date:

MeDirect Malta Group	Carrying amount €000	Inflows/ (Outflows) €000	Less than 1 month €000	Between 1 and 3 months €000	Between 3 months and 1 year €000	Between 1 and 5 years €000	More than 5 years €000
31 December 2019							
Derivative assets							
Derivative financial instruments							
- Interest rate swaps	**536**	**527**	**-**	**-**	**(56)**	**(300)**	**883**
- Foreign exchange swaps	**1,036**	**699**	**806**	**25**	**(132)**	**-**	**-**
Inflows		**109,442**	**58,642**	**2,697**	**48,103**	**-**	**-**
Outflows		**(108,743)**	**(57,836)**	**(2,672)**	**(48,235)**	**-**	**-**
- Other derivative financial instruments (no maturity)	**448**	**-**	**-**	**-**	**-**	**-**	**-**
	2,020	**1,226**	**806**	**25**	**(188)**	**(300)**	**883**
Derivative liabilities							
Derivative financial instruments							
- Foreign exchange swaps	**4,182**	**(4,769)**	**(1,049)**	**(1,880)**	**(1,840)**	**-**	**-**
Inflows		**155,260**	**15,259**	**31,841**	**108,160**	**-**	**-**
Outflows		**(160,029)**	**(16,308)**	**(33,721)**	**(110,000)**	**-**	**-**
	4,182	**(4,769)**	**(1,049)**	**(1,880)**	**(1,840)**	**-**	**-**

MeDirect Malta Group	Carrying amount €000	Inflows/ (Outflows) €000	Less than 1 month €000	Between 1 and 3 months €000	Between 3 months and 1 year €000	Between 1 and 5 years €000	More than 5 years €000
31 March 2019							
Derivative assets							
Derivative financial instruments							
- Foreign exchange swaps	268	88	126	(26)	(12)	-	-
Inflows		34,829	12,155	5,319	17,355	-	-
Outflows		(34,741)	(12,029)	(5,345)	(17,367)	-	-
- Other derivative financial instruments (no maturity)	448	-	-	-	-	-	-
	716	88	126	(26)	(12)	-	-
Derivative liabilities							
Derivative financial instruments							
- Interest rate swaps	504	(859)	-	-	(61)	(657)	(141)
- Foreign exchange swaps	10,823	(12,743)	(420)	(3,092)	(9,231)	-	-
Inflows		397,598	45,773	99,970	251,855	-	-
Outflows		(410,341)	(46,193)	(103,062)	(261,086)	-	-
	11,327	(13,602)	(420)	(3,092)	(9,292)	(657)	(141)

2.3.5 Encumbered assets

The following tables set out the availability of the Group's financial assets to support future funding.

MeDirect Malta Group	Encumbered		Unencumbered		
	Pledged as collateral €000	Other* €000	Available as collateral €000	Other** €000	Total €000
31 December 2019					
Balances with central banks and cash	**-**	**-**	**241,726**	**-**	**241,726**
Derivative financial instruments	**-**	**-**	**-**	**2,020**	**2,020**
Loans and advances to financial institutions	**45,507**	**43,535**	**-**	**134,245**	**223,287**
Loans and advances to customers	**-**	**-**	**-**	**1,359,377**	**1,359,377**
- International Lending portfolio	**-**	**-**	**-**	**1,137,273**	**1,137,273**
- Local Lending portfolio	**-**	**-**	**-**	**88,962**	**88,962**
- Dutch Mortgage portfolio	**-**	**-**	**-**	**133,142**	**133,142**
Investments	**519,496**	**-**	**410,995**	**253,626**	**1,184,117**
- Treasury portfolio	**519,496**	**-**	**410,995**	**-**	**930,491**
- Securitisation portfolio	**-**	**-**	**-**	**253,626**	**253,626**
Accrued income	**-**	**-**	**-**	**14,381**	**14,381**
Loans and advances to related parties (included in other assets)	**-**	**-**	**-**	**13,044**	**13,044**
Other receivables (included in other assets)	**-**	**-**	**-**	**34,336**	**34,336**
	565,003	**43,535**	**652,721**	**1,811,029**	**3,072,288**
31 March 2019					
Balances with central banks and cash	52	-	146,862	74	146,988
Derivative financial instruments	-	-	-	716	716
Loans and advances to financial institutions	43,274	26,420	-	48,745	118,439
Loans and advances to customers – corporate	-	-	-	1,842,555	1,842,555
- International Lending portfolio	-	-	-	1,756,729	1,756,729
- Local Lending portfolio	-	-	-	85,826	85,826
Investments – Treasury portfolio	204,776	4,917	480,888	-	690,581
Accrued income	-	-	-	16,800	16,800
Loans and advances to related parties (included in other assets)	-	-	-	15,305	15,305
Other receivables (included in other assets)	-	-	-	6,105	6,105
	248,102	31,337	627,750	1,930,300	2,837,489

Represents assets that are not pledged for funding purposes but that the Group believes it is restricted from using to secure funding, for legal or other reasons.

**Represents assets that are not restricted for use as collateral, but that the Group would not consider as readily available to secure funding in the normal course of business.*

2.4 Market risk

Market risk is the risk that changes in market prices, such as interest rates, foreign exchange rates and credit spreads (not relating to changes in the obligor's/issuer's credit standing) will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

2.4.1 Management of market risks

Management of market risk is the responsibility of the Group's Treasury team and is overseen by the Group's Risk team, under the oversight of the Group's ALCO and the Board Risk Committee, and as set out in the foreign exchange ("FX") risk policy and Interest Rate Risk in the Banking Book ("IRRBB") policy.

2.4.2 Foreign exchange risk

FX risk is the risk that the value of the Group's positions may fluctuate due to movements in underlying foreign currency exchange rates. The Group seeks to minimise FX risk and thus hedges all major exposures in accordance with its risk appetite. The Group is mainly exposed to currency risk on FX movements relating to the US Dollar and GB Pound, originating from the Group's corporate banking business. In the majority of cases, the Group hedges this risk by ensuring that its foreign currency denominated liabilities are matched with corresponding assets in the same currency. Any mismatches that arise are monitored closely. The Group's Treasury team is permitted to use spots, forwards and swaps in order to hedge the Group's FX risk.

The following table provides an analysis of the principal financial assets and financial liabilities of the MeDirect Malta Group into relevant currency groupings.

MeDirect Malta Group

	EUR currency €000	GBP currency €000	USD currency €000	Other €000	Total €000
As at 31 December 2019					
Financial assets					
Balances with central banks and cash	241,726	-	-	-	241,726
Derivative financial instruments	984	150	620	266	2,020
Loans and advances to financial institutions	148,423	24,555	44,546	5,763	223,287
Loans and advances to customers	1,018,253	319,855	19,427	1,842	1,359,377
- International Lending portfolio	796,149	319,855	19,427	1,842	1,137,273
- Local Lending portfolio	88,962	-	-	-	88,962
- Dutch Mortgage portfolio	133,142	-	-	-	133,142
Investments	1,178,232	5,885	-	-	1,184,117
- Treasury portfolio	924,606	5,885	-	-	930,491
- Securitisation portfolio	253,626	-	-	-	253,626
Accrued income	12,599	1,286	436	60	14,381
Loans to related parties (included in other assets)	13,017	27	-	-	13,044
Other receivables (included in other assets)	32,533	-	1,803	-	34,336
	2,645,767	351,758	66,832	7,931	3,072,288
Financial liabilities					
Derivative financial instruments	-	4,181	1	-	4,182
Amounts owed to financial institutions	223,576	-	436	-	224,012
Amounts owed to customers	2,271,940	127,696	20,884	18,606	2,439,126
Subordinated liabilities	50,580	4,240	-	-	54,820
Accrued interest expense (incl. in accruals and deferred income)	6,690	547	25	56	7,318
Bills payable (incl. in other liabilities)	5,649	-	-	-	5,649
Amounts owed to related parties (incl. in other liabilities)	3,350	-	-	-	3,350
	2,561,785	136,664	21,346	18,662	2,738,457
Net on-balance sheet financial position		215,094	45,486	(10,731)	
Notional of derivative financial instruments		(217,177)	(44,442)	11,025	
Residual exposure		(2,083)	1,044	294	

MeDirect Malta Group

As at 31 March 2019	EUR currency €000	GBP currency €000	USD currency €000	Other €000	Total €000
Financial assets					
Balances with central banks and cash	146,988	-	-	-	146,988
Derivative financial instruments	448	144	-	124	716
Loans and advances to financial institutions	65,447	10,358	36,721	5,913	118,439
Loans and advances to customers	1,338,631	469,294	32,835	1,795	1,842,555
- International Lending portfolio	1,256,666	469,271	28,997	1,795	1,756,729
- Local Lending portfolio	81,965	23	3,838	-	85,826
Investments – Treasury portfolio	684,779	5,802	-	-	690,581
Accrued income	13,582	2,902	296	20	16,800
Loans to related parties (included in other assets)	15,290	15	-	-	15,305
Other receivables (included in other assets)	11,217	576	(5,688)	-	6,105
	2,276,382	489,091	64,164	7,852	2,837,489
Financial liabilities					
Derivative financial instruments	504	10,443	380	-	11,327
Amounts owed to financial institutions	196,883	1,567	437	-	198,887
Amounts owed to customers	2,033,824	125,583	24,093	18,591	2,202,091
Subordinated liabilities	60,648	6,490	-	-	67,138
Accrued interest expense (incl. in accruals and deferred income)	4,714	693	14	53	5,474
Bills payable (incl. in other liabilities)	4,551	-	-	-	4,551
Amounts owed to related parties (incl. in other liabilities)	972	-	-	-	972
	2,302,096	144,776	24,924	18,644	2,490,440
Net on-balance sheet financial position		344,315	39,240	(10,792)	
Notional of derivative financial instruments		(347,455)	(39,640)	11,683	
Residual exposure		(3,140)	(400)	891	

The Group uses derivative financial instruments to hedge movements in foreign exchange rates by entering into derivative contracts with notional amounts which substantially reflect the net exposure in each currency. As a result, the Group is not materially exposed to fluctuations in foreign exchange rates as evidenced in the tables above, reflecting the policy to eliminate foreign exchange risk as much as is practicable.

In view of the Group's policy for managing currency risk, the Board does not deem necessary the presentation of a sensitivity analysis disclosing how profit or loss and equity would have been affected by changes in foreign exchange rates that were reasonably possible at the end of the reporting period.

2.4.3 Interest rate risk

The Group's and MeDirect Belgium's Interest Rate Risk in Banking Book (IRRBB) position is managed through the 3 lines of defence: 1st line being ALM function together with MeDirect Group/Belgium Treasury, 2nd line being Risk, 3rd line being Internal Audit. It is managed according to the Group's/MeDirect Belgium's IRRBB policy with limits established by the risk function and monitored by both the 1st and 2nd lines of defence.

The monitoring/reporting activity is reviewed and managed independently by Group/MeDirect Belgium ALCO for the 1st line of defence, by the Risk Committee for the 2nd line of defence, and by the Audit Committee for the 3rd line of defence.

Interest rate risk is managed by comparing the interest rate risk profile of assets with the profile of liabilities, and by hedging unmatched interest rate risk arising in the balance sheet by purchasing interest rate derivatives, primarily interest rate swaps.

Interest rate risk reporting and analysis

As part of its monitoring duties, the Group's Risk team prepares and reports on the Group's interest rate risk position on a monthly basis. The report outputs show the effects of a number of the interest rate shocks prescribed by the regulator on the:

- Projected net interest margin –∆NII;
- Group's capital position –∆EVE; and
- Time bucket sensitivity – PV01.

The Group measures its exposure adopting both contractual and behavioural views (where items without deterministic maturity are assigned certain level of stickiness). The impact of the automatic options embedded in the banking book structure is assessed under ∆NII, ∆EVE and PV01.

The table below discloses the mismatch of the dates on which interest on financial assets and financial liabilities are next reset to market rates on a contractual basis or the dates on which the instruments mature. Actual reset dates may differ from contractual dates owing to prepayments and the exercise of options. In addition, contractual terms may not be representative of the behaviour in respect of financial assets and liabilities.

MeDirect Malta Group		Repricing in:				
	Carrying amount	Not more than 3 months	Between 3 months to 1 year	Between 1 and 3 years	Between 3 and 5 years	More than 5 years
	€000	€000	€000	€000	€000	€000
As at 31 December 2019						
Balances with central banks	241,723	241,723	-	-	-	-
Loans and advances to financial institutions	223,287	223,287	-	-	-	-
Loans and advances to customers	1,359,377	980,590	245,645	988	-	132,154
- International Lending portfolio	1,137,273	927,804	209,469	-	-	-
- Local Lending portfolio	88,962	52,786	36,176	-	-	-
- Dutch Mortgage portfolio	133,511	-	-	988	-	132,523
- IFRS basis adjustment: Dutch Mortgage portfolio	(369)	-	-	-	-	(369)
Investments	1,182,670	97,184	230,139	340,771	349,796	164,780
– Treasury portfolio	930,491	43,739	31,405	340,771	349,796	164,780
– Securitisation portfolio	252,179	53,445	198,734	-	-	-
	3,007,057	1,542,784	475,784	341,759	349,796	296,934
Amounts owed to financial institutions:	224,012	174,012	50,000	-	-	-
- Due to clearing houses	220,000	170,000	50,000	-	-	-
- Due to other banks	4,012	4,012	-	-	-	-
Amounts owed to customers	2,439,126	1,281,003	695,376	366,620	95,300	827
Subordinated liabilities	54,820	-	-	-	54,820	-
	2,717,958	1,455,015	745,376	366,620	150,120	827
Interest rate repricing gap		87,769	(269,592)	(24,861)	199,676	296,107
Impact of hedging interest rate derivatives – notional amounts	536	(119,800)	-	22,500	(58,600)	(38,700)
Net interest rate repricing gap		(32,031)	(269,592)	(2,361)	141,076	257,407

MeDirect Malta Group		Repricing in:				
	Carrying amount	Not more than 3 months	Between 3 months to 1 year	Between 1 and 3 years	Between 3 and 5 years	More than 5 years
	€000	€000	€000	€000	€000	€000
As at 31 March 2019						
Balances with central banks	146,985	146,985	-	-	-	-
Loans and advances to financial institutions	118,439	118,439	-	-	-	-
Loans and advances to customers	1,842,555	1,642,610	199,930	15	-	-
- International Lending portfolio	1,756,729	1,565,228	191,501	-	-	-
- Local Lending portfolio	85,826	77,382	8,429	15	-	-
Investments – Treasury portfolio	690,581	104,923	121,735	270,194	67,741	125,988
	2,798,560	2,012,957	321,665	270,209	67,741	125,988
Amounts owed to financial institutions:	198,887	108,887	90,000	-	-	-
- Due to clearing houses	195,000	105,000	90,000	-	-	-
- Due to other banks	3,887	3,887	-	-	-	-
Amounts owed to customers	2,202,091	936,052	738,120	437,928	89,991	-
Subordinated liabilities	67,138	-	47,174	-	19,964	-
	2,468,116	1,044,939	875,294	437,928	109,955	-
Interest rate repricing gap		968,018	(553,629)	(167,719)	(42,214)	125,988
Impact of hedging interest rate derivatives – notional amounts	(504)	(119,000)	-	65,000	43,000	(11,000)
Net interest rate repricing gap		849,018	(553,629)	(102,719)	786	114,988

The Group's exposure to interest rate risk arises predominantly from its asset/liability structure, specifically the lag which exists between the Group's International Lending portfolio that reprices periodically (generally every three months) and the term structure of customer deposits, as well as from possible impacts on the Mark-to-Market ("MtM") value of its fixed rate instruments if market interest rates increase. The presence of interest rate floors embedded in the majority of the International Lending portfolio enables the Group to mitigate its repricing risk from the Group's asset/liability structure, whilst the Group generally hedges the repricing risk from its financial assets, namely the treasury securities, and wholesale repo funding.

With the introduction of the new Dutch Mortgage business line in September 2019, the Group's and MeDirect Belgium's exposure to interest rate risk increased due to the fixed interest rate nature of the product. The risk is managed through a hedging strategy which uses a series of plain vanilla interest rate swaps that form a run-off profile matching a mortgage portfolio run-off profile with behavioural pre-payment assumptions.

The Group's Securitisation Investment portfolio comprises an investment in the equity tranche of GH1-2019 amounting to €1.4 million. The returns relating to this financial instrument are variable, with repayments being equivalent to any residual amounts after the commitments relating to more senior tranches in GH1-2019 are repaid. In this regard, this financial instrument is not deemed to be subject to interest rate risk and has been excluded from the table above accordingly.

A positive interest rate sensitivity gap exists where more assets than liabilities reprice during a given period. Although a positive gap position tends to benefit net interest income in a rising interest rate environment, the actual effect will depend on a number of factors, including the extent to which repayments are made earlier or later than the contracted date and variations in interest rates within repricing periods and among currencies. Similarly, a negative interest rate sensitivity gap exists where more liabilities than assets re-price during a given period. A negative gap position tends to benefit net interest income in a declining interest rate environment, but the actual effect will depend on the same factors as for positive interest rate gaps.

The management of interest rate risk attributable to interest rate repricing gap limits is supplemented by monitoring the sensitivity of the Group's financial assets and liabilities to various interest rate scenarios under the stress testing framework whilst the extent of the difference between risk factors on the asset side and liability side is monitored through the re-fixing gap analysis.

The estimated impact on the Group's Net Interest Margin ("NIM") as a result of a 100 basis points ("bps") movement and on Economic Value as a result of a 100 basis points ("bps") parallel fall / rise in the yield curves would be as follows:

31 December 2019

- NIM would decrease by €2.4 million / increase by €12.4 million.
- Economic value would increase by €13.0 million / decrease by €4.0 million.

31 March 2019

- NIM would increase by €0.7 million / increase by €11.8 million.
- Economic value would increase by €35 million / increase by €8.8 million.

These values are determined taking into account the impact of hedge accounting.

The main assumptions used in the model utilised to measure the benchmarks referred to above are:

- Interest bearing assets are assumed to mature on their expected maturity and are not replaced for the ∆EVE purposes (run off balance sheet);
- Interest bearing assets are assumed to mature on their expected maturity and are replaced on like for like basis for the ∆NII purposes (constant balance sheet);
- The rate index on the Senior Secured Loan book is predominantly floored at zero and hence due to the prevailing euro negative rate environment the shift down scenario does not result in loss of interest income. On the other hand, the 1% shift up scenario will not yield 1% more income as the rate index lifts itself from below zero.
- The Group will not change deposit rates in the next 12 months even if there is an increase or decrease in ECB base rate;
- There is an implicit zero floor option on retail customer deposits as the Group will not charge negative rates to the retail segment of its customer base;
- The ∆ NII and ∆ EV metrics include the effect of changes in value of the automatic options embedded in the banking book assets; and
- Customer deposits follow their behavioural schedule.

Interest rate movements affect reported equity in the following ways:

- retained earnings arising from increases or decreases in net interest income after taking into consideration the net impact of interest rate hedging instruments; and
- fair value reserves arising from increases or decreases in fair values of investments measured at fair value through other comprehensive income reported directly in equity.

2.5 Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Group's processes, personnel, technology and infrastructure and from external factors other than credit, market and liquidity risks such as: legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks originate from all of the Group's operations and are faced by all business entities.

The Group recognises that complete elimination of operational risk is not always feasible. The Group manages its residual operational risks in the context of its risk appetite statement, whilst allocating risk appetite levels to the different sub-risk categories. Operational risk management encompasses the process of identifying operational risks, measuring the Group's exposures to those risks (where possible), ensuring that effective capital planning and monitoring is in place, taking steps to control or mitigate risk exposures, and reporting the Group's risk exposures and capital positions.

The Group's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Group's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity while maintaining risk taking within a tolerable limit.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management within each function. This responsibility is supported by the development of overall Group standards for the management of operational risk in the following areas:

- requirements for appropriate segregation of duties, including the independent authorisation of transactions;
- requirements for the reconciliation and monitoring of transactions;
- compliance with regulatory and other legal requirements;
- documentation of controls and procedures;
- requirements for the periodic assessment of operational risks faced and the adequacy of controls and procedures to address the risks identified;
- requirements for the reporting of operational losses and proposed remedial action;
- development of contingency plans;
- training and professional development;
- ethical and business standards; and
- risk mitigation, including insurance where this is effective.

Compliance with the Group's standards is supported by a programme of periodic reviews undertaken by Internal Audit. The results of Internal Audit reviews are discussed with the management of the business unit to which they relate, with summaries submitted to the Audit Committees and senior management of MeDirect Malta and MeDirect Belgium.

A financial measurement of this risk is calculated by the Group for the purpose of allocating risk capital using the Basic Indicator Approach under Regulation (EU) No. 575/2013 of the European Parliament and of the Council of 26 June 2013, also known as the CRR. The risk weighted assets for operational risk under this method as at 31 December 2019 were calculated at €132.0 million (31 March 2019: €128.7 million).

2.6 Capital management - regulatory capital

The Group's regulator, the ECB's Joint Supervisory Team (the "JST") sets and monitors capital requirements for the Group.

The CRR and Capital Requirements Directive ("CRD IV") implemented the Basel III into Europe with the sole objective of improving the banking sector's ability to absorb shocks arising from financial and/or economic stress, which in turn, mitigate spill-over damage to the real economy.

In implementing current capital requirements, the regulation requires the Group to maintain a prescribed ratio of total capital to total risk-weighted assets. The Group does not engage in trading and is exempt from having a trading book. Risk-weighted assets on the banking book are determined according to specified requirements that seek to reflect the varying levels of risk attached to assets including balances with counterparties and other illiquid assets.

The Group complies with the provisions of CRR in respect of regulatory capital and it applies the standardised approach for credit risk. For regulatory purposes, the Group's capital base is divided in two main categories, namely Common Equity Tier 1 Capital and Tier 2 Capital.

- Common Equity Tier 1 Capital which includes ordinary share capital, share premium, shareholders' contributions, retained earnings, fair value reserve and other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy purposes including deductions relating to Reserve for Depositor Compensation Scheme ('Other reserves') and certain other regulatory items; and

- Tier 2 Capital consists of unrealised gains included within the fair value reserve and subordinated liabilities in issue, which rank after the claims of all depositors (including financial institutions) and all other creditors.

The Group's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholders' return is also recognised and the Group recognises the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position.

MDB Group Limited is subject to the same supervision as that exercised over institutions. Accordingly, in terms of article 7(2) of the CRR, the obligation of MeDirect Malta to comply with the disclosure requirements relating to own funds, capital requirements, large exposures, and transferred credit risk have been waived.

The Regulatory Group has complied with all externally imposed capital requirements throughout the period.

MDB Group Limited publishes full Pillar 3 disclosures as a separate document which is appended to the MDB Group Limited financial statements.

2.7 Fair value measurement

'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 in the principal or, in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk.

When available, the Group measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if the transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. The judgement as to whether a market is active may include, but is not restricted to, the consideration of factors such as the magnitude and frequency of trading activity, the availability of prices and the size of bid/offer spreads.

If there is no quoted price in an active market, then the Group uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price - i.e. the fair value of the consideration given or received. If the Group determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by the quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognised in profit or loss only to the extent that it arises from a change in a factor (including time) that market participants would consider in setting a price.

If an asset or a liability measured at fair value has a bid price and an ask price, then the Group measures assets and long positions at a bid price and liabilities and short positions at an ask price.

2.7.1 Fair value hierarchy

The Group measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

- Level 1: inputs that are quoted market prices (unadjusted) in active markets for identical instruments.
- Level 2: inputs other than quoted market prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data. Financial instruments which are generally included in this category include certain loans and advances to customers and over-the-counter derivatives where the fair value is based on observable inputs.
- Level 3: inputs that are unobservable. This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

2.7.2 Use of valuation techniques

In the event that the market for a financial instrument is not active, a valuation technique is used. Valuation techniques may incorporate assumptions about factors that other market participants would use in their valuations, including:

- the likelihood and expected timing of future cash flows from the instrument;
- selecting an appropriate discount rate for the instrument; and
- judgement to determine what model to use to calculate fair value in areas where the choice of valuation model is particularly subjective.

A range of valuation techniques is employed, dependent on the instrument type and available market data. Most valuation techniques are based upon discounted cash flow analyses, in which expected future cash flows are calculated and discounted to present value using a discounting curve. Prior to considering credit risk, the expected future cash flows may be known, as would be the case for the fixed leg of an interest rate swap, or may be uncertain and require projection, as would be the case for the floating leg of an interest rate swap. Projection utilises market forward curves, if available.

Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premiums used in estimating discount rates, bond and foreign currency exchange rates and expected price volatilities and correlations.

The objective of valuation techniques is to arrive at a fair value measurement that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date.

The Group uses widely recognised valuation models for determining the fair value of common and simple financial instruments, such as interest rate and currency swaps, that use only observable market data and require minimal management judgement and estimation.

Fair values of investment securities in inactive markets are based on:

- quoted prices of similar instruments, performing numerical procedures such as interpolation when input values do not directly correspond to the most active market trade parameters; or
- price quotations in respect of orderly transactions between market participants provided by reputable dealers.

Observable prices and model inputs are usually available in the market for listed debt and equity securities, exchange traded derivatives and simple over the counter derivatives such as interest rate swaps. Availability of observable market prices and model inputs reduces the need for management judgement and estimation and also reduces the uncertainty associated with determining fair values. Availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets.

2.7.3 Financial instruments measured at fair value

The following table analyses financial instruments measured at fair value at the end of the reporting period, in terms of the respective levels within the fair value hierarchy into which the respective fair value measurement is categorised. The fair value amounts are based on the carrying amounts reflected in the statement of financial position.

MeDirect Malta Group	**As at 31 December 2019**				As at 31 March 2019			
	Level 1	**Level 2**	**Level 3**	**Total**	Level 1	Level 2	Level 3	Total
	€000	**€000**	**€000**	**€000**	€000	€000	€000	€000
Assets								
Investments measured at fair value through other comprehensive income								
- Treasury portfolio	**500,292**	**-**	**-**	**500,292**	265,572	-	-	265,572
Investments mandatorily measured at fair value through profit or loss								
- Securitisation portfolio	**-**	**-**	**1,447**	**1,447**	-	-	-	-
- Derivative financial instruments	**-**	**2,020**	**-**	**2,020**	-	716	-	716
Total financial assets	**500,292**	**2,020**	**1,447**	**503,759**	265,572	716	-	266,288
Liabilities								
Derivative financial instruments	**-**	**4,182**	**-**	**4,182**	-	11,327	-	11,327

As at 31 December 2019 and 31 March 2019, the fair value of debt securities within the Treasury Investment portfolio represents the closing bid price quoted in an active market, and such instruments are therefore categorised as Level 1 assets.

Level 2 assets principally comprise derivatives held for risk management that are fair valued based on valuation models with the key methodology utilised comprising the calculation of the net present value of a series of expected cash flows, taking into account the different terms of each specific contract/instrument (discounted cash flow approach). These models use as their basis independently sourced market parameters including, for example, interest rate yield curves. Market parameters are either directly observable or are implied from observable instrument prices. The model may perform numerical procedures in respect of pricing such as interpolation when input values do not directly correspond to the most active market trade parameters.

Level 3 assets consist of the Group's investment in the equity tranche of GH1-2019, for which a fair value is determined using third party valuation models to estimate the net present value of a series of expected cash flows, taking into consideration instrument-specific contractual terms (discounted cash flow approach). Amongst other things, these models take into consideration the characteristics of the underlying portfolio of assets (including quality of underlying assets), historical portfolio performance, and the liability structure of the CLO transaction. These models also make use of independently sourced market parameters including, for example, interest rate yield curves.

In view of the size of the Group's exposure to level 3 assets, the directors determined that any changes in unobservable inputs to underlying models will not result in a significantly higher or lower fair value of such assets. Accordingly, a sensitivity analysis of the fair value measurement to changes in unobservable inputs is not deemed relevant.

2.7.3.1 Transfers between levels

The Group recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the transfer has occurred.

There were no transfers between levels of the fair value hierarchy during the financial periods ended 31 December 2019 and 31 March 2019.

2.7.4 Financial instruments not measured at fair value

The following table sets out the fair values of financial instruments not measured at fair value and analyses them in terms of the respective level within the fair value hierarchy into which the respective fair value measurement is categorised. This table includes only financial instruments in respect of which fair value is estimated to be materially different than the carrying amounts.

MeDirect Malta Group	**As at 31 December 2019**				
				Total	**Total carrying**
	Level 1	**Level 2**	**Level 3**	**fair values**	**amount**
	€000	**€000**	**€000**	**€000**	**€000**
Assets					
Loans and advances to customers – International Lending portfolio	**-**	**301,211**	**428,298**	**729,509**	**764,033**
Investments	**417,193**	**-**	**252,449**	**669,642**	**670,176**
- Treasury portfolio	**417,193**	**-**	**-**	**417,193**	**417,997**
- Securitisation portfolio	**-**	**-**	**252,449**	**252,449**	**252,179**
Total financial assets	**417,193**	**301,211**	**680,747**	**1,399,151**	**1,434,209**
Liabilities					
Subordinated liabilities	**56,756**	**-**	**-**	**56,756**	**54,820**

	As at 31 March 2019				
				Total	**Total carrying**
	Level 1	**Level 2**	**Level 3**	**fair values**	**amount**
	€000	**€000**	**€000**	**€000**	**€000**
Assets					
Loans and advances to customers – International Lending portfolio	-	818,870	472,437	1,291,307	1,305,771
Investments – Treasury portfolio	423,187	-	-	423,187	425,009
Total financial assets	423,187	818,870	472,437	1,714,494	1,730,780
Liabilities					
Subordinated liabilities	68,595	-	-	68,595	67,138

The Level 1 fair values reflected in the tables above consist of the closing bid price quoted in an active market in respect of debt securities classified under the Treasury Investment portfolio and subordinated bonds issued by the Group.

The Level 2 and Level 3 fair value disclosures of the International Lending portfolio mainly comprise price quotations sourced from an online platform in respect of internationally traded loans and advances, consisting of the Group's international loan book with foreign corporates. Loans and advances to customers forming part of the International Lending portfolio amounting to €373 million (31 March 2019: €451 million), net of expected credit losses, and a corporate debt security within the Treasury Investment portfolio, with a carrying amount of €12.2 million (31 March 2019: nil), have not been reflected within the preceding table given that there were no observable market prices or any public information available but the contractual terms of these instruments, that mainly re-price within three months, and the nature of the borrowers, are similar to those of the instruments in the preceding table and thus their fair valuation characteristics would not differ significantly from those of the instruments included in the preceding table.

The Level 3 assets also include the Group's investments in tranches of securitisation structures amounting to €253.6 million which are mainly rated AAA, and for which a fair value is determined using third party valuation models to estimate the net present value of a series of expected cash flows, taking into consideration instrument-specific contractual terms (discounted cash flow approach). Amongst other things, these models take into consideration the characteristics of the underlying portfolio of assets (including quality of underlying assets), historical portfolio performance, and the liability structure of the CLO transaction. These models also make use of independently sourced market parameters including, for example, interest rate yield curves.

Furthermore, Dutch mortgages amounting to €133 million (31 March 2019: nil) included in Loans and advances to customers were not reflected in the preceding table since the fair value is not deemed to differ significantly from their carrying amount at the reporting date given that this portfolio is still in its infancy with these mortgages having been originated at the end of September.

As at 31 December 2019, the carrying amount for loans and advances to customers classified under the Local Lending portfolio amounting to €88.9 million (31 March 2019: €85.8 million) approximates their fair value because these loans are repriceable at the Group's discretion.

The Group's financial instruments not measured at fair value also comprise balances with central banks, loans and advances to financial institutions, amounts owed to financial institutions and customers, and bills payable (included in other liabilities). The fair values of these financial assets and liabilities are not disclosed given that the carrying amount is a reasonable approximation of fair value because these are either re-priced to current market rates frequently or are short-term in nature.

All exposures classified under loans and advances to financial institutions amounting to €223.3 million (31 March 2019: €118.7 million), and balances with central banks amounting to €241.7 million as at 31 December 2019 (31 March 2019: €147.0 million), reprice or mature in less than one year. Hence their fair value is not deemed to differ materially from their carrying amount at the reporting date.

Fair values referred to above are estimated using discounted cash flows, applying market rates. These estimates are considered Level 3 fair value estimates.

The majority of the 'Amounts owed to financial institutions' as at 31 December 2019 amounting to €224 million (31 March 2019: €198.9 million) and 'Amounts owed to customers' amounting to €1.7 billion (31 March 2019: €1.7 billion) sourced from the Maltese and Belgian markets, re-price or mature in less than one year. Hence their fair value is not deemed to differ materially from their carrying amount at the reporting date. Fair values of these liabilities are estimated using discounted cash flows, applying current rates offered for deposits of similar remaining maturities. These are considered Level 3 fair value estimates. The fair value of a demand deposit is not less than the amount payable on demand, discounted from the first date on which the amount payable is required to be paid.

3. Accounting estimates and judgements

3.1 Critical accounting estimates and judgements in applying the Group's accounting policies

Estimates and judgements are continually evaluated and based on historical experience and other factors including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. These estimates and assumptions present a risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year. The Group's management also makes judgements, apart from those involving estimations, in the process of applying the entity's accounting policies that may have a significant effect on the amounts recognised in the financial statements.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

Information about assumptions, estimations and uncertainties that have a significant risk of resulting in a material adjustment in the period ending 31 December 2019 is set out below in relation to estimated cash flows for the purposes of applying the effective interest method and the impairment of financial instruments.

3.2 Estimated cash flows upon application of the effective interest method

As part of the calculation of the effective interest rate for financial assets and liabilities measured at amortised cost utilising the effective interest method, the Group takes into account the estimated cash flows attributable to the respective financial instrument considering all contractual terms of the instrument (e.g. prepayment, call and similar options), but excluding the impact of future credit losses.

In the case where an instrument gives the issuer the option to require the instrument to be early redeemed or cancelled, and the terms of the instrument are such that it is not certain whether the option will be exercised, the probability of the option being exercised will be assessed in determining the estimated cash flows.

Measuring interest income on loans and advances to customers under the effective interest rate method requires management to apply judgement, particularly in the case of the Group's and Bank's senior secured loans to international borrowers, constituting the international lending portfolio. A model is utilised by the Group to compute the impact of application of the effective interest rate method on an individual loan basis, by discounting estimated future cash flows through the expected life of the instrument to the net carrying amount, including all fees paid or received that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts. A key judgement in respect of the application of the effective interest rate method to the International Lending portfolio is the assumed expected life for the loans, effectively determining the period over which interest income is recognised utilising the effective interest rate method, and accordingly determining the pattern of recognition of income throughout different accounting periods. The determination as to which fees are considered an integral part of the effective interest rate and hence included within the effective interest rate calculations is also judgemental for the International Lending portfolio.

Management determines an assumed expected life for each individual loan within its International Lending portfolio. The sensitivity to a change in assumed expected life can vary significantly between different loans, depending on the characteristics, terms and conditions of the underlying lending transaction and parameters included within the respective effective interest rate calculation such as fee income and discounts or premiums identified at inception.

The Group has historical experience in respect of the International Lending portfolio for the purposes of supporting the expected life assumption applied to each loan. Consequently, the Group determines loan expected life assumptions on the basis of its forecasting process, which takes into account historical data but also the Group's expertise and experience in this specialised lending sector. Any changes in the expected loan life assumptions are based on management's assessment of emerging market trends (for instance changes in market interest rates and the ability of the borrower to re-finance in the circumstances) and borrower specific information that indicates changes to repayment profiles and the extent of such changes.

3.3 Expected credit losses on loans and advances to customers

Financial assets measured at amortised cost are evaluated for impairment on the basis described in Accounting Policy Note 1.5. Expected credit losses ("ECL") on loans and advances represent management's best estimate of expected credit losses on the loan portfolios subject to IFRS 9 impairment requirements at the end of the reporting period. In this respect, management is required to exercise judgement in defining what is considered to be a significant increase in credit risk, in determining the expected lifetime and point of initial recognition of financial instruments, and in making assumptions and estimates to incorporate relevant information about past events, current conditions and forecasts of economic conditions when calculating expected credit losses.

For those loans which are classified as Stage 3 exposures within the Group's International Lending and Local Lending portfolios, judgement is required in determining whether there is objective evidence that an exposure is credit-impaired. In performing this assessment, management applies a significant level of judgement in evaluating all relevant information on indicators of unlikeliness-to-pay, including the consideration of whether payments are contractually past due and the consideration of other factors indicating deterioration in the financial condition and outlook of borrowers affecting their ability to pay, as described in note 1.5. A higher level of judgement is required for loans to borrowers showing signs of financial difficulty in market sectors experiencing economic stress.

The measurement of credit loss allowances in respect of defaulted exposures is performed through an internally developed model based upon management's best estimate of the present value of the cash flows that are expected to be received. In estimating these cash flows for defaulted exposures within the international lending portfolio, management makes judgements about a debtor's financial situation and future repayment prospects, taking into consideration management plans for growth and restructuring, in order to determine the borrower's enterprise value, based on estimated future market multiples and future operating cash flows. In this regard, multiple scenarios are developed to reflect estimated cash flows under different workout strategies for defaulted exposures within the international lending portfolio. Judgement is applied in estimating the expected future cash flows from each borrower under the different scenarios as well as to attach probabilities to those scenarios. For defaulted loans within the Local Lending portfolio, expected cash flows are modelled based on the expected net realisable value of underlying collateral.

The Group might provide loan forbearance to borrowers experiencing financial difficulties by agreeing to modify the contractual payment terms of loans in order to improve the management of customer relationships, maximise collection opportunities or avoid default or repossession. Where forbearance activities are present, higher levels of judgement and estimation uncertainty are involved in determining their effects on credit loss allowances.

Defaulted exposures in both International and Local Lending portfolios are assessed on their own merits. Estimates of recoverable cash flows are independently reviewed and approved by the Group's credit risk function.

For exposures classified as Stage 1 and Stage 2 within the International and Local Lending portfolios, and all exposures within the Dutch Mortgages and Securitisation Investment portfolios, the Group measures credit loss allowances on the basis of complex models with a number of underlying assumptions. In determining ECL, management is required to exercise judgement in defining what is considered to be a significant increase in credit risk and in making assumptions and estimates to incorporate relevant information about past events, current conditions and forecasts of economic conditions.

The significant judgements in measuring credit loss allowances for such exposures include:

- The Group's criteria for assessing if there has been a significant increase in credit risk, which comprise a combination of qualitative and quantitative criteria, as described in note 1.5;
- The determination of expected maturities at facility level; and
- The calibration of ECL models, including the choice of inputs relating to macroeconomic variables.

The PD, LGD and EAD models used for the measurement of credit loss allowances are developed by an external vendor, enabling the estimation of these three key risk parameters at a facility level using statistical models, mainly by benchmarking exposure-specific characteristics against an underlying dataset. Specifically, PDs and LGDs are developed on a name by name basis by reference to the default and loss history of comparable borrowers with similar characteristics in terms of size, industry and country of operations.

In this regard, the methodology together with the assumptions and parameterisation used in the calibration of the model are reviewed on a regular basis by management in order to ensure that the model output remains appropriate in view of the Group's observed default and credit loss history. Significant judgement is also required in the modelling of macroeconomic forecasts, including the selection of macroeconomic variables, as well as calibration of the severities and respective probability weights of macroeconomic scenarios.

The underlying models and their calibration, including how they react to forward-looking macroeconomic conditions, remain subject to review and refinement. This is particularly relevant for lifetime PDs, which have not been previously used in regulatory modelling, and for the incorporation of upside scenarios, that have not generally been subject to experience gained through stress testing.

Management also applies judgement in the determination and modelling of any management overlays, specifically to these financial statements an overlay applied to UK exposures within the International Lending portfolio in respect of the level of political and economic uncertainty which exists in the geographical area at the moment due to Brexit. In this regard, a significant level of judgement is required in order to first evaluate the appropriateness of the model output, which is based on the application of a number of macroeconomic scenarios taking into consideration different Brexit outcomes, and then, on the basis of ongoing developments surrounding Brexit, determine if a management overlay is required through notch downgrades to TTC implied ratings as described in note 2.2.8.

The exercise of judgement in making estimations requires the use of assumptions that are highly subjective and very sensitive to the risk factors, detailed in note 1.5, in particular to changes in macroeconomic and credit conditions across a large number of industries and geographical areas. Many of these factors have a high degree of interdependency and there is no single factor to which credit loss allowances as a whole are sensitive.

The determination of expected maturities, which is particularly relevant for Stage 2 exposures, is based on behavioural maturity, reflecting management expectations on the exercise of prepayment or extension options. In this respect, the expected timing of future recoveries are regularly benchmarked against actual outcomes to ensure they remain appropriate.

3.4 Application of judgement in respect of the transfer of a part of the International Lending portfolio to a newly set up securitisation structure

During the financial period ended 31 December 2019, the Group changed its strategy in relation to a specific sub-portfolio of its International Lending portfolio, classified as hold to collect. The reasons for this change in business model were driven by the Group's intention to set up a securitisation structure as part of a new strategy as referred to below.

The Group's management made significant judgements in the process of applying the entity's accounting policies that had a significant effect on the amounts recognised in the financial statements in respect of this transfer.

The Group established a structured entity, Grand Harbour CLO 2019-1 Designated Activity Company ("GH1-2019") and transferred a portfolio of leveraged loans totalling €296.9 million to this structured entity, derecognising these assets from the Group's statement of financial position. Subsequent to the transfer of this portfolio of loans, the structured entity issued structured notes to third party investors which are structured into separate tranches carrying different levels of risks depending on the seniority (credit rating of the tranche). MeDirect Malta acquired a 5% vertical slice of each of the tranches for "Risk Retention" purposes in accordance with Article 6 30 (a) of regulation EU 2017/2402 totalling €20.3 million, while MeDirect Belgium acquired a 35% share of the tranche with the highest credit rating (i.e. AAA) amounting to €87 million which share was subsequently sold during the financial period ended 31 December 2019.

The Group's change in intent in respect of this sub-portfolio was not deemed to constitute a reclassification event, since the Group's remaining hold to collect portfolio retained its classification and the abovementioned sale from the International Lending portfolio for the purpose of setting up a securitisation structure was classified as an isolated non-recurring event.

The Group entered into a Collateral Management Agreement with the structured entity to provide the structured entity with collateral management services. Under the Collateral Management Agreement, the collateral manager is primarily responsible for carrying out the following key functions on a daily basis:

a) Management of leveraged loans; and
b) In the event of default, minimisation of credit losses (e.g. through sale of loans to third parties).

In assessing whether the transfer of the leveraged loans portfolio qualifies for derecognition, an evaluation was performed by the Group based on the derecognition requirements of IFRS 9.

The Group's involvement as collateral manager requires it to perform the key day-today activities of the structured entity and although these activities are considered limited these were identified as the relevant activities of the business. Furthermore, the Group receives remuneration in relation to its services as collateral manager which together with its investment in 5% of each tranche issued by the structured entity, exposed the Group to variable returns.

Albeit, after considering the level of variability of returns from the activities of the structured entity to both the Group and other noteholders and the extent of powers conferred to the Group in its role as a collateral manager which would enable the Group to influence the amounts of returns from the structured entity, the Group concluded that the transferred portfolio qualifies for full derecognition. This is based on the fact that at the point of sale of such assets, more than 90% of economic variability had been transferred to third parties, the powers of the Group in relation to the structured entity were somewhat limited as well as on the basis that despite the existence of an incentive fee for its role as collateral manager, the Group determined that the returns from such services will be predominantly in the form of fixed management fees.

Essentially, in view of the Group's projected exposure to the total variability of the structured entity's returns, taking into account its maximum exposure as a collateral manager (i.e. incorporating all cash flows, including management and incentive fees) and its exposure to variability of returns from the 5% vertical slice of the structured notes, a significant share of the exposure to variable returns was transferred to other tranche holders as outlined. Accordingly, the Group does not consolidate the structured entity.

4. Balances with central banks and cash

	Group	
	31 December 2019 €000	31 March 2019 €000
At amortised cost:		
Balances with central banks	**241,723**	146,985
Cash	**3**	3
	241,726	146,988

As at 31 December 2019 balances held with central banks include reserve deposits of the Group amounting to €19.9 million (31 March 2019: €15.8 million) relating to the Minimum Reserve Requirement in terms of Regulation (EC) No 1745/2003 of the ECB. Balances with central bank bear interest at 0% per annum with the exception of overnight deposits with central banks amounting to €122.5 million (31 March 2019: €123.6 million) that were subject to a negative interest rate of 0.5% (31 March 2019: negative interest rate of 0.4%) per annum.

Balances with central banks in the table above are shown net of credit loss allowances amounting to €1 thousand as at 31 December 2019 (31 March 2019: €1 thousand).

5. Derivative financial instruments

The Group, through MeDirect Malta, established derivative lines with counterparties to purchase interest rate caps, swaps and swaptions, foreign exchange swaps and other appropriate instruments approved for hedging risks.

The Group uses over-the-counter foreign exchange swaps to hedge its exposure to changes in foreign exchange rates. All foreign exchange swaps mature within 6 months (31 March 2019: 10 months) from the reporting date.

The Group uses over-the-counter interest rate swaps to hedge its exposure to changes in the fair values of specific fixed rate securities attributable to changes in market interest rates (micro fair value hedging). Interest rate swaps are matched to fixed rate securities in designated fair value hedging transactions. The net losses on the related hedging instruments during the period ended 31 December 2019 was €0.4 million (Year ended 31 March 2019: €2.0 million). The net gains on the hedged items arising during the period attributable to the hedged risk was €0.3 million (Year ended 31 March 2019: €1.5 million).

The Group also uses over-the-counter interest rate swaps to hedge its exposure to interest rate risk emanating from a portfolio of fixed-rate mortgages (see Note below – macro fair value hedging under the EU carve-out version of IAS 39). The net gains on the related hedging instruments during the period ended 31 December 2019 was €0.3 million (Year ended 31 March 2019: nil). The net losses on the hedged items arising during the period attributable to the hedged risk was €0.4 million (Year ended 31 March 2019: nil).

Foreign exchange and interest rate swaps are commitments to exchange one set of cash flows for another, resulting in an economic exchange of currencies or interest rates (for example, fixed rate for floating rate). Usually, no exchange of principal takes place.

The Group also used to transact derivatives to create risk management solutions for clients, but this service was ceased throughout the preceding financial year. This service included the structuring of derivative products for customers to enable them to take, transfer, modify or reduce current or expected risks. As part of this process, the Group considered the customers' suitability in respect of the respective risks involved and the business purpose underlying the transaction. The Group managed these derivative risk positions principally through offsetting derivative transactions with its counterparties.

	Group	
	31 December 2019 €000	31 March 2019 €000
Derivative financial assets	**2,020**	716
Derivative financial liabilities	**(4,182)**	(11,327)

The Group applies fair value hedge accounting on micro level in which one hedged item is hedged with one or multiple hedging instruments as well as on macro level whereby a portfolio of items is hedged with multiple hedging instruments. For macro hedges of interest rate risk, the Group applies the EU 'carve-out' version of IAS 39. The EU 'carve-out' rules for macro hedging enable a group of derivatives (or proportions) to be viewed in combination and jointly designated as the hedging instrument and remove some of the limitations in fair value hedge accounting relating to hedging core deposits and under-hedging strategies. Within retail operations, interest rate exposures on retail funding (savings and current accounts) and retail lending (mortgages) are initially offset. The remaining exposure is hedged in a portfolio hedge, using the EU 'carve-out' version of IAS 39, in which a portion of the retail mortgage lending portfolio is designated as a hedged item for hedge accounting purposes. The Group applies the following types of hedge accounting:

Fair value hedges

Hedging the interest rate risk in the banking book (macro hedge)

The hedged portfolio comprises fixed-rate mortgages of MeDirect Belgium (refer to note 7). These are mortgages that have a fixed-rate interest period of more than six months. The hedging instruments are interest rate swaps entered into as part of interest rate risk management in the Asset and Liability Management ('ALM') process. The risk being hedged is the risk of change in fair value of the portfolio attributable to movements in market interest rates. Effectiveness assessments are performed on a retrospective and a prospective basis, using the dollar offset method.

Hedging the interest rate risk on investments (micro hedge)

The interest rate risk on specific fixed-income investments (refer to note 8), on an individual asset basis, is hedged by swapping the coupon to a floating interest rate using interest rate swaps. The country or credit spread is not hedged. The hedges provide protection for changes in fair value of the relevant fixed-income investments attributable to movements in market interest rates. Effectiveness assessments are performed on a retrospective and a prospective basis, using the dollar offset method.

The fair values of the held for trading derivatives and derivatives designated as hedging instruments in fair value hedges together with the related notional amounts, distinguishing between micro hedges and macro hedges for the purposes of hedge accounting, are as follows:

	Group			
	Notional 31 December 2019 €000	**Fair value 31 December 2019 €000**	Notional 31 March 2019 €000	Fair value 31 March 2019 €000
Derivatives held for trading – Assets				
Instrument type:				
- Foreign exchange swaps	**108,918**	**1,036**	34,894	268
- Other derivative financial instruments		**448**		448
		1,484		716
Derivatives held for trading – Liabilities				
Instrument type:				
- Foreign exchange swaps	**159,603**	**(4,182)**	409,258	(10,823)
Net derivatives held for trading		**(2,698)**		(10,107)
Derivatives designated as hedging instruments in fair value hedges – Assets/(Liabilities)				
Instrument type:				
- Interest rate swaps maturing in				
More than one year and less than five years				
- Micro hedges	**56,000**	**223**	108,000	(355)
- Macro hedges	**25,100**	**45**	-	-
More than five years – micro hedges	**38,700**	**268**	11,000	(149)
Net derivatives designated as hedging instruments in fair value hedges		**536**		(504)

6. Loans and advances to financial institutions

	Group		Company	
	31 December 2019 €000	31 March 2019 €000	**31 December 2019 €000**	31 March 2019 €000
At amortised cost:				
Repayable on call and at short notice	**214,114**	94,321	**218**	282
Term loans and advances	**9,391**	24,400	**-**	-
	223,505	118,721	**218**	282

As at 31 December 2019 and 31 March 2019, an amount of €3.7 million in the form of High Quality Liquid Assets and €2.5 million in the form of cash have been contributed to a clearing fund held by Eurex Clearing AG, of which MeDirect Malta is a member. The clearing fund protects members against losses until they leave the clearing fund.

A further €1.9 million in the form of High Quality Liquid Assets as at 31 December 2019 and 31 March 2019 were also contributed to Eurex Clearing AG to cover for daily margining.

Loans and advances to financial institutions as at 31 December 2019 and 31 March 2019 were neither past due nor credit-impaired and no forbearance measures were applied by the Group in this respect. In addition, loans and advances to financial institutions in the preceding table above are shown net of credit loss allowances amounting to €1 thousand as at 31 December 2019 and 31 March 2019.

7. Loans and advances to customers

	Group	
	31 December 2019 €000	31 March 2019 €000
International Lending portfolio		
- Term loans and advances: corporate	**1,159,131**	1,779,210
Local Lending portfolio		
- Repayable on call and short notice: retail	**1,191**	2,723
- Repayable on call and short notice: corporate	**5,265**	8,909
- Term loans and advances: retail	**8,089**	4,146
- Term loans and advances: corporate	**74,770**	71,420
Dutch Mortgage portfolio		
- Term loans and advances: retail	**133,150**	-
Gross loans and advances to customers	**1,381,596**	1,866,408
Less: Credit loss allowances	**(22,219)**	(23,853)
	1,359,377	1,842,555

	International Lending portfolio		Local Lending portfolio		Dutch Mortgage portfolio		Total	
	31 December 2019 €000	31 March 2019 €000	**31 December 2019 €000**	31 March 2019 €000	**31 December 2019 €000**	31 March 2019 €000	**31 December 2019 €000**	31 March 2019 €000
Credit loss allowances:								
- Allowances booked under Stage 1	**(7,447)**	(12,555)	**(279)**	(216)	**(8)**	-	**(7,734)**	(12,771)
- Allowances booked under Stage 2	**(1,956)**	(1,931)	**(73)**	(6)	**-**	-	**(2,029)**	(1,937)
- Allowances booked under Stage 3	**(12,455)**	(7,995)	**(1)**	(1,150)	**-**	-	**(12,456)**	(9,145)
	(21,858)	(22,481)	**(353)**	(1,372)	**(8)**	-	**(22,219)**	(23,853)

The Group's Dutch mortgage portfolio in the table above include fair value adjustments amounting to €369 thousand attributable to hedged risk in which interest rate swaps were entered into as part of the interest rate risk management in the ALM process to hedge the risk of change in fair value of the portfolio attributable to movements in market interest rates (refer to note 5).

As at 31 December 2019, the acquisition of €40.1 million (31 March 2019: €60.8 million) of the Group's "Term loans and advances to customers: corporate" was contracted but beneficial ownership was not yet transferred. Also, at 31 March 2019 disposals of loans and advances with a carrying amount of €17 million were contracted but in respect of which instruments' beneficial ownership was not yet transferred.

Loans and advances relating to exposures within the Local Lending portfolio amounting to €1 million have been written off during the current financial period (Year ended 31 March 2019: €17.3 million relating to exposures within the International Lending and Local Lending portfolios). Consequently, during the financial period ended 31 December 2019 credit loss allowances amounting to €1 million (Year ended 31 March 2019: €17.3 million) relating to such write-offs have been released to profit or loss.

Throughout the financial year ended 31 March 2019, MeDirect Malta derecognised loans and advances to a European corporation with a gross carrying amount of €23.4 million as a result of restructuring procedures. As at the date of the restructuring, credit loss allowances recognised in respect of these financial instruments amounted to €7.6 million. These financial instruments were replaced by new loans and advances to customers with a gross carrying amount of €16.1 million that were classified as hold to collect financial assets measured at amortised cost on initial recognition and unlisted equity in this European corporation that was classified as financial assets at fair value through profit or loss which was assigned a nil fair value on initial recognition. In this regard, the restructuring led to a net positive impact on profit or loss amounting to €0.4 million. The holding of the new loans and advances to customers and the unlisted equity represent the continuing interaction with this customer. During the financial period ended 31 December 2019, no such events took place.

As at 31 December 2019, gross loans and advances to customers of the Group amounting to €79.9 million (31 March 2019: €83.5 million) were classified as Stage 3.

8. Treasury and Securitisation Investment Portfolio

Treasury Investment Portfolio

	Group 31 December 2019 €000	31 March 2019 €000
Investments measured at amortised cost including basis adjustment attributable to the hedged risk		
- Debt and other fixed income securities	**430,448**	425,074
- Less: Credit loss allowances	**(249)**	(65)
Investments measured at fair value through other comprehensive income		
- Debt and other fixed income securities	**500,292**	265,572
	930,491	690,581
Credit loss allowances:		
- On investments measured at amortised cost	**(249)**	(65)
- On investments measured at fair value through other comprehensive income	**(144)**	(23)
	(393)	(88)

Group	Measured at amortised cost		Measured at fair value through other comprehensive income	
	31 December 2019 €000	31 March 2019 €000	**31 December 2019 €000**	31 March 2019 €000
Debt securities and other fixed income securities				
Issued by public bodies				
- foreign national and regional governments	**35,466**	35,601	**64,936**	18,976
- supranational	**189,445**	192,681	**109,868**	62,118
Issued by other bodies				
- foreign banks	**193,086**	196,727	**325,488**	184,478
- corporations	**12,202**	-	**-**	
	430,199	425,009	**500,292**	265,572
Listing status				
- listed on foreign recognised exchanges	**417,997**	425,009	**500,292**	265,572
- not listed	**12,202**	-	**-**	-
	430,199	425,009	**500,292**	265,572

Group	Measured at amortised cost		Measured at fair value through other comprehensive income	
	Period ended 31 December 2019 €000	Year ended 31 March 2019 €000	**Period ended 31 December 2019 €000**	Year ended 31 March 2019 €000
At beginning of period	**425,009**	401,555	**265,572**	160,898
Additions	**12,398**	31,107	**567,640**	164,713
Disposal/Redemptions	**-**	-	**(325,641)**	(58,903)
Gains on hedged items attributable to the hedged risk	**284**	1,526	**-**	-
Amortisation of premium/discount	**(7,308)**	(9,137)	**(2,273)**	(2,874)
Exchange differences	**-**	-	**120**	87
Changes in fair value	**-**	-	**(5,126)**	1,651
Movement in credit loss allowances	**(184)**	(42)	**-**	-
At end of period	**430,199**	425,009	**500,292**	265,572

The investment securities of the Group are pledged as collateral with Eurex against the provision of borrowing facilities (Note 17), except for investments which are free and unencumbered securities as at 31 December 2019 with a nominal value amounting to €508 million (31 March 2019: €468.4 million) and a carrying amount of €519.5 million (31 March 2019: €480.9 million).

The cash value of unutilised borrowing facilities (headroom) of the Group as at 31 December 2019 which are secured by investment securities amounted to €402.4 million (31 March 2019: €469.8 million).

As at 31 December 2019, investment securities held by the Group with a nominal value of €4.8 million (31 March 2019: €4.8 million) and a fair value of €4.8 million (31 March 2019: €4.9 million) are pledged in favour of DCS.

As at 31 December 2019 and 31 March 2019, the Group had no commitment to purchase further investment securities.

Securitisation Investment Portfolio

	Group	
	31 December 2019 €000	31 March 2019 €000
Investments measured at amortised cost		
- Debt and other fixed income securities	**252,198**	-
- Less: Credit loss allowances	**(19)**	-
Investments mandatorily measured at fair value through profit or loss		
- Debt and other fixed income securities	**1,447**	-
	253,626	-

Group	Measured at amortised cost		Measured at fair value through other comprehensive income		Measured at fair value through profit or loss	
	Period ended 31 December 2019 €000	Year ended 31 March 2019 €000	**Period ended 31 December 2019 €000**	Year ended 31 March 2019 €000	**Period ended 31 December 2019 €000**	Year ended 31 March 2019 €000
Additions	**252,195**	-	**87,000**	-	**1,750**	-
Disposal/Redemptions	**-**	-	**(87,109)**	-	**-**	-
Amortisation of premium/discount	**3**	-	**-**	-	**-**	-
Changes in fair value	**-**	-	**109**	-	**(303)**	-
Impairment	**(19)**	-	**-**	-	**-**	-
At end of period / year	**252,179**	-	**-**	-	**1,447**	-

MeDirect Malta acquired a 5% vertical slice in each of the GH1-2019 structured note tranches for risk retention purposes, for the amount of €20.2 million. With the exception of the equity tranche amounting to €1.4 million measured at FVTPL, MeDirect Malta's investment in the remaining tranches amounting to €18.5 million is measured at amortised cost. In turn, MeDirect Belgium acquired a 35% share of the tranche with the highest credit rating for an amount of €87 million, which investment was held in a 'hold to collect and sell' business model and measured at FVOCI. This investment was sold during the financial period ended 31 December 2019 at a gain of €109 thousand.

The Group also acquired portions in CLO transactions managed by third party entities corresponding to tranches with the highest credit rating in such CLO structures. These acquired portions in CLO transactions are listed on recognised exchanges but not centrally traded. The underlying assets for these CLO transactions are leveraged loans, predominantly senior secured leveraged loans, and high yield corporate bonds. These positions, amounting to €233.7 million in total as at 31 December 2019, are held in a 'hold to collect' business model and measured at amortised cost.

9. Investment in subsidiary

Name of subsidiary	Country of incorporation	Nature of business	Equity interest		Carrying amount	
			31 December 2019	31 March 2019	**31 December 2019**	31 March 2019
			%	%	**€000**	€000
MeDirect Bank (Malta) plc	Malta	Banking	**100**	100	**130,914**	130,914
Shareholders' contribution to MeDirect Bank (Malta) plc					**133,196**	143,196
					264,110	274,110

	Period ended 31 December 2019 €000	Year ended 31 March 2019 €000
Year ended 31 March		
At beginning of period	**274,110**	279,011
Movement in shareholders' contribution	**(10,000)**	(4,156)
Disposal of subsidiary (refer to following note)	**-**	(745)
At end of period	**264,110**	274,110

MeDirect Malta owns the following subsidiaries:

Name of subsidiary	Country of incorporation	Nature of business	Equity interest	
			31 December 2019	31 March 2019
			%	**%**
MeDirect Bank SA	Belgium	Banking	**100**	100
Medifin Estates (partnership)	Malta	Operating lease of branches	**100**	97

MeDirect Bank S.A. ("MeDirect Belgium") was incorporated on 16 June 2014 and was authorised as a Belgian credit institution on 1 June 2015. As part of that process, assets and liabilities with a net carrying amount of €80 million attributable to MeDirect Malta's former Belgian branch were contributed to MeDirect Belgium which is carrying out all of the Group's activities in Belgium. MeDirect Malta initially transferred net assets amounting to €80 million as outlined above and further transferred loan portfolios with carrying amount of €100 million. During the year ended 31 March 2018 MeDirect Malta injected a further €45 million into MeDirect Belgium to sustain further growth.

Medifin Estates is a partnership set up on 5 June 2012. This partnership enters into certain operating leases for property to be used as offices and branches which are then leased to the Group.

On 1 February 2018, MeDirect Malta announced that the boards of directors of MeDirect Malta and Charts have each voted to merge Charts into MeDirect Malta, subject to receipt of all applicable regulatory approvals and completion of all legal requirements. On 1 April 2018 the shares held by MDB Group Limited in Charts were transferred to MeDirect Malta for a consideration of €0.7 million. With effect from 1 April 2018, the merger between MeDirect Malta and Charts became effective for accounting purposes. Thus, all the transactions of Charts have been treated as being those of MeDirect Malta with effect from 1 April 2018.

By virtue of board resolution dated 30 May 2018 the MeDirect Malta Group accepted capital contributions from the Company amounting to €3.1 million.

By virtue of shareholders' resolutions dated 30 May 2018 and 28 June 2019, MeDirect Bank Malta approved the repayment of the shareholder contribution to MDB Group Limited equivalent to €7.2 million and €10 million respectively.

10. Property and equipment

Group	Improvements to premises €000	Computer equipment €000	Other equipment €000	Fixtures and fittings €000	Motor vehicles €000	Right-of-use assets €000	Total €000
As at 1 April 2018							
Cost	509	264	156	1,161	142	-	2,232
Accumulated depreciation	(93)	(156)	(20)	(598)	(142)	-	(1,009)
Net book amount	416	108	136	563	-	-	1,223
Year ended 31 March 2019							
At beginning of year	416	108	136	563	-	-	1,223
Additions	90	860	32	128	-	-	1,110
Disposals	-	-	-	(16)	(29)	-	(45)
Depreciation for the year	(64)	(107)	(9)	(78)	-	-	(258)
Depreciation released on disposals	-	-	-	12	29	-	41
Reclassification - Cost	87	(14)	(97)	24	-	-	-
Reclassification - Accumulated depreciation	-	2	-	(2)	-	-	-
At end of year	529	849	62	631	-	-	2,071
As at 31 March 2019							
Cost	686	1,110	91	1,297	113	-	3,297
Accumulated depreciation	(157)	(261)	(29)	(666)	(113)	-	(1,226)
Net book amount	529	849	62	631	-	-	2,071
Period ended 31 December 2019							
At beginning of period as previously stated	**529**	**849**	**62**	**631**	**-**	**-**	**2,071**
Impact of adopting IFRS 16	**-**	**-**	**-**	**-**	**-**	**12,110**	**12,110**
At beginning of period as restated	**529**	**849**	**62**	**631**	**-**	**12,110**	**14,181**
Additions	**-**	**215**	**12**	**18**	**-**	**80**	**325**
Disposals	**(113)**	**(87)**	**(14)**	**(523)**	**(113)**	**(411)**	**(1,261)**
Depreciation for the period	**(51)**	**(217)**	**(16)**	**(72)**	**-**	**(1,250)**	**(1,606)**
Depreciation released on disposals	**95**	**83**	**14**	**499**	**113**	**-**	**804**
Reclassification - Cost	**(11)**	**(43)**	**-**	**54**	**-**	**-**	**-**
At end of period	**449**	**800**	**58**	**607**	**-**	**10,529**	**12,443**
As at 31 December 2019							
Cost	**562**	**1,195**	**89**	**846**	**-**	**11,779**	**14,471**
Accumulated depreciation	**(113)**	**(395)**	**(31)**	**(239)**	**-**	**(1,250)**	**(2,028)**
Net book amount	**449**	**800**	**58**	**607**	**-**	**10,529**	**12,443**

As at 31 December 2019, the Group operated from six immovable properties respectively which are held under lease agreements. The right-of-use assets disclosed in the preceding table reflect the following assets relating to leases:

	Group	
	31 December 2019	1 April 2019
	€000	€000
Premises	**8,138**	9,429
Computer equipment	**2,149**	2,400
Other equipment	**242**	281
	10,529	12,110

The movement in the carrying amount of right-of-use assets is analysed in the following table:

	Group			
	Premises	**Computer equipment**	**Other equipment**	**Total**
	€000	**€000**	**€000**	**€000**
Period ended 31 December 2019				
At beginning of period	**9,429**	**2,400**	**281**	**12,110**
Additions	**-**	**80**	**-**	**80**
Disposals	**(411)**	**-**	**-**	**(411)**
Depreciation for the period	**(880)**	**(331)**	**(39)**	**(1,250)**
At end of the period	**8,138**	**2,149**	**242**	**10,529**
As at 31 December 2019				
Cost	**9,018**	**2,480**	**281**	**11,779**
Accumulated depreciation	**(880)**	**(331)**	**(39)**	**(1,250)**
Net book amount	**8,138**	**2,149**	**242**	**10,529**

The relevant lease liabilities are disclosed and analysed in notes 22 and 36 to these financial statements.

There were no capitalised staff costs in respect of the financial period ended 31 December 2019, included with “Additions” in the table above (Year ended 31 March 2019: €0.3 million) in respect of assets which have not yet been put in use. There were no capitalised borrowing costs related to the acquisition of property and equipment during the period (Year ended 31 March 2019: nil).

11. Intangible assets

Group	Goodwill €000	Computer software €000	Right-of-use assets €000	Customer list	Total €000
As at 1 April 2018					
Cost	461	2,934	-	474	3,869
Accumulated amortisation	-	(439)	-	(379)	(818)
Net book amount	461	2,495	-	95	3,051
Year ended 31 March 2019					
At beginning of year	461	2,495	-	95	3,051
Additions	-	3,841	-	-	3,841
Amortisation for the year	-	(521)	-	(47)	(568)
At end of year	461	5,815	-	48	6,324
As at 31 March 2019					
Cost	461	6,775	-	474	7,710
Accumulated amortisation	-	(960)	-	(426)	(1,386)
Net book amount	461	5,815	-	48	6,324
Period ended 31 December 2019					
At beginning of period as previously stated	**461**	**5,815**	**-**	**48**	**6,324**
Impact of adopting IFRS 16	**-**	**-**	**9,427**	**-**	**9,427**
At beginning of period as restated	**461**	**5,815**	**9,427**	**48**	**15,751**
Additions	**-**	**3,203**	**233**	**-**	**3,436**
Disposals	**-**	**(346)**	**-**	**-**	**(346)**
Amortisation for the period	**-**	**(944)**	**(1,267)**	**(36)**	**(2,247)**
Amortisation released on disposals	**-**	**334**	**-**	**-**	**334**
At end of period	**461**	**8,062**	**8,393**	**12**	**16,928**
As at 31 December 2019					
Cost	**461**	**9,632**	**9,660**	**474**	**20,227**
Accumulated amortisation	**-**	**(1,570)**	**(1,267)**	**(462)**	**(3,299)**
Net book amount	**461**	**8,062**	**8,393**	**12**	**16,928**

The right-of-use assets reflected in preceding table relates to leased computer software. The relevant lease liabilities are disclosed and analysed in notes 22 and 36 to these financial statements.

Capitalised staff costs in respect of the financial period ended 31 December 2019, included within "Additions" of the Group in the table above amounted to €1.5 million (Year ended 31 March 2019: €2.3 million). Amortisation of amounts capitalised by the Group of €0.7 million (Year ended 31 March 2019: €1.4 million) had not yet commenced by the end of the reporting period.

There were no capitalised borrowing costs related to the acquisition of software during the period (Year ended 31 March 2019: nil).

Impairment assessment on goodwill arising on the acquisition of Wealth Management business in prior years

The recoverable amount attributable to the wealth management business acquired in prior years was based on its value in use and was determined by discounting the future cash flows to be generated from its continuing operations taking into account synergies as well as the enhanced client platform. The recoverable amount was determined to be higher than the carrying amount (consisting of the net assets and goodwill). As a result, no impairment was deemed necessary.

Key assumptions used in discounted cash flow projection calculations

Disclosure of the key assumptions used in the calculation of recoverable amounts was not deemed necessary taking cognisance of the carrying amount of goodwill in this respect. There were no changes in the underlying assumptions during the period.

12. Non-current assets classified as held for sale

As at 31 December 2019, the fair value of assets acquired in satisfaction of debt amounted to €1.8 million (31 March 2019: €1.8 million).

Repossessed properties are made available for sale in an orderly fashion, with the proceeds used to reduce or repay the outstanding indebtedness. The Group does not generally occupy repossessed properties for its business use. Repossessed properties consist mainly of immovable property that had been pledged as collateral by customers.

13. Deferred tax assets and liabilities

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority.

	Group		Company	
	31 December 2019	31 March 2019	31 December 2019	31 March 2019
	€000	€000	€000	€000
Deferred tax assets	**25,705**	24,586	3,426	3,248
Deferred tax liabilities	**(199)**	(491)	-	-
	25,506	24,095	**3,426**	3,248

Deferred tax assets and liabilities are attributable to the following:

	Group		**Company**	
	31 December 2019	31 March 2019	**31 December 2019**	31 March 2019
	€000	€000	**€000**	€000
Property and equipment	**(126)**	(149)	**-**	-
Investments measured at fair value through other comprehensive income	**1,110**	(269)	**-**	-
Derivative financial instruments	**(73)**	(73)	**-**	-
Unutilised tax losses	**2,487**	2,735	**-**	-
Unutilised notional interest deduction	**12,168**	11,890	**3,426**	3,248
Credit loss allowances	**9,940**	9,961	**-**	-
Net deferred tax assets	**25,506**	24,095	**3,426**	3,248

Deferred taxes are calculated on all temporary differences under the liability method and are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled based on tax rates (and tax laws) that have been substantively enacted by the end of the reporting period. The principal tax rates used are 35% (31 March 2019: 35%) in relation to the Maltese jurisdiction and 25% (31 March 2019: 25%) in respect of the Belgian fiscal authority.

Under notional interest deduction rules for Maltese corporate income tax purposes, Maltese entities may claim a deduction of notional interest computed by reference to risk capital and a benchmark interest rate.

Excess notional interest deduction in Malta which cannot be utilised against chargeable income for the respective financial year can be carried forward and added to the notional interest deduction for the following financial year. Unutilised notional interest deduction does not have an expiry date. A deferred tax asset is recognised in respect of unutilised notional interest deduction only to the extent that it is probable that sufficient future taxable profits will be available against which the unutilised deduction can be used.

The recognised deferred tax assets are expected to be recovered or settled principally after more than 12 months from the end of the reporting period, except for the deferred tax asset recognised attributable to unutilised notional interest deduction that is expected to be realised principally in the next 12 months from the end of the reporting period. Unutilised tax losses and unutilised notional interest deduction have no expiry date and can be carried forward indefinitely.

As at 31 December 2019, the Group and Company had unutilised notional interest deduction carried forward amounting to €12.9 million (31 March 2019: nil) and €6.6 million (31 March 2019: nil), respectively in respect of which no deferred tax assets were recognised as deferred income tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised. The deferred tax assets on such unutilised notional interest deduction would have been equivalent to €4.5 million for the Group and €2.3 million for the Company.

Movements in deferred tax during the period:

Group

	At beginning of period €000	Recognised in profit or loss €000	Recognised in other comprehensive income €000	At end of period €000
Period ended 31 December 2019				
Property and equipment	**(149)**	**23**	**-**	**(126)**
Investments measured at fair value through other comprehensive income	**(269)**	**-**	**1,379**	**1,110**
Derivative financial instruments	**(73)**	**-**	**-**	**(73)**
Unutilised tax losses	**2,735**	**(248)**	**-**	**2,487**
Unutilised notional interest deduction	**11,890**	**278**	**-**	**12,168**
Credit loss allowances	**9,961**	**(21)**	**-**	**9,940**
	24,095	**32**	**1,379**	**25,506**
Year ended 31 March 2019				
Property and equipment	15	(164)	-	(149)
Investments measured at fair value through other comprehensive income	206	-	(475)	(269)
Derivative financial instruments	(44)	(29)	-	(73)
Unutilised tax losses	3,076	(341)	-	2,735
Unutilised notional interest deduction	5,713	6,177	-	11,890
Credit loss allowances	13,082	(3,121)	-	9,961
	22,048	2,522	(475)	24,095

	Company	
	Period ended 31 December 2019 €000	Year ended 31 March 2019 €000
Unutilised notional interest deduction:		
At beginning of period	**3,248**	2,867
Recognised in profit or loss	**178**	381
At end of period	**3,426**	3,248

14. Prepayments and accrued income

	Group	
	31 December 2019 €000	31 March 2019 €000
Prepayments	**1,598**	1,583
Accrued income	**14,381**	16,800
	15,979	18,383

15. Other assets

	Group		Company	
	31 December 2019	31 March 2019	**31 December 2019**	31 March 2019
	€000	€000	**€000**	€000
Amounts receivable from:				
- ultimate parent company	**2,475**	2,412	**-**	-
- other group companies	**10,370**	12,661	**-**	-
Dividend related refund	**1,854**	1,772	**1,578**	1,578
Deferred customer contract costs	**1,132**	1,351	**-**	-
Other receivables	**34,336**	6,105	**-**	-
Other assets	**33**	582	**33**	21
	50,200	24,883	**1,611**	1,599

Amounts receivable from ultimate parent company amounting to €1.8 million as at 31 December 2019 (31 March 2019: €1.8 million) are unsecured, subject to interest at 3% per annum and repayable in November 2020. The residual amounts receivable from ultimate parent company are unsecured, interest free and repayable on demand.

Amounts receivable from other group companies are unsecured, interest free and repayable on demand, but as long alternative financing is available. The repayment of amounts receivable from other group companies is not expected within the next twelve months. None of these assets are deemed credit-impaired at 31 December 2019 and 31 March 2019. In this respect, the ultimate parent company provided a letter of comfort to MeDirect Malta, showing the intention of assisting these group companies to meet obligations.

As at 31 December 2019, 'Other receivables' comprises balances amounting to €30.7 million held with a third-party mortgage originator in the Netherlands until the relevant NHG eligibility criteria for specific loan applications relating to the Dutch Mortgage portfolio are fulfilled in the future.

Expected credit losses in relation to such balances are deemed to be insignificant as at 31 December 2019.

16. Capital and reserves

Share capital

	31 December 2019	31 March 2019
	€	€
Authorised:		
Ordinary 'A' shares of €1 each	**99,999,999**	99,999,999
Ordinary 'B' shares of €1 each	**1**	1
	100,000,000	100,000,000
Issued and fully paid up:		
Ordinary 'A' shares of €1 each	**56,406,546**	56,406,546
Ordinary 'B' shares of €1 each	**1**	1
	56,406,547	56,406,547

As at 31 December 2019, issued share capital is stated net of share issue expenses amounting to €0.7 million (31 March 2019: €0.7 million).

Rights and entitlements attached to ordinary shares

The holders of Ordinary 'A' shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at general meetings of the Company. Ordinary 'B' shareholders are not entitled to vote and do not carry any dividend entitlement. The holders of the Ordinary 'A' shares and the holders of the Ordinary 'B' shares shall be equally entitled to receive notice of general meetings of the Company.

Share premium

Share premium as at the reporting date represents the issue of shares in prior periods as follows:

	Number	Premium	Share premium	
	of shares	per share	31 December 2019	31 March 2019
Issue date		€	€000	€000
5 August 2009	39,520,969	0.3407	**13,464**	13,464
31 March 2010	1,214,991*	0.2400	**292**	292
			13,756	13,756

**Converted to one share on 27 June 2014*

Shareholders' contributions

The terms and conditions of the contributions granted render these instruments equity in nature in accordance with the requirements of IAS 32: Financial Instruments - Presentation:

- The Company has no obligation to bear any servicing cost or transfer any economic benefits of any kind to the Contributor or any other person in return; and
- The Company has no obligation to repay the contributions.

The contributions are also eligible as own funds in terms of the Capital Requirements Regulation.

Reserve for general banking risks

Banking Rule ("BR") 09 issued by the MFSA requires banks in Malta to hold additional reserves for general banking risks in respect of non-performing loans. This reserve is required to be funded from retained earnings. As at 31 December 2019, the reserve for general banking risks of the Group was equivalent to €3.4 million (31 March 2019: €3.1 million). This reserve, which is distributable subject to the formal consent of the Banking Regulator, represents 100% of the regulatory allocation by virtue of paragraph 38 of the Banking Rule.

Other reserves

Fair value reserve

The fair value reserve of the Group is attributable to the cumulative net change in the fair value of investments measured at fair value through other comprehensive income, until the investment is derecognised, net of deferred taxation.

	Group	
	31 December	31 March
	2019	2019
	€000	€000
At the beginning of period	**793**	(383)
Fair value adjustments	**(27)**	1,651
Deferred tax on fair value adjustments	**7**	(475)
Reclassification adjustment to profit or loss upon disposal	**(5,098)**	-
Deferred tax on reclassification adjustments	**1,371**	-
At end of period	**(2,954)**	793

Other reserve

On 6 May 2015, the Group entered into an agreement to acquire the remaining 35% shareholding of Charts Investment Management Service Ltd (see note 9) for a cash consideration of €1.7 million, of which €0.2 million was contingent upon the achievement of certain predefined targets. The contingent consideration has been deemed to have materialised in 2018 and was paid in May 2018. The subsidiary was principally engaged in providing stockbroking and corporate finance services and other authorised investment services under a Category 3 licence.

As a result of the acquisition of the non-controlling interest, during the financial year ended 31 March 2016, the carrying amount of the non-controlling interest of €0.4 million has been derecognised. The difference between proceeds and the carrying amount of the non-controlling interest has been reflected as an adjustment to equity.

Other reserve also consists of legal reserves amounting to €0.2 million (31 March 2019: €0.1 million) that is required to be maintained by MeDirect Belgium in line with Article 616 of the Belgian Companies Code which requires MeDirect Belgium to assign at least 5% of MeDirect Belgium's net profits to the legal reserve until such legal reserve amounts to 10% of MeDirect Belgium share capital.

All reserves at the reporting date, except for the Group's retained earnings and shareholders' contributions, are non-distributable.

Dividends

By virtue of shareholder's resolution dated 30 May 2018 and 28 June 2019, MDB Group Limited approved and paid an interim dividend of €7.2 million and €10 million respectively, amounting to 12.9 cents and 17.7 cents per ordinary share respectively.

The directors of the Company do not propose any final dividends for distribution.

17. Amounts owed to financial institutions

	Group	
	31 December 2019 €000	31 March 2019 €000
Repayable on call and at short notice	**4,012**	3,887
Term deposits	**220,000**	195,000
	224,012	198,887

As at 31 December 2019, the Group's term deposits amounting to €220 million (31 March 2019: €195 million), consisting of repos, are secured by a pledge over MeDirect Malta's investments (refer to Note 8).

18. Amounts owed to customers

	Group	
	31 December 2019 €000	31 March 2019 €000
Repayable on call and at short notice	**1,166,569**	734,362
Term deposits	**1,272,557**	1,467,729
	2,439,126	2,202,091

19. Subordinated liabilities

	Group	
	Period ended 31 December 2019	Year ended 31 March 2019
	€000	€000
At beginning of period	**67,138**	66,949
Debt securities issued	**35,044**	-
Debt securities redeemed	**(47,229)**	-
Foreign exchange differences	**22**	96
Transaction costs incurred	**(230)**	-
Transaction costs amortised to profit or loss	**75**	93
At end of period	**54,820**	67,138
Analysed as follows:		
7.5% Subordinated Bonds 2019	**-**	22,342
6% Subordinated Unsecured Bonds 2019 – 2024	**-**	24,832
5% Subordinated Unsecured Bonds 2022 – 2027	**19,999**	19,964
4% Subordinated Unsecured Bonds 2024 – 2029	**34,821**	-
	54,820	67,138

During June 2013, MeDirect Malta issued the euro equivalent of €10 million of 7.50% Subordinated Bonds redeemable on 4 December 2019. The debt securities were unsecured and were listed on the Malta Stock Exchange. Interest payable on these bonds was fixed at 7.5% per annum (effective interest rate of 7.6%) and the bonds were redeemable at their nominal value. During December 2013 these subordinated bonds were merged with the euro equivalent of €12.5 million bonds that were originally issued on 21 November 2012.

On 3 November 2014, MeDirect Malta announced the issue of €15 million 6% Subordinated Unsecured Bonds maturing on 28 November 2024 with a 28 November 2019 early redemption option held by MeDirect Malta. These bonds were issued on the Malta Stock Exchange in euro and pound sterling. The interest payable was fixed at 6% (effective interest rate 6.23%) and the bonds were redeemable at their nominal value. This was increased to a euro equivalent of €25 million as a result of an over subscription. As a result of MeDirect Malta's allotment methodology, MeDirect Malta issued £1.4 million (euro equivalent to €1.7 million) bonds in pound sterling and €23.3 million bonds in euro.

On 16 October 2017, MeDirect Malta announced the issue of euro equivalent of €20 million 5% Subordinated Unsecured Bonds 2027 maturing on 13 October 2027 with a 13 October 2022 early redemption option held by MeDirect Malta. These bonds were issued on the Malta Stock Exchange in euro and pound sterling. The interest payable is fixed at 5% (effective interest rate of 5.19%) and the bonds are redeemable at their nominal value. The amounts subscribed consisted of £1.2 million (euro equivalent to €1.3 million) bonds in pound sterling and €18.7 million bonds in euro.

On 8 October 2019 MeDirect Malta announced the issue and listing of €35 million 4% Subordinated Unsecured Bonds (effective interest rate: 4.2%) denominated in euro and pound sterling maturing on 5 November 2029 with a 5 November 2024 early redemption option held by MeDirect Malta. The proceeds were used as follows:

- to part-finance the redemption of the 7.5% Subordinated Bonds of MeDirect Malta that were redeemed on 4 December 2019;
- to early redeem the €25 million Subordinated Unsecured Bonds bearing interest at 6% per annum and maturing on 28 November 2024 with a 28 November 2019 early redemption option held by MeDirect Malta; and
- for general corporate funding purposes of the Group.

The above liabilities will, in the event of the winding up of MeDirect Malta, be subordinated to the claims of depositors and all other creditors of MeDirect Malta. MeDirect Malta has not had any defaults of interest or other breaches with respect to its subordinated debt securities during the periods ended 31 December 2019 and 31 March 2019. As at 31 December 2019, the euro equivalent contractual amount due at maturity is €55.0 million (31 March 2019: €67.3 million). As at 31 December 2019 and 31 March 2019 the carrying amount of the subordinated debt securities in issue is €0.2 million lower than the contractual amount

20. Provisions for liabilities and other charges

	Group	
	As at 31 December 2019 €000	As at 31 March 2019 €000
Credit loss allowances in respect of loan commitments and financial guarantee contracts	**2,112**	1,633
Restructuring costs	**2,416**	-
Total	**4,528**	1,633

	Group	
	Period ended 31 December 2019 €000	Year ended 31 March 2019 €000
Credit loss allowances in respect of loan commitments and financial guarantee contracts		
At beginning of period	**1,633**	1,022
Change in expected credit losses	**479**	611
At end of period	**2,112**	1,633
Restructuring costs		
Additional provisions – charged to profit or loss	**6,019**	-
Amounts utilised	**(3,603)**	-
At end of period	**2,416**	-

The provision for restructuring costs, which is mainly current in nature, covers one-time payment obligations emanating from severance costs attributable to the former Group senior management as a result of the organisational restructuring, staff redundancy costs in the context of the closure of specific branches and other restructuring costs, principally consultancy costs relating to restructuring plan amounting to €0.7 million and lease termination charges.

	Group	
	Period ended 31 December 2019 €000	Year ended 31 March 2019 €000
Severance costs attributable to former senior management – included within Personnel expenses	**4,551**	-
Staff redundancy costs (Note 26) – included within Personnel expenses	**513**	-
Other restructuring costs (Note 27) – included within Other administrative expenses	**955**	-
Total	**6,019**	-

21. Accruals and deferred income

	Group		Company	
	31 December 2019 €000	31 March 2019 €000	**31 December 2019 €000**	31 March 2019 €000
Accrued interest expense	**7,318**	5,474	**-**	-
Other accrued expenses	**10,603**	8,454	**9**	9
Deferred income	**23,005**	25,531	**-**	-
	40,926	39,459	**9**	9

22. Other liabilities

	Group		Company	
	31 December 2019 €000	31 March 2019 €000	**31 December 2019 €000**	31 March 2019 €000
Amounts due to immediate parent company	**3,350**	972	**-**	-
Amounts due to other group companies	**-**	-	**199**	233
Indirect taxes payable	**1,557**	1,209	**-**	17
Bills payable	**5,649**	4,551	**-**	-
Lease liabilities	**17,663**	-	**-**	-
Other liabilities	**8,329**	20,713	**-**	-
	36,548	27,445	**199**	250

Amounts due to immediate parent company and other group companies are unsecured, interest free and repayable on demand.

The lease liabilities associated with the recognised right-of-use are analysed below.

	Group	
	As at 31 December 2019 €000	As at 1 April 2019 €000
Non-current		
Premises	**6,897**	8,173
Computer	**1,133**	1,797
Other equipment	**126**	214
Computer software	**4,587**	6,715
	12,743	16,899

The total cash outflows for leases in 2019 was €1.9 million. The contractual undiscounted cash flows attributable to lease liabilities as at 31 December 2019 are analysed in Note 2.3.4.

The total amount of lease liabilities for computer, other equipment and computer software are attributable to arrangements with Medifin Leasing Limited, a related party.

The movement in the carrying amount of these liabilities is analysed in the following table:

	Group Period ended 31 December 2019 €000
As at 1 April 2019	**21,445**
Additions	**313**
Payments	**(4,719)**
Interest charge	**624**
	17,663

23. Net interest income

	Group		Company	
	Period ended 31 December 2019 €000	Year ended 31 March 2019 €000	**Period ended 31 December 2019 €000**	Year ended 31 March 2019 €000
Interest income				
Loans and advances to customers	**69,992**	99,228	**-**	-
Loans and advances to ultimate parent company	**42**	55	**-**	9
Investment securities				
- interest on investment securities	**7,584**	9,359	**-**	-
- amortisation of net premiums on investment securities	**(9,578)**	(12,011)	**-**	-
- net losses representing ineffective portion of fair value hedges	**(116)**	(439)	**-**	-
Total interest income	**67,924**	96,192	**-**	9
Interest expense				
Loans and advances to financial institutions	**711**	248	**-**	-
Amounts owed to financial institutions	**3,200**	4,467	**-**	-
Amounts owed to customers	**16,197**	19,612	**-**	-
Lease liabilities	**624**	-	**-**	-
Subordinated liabilities	**3,165**	4,254	**-**	-
Total interest expense	**23,897**	28,581	**-**	-
Net interest income	**44,027**	67,611	**-**	9

The Group's negative interest income attributable to loans and advances to financial institutions is presented within interest expense rather than netted off within interest income.

An amount of €3.8 million (Year ended 31 March 2019: €4.3 million) relating to credit-impaired financial assets is included within interest income from loans and advances to customers for the period ended 31 December 2019.

In the financial period ended 31 December 2019, fair value losses of €0.1 million (Year ended 31 March 2019: €2.0 million) arising on derivatives designated in micro fair value hedge relationships and €0.1 million (Year ended 31 March 2019: €1.5 million) representing net increases in the fair value of the hedged items attributable to the hedged risk are included within the Group's net interest income. These hedging relationships comprise interest rate swaps hedging interest rate risk on specific fixed rate debt securities, on an individual asset basis. The losses are reflected within interest arising from investment securities, where interest on the hedged items is presented.

On the other hand, for the macro hedging relationships comprising interest rate swaps hedging interest rate risk on portfolio of fixed rate mortgages, fair value gains of €0.3 million (Year ended 31 March 2019: nil) arising on derivatives designated in fair value hedge relationships and €0.4 million (Year ended 31 March 2019: nil) representing net decreases in the fair value of the hedged items attributable to the hedged risk are included within the Group's net interest income. The losses are reflected within interest arising from loans and advances to customers, where interest on the hedged items is presented.

	Group	
	Period ended 31 December 2019 €000	Year ended 31 March 2019 €000
Micro hedging:		
Losses on hedging instruments	**(400)**	(1,965)
Gains on hedged items attributable to the hedged risk – basis adjustment to Treasury Investments measured at amortised cost (see Note 8)	**284**	1,526
	(116)	(439)
Macro hedging:		
Gains on hedging instruments	**313**	-
Losses on hedged items attributable to the hedged risk – basis adjustment to Dutch Mortgage portfolio (see Note 7)	**(369)**	-
	(56)	-
Net losses representing ineffective portion of fair value hedges	**(172)**	(439)

24. Net fee and commission income

	Group	
	Period ended 31 December 2019 €000	Year ended 31 March 2019 €000
Fee and commission income		
Corporate secured lending fee income	**817**	653
Banking transactions fee income	**1,366**	2,302
Investment services fees	**3,410**	4,111
Total fee and commission income	**5,593**	7,066
Fee and commission expense		
Corporate secured lending fee expense	**181**	102
Banking transactions fee expense	**207**	160
Investment services transaction and custody fees	**890**	1,146
Other fee expense	**97**	101
Total fee and commission expense	**1,375**	1,509
Net fee and commission income	**4,218**	5,557

The Group's net fee and commission income excludes income and expenses that form an integral part of the effective interest rate on financial assets and financial liabilities that are not at fair value through profit or loss, but in the financial period ended 31 December 2019 includes income of €0.4 million (Year ended 31 March 2019: €0.7 million) and expenses of €0.2 million (Year ended 31 March 2019: € 0.1 million) relating to such financial assets and liabilities.

25. Net trading income and other operating income

25.1 Net trading income

	Group	
	Period ended 31 December 2019 €000	Year ended 31 March 2019 €000
Net income from foreign exchange activities	**3,296**	3,454
Net expense from held for trading financial instruments	**(295)**	(326)
	3,001	3,128

25.2 Realised gains on disposal of other investments

	Group	
	Period ended 31 December 2019 €000	Year ended 31 March 2019 €000
Investments measured at fair value through other comprehensive income	**5,092**	87

26. Personnel expenses

Personnel expenses incurred, including directors' remuneration and emoluments, are analysed as follows:

	Group	
	Period ended 31 December 2019	Year ended 31 March 2019
	€000	€000
Directors' emoluments		
- salaries	**4,238**	4,388
- defined contribution social security costs	**27**	90
- fees	**431**	520
- other emoluments	**31**	36
Staff costs		
- salaries	**18,323**	17,235
- defined contribution social security costs	**1,235**	1,783
Staff costs capitalised within Property and Equipment (Note 10) and Intangible Assets (Note 11)	**(1,461)**	(2,641)
	22,824	21,411

Personnel expenses for the period ended 31 December 2019 include costs in connection with the Group's organisational restructuring comprising the severance costs attributable to the former senior management amounting to €4.6 million (Year ended 31 March 2019: nil) and staff redundancy costs, as a result of closure of branches, amounting to €0.5 million (Year ended 31 March 2019: nil) (refer to note 20).

As per above, in the financial period ended 31 December 2019 salary costs amounted to €22.6 million (Year ended 31 March 2019: €21.6 million) with variable remuneration accounting for 11% (Year ended 31 March 2019: 12%).

The weekly average number of persons employed during the period, including executive directors, was as follows:

	Group	
	Period ended 31 December 2019	Year ended 31 March 2019
	No	No
Executive and senior management	**17**	17
Other managerial, supervisory and clerical	**286**	277
Other	**12**	13
	315	307

The number of persons employed as at the reporting date, including executive directors, was 280 (31 March 2019: 313).

Deferred share-based payments were granted to certain Group employees under a deferred performance and retention bonus plan. Under this plan, these employees are entitled to a deferred cash payment that will be based on changes in the fair value of the ordinary shares of MDB Group Limited but does not entitle the employees to shares or any interest in or right over such shares. Share-linked instruments comprise a number of notional ordinary shares of MDB Group Limited determined at award date by reference to the related bonus amounts taking cognisance of the fair value of the shares at that date. The plan contemplates upfront cash amounts, upfront share linked awards and deferred share linked awards that shall be subject to a retention period of not less than twelve months but not greater than five years. Any tranche of a deferred award which has not yet been paid will lapse if the employee leaves employment before the end of the deferral period, unless the employee leaves due to certain specific reasons as listed in the deferred bonus plan. Settlement amounts will be determined on the basis of the fair value of the ordinary shares at settlement date, which is the end of the retention period.

An assessment of performance over the relevant period is used to determine the amount of the deferred performance bonus award to be granted. Both deferred performance and retention awards generally require employees to remain in employment over the vesting period and are not subject to performance conditions after the grant date. The share-based payment is classified as cash-settled since the share-based payment transactions with the employees are settled through a cash payment.

The following is an analysis of the deferred remuneration awarded to specific members of senior management during the financial period and payments of deferred remuneration throughout the financial period.

	Financial period ended 31 December 2019		Financial year ended 31 March 2019	
	Vested	**Unvested**	Vested	Unvested
	€000	**€000**	€000	€000
Group				
Total outstanding deferred remuneration – share-based payments				
At beginning of period	**467**	**1,325**	-	-
Awarded throughout the period	**-**	**300**	-	1,792
Vested throughout the period	**75**	**(75)**	467	(467)
At end of period	**542**	**1,550**	467	1,325

The total expense recognised during the current financial period ended 31 December 2019 amounted to €0.9 million (Year ended 31 March 2019: €0.9 million) and the resultant liability as at 31 December 2019, arising from deferred share-based payments, amounted to €1.8 million (Year ended 31 March 2019: €0.9 million).

27. Other administrative expenses

Other administrative expenses are analysed as follows:

	Group		**Company**	
	Period ended 31 December 2019	Year ended 31 March 2019	**Period ended 31 December 2019**	Year ended 31 March 2019
	€000	€000	**€000**	€000
Operating lease charges (Note 36)	**-**	6,502	**-**	-
Expense relating to short-term leases	**333**	-	**-**	-
Expense relating to leases of low value assets	**6**	-	**-**	-
IT support and telecommunication costs	**4,417**	5,242	**-**	-
Legal and professional expenses	**5,314**	4,599	**6**	6
Regulatory expenses	**3,116**	4,185	**2**	1
Indirect taxation	**2,893**	3,658	**-**	2
Other expenses	**5,036**	6,647	**4**	4
	21,115	30,833	**12**	13

Other administrative expenses include restructuring costs principally consultancy costs relating to restructuring plan amounting to €0.7 million and other charges (refer to Note 20).

Included in other administrative expenses are fees charged by the Group's independent auditors for the year as follows:

	Group		**Company**	
	Period ended 31 December 2019	Year ended 31 March 2019	**Period ended 31 December 2019**	Year ended 31 March 2019
	€000	€000	**€000**	€000
Audit services	**440**	753	**5**	5
Other assurance services	**65**	53	**-**	-
Tax advisory services	**30**	42	**1**	1
Other non-audit services	**125**	250	**-**	-

Other assurance services comprise mainly reviews of interim financial information. Other non-audit services consist of regulatory advisory services in respect of the Group's compliance with elements of the regulatory framework it is exposed to or which the Group will be exposed to in the future. These non-audit services have no linkage whatsoever to the audited financial statements.

28. Change in expected credit losses and other impairment charges

	Group	
	Period ended 31 December 2019 €000	Year ended 31 March 2019 €000
Change in expected credit losses		
Loans and advances to customers, including credit-related commitments		
- International Lending portfolio (including accrued income)	**(179)**	(5,668)
- Local Lending portfolio	**(1,019)**	(3,160)
- Dutch Mortgage portfolio	**19**	-
Balances with central banks	**-**	1
Loans and advances to financial institutions	**-**	1
Investments measured at amortised cost		
- Treasury portfolio	**184**	42
- Securitisation portfolio	**19**	-
Investments measured at fair value through other comprehensive income – Treasury portfolio	**121**	14
Other accrued income	**2**	-
Other credit impairment charges		
Recoveries		
- International Lending portfolio	**-**	(2,746)
- Local Lending portfolio	**(11)**	-
Amounts written off on loans and advances to customers		
- International Lending portfolio	**-**	14,764
- Local Lending portfolio	**1,000**	2,547
	136	5,795

29. Taxation

	Group		Company	
	Period ended 31 December 2019 €000	Year ended 31 March 2019 €000	**Period ended 31 December 2019 €000**	Year ended 31 March 2019 €000
Current tax expense				
- current period / year tax charge	**885**	727	**2**	-
- overprovision of tax in preceding financial year	**-**	-	**-**	(16)
Deferred tax (Note 13)				
- current period / year tax	**(32)**	(2,522)	**(178)**	(381)
Income tax charge/(credit)	**853**	(1,795)	**(176)**	(397)

The tax recognised in profit or loss on the Group's and the Company's profit/(loss) before tax differs from the theoretical amount that would arise using the applicable tax rate in Malta, which is the Company's country of incorporation, as follows:

	Group		Company	
	Period ended 31 December 2019 €000	Year ended 31 March 2019 €000	**Period ended 31 December 2019 €000**	Year ended 31 March 2019 €000
Profit/(loss) before tax	**7,098**	21,511	**3**	(5)
Tax at the applicable rate of 35%	**2,484**	7,529	**1**	(2)
Tax effect of:				
Non-deductible expenses	**27**	50	**-**	5
Application of lower effective tax rate	**-**	(14)	**-**	-
Impact of notional interest deduction rules (Note 13)	**(1,666)**	(9,526)	**(178)**	(381)
Other	**8**	166	**1**	(19)
Income tax charge/(credit)	**853**	(1,795)	**(176)**	(397)

30. Cash and cash equivalents

Balances of cash and cash equivalents as shown in the statements of cash flows are analysed below:

	Group		Company	
	31 December 2019 €000	31 March 2019 €000	**31 December 2019 €000**	31 March 2019 €000
Analysis of cash and cash equivalents:				
Cash in hand	**3**	3	**-**	-
Call deposits	**169,919**	49,878	**218**	282
Target 2 overnight deposits	**118**	23,371	**-**	-
Amounts owed to financial institutions with original maturity of less than 3 months	**(224,012)**	(3,887)	**-**	-
Per Statement of cash flows	**(53,972)**	69,365	**218**	282
Adjustments to reflect:				
Balances with central banks	**241,556**	123,614	**-**	-
Deposits with original maturity of over 3 months	**53,635**	68,843	**-**	-
Amounts owed to financial institutions with original maturity of over 3 months	**-**	(195,000)	**-**	-
Per Statement of financial position	**241,219**	66,822	**218**	282

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	Notes	Group		Company	
		31 December 2019 €000	31 March 2019 €000	**31 December 2019 €000**	31 March 2019 €000
Analysed as follows:					
Balances with central banks and cash	4	**241,726**	146,988	**-**	-
Loans and advances to financial institutions	6	**223,505**	118,721	**218**	282
Amounts owed to financial institutions	17	**(224,012)**	(198,887)	**-**	-
		241,219	66,822	**218**	282

31. Lease commitments

The Group leases a number of branches and office premises under lease arrangements. The Group also leases IT-infrastructure and software from Medifin Leasing Limited, a related party.

At 31 March 2019, the maturity analysis of the contractual undiscounted cash flows under non-cancellable operating leases were analysed as follows:

	Group
	31 March 2019 €000
Within one year	1,474
After one year but less than five years	3,939
More than 5 years	642
	6,055

As highlighted in Note 1 – Significant accounting policies, from 1 April 2019, the Group has adopted the requirements of IFRS 16 “Leases” and accordingly recognised right-of-use assets and corresponding liabilities for all leases as at that date.

32. Contingent liabilities

As at 31 December 2019, the Group had cash secured guarantee obligations amounting to €6.9 million (31 March 2019: €8.5 million).

33. Commitments to lend

Commitments to lend represent undrawn formal standby facilities, credit facilities and other similar commitments to lend. As at 31 December 2019, the Group had undrawn commitments of €473.4 million (31 March 2019: €448.1 million) under revolving credit facilities. In addition, undrawn facilities on term loans of the Group amounted to €50.2 million (31 March 2019: €61.3 million) and lending commitments in relation to the Dutch Mortgage portfolio amounted to €283.8 million (31 March 2019: nil). As at 31 December 2019, the Group also had commitments to purchase term loan facilities amounting to €40.1 million (31 March 2019: €60.8 million) of which €29.0 million (31 March 2019: nil) were subject to a back to back sale agreement with a third party.

34. Related parties

Immediate and ultimate parent company

The ultimate controlling party of MDB Group Limited is AnaCap Financial Partners II L.P.

The ultimate parent company of the Company is Medifin Investments Limited, a non-cellular company incorporated and registered in Guernsey.

The immediate parent company of the Company is Medifin Finance Limited, a non-cellular company incorporated and registered in Guernsey.

Related parties of the Group and the Company include subsidiaries, the ultimate controlling party, the ultimate parent company, all entities controlled by the ultimate parent company, Key Management Personnel, close family members of Key Management Personnel and entities which are controlled or jointly controlled by Key Management Personnel or their close family members.

Transactions with Key Management Personnel

Key Management Personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Group, being the directors of the respective MDB Group companies.

Key Management Personnel compensation consisting of directors’ remuneration is disclosed in Note 26. The Group also provides non-cash benefits to Key Management Personnel, including gross rent payable on accommodation based in Malta, and health and life insurance premiums paid by the Group amounting to €0.1 million in the financial period ended 31 December 2019 (Year ended 31 March 2019: €0.1 million).

Related party balances and transactions

During the course of its activities, the Group conducted business on commercial terms with related parties, comprising of the ultimate controlling party and entities controlled by the ultimate parent company.

The following table provides the total amount of Group transactions which have been entered into, and Group balances with, related parties of the Group for the relevant financial period:

	Period ended 31 December 2019		As at 31 December 2019		
Related party	**Income from related parties €000**	**Expenses charged by related parties €000**	**Amounts owed by related parties €000**	**Amounts owed to related parties €000**	**Transaction/balance type**
Ultimate controlling party	-	141	-	-	Monitoring fees
Ultimate parent company	41	-	-	-	Interest income
	-	-	2,475	-	Other assets
Immediate parent company	-	-	-	3,350	Other liabilities
Other group companies	-	-	10,370	-	Other assets
	4	3,847	-	-	IT and other support
Key management personnel	5	-	-	-	Interest income
	-	-	197	-	Loans and advances to customers
	-	-	-	214	Amounts owed to customers
	-	-	-	25	Subordinated liabilities

	Year ended 31 March 2019		As at 31 March 2019		
Related party	**Income from related parties €000**	**Expenses charged by related parties €000**	**Amounts owed by related parties €000**	**Amounts owed to related parties €000**	**Transaction/balance type**
Ultimate controlling party	-	184	-	-	Monitoring fees
Ultimate parent company	55	-	-	-	Interest income
	-	-	2,412	-	Other assets
Immediate parent company	-	-	-	972	Other liabilities
Other group companies	-	-	12,661	-	Other assets
	-	4,895	-	-	IT and other support
	-	4,822	-	-	Operating lease charges
Key management personnel	6	-	-	-	Interest income
	-	-	120	-	Loans and advances to customers
	-	-	-	499	Amounts owed to customers

The directors' fees and personnel expenses in relation to key management personnel are disclosed in note 26 to these financial statements.

In addition to the above, there are also payments to other group companies relating to leases treated in accordance with IFRS 16 requirements amounting to €3.6 million. These are recorded as operating lease charges in prior year amounting to €4.8 million as reflected in the table above. Upon adoption of IFRS 16, the Group recognised lease liabilities in respect of lease arrangements with related parties (refer to Note 22).

Furthermore, as detailed in Notes 9 and 16:

- By virtue of board resolutions dated 30 May 2018 and 28 June 2019, MeDirect Malta approved the repayment of the shareholder contribution to MDB Group Limited equivalent to €7.2 million and €10 million respectively.
- By virtue of an extraordinary resolution dated 30 May 2018, MeDirect Malta accepted a shareholders' net contribution of €3.1 million.
- By virtue of board resolutions dated 30 May 2018 and 28 June 2019, MDB Group Limited paid dividends to Medifin Finance Limited equivalent to €7.2 million and €10 million respectively.

In the year ended 31 March 2019, the related party transactions of the Company also include interest income amounting to €9 thousand on amounts owed by the ultimate parent company.

35. Segmental information

The Group has a single reportable segment represented by its lending portfolio consisting of international corporate lending, corporate lending in Malta and Dutch mortgage lending (commenced this period) together with the investment in high credit quality collateralised instruments such as covered bonds, guaranteed senior bank debt, sovereign related debt and investment in AAA tranches of securitisation special purpose entities (with effect from this financial period). Revenues secured through the above-mentioned assets are complemented by the revenues generated by the Group on its wealth management business. Information about the products and services and geographical areas is set out in Notes 2, 7, 8, 23 and 24 to the financial statements which provide information about the financial risks, credit concentrations by sector and location, together with revenues from the single reportable segment. The investment portfolio is spread across a large number of exposures diversified in government, financial institutions and other corporates.

In accordance with Article 89 of CRD IV, the Regulatory Group must disclose information about turnover, number of employees, profit before tax, tax and public subsidies received by country, taking into account all jurisdictions in which it operates. The Group has not received any public subsidies that relate to the Group's activities as a credit institution.

	Period ended 31 December 2019			**As at 31 December 2019**
	Turnover *	**Profit before tax**	**Tax income/ (expense)**	**Full-time equivalent staff**
	€000	**€000**	**€000**	**No**
Malta	**53,886**	**5,155**	**(726)**	**252**
Belgium	**33,440**	**1,943**	**(127)**	**28**
	87,326	**7,098**	**(853)**	**280**

	Year ended 31 March 2019			As at 31 March 2019
	Turnover *	**Profit before tax**	**Tax income/ (expense)**	**Full-time equivalent staff**
	€000	€000	€000	No
Malta	74,439	20,193	1,979	304
Belgium	41,913	1,318	(184)	9
	116,352	21,511	1,795	313

* Turnover is defined as interest income, fee and commission income and other operating income. The turnover allocated to Belgium in the financial period ended 31 December 2019 includes interest charged to MeDirect Malta amounting to €19.3 million (Year ended 31 March 2019: €25.8 million).

The MeDirect Malta Group carried out its activities in the countries listed above under the name of MeDirect Malta in Malta and MeDirect Belgium in Belgium. Activities in Malta and Belgium include banking and wealth management.

36. Effect of adoption of IFRS 16

As indicated in Note 1.2, the Group has adopted IFRS 16 retrospectively from 1 April 2019, but has not restated comparative financial information for the financial year ended 31 March 2019, as permitted under the specific transitional provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening statement of financial position on 1 April 2019. The accounting policies are disclosed in Note 1.20.

The Group's lease arrangements comprise long-term leasehold properties, other immovable property leaseholds and IT infrastructure/software arrangements, which were classified as operating leases under IAS 17. The leases typically run for 4 to 5 years, with an option to renew the lease after that date. Some operating lease agreements provide for additional rent payments that are based on changes in a local price index. The lease agreements do not impose any covenants. Leased assets may not be used as security for borrowing purposes.

Extension and termination options are included in majority of the lease agreements. These terms are used to maximise operational flexibility in respect of managing contracts. The majority of extension and termination options held are exercisable only by the Group and not by the respective lessor. In respect of the main lease arrangements, the extension periods have been included in determining lease term for the respective arrangement.

Adjustments recognised upon adoption of IFRS 16 in the statement of financial position on 1 April 2019

On adoption of IFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17, "Leases". These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 April 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 April 2019 was 4.25% for the Group.

The associated right-of-use assets for leases were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to those leases recognised in the statement of financial position as at 31 March 2019. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application.

The change in accounting policy affected the following items in the Group's statement of financial position on 1 April 2019:

- property and equipment – increase by €12.1 million
- intangible assets – increase by €9.4 million
- prepayments – decrease by €0.1 million
- other liabilities – increase by €21.4 million

The recognised right-of-use assets relate to the following type of assets:

	Group 1 April 2019 €000
Analysed as follows:	
Property and equipment	
- Premises	9,429
- Computer equipment	2,400
- Other equipment	281
Intangible assets – computer software	9,427
Total right-of-use assets	21,537

Measurement of lease liabilities

The lease liability recognised as at 31 December 2019 amounting to €17.7 million (1 April 2019: €21.4 million) includes a non-current lease liability portion amounting to €12.7 million (1 April 2019: €16.9 million).

	Group 1 April 2019 €000
Operating lease commitments disclosed as at 31 March 2019	6,055
Add: adjustments as a result of a different treatment of extension and termination options	17,217
Discounted using the Group's incremental borrowing rate of at the date of initial application	(365)
Less: short-term leases not recognised as a liability	(1,462)
Total lease liabilities	21,445
Of which are:	
Current lease liabilities	4,546
Non-current lease liabilities	16,899
Total right-of-use assets	21,445

In applying IFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- reliance on previous assessments on whether leases are onerous;
- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application; and
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease

Amounts recognised in profit or loss

The income statement includes the following amounts relating to leases:

	Group Period from 1 April 2019 to 31 December 2019 €000
Financial statements line item increase/(decrease):	
Interest expense	624
Depreciation and amortisation	
- Premises	880
- Computer equipment	331
- Other equipment	39
- Computer software	1,267
Taxation	393

The following table summarises the impacts of adopting IFRS 16 on the Group's consolidated statement of cash flows:

	Group Period from 1 April 2019 to 31 December 2019 €000
Financial statements line item increase/(decrease):	
Interest and commission payments	624
Payments to employees and suppliers	(2,516)
Principal element of lease payments	1,892

Operating lease charges to be reflected within the profit and loss during the period from 1 April 2019 to 31 December 2019 utilising the accounting principles of IAS 17, Leases, had IFRS 16 not been adopted, would have amounted to €4.5 million for the Group. Hence, profit before tax for the period ended 31 December 2019 has been impacted favourably by these amounts in view of the adoption of the requirements of IFRS 16.

Segment information has been impacted by the change in policy as reflected in the table below.

	Impact on profit before tax 1 April 2019 to 31 December 2019 €000 increase
Malta	519
Belgium	847
	1,366

Comparative segment information has not been restated. As a consequence, the segment information disclosed for the items noted above is not entirely comparable to the information disclosed for the prior year (refer to Note 35).

37. Investor compensation scheme

In accordance with the provisions of the Investor Compensation Scheme Regulations, 2003, issued under the Maltese Investment Services Act (Cap. 370), licence holders are required to transfer a variable contribution to an Investor Compensation Scheme Reserve and place the equivalent amount with a bank, pledged in favour of the Scheme. Alternatively, licence holders can elect to pay the amount of variable contribution directly to the Scheme. Throughout the current financial period, MeDirect Malta was not required to pay any variable contribution to the Scheme.

38. Trust and custody activities

The Group provides trust and custody services to individuals, trusts, and other institutions, whereby it holds and manages assets or invests funds received in various financial instruments at the direction of the customer. The Group receives fee income for providing these services. Trust assets and assets held in custody are not assets of the Group and are not recognised in the statements of financial position. The Group is not exposed to any credit risk relating to such placements, as it does not guarantee these investments.

At 31 December 2019, the total assets held by the Group on behalf of customers amounted to €1,036.3 million (31 March 2019: €926.7 million).

39. Events after the reporting date

COVID-19 global pandemic outbreak

The Group considers the emergence and spread of COVID-19 to be a non-adjusting subsequent event that impacts the Group's future financial position and results, its turnover, cost of funding, the fair valuation of instruments, and the level of expected credit losses.

The Group has focused on keeping its employees and customers safe and has followed all guidelines and recommendations issued by the relevant authorities. A Group-wide contingency plan is being executed as circumstances evolve, and the Group has successfully managed to alter its day-to-day operations and adapt to the new unprecedented environment. Various measures were taken to ensure business continuity and to safeguard the welfare of employees, now working from home. All processes are continuing as normal without any impact on the Group's operations and services since the digital banking platform allows customers to continue all their banking transactions from the safety of their own homes.

The ongoing COVID-19 pandemic has significantly weakened global growth prospects, with the outlook heavily contingent on how countries across the world successfully contain the pandemic over the remainder of the year. The ECB President has stated that the eurozone economy has contracted at a magnitude and speed unprecedented in peacetime and urged eurozone politicians to cooperate on an ambitious package of spending measures to support economic recovery. Myriad government responses have been announced across Europe such as tax payment deferrals, debt moratoria, credit guarantees, employment support and fiscal injections to mitigate the effects of the crisis.

As a result of the pandemic, the ECB and other bank regulatory authorities have also announced measures aimed at supporting the economy, in part by ensuring that banks properly utilise the capital and liquidity buffers built up in recent years to help deal with crisis situations. These steps include the following:

- A number of measures to ensure that significant banks can continue to fulfil their role in funding the real economy. As such, the ECB will allow significant banks to temporarily operate below the level of capital defined by the Pillar 2 Guidance and the capital conservation buffer, to operate below the liquidity coverage ratio and to partially use capital instruments that do not qualify as Common Equity Tier 1 capital to meet the Pillar 2 Requirements.
- A €750 billion Pandemic Emergency Purchase Programme.
- Further flexibility in prudential treatment of loans backed by public support measures, encouraging banks to avoid excessive procyclical effects when applying IFRS 9.
- The lowering of the countercyclical buffer requirement to zero in a number of countries.
- Requesting banks to suspend shareholder distributions for the 2019 financial year as well as for fiscal year 2020 at least until October.

As regards the Group's international corporate lending portfolio in the current environment, many borrowers have drawn down on their credit facilities, rather than risk cash flow uncertainty at a later stage. This has given rise to a significant increase in drawdowns of revolving credit facilities. A number of borrowers will undoubtedly be impacted by the global disruption to the economy generally, the short term (and potential long-term) impact on revenues caused by decreasing demand for their products and services, general uncertainty in the market or disruptions in the supply chain. The extent of such impacts will hinge on a range of factors, much depending on how long the crisis will last, and on the degree of government responses.

The adverse economic impacts of the pandemic will affect the Group's ability to meet its financial targets, in particular since they adversely influence its international lending portfolio through negative rating migrations, higher expected loan losses and potential credit-impairments of financial assets. It is likely that the Group's expected credit losses will increase significantly as clients struggle with potential declines in business activity.

Determining accurately the impact of COVID-19 on the Group is judgemental and subjective in nature, given that such assessment would also need to consider the likely duration of the crisis and the pandemic emergency measures mentioned above, which are still evolving as a number of countries seek to stimulate economic recovery. The Group has compiled a detailed analysis of potential losses on the basis of information available to it at the date of approval of the consolidated financial statements, which it has incorporated into financial projections covering a period normally utilised for its Supervisory Review and Evaluation Process regulatory submissions. These projections comprise historical financial information up to the date of approval of these financial statements and forecast financial information for the residual period, incorporating the estimated impact of the events referred to above on the projected financial results and financial position of the Group. On this basis, the Group is projecting that it will register losses during the year ending 31 December 2020 and during the initial part of the forecast period, principally attributable to the projected credit losses in respect of the Group's international lending portfolio.

The Group commenced this period with appropriate capital and liquidity levels to potentially absorb the simultaneous impact of severe local and global recessions and a financial markets shock. As at 31 December 2019, the CET 1 ratio and the total capital ratio were equivalent to 15.2% and 17.3% respectively, whereas the LCR ratio stood at 716.2% and the NSFR ratio was 130.1%.

The Group's revised expectations incorporating the envisaged impacts of the pandemic will inevitably give rise to a projected decline in the regulatory capital ratio of the Group. The Group is expected to utilise, in part, the capital buffer defined by the Pillar 2 Guidance and the capital conservation buffer, consistent with the stance announced by the ECB. The Group has tested different scenarios, including a stressed case that excludes future increases in capital, and assumes a more prudent outlook on a number of initiatives and other measures planned by management, also excluding the possibility of asset sales. This testing indicates that the Group will be able to reinstate all regulatory capital buffers at the end of the forecast period. The Directors will nevertheless be taking a number of measures to further strengthen the Group, including the possibility of increasing the regulatory capital.

Throughout the forecast period, the Group and its constituent banks are projected to maintain adequate liquidity ratios, in excess of the regulatory minimum.

As noted above, the Group's assessment of going concern considers the exclusion of any future increases in regulatory capital, recognising that future capital market conditions lie beyond the control of the Group. The Directors believe, on the basis of information available as at the date of approval of financial statements, that no material uncertainty exists that may cast significant doubt about the Group's ability to continue as a going concern and that may require disclosure in terms of IAS 1. The assessment of going concern also necessarily entails a number of key judgments, including the following:

- The Group's analysis assumes a sharp downturn in the global economy during the first half of the year, followed by a gradual recovery later in the year and into 2021, but more severe outcomes have also been tested, at this stage excluding the impact of further regulatory and/or government measures which may be taken as a result of this. The eventual outcome of the pandemic nevertheless remains unclear at this time and the Group is accordingly continually working on further measures and plans that could be put into effect should the outcome of the pandemic be materially more adverse than currently envisaged. Alternatively, additional governmental measures may be taken in coming months which lessen the adverse economic impacts assumed in the Group's analysis.
- Within the overall economic scenario arising from the pandemic that is assumed by the Group, the estimation of expected credit losses entails a high degree of judgment at this early stage. The projected expected credit losses, particularly in respect of the Group's international lending portfolio, have a significant impact on the projected financial results during the initial part of the forecast period referred to above. The Directors believe that reasonable judgments have been made by management on the basis of the information in hand in estimating these losses.
- On the basis of a stressed case that excludes from consideration any future increases in capital and also assumes a more prudent outlook on a number of initiatives and other measures planned by management, the Group would partially utilise its capital buffers during the explicit period. In the opinion of the Directors the judgments made on this matter are consistent with the guidance issued by the ECB to all significant banks.

Having concluded the assessment process outlined above, the Directors are confident that the Group has in place the financial resources, proper technical resources and a competent staff complement which together will enable it to meet the challenges that the pandemic presents, The Directors expect that the Group will be able to sustain its operations over the next twelve months, and consider the going concern assumption in the preparation of the Group's financial statements as appropriate as at the date of authorisation for issue of these financial statements.

Dutch Residential Mortgage-Backed Security Transaction

In order to diversify funding sources and reduce funding costs, in May 2020 MeDirect Bank SA securitised part of the Dutch retail mortgages portfolio through a Residential Mortgage-Backed Security ("RMBS") transaction whereby a principal balance of €375.5 million including construction deposits amounting to €8.5 million of the Dutch Mortgage portfolio were sold to a securitisation special purpose entity, called Bastion 2020-1 NHG B.V., established in the Netherlands. MeDirect Belgium, in line with article 6 of the Securitisation Regulation (EU) No 2017/2402 of the European Parliament and of the Council of 12 December 2017 ("the Securitisation Regulation"), undertook to retain, on an ongoing basis, a material net economic interest of not less than five per cent in the securitisation transaction. This implies that the Group will retain substantially all risks and rewards pertaining to the activities of this proposed securitisation structure and hence to assets, liabilities and related income and expenditure attributable to this structure and as such, all assets, liabilities and related income and expenditure of the Dutch securitisation special purpose entity will be reflected in the Group's financial statements.

There were no other events after the reporting date that would have a material effect on the financial statements.

40. Statutory information

MDB Group Limited is a limited liability company and is incorporated in Malta.

The ultimate controlling party of MDB Group Limited is AnaCap Financial Partners II L.P., a limited partnership registered in Guernsey with its registered address at Ground Floor, Cambridge House, Le Truchot, St Peter Port, Guernsey GY1 1WD.

The ultimate parent company of MDB Group Limited is Medifin Investments Limited, a non-cellular company, which is incorporated and registered in Guernsey, with its registered address being Ground Floor, Cambridge House, Le Truchot, St Peter Port, Guernsey GY1 1WD.

The immediate parent company of MDB Group Limited is Medifin Finance Limited, a non-cellular company, which is incorporated and registered in Guernsey, with the registered address being Ground Floor, Cambridge House, Le Truchot, St Peter Port, Guernsey GY1 1WD.

41. Comparative financial information

With effect from the current financial period, negative interest income attributable to certain financial assets is presented within interest expense rather than netted off within interest income (refer to note 23).

In this respect, comparative figures disclosed in the main components of these financial statements and the notes have been reclassified to conform with the current period's presentation for the purposes of fairer representation.

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medirect
Think ahead. Bank ahead.

MDB Group Limited

Pillar 3 Disclosures Report – Annual Report

31 December 2019

CONTENTS

1 Introduction

The Basel III capital adequacy framework consist of three complementary pillars: Pillar 1 provides a framework for measuring minimum capital requirements for the credit, market and operational risks faced by banks; Pillar 2 addresses the principles of the supervisory review process, emphasising the need for a qualitative approach to supervising banks; Pillar 3 requires banks to publish a range of disclosures aimed at providing further insight on the capital structure, adequacy and risk management practices.

In accordance with Article 433 of the Regulation (EU) 575/2013 (Capital Requirements Regulation – "CRR"), the Group publishes these disclosures at least on an annual basis as part of the Annual Report and Financial statements. A reference has been added in cases where the information addressing Pillar 3 requirements is included in other parts of the Annual Report. Moreover, in line with the EBA "Guidelines on disclosure requirements under Part Eight of Regulation (EU) No 575/2013" (EBA/GL/2016/11, "EBA Disclosure Guidelines"), more frequent than annual disclosures are made for a number of disclosures outlined in the CRR. In this respect, refer to the Group's Quarterly and Semi-Annual Pillar 3 disclosure reports.

The disclosure requirements emanating from Articles 441, 452, 454 and 455 of the CRR are not applicable to the Group.

The Group is required to disclose its return on assets pursuant to paragraph 31 of BR 07, "Publication of Annual Report and Audited Financial Statements of Credit Institutions Authorised under the Maltese Banking Act (Cap. 371)". In this respect, the Group's return on assets for the financial period ended 31 December 2019 amounted to 0.2%.

1.1 Pillar 3 Disclosure Policy

The Group maintains a Pillar 3 Disclosures Policy in order to comply with the requirements laid down in Part Eight of the CRR, the Malta Financial Services Authority ("MFSA") Banking Rule ("BR") 07, *'Publication of Annual Report and Audited Financial Statements of Credit Institutions Authorised under the Maltese Banking Act (Cap. 371)'* and any associated EBA guidelines and technical standards.

Basis of preparation

This Pillar 3 disclosures report (the "Disclosures") has been prepared in accordance with the Group's Pillar 3 Disclosures Policy, which requires that this report be prepared in accordance with requirements of Part Eight of the CRR, the MFSA BR 07 and other associated EBA guidelines and technical standards. The EBA released detailed guidelines on disclosure requirements which aim to improve the comparability and consistency of Pillar 3 disclosures across the banking industry. These guidelines provide detailed disclosure requirements for credit risk, counterparty credit risk, market risk and capital requirements.

The consolidation of the Group's financial statements is based on the IFRS requirements, whereas the prudential consolidation in the statement of capital is based on the CRR. All entities within the Group are subject to full consolidation both for accounting and regulatory purposes.

Scope of application

These disclosures are in respect of MDB Group Limited (the "Regulatory Parent" or "MDB Holding"), and its subsidiaries, together referred to as the "Group" or "MDB", which is supervised on a fully consolidated basis by the European Central Bank ("ECB"). The subsidiaries forming part of the Group include MeDirect Bank (Malta) plc ("MeDirect Malta"), that is the parent company of MeDirect Bank SA ("MeDirect Belgium"). MeDirect Belgium carries out all of the Group's activities in Belgium.

MDB Holding's subsidiary, MeDirect Malta has been authorised to waive its requirement to comply with Part Eight of the CRR on an individual basis, in terms of Article 6 (3) of the CRR. On the other hand MeDirect Belgium is exempt from full disclosure requirements laid down in Part Eight of the CRR, however being a significant subsidiary of an EU parent institution, it is subject to limited disclosure requirements in terms of Article 13 of the CRR.

These disclosures present information about the Group's exposure to risks and the Group's objectives, policies and processes for measuring and managing risks and the Group's management of capital.

These risks principally relate to the MeDirect Malta Group and are managed by MeDirect Malta's Board of Directors. As a result, these disclosures present information about the financial risk management of MeDirect Malta and its principal subsidiary MeDirect Belgium.

Frequency, media and location

Disclosures are updated on an annual basis as part of the Annual Report preparation. Moreover, as required by the CRR and also through newly published EBA guidelines, the Group is required to assess whether more frequent than annual disclosure is necessary. In this respect, the Group also issues separate Quarterly and Semi-annual Pillar 3 disclosure reports.

As required by the CRR, the Group will continue to make available its Annual Report and financial statements and the Pillar 3 disclosure reports on its website (https://www.medirect.com.mt/about-us/investor-relations).

Governance process – verification and sign-off

Consistent with the banking regulations, these Disclosures are not subject to external audit except where they are included within the Financial Statements. However, these Disclosures have been appropriately verified and approved internally by the Group's management and the Internal Audit Function as required by the Group's Pillar 3 Disclosures Policy, including the review and approval of these disclosures by the Group Audit Committee. Subsequent to the approval of the Audit Committee, these disclosures are then submitted to the Board of Directors for authorisation prior to public dissemination.

COVID-19

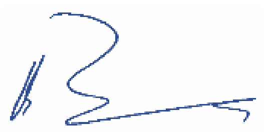
This Pillar 3 disclosures report reflects the risk management framework, and the underlying risk control policies and procedures, that were in place as at 31 December 2019. The global COVID-19 crisis subsequent to the end of the reporting period certainly implied that the Group had to quickly identify and respond to new risks as with a changing risk landscape comes the need for new risk assessments and a subsequent adjustment of controls to contain such new or heightened risks. Risks are constantly changing and evolving, as is our risk management framework, given that the more tailored and risk-based the Group's approach, the swifter the Group will be able to adapt to the current changing environment.

The Group will continue to monitor the situation closely. The risk response to COVID-19 would include reviewing the key objectives and priorities in the light of current information, balancing 'business as usual' against new demands and changing priorities, ensuring that the Group undertakes risk assessments in respect to the impact of COVID-19 on its key objectives and the preparation and implementation of response plans, stress testing various scenarios and being alert to other risks materialising e.g. cyber attacks.

1.2 Attestation by the Directors

We confirm that this Pillar 3 disclosures report, to the best of our knowledge, complies with Part Eight of the CRR, including, where relevant, any associated EBA guidelines and technical standards, and has been prepared in compliance with the Group's internal governance process.

On behalf of the board



Michael Bussey
Chairman

Arnaud Denis
Chief Executive Officer

20 May 2020

2 Risk management, objectives and policies

2.1 General information on risk management, objectives and policies

Risk management is an integral part of the Group's strategic planning and internal governance processes. In order to ensure a sustainable and viable business strategy that remains within the parameters of the Board approved risk appetite and regulatory requirements, the Group relies on a number of risk management tools and methodologies, including both forward-looking and backward-looking tools. The tools used by the Group allow identification and assessment of the risks faced by the Group while enabling it to aggregate the risks across business lines and support the identification of risk concentrations. The Group operates with a "three lines of defence" model as a core part of its approach to Risk Management Framework . Each of these three lines plays a distinct role within the Group's wider governance framework.

Risk Strategy

Amongst the list of responsibilities of the Board is the setting, approval and oversight of the overall risk strategy, including the risk appetite and risk management framework. The Group's Chief Risk Officer ("CRO") is entrusted with the responsibility to devise the risk strategy of the Group that is presented to the Risk Committee for discussion and review, and ultimately approved by the Board.

The risk strategy of the Group evolves around four main areas, as shown in the diagram below:

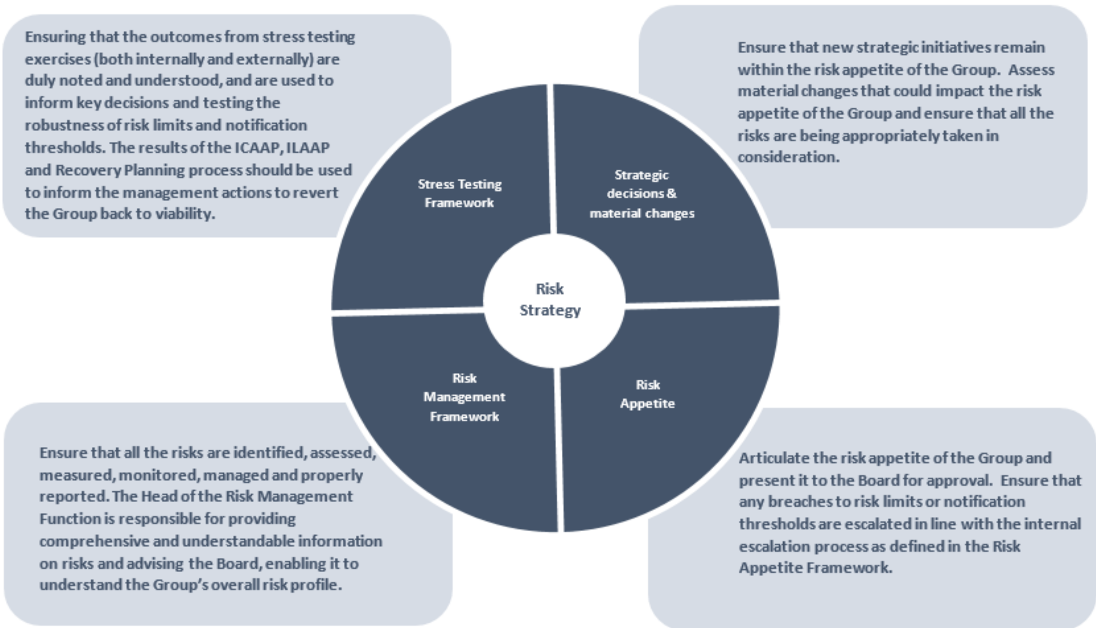


FIGURE 1: RISK STRATEGY

The Risk Management Function, under the guidance of the Group CRO is responsible for the execution of the risk strategy, ensuring that this is communicated to the relevant stakeholders across the Group, of which Business lines and other internal control functions such as the Compliance and the Internal Audit Functions. The risk strategy as approved by the Group Board is also communicated to the subsidiaries of the Group. This enables the subsidiary to operate independently but in line with the parameters of the risk strategy as approved by the Group.

The Risk Management Function ensures that each component of the risk strategy is subject to an appropriate governance and escalation process. The governance processes are primarily described and documented in the following documents:

- The Risk Management Framework ("RMF");
- The Risk Appetite Framework ("RAF");
- Corporate Governance Framework ("CGF");
- ICAAP & ILAAP Governance Framework; and
- Stress Testing Framework ('STF')

Other frameworks and policies may also apply as referenced in each of the documents mentioned above.

The Board Risk Committee is delegated with the authority from the Board to monitor the execution of the risk strategy, with the Board oversight through the review of Management Information ("MI") packs and verbal updates from the Chair of the Risk Committee and the Group CRO.

During the financial period under review, there were seven Board Risk Committee meetings.

2.1.1 *Risk Management Function*

The responsibilities of the risk management function are to protect and enable the Group to deliver sustainable income through facilitating and monitoring the implementation of effective risk management practices and assisting risk owners in defining and controlling risk exposures.

The Group's risk management function is composed of a number of sub-functions, including Credit Risk, Operational Risk, Risk Analytics, Financial and Market risk, IT security risk, and Data Protection, all reporting to the Group CRO.

The Risk Management Function falls under the responsibility of the Group CRO, who is independent of business lines. The Group's CRO is a member of the Group Board of Directors and is a standing attendee of the Group Board Risk Committee. The Group CRO is:

- Responsible for ensuring that the Risk Management Function is adequately resourced, taking into account the complexity and risks of the Group as well as its RAF and strategy;
- Actively involved in key decision-making processes from a risk perspective, challenges management's decisions and recommendations, and retains a right of veto for declining transactional decisions such as credit risk originations;
- Involved in the design and setting of risk appetite, risk limits, notification thresholds and key risk indicators; and
- One of the key contacts for regulatory matters, including supervisory dialogues

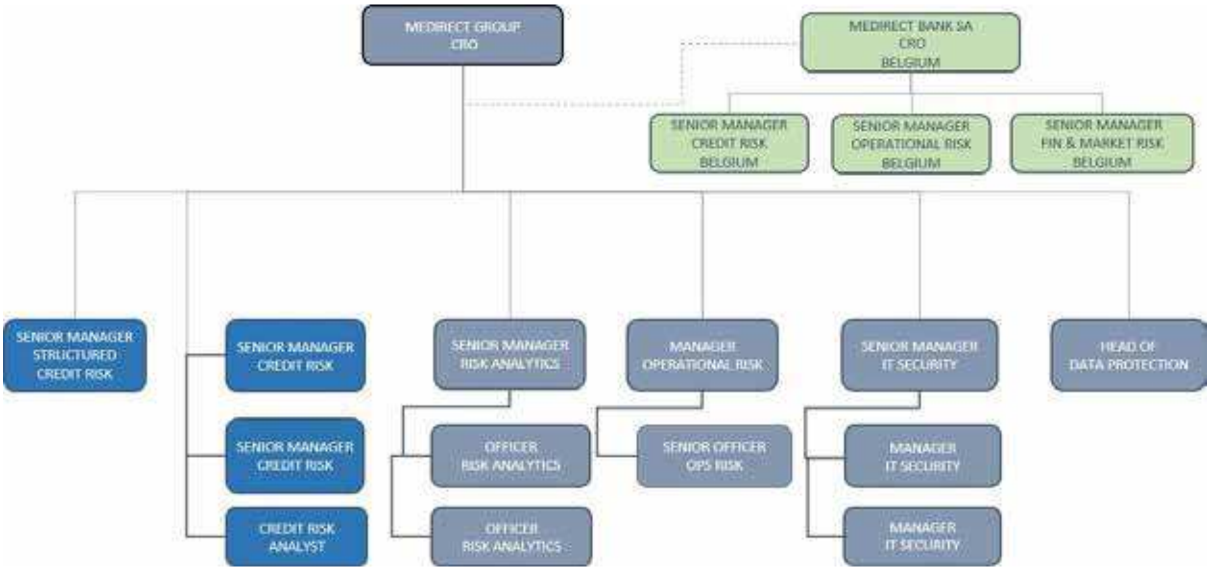


FIGURE 2: GROUP RISK MANAGEMENT FUNCTION

The Group's Risk Management Function is adequately resourced, and has the right knowledge, experience and expertise to provide relevant independent risk oversight, analysis and expert judgement on risk matters faced by the Group. Each of the risk sub-functions represents a specific risk area, each having the appropriate subject matter expertise.

In line with the EBA guidelines on internal governance, the Group's Risk Management Function has direct access to the Board and the Board Risk Committee, as well as all business lines and other internal units that have potential to generate risk as well as oversight of all relevant subsidiaries. Nevertheless, the Risk Management Function is independent of the business lines and units whose risks it controls.

As at 31 December 2019, the Group's risk management function comprised sixteen full-time positions under the management of the Group CRO. Their responsibilities were divided as follows:

Risk Management Function	Main Responsibilities	Number of staff members
Risk Analytics	The team provides risk management oversight of the Group's capital and liquidity risk through complementary reporting for both Board level and Executive level audiences, as well as stress testing and performance tracking of the Group's asset and liability portfolios, including off-balance sheet commitments. The function is also responsible for management of capital and liquidity risk policies, and for the development and maintenance of risk measurement tools and models, in particular those used for stress testing purposes. The team is responsible for key internal capital and liquidity risk management documents, specifically the Group's ICAAP, ILAAP and Recovery Plan. In addition, the function also leads any regulatory and external stress tests the Group is required to participate in.	3 FTEs
Operational Risk	The team is responsible for the ongoing management of the Group's Operational Risk Management Framework covering six main pillars, namely: operational risk policies, operational risk awareness, risk & control self-assessments ("RCSAs"), operational risk control testing, operational risk reporting, incident management and business continuity. Operational Risk Management also supports the Group in other key risk deliverables such as the Group's ICAAP, ILAAP and Recovery Plan, risk appetite and Internal Controls Reporting.	2 FTE + 1 FTE in Belgium
IT Security Risk	The team is primarily responsible for implementing the Information security strategy of the Group by ensuring that the Group adheres to international information security best practices, which includes identifying and keeping visibility of IT security risks affecting MeDirect Group. Responsibilities include the implementation and ongoing management of IT security technologies, coordinating and following up on vulnerability assessments and penetration tests, and managing information security incidents. The IT Security function also carries out security reviews to ensure that the Group is in line with the IT Security policy requirements, delivers information security awareness and liaises with external auditors and regulatory bodies where necessary.	3 FTEs
Credit Risk	The Credit Risk function is responsible for the independent review of corporate credits both when they are initially proposed to the Credit Committee and throughout their lifecycle in the international corporate portfolio. It is the role of the Credit Risk team to discuss and challenge credit proposals, credit monitoring and other credit related information presented by the Corporate Credit team. One of the team members is specifically focused on the management and monitoring of the structured finance portfolio and the CLO, as well as oversight of the GH I structure. The Credit Risk function highlight and analyse the core risk issues on each investment ahead of the Management Credit Committee. The Corporate Credit Risk function is additionally responsible for reviewing and assigning internal credit classifications, making recommendations for credit provisioning and/or write offs and the annual review of the Group's credit policy and associated credit framework.	4 FTEs + 1 FTE in Belgium
Financial & Market Risk	The Financial and Market Risk Department oversees all Interest Rate Risk in the Banking Book (IRRBB) and FX risk, including assessment and analysis of respective asset and liability behavioural modelling related assumptions. It is responsible for leading the ongoing development of market risk models including model design, calibration, stress testing and shock analysis of both earnings and income related interest rate risk scenarios, risk reporting and related model governance. Its main focus includes the development of the IRRBB framework, stress testing methodologies, scenario assumptions and market risk capital utilisation. The Department actively interacts with risk analytics and the Group ALCO and provides insight into capital planning, funding plans and product pricing. The role also performs the management and monitoring of the financial risks for MeDirect Bank SA. The function provides risk management oversight of the Group's capital and liquidity risk through complementary reporting for both Board level and Executive level audiences, as well as stress testing and performance tracking of the Group's asset and liability portfolios, and maintenance of risk measurement tools and models.	1 FTE in Belgium
Data Protection Risk	The Data Protection function holds the responsibility of the Group's Data Protection Officer ("DPO") and is responsible for the Group's Data Protection Policy and the Group's Data Retention and Archiving Policy. It focus on advising the Group and all its employees about their obligations to comply with Data Protection Regulations, namely 'GDPR', train its staff and conduct internal audits. This function shall maintain a data inventory for all its key business processes where there is extensive processing of personal data.	1 FTE

The CRO for MeDirect Bank SA is based in Belgium and reports directly into the Board of Directors for MeDirect Bank SA and functionally into the Group CRO.

The Group CRO is a member of various Executive Committees, holding the role as Chair of the Management Credit Committees ("MCCs"); as well as being a standing member of the Group EXCO; Operations Committee ("OpsCo") and Asset & Liability Committee ("ALCO"). The Group CRO is also involved in various Steering Committees and has delegated approval responsibilities when required.

2.1.2 Overview of the management of key risks

MDB Group's main activities are International Corporate Lending ("ICL") and Retail (banking, investment and wealth management services, primarily to mass affluent and affluent clients). MDB Group operates as a solely online bank in Belgium and with a small branch network in Malta, where the Group headquarters and operations are located. In addition, MeDirect Belgium recently launched a programme of investing in Dutch NHG (government guaranteed) mortgages, as a first step to diversify Group credit portfolio. Lastly, MeDirect Bank Malta also has a small local corporate lending portfolio and a payment services business.

In light of the Group's business strategy, the Group is exposed to a number of risks, which it manages at different organisational levels. The Group has divided its key risks under two main categories: Financial and Non-Financial Risks, each made up of a number of risk sub-categories:

FIGURE 3: FINANCIAL RISKS

FIGURE 4: NON-FINANCIAL RISKS

The Risk Management Function performs risk analysis to assess the impact and likelihood of these risks. Risks are also quantified to assess any impacts on capital and liquidity adequacy. Each risk pillar is also managed through policies, risk appetite limits, key risk indicators, and internal controls. The Group has also established a robust and extensive risk management reporting framework, placing high importance on regular and transparent reporting mechanisms that enable the Board, its committees and relevant units to understand the key risks and to take mitigating actions, when required, in a timely and accurate manner.

Group policies apply to each of the Group's subsidiaries, although to an extent that subsidiaries may be required to adopt local policies within their respective frameworks that are required in order to reflect the entity's risk appetite, local regulations or specific asset classes they may operate. The risk management process for the principal areas of risk are detailed in section 2.2 – Information on risk management, objectives and policies by category of risks.

2.1.3 Risk appetite

The Group's risk appetite is established by the Board of Directors, and it defines the type and quantum of risks the Group is willing to accept in achieving its strategic objectives. It ensures that business activities provide an appropriate balance of return for the risks assumed, and that they remain within a suitable level for the Group. A risk appetite level has been set for each risk pillar of the Group.

The Group has in place a Risk Appetite Framework ("RAF") that outlines the overall approach, governance, monitoring and escalation through which risk appetite limits and notification thresholds are established. The RAF has been produced on a proportionate basis in relation to the Group's size, business model, complexity and corporate strategy. The Group's RAF is embedded in the Group's day-to-day operations and it sets the parameters for risk taking in the context of its strategy and business model.

2.1.4 Risk appetite triggers

The main component of the RAF are the Risk Appetite Statement ("RAS") and respective notification thresholds and triggers. Risk appetite is operationalised via the risk appetite limits and notification thresholds that is used to monitor the various risk pillars of the Group. Whilst the Risk Appetite, as approved by the Board, is defined as the degree of risk that the Board is willing to accept in pursuit of its business goals and strategy, risk appetite notification thresholds determine the level of risk exposure above which risks may not be accepted but below which risks may be accepted. Different levels within each threshold trigger distinct escalation processes and management actions depending on the criticality of the risk appetite metric as well as the level of breach.

Capital Adequacy		
Risk Metric	Risk Appetite Limit (December 2019)	Actual (December 2019)
CET 1 capital ratio	13.5%	15.2%
Tier 1 capital ratio	15.0%	15.2%
Total capital ratio	17.0%	17.3%
Leverage Ratio	5%	8.8%
Liquidity		
Risk Metric	Risk Appetite Limit (December 2019)	Actual (December 2019)
Liquidity Coverage ratio (LCR)	115%	716.2%
Net Stable Funding ratio (NSFR)	110%	130.2%

Performance and adherence to risk appetite is performed at the Board Committee level (supported by the Board Risk Committee, Audit Committee, and Nomination and Remuneration Committee) and at Executive Committee level, including the Management EXCO, MCC, ALCO, and OpsCo. The Group has also implemented early warning notification thresholds to allow sufficient notification time for corrective measures being implemented where required.

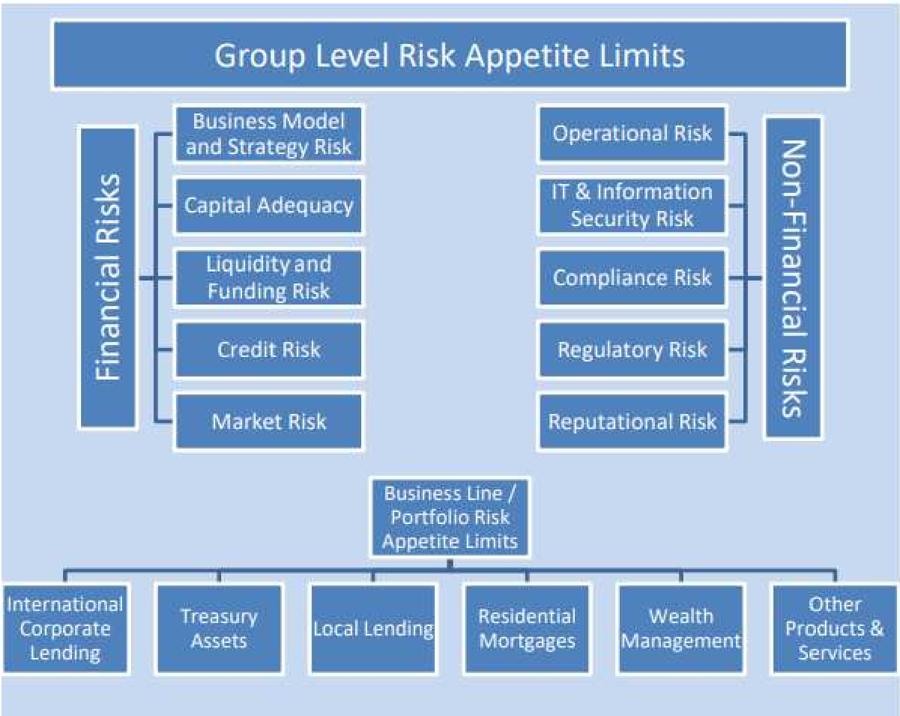


FIGURE 5: GROUP LEVEL RISK APPETITE LIMITS

The Group's Risk appetite limits are set such that they quantify the Group's Risk Appetite Statements and support sustainable business growth. The Group has also established a set of Key Risk Indicators ("KRIs") that are additional risk metrics intended to supplement the appetite limits. The KRIs are primarily used to indicate potential negative impact on the Group's performance. KRI metrics can evolve as the Group reviews its sensitivities to key risks as part of its regular risk analysis.

KRIs are established by the Executive Committee in order to manage the Group's business efficiently and effectively on a day-to-day basis, while observing the Group's risk appetite limits. KRI's and Risk appetite limits of this form are set out in the respective Group Risk Policies and Risk Frameworks and are visible to the Board or the Board Risk Committee as part of their oversight.

2.1.5 Risk monitoring and reporting

The Group acknowledges the importance of having a regular and transparent risk reporting mechanism, which enables the board, its committees and relevant units to understand the key risks enabling it to take corrective action, when required, in a timely and accurate manner. The Group's reporting framework includes various risk reports, which include details about performance vis-à-vis its internal risk limits and risk appetite, as well as taking into consideration macro-economic environment trends.

Risk appetite limits ("RALs") are principally used to monitor actual performance against Risk Appetite using the risk appetite limit and notification thresholds defined for each metric and indicator.

Risk appetite limits and notification thresholds reflect the Group's business model, size and complexity, and are calibrated through a collaborative approach amongst senior management, the risk management function and the business line departments to avoid a disconnect at the front-line level. The risk appetite limits and notification thresholds for each metric are set above the regulatory minimum requirements.

Reporting of these notification thresholds ensures that performance which is close to the approved Risk Appetite limit is highlighted and discussed at the relevant governance forum and appropriate mitigating actions determined. A number of the risk metrics are also used for recovery planning purposes which enable corrective action in a timely and effective manner.

For reporting purposes, the Group adopts a four scale grading system – Red, Amber, Yellow and Green. Risk Appetite Grading ("RAG") statuses are assigned to each risk appetite limit and are used to provide information as to whether the risk appetite metrics are within the risk appetite, nearing risk appetite, and breaching risk appetite of the Group.

Board oversight

Key risks are discussed during both Board of Directors' meetings and Board Risk Committee meetings where risk exposures are tracked against risk appetite limits and notification thresholds.

All relevant risks within the Group are reviewed by the Group's Board Risk Committee so that it can assess whether they are consistent with the Group's risk appetite, and for reviewing management's proposed courses of action if not. It may then approve these plans or require them to be altered, as appropriate.

The Group has established risk appetite limits and notification thresholds to set the risk profile of the Group relative to its risk appetite in order to be in a position to take appropriate strategic and risk-based decisions. The Board oversees and monitors risk appetite indicators as part of its holistic risk management across all material risk types, including those used for recovery planning purposes.

The Group Board Risk Committee is also responsible for assessing the Group's high-level controls, risk aggregation and reporting framework to ensure that these are sufficient to maintain its level of risk within its appetite.

The Board ensures proper oversight of the risks that the Group may be exposed to. A key role of the Board is to approve the Group's strategy and business plan, to ensure that the key goals in that strategy are and remain within the agreed risk appetite and to oversee the Executive Committee implementing it.

The Group has also in place a set of key performance indicators that are quantifiable measurements with the ultimate purpose of enabling decision-makers to act quickly and continue driving the business forward. The set of financial Key Performance Indicators ("KPIs") are aligned with the Group's Risk Appetite Framework and are benchmarked against industry standards. The set of financial KPIs are approved by the Board.

The Group Executive Committee ("EXCO") is responsible for cascading the Board approved KPIs into granular strategic objectives across core business lines and functions. The KPIs are reported to the Board, at least every two months, to ensure oversight from the members of the Board.

Reporting to the Board and Board Risk Committee

The Board and Board Risk Committee receive a comprehensive Group risk report for each month, compiled by the Risk Management Function with an executive summary written by the CRO. The CRO's executive summary is qualitative in nature and covers each of the Group's material risks. This commentary is also supported by a much more detailed report, the Group risk management report. This report is prepared on a consolidated basis as well as for MeDirect Belgium. The risk management reports are mainly divided into two sections: Risk shaping matters that includes; risk appetite limits, recovery plan indicators, an internal heat map, and external top and emerging risks, and: Risk oversight, which includes a comprehensive overview of each of the main financial and non-financial risks of the Group.

The Risk Shaping Matters report includes the CRO Executive Summary and key risk report, as well as a dashboard for risk appetite and recovery plan wherein actual performance is tracked against pre-set risk appetite limits and recovery plan indicators. The Group has an internal risk appetite heat map that provides an overview of risk performance against each of the key risk appetite themes with additional focus on those areas that are close to or breaching risk appetite thresholds.

The Risk Shaping Matters report is backed by more extensive risk reporting that includes risk oversight of the Group's risk pillars that are categorised as financial and non-financial risks:

Financial Risks

1) **Balance sheet overview (Business model and strategy risk):** provides an overview of the evolution of the Group's asset and liability portfolios over a period of time.
2) **Capital adequacy:** shows the Group's RWA evolution over time and how the Group's capital ratios can be affected by a range of stress and shock scenarios, both idiosyncratic and market-wide stresses.
3) **Liquidity risk:** primarily two Maximum Cumulative Outflow ("MCO") reports showing stressed liquidity positions of two different severities over a range of time horizons from overnight to twelve months, as well as key assumptions that have been used in deriving these positions. It also includes a commentary about the historic Liquidity Coverage Ratio ("LCR") and Net Stable Funding Ratio ("NSFR") evolution quarter on quarter.
4) **Credit risk:** provides details on a portfolio level, covering each of the asset classes of the Group. Credit risk information is analysed across the credit cycle, covering credit approvals and originations, credit performance on each lending portfolio, broken down by internal classification and borrowers classified as other than Regular, deteriorating credit performance and changes on classification over the month, with focus on those exposures that are classified as Under Surveillance, and Doubtful exposures and impairment levels, where applicable. In order to allow adequate peer analysis, a section on the evolution of the European Loan markets is also included in this section.
5) **Market risk:** provides details on the Interest Rate Risk in the Banking Book (IRRBB) covering progression of the IRRBB metrics and the repricing gap, as well as oversight of the level of Foreign Exchange Risk limits (FX risk) monitored by the Group.

Non-Financial Risks

1) **Operational risk:** includes details about operational risk event volume by causal categories and by impact categories, as well as gross operational losses quarter on quarter. This section includes an action log or commentary on each identified Key Risk Indicators ("KRI"), as well as showing the Red Amber Green ("RAG") grading for each risk indicator.
2) **IT and Information Security Risk:** includes a risk commentary and assessment of the major IT Security risk areas monitored and reported by the Risk Management function, covering systems and technology; policies; monitoring and testing; and user awareness. A sub-risk under IT and Information Security Risk is the Data Protection Risk, which includes the risk of failing to comply with Data Protection Regulations, namely 'GDPR'. The risk of data protection and data leakage is a prominent area of risk for banks to manage, both in terms of electronic data; such as customer databases or market sensitive internal reporting; and physical information; such as printed copies of customer details or physical copies of confidential documents or contracts.
3) **Compliance risk:** primarily a commentary, inclusive of RAG grading, about new regulation and systems enhancements. It also provides information on the compliance monitoring plan and other management information covering requests from the regulator and the number of suspicious transaction reports raised during that month.
4) **Regulatory risk:** provides a runway of the major regulatory changes and regulatory deadlines expected over the next quarters. It also provides a brief overview of the main regulatory updates that have been announced during that month, as well as a calendar of events that shows upcoming supervisory dialogues.
5) **Reputational risk:** currently the risk management function is introducing a group-wide reputational risk management framework that will also include a number of KRIs and incident management for risk monitoring purposes.

Special papers are also presented to the Board Risk Committee at each meeting. These special papers cover emerging and top risks and other thematic risk reviews or regulatory announcements that could result in material impact to the Group. Any key correspondence from the regulator is also brought to the attention of senior management and the Board members. Items requiring specific attention by the Board Risk Committee or deeper dives on risk themes are included within such special papers, with actions and decisions taken as necessary as a result.

Other regular reports

Alongside the monthly Group risk management report, the EXCO members also receive a risk report on a weekly basis outlining the status of key risks against the approved risk appetite of the Group, including changes from the previous week. The weekly report is prepared on a consolidated basis as well as for MeDirect Bank SA.

Daily liquidity and capital reports are also shared with the ALCO members and senior management. These reports include details of the liquidity position of the Group such as net cash and liquidity ratios, assets and liabilities, and capital ratios. These reports are prepared on a consolidated basis as well as for MeDirect Bank SA.

Aside from internal reporting requirements, the Group is also subject to regulatory reporting such as Common Reporting ("CoRep") and Financial Reporting ("FinRep") as well as public disclosure requirements as stipulated in Part Eight of the CRR[1].

[1] (EU) No 575/2013

Risk culture

A strong risk-aware culture is defined as all employees of the Group being aware of their responsibilities towards the clients, colleagues and the institution itself, and their ability to manage risks on a day-to-day basis, taking into account the institution's policies, procedures and controls. The Group is aware that instilling a risk culture is key to delivering sustainable growth and profitability, and strives to continuously improve its risk culture through policies, communication and training of staff, which is done through a number of initiatives. These are namely, continuous training events, risk awareness notifications and campaigns, eLearning and mandatory Employee Training programmes, as well as embedding a culture of speaking-up being encouraged across the institution.

2.1.6 Internal escalation process

In the event of a breach of a Risk Appetite threshold or trigger, the Group has established an escalation procedure, which lists the procedure on how and who to notify the breach, and it also explains the role and responsibility of those involved in the escalation process.

The Group uses a RAG-rating matrix, which is used consistently throughout the risk reports. This matrix highlights any areas which require a heightened level of monitoring prompting actions that might be necessary to revert to business-as-usual.

The Group has implemented notification thresholds for its critical risk appetite limits to allow sufficient time to avoid breaching the limits. Reporting of these thresholds ensures that performance which is close to the approved risk appetite statement and risk appetite limits is highlighted and discussed at the relevant governance forum and appropriate mitigating actions determined.

If the Group were to breach its risk appetite, the Group has Capital Conservation Plans, Contingency Funding Plans, and if required, a Group Recovery Plan that outlines a number of management actions that the Executive Committee and the Board should take at different levels of severity. In certain cases, a Crisis Committee may also be convened. Breaches of any of the risk policies are reported to the Committee that oversees the policy such as MCC or ALCO, with the possibility of escalation to Board Committees as outlined in the respective policies.

2.1.7 Stress testing

Stress testing is an integral element of the Group's risk management process, strategic planning, capital planning and liquidity planning. The Group applies various degrees of severity whilst ensuring the plausibility of the assumptions and scenarios. The stress testing methodology covers both idiosyncratic and macro-economic scenarios.

Stress testing is used to assess the effect of a given scenario, or shock, on the Group's statement of financial position, income statement and regulatory capital, leverage and liquidity ratios, and as a result the Group's ability to sustain any potential loss. In addition, stress testing is also used as a complementary framework to other measures of risk such as Economic Capital ("EC") , where applicable. The outcome of the stress testing determines the Group's capacity to sustain any potential loss in an adverse scenario and circumstances in the context of the Internal Capital Adequacy Assessment Process ("ICAAP") and the Internal Liquidity Adequacy Assessment Process ("ILAAP").

These stress testing processes within the ICAAP, ILAAP and Recovery Plan are primarily conducted by the Group Risk Management Function, under the responsibility of the Group CRO. The elements of the assumptions and scenarios that are used during the stress testing are discussed during the Asset Liability Committee ("ALCO"), which are then reviewed and approved at Board level.

The Group uses reverse stress testing as a regular risk management tool in order to improve the awareness of current and potential vulnerabilities faced by the Group. Reverse stress tests are used as part of the Group's business planning and risk management to understand the viability and sustainability of the Group's business model and strategy.

Since the Group has been identified as an Other Systemically Important Institution ("O-SII") and falls under the supervision of the ECB, it is also subject to supervisory stress testing. The Group uses this exercise as a benchmark for the internal stress testing.

2.1.8 COVID-19 global pandemic outbreak

In 2020, the ongoing COVID-19 pandemic has significantly weakened global growth prospects, with the outlook heavily contingent on how countries across the world successfully contain the pandemic over the remainder of the year. The ECB President has stated that the eurozone economy has contracted at a magnitude and speed unprecedented in peacetime and urged eurozone politicians to cooperate on an ambitious package of spending measures to support economic recovery. Myriad government responses have been announced across Europe such as tax payment deferrals, debt moratoria, credit guarantees, employment support and fiscal injections to mitigate the effects of the crisis.

As a result of the pandemic, the ECB and other bank regulatory authorities have also announced measures aimed at supporting the economy, in part by ensuring that banks properly utilise the capital and liquidity buffers built up in recent years to help deal with crisis situations. These steps include the following:

- A number of measures to ensure that significant banks can continue to fulfil their role in funding the real economy. As such, the ECB will allow significant banks to temporarily operate below the level of capital defined by the Pillar 2 Guidance and the capital conservation buffer, to operate below the liquidity coverage ratio and to partially use capital instruments that do not qualify as Common Equity Tier 1 capital to meet the Pillar 2 Requirements.
- A €750 billion Pandemic Emergency Purchase Programme.
- Further flexibility in prudential treatment of loans backed by public support measures, encouraging banks to avoid excessive procyclical effects when applying IFRS 9.
- The lowering of the countercyclical buffer requirement to zero in a number of countries.
- Requesting banks to suspend shareholder distributions for the 2019 financial year as well as for fiscal year 2020 at least until October.

As regards the Group's international corporate lending portfolio in the current environment, many borrowers have drawn down on their credit facilities, rather than risk cash flow uncertainty at a later stage. This has given rise to a significant increase in drawdowns of revolving credit facilities. A number of borrowers will undoubtedly be impacted by the global disruption to the economy generally, the short term (and potential long-term) impact on revenues caused by decreasing demand for their products and services, general uncertainty in the market or disruptions in the supply chain. The extent of such impacts will hinge on a range of factors, much depending on how long the crisis will last, and on the degree of government responses.

The adverse economic impacts of the pandemic will affect the Group's ability to meet its financial targets, in particular since they adversely influence its international lending portfolio through negative rating migrations, higher expected loan losses and potential credit-impairments of financial assets. It is likely that the Group's expected credit losses will increase significantly as clients struggle with potential declines in business activity.

Determining accurately the impact of COVID-19 on the Group is judgemental and subjective in nature, given that such assessment would also need to consider the likely duration of the crisis and the pandemic emergency measures mentioned above, which are still evolving as a number of countries seek to stimulate economic recovery. The Group has compiled a detailed analysis of potential losses on the basis of information available to it at the date of approval of the consolidated financial statements, which it has incorporated into financial projections covering a period normally utilised for its Supervisory Review and Evaluation Process regulatory submissions. These projections comprise historical financial information up to the date of approval of these financial statements and forecast financial information for the residual period, incorporating the estimated impact of the events referred to above on the projected financial results and financial position of the Group. On this basis, the Group is projecting that it will register losses during the year ending 31 December 2020 and during the initial part of the forecast period, principally attributable to the projected credit losses in respect of the Group's international lending portfolio.

The Group commenced this period with appropriate capital and liquidity levels to potentially absorb the simultaneous impact of severe local and global recessions and a financial markets shock. As at 31 December 2019, the CET 1 ratio and the total capital ratio were equivalent to 15.2% and 17.3% respectively, whereas the LCR ratio stood at 716.2% and the NSFR ratio was 130.1%.

The Group's revised expectations incorporating the envisaged impacts of the pandemic will inevitably give rise to a projected decline in the regulatory capital ratio of the Group. The Group is expected to utilise, in part, the capital buffer defined by the Pillar 2 Guidance and the capital conservation buffer, consistent with the stance announced by the ECB. The Group has tested different scenarios, including a stressed case that excludes future increases in capital, and assumes a more prudent outlook on a number of initiatives and other measures planned by management, also excluding the possibility of asset sales. This testing indicates that the Group will be able to reinstate all regulatory capital buffers at the end of the forecast period. The Directors will nevertheless be taking a number of measures to further strengthen the Group, including the possibility of increasing the regulatory capital.

Throughout the forecast period, the Group and its constituent banks are projected to maintain adequate liquidity ratios, in excess of the regulatory minimum.

2.1.9 Risk governance structure

The Group has a well-established risk governance structure, with an active and engaged Board of Directors supported by an experienced senior management team and a centralised Risk Management Function that is independent of the business lines. Decision-making is primarily conducted through the Board of Directors with oversight from a Board level Risk Management Committee and delegated authority within Executive level Committees.

The key elements of the Group's governance infrastructure are described in the Group's Corporate Governance Framework. This framework supports other internal documents such as the Group's Articles of Association, Terms of Reference for the Board of Directors and its standing committees, and the Code of Business Conduct and Ethics.

The Board of Directors

The Group has a unitary board system, in which there is only one Board of Directors composed of both executive and non-executive Directors. The Board of Directors, either directly or through its Committees, ensure that decision-making is aligned with the Group's strategies and risk appetite. For each Board meeting, the members are provided with reports covering the key risks of the Group as well as updates on the Group's financial performance. The Board of Directors approve key risk policies, strategy and risk appetite.

The list of members who served on the Board of Directors can be found in the respective "Board of Directors" section of MDB Group Limited Annual Report and financial statements for the financial period ended 31 December 2019.

The Board has established committees to assist it in carrying out its responsibilities, where each committee must act in accordance with a Terms of Reference document as approved by the Board setting out matters relevant to the composition, responsibilities, authority and reporting of the committee, and such other matters as the Board considers appropriate. The Board-level committees may only act with delegated authority from the full Board of the Group within the limits of the authority reserved by the Group itself.

The Board has established the following committees:

- Audit Committee;
- Risk Committee; and
- Nominations and Remuneration Committee.

Audit committee

The purpose of the Audit Committee is to oversee the quality and integrity of the Group's financial reports, particularly the key financial judgements made within them. The Audit Committee also reviews accounting policies, the Group's compliance matters and also assesses the effectiveness of Internal Audit. The Group's internal audit function and compliance function report independently to the Audit Committee on the effectiveness of risk management policies, regulatory compliance, procedures and internal controls.

Risk committee

The Board Risk Committee is responsible for reviewing the Group's risks in sufficient detail that it can assess whether they are consistent with the Group's risk appetite, and for reviewing management's proposed courses of action if not. It may then approve these plans or require them to be altered, as appropriate. It is also responsible for assessing the Group's high-level controls, limits, and risk aggregation and reporting framework to ensure that these are sufficient to maintain its level of risk (including, but of course not limited to, operational risk) within its appetite.

Nominations and remuneration committee

This committee is responsible for making recommendations to the Board in respect of key appointments including:

- Board appointments including re-elections and succession planning, particularly in respect of Executive Directors;
- Membership of board committees; and
- Endorsement of senior executive appointments.

It is also responsible for monitoring the performance of directors and ensuring that their professional development is appropriately facilitated.

The Committee reviews the setting of remuneration levels (fixed and variable) as well as the structure of variable remuneration, for senior executives and risk-takers within the Group as defined in the Group's Remuneration Policy. In this regard, it receives recommendations from the executive management of the Group for its consideration and approval. Throughout the financial year, none of the Group employees were entitled to guaranteed variable remuneration.

In addition, the Committee is responsible for ensuring that the Group's Remuneration Policy itself, as well as the structure and levels of remuneration, are in accordance with prevailing laws and regulatory guidance, as well as with best practice, and are consistent with the long term sound and prudent management of the Group.

Executive management and EXCO

The Board delegates responsibility for the day-to-day management of the Group to the CEO who chairs the EXCO. EXCO represents the principal forum for conducting the business of the Group and takes day-to-day responsibility for the efficient running of the business. In addition, EXCO is responsible for the formulation and implementation of Board approved strategies and plans. The Group EXCO is mainly responsible for the ongoing priorities that underpin the Group's business model and the regulatory environment. EXCO serves as an internal advisory body with feedback to the Board via the CEO.

Whilst retaining the ultimate responsibility for actions taken, EXCO may delegate its responsibilities to a number of management sub-committees, each operating under their own terms of reference:

- Compliance and Client Acceptance Committee ("CCAC")
- Commerical Committee ("ComCO")
- Operations Committee ("OpsCo");
- Asset and Liability Committee ("ALCO");
- Management Risk Committee ("MRC"); and
- Management Credit Committees ("MCC");

With respect to the Group's subsidiary MeDirect Belgium, Timothy Rooney has been named as its new Chief Executive Officer, effective upon receipt of required regulatory approval. He will succeed Philippe Delva whose mandate as CEO of MeDirect Belgium ends at the end of August 2020.

Internal control functions

The Group has an adequate and effective internal control framework that includes a clear organisational structure and well-functioning independent internal risk management, compliance and audit functions that have sufficient resources to perform their functions. The Internal Control Framework is implemented through the three lines of defence model. The 1st line of defence comprise the business line management, and the internal control functions represent the 2nd and 3rd line of defence. The internal control functions are independent of the 1st line of defence with the Heads either being a member of the Board, or reporting directly to the Board and its Committees. Both the Group CRO and the Belgium CRO are part of the Board[2], whilst being standing attendees of the Board Risk Committee. The Group Head of Compliance reports directly to the Group CEO with a reporting line to the Board Audit Committee. The same reporting applies to the Group Chief Internal Audit Officer.

[2] On 16 October 2019, the Group CRO was appointed as a member of the Board of MDB Group Limited.

The Group's Risk Management Function has grown in volume and expanded in breadth over the past three years, from eleven roles to sixteen roles between December 2016 and December 2019, with new roles created across Malta, Belgium and London. Staff turnover levels have increased modestly but are well below market and are not considered at elevated levels of Risk either internally or externally. Average tenure in the risk function is relatively strong, with a high level of loyalty evidenced from longer standing team members whom average 2.9-years in role with Risk. Of those employees who resigned from the risk function, two were International employees whom have left Malta for personal and international career moves. The Belgium CRO resigned during Q4 2019, and was succeeded by the Deputy CRO who was based in London.

The Group's Compliance Function has also grown in volume over the last three years, as well as operationally transferring transactional activities to the 1st Line of Defence as part of the Compliance strategy. Staff turnover levels have been elevated since 2018, primarily due to increased demand for Compliance expertise in financial services and related industries locally in Malta, and limited supply of qualified and experienced Compliance professionals. Average tenure is growing but has lower average tenure than other internal functions given higher turnover evidenced during 2019. The Group Head of Compliance resigned during Q3 2019, with a new Group Head of Compliance joining in January 2020. Moreover, the Group's Financial Crime Compliance Manager has been approved as the Group's MLRO by the MFSA[3]. In respect of MeDirect Bank SA, the Deputy Head of Compliance was appointed as AMLCO. The MeDirect Belgium Head of Operational Risk also resigned during Q1 2020 and for the interim, a consultant on Operational Risk was engaged, leaving this position for Head of Operational Risk in Belgium is still vacant.

During Q4 2019, the Legal and Compliance function in Belgium was split into 2 distinct functions with the onboarding of a new Head of Legal who joined MeDirect Bank SA in November 2019. The new Group Head of Compliance will also be acting as Head of Compliance for MeDirect Bank SA. The Compliance team in Belgium is also complemented by a Deputy Head of Compliance who joined the team in August 2019.

Over the past three years the Group has strengthened the Internal Audit Function by adding more staff across Malta, Belgium and London to reach a total of eight full-time employees including the Chief Internal Audit Officer. Staff turnover was elevated over the past year, that was mainly driven by internal transfers. A new Head of Internal Audit based in Belgium was recruited during H1 2019 and the skillset of the team based in Malta was enhanced with the recruitment of a second senior manager who has extensive experience in IT.

Group Corporate Governance Framework

The key elements of the Group's governance infrastructure are described in the Group's Corporate Governance Framework. This framework supports other internal documents such as the Group's articles of association, terms of reference for the Board of Directors and its standing committees. The framework is updated at least annually or whenever there are changes to the business model or internal structure of the Group.

Policy Standards

The Group has a policy standard document in place, which sets out a standard approach on the development, communication, approval, distribution and implementation of corporate governance documentation, including post-implementation monitoring for the Group. The review process for new and updated policies entails internal discussions with different units that are directly impacted by that specific policy. From time to time, and whenever major regulatory changes are announced, the Group may engage external experts to carry out a gap analysis that may potentially lead to the creation of new policies and review of existing ones to reflect regulatory updates. All internal policies are subject to an internal governance process as outlined in the Group's Corporate Governance Framework.

2.1.10 Risk management of the Group's regulated subsidiaries

The Group's Corporate Credit Framework, the Credit Risk Policies and procedures are applied uniformly across the Group and its subsidiaries. Using its position as controlling shareholder if necessary, the Group adopts the following key principles when managing the risk of its subsidiaries:

- Subsidiaries will not take on any risk that is outside the Group's consolidated risk appetite, as expressed in its Group RAS, unless prior consent and dispensation is provided by the Group Board;
- The Group's risk reporting and evaluation processes will include risks borne within the subsidiaries in the same way as risks borne within the Group itself: such reports will be produced and reviewed on a consolidated basis (notwithstanding that additional reports may be produced at subsidiary level as described below);
- The Group will not take any action at subsidiary level without support from the appropriate body of the subsidiary in question; and
- To the extent possible, subsidiaries will adopt risk management policies, processes, and reports that are consistent with those of the Group itself: in particular, subsidiaries will follow the day-to-day operational risk management (i.e. control) processes of the Group, although they may of course supplement these with additional control processes if they feel this is necessary or if local regulations and customs dictate.

Where risk reports are produced for management purposes, or regular analysis is performed, in respect of individual subsidiaries of the Group, the form of these reports and analysis will be kept as close as possible to that of the Group-level equivalents. Where local management, regulations or customs demand that additional or differently-presented information be shown on entity-level reports, the Group will in general aim to produce information in a common format acceptable at both levels.

[3] MFSA approved the FCC Manager's appointment as MLRO on 24 April 2020.

2.2 Information on risk management, objectives and policies by category of risks

Risks are identified in the context of the business model and strategy of the Group, and within the parameters of the risk appetite of the Board. Other objectives are also taken into consideration:

- *Financial reporting objectives:* these relate to the preparation of reliable published financial statements and regulatory reporting;
- *Operational objectives:* these relate to the achievement of the Group's mission statement and address the effectiveness and efficiency of the Group's operations; and
- *Compliance objectives*: these relate to adherence to laws, rules and regulations to which the Group is subject, as well as prudential regulatory requirements.

The Risk Management Function relies on a number of techniques and methodologies to identify risk, including those developed internally and externally through external consultants. Both normative and economic perspectives are taken into account during the risk identification process. All relevant risks are taken into consideration for the Group's ICAAP and ILAAP, while allocating capital to cover those risks that are identified as material following a comprehensive risk assessment.

2.2.1 Credit risk

Credit risk is the risk of loss for the Group's business or of an adverse change in the financial position, resulting from fluctuations in the credit standing of issuers of securities, counterparties and any debtors in the form of default or other significant credit loss event (e.g. downgrade or default). The willingness to take on credit risk is focussed on risk-adjusted returns, in that the interest margin received after operational costs will outweigh any credit losses incurred, is a key part of the Group's business model.

Credit risk profile

The Group's credit risk emanates from two main sources: from its corporate lending activities and from its treasury activities. The Group's corporate lending activity is mainly composed of its international syndicated corporate loans portfolio, as well as a much smaller portfolio of domestic corporate lending for which it has a lower risk appetite. The Group also recently commenced a new lending activity via MeDirect Bank SA in Belgium composed of investing into Dutch NHG Mortgages, as well as collateralised loan obligation ("CLO") management, for which a 5 % vertical risk retention is required.

Credit risk arises primarily in the form of deterioration in credit quality leading to an obligor defaulting on debt instruments held in the Group's investments portfolio or on loans extended to corporate counterparties or mortgage borrowers in the Netherlands.

Apart from these main sources of credit risk, the Group does take on credit risk in other areas too; these are listed in the following table along with the key risk mitigants. To the extent that new products and services are offered to the Group's customers that involve the extension of credit, the Group's approach is to require similar controls and mitigants to be put in place.

Source	Mitigant
Secured financing (high-quality liquid asset securities)	Being a securities lender/cash borrower: intrinsically a risk mitigant since correlation leads to a "right-way" exposure.
	Execution under market-standard Global Master Repurchase Agreement ("GMRA") documentation with major counterparties, or at Eurex or CBM; with daily margining.
	Concentration limits embedded in credit policy.
Secured financing and revolving credit facilities (less liquid assets)	Execution only with top-tier international counterparties.
	Limits by counterparty.
Exposure to hedging counterparties	Execution under market-standard International Swaps and Derivatives Association ("ISDA") documentation with major counterparties; daily margining. All Interest rate swaps are cleared through Eurex Clearing (CCP) which limits counterparty risk.
	All hedging instruments are highly liquid and based on easily observable market data.
Lending to local corporate customers	Currently lending is extended against tangible collateral, notably residential and commercial real estate, subject to a prudent collateral policy.
Encroachment (Group effects a foreign-currency client payment before euro funds have cleared)	Exposure very short-term in nature.

Counterparty credit risk

The CRR defines counterparty credit risk ("CCR") as the risk that the counterparty to a transaction could default before the final settlement of the transaction's cash flows.

Limits on counterparty exposure are established by the ALCO. Such limits relate to net exposure, after application of cash (and cash equivalent) collateral, as provided in industry-standard documentation such as the ISDA and GMRA agreements, and the Group Credit Policy.

The Group has not established any credit reserves in relation to counterparty credit risk.

<u>Credit risk quantification and assessment</u>

The Group adopts the standardised approach to credit risk as outlined in the CRR in order to apply its capital requirement for credit risk.

Besides allocating capital against its Pillar I risks that are based on the Group's accounting records, the Group carries out an assessment of the extra capital proportionate to Pillar II risks as part of its annual ICAAP. The Group has developed and implemented an economic capital model that is used to calculate the additional internal capital add-on for credit risk. The credit risk model estimates credit losses based on the correlation between industry shocks and borrower defaults.

<u>Credit risk management and control</u>

The Group's lending activities are governed by the credit risk policy and associated credit frameworks, covering the international corporate loan portfolio (including the CLO business), treasury portfolio, the local lending portfolio and the Dutch Mortgages portfolio. The Group's Corporate Credit Framework, the Credit Risk Policies and procedures are applied uniformly across the Group and its subsidiaries.

The Group's credit policy sets out a series of controls on how the Group mitigates its credit risk, covering:

- Credit governance;
- Credit approvals;
- Credit classifications and staging criteria;
- Credit monitoring;
- Deteriorating credits and forborne exposures; and
- Non-performing and default exposures.

Internal policies and frameworks are reviewed at least on an annual basis to keep abreast with ever changing market conditions and regulatory landscape. During the period ending 31 December 2019, improvements to credit processes have focussed on addressing findings from the ECB on-site inspection on credit risk, which included; reviewing and lowering the risk appetite for syndicated leverage loans, strengthening the risk management function resources, enhancing the process for timely identification of deteriorating and non-performing exposures, and evolving provisioning methodology.

The Treasury Credit Framework governs the oversight and management of credit risk associated with the high-quality liquid assets held in the Group's treasury portfolio, including the semi-annual portfolio review process that assesses the related credit risk arising from macroeconomic and geopolitical risks.

Given the differing nature of the local lending portfolio, the credit risk emanating from these activities is managed and controlled through a number of policies and procedures. The Local Lending Credit Framework covers the Local Lending activities in Malta, monitoring and reporting requirements and the escalation and approval processes for the Bank. Since the Group holds collateral against loans and advance to local customers in the form of hypothecary rights over immovable assets, registered rights over movable assets and guarantees, the Group has in place a collateral policy that governs this process.

Collateral valuation

Local Lending Portfolio

The Group applies a number of limits to the Local Lending portfolio both at Portfolio level and at Single Name level. These limits are decided by the Group's Board and documented in the Risk Appetite Framework, which is revised on an annual basis.

Additionally, a Loan-to-Value ('LTV') limit is applied to any credit extended to real estate related transactions or where real estate is pledged as collateral, given that underlying asset values can be subject to market volatility. This limit is calculated on the market value of the security, prior to the application of the relative haircut as described below.

The Group limits the delegated approval authority of the Local Lending - Management Credit Committee to extend credit with a maximum LTV ratio of 65% at origination (prior to any collateral policy haircut). This committee is responsible for approving credit recommendations and making other credit decisions under its delegated authority. In cases where the LTV exceeds a specific limit an explicit Board approval would be necessary.

The market value of the collateral is based on an assessment carried out by the Local Lending unit to determine whether the 'market value' of the collateral is the best estimate of the net realisable value of the said asset. The unit evaluates the valuation in the context of market impact of liquidation of the said collateral on liquidity, buy-sell spread and market float of the same class of assets.

The Group appoints an independent valuer who shall possess the necessary qualifications, ability and experience to execute a valuation and who is independent from the credit decision process. The Group will establish that the valuer has the necessary ability, experience and independence (to the property or borrower) prior to undertaking the review.
The Group applies haircuts in respect of the property valuation carried out by the independent valuer and is determined on a case-by-case basis taking into account particular characteristics such as valuer's expertise and experience, valuation/s of similar collateral and, locations and conditions of property. Haircuts are applied to arrive at the best prudent estimate of the realisable value of the collateral and are documented in the credit memorandum together with an explanation of the suitability of chosen haircut. The haircut is discussed and ratified at the Local Lending – Management Credit Committee.

The value of collateral that is commercial real estate is monitored at least annually, while the value of residential real estate is reviewed once every three years. The value is monitored through the local Property Price Index as well by gauging asking prices of similar properties available on the market.

For individually significant loans, including but not limited to those exceeding €3 million or 5% of the Group's own funds, the value of the property securing such loans shall be reviewed by an independent valuer at least every three years.

If the market is subject to significant changes in conditions and publicly available information indicates that the value of the property may have declined materially relative to general market prices, an update of the valuation of the collateral shall be required.

The status of each item of Collateral listed is noted within the Credit Memo, in which the Local Lending unit must confirm that all legal and collateral documentation in connection with the Borrower has been reviewed and is in order. If it is not, the team member shall comment on the outstanding matters as required.

The guidelines on collateral haircuts are reviewed at least annually by the Group, and may from time to time, be amended to ensure that the Group's business continues to act in accordance with best practices.

Any proposed changes are escalated for approval to the Board Audit Committee and Board Risk Committee (for material changes) or to the Executive Committee (for non-material changes). Determination of whether a proposed change is deemed material is the responsibility of the Local Lending – Management Credit Committee Chairman.

Net realisable value

For liquidation purposes, the Group carries an assessment to determine whether the 'market value' of the collateral is indeed the best estimate of the net realisable value of the asset. For immovable property, forced sales discounts are applied to reflect the particular characteristics and conditions of the local market (e.g. type of property, time factor to realise collateral and location) so as to arrive at the best prudent estimate of the realisable value of the collateral.

<u>Credit governance and approval process</u>

International Corporate Lending Portfolio and Local Lending Portfolio

The Group has in place a governance process outlining roles and responsibilities, authorities, limitations and escalation processes for approving and reviewing credit exposures across the Group's lending portfolios.

Management of the Group's credit risk is the joint responsibility of the departments that originate this risk and of its Risk Management Function, under the oversight of the MCCs and of the Board Risk Committee.

The Group adopts a typical three-lines-of-defence approach to credit risk management that utilises an independently run Risk Management Function as a second-line of defence as well as the Internal Audit Function acting as an independent third-line of defence for credit audits and reviews.

With these objectives in mind, responsibilities around the origination of new assets are divided as follows:

- Business units are responsible for identifying and sourcing lending opportunities and for all discussion with external parties, whether the proposed borrower itself or an intermediary such as the lead bank in a lending syndicate. They are also responsible for performing primary credit analysis on a proposed extension of credit (to include an impartial summary of all relevant information), for recommending a course of action and for co-ordinating the decision-making process. Where public investment-grade (i.e. BBB-/Baa3) credit ratings are available in respect of a bond issuer or other obligor, business units may reflect the underlying rating agency analysis in lieu of performing their own detailed independent credit analysis where this is permitted by the associated credit framework.

- The Risk Management Function is responsible for reviewing this primary credit analysis, for ensuring that any open items are discussed and resolved in advance of the formal decision-making forum and for providing its own recommendation on the appropriate course of action. For avoidance of doubt, Risk may not rely on external credit ratings as a substitute for performing its own credit analysis and assessment.

- The Internal Audit Function is responsible for periodic and thematic reviews of credit policies and the associated credit processes, in order to assess and review their effectiveness and adherence to them by both the business units (1st line of defence) and the Risk Management Function (2nd line of defence). The Internal Audit Function may also, at its own discretion, seek the involvement of third party audit firms to support any internal credit audits and reviews related activities.

The MCCs of the Group are responsible for approving credit recommendations and making other credit decisions under their delegated authority, as defined in each associated credit frameworks. This includes:

- Whether to approve an extension of credit, and under what conditions;
- How to classify individual credits for risk and performance monitoring purposes;
- Whether to recommend Board approval for extensions of credit beyond its delegated authority;
- Consideration of any hedging strategies and whether to recommend them for Board approval;
- Review impairments and provisioning; and
- Monitor and provide oversight over the risk performance of the portfolio.

CLO Business

One of the strategic focus for the Group during 2019 was to re-balance the credit portfolio to a mix of Dutch Mortgages, international corporate leveraged loans and revolving credit facilities ('RCFs'), complemented by high-credit quality AAA-CLO instruments. During the financial period ending December 2019, the Group has successfully launched and closed a collateral loan obligation ('CLO'). This primary purpose of the CLO was to achieve significant risk transfer from its international lending portfolio. The Group has two type of investments in CLOs, namely:

- CLO issued and managed by MDB ("CLO Issuance")
- MDB investments in CLOs managed by other institutions ("3rd party CLOs")

CLO issuance involved the Group transferring the ownership of a number of eligible assets being securitised to a securitisation special purpose entity ("SSPE"). As a result, the SSPE become entitled to the cash flows that are generated by the assets, including those resulting from the sale of such assets. The SSPE is structured to ensure the underlying exposures are placed beyond the reach of MDB and its creditors. Once notes were issued, MDB continued to act as a collateral manager and is paid by the SSPE for these services. Under the EU Securitisation Regulation, MDB retained a material net economic interest in the CLO.

MDB held further investments in senior tranches ("AAA notes") of an own CLO Issuance that was sold prior to the end of the reporting period as well as other investments in AAA notes of CLOs managed by reputable third parties.

The Group's CLO Risk Management Policy outlines the risk management principles, governance structure, roles and responsibilities as well as an overview of the key risks and associated controls and metrics for monitoring such risks in relation to the Group's CLO issuance and management and 3rd party CLO investments.

The roles and responsibilities of each team are outlined below:

Allocation Manager	the person or number of persons who is/are responsible for allocating Assets to Accounts.
Allocation Proposer	a person or number of persons who is/are responsible for advising on the allocation of Assets to Accounts
Allocation Proposal	a proposal by an Allocation Proposer to an Allocation Manager to allocate an Asset to a particular Account or Accounts.
Allocation Team	The Allocation Proposer and the Allocation Manager handling a particular allocation of an Asset.

Credit Approval Process

CLOs issued by the Group

The same strict credit governance process applied for those loans that were transferred to the CLO structure. The three lines of defence model ('3LOD') was adopted. As the first line of defence, the Corporate Credit team was responsible for identifying and sourcing lending opportunities and for performing primary credit analysis, making recommendations and co-ordinating the decision-making process. Then as the second line of defence, the Risk Management function reviewed and challenged the primary credit analysis and identified key due diligence areas for investigation ahead of Management Credit Committee ("MCC"), during which credit limits were decided and approved. Any investment that fells outside of MCC's approval limits were escalated for review and discussion at Board level. Finally, as the third line of defence, the Internal Audit function performed an ad-hoc review relating to new CLO issuances. This review formed part of the Annual Internal Audit Plan.

Eligibility criteria

In order for approved loans to be transferred to the CLO structure, these had to meet a number of criteria, of which:

- Rated (either publicly or privately);
- Up to a certain size as proportion of the total portfolio (usually 2.5%, although CLO investors have preference for diversity so in practice a 1-1.5% average size is expected);
- Not rated Caa or CCC (and even B3/B- in some cases) as this is penalizing for rating agencies collateral quality tests;
- Obligors need to meet a minimum size (obligors with <€150 million total indebtedness are not eligible);
- Assets trading below 90%, and even below 95% should not exceed a minimal proportion of the total assets – successful placement of the transaction involves detailed investor scrutiny of the portfolio; and
- Minimum average spread levels in order to generate sufficient income to pay the interests on the CLO liabilities.

3rd party CLO investments

The investment approval process associated when the Group invests in 3rd party CLOs is similar to the credit approval process when it issues its own CLO. This process involves the Corporate Structured Finance team acting as the 1st line of defence by identifying and sourcing investment opportunities and performing primary credit analysis. Acting as the 2nd line of defence, the Credit Risk team reviews and challenges the credit analysis and provides an opportunity to identify potential due diligence areas for investigation ahead of Management Credit Committee ('MCC'). The MCC is responsible to approve or otherwise the limits within which the Corporate Structured Finance team can invest, in line with the Group's Risk Appetite Statement. Once approved, a funding request is sent and actioned by Treasury Function.

Allocation principles

Following approval by the MCC, any asset intended for a CLO is allocated by the Allocation Manager in accordance with the mandate, necessities of the respective CLO and a number of allocation principles that must be considered.

In the absence of other considerations, the loans are allocated on a pro rata basis. Each CLO shall formally submit their credit commitment request to Allocation Manager. Such requests will be aggregated and subsequently, a request for the whole Group will be submitted to the counterparty. If minimum transfer size or round amounts are breached due to pro rata allocations, the CLO Managers will decide which vehicle to assign the allocation to, based on liquidity and capital constraints of the underlying portfolio.

Where assets in accounts controlled by the Group are to be sold, CLOs and Non-Consolidated Entities shall have the right of first refusal.

Where a sale of assets to or from an account representing a CLO or other Unconsolidated Entity needs to be done in order to enhance the liquidity or credit standing of the CLO or Unconsolidated entity, the Allocation Manager shall give prior consideration to balancing the interests of that account, such as balancing the need for liquidity against the current market price of the Asset. If decision to sell and allocate is then made, any allocation of that asset to other accounts shall, to the extent possible, practicable, or equitable, be made on a pro-rata basis.

Where an allocation is to be made to a CLO, the Allocation Manager considers the benefits which will accrue to the CLO, while on the other hand evaluating the Allocation's effect on the CLO's liquidity, considering matters such as whether liquidity tolerances are likely to be approached and breached within a reasonable period following Allocation as well as the consequences thereof.

Sales of Assets across CLOs may be effected at any point in time subject to the Allocation Manager's discretion. There is no minimum hold period for selling assets, and assets within the CLO or Unconsolidated Entity may be bought and sold at any time, unless legal or regulatory restrictions apply.

In exceptional circumstances, such as where there is an extra high volume of selling, buying or allocation of Assets, where it is evident that the processes outlined above become ineffective due to then prevailing circumstances, the Allocation Manager may, after consulting with relevant stakeholders, follow any procedure which preserves the spirit of fairness in the procedures or principles outlined in the Group's Asset Allocation Policy with respect to a specific allocation or group of allocations.

All credit decisions, approved or otherwise, applicable for the international lending portfolio (including the CLO business) and local lending portfolio are documented and retained, with suitable MCC minutes recorded or approval comments where decisions are made under delegated credit authorities. Retention of credit decisions are maintained for the lifetime of the credit facility, subject to any data retention regulation as outlined in the Group's Data and Retention Policy.

Dutch Mortgages Portfolio

During the period ending 31 December 2019, MeDirect Belgium started investing in Dutch NHG (government guaranteed) mortgages, as a first step to diversify Group credit portfolio and expand its presence to a third European market. MeDirect Belgium entered into the residential Dutch mortgage market through the purchasing of the receivables of newly originated Dutch mortgage loans through HollandWoont B.V., a multi investor mortgage platform and a subsidiary of Dutch Mortgage Portfolio Management BV (DMPM) ('Lender of Record'), which is part of Blauwtrust Groep (BTG). BTG is a well–established provider of services to the Dutch Mortgage market and is best known under the name of its servicing subsidiary Quion.

Within BTG several entities act as subservicers:

- Distribution management/marketing through Conneqt Mortgage Distribution;
- Lender of record ('LoR') activities through HollandWoont, a subsidiary of DMPM;
- Mortgage origination and underwriting through Quion;
- Mortgage primary servicing through Quion; and
- Special servicing through Quion.

DMPM acts as a portfolio manager and monitors the activities of the different sub-servicers. All subservicers have reporting obligations to the investor. The outsourced activities have been agreed in a servicing agreement between HollandWoont and the sub-servicers, including Service Level Agreements per entity.

NHG provides detailed instructions on underwriting and servicing of mortgage loans. Non-compliance to the instructions, registered in Conditions & Norms, will lead to a complete or partial loss of compensation in case of a default. Conditions & Norms set the maximum borders of the credit policy a mortgage lender can apply, but it is up to the lender to accept the full scheme or apply a more prudent credit policy.

HollandWoont will only originate new mortgages that are covered by NHG. The operating model below shows the process from loan origination to full loan settlement:

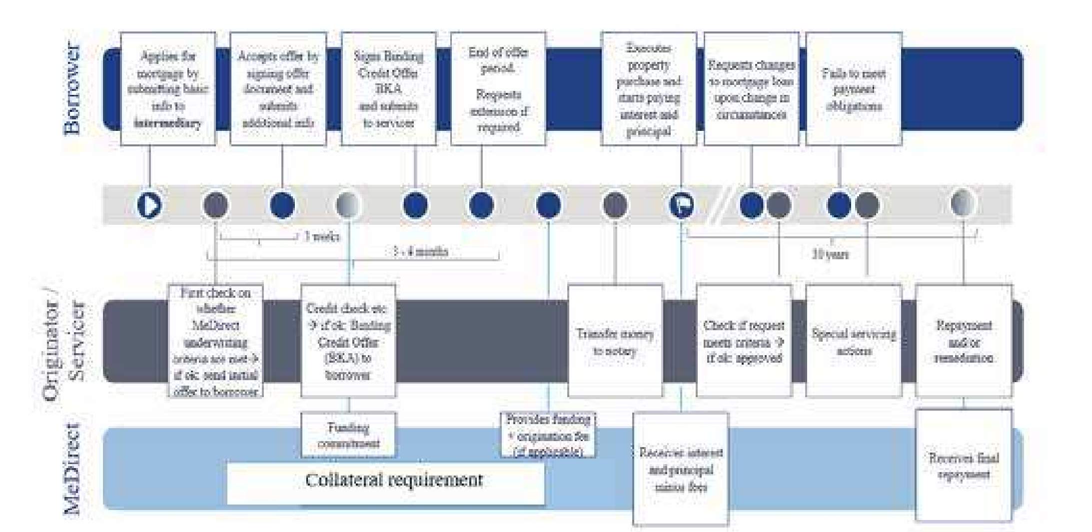


FIGURE 6: DUTCH MORTGAGES OPERATING MODEL

Pricing

As a Lender of Record HollandWoont is responsible for setting the market rates and investors in the platform set the minimum interest rates the investor is willing to accept to buy the mortgage receivables. In case the LoR decides to set the market rates at a level below the minimum rates of the investor no more new applications will be allocated to the investor.

Existing borrowers can apply for an increase of their mortgage or a second lien mortgage. They can also use the option to port their loan to a new property. In these cases the loan can (partly) loose the guarantee of NHG and becomes (partly) non-NHG eligible. For mortgages moving into the Non-NHG space an add-on to the interest rate is applied to cover the additional risk the investor (MeDirect Bank) accepts. This additional spread will be added to the regular NHG-rates and is based on the Loan to Value (LTV). Add-on varies from 0.20 % to 0.80%.

Subscription and Pricing Committee

The Group has established a Subscription and Pricing Committee ('SPCO') that is convened periodically to set the amount of mortgages that the Group is willing to purchase for a specific time frame and sets the specific minimum pricing. The SPCO is a sub-committee of the Asset and Liability Committee ('ALCO') and is primarily responsible for:

- Reviewing and setting the investment appetite of the Group for mortgages and setting subscription amounts for applications to be allocated during the upcoming quarters;
- Reviewing and setting of the minimum pricing of the mortgage asset class, that will enable the Group to decide whether to participate in the current interest period or not;
- Monitoring of the Dutch mortgage market;
- Monitoring of the existing portfolio of mortgages and managing the performance of the existing portfolio against market offerings and internal forecasts;
- Asset and liability management in the context of the growth of this portfolio; and
- Overrules.

New loans

Situations may occur that the NHG conditions require interpretation or an exception needs to be applied. In these instances the Credit Officer of the Portfolio Manager (DMPM) will review and provide guidance to the servicer (Quion, responsible for underwriting). The investor/MeDirect Bank is not involved in these decisions and it must be noted that these decisions always need to comply with the Norms and Conditions of NHG.

Special Servicing

- In cases related to Special Servicing (default management) the Credit Officer of DMPM will draft a Summary Proposal highlighting the specific situation and a brief summary of the requested or proposed solution. This Summary Proposal will not include privacy sensitive data and will be sent by email to MDB. MDB is requested to provide a Credit Recommendation by signing the Summary Proposal and returning it by email within two Business Days to the Portfolio Manager.

- The Head of Dutch Mortgages is authorised to provide the Credit Recommendation on behalf of MeDirect Belgium. In case of doubt the Head of Dutch Mortgages will consult with the Belgium CRO and/or the Belgium CFO about a decision.

On a monthly basis, the Head of Dutch Mortgages will provide the Belgium Executive Committee with an overview of the decisions taken.

Credit classification and staging criteria

International Corporate Lending Portfolio and Local Lending Portfolio

Credit exposures are classified into credit classification categories as part of the credit approval process. The classification decision is ultimately the responsibility of the MCC unless otherwise stated, and should be continuously ratified as part of the credit monitoring process.

The Group adopts a five-scale internal credit classification rating scale. This aligns to the Group's standardised approach to credit risk and for the purpose of adherence of IFRS 9 principles, provides alignment and consistency.

Internal Credit Classification		
Internal Rating		**Internal Rating Definition**
1	**Regular**	No material credit concerns
2	**Focus**	No immediate prospect that a credit loss will ultimately be suffered, but worthy of closer credit oversight
3	**Under Surveillance**	Significant increase in credit risk with identified concerns and some prospect that a credit loss may ultimately be suffered
4	**Doubtful**	Likely that the contractual terms of the debt will not be met and that a credit loss will be suffered
5	**Write-off**	Full or partial credit impairment suffered, with little prospect of recovery

The Group's IFRS 9 general approach is applicable for all assets that are not credit impaired at the point of investment (initial recognition). The general approach adopts the IFRS 9 three-stage methodology that is summarised below:

- **Stage 1 (Performing)** — Stage 1 includes assets that have not had a significant increase in credit risk since the point of initial recognition or that have low credit risk at the reporting date.
- **Stage 2 (Under-Performing)** — Stage 2 includes assets that are seen to have had a significant increase in credit risk since the point of initial recognition but do not have objective evidence of impairment. Generally, a significant increase in credit risk will occur before there is objective evidence of impairment or a default occurs.
- **Stage 3 (Non-Performing)** — Stage 3 includes assets where there is objective evidence of impairment at the reporting date. Assets in this stage will be considered as "Non-performing" and generally be assessed individually for provisioning purposes.

Credit hedging

To provide additional credit risk mitigation, the Group may also consider managing credit risk through credit hedges. Entry into any such hedges will also be subject to prior approval by the Board of Directors.

Throughout the financial period, the Group did not enter into any credit derivative hedges.

Credit monitoring

International Corporate Lending Portfolio and Local Lending Portfolio

As part of the Group's robust approach to credit risk management, the Group ensures that close and continuous oversight of each of its respective lending and treasury portfolios is undertaken.

The Risk Management Function is responsible for ensuring that all significant credit risks are appropriately being identified and managed by the respective business functions (1st line of defence) and clearly incorporated into the Group's risk management and reporting framework. Additionally, the risk management function is responsible for overseeing that appropriate monitoring of the credit performance of each lending portfolio, including, amongst other things, monitoring portfolio risk and concentration risk, monitoring credit quality trends and provision levels and reviewing and taking appropriate action in connection with any violations of credit limits and policies.

The CRO assigns ownership and responsibility for the monitoring of such risks and is responsible for ensuring that adequate controls are in place to ensure that risk management is in compliance with regulatory requirements and with the Group's risk appetite as approved by the Board of Directors.

Besides from allocating specific concentration limits for each asset portfolio it manages, the Group has in place a number of quantitative credit risk metrics to monitor its international corporate lending portfolio including:

- Single name limits;
- Portfolio limits;
- Leverage and covenant limits;
- Product limits;
- Sector concentration limits; and
- Geographical concentration limits.

Given the nature of the international corporate lending portfolio, the Group also monitors a number of triggers in line with the ECB guidelines on leveraged transactions that cover the opening gross leverage, covenant structure and deleveraging profile. The Group has adopted these triggers to govern the overall delegated authority of the Management Credit Committee.

The Group has also in place a number of risk metrics to monitor the local lending portfolio:

- Single name concentration;
- Loan-to-value ("LTV") limit;
- Unsecured lending limit; and
- Total portfolio.

As the local lending portfolio is not a core business line of the Group and has high dependency on Maltese real estate market conditions, the Group has an absolute risk appetite limit for total commitments for the portfolio.

With regards to the Treasury portfolio, the Group seeks to invest in securities of the highest credit quality that are relatively protected from potential downgrades and highly liquid on the secondary market whilst abiding by the list of permitted activities and products as included in the Group's Treasury Credit Framework. Preference is given to fixed income instruments that are deemed eligible marketable assets by the ECB, and eligible as high quality liquid assets ("HQLA") for LCR and NSFR purposes.

To support monitoring of risks associated with CLOs, the Group has several dashboards in place covering:

- Loans/bonds on the Group's Balance Sheet that may be transferred to a CLO;
- Own CLOs post settlement (and an aggregate dashboard covering all such CLOs issued); and
- 3rd party CLO investments (and on an aggregate dashboard covering all such investments).

Additionally, the Group's Risk Appetite Statement has been translated into a set of risk limits and notification thresholds at the operational level and these limits and thresholds have been coded into the dashboards to allow easy identification of risk metrics that have been breached or are in the amber notification threshold.

Risks are monitored on an ongoing basis and in a timely manner, including performance information, exposure type, the percentage of loans at each rating level in particular proportion of CCC assets, default rates, prepayment rates, amongst others. Collateral Quality Tests (such as WARF and Diversity Score), Portfolio Profile Tests and Coverage Tests will be also be closely monitored.

In addition to the qualitative risk statement, risk appetite for investment in the senior tranches of CLOs managed by 3rd parties is expressed through the following limits and indicators:
1. Only CLO tranches in Euro will be considered and
2. Only AAA rated tranches by at least 2 reputable rating agencies will be considered.

During the year ending December 2019, the Group entered into the Dutch mortgage market. The Group has a 'high' risk appetite to invest in prime NHG Dutch residential mortgage loans and as a result, strong controls or constraints are applied to mitigate such impacts. A risk assessment has been performed over the past months to identify the new risks from investing in and managing a portfolio of Dutch NHG-backed mortgage loans. The assessment also had the aim of assessing the impact of such investments on existing risk categories.

A number of risk metrics were put in place to monitor the Dutch NHG-Backed Mortgages:

- Loan-to-value ("LTV") ratio;
- Loan-to-income ("LTI") ratio;
- Cost of Risk;
- NHG Pay-Out ratio;
- Interest-Only loans ratio; and
- Non NHG eligible loan ratio.

For the Dutch Mortgages portfolio, as a professional provider of outsourcing services to the financial industry, the vendor has a risk management framework in place, based on the 3LOD model and comprising RCSA, ISAE 3402, ISO 27001 and independent auditing of the portfolio.

The Group's oversight is primarily based on the existence of aforementioned standards, secondarily on monitoring via daily and monthly reports and thirdly on additional audits by subject matter experts within the Group.

The following are the NHG scheme related risks:

- Unsecured exposure risk;
- Amortisation profile risk;
- Underwriting risk;
- Collateral valuation risk;
- Fraud risk; and
- NHG suspensory conditions.

Unsecured exposure risk

The credit risk associated with this business line is considered to be low, since Dutch mortgage loans are guaranteed by the Dutch national mortgage guarantee scheme (NHG), which protects borrowers from any residual debt after a foreclosure following a default on their mortgage loan. The NHG Guarantee covers the outstanding principal, accrued unpaid interest and disposal costs. Lenders/investors benefit from the guarantee as the loss will be covered by the NHG. 10% of the realised loss will be for the investor/lender.

Amortisation profile risk

The NHG Guarantee assumes that a mortgage loan amortises over a 30-year period regardless of the actual loan amortisation profile. Consequently, the credit protection amount of the NHG guarantee on mortgage loans decreases over time, assuming repayment of the guaranteed residential mortgage loan within 30 years and according to the annuity method. Thus, depending on the NHG terms and conditions that apply to the individual mortgage loan, the credit protection provided by the NHG guarantee may only be partial and is decreasing over time.

The typical share of interest-only loans in existing NHG portfolios is about 30% of the total volume. The HollandWoont (and MDB) aims at reaching a share of interest-only loans well below this figure given its negative impact on credit and interest rate risk.

Underwriting risk

The NHG Guarantee has prescriptive eligibility rules. In the event that a loan is underwritten in breach of the NHG eligibility conditions, all or part of the claimed amount may not be covered by the NHG guarantee.

For the Group, this risk will be mitigated by a contractual provision in its agreement with HollandWoont that the Lender of Record is liable for losses on a mortgage loan due to non-compliance with the NHG eligibility criteria at the time of origination or when servicing the loan. The Lender of Record bears the responsibility for ensuring that each application meets the NHG criteria.

Collateral valuation risk

Inaccurate / inappropriate valuation of collateral can lead to an increase in observed losses (additional losses on the secured part on the loan). Furthermore, the collateral value drives the amount that can be borrowed within the eligibility criteria of NHG, hence it is of paramount importance in the credit granting process.

Fraud Risk

In the case of proven fraud, the NHG Guarantee will not pay out any of the claimed amount. This risk is mitigated by the fraud detection controls put in place by the Lender of Record during the underwriting process.

NHG suspensory conditions

Normally immediately after passing the deed the guarantee provided by NHG is valid. Under specific circumstances however coverage from NHG does not start until 'conditions precedent' have been fulfilled. In these cases the 'NHG suspensory conditions' are applied.

The risk for a bank in these situations is always temporary, and specific underwriting guidelines will be applied on the individual situations mentioned above. Materiality of the risk is comparable to the risk of a non NHG mortgage. For the newly built houses an additional guarantee on finishing the construction is required.

Further advances

When extending additional lending limits to existing clients, the credit risk will be reassessed.

Other risks

The NHG portfolio is also susceptible to macro-economic risks such as the possibility that:

- The Homeownership Guarantee Fund ("WEW") being insufficient to cover the losses on NHG-backed loans;
- The Dutch Government no longer backing the WEW; and
- NHG no longer considered as a credit risk mitigant following a change in the regulation.

KPIs and KRIs used to monitor the Dutch Mortgages Portfolio

The Group has also in place a number of KPIs and KRIs that are monitored as part of the daily and monthly reports that are received from the lender of record:

- Loan-to-value ("LTV") ratio;
- Loan-to-income ("LTI") ratio;
- Cost of Risk;
- NHG Pay-Out ratio;
- Interest-Only loans ratio; and
- Non NHG eligible loan ratio.

The Internal Audit Function is responsible for ensuring that the Group's credit portfolios are regularly reviewed from an audit perspective, as part of the internal audit plan.

Deteriorating credits and forborne exposures

The default internal credit classification at the point of origination is "Regular". This applies across all business lines and all lending portfolios, regardless of the underlying credit risk or probability of default for each instrument. Each respective MCC as outlined in each credit framework is responsible for monitoring the credit performance of each credit exposure. The Group has processes and procedures in place to identify deteriorating credit and forborne exposures.

For the international lending portfolio, the Group uses an external credit risk-modelling provider that is appropriate for benchmarking its corporate lending portfolio. For the local lending assets, the Group does not use external credit ratings (as all exposures are unrated) or rely on an external risk-modelling providers for benchmarking its local lending portfolio as no robust database or provider exists for the asset class. The Group therefore will use the evidence of past-due information as the primary quantitative driver of significant increase in credit risk ("SICR") triggers, alongside qualitative forward-looking SICR assessments.

The Group adopts the usage of external public ratings for Treasury Assets, using public ratings (where available) from Moody's, Standard & Poor's and Fitch. Deterioration in the available public rating from the point of inception to non-investment grade (below BBB-/Baa3) will therefore be the primary quantitative SICR trigger for the treasury portfolio.

Forbearance measures consist of concessions extended to any exposure towards a debtor facing or about to face difficulties in meeting its financial commitments ("financial difficulties"). With reference to paragraph 178 of Annex V of Commission Implementing Regulation (EU) No 680/2014, a forborne exposure can be underperforming (Stage-2) or non-performing (Stage-3).

As prescribed by EBA standards, the regulatory forbearance classification shall be discontinued when all the following conditions are met:

- The contract is considered as performing, including if it has been reclassified from the non-performing category after an analysis of the financial condition of the debtor showed it no longer met the conditions to be considered as non-performing;
- A minimum 24-month probation period has passed from the date the forborne exposure was considered as underperforming;
- Regular payments of more than an insignificant aggregate amount of principal or interest have been made during at least half of the probation period; and
- None of the exposures to the debtor is more than 30 days past due at the end of the probation period.

The Group recognises that on occasion the application of these tests may be more ambiguous than for typical bilateral loans; the MCC is responsible for any interpretation required.

Non-performing and default exposures

The Group's credit policy outlines the Group's approach to identifying non-performing, impaired and default exposures, as well as provisioning and write-off criteria as defined in accordance with EBA Guidelines Article 178 of Regulation (EU) No 575/2013, the ECB guidance to banks on non-performing loans (March 2017) and the EBA report for non-performing and forborne exposures (October 2018).

The Group is required to identify Non-Performing Exposures ("NPEs") and to assess the recoverability of the recognised exposure. Assessment is made at an obligor (rather than facility) level. This implies that in those cases where a particular debtor has multiple facilities with the Group, the Group considers whether there are indications of unlikeliness to pay at the level of the debtor, irrespective of the different levels of losses that can be incurred in respect of the different facilities resulting from different levels of seniority. Therefore, the probability of default is measured at the level of the debtor, while the loss given default measures the loss incurred by the different tranches.

The governance of assessing NPEs and Default triggers is undertaken as part of the ongoing credit monitoring processes. Where NPEs or Default indicators are observed, immediate assessment by the respective MCC is required and a ratification of the internal credit classification conducted.

Definition of default

In accordance with the definition of defaulted exposures, provided under Article 178 of the CRR, the Group identifies a "default" where a financial asset is 90-days past due its contractual repayment for any amount of principal, interest or fee that has not been paid at the date it was due. However, the Group relies on the definitions of "Unlikeliness-to-Pay" for additional default criteria in terms of article 178 (3) of the CRR, which aligns closely with the definition of NPEs specified above.

Definition of impaired

Where a non-performing or default trigger has been identified and applied to a financial asset, the obligor's related facilities must also be assessed to determine whether they are also impaired for the same reason and/or are unlikely to pay.

According to the EBA guidelines on the application of the definition of default, in general one would expect that all exposures treated as credit-impaired.

An impairment allowance requirement is determined based on the Group's provisioning policy.

2.2.2 Capital adequacy

Capital adequacy is a measure of the financial strength of the Group. This is usually expressed as a ratio of its Core Equity Tier 1 Capital (CET1) capital, Tier 1 Capital (Tier 1), or its Total Capital (Tier 1 + Tier 2 capital) to its total risk weighted assets (RWA).

Capital adequacy requirements have increased in importance as regulators seek to ensure that banks and financial institutions have sufficient capital to keep them out of difficulty, even during periods of heightened cyclicality. The Group has always sought to maintain an appropriate level and quality of capital to support its prudential requirements with sufficient contingency to withstand severe but plausible stress scenarios.

The Group and its subsidiaries are subject to prudential requirements under the ECB Supervision Review and Evaluation Process ("SREP") and are bound by the terms of the capital requirements outlined within the SREP decision. The Group's management has a significant level of control and oversight over its capital ratios. It uses the capital base as its main constraint for curbing asset growth in reaction to market changes whilst aiming to strike an appropriate balance between risk and sustainable returns.

The Group has developed an ICAAP to consider the capital required given its businesses and risk profile, both from a normative and economic perspective. This is defined by sound, effective and comprehensive strategies and processes to assess and maintain on an ongoing basis the amounts, types and distribution of internal capital that the Group considers adequate to cover its nature and level of risks to which it is or might be exposed to.

The Group's ICAAP is aligned with regulatory requirements, as well as best commercial and governance practice, and are demonstrated through the Group's internal reporting.

The Group's risk appetite covers capital adequacy and has established a number of risk appetite limits and KRIs in order to manage and monitor this risk. Actual performance is monitored against these pre-set limits and are disclosed in the weekly and monthly risk reports.

The Group actively monitors the following capital ratios and leverage ratios, allocating specific risk appetites supported by quantitative risk appetite limits. The four ratios below represent the capital metrics the Group is willing to commit to limiting its appetite to:

- CET 1 ratio;
- Tier 1 capital ratio;
- Total capital ratio; and
- Leverage ratio.

The Group has no appetite for breaches of the formal minimum capital ratios as set out by the Governing Council of the ECB under Article 26(8) of Council Regulation (EU) No 1024/20131, pursuant to Article 16 of that Regulation, to fulfil the prudential requirements and comply with the Pillar II capital guidance specified.

The Group adopts very stringent procedures and processes to ensure that these minimum requirements are met at all times. It also has no appetite for breaching minimum capital ratios set as part of the SREP process and designed to supplement any of these measures.

The Group has zero tolerance for breaching capital ratios as a result of actions that are within its control. The Group additionally has a very-low risk appetite for breaching capital ratios in stressed conditions. It has therefore risk appetite limits above its overall capital requirements.

Moreover, under the Basel III framework, banks must meet a 3% leverage ratio minimum requirement at all times. The Group has maintained a Leverage Ratio well above the Basel III minimum and it maintains very low appetite for even approaching this threshold.

The Group is willing to accept some volatility to this ratio if suitable lending or investment opportunities arise, provided that the overall goal of maintaining significant headroom to the regulatory minimum is not threatened

2.2.3 Liquidity and Funding risk
(Disclosures related to liquidity risk management according to EU LIQA)

During 2017, the EBA issued a set of guidelines (EBA/GL/2017/01) which aim to harmonise the disclosures in line with CRR 575/2013 Article 435(1) in relation to liquidity risk. Additional disclosures on liquidity risk can be found under note 2 to the MDB Group Limited Annual Report and financial statements for the financial period ended 31 December 2019.

Liquidity risk is the risk of the Group being unable to generate sufficient funding resources to meet financial obligations as they fall due in business as usual and stress scenarios. Funding risk arises from higher funding costs or lack of availability of funds.

The Group actively manages stable and efficient access to funding and liquidity to support its ongoing operations. The Group's appetite for liquidity and funding risk is embedded through the Liquidity Risk Management Framework and Policy, which stipulates the funding restrictions of the Group, and the approval thresholds for usage of certain funding instruments.

Liquidity and funding risk appetite limits inform the Group of the potential for, or an actual deterioration of its capacity to meet its current and foreseen liquidity and funding needs.

Liquidity risk identification

The Risk Management Function is responsible for designing the risk appetite statement that is presented for discussion and challenge by the Board Risk Committee members, and ultimately approved by the Board of Directors. This process leads to the creation of granular liquidity risk appetite limits that are monitored across the internal functions of the Group. Notification and escalation processes are in place in order to ensure timely and adequate flow of information up to Committee and Board levels.

The Group makes use of Risk and Control Self-Assessments ("RCSAs") to identify, document and assess its key risk and controls, as is clearly described within the Group's Risk Register. This bottom-up approach to risk identification is also applied to liquidity risks across the Group. The RCSA results are then used to help identify KRIs and define risk appetite metrics.

The Group has identified the following risk drivers related to liquidity:

- *Regulatory liquidity ratios*: a breach to any one of the regulatory liquidity ratios. The Group has zero tolerance for breaching liquidity ratios as a result of actions that are within its control. The Group additionally has a very low risk appetite for breaching any regulatory liquidity ratios in stressed market conditions and accordingly maintains suitable management buffer levels. The Group ensures that it is abiding by the regulatory requirements through the ongoing monitoring and reporting of key liquidity metrics, namely the Liquidity Coverage Ratio (LCR), and the Net Stable Funding Ratio (NSFR);

- *Short-term liquidity risk*: mainly related to customer deposit flight, drawings on committed revolving credit facilities and margin calls on secured financing. The risk appetite for short-term liquidity risk the Group is willing to take will increase moderately, in line with the strategy to establish a deposit portfolio of Regulated Savings deposit funding in MeDirect Belgium, with funding planning projecting a high proportional growth in the product;

- *Wholesale funding risk*: the level of asset encumbrance of the Group's non-HQLA asset portfolios. The Group's risk appetite for wholesale funding remains Low to Medium, whereby the Group has Medium appetite for securing stable and dependable wholesale funding using its high-quality liquid assets (HQLA's) utilising central counterparty clearing house's (CCP). The Group has Low to Medium appetite for sourcing more volatile or unstable wholesale funding instruments.

- *Contingency liquidity risk:* the level of contingent funding capacity available relative to extreme funding outflow stress-testing assumptions. The Group has Low to Medium appetite for contingency liquidity risk.

Liquidity risk quantification and assessment

Following the identification of liquidity and funding risks, the Risk Management Function performs a risk analysis to assess the significance and likelihood of these risks. The Group's assessment of risks to liquidity and funding is primarily done through the ILAAP.

For the ILAAP, the Group models two liquidity stress scenarios on the basis of an idiosyncratic (severe) and a market-wide (extreme) stress scenario. The Group has also extended the range of liquidity stress scenarios in order to explore in more detail the range of liquidity sensitivities the Group may experience in stress scenarios.

Principle 12 in the BCBS "Principles for Sound Liquidity Risk Management and Supervision" requires banks to maintain a cushion of unencumbered, high quality liquid assets to be held as insurance against a range of liquidity stress scenarios. The outcome of the liquidity stress testing is used to determine this cushion or liquidity buffer.

In line with Principle 17 in the BCBS guidelines, the Group is also required to maintain a prudent funding structure drawn from diverse funding sources in the short-, medium- and long-term. The Group's funding plan provides a detailed description and quantitative overview of the various funding sources. The Group has also in place a liquidity contingency funding plan that identifies the various funding sources that the Group can rely on during a distressed situation.

An analysis of asset encumbrance is also an important consideration and is critical to assess the ability of the Group to handle funding stress, and its ability to switch from unsecured to secured funding under stressed conditions.

Mismatching of assets and liabilities, and currencies may also lead to a degree of liquidity risk.

Liquidity risk management and controls

The Group has adequate internal controls to ensure the integrity of its liquidity risk management process. As described within the Group Risk Management Framework, the Group has adopted a risk management and internal control structure, referred to as the Three Lines of Defence. In this model, the Treasury Function acts as the first line of defence towards liquidity risk, the Risk Management Function as the second line, and the Internal Audit Function as the third line.

The Group has in place a Liquidity Risk Management Framework and Policy, that are complimented by other policies such as the Stress Testing Policy, the Contingency Funding Plan Policy, the Risk Appetite Policy and the ICAAP and ILAAP Policy. These policies set the standards and rules around liquidity risk management for the Group. By definition, they provide a cornerstone of the Group's Risk Management Controls.

Funding strategy

The Group's funding profile has evolved over the years from a reliance on wholesale funding to deposit funding. The evolution of the funding profile was, in part, a result of a strategic shift on the asset side of the balance sheet. The Group's intention going forward is to remain mainly deposit funded as it gives more long term stability to the Group. Other financing sources such as Total Return Swaps ("TRS") are to be used as bridging instruments to deposits in the short to medium term.

For liquidity purposes, the Group's statement of financial position is managed on a day-to-day basis by the Treasury Team, under the leadership of the Group Head of Treasury and the supervision of the Group Chief Financial Officer. The Group's funding strategy is that management of its day-to-day liquidity position should not require actions that potentially compromise its medium-term or long-term objectives.

The Group's funding strategy for business as usual activities is facilitated by maintaining a positive funding gap and by monitoring the Group's maturity ladder, which is used by the Group to determine the availability of liquid assets to meet the liquidity gaps across a range of time buckets. The Group ensures it maintains a significant buffer of HQLAs that can be readily converted into cash or are eligible to be pledged as collateral in order to raise wholesale repo funding to meet liabilities as they fall due.

Liquidity risk management buffers

The Group's Liquidity Risk profile is also a key consideration of the Group's risk appetite limits and KRIs. The Group controls the appetite it is willing to accept in terms of liquidity risk by ensuring adequate management buffers exist, in conjunction with early notification thresholds, to help avoid the Group taking on liquidity risk outside of its agreed risk appetite. These liquidity management buffers are additionally embedded into the Liquidity Risk Monitoring and Reporting framework to ensure regular oversight is in place.

Liquidity stress testing and Contingency funding planning

In conjunction with the above controls, the Group's Risk Management Function performs regular stress testing of its liquidity profile, as well as the availability and viability of contingency funding options through both its ILAAP and monthly Maximum Cumulative Outflow ("MCO") report each month. These reinforce the Group's oversight of liquidity risk, by not only focussing its risk reporting on the 'current' state, but also providing regular and timely reporting of the potential 'stress' liquidity profile of the Group. The monthly MCO reports are also a standing agenda item at Executive level for the Group's ALCO and Board Risk Committee.

Liquidity risk governance

The Group's overall liquidity and funding position is managed in the normal course of business by its Treasury Function, under the supervision of the ALCO and by following processes set out in the Group's LRMP.

The Group's Risk Management Function ensures that all liquidity risks are identified, measured, overseen and appropriately reported. Analysis of liquidity risk is the joint responsibility of the Group's Treasury and Risk functions under the oversight of the ALCO and of the Board Risk Committee.

Liquidity risk monitoring and reporting

The Group's intention is to be able to adhere to its risk appetite limits as well as satisfy any regulatory or statutory minimum liquidity requirements even during times of stress. The Group also seeks to project key liquidity ratios forward through time. While acknowledging that the principal liquidity ratios cover a range of time horizons from one day to one year, the Group does not solely rely on the regulatory liquidity ratios to ensure it has adequate liquidity when these ratios are above their minimum regulatory levels. In part, this reflects the fact that the Group's own assumptions on deposit withdrawal or haircuts may differ and are generally more conservative than those mandated by the LCR and NSFR.

Consistent with its practice in other areas of risk analysis and reporting, and also consistent with Principle 10 of the Basel Committee's "Principles for effective risk data aggregation and risk reporting", the Group performs and reports on these projections monthly, to allow for in-depth review and analysis at ALCO and the Board Risk Committee. Reliable management reporting provides the Executive Committee and the Board with timely and forward-looking information on its liquidity position. Reporting of risk measures is done on a frequent basis and compares current liquidity exposures to established limits to identify any emerging pressures and limit breaches.

The Group has in place a number of quantitative risk appetite metrics to be able to monitor liquidity risk:

- LCR;
- Liquid asset buffer;
- Survival period;
- Encumbrance ratio;
- Contingency liquidity risk buffer; and
- NSFR.

The Group will at all times ensure that it is in full compliance with all applicable regulatory requirements.

The following table provides an analysis of the data points used in the calculation of the liquidity coverage ratio:

EU LIQ1: LCR Disclosure table

MDB Group Limited (Cons.) EUR 000s	**Total unweighted value (average)**			**Total weighted value (average)**		
Quarter ending on:	**30 Jun 2019**	**30 Sep 2019**	**31 Dec 2019**	**30 Jun 2019**	**30 Sep 2019**	**31 Dec 2019**
Number of data points used in the calculation of averages	12	12	12	12	12	12
HIGH-QUALITY LIQUID ASSETS						
1 Total high-quality liquid assets (HQLA)				**470,995**	**568,137**	**669,949**
CASH – OUTFLOWS						
2 Retail deposits and deposits from small business customers, of which:	519,055	669,412	850,627	52,842	68,036	86,293
3 Stable deposits	*831*	*744*	*760*	*42*	*37*	*38*
4 Less stable deposits	*518,175*	*668,621*	*838,260*	*52,751*	*67,952*	*86,208*
5 Unsecured wholesale funding	122,190	103,429	102,477	49,884	42,189	40,046
7 Non-operational deposits (all counterparties)	*122,190*	*103,429*	*102,477*	*49,884*	*42,189*	*40,046*
9 Secured wholesale funding				554	2,377	3,497
10 Additional requirements	555,532	535,335	532,731	85,992	91,686	95,444
11 Outflows related to derivative exposures and other collateral requirements	*13,087*	*13,113*	*13,223*	*13,087*	*13,113*	*13,223*
13 Credit and liquidity facilities	*542,445*	*522,222*	*519,508*	*72,905*	*78,573*	*82,221*
14 Other contractual funding obligations	18,243	23,310	24,775	14,563	19,673	21,273
16 TOTAL CASH OUTFLOWS				**203,835**	**223,961**	**246,553**
CASH – INFLOWS						
18 Inflows from fully performing exposures	104,509	140,275	135,701	100,271	134,743	130,629
19 Other cash inflows	12,043	13,492	14,226	5,787	7,901	8,703
20 TOTAL CASH INFLOWS	**116,552**	**153,767**	**149,927**	**106,058**	**142,644**	**139,331**
EU-20c Inflows subject to 75% cap	116,552	153,767	149,927	106,058	142,644	139,331
21 LIQUIDITY BUFFER				**470,995**	**568,137**	**669,949**
22 TOTAL NET CASH OUTFLOWS				**100,701**	**97,709**	**120,690**
23 LIQUIDITY COVERAGE RATIO (%)				**501%**	**596%**	**589%**

In line with Principle 17 in the BCBS guidelines, the Group's objective is to maintain a prudent funding structure drawn from diverse funding sources in the short, medium and long-term. Potential funding sources may include, but are not limited to:

- Deposits from retail and corporate customers;
- Bond issuance, either secured (for example through CLO structures), senior unsecured or subordinated;
- Issuance of capital instruments;
- Interbank funding (either secured, for example through repo or Total Return Swaps, or unsecured); and
- Central bank funding (although it is the Group's strategy not to rely on the Central Bank for funding in the normal course of events, but instead only used as a secondary source of financing).

The Group's funding profile is mainly deposit funded as it gives I a diverse and stable funding source to the Group, whilst allowing the Group to cross-sell wealth management and other services to its retail customer base. Other funding sources such as TRS and repo funding lines are primarily used as either contingency funding or bridging instruments to deposits in the short to medium term.

The Group considers bilateral repurchase agreements (i.e. not executed via Eurex) and central bank facilities as alternative sources of funding, which are not currently intended to be a core funding strategy of the Group.

With respect to derivatives, as noted in the table EU LIQ1 above, as part of the Group's liquidity outflows, an amount is included in relation to additional liquidity outflows corresponding to collateral needs from the impact of an adverse market scenario on derivative transactions, as required in Commission Delegated Regulation 2017/208. This amount corresponds to the largest absolute net 30-day collateral flow realised during the 24 months preceding the reporting date of the LCR calculation.

The Group is predominantly funded in euro, with approximately 93.8% of total liabilities being in euro. The only major currency is the Pound Sterling, which represented 4.9% of total liabilities. In this respect, a currency mismatch is present between the euro-denominated LCR and the Pound Sterling-denominated LCR. In fact, as at 31 December 2019, the euro-denominated LCR was 656.8% and the Pound Sterling-denominated LCR was 127.1%. Although the latter was low, Pound-Sterling funding is considered negligible within the context of the Group, as the total LCR for the Group as at 31 December 2019 amounted to 716.2%.

All items in the Group's LCR calculation have been included in the EU LIQ1 table.

The level of intragroup support between legal entities within the Group affects the extent to which failure of one entity poses contagion risk for other entities within the Group. Under stress or in a recovery situation, intragroup liquidity flows are important as they can provide MeDirect Malta or MeDirect Bank SA with vital funding.

MeDirect Malta operates as a provider of equity capital to MeDirect Bank SA. It also operates as a provider of liquidity management instruments by absorbing excess liquidity through inter-company.

Each subsidiary manages its own capital and liquidity position in a manner consistent with its own strategy and planned business growth and with local regulatory requirements, and within the context of the group-level strategy. Capital or liquidity requirements that are necessary to support planned growth, rather than arising from the subsidiary's current position, will normally be determined by the subsidiary's Board itself as part of the subsidiary's budgeting process. If the subsidiary's Board determines that an increase in the entity's capital or intercompany borrowing is desirable, either to address current weakness or to support future growth, then it would request such an increase from MeDirect Malta.

The Group generates the majority of its deposit growth through MeDirect Bank in Belgium. This bank holds its liquidity reserve with MeDirect Malta, the National Bank of Belgium and correspondent banks. MeDirect Malta is provided liquidity from MeDirect Bank SA through interbank deposit balances; however, intragroup liquidity management is thereby constrained due to the application of Large Exposure Rules under Articles 387-403 of the Capital Requirements Regulation (CRR).

2.2.4 Business model and strategy risk

Strategic risk is directly linked to the business model of an institution and how effectively the institution manages to translate its budget and forecasts into actual performance. Another consideration is the challenging environment that banks operate in and the various factors that each bank has to face, such as declining margins, loss of market position or customers, and higher costs such as reorganisation costs.

The Group's business model and strategic risks include the following:

- Earnings concentration risk;
- Earnings volatility risk;
- Customer segmentation risk;
- Distribution channel risk;
- Infrastructure & resource risk;
- Key partner risk;
- Cost structure risk; and
- Competition risk.

The Group acknowledges that reported earnings inherently carry some level of volatility and seasonality. Hence, even though they are not always the best indicator of the Group's performance, they do represent a useful risk metric. The Group has in place a range of financial KPIs as well as KRIs it monitors to assess the Group's business model and strategic risk.

The following show the quantitative business model key risk indicator metrics the Group monitors performance to the following:

- Return on equity (RoE);
- Return on RWA (RoRWA);
- Net interest margin (NIM);
- Operational expenditure (OpEx) movement ratio;
- Cost-to-income ratio;
- Deposits WAY;
- ICLP WAY; and
- AuC/ AuM growth.

The monitoring of these measures ensures that the business model performance is consistent with the expectations of the stakeholders; to withstand unexpected shocks; and earnings (and cash flows) are consistent with funding strategies.

Different factors that could affect the business model and strategy of the Group are also taken into consideration in the scenario analysis for the ICAAP.

2.2.5 Market risk
(Disclosures related to market risk according to EU MRA)

The Group is exposed to the risk of an adverse change in its financial situation, resulting, directly or indirectly, from fluctuations in the level or volatility of market prices of assets and liabilities and from adverse movements in interest rates, credit spreads and FX rates. This can affect the Group's profitability (Net Interest Income ("NII")) and capital measures.

The Group has a portfolio of Treasury securities (held mainly as High Quality Liquid Assets - HQLAs) which give rise to the Credit Spread Risk in the Banking Book ("CSRBB"). Exposure to movements in securities prices can be decomposed into the exposure to interest rates and to spreads which fluctuate on a daily basis as a result of the changes in the market demand and liquidity for certain securities. Additionally, the Group originates loans and gathers funds in foreign currencies (other currencies than Euro) that are not always offset creating the exposure to the FX risk in the Group.

The Group does not run a Trading Book and accordingly has limited exposure to market risk in the normal sense that shifts in market variables drive the Group's income. The Group is, of course, not entirely immune to the effects of market movements and manages this exposure accordingly.

Market risk identification, quantification and assessment

The Group assumes three types of market risk, namely:

i. Interest Rate Risk

Interest Rate Risk in the Banking Book ("IRRBB") refers to the current or prospective risk to the Group's net Economic Value of Equity ("EVE"), capital and Net Interest Income ("NII") earnings arising from adverse movements in interest rates that affect the Group's banking book positions.

Exposure to the IRRBB is differentiated by various sub-categories such as:

- Gap risk (repricing risk);
- Option risk;
- Basis risk; and
- Yield risk (exposure to the parallel and non-parallel interest rate curve shifts).

The Group's exposure to interest rate risk arises predominantly from repricing risk emanating from its asset/liability structure. Specifically, a lag exists between the Group's loans which reprice periodically (generally every three months), the mortgage loans portfolio characterised by its long term structure and the term structure of customer deposits. There is also a possible impacts on the Mark-to-Market ("MtM") value of its fixed rate instruments if market interest rates increase in case of realisation.

The presence of interest rate floors embedded in the majority of the loans enable the Group to mitigate its repricing risk from the Group's asset/liability structure, whilst hedging the repricing risk from its core financial assets, namely the treasury securities, and wholesale repo funding.

The Group considers the materiality of IRRBB to be relevant enough to assess the level of Internal Capital required to mitigate such risks. This risk is assessed separately within the IRRBB Internal Capital section of the Group's ICAAP.

CSRBB is a related risk that banks need to monitor and assess in their interest rate risk management framework. CSRBB refers to any kind of asset/liability spread risk of credit-risky instruments that is not explained by IRRBB and by the expected credit/jump to default risk, and in particular to the risk to EVE represented by a change in the market spreads associated with the Group's assets.

The Group defines credit spread risk as a potential loss in the value of a security, which is caused by changes in credit spreads while the counterparty's rating remains the same. The credit spread of the issuer, for the corresponding term, is quantified through the difference between the security's market yield at the valuation date and the risk free rate. The credit spread is an important market risk category for the Group given the existence of the Treasury securities, mainly held for liquidity purposes.

ii. Foreign Exchange (FX) Risk

The Group is mainly exposed to currency risk on foreign exchange movements relating to the GB Pound and US Dollar, originating from the Group's corporate banking business. The Group hedges this risk by ensuring that its foreign currency-denominated liabilities are matched with corresponding assets in the same currency. Any mismatches that arise are monitored closely within strict risk appetite limits.

FX risk is not considered sufficiently material to warrant the calculation of economic capital for Pillar II internal capital. The Group's principal deposits and credit portfolio are both concentrated in Euros and the Group's appetite for taking on foreign exchange risk is very low. The Treasury function is responsible for maintaining FX risk for unhedged positions within tight limits set out in the risk appetite statement of the Group. In substance, in the case of FX risk, the threshold is so tight that the associated economic capital requirement would be negligible.

iii. CVA Risk

Under CRD IV / CRR, institutions are required to hold additional own funds due to the CVA risk arising from Over-The-Counter ("OTC") derivatives, thus resulting in an additional capital charge when entering into such OTC trades. This charge is designed to cover losses arising from the situation where a counterparty's financial position would worsen and thereby the market value of its derivatives obligation would decline, even though there is no actual default. Thus, the CVA charge tries to cover the risk of deterioration in the creditworthiness of a counterparty.

Given the negligible level of Pillar-I capital requirements for CVA, no economic capital calculation is performed and hence no add-on assigned. The Group has no trading book and no derivatives of the various forms that led to the importance of CVA risk to be recognised.

Market risk management and controls

Treasury, under the oversight of the CFO, are responsible for managing interest rate risk within the prevailing interest rate risk strategy as set by the ALCO, and subject to internal limits. In order to manage its interest rate risk, the Group may establish trading lines with counterparties that enable it to execute derivatives transactions approved for this purpose.

The Group Risk Management Function owns the IRRBB policy. The Group Risk Management Function is responsible for the model update, calibration and back testing. In addition, it must assure that IRRBB models have been reviewed and validated in line with the Group's Model Governance Policy.

The Group Risk Management Function ensures that any updates in the IRRBB framework are promptly reflected in the Group's IRRBB policy, metrics and regular reporting. The Group has in place risk appetite limits and risk indicators to monitor IRRBB. The Group CRO recommends the Group's Risk Appetite limits in line with the Board of Directors' risk appetite and escalates any potential limit breaches in line with the internal escalation process.

The Internal Audit function is responsible for periodic and thematic reviews of this policy in order to assess, review effectiveness and adherence to this policy.

Market risk monitoring and reporting

The Group has established a number of metrics related to IRRBB that are monitored and reported to ALCO on a monthly basis. Actual performance is assessed against the pre-set limits of these metrics. These metrics are also included in the monthly Group risk management reports that are circulated to the Board Risk Committee and Board members.

The Group monitors the following quantitative market risk metrics:

- GBP unhedged exposure;
- Primary FX unhedged exposure;
- ∆NII under six regulatory scenarios and four management scenarios;
- ∆EVE under six regulatory scenarios and four management scenarios; and
- PV01 to Own Funds.

∆NII and ∆EVE metrics are both evaluated under six regulatory scenarios on both EVE and NII and four management scenarios.

2.2.6 *Operational risk*

The Group recognises that complete elimination of operational risk is not always feasible. It manages its residual operational risks in the context of its risk appetite statement, whilst allocating risk appetite levels to the different sub-risk categories. Operational risk management encompasses the process of identifying operational risks, measuring the Group's exposures to those risks (where possible), ensuring that effective capital planning and monitoring is in place, taking steps to control or mitigate risk exposures, and reporting the Group's risk exposures and capital positions.

The Group naturally does not have appetite for recurring or single event failures that may put at risk its financial performance, customer outcomes or reputation. However, the Group recognises that complete elimination of operational risk is unlikely. The Group actively manages its residual operational risks in the context of its wider risk appetite.

Operational risk identification

As outlined in the Group's Operational Risk Policy, the Group seeks to minimise operational risks through a control environment or complete avoidance when possible. This is primarily achieved through a collaborative approach to managing operational risks between the first, second and third lines of defence. This policy covers areas related to the measurement and monitoring of operational risk, operational risk reporting, business continuity and disaster recovery plans, Risk Control Self-Assessments ("RCSAs") and operational risk controls testing.

Risk Control Self-Assessments

RCSAs are used for identification of the Group's key operational risks. The Operational Risk function is primarily responsible for driving the completion of this process. The Operational Risk Policy lists the overall objectives of the RCSAs as follows:

- Identify the key current and emerging operational risks to the business, with risk identification based on both risks that the business has experienced in the past and plausible risks that the business has yet to experience;
- Understand and evaluate the main drivers of the operational risks;
- Consider market trends of top and emerging risks across the industry;
- Assess the operational risks in terms of their overall significance for the business – based on both the likelihood and impact (frequency and severity) of potential losses;
- Drive improvement actions for those operational risks where further controls and monitoring is required; and
- Provide consistent information on operational risks that can be aggregated and reported to senior management to inform decision-making.

The outputs from the RCSA process are reviewed by the Operational Risk Management Function and shared with the Group CRO, whom provides top-down challenge before collating an operational risk register. This is also shared with the Board Risk Committee annually.

During 2019, the RCSA was considerably expanded, through more than 20 workshops, which were carried out with the Business Units. The output was used to setup the Enterprise, Risk and Compliance tool (ERIC) which was introduced to facilitate the implementation of the RCSA methodology. Following the completion of the 2019 RCSA exercise, the following risk themes were identified:

- Fraud risk, which may arise from a number of activities, carried out internally or externally. Internal fraud is a civil or criminal activity carried out by at least one internal party, such as an employee or distribution associate, which is often as a result of collusion, rogue trading, insider trading, financial reporting fraud, misappropriation of assets, or identity theft. External fraud is the civil or criminal activity carried out by customers, contractors or third parties (excluding cyber-attacks) Examples of such type of fraud include: collusion, fraud, misuse of position, misappropriation of assets and identity theft.

- Infrastructure risk, which may arise from reduced or non-availability of any aspect of a fully functioning business environment including: corporate facilities, physical assets, human resources and/or technology, security, failures in licence management and insufficient software/application support. The Group has identified two sub-categories within this risk: i) physical safety, which refers to the risk of damage to non-IT physical assets, physical data, corporate facilities or human resources, and ii) business continuity, which is required if the Group experiences business disruption that may be experienced from reduced availability or non-availability of business activity due to issues related to facilities or human capital. System failures (hardware or software), disruption in telecommunication, power failure and other events impeding the normal day to day operations, can result in interrupted business and financial loss.

- Outsourcing and Oher Third Parties risk refers to the failure to establish and manage adequate outsourcing arrangements, transactions or other interactions to meet the expected or contracted quality of service with external parties such as independent brokers, fund managers insurers and other parties. This risk may have serious consequences such as business disruption and reputational impacts. Regulatory oversight of outsourcing arrangements has become more prominent, particularly since the institution is viewed as systemically important. This risk may also arise from internal parties, where the Group fails to establish and manage adequate outsourcing arrangements, transactions or other interactions with service providers within the Group, for example: failure to meet agreed quality of service levels, inadequate contracting, poor relationship governance, service provider failure. The Group's outsourcing policy provides guidelines in line with regulatory requirements, which amongst other things, defines responsibilities and what activities can be outsourced.

- People risk reflects the ability of the Group to manage the capacity and capability levels of one of its core assets: its employees. The Group assesses this risk in the context of recruitment of people with the right skill-set, development of its employees with the right training and behaviour, being able to retain key employees, as well as maintaining robust succession plans. It also includes remuneration considerations, such as having adequate structures and engagement levels that help align the conduct of employees with the risk and strategic objectives of the Group.

- Process risk, may arise from inadequate or failed business processes that deliver products and services in order to grow shareholder value. Inadequate or failed processes may relate to aggregation of data and reporting, inadequate or failed transaction processing (including delays as well as errors), governance or general process management, financial or risk modelling, product development, product introduction, mergers and acquisitions, and the execution risk of failure to deliver change programmes or key strategic and regulatory projects.

- Data and model risk arises from failure in a process designed to ensure data entry impacting the ability of the management to meet data standards (data governance) and from failures in the maintenance of, and lack of assurance of the accuracy and consistency of the data over its life-cycle (data integrity). Additionally, data used in modelling and the governance of models presents concurrent risks related to the integrity of model construction, validation and oversight.

  Data and model governance management has increased in importance and the Group is aware that inappropriate data and model governance management can have serious consequences, potentially leading to dissatisfied customers, loss of business opportunities, financial losses, reputational damage and legal/regulatory fines.

- Project execution risk arises from failure in delivering significant processes (mostly regulatory related). This risk has gained significant importance during the past few years, in light of the rapidly changing regulatory and structural environment in recent years, where financial institutions have been obliged to make wholesale changes to strategies, processes, systems, reporting, and even the way they choose to select and maintain relationships with customers.

Operational risk management and internal controls

The operational risk team is responsible for coordinating the review of the risk register following each RCSA exercise. The risk themes mentioned above are also used for ICAAP purposes where a scenario is assigned to each operational risk category. The operational risk team ensures that each scenario corresponds to plausible risk event or issue the Group could expect to face in a stressed environment. The methodology used for the calculation of the internal capital add-on for operational risk is described in the section on operational risk measurement and assessment.

The primary responsibility for the development and implementation of controls to address operational risks is assigned to senior management within each business unit. This responsibility is supported by the development of overall Group standards for the management of operational risk in the following areas:

- Requirements for appropriate segregation of duties, including the independent authorisation of transactions;
- Requirements for the reconciliation and monitoring of transactions;
- Compliance with regulatory and other legal requirements;
- Documentation of controls and procedures;
- Requirements for the periodic assessment of operational risks faced and the adequacy of controls and procedures to address the risks identified;
- Requirements for the reporting of operational losses and proposed remedial action;
- Development of contingency plans;
- Training and professional development; and
- Risk mitigation, including insurance where this is effective.

Operational risk measurement and assessment ('RCSA')

The results of the RCSA analysis are also used to measure and assess the various risks and their corresponding internal controls. The RCSAs are often presented as matrices of operational risks by business unit i.e. heat maps indicating where the greatest areas of operational risk lie at a given point in time. The RCSA results and documentation are leveraged for creating KRIs and developing narratives for scenario analysis e.g. when coordinating the Group's ICAAP regulatory deliverable. This process facilitates the prioritisation of risks, based on the likelihood of the risk materialising and the potential impact.

Compliance with the Group's standards is supported by a programme of periodic reviews undertaken by Internal Audit. The results of Internal Audit reviews are discussed with the management of the business unit to which they relate, with summaries submitted to the Audit Committees and Senior Management of the Subsidiary.

Operational risk control testing

Operational risk controls testing focuses on key controls identified through the operational risk assessment process to assess effectiveness of controls which materially mitigate inherent operational risks and remediation of the controls which are deemed to be operating ineffectively.

Control testing focuses on:

- The use of a risk-based approach;
- Prioritisation of material inherent operational risks and controls over less material ones;
- Documentation of roles and responsibilities for designing, implementing and monitoring controls; and
- Linkages for material risk controls and business recovery planning and disaster recovery processes.

Control testing responsibilities fall dually within the remit of the risk owner (i.e. first line of defence) and the operational risk function (second line of defence). Following the periodic RCSA process, controls assigned to the highest inherent risks are prioritised when testing activity occurs. Controls assigned to less material risks are reviewed and tested on a thematic basis.

Operational risk monitoring and reporting

Measurement and monitoring of operational risks are key to assessing how much the Group could lose in terms of both the income statement and capital cost due to operational risk losses at various levels of certainty.

The Group has in place a number of quantitative risk appetite limits to monitor operational risk:

- Significant operational losses;
- Fraud related incidents and losses;
- Outsourcing risk and SLA breaches;
- Staff attrition rates;
- Status of critical projects overdue; and
- Critical system and single incident down time.

These limits are further supported by a number of KRIs that are used to provide a basis for estimating the loss corresponding to an operational risk or estimate the current level of operational risk exposure.

The actual performance against risk appetite limits and KRIs is tracked on a daily, weekly and monthly basis, and disclosed in the weekly and monthly Group risk management reports.

2.2.7 IT and information security risk

The Group's definition of IT and Information Security Risk aligns to the EBA guidelines on ICT and Security Risk Management (EBA/GL/2019/04). IT and Information Security Risk is defined as the loss due to breach of confidentiality, failure of integrity of systems and data, inappropriateness or unavailability of systems and data or inability to change IT within a reasonable time and costs when the environment or business requirements change. This includes security risks resulting from inadequate or failed internal processes or external events including cyber-attacks or inadequate physical security.

The Group acknowledges its obligation to protect the data, security and privacy of its customers. Any breach due to misconfigured, weak and/or poorly managed security systems may cause serious reputational consequences.

The Group's risk appetite towards information security risk covers the processes and methodologies designed and implemented to protect information of all types, including electronic, or any other form of confidential, private and sensitive information or data from unauthorised access use, misuse, destruction, modification, or disruption.

The quantitative IT and information security risk metrics, which the Group is willing to commit to limiting its appetite to, are the following:

- Significant cyber security incident;
- Outstanding core access rights reviews;
- Malware detection on infrastructure and DDOS attempt identification;
- Data leakage and data protection breaches; and
- Overdue Critical findings resulting from penetration testing exercises

There is a probability that the Group experiences reduced availability or non-availability due to technological issues, which can emanate from issues relating to systems supporting core activities/processes of the business, which could fail or otherwise negatively impact business continuity and scalability required to support the growth and changing needs of the business, or issues resulting from cyber-attacks.

Cyber risk is an increasing risk for banks and the Group has identified cyber-security as one of the material inherent risks facing the Group. The Group remains highly vigilant of cyber risk trends and technologies. The Group is obliged by law to protect the data of its customers, systems and infrastructure impacts, any breach due to inappropriate security systems might result in significant fines as well as major reputational consequences.

The Group has deployed a number of internal controls based on information security best practices to reduce technology risk across all layers, of which internal policies and qualitative risk appetite limits. Since May 2017, the Group is also required to report significant cyber incidents to the ECB.

2.2.8 Financial crime compliance risk

Financial crime compliance risk arises due to risk of financial costs and reputational damage associated with non-compliance with internal policies, procedures and code of business, as well as consequences from non-compliance with specific local or international rules, regulations, prescribed practices or ethical standards.

The Group has identified three sub-categories for financial crime compliance risk:

- Money laundering and sanctions risk which may arise from a number of sources, such as failure to detect and monitor Politically Exposed Person ("PEP") relationships; inadequate customer due diligence processes both at on-boarding and during the lifetime of the relationship; and lack of AML awareness in staff leading to negligence or failure to escalate suspicious incidents to the necessary regulatory bodies.

- Bribery and corruption risk, which may arise from the Group being used to process bribes funding or from Group officials being bribed into accepting illicit activity. The Group treats such acts as serious in nature and it ensures that staff are abiding by internal policies established to manage this specific risk.

- Market abuse: this risk arises from certain behaviour, such as "insider dealing" and market manipulation, which are considered to be abusive and harmful to market behaviour and are therefore deemed to be unlawful. Market Abuse is subject to the EU Market Abuse Regulation and firms are subject to various relevant obligations, such as the reporting of suspicious transactions through "Suspicious Transaction and Order Reporting" (STOR)

The Group has measures in place to monitor financial crime compliance risk, including various internal policies that are specific for sub-categories within this risk, namely: i) the anti-money laundering policy; ii) sanctions policy; iii) customer risk assessment policy; iv) records retention policy; v) client acceptance policy; and vi) anti-bribery and corruption policy.

As third line of defence, the Internal Audit function also carries out audit reviews on a regular basis, in line with the annual Internal Audit Plan.

Regulatory Compliance Risk

Apart from Financial Crime Compliance Risk, the Group also faces Regulatory Compliance Risk that needs to monitor. The Group has identified three sub-categories for regulatory compliance risk:

- Conduct risk; which is the risk that the conduct, acts or omissions of the Group, or employees and officers of the Group, will deliver poor or unfair outcomes for customers and/or adversely affect market integrity. Legislation such as MiFID II and various local conduct of business guidelines impose obligations on the Group in this context.

- Conflicts of interest: arise where the personal interests of a staff member or officer of the Group conflict with the interests of the Group, or where the interests of the Group conflict with those of its customer. If unmanaged, conflicts of interests can lead to poor outcomes for the Group and customers. Various regulations, including MiFID II, impose specific requirements on the identification and management of conflicts of interest.

- Client assets and client money risk, which is the risk of not adequately segregating client assets and client money, as well as failures in client money reconciliations. Current regulation, namely MiFID II, already contains high-level obligations requiring firms to have adequate arrangements in place to safeguard clients' rights in a situation where the firm holds financial instruments or funds belonging to the clients.

As part of the Group's risk appetite, the Group keeps track of all the regulatory deadlines and submissions, in order to prevent supervisory fines, sanctions, penalties and other restrictions that may be imposed by the regulator. The Group also acknowledges that inability or failure to meet regulatory deadlines or misinterpretation of new and updates in regulation, as well as association with AML and financial crime, may result in major repercussions on the reputation of the Group.

2.2.9 Regulatory risk

Regulatory Risk is the risk of both regulatory actions and reputational damage associated with non-compliance with regulatory obligations and requirements, as well as consequences from non-compliance with specific local or international rules, regulations, laws or standards. It has been observed across international financial markets that adherence to the complex and ever increasing obligations of various regulators is a significant challenge and non-compliance can have significant financial and reputational consequences.

The Group will not tolerate systemic failures to comply with the relevant laws, regulations and codes of conduct applicable to its business activities.

A total of three sub-categories of regulatory risk were identified:

- *Regulatory change risk* that may result from delayed implementation of a new regulation or misinterpretation of the requirements of a new regulation or an update to existing regulation.

- *Regulatory reporting risk*, which arises from failing to meet regulatory reporting requirements and deadlines. Reporting requirements are becoming more extensive, more frequent, and more complex, with regulators demanding more timely and accurate reporting.

- *Regulatory engagement risk,* which includes the lack of communication with the supervisor and regulatory bodies, inconsistencies in the submission of necessary information addressing regulatory requests, erroneous or inappropriate submission of data and documentation, and failure to meet regulatory deadlines.

The Group has established a Regulatory Oversight Steering Working Group to ensure changes to regulations are captured, reviewed and embedded within the Group's policies and processes. The purpose of this steering group is to oversee all regulatory compliance matters that may apply to Group as well as to the Group's external environment, thereby ensuring that all regulatory obligations are appropriately assessed. The Steering Working Group escalates material regulatory matters to the Group EXCO, whenever required.

2.2.10 Reputational risk

Reputational risk is the risk of loss resulting from damages to a firm's reputation, in lost revenue; increased operating, capital or regulatory costs; or destruction of shareholder value, consequent to an adverse or potentially criminal event even if the Group is not found guilty.

The Group does not knowingly conduct business or organise its operations to put its reputation at risk. The Group seeks to mitigate these risks by primarily avoiding activities that inherently attract higher risk of reputational damage.

The main three sub-categories for reputational risk are the following:

- Customer reputational risk;
- Firm specific reputational risk; and
- Market and industry reputational risk.

The Group also has internal policies in place listing permitted actions and consequences for failure to comply with these internal standards.

The Group's reputational risk management framework is based on four main pillars: i) a chapter within the Operational risk policy that outlines the principles, classification, assessment and risk drivers; ii) scenario assessment that is mainly driven by scenario workshops, RCSAs or other Bank events (lessons learnt); iii) monitoring of a number of KRIs involving social media diagnostics and account notice figures; and iv) promoting a Group-wide risk culture and increase risk awareness.

The Group also safeguards its reputation when considering launching new products (which are reviewed thoroughly in the OpsCo) and governed by the Product Approval Policy.

Reputational risk may also arise from external dependencies such as external service providers. The Group has an outsourcing policy to help it manage and mitigate the risk arising from these activities, as well as the Group FX Risk policy and the Group Risk Appetite Statement listing approved counterparties and associated limits.

2.3 Risk statement

The Board is committed to set the tone from above by instilling a risk-aware culture across the Group where everyone is aware of the different risks that the Group faces as well as the risk management processes that should be embedded in key decision-making.

A change in senior management took place in August 2019. The new senior management is focused to reduce the complexity and to orient the Group towards profitable growth. In order to do this the Group has launched a transformation programme during Q4 2019. Against this context, new management and the Board have defined a more focused strategy to build an integrated, less operationally complex bank. The vision is to leverage a best-in-class operating centre in Malta, with a differentiated retail digital value proposition and continued strong risk management expertise to generate sustainable income in a prudent manner.

Concurrently, the Group will restructure its balance sheet by exiting or reducing exposure to higher-risk products to a more diversified level. The Group aims to develop other asset-classes and further diversify its business model, leading to more sustainable income and financial stability

In doing this, the Board is aware that it faces a heightened level of strategy execution risk, however the Board believes that the risk management process includes adequate policies, procedures, risk limits and risk controls that ensure timely and continuous identification, measurement and assessment, management, monitoring and reporting of these risks at the business line, consolidated and sub-consolidated levels.

One of the strategic focus for the Group during 2019 was to re-balance the credit portfolio to a mix of Dutch Mortgages, international corporate leveraged loans and revolving credit facilities (‘RCFs’), complemented by high-credit quality AAA-CLO instruments.

CLO Business

During the financial period ending December 2019, the Group has successfully launched and closed a collateral loan obligation (‘CLO’). This primary purpose of the CLO was to achieve significant risk transfer from its international corporate leveraged loan portfolio. The Group has two products types related to CLOs, namely:

- CLOs issued and managed by MDB (“CLO Issuance”)
- MDB investments in CLOs managed by other institutions (“3rd party CLOs”)

Dutch Mortgages Portfolio

During the period ending 31 December 2019, MeDirect Belgium started investing in Dutch national mortgage guarantee scheme (NHG), as a first step to diversify the Group credit portfolio and expand its presence into the Benelux region. MeDirect Belgium entered into the residential Dutch mortgage market through the purchasing of the receivables of newly originated Dutch mortgage loans through HollandWoont B.V., a multi investor mortgage platform and a subsidiary of Dutch Mortgage Portfolio Management BV (DMPM) (‘Lender of Record’), which is part of Blauwtrust Groep (BTG). BTG is a well–established provider of services to the Dutch Mortgage market and is best known under the name of its servicing subsidiary Quion.

Detailed information on the credit portfolio is found in section 2.2 – Information on risk management, objectives and policies by category of risks. Moreover, the Group’s Securitisation Investments portfolio is also detailed in section 11 – Securitisation.

COVID-19 outbreak

The outbreak of COVID-19 in 2020 has had, and continues to have, a material impact on businesses around the world and the economic environments in which they operate. We have a comprehensive risk management framework through which we are managing the impacts of the outbreak upon our business, customers and staff. Business continuity plans have been enacted across our locations. We continue to plan and manage the impact of extraordinary public health measures on our operations (e.g. travel restrictions) and as a result most of The Group’s employees are working from home. Also to date, no major impacts to supply chain have been experienced.

As better information emerges on the impact of COVID-19 on the credit conditions of loan portfolios, credit risk evaluations will be modified accordingly. We will continue to monitor the credit risk within our business and take the appropriate course of mitigating actions that help support our business and customers. Refer to not 2.1.8 for an overview of the implications of the COVID-19 outbreak on the projected financial results and capital ratios of the Group.

3 Scope of application of the regulatory framework

The accounting framework used in preparing the consolidation of the Group's financial statements is IFRS as adopted by the EU, whereas the prudential consolidation in the statement of capital is based on CRR 575/2013. However consolidation under prudential requirements does not differ from consolidation under the accounting standards. The tables hereunder provide a breakdown of the relationship between the different categories of the financial statements and the risk categories in accordance with prudential requirements.

EU LI1 – Differences between accounting and regulatory scopes of consolidation and the mapping of financial statement categories with regulatory risk categories

Carrying amount of items	Carrying amount as reported in published financial statements €000	Carrying amount under scope of regulatory consolidation €000	Subject to the credit risk framework €000	Subject to the CCR framework €000	Subject to the securitisation framework €000	Subject to the market risk framework €000	Not subject to capital requirements or subject to deduction from capital €000
ASSETS							
Balances with central banks and cash	241,726	241,726	241,726				
Derivative financial instruments	2,020	2,020	-	2,020			
Loans and advances to financial institutions	223,505	223,505	219,444	4,061			
Loans and advances to customers	1,359,377	1,359,377	1,359,377				
Investments							
- Treasury portfolio	930,491	930,491	930,491				
- Securitisation portfolio	253,626	253,626	-		253,626		
Property and equipment	12,443	12,443	12,443				
Intangible assets	16,928	16,928	-				16,928
Non-current assets classified as held for sale	1,785	1,785	1,785				
Current tax assets	3,091	3,091	3,091				
Deferred tax assets	25,705	25,705	11,050				14,655
Prepayments and accrued income	15,979	15,979	15,979				
Other assets	50,200	50,200	49,779				421
Total assets	**3,136,876**	**3,136,876**	**2,845,165**	**6,081**	**253,626**	**-**	**32,004**
EQUITY							
Called up issued share capital	55,738	55,738					55,738
Share premium	13,756	13,756					13,756
Shareholders' contributions	136,300	136,300					136,300
Reserve for general banking risks	3,357	3,357					3,357
Other reserves	(4,005)	(4,005)					(4,005)
Retained earnings	127,113	127,113					127,113
Total equity	**332,259**	**332,259**					**332,259**
LIABILITIES							
Derivative financial instruments	4,182	4,182		4,182			-
Amounts owed to financial institutions	224,012	224,012					224,012
Amounts owed to customers	2,439,126	2,439,126					2,439,126
Subordinated liabilities	54,820	54,820					54,820
Current tax liabilities	276	276					276
Deferred tax liabilities	199	199					199

Provisions for liabilities and other charges	4,528	4,528					4,528
Accruals and deferred income	40,926	40,926					40,926
Other liabilities	36,548	36,548					36,548
Total liabilities	**2,804,617**	**2,804,617**		**4,182**			**2,800,435**
Total equity and liabilities	**3,136,876**	**3,136,876**	**-**	**4,182**	**-**	**-**	**3,132,694**

EU LI2 – Main sources of differences between regulatory exposure amounts and carrying values in financial statements

			Items subject to			
		Total	**Credit risk framework**	**CCR Framework**	**Securitisation Framework**	**Market Risk Framework**
		€000	**€000**	**€000**	**€000**	**€000**
1	**Assets carrying amount under the scope of regulatory consolidation**	**3,104,872**	2,845,165	6,081	253,626	-
2	**Liabilities carrying value amount under the regulatory scope of consolidation**	**-**	-	-	-	-
3	**Total net amount under the regulatory scope of consolidation**	**3,104,872**	2,845,165	6,081	253,626	-
4	**Off-balance-sheet amounts**	**833,932**	831,202	2,730	-	-
5	**Differences in valuations**					
6	**Differences due to expected credit losses**	**4,640**	4,640			
7	**Differences due to credit risk mitigation techniques**	**-3,984**	0	-3,984		
8	**Differences due to credit conversion factors**	**-527,998**	-527,998			
9	**Other differences**	**-4,050**	-4,050			
19	**Exposure amounts considered for regulatory purposes**	**3,407,412**	3,148,959	4,827	253,626	-

The following table provides an overview of the accounting and regulatory consolidation methods for each entity within the Group. Any company or associate that cannot be consolidated based on their business activities are accounted for using the equity method. Further information on the Group's equity accounted investees and subsidiaries can be found in note xx and xx to the Financial Statements, respectively.

EU LI3 – Outline of the differences in the scopes of consolidation (entity by entity).

Name of the entity	Method of accounting consolidation	Method of regulatory consolidation	Description of the entity
MDB Group Limited	Full consolidation	Full consolidation	Holding company
MeDirect Bank (Malta) plc	Full consolidation	Full consolidation	Credit institution
MeDirect Bank SA	Full consolidation	Full consolidation	Credit institution
Grand Harbour I B.V.	Full consolidation	Full consolidation	Special purpose entity
Medifin Estates	Full consolidation	Full consolidation	Property leasing entity

EU LIA - Explanations of differences between accounting and regulatory exposure amounts:

- Off-balance sheet amounts and potential future exposure for counterparty risk

Off-balance sheet amounts subject to credit risk and securitisation regulatory frameworks include undrawn portions of committed facilities, various trade finance commitments and guarantees. A credit conversion factor ('CCF') is applied to these items and potential future exposures ('PFE') are added for counterparty credit risk.

- Differences due to expected credit losses

The carrying value of assets is net of credit risk adjustments, while the regulatory exposure value is net of credit risk adjustments after application of IFRS 9 transitional provisions.

- Differences due to credit risk mitigation

Exposure value under the standardised approach is calculated after deducting credit risk mitigation whereas accounting value is before such deductions.

4 Credit risk and credit risk mitigation ("CRM")

The Group Risk Appetite Statement and internal policies governing the treasury and the lending portfolios, include a list of permitted asset classes, countries and currencies, whilst a high degree of diversification is implemented through single issuer, industry and geography concentration limits.

4.1 Credit risk exposure – analysis by exposure class

The following table shows the net exposure values as at 31 December 2019 by exposure classes and the average net exposure value over the period, based on the values at each quarter end of the observation period.

EU CRB-B: Total and average net amount of exposures

	Net value of exposures at end of period[4] €000	**Average net exposures over the period €000**
15 **Total IRB approach**	**-**	**-**
16 Central governments or central banks	275,378	360,309
17 Regional governments or local authorities	111,071	67,633
18 Public sector entities	131,521	122,516
19 Multilateral development banks	90,005	99,631
20 International organisations	49,109	35,020
21 Institutions	249,441	163,053
22 Corporates	1,570,844	1,793,537
23 of which SMEs	-	-
24 Retail	62,247	42,172
25 of which SMEs	-	-
26 Secured by mortgages on immovable property	431,478	196,921
27 of which SMEs	-	-
28 Exposures in default	109,735	105,652
29 Items associated with particular high risk	59,246	65,254
30 Covered bonds	520,660	430,899
33 Equity exposure	-	-
34 Other items	20,055	21,048
35 **Total standardised approach**	3,680,790	3,503,645
36 **Total**	**3,680,790**	**3,503,645**

Note: Securitisation positions are not included in this table.

[4] **Net value of exposures**: For on-balance-sheet items, the net value is the gross carrying value of the exposure less allowances/impairments. For off-balance-sheet items, the net value is the gross carrying value of exposure less provisions.

4.2 Credit risk exposure – analysis by geographical distribution

The following table shows the distribution of the exposures (net values of on-balance sheet and off balance sheet balances) as at 31 December 2019 by geographical distribution broken down by exposure classes.

EU CRB-C: Geographical breakdown of exposures

		Net value of exposures									
		Malta €000	**Belgium €000**	**United Kingdom €000**	**Germany €000**	**Italy €000**	**France €000**	**Netherlands €000**	**United States €000**	**Other countries €000**	**Total €000**
6	**Total IRB approach**	-	-	-	-	-	-	-	-	-	-
7	Central government or central banks	46,415	209,198	-	-	19,765	-	-	-	-	**275,378**
8	Regional governments or local authorities	-	-	-	111,071	-	-	-	-	-	**111,071**
9	Public sector entities	-	-	-	-	-	127,495	-	-	4,026	**131,521**
10	Multilateral development banks	-	-	-	-	-	-	-	-	90,005	**90,005**
11	International organisations	-	-	-	-	-	-	-	-	49,109	**49,109**
12	Institutions	847	49,760	77,203	1,026	4	3,786	64,707	44,103	8,005	**249,441**
13	Corporates	1,228	-	416,871	144,735	164,537	249,790	101,689	194,290	2,97,702	**1,570,842**
14	Retail	10,094	-	200	-	-	-	51,953	-	-	**62,247**
15	Secured by mortgages on immovable property	66,209	-	-	-	-	-	365,218	-	50	**431,477**
16	Exposures in default	9,867	-	28,851	21,890	1,336	-	47,791	-	-	**109,735**
17	Items associated with particular high risk	59,246	-	-	-	-	-	-	-	-	**59,246**
18	Covered bonds	-	-	140,395	82,160	17,386	34,119	44,663	-	201,937	**520,660**
22	Other items	19,889	-	-	-	-	-	166	-	-	**20,055**
23	**Total standardised approach**	**213,795**	**258,958**	**663,520**	**360,882**	**203,028**	**415,190**	**676,187**	**238,393**	**650,834**	**3,680,787**
24	**Total**	**213,795**	**258,958**	**663,520**	**360,882**	**203,028**	**415,190**	**676,187**	**238,393**	**650,834**	**3,680,787**

Notes: - *Securitisation positions are not included in this table.*
- The materiality of countries to be disclosed is based on a threshold of 5% of total exposure value under the standardised approach.
- Other countries account for circa 18% of the total net exposure value and comprise of 15 countries, the main ones being Luxembourg, Sweden and Austria.

4.3 Credit risk exposure – analysis by industry distribution

The following table shows the distribution of the exposures (net values of on-balance sheet and off balance sheet balances) as at 31 December 2019 by industry broken down by exposure classes.

EU CRB-D: Concentration of exposures by industry

		Net value of exposures							
		Manufacturing €000	**Financial and insurance activities €000**	**Construction €000**	**Professional, scientific and technical activities €000**	**Information and communication €000**	**Wholesale and retail trade €000**	**Others €000**	**Total €000**
6	**Total IRB approach**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
7	Central government or central banks	-	241,723	-	-	-	-	33,655	**275,378**
8	Regional governments or local authorities	-	-	-	-	-	-	111,071	**111,071**
9	Public sector entities	-	24,164	-	-	-	-	107,357	**131,521**
10	Multilateral development banks	-	90,005	-	-	-	-	-	**90,005**
11	International organisations	-	-	-	-	-	-	49,109	**49,109**
12	Institutions	-	249,441	-	-	-	-	-	**249,441**
13	Corporates	211,206	982,260	9,965	64,363	107,716	15,829	179,503	**1,570,842**
14	Retail	-	610	350	997	-	41	60,249	**62,247**
15	Secured by mortgages on immovable property	128	8,182	8,202	6,009	-	5,698	403,258	**431,477**
16	Exposures in default	-	59,872	24,176	14,112	-	11,219	356	**109,735**
17	Items associated with particular high risk	-	1,270	30,855	-	-	-	27,121	**59,246**
18	Covered bonds	-	520,660	-	-	-	-	-	**520,660**
22	Other items	-	166	-	-	-	-	19,889	**20,055**
23	**Total standardised approach**	211,334	2,178,353	73,548	85,481	107,716	32,787	991,568	**3,680,787**
24	**Total**	**211,334**	**2,178,353**	**73,548**	**85,481**	**107,716**	**32,787**	**991,568**	**3,680,787**

Note: Securitisation positions are not included in this table.

4.4 Credit risk exposure – analysis by residual maturity

The following table shows the distribution of the exposures (net values of on-balance sheet balances) as at 31 December 2019 by residual maturity broken down by exposure classes.

EU CRB-E: Maturity of Exposures

	Net value of exposures					
	On demand €000	**Less than or equal to one year €000**	**Over one but less than or equal to five years €000**	**Over 5 years €000**	**No stated maturity €000**	**Total €000**
6 **Total IRB approach**	-	-	-	-	-	-
7 Central government or central banks	241,723	229	24,479	-	8,947	**275,378**
8 Regional governments or local authorities	-	15,028	45,784	50,259	-	**111,071**
9 Public sector entities	-	76,203	55,318	-	-	**131,521**
10 Multilateral development banks	-	59,115	30,890	-	-	**90,005**
11 International organisations	-	27,916	-	21,193	-	**49,109**
12 Institutions	241,007	1,147	-	1,070	2,915	**246,139**
13 Corporates	21,968	172,131	893,266	859	-	**1,088,224**
14 Retail	236	4,147	13,707	34,509	-	**52,599**
15 Secured by mortgages on immovable property	3,265	30,052	101,546	280,000	-	**414,863**
16 Exposures in default	6,969	28,213	66,286	53	-	**101,521**
17 Items associated with particular high risk	903	3,530	23,957	366	-	**28,756**
18 Covered bonds	-	229,096	199,138	92,426	-	**520,660**
22 Other exposures	169	3,249	1,785	-	14,851	**20,054**
23 **Total standardised approach**	516,240	650,056	1,456,156	480,735	26,713	**3,129,900**
24 **Total**	516,240	650,056	1,456,156	480,735	26,713	**3,129,900**

Note: Securitisation positions are not included in this table.

4.5 Credit quality analysis

The following tables provide a comprehensive picture of the credit quality of the Group's assets by exposure class as at 31 December 2019 in line with EBA guidelines on disclosures, by exposure class, industry and geography.

EU CR1-A: Credit quality of exposures by exposure class and instrument

	Gross carrying values[5] of					
	Defaulted exposures €000	**Non-defaulted exposures €000**	**Specific credit risk adjustments €000**	**Accumulated write offs €000**	**Credit risk adjustment charges of the period €000**	**Net values[6] €000**
15 **Total IRB approach**	-	-	-	-	-	-
16 Central governments or central banks	-	275,408	30	-	29	275,378
17 Regional governments or local authorities	-	111,090	19	-	14	111,071
18 Pubic sector entities	-	131,531	10	-	(7)	131,521
19 Multilateral development banks	-	90,007	2	-	(6)	90,005
20 International organisations	-	49,111	2	-	(0)	49,109
21 Institution	-	249,441	0	-	(1)	249,441
22 Corporates	-	1,575,504	4,660	-	(3,794)	1,570,844
23 of which SMEs	-	-	-	-	-	-
24 Retail	-	62,255	8	-	3	62,247
25 of which SMEs	-	-	-	-	-	-
26 Secured by mortgages on immovable property	-	431,564	89	-	(10)	431,475
27 of which SMEs	-	-	-	-	-	-
28 Exposures in default	122,924	-	13,189	1,000	3,990	109,735
29 Items associated with particular high risk	1,174	58,136	64	-	(250)	59,246
30 Covered bonds	-	520,673	13	-	(11)	520,660
34 Other exposures	-	20,055	-	-	-	20,055
35 **Total standardised approach**	124,098	3,574,775	18,086	1,000	(43)	3,680,787
36 **Total**	**124,098**	**3,574,775**	**18,086**	**1,000**	**(43)**	**3,680,787**
37 of which: Loans and advances	-	-	-	1,000	(43)	-
38 of which: Debt securities	-	-	-			-
39 of which: Off-balance-sheet exposures		-				-

Note: Securitisation positions are not included in this table.

In December 2018, the EBA published its Final Report for Guidelines on disclosure of non-performing and forborne exposures (EBA/GL/2018/10). Such guidelines were issued as part of the Action Plan made in summer of 2017 by the Council of the EU, whereby it was concluded that the EBA has to issue guidelines consistent with the ECB's 'Guidance to banks on non-performing loans' issued in March 2017, and indeed these disclosures are meant to address the key disclosure recommendations as provided for in Appendix 7 of ECB Guidance. The relevant disclosures can be found below, in the current section and in section 4.6.

[5] **Gross carrying values**: This represents the accounting value before any allowance/impairments but after considering write-offs. Moreover, this amount does not take into account any credit risk mitigation technique in the application of Part Three, Title II, Chapter 4 of the CRR. Off-balance-sheet items are disclosed for their nominal amount gross of any credit conversion factor applicable in accordance with Article 111 and 166 of the CRR or credit risk mitigation techniques, and gross of any provision. Moreover, any accrued interest emanating from the exposure is included as part of the gross carrying value.

[6] **Net values** is the summation of the gross carrying values of defaulted and non-defaulted exposures, less any specific credit risk adjustments. The Group does not account for any general credit risk adjustments.

EBA/GL/2018/10 also replace templates EU CR1-D – Ageing of past-due exposures and EU CR1-E – Non-performing and forborne exposures that were issued in the Guidelines on disclosure requirements under Part Eight of Regulation (EU) No 575/2013 (EBA/GL/2016/11) and should be applied from 31 December 2019.

In view of the requirements in the ECB report and the new guidelines in EBA/GL/2018/10, as at 31 March 2019 the Group early-adopted the new guidelines in the EBA's Final Report for Guidelines on disclosure of non-performing and forborne exposures. All tables disclosed in this Pillar 3 disclosures report emanating from this guideline have been initialled as 'EBA-NPL'.

In this respect, the Group's NPL ratio as at 31 December 2019 amounted to 6.28%. In line with the EBA Guidelines on management of non-performing and forborne exposures (EBA/GL/2018/06), following the Group's NPL ratio exceeding 5%, the Group has developed and is implementing an NPE action plan, which was formally discussed and approved at Board level. Management is providing an update to the Board on the level of NPEs on an ongoing basis.

The increase in the NPL ratio was mainly driven by a limited number of NPEs which consist of single name concentrations. Following the Group's change in strategy and transformation programme, the Group is moving to a stronger credit profile following the reduction of its exposure to leveraged corporate lending and increasing its exposure to Dutch State-guaranteed residential mortgages, where NPEs are expected to be considerably lower.

A number of NPEs had been expected to cure during 2020, thus reducing the NPL ratio. However, the impacts of the COVID-19 outbreak are expected to lead to potential new cases of NPEs, the extent of which will depend upon the severity of the pandemic on the global economy and credit markets. The Group constantly monitors the quality of its loan portfolios in line with its credit policy.

In terms of Section 2.6 of the Guidance on non-performing loans issued by the ECB in March 2017, high NPL banks are required to disclose to the regulator its NPL strategy by submitting the first table provided in Appendix 7 of the same document.

The tables that follow are presented based on the EBA definitions of 'non-performing' and 'forborne' exposures.

EBA-NPL 5: Quality of non-performing exposures by geography

		Gross carrying[7]/nominal amount				Accumulated impairment	Provisions on off balance sheet commitments and financial guarantees given	Accumulated negative changes in fair value due to credit risk on non-performing exposures
			Of which non-performing		Of which subject to impairment			
				Of which defaulted				
		€000	€000	€000	€000	€000	€000	€000
1	**On balance sheet exposures**	**3,021,180**	**115,060**	**115,060**	**80,469**	**22,724**		**-**
2	Malta	139,500	10,122	10,122	7,615	342		-
3	Belgium	251,721	-	-	-	-		-
4	United Kingdom	573,551	33,491	33,491	23,545	7,610		
5	Germany	301,806	22,138	22,138	-	1,375		-
6	Italy	171,805	4,958	4,958	4,958	4,831		
7	France	344,499	-	-	-	1,388		-
8	Netherlands	306,772	44,351	44,351	44,351	4,717		-
9	United States	143,633	-	-	-	1,190		-
10	Other countries	787,893	-	-	-	1,271		-
11	**Off balance sheet exposures**	**831,216**	**8,182**	**8,182**	**-**		**2,112**	
12	Malta	57,560	-	-	-		-	
13	United Kingdom	74,234	-	-	-		205	
14	Germany	58,605	-	-	-		164	
15	Italy	36,200	-	-	-		32	
16	France	71,140	-	-	-		208	
17	Netherlands	342,448	8,182	8,182	-		391	
18	United States	95,277	-	-	-		557	
19	Other countries	95,752	-	-	-		555	
30	**Total**	**3,852,396**	**123,242**	**123,242**	**80,469**	**22,724**	**2,112**	**-**

The following table provides an overview of the credit quality of loans and advances to non-financial corporations by their respective industry as at 31 December 2019, as per the EBA Guidelines on disclosure of non-performing and forborne exposures.

[7] The gross carrying amount disclosed in tables referenced as 'EBA-NPL' is in line with paragraph 34 of Part 1 of Annex V to Commission Implementing Regulation (EU) No 680/2014, which is defined as the amount to be reported in the asset side of the balance sheet. The carrying amount of financial assets shall include accrued interest.

EBA-NPL 6: Credit quality of loans and advances to non-financial corporations by industry

		Gross carrying amount				Accumulated impairment	Accumulated negative changes in fair value due to credit risk on non-performing exposures
			Of which non-performing		Of which loans and advances subject to impairment		
				Of which defaulted			
		€000	€000	€000	€000	€000	€000
1	Manufacturing	177,104	-	-	177,104	1,358	-
2	Construction	48,107	24,599	24,599	48,107	421	-
3	Professional, scientific and technical activities	81,639	17,555	17,555	81,639	3,798	-
4	Information and communication	96,813	-	-	96,813	1,188	-
5	Wholesale and retail trade	33,510	16,359	16,359	33,510	5,271	-
6	Others	152,677	-	-	152,677	779	-
7	**Total**	**589,850**	**58,513**	**58,513**	**589,850**	**12,815**	**-**

The following table provides an overview of forborne exposures as at 31 December 2019 as per the EBA Guidelines on disclosure of non-performing and forborne exposures.

EBA-NPL 1: Credit quality of forborne exposures

		Gross carrying amount/nominal amount of exposures with forbearance measures				Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions		Collateral received and financial guarantees received on forborne exposures	
		Performing forborne	Non-performing forborne			On performing forborne exposures	On non-performing forborne exposures		Of which collateral and financial guarantees received or non-performing exposures with forbearance measures
				Of which defaulted	Of which impaired				
		€000	€000	€000	€000	€000	€000	€000	€000
1	Loans and advances	30,215	102,638	102,367	68,047	614	10,740	12,904	12,904
5	*Other financial corporations*	-	*44,215*	*44,215*	*27,022*	-	*1,820*	-	-
6	*Non-financial corporations*	*30,215*	*58,153*	*57,882*	*40,755*	*614*	*8,920*	*12,634*	*12,634*
7	*Households*	-	*270*	*270*	*270*	-	-	*270*	*270*
9	Loan commitments given	1,664	8,182	8,182	8,181	-	-	-	-
10	**Total**	**31,879**	**110,820**	**110,549**	**76,228**	**614**	**10,740**	**12,904**	**12,904**

The following table provides a split of those exposures classified as forborne exposures as at 31 December 2019 as per the EBA Guidelines on disclosure of non-performing and forborne exposures.

EBA-NPL 2: Quality of forbearance

		Gross carrying amount of forborne exposures €000
1	Loans and advances that have been forborne more than twice	271
2	Non-performing forborne loans and advances that failed to meet the non-performing exit criteria	102,638

4.6 Impairment loss measurement guidelines

The scope of the impairment loss measurement guidelines are to establish effective provisioning standards, internal controls, reporting requirements and approval processes that will govern the on-going monitoring of credit risk exposures inherent in the investment securities and loan and advances portfolios.

An exposure is "past due" when any amount of principal, interest or fee has not been paid at the date it was due. Past due but not impaired loans are those loans and advances for which contractual interest or principal payments are past due but the Group believes that impairment is not appropriate on the basis of the stage of collection of amounts owed to the Group.

In accordance with the policy, impaired investment securities and loans are either those that are more than 90 days past due, or those for which the Group establishes that it is unlikely that it will collect the full principal and/or interest due in accordance with the contractual terms of the underlying agreement(s).

However, as outlined previously where contractual interest or principal payments are past due, but the Group believes that impairment is not appropriate on the basis of the stage of collection of amounts owed to the Group, such facilities are considered as past due but not impaired loans. Related credit losses, which may arise, are partly covered by Stage 1 and Stage 2 credit loss allowances.

The following table provides an aging analysis of performing and non-performing exposures as at 31 December 2019, as per the EBA Guidelines on disclosure of non-performing and forborne exposures. The gross carrying values indicated is before impairments and provisions but after the write-offs reported in the MDB Group Limited Annual Report and financial statements for the financial period ended 31 December 2019.

EBA-NPL 3: Credit quality of performing and non-performing exposures by past due days

		Gross carrying amount/nominal amount		
		Performing exposures		
			Not past due or past due ≤ 30 days	Past due > 30 days ≤ 90 days
		€000	€000	€000
1	Loans and advances	1,715,833	1,715,833	-
2	*Central banks*	*241,723*	*241,723*	-
4	*Credit institutions*	*200,313*	*200,313*	-
5	*Other financial corporations*	*604,034*	*604,034*	-
6	*Non-financial corporations*	*531,337*	*531,337*	-
7	*Of which SMEs*	*14,402*	*14,402*	-
8	*Households*	*138,426*	*138,426*	-
9	Debt securities	1,190,286	1,190,286	-
11	*General governments*	*287,358*	*287,358*	-
12	*Credit institutions*	*635,901*	*635,901*	-
13	*Other financial corporations*	*254,629*	*254,629*	-
14	*Non-financial corporations*	*12,398*	*12,398*	-
15	Off balance sheet exposures	823,002	823,002	-
19	*Other financial corporations*	*386,509*	*386,509*	-
20	*Non-financial corporations*	*151,353*	*151,353*	-
21	*Households*	*285,140*	*285,140*	-
22	**Total**	**3,729,121**	**3,729,121**	**-**

		Gross carrying amount/nominal amount								
		Non-performing exposures								
		€000	Unlikely to pay that are not past due or past due ≤ 90 days €000	Past due > 90 days ≤ 180 days €000	Past due > 180 days ≤ 1 year €000	Past due > 1 year ≤ 2 years €000	Past due > 2 years ≤ 5 years €000	Past due > 5 years ≤ 7 years €000	Past due > 7 years €000	Of which defaulted €000
1	Loans and advances	115,061	108,311	-	2	-	154	6,594	-	115,061
2	*Central banks*	-	-	-	-	-	-	-	-	-
4	*Credit institutions*	-	-	-	-	-	-	-	-	-
5	*Other financial corporations*	*56,223*	*56,223*	-	-	-	-	-	-	*56,223*
6	*Non-financial corporations*	*58,513*	*51,797*	-	-	-	*122*	*6,594*	-	*58,513*
7	*Of which SMEs*	*7,290*	*574*	-	-	-	*122*	*6,594*	-	*7,290*
8	*Households*	*325*	*291*	-	*2*	-	*32*	-	-	*325*
9	Debt securities	-	-	-	-	-	-	-	-	-
11	*General governments*	-	-	-	-	-	-	-	-	-
12	*Credit institutions*	-	-	-	-	-	-	-	-	-
13	*Other financial corporations*	-	-	-	-	-	-	-	-	-
14	*Non-financial corporations*	-	-	-	-	-	-	-	-	-
15	Off balance sheet exposures	8,214								8,214
19	*Other financial corporations*	*8,182*								*8,182*
20	*Non-financial corporations*	*0*								*0*
21	*Households*	*32*								*32*
22	**Total**	**123,275**	**108,311**	**-**	**2**	**-**	**154**	**6,594**	**-**	**123,275**

Out of the €6.8 million past due more than 90 days stated in EBA-NPL 3 above, €6.7 million are considered as not impaired. As stated earlier, those exposures classified as past due but not impaired would be treated as such as although contractual interest or principal payments is past due, the Group believes that impairment is not appropriate on the basis of the stage of collection of amounts owed to the Group. However, related credit losses, which may arise, would be partly covered by Stage 1 and Stage 2 credit loss allowances.

As per the Article 111 of CRR, the exposure values of assets shall be their accounting values remaining after specific credit risk adjustments while any general credit risk adjustments are treated as part of Tier 2 capital. Regulation 183/2014 defines what should be treated as general or specific credit risk adjustments, which can result from impairments, value adjustments or other provisions.

Such adjustments shall be equal to all amounts by which the Common Equity Tier 1 capital has been reduced in order to reflect losses exclusively related to credit risk according to the applicable accounting framework and recognised as such in the income statement. Losses which are a result of current or past events affecting certain exposures and losses for which historical experience (on the basis of current observable data) indicates that the loss has occurred but it is not yet known which individual exposure suffered these losses, are treated as specific credit risk adjustments.

Amounts which are freely and fully available, as regards to timing and amount, to meet credit risk losses that have not yet materialised and amounts which reflect credit risk losses for a group of exposures for which there is currently no evidence that a loss event has occurred, are treated as general credit risk adjustments.

According to these definitions, the Group's specific and general impairment allowances as calculated under IFRS 9, are classified as specific credit risk adjustments and are deducted from the accounting values to determine the exposure amounts.

There are no other amounts apart from the impairment allowances that are classified as specific or general credit risk adjustments.

The following table provides an overview on the credit quality of performing and non-performing exposures according to their staging allocation as at 31 December 2019, as per the EBA Guidelines on disclosure of non-performing and forborne exposures.

EBA-NPL 4: Performing and non-performing exposures and related provisions

		Gross carrying amount/nominal amount					
		Performing exposures			Non-performing exposures		
			Of which stage 1	Of which stage 2		Of which stage 2	Of which stage 3
		€000	**€000**	**€000**	**€000**	**€000**	**€000**
1	Loans and advances	1,715,833	1,559,490	156,343	115,061	14,890	80,469
2	*Central banks*	*241,723*	*241,723*	-	-	-	-
4	*Credit institutions*	*200,313*	*200,313*	-	-	-	-
5	*Other financial corporations*	*604,034*	*506,801*	*97,233*	*56,223*	-	*39,028*
6	*Non-financial corporations*	*531,337*	*472,227*	*59,110*	*58,513*	*14,890*	*41,116*
7	*Of which SMEs*	*14,402*	*13,396*	*1,006*	*7,290*	-	*7,290*
8	*Households*	*138,426*	*138,426*	-	*325*	-	*324*
9	Debt securities	1,190,286	1,190,286	-	-	-	-
11	*General governments*	*287,358*	*287,358*	-	-	-	-
12	*Credit institutions*	*635,901*	*635,901*	-	-	-	-
13	*Other financial corporations*	*254,629*	*254,629*	-	-	-	-
14	*Non-financial corporations*	*12,398*	*12,398*	-	-	-	-
15	Off balance sheet exposures	823,002	767,326	55,676	8,214	-	8,214
19	*Other financial corporations*	*386,509*	*333,035*	*53,474*	*8,182*	-	*8,182*
20	*Non-financial corporations*	*151,353*	*149,151*	*2,202*	*0*	-	*0*
21	*Households*	*285,140*	*285,140*	-	*32*	-	*32*
22	**Total**	**3,729,121**	**3,517,102**	**212,019**	**123,275**	**14,890**	**88,683**

Note: The above table excludes non-performing exposures which are allocated to stage 1 – such exposures would be classified as non-performing but still part of stage 1 due to the non-performing exit criteria as required under EBA Final draft Implementing Technical Standards on Supervisory reporting on forbearance and non-performing exposures.

		Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions						Accumulated partial write-off	Collateral and financial guarantees received	
		Performing exposures – accumulated impairment and provisions			Non-performing exposures – accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions				On performing exposures	On non-performing exposures
			Of which stage 1	Of which stage 2		Of which stage 2	Of which stage 3			
		€000	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**
1	Loans and advances	(9,136)	(6,295)	(2,841)	(13,404)	(310)	(12,512)	-	197,502	10,032
2	*Central banks*	-	-	-	-	-	-	-	-	-
4	*Credit institutions*	-	-	-	-	-	-	-	-	-
5	*Other financial corporations*	*(5,220)*	*(3,367)*	*(1,853)*	*(4,484)*	-	*(3,930)*	-	*7,839*	-
6	*Non-financial corporations*	*(3,897)*	*(2,909)*	*(988)*	*(8,919)*	*(310)*	*(8,581)*	-	*66,215*	*9,709*
7	*Of which SMEs*	*(14)*	*(14)*	-	-	-	-	-	*14,316*	*7,230*
8	*Households*	*(19)*	*(19)*	-	*(1)*	-	*(1)*	-	*123,449*	*323*
9	Debt securities	(184)	(184)	-	-	-	-	-	-	-
11	*General governments*	*(126)*	*(126)*	-	-	-	-	-	-	-
12	*Credit institutions*	*(39)*	*(39)*	-	-	-	-	-	-	-
13	*Other financial corporations*	*(18)*	*(18)*	-	-	-	-	-	-	-
14	*Non-financial corporations*	*(1)*	*(1)*	-	-	-	-	-	-	-
15	Off balance sheet exposures	(1,834)	(1,488)	(346)	-	-	-	-	-	-
19	*Other financial corporations*	*(1,418)*	*(1,091)*	*(327)*	-	-	-	-	-	-
20	*Non-financial corporations*	*(404)*	*(385)*	*(19)*	-	-	-	-	-	-
21	*Households*	*(12)*	*(12)*	-	-	-	-	-	-	-
22	**Total**	**(11,154)**	**(7,967)**	**(3,187)**	**(13,404)**	**(310)**	**(12,512)**	**-**	**197,502**	**10,032**

The following table provides an analysis the change in stock of specific credit risk adjustment for the financial year ended 31 December 2019.

EU CR2–A: Changes in the stock of specific credit risk adjustments

	Accumulated specific credit risk adjustment €000	Accumulated general credit risk adjustment €000
1 Opening balance at 1 April 2019	18,127	-
2 Increases due to amounts set aside for estimated loan losses during the period	8,605	-
3 Decreases due to amounts reversed for estimated loan losses during the period	(8,688)	-
6 Impact of exchange rate differences	47	-
9 **Closing balance at 31 December 2019**	**18,091**	**-**
10 Recoveries on credit risk adjustments recorded directly to the statement of profit or loss	11	-
11 Specific credit risk adjustments recorded directly to the statement of profit or loss	1,000	-

The Group does not account for any general credit risk adjustments.

The Group's impaired and past due but not impaired loans and advances to customers were primarily concentrated in Europe.

There were no other adjustments including those determined by business combinations, acquisitions and disposals of subsidiaries, and transfers between credit risk adjustments.
The following tables provide an analysis of the changes in stock of defaulted loans and debt securities throughout the financial year. The gross carrying value is inclusive of accrued interest.

EU CR2–B: Changes in the stock of defaulted and impaired loans and debt securities

	Gross carrying value defaulted exposures €000
1 Opening balance at 1 April 2019	106,310
2 Loans and debt securities that have defaulted or impaired since the last reporting period	27,893
3 Returned to non-defaulted status	-
4 Amounts written off	(1,000)
5 Other changes	(9,104)
Closing balance at 31 December 2019	**124,099**

The increase in the loans and debt securities that have defaulted or impaired since the last reporting period is attributable to an increase in the impaired loans in the international lending portfolio.

EBA-NPL 8: Changes in the stock of non-performing loans and advances

		Gross carrying amount €000	**Related net accumulated recoveries €000**
1	Initial stock of non-performing loans and advances (1 April 2019)	106,310	
2	Inflows to non-performing portfolios	27,893	
3	Outflows from non-performing portfolios	(10,104)	
4	*Outflow to performing portfolio*	-	
5	*Outflow due to loan repayment, partial or total*	*(1,986)*	
8	*Outflow due to sale of instruments*	*(7,118)*	-
10	*Outflow due to write-off*	*(1,000)*	
13	**Final stock of non-performing loans and advances (31 December 2019)**	**124,099**	

4.7 Exposures with renegotiated terms and the Group's forbearance policy

The contractual terms of an exposure may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer. An existing loan whose terms have been modified would be derecognised in certain circumstances and the renegotiated loan recognised as a new loan at fair value.

Forbearance measures always aim to return the exposure to a situation of sustainable repayment. Forbearance measures consist of concessions towards a debtor facing or about to face difficulties in meeting its financial commitments ("financial difficulties").

The Group renegotiates loans to customers in financial difficulties (referred to as 'forbearance activities') typically as part of a syndicate lender group, to maximise collection opportunities and minimise the risk of default. Under the Group's forbearance policy, loan forbearance is granted on a selective basis if the debtor is currently in default on its debt or if there is a high risk of default, there is evidence that the debtor made all reasonable efforts to pay under the original contractual terms and the debtor is expected to be able to meet the revised terms.

A concession is defined in the EBA final draft Implementing Technical Standards (2014) and refers to either of the following actions:

- A modification of the previous terms and conditions of a contract which the debtor was considered unable to comply with due to its financial difficulties ("troubled debt") to allow for sufficient debt service ability, that would not have been granted had the debtor not been in financial difficulties; or

- A total or partial refinancing of a troubled debt contract, that would not have been granted had the debtor not been in financial difficulties.

The revised terms usually applied by the Group include extending the maturity, amending the terms of loan covenants and partial write-offs where there is reasonable financial evidence to demonstrate the borrower's inability to repay the loan in full. The Group's Credit Committees regularly review reports on forbearance activities.

The Group defines 'restructured exposures' as loans that have been restructured due to a deterioration in the borrower's financial position, for which the Group has made concessions by agreeing to terms and conditions that are more favourable for the borrower than the Group had provided initially and that it would not otherwise consider. A loan continues to be presented as part of loans with renegotiated terms until maturity, early repayment or write-off, unless certain prescriptive conditions are met.

Typically, the Group initially categorises a forborne exposure as performing and classifies the exposure as forborne non-performing at a later date once unlikely-to-pay indicators are evidenced, as outlined in the Non-Performing and Default Exposure section of the Group's Credit Policy.

4.8 Credit risk mitigation

(Qualitative disclosure requirements related to CRM techniques according to Table 7 EU CRC)

It is the Group's practice to lend on the basis of the customer's ability to meet its obligations out of its cash flow resources rather than rely on the value of security offered. In fact, the majority of Group's loans are not secured by any type of collateral, and the amount of collateral received is immaterial in terms of the total exposure of the Group.

However the Group still uses various techniques as allowed by the CRD IV in order to mitigate credit risks such as netting and set off, and in some cases use of collateral. Credit risk mitigation is recognised only when it is legally enforceable and effective, which in order to do so requires adequate monitors and valuation of collateral received.

The Group has commenced mortgage lending in the Netherlands under the NHG mortgage criteria under the standardised approach to credit risk. Under the Standardised Approach, the risk-weights for exposures secured by mortgages on residential property are set by Articles 123 to 125 of the Capital Requirements Regulation (CRR). Thus the valuation of the collateral is an important component to determine the portion of the Dutch mortgage exposure that should be considered to be secured by property and the portion, if any, of the Dutch mortgage exposure that should be treated as a retail exposure under article 123 of the CRR.

As from 31 March 2020, following changes to the Dutch National Mortgage Guarantee (NHG), when applying a risk weighting to mortgage loans, the Group is taking into account the terms and conditions that govern the National Mortgage Guarantee (NHG) scheme and, hence, the credit protection it provides. In the case of residential mortgage loans that are guaranteed by the NHG, the risk-weights for such exposures are amended in accordance with the credit risk mitigation framework of Part Three, Title II, Chapter 4 of the CRR, given that the NHG guarantee now meets the conditions of, in particular, Articles 213 to 215 of the CRR.

Thus, as from 31 March 2020, with respect to NHG-mortgages the actual coverage of the guarantee is being taken into account. Thus, the amortisation of the NHG coverage value, as well as the 10% own risk factor, is now being taken into account in the establishment of the protected amount (the factor GA as laid out in Article 235 of the CRR).

In addition to the risk-weights and capital charges for NHG-mortgages under Pillar I, the Group is now taking into account under Pillar II specific risks of NHG-mortgages in its internal capital adequacy assessment process (ICAAP).

4.8.1 Capital allocation and capital buffers for credit risk

The Group adopts the standardised approach to calculate its capital requirement for credit risk. The Group's credit framework contains enough detail specifying how the Group calculates the risk weights of the exposures covered by the framework, wherever the regulatory framework permits elections or other choices to be made.

Besides allocating capital against its Pillar I risks that are based on the Group's accounting records, the Group also carries an assessment of the extra capital proportionate to Pillar II risks as part of its annual ICAAP. The ICAAP chapter on credit risk, describes the Group's approach for allocating capital for this risk. Since the Group is not rated, it is not required to allocate internal capital or allocate collateral in the eventuality of a downgrade in its credit rating.

4.8.2 On and off balance sheet netting and set-off

(Qualitative disclosure requirements related to CRM techniques according to Table 7 EU CRC)

Financial assets and liabilities are offset and the net amount reported in the consolidated statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is the intention to settle on a net basis or realise the asset and settle the liability simultaneously. The level of offsetting within the Group is deemed to be minimal. Further information regarding the offsetting policies of the Group can be found in note 2.2.10 of the MDB Group Annual Report and Financial Statements for the financial period ended 31 December 2019.

4.8.3 Collateral and other credit enhancements

(Qualitative disclosure requirements related to CRM techniques according to Table 7 EU CRC)

Collateral received by the Group includes residential and commercial property, as well financial collateral such as debt securities and cash on deposit.

Most of the immovable property collateral received is located in Malta. In particular, in relation to the local lending portfolio, a charge over collateral is obtained and considered in determining the credit decision and pricing. In the event of a default, the Group may utilise the collateral as a source of repayment. Depending on its form, collateral can have a significant financial effect in mitigating exposure to credit risk. The Group follows Articles 124 to 126 of the CRR in order to determine whether exposures are fully and completely secured by immovable property, and which risk weight to apply in order to calculate the own funds requirement.

In order to make use of the financial collateral for credit risk mitigation purposes, the Group follows the conditions set out in Chapter 4, Title I, Part Three of CRR, in particular applying Article 222 of the said regulation. Collateral that is not eligible in terms of CRR is not taken into consideration for credit risk mitigation.

To determine the overall credit exposure limit, he Group applies a number of limits to the Local Lending portfolio both at Portfolio level and at Single Name level. These limits are decided by the Group's board and disclosed on the Risk Appetite Framework which is revised on an annual basis. A Loan-to-Value limit is applied to any credit extended to real estate related transactions or where real estate is pledged as collateral, given that underlying asset values can be subject to market volatility. This limit is calculated on the market value of the security, prior to the application of the relative haircut as described below.

The market value of the collateral is based on an assessment carried out by the Local Lending unit to determine whether the 'market value' of the collateral is the best estimate of the net realisable value of the said asset. The unit evaluates the valuation in the context of market impact of liquidation of the said collateral on liquidity, buy-sell spread and market float of the same class of assets. The Group applies haircuts in respect of the property valuation carried out by the independent valuer and is determined on a case-by-case basis taking into account particular characteristics such as valuer's expertise and experience, valuation/s of similar collateral and, locations and conditions of property. Haircuts are applied to arrive at the best prudent estimate of the realisable value of the collateral and are documented in the credit memorandum together with an explanation of the suitability of chosen haircut. The haircut is discussed and ratified at the Local Lending – Management Credit Committee.

The value of collateral that is commercial real estate is monitored at least annually, while the value of residential real estate is reviewed once every three years. The value is monitored through the local Property Price Index as well by gauging asking prices of similar properties available on the market. For individually significant loans, including but not limited to those exceeding €3 million or 5% of the Group's own funds, the value of the property securing such loans shall be reviewed by an independent valuer at least every three years. If the market is subject to significant changes in conditions and publicly available information indicates that the value of the property may have declined materially relative to general market prices, an update of the valuation of the collateral shall be required.

The guidelines on collateral haircuts are reviewed by the Group at least annually, and may from time to time, be amended to ensure that the Group's business continues to act in accordance with best practices.

The following table shows an analysis of the on-balance sheet exposure value (carrying amount net of provisions) as at 31 December 2019 that is covered by eligible collateral in line with CRR requirements highlighting the amount of the exposure value which is unsecured and secured:

EU CR3: CRM techniques - Overview

	Exposures Total unsecured - Carrying amount[8] €000	Exposures Total secured - Carrying amount[9] €000	Exposures secured by collateral[10] €000	Exposures secured by financial guarantees[11] €000
1 Total loans and advances	1,024,193	209,491	208,043	1,448
2 Total debt securities	1,190,341	-	-	-
3 Total exposures	**2,214,534**	**209,491**	**208,043**	**1,448**
4 of which Defaulted	**91,680**	**11,016**	10,951	65

The following table shows an analysis of loans and advances that are secured by immovable property, split by the LTV of the respective loans and advances as at 31 December 2019, in line with the EBA Guidelines on disclosure of non-performing and forborne exposures.

[8] **Exposures unsecured – Carrying amount**: The carrying amount of exposures (net of allowances/impairments) that do not benefit from a CRM technique, regardless of whether this technique is recognised under Part Three, Title II, Chapter 4 in the CRR.

[9] **Exposure - secured – Carrying amount**: Carrying amount of exposures that have at least one CRM mechanism (collateral, financial guarantees, credit derivatives) associated with them.

[10] **Exposures secured by collateral**: carrying amount of exposures (net of allowances/impairments) partly or totally secured by collateral.

[11] **Exposures secured by financial guarantees**: Carrying amount of exposures (net of allowances/impairments) partly or totally secured by financial guarantees.

EBA-NPL 7: Collateral valuation – loans and advances

		Loans and advances				
			Performing		Non-performing	
				Of which past due > 30 days ≤ 90 days		Unlikely to pay that are not past due or are past due ≤ 90 days
		€000	€000	€000	€000	€000
1	Gross carrying amount	1,830,894	1,715,833	-	115,061	108,311
2	Of which secured	222,572	212,512	-	10,060	3,370
3	Of which secured with immovable property	196,997	189,444	-	7,553	862
4	Of which instruments with LTV higher than 60% and lower or equal to 80%	57,607	52,070		5,537	-
5	Of which instruments with LTV higher than 80% and lower or equal to 100%	93,607	93,607		-	-
7	Accumulated impairment for secured assets	334	305	-	29	29
8	Collateral					
9	Of which value capped at the value of exposure	222,239	212,207	-	10,032	3,341
10	Of which immovable property	222,021	211,990	-	10,031	3,341
11	Of which value above the cap	214,619	203,643	-	10,976	3,054
12	Of which immovable property	214,251	203,371	-	10,880	2,956

		Loans and advances						
		Non-performing						
		Past due > 90 days						
			Of which past due > 90 days ≤ 180 days	Of which past due > 180 days ≤ 1 year	Of which past due > 1 year ≤ 2 years	Of which past due > 2 years ≤ 5 years	Of which past due > 5 years ≤ 7 years	Of which past due > 7 years
		€000	€000	€000	€000	€000	€000	€000
1	Gross carrying amount	6,750	0	2	-	154	6,594	-
2	Of which secured	6,691	0	-	-	117	6,574	-
3	Of which secured with immovable property	6,691	0	-	-	117	6,574	-
4	Of which instruments with LTV higher than 60% and lower or equal to 80%	5,537	-	-	-	-	*5,537*	-
5	Of which instruments with LTV higher than 80% and lower or equal to 100%	-	-	-	-	-	-	-
7	Accumulated impairment for secured assets	-	-	-	-	-	-	-
8	Collateral							
9	Of which value capped at the value of exposure	6,691	0	-	-	117	6,574	-
10	Of which immovable property	6,691	0	-	-	117	6,574	-
11	Of which value above the cap	7,923	1	-	-	888	6,027	1,007
12	Of which immovable property	7,923	1	-	-	888	6,027	1,007

The following table details out the types of eligible collateral held for each exposure class as at 31 December 2019:

	Exposure value post CCF and CRM[12]					
	Secured by collateral		Secured by financial guarantees			
	Secured by residential immovable property	Secured by commercial immovable property	Secured by debt securities	Secured by cash on deposit	Other types of secured exposures	Unsecured exposures
	€000	€000	€000	€000	€000	€000
Central governments or central banks	-	-	31	-	-	275,347
Regional governments or local authorities	-	-	-	-	-	111,071
Public sector entities	-	-	-	-	-	131,521
Multilateral development banks	-	-	-	-	-	90,005
International organisations	-	-	-	-	-	49,109
Institutions	-	-	-	-	-	249,441
Corporates	-	-	-	-	-	1,327,116
Retail	-	-	-	-	-	54,917
Secured by mortgages on immovable property	141,994	27,517	-	-	-	246,209
Exposures in default	3,076	6,701	-	-	-	95,852
Items associated with particular high risk	27,665	1,091	-	-	-	-
Covered bonds	-	-	-	-	-	520,660
Other	-	-		175	-	19,880
Total	**172,735**	**35,309**	**31**	**175**	**-**	**3,171,128**

The following two tables provide an overview of the foreclosed assets obtained from non-performing exposures as at 31 December 2019, in line with the EBA Guidelines on disclosure of non-performing and forborne exposures.

EBA-NPL 9: Collateral obtained by taking possession and execution processes and EBA-NPL 10: Collateral obtained by taking possession and execution processes – vintage breakdown

No collateral was obtained by taking possession of tangible assets.

[12] **Exposure value post CCF and CRM**: This amount represents the exposure value after taking into account specific credit risk adjustments as defined in the Commission Delegated Regulation (EU) No 183/2014 and write-offs as defined in the applicable accounting framework, all credit risk mitigants and CCFs. This is the amount to which the risk weights (according to Article 113 and Part Three, Title II, Chapter 2, Section 2 of the CRR) are applied.

The following table shows the exposures together with the relevant credit risk mitigation undertaken for each class as at 31 December 2019:

EU CR4: Standardised approach – Credit risk exposure and CRM effects

Exposure classes	Exposures before CCF and CRM[13] On-Balance sheet amount €000	Exposures before CCF and CRM[13] Off-Balance sheet amount €000	Exposures post CCF and CRM On-Balance sheet amount €000	Exposures post CCF and CRM Off-Balance sheet amount €000	RWA and RWA density RWAs €000	RWA and RWA density RWA density %
1 Central governments or central banks	275,439	-	275,378	-	22,366	8%
2 Regional governments or local authorities	111,090	-	111,071	-	-	0%
3 Public sector entities	131,531	-	131,521	-	4,028	3%
4 Multilateral development banks	90,007	-	90,005	-	-	0%
5 International organisations	49,111	-	49,109	-	-	0%
6 Institutions	245,107	-	245,107	-	48,821	20%
7 Corporates	1,092,436	482,491	1,087,776	238,847	1,326,581	100%
8 Retail	14,177	47,957	14,246	10,066	18,160	75%
9 Secured by mortgages on immovable property	169,582	261,933	169,557	50,184	100,281	46%
10 Exposures in default	114,710	8,182	101,521	4,107	145,876	138%
11 Items associated with particular high risk	28,819	30,491	28,755	-	43,133	150%
12 Covered bonds	520,673	-	520,660	-	52,423	10%
16 Other items	20,150	160	20,055	-	20,052	100%
17 Total	**2,862,832**	**831,214**	**2,844,761**	**303,204**	**1,781,721**	**57%**

The table above does not cover derivative instruments exposures as at 31 December 2019 with an exposure value of €4.8 million post CCF and CRM, of which the respective RWAs amounted to €2.4 million.

[13] **Exposures before CCF and CRM**: This represents the Group's on-balance-sheet and off-balance exposures (respectively) under the regulatory scope of consolidation (in accordance with Article 111 in the CRR), net of specific credit risk adjustments (as defined in the Commission Delegated Regulation (EU) No 183/2014) and write-offs (as defined in the applicable accounting framework), but before (i) the application of CCFs as specified in the same article and (ii) the application of CRM techniques specified in Part Three, Title II, Chapter 4 of the CRR.

EU CR5: Standardised approach Exposure Value

	Exposure value post CCF and CRM									
	0% €000	**10% €000**	**20% €000**	**35% €000**	**50% €000**	**75% €000**	**100% €000**	**150% €000**	**250% €000**	**Total €000**
1 Central governments or central banks	266,431	-	-	-	-	-	-	-	8,947	**275,378**
2 Regional governments or local authorities	111,071	-	-	-	-	-	-	-	-	**111,071**
3 Public sector entities	111,383	-	20,138	-	-	-	-	-	-	**131,521**
4 Multilateral development banks	90,005	-	-	-	-	-	-	-	-	**90,005**
5 International organisations	49,109	-	-	-	-	-	-	-	-	**49,109**
6 Institutions	1,004	-	246,088	-	1,732	-	617	-	-	**249,441**
7 Corporates	-	-	-	-	-	-	1,327,116	-	-	**1,327,116**
8 Retail	-	-	-	-	-	24,312	-	-	-	**24,312**
9 Secured by mortgages on immovable property	-	-	-	175,443	10,744	-	33,553	-	-	**219,740**
10 Exposures in default	-	-	-	-	-	-	25,083	80,545	-	**105,628**
11 Items associated with particular high risk	-	-	-	-	-	-	-	28,755	-	**28,755**
12 Covered bonds	-	517,091	3,569	-	-	-	-	-	-	**520,660**
16 Other items	3	-	-	-	-	-	20,052	-	-	**20,055**
17 Total	**629,006**	**517,091**	**269,795**	**175,443**	**12,476**	**24,312**	**1,406,421**	**109,300**	**8,947**	**3,152,791**

4.9 Settlement risk

The Group's activities may give rise to risk at the time of settlement of transactions and trades. Settlement risk is the risk of loss due to the failure of an entity to honour its obligations to deliver cash, securities or other assets as contractually agreed.

Mitigation of settlement risk

For all types of investment transactions the Group mitigates this risk by conducting settlements through a settlement/clearing agent to ensure that a trade is settled only when both parties have fulfilled their contractual settlement obligations. Settlement limits form part of the credit approval/limit monitoring process described earlier. Furthermore, the Group has a number of master netting agreements covering repurchase transactions and securities with its counterparties.

4.10 Credit Valuation Adjustment ("CVA")

The CRR requires financial institutions to calculate own funds requirements for CVA risk, in accordance with Article 382, which is a capital charge to reflect potential mark-to-market losses due to counterparty migration risk on bilateral OTC derivative contracts.

Using the regulatory formula, capital required in respect of CVA risk as at 31 December 2019, is calculated to be €634,778 on a total exposure of €3,717,439.

EU CCR2: CVA Capital Charge

	Exposure value €000	**RWAs €000**
4 All portfolios subject to the standardised method	**3,717**	**635**

4.11 Exposures in equities

The equity instruments held by the Group as at the end of the reporting period had a nil value.

The equity exposures were classified as available-for-sale and were held long term for capital gains purposes. The total Equity holding did not fall under the definition of "qualifying holding"[14] and was below the small trading book business threshold (Article 94 of CRR) given that it was less than 5% of total assets and therefore was not eligible to be part of a trading book.

5 Counterparty credit risk

(Qualitative disclosure requirements related to CCR according to Table 3 EU CCRA)

Counterparty credit risk ("CCR") refers to the risk that the counterparty to a transaction could default before the final settlement of the transaction's cash flows. The Group is primarily exposed to counterparty credit risk through derivative exposures, which have largely been limited to interest rate and currency hedges of the Group's investment portfolio, and to other derivatives exposures that can be priced on a real time basis.

The Group was not involved in any credit derivative transactions during the year, and the derivative transactions falling under intermediation activities were immaterial in relation to the total derivative transactions undertaken by the Group. Due to this, the Group does not allocate a capital add-on for counterparty concentration. A description of the methodology used by the Group to allocate internal capital for concentration risk is given in section 3 'Credit Risk and Credit Risk mitigation'.

Counterparty credit risk in respect of currency swaps and forwards, interest rate swaps, options, swaptions and any other derivative instruments that entail credit exposures shall only be entered into with counterparties approved by ALCO. Entry into any derivative exposure will be subject to prior implementation of appropriate settlement and risk management infrastructure pursuant to a signed ISDA/CSA Agreement. The Group's RAS clearly states that the Group has no appetite to enter into currency swaps and forwards, interest rate swaps, options and other derivative instruments which create credit exposures with counterparties which are not approved by ALCO. This list of approved derivative counterparties and associated limits is included in the Group's FX Risk Policy and Group Risk Appetite Statement. Entering into bilateral secured financing transactions bearing any counterparty risk which cannot be executed under a signed GMRA or ISDA agreement is also outside the Group's risk appetite.

The Group's Treasury Function ensures that margin calls arising from the Group's repo and derivatives obligations are monitored on a daily basis. Exposure to derivative counterparties and the related credit risk is mitigated through the use of netting and collateralisation agreements.

As the Group is not an externally rated entity, the Group does not carry any exposure to counterparty credit risk impact given a downgrade in its credit rating.

[14] CRR defines "qualifying holding" as a direct or indirect holding in an undertaking which represents 10% or more of the capital or of the voting rights or which makes it possible to exercise a significant influence over the management of that undertaking.

5.1 Analysis of counterparty credit risk exposure

In order to determine the potential future credit exposure, the notional amounts or underlying values, as applicable, are multiplied by the percentages stipulated in the CRR, Table 1 of Article 274(2)(c). These are based on contract type and residual maturities.

EU CCR1: Analysis of CCR exposure by approach

At 31 December 2019	Replacement cost/current market value	Potential future credit exposure	EAD post CRM	RWAs
	€000	€000	€000	€000
1 Mark to market	1,480	3,347	4,827	2,373
11 **Total**	**1,480**	**3,347**	**4,827**	**2,373**

Analysed as follows:	Residual maturity	Notional amount (€000)	Applicable percentage [15]	Replacement cost (€000)	Potential future exposure (€000)	Risk-weight	Risk-weighted assets (€000)
Interest rate swaps and other exposures to a Central Clearing Counterparty				-	617		100%
Interest rate swaps	Over one year, not exceeding five years	81,300					
Interest rate swaps	Over five years	38,700					
Foreign currency contracts	One year or less	110,286	1.00%	883	1,103	883	20%
Foreign currency contracts	One year or less	158,235	1.00%	150	1,582	150	50%
Contracts concerning equities	Over five years	448	10.00%	448	45	448	100%

The below table shows the counterparty credit risk exposure split by exposure class:

	Exposure value €000	Risk weighted assets €000
Institutions	4,334	1,880
of which exposure to a qualifying central counterparty	*617*	*617*
Corporates	493	493
	4,827	**2,373**

[15] Applicable percentages per Table 1 of Article 274(2)(c)

6 External credit assessment institutions

(Qualitative disclosure requirements on institutions' use of external credit ratings under the standardised approach for credit risk according to Table 8 EU CRD)

The Group uses credit assessments issued by External Credit Assessment Institutions ("ECAI's") in order to calculate the risk weighted exposure amounts for certain exposure classes, wherever such a credit assessment is available, in accordance with Part Three, Title II, Chapter 2 of the CRR. During the financial period ended 31 December 2019, the Group used the external ratings issued by the following 3 nominated ECAIs: S&P, Fitch and Moody's. The relevant ratings to use were determined in particular by Article 138 of the CRR, and these were mapped to the credit quality steps according to Regulation 2016/1800 which lays down the *"implementing technical standards with regard to the allocation of credit assessments of external credit assessment institutions…"*.

The Group applies the ECAI ratings to the following exposure classes:

- Central governments or central banks;
- Regional governments or local authorities;
- Public sector entities;
- Multilateral development banks;
- International organisations;
- Institutions; and
- Covered bonds.

There were no changes in the nominated ECAIs and exposures to which the ratings are applied from the prior financial year.

The following table shows the exposure values at 31 December 2019 after credit risk mitigation associated with each credit quality step, gross of off-balance sheet exposures and after removing asset items deducted from Own Funds.

	Credit quality step	**Exposure value after credit risk mitigation €000**
Central governments or central banks	1	209,198
Central governments or central banks	2	46,446
Central governments or central banks	3	19,765
Regional governments or local authorities	1	111,071
Public sector entities	1	127,496
Public sector entities	2	4,026
Multilateral Development Banks	1	90,005
International organisations	1	49,109
Institutions	1	44,449
Institutions	2	148,895
Institutions	3	576
Institutions	Unrated	55,522
Corporates	Unrated	1,570,760
Retail	Unrated	375,392
Secured by mortgages on immovable property	Unrated	118,163
Exposures in default	Unrated	109,703
Items associated with particular high risk	Unrated	59,246
Covered bonds	1	517,091
Covered bonds	2	3,569
Other items	Unrated	20,310
Total		**3,680,792**

7 Interest rate risk in non-trading book

7.1 Managing Interest rate risk

A summary of the Group's interest rate gap position on non-trading portfolios is found in the MDB Group Limited Annual Report and financial statements for the financial period ended 31 December 2019, in section 2.4.3 - Interest rate risk.

The management of interest rate risk attributable to interest rate repricing gap limits is supplemented by monitoring the sensitivity of the Group's financial assets and liabilities to various interest rate scenarios under the stress testing framework meanwhile the extent of the difference between risk factors on the asset side and liability side is monitored through the re-fixing gap analysis.

The estimated impact on the Group's Net Interest Margin ("NIM") as a result of a 100 basis points ("bps") movement and on Economic Value as a result of a 100 basis points ("bps") parallel rise / falling the yield curves would be as follows:

31 December 2019

- Under parallel shock up by 100 bps the Economic Value decreases by €4.0 million meanwhile under shock down by 100 bps it increases by €13.0 million.
- Under parallel shock up by 100 bps there is positive impact on Net Interest Income equal to €12.4 million meanwhile under parallel down by 100 bps the impact is negative and equal to €2.4 million.

The following table provides a further analysis of such results by currency.

	Euro		British Pound		Other currencies in Euro	
31 December 2019	**100 bps parallel increase €million**	**100 bps parallel decrease €million**	**100 bps parallel increase €million**	**100 bps parallel decrease €million**	**100 bps parallel increase €million**	**100 bps parallel decrease €million**
Impact on EV	(6.8)	13.7	2.3	(0.5)	0.5	(0.3)
Impact on NIM	11.6	(2.5)	1.0	(0.2)	(0.2)	0.2

These values are determined taking into account the impact of hedge accounting.

The main assumptions used in the model utilised to measure the benchmarks referred to above are:

- Interest bearing assets are assumed to mature on their expected maturity and are not replaced for the ∆EVE purposes (run off balance sheet);
- Interest bearing assets are assumed to mature on their expected maturity and are replaced on like for like basis for the ∆NII purposes (constant balance sheet);
- The rate index on the Senior Secured Loan book is predominantly floored at zero and hence due to the prevailing euro negative rate environment the shift down scenario does not result in loss of interest income. On the other hand, the 1% shift up scenario will not yield 1% more income as the rate index lifts itself from below zero;
- The Group will not change deposit rates in the next 12 months even if there is an increase or decrease in ECB base rate;
- There is an implicit zero floor option on retail customer deposits as the Group will not charge negative rates to the retail segment of its customer base;
- The ∆ NII and ∆ EV metrics includes the effect of changes in value of the contractual automatic options embedded in the banking book assets; and
- Customer deposits follow their behavioural schedule.

Interest rate movements affect reported equity in the following ways:

- retained earnings arising from increases or decreases in net interest income after taking into consideration the net impact of interest rate hedging instruments; and
- fair value reserves arising from increases or decreases in fair values of investments measured at fair value through other comprehensive income (available-for-sale financial instruments in the preceding financial year) reported directly in equity.

8 Operational risk

8.1 Capital allocation and capital buffers for operational risk

The Group currently uses the basic indicator approach to assess the operational risk capital requirements and accordingly allocates 15% of average gross income for a three year period in accordance with regulatory requirements. The risk weighted assets in relation to operational risk as at 31 December 2019 amounted to €132.0 million.

In the latest iteration of the Group's ICAAP, the Group assigns a scenario for the identified operational risk themes as identified during the RCSAs. Each of these scenarios are assigned a risk add-on which represents the financial costs the Group could expect to incur if the respective scenarios were to materialise in isolation. This approach is used to inform the final internal capital add-on. Internal data is used to complement the scenario analysis along with expert judgment from within the Group's first line of defence. The following formula is used to calculate the aggregate risk add-on, together with a set of correlation assumptions.

$$Aggregate\ capital\ requirement = \sqrt{\sum\sum_{i,j} \rho_{i,j} \times RA_i \times RA_j}$$

$$\rho_{i,j} = linear\ correlation\ coefficient\ between\ scenarios\ i\ and\ j; with\ RA_i\ and\ RA_j = \ Risk\ add - ons.$$

9 Own funds

9.1 Total available capital

The Group adopts the appropriate processes to ensure that the minimum regulatory requirements are met at all times, through the assessment of its capital resources and requirements given current financial projections. The Group has a strong track record of robust capital ratios and is confident that it will be positioned to maintain its overall capital strength.

For regulatory purposes, the Group's capital base is divided in two main categories, namely Common Equity Tier 1 ("CET1") capital and Tier 2 capital.

9.1.1 Common Equity Tier 1 capital – composition

Common Equity Tier 1 capital includes:

- ordinary share capital;
- share premium;
- shareholders' contribution;
- retained earnings;
- reserve for general banking risks;
- fair value reserve; and
- other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy purposes including deductions relating to reserve for depositor compensation scheme and the carrying amounts of investments in subsidiaries that are not included in the regulatory consolidation and certain other regulatory items.

9.1.2 Common Equity Tier 1 capital – terms and conditions

i. Ordinary share capital includes equity instruments which fall under the definition of Article 28(1) of the CRR, *Common Equity Tier 1 instruments*. The holders of 'A' ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of MDB Holding. 'B' ordinary shareholders are not entitled to vote or to receive any dividends distributed.

ii. Share premium reserve is made up of premium paid by shareholders in excess of the nominal value of the 'A' ordinary shares. This reserve can only be applied in the paying up of unissued shares to be issued to members of MDB Group as fully paid bonus shares.

iii. Shareholders' contributions ("Contributions") are amounts granted by the shareholders to MDB Group whereby MDB Group has no obligation to bear any servicing cost or transfer any economic benefits of any kind to the contributor or any other person in return and has no obligation to repay the Contributions. These terms and conditions of such Contributions render this instrument equity in nature in accordance with the requirements of IAS 32: Financial Instruments – Presentation.

iv. Retained earnings are the part of the distributable items as per the CRR Article (4)(1)(128) definition, which are amounts of the profits at the end of the last financial year plus any profits brought forward and reserves available for that purpose before distributions to holders of own funds instruments less any losses brought forward, profits which are non-distributable pursuant to provisions in legislation or the institution's bye-laws and sums placed to non-distributable reserves in accordance with applicable national law or the statutes of MDB Holding. The balance in this reserve is net of tax.

Subject to MDB Group's dividend policy, the directors of MDB Group, in the annual general meeting, may from time to time recommend dividends to be paid from the retained earnings of MDB Holding. Such dividends may be in the form of capitalisation of retained earnings to 'A' ordinary shares.

v. Reserve for general banking risks – in accordance with BR 09, the Group has allocated from its retained earnings, to a non-distributable reserve, an amount equivalent to 2.5% of the regulatory allocation for positions on which a specific impairment provision has been attributed. Refer to Note 16 "Capital and reserves" to the MDB Group Limited Annual Report and financial statements for the financial period ended 31 December 2019..

vi. The fair value reserve includes the cumulative net change in the fair value of fair value through other comprehensive income ("FVOCI") investments, excluding impairment losses, until the investment is derecognised, net of deferred taxation. These relate to the hold to collect and sell ("HTC&S") category of EU-endorsed IFRS 9.

9.1.3 Tier 2 capital

Tier 2 capital consists of subordinated liabilities in issue, which rank after the claims of all depositors (including financial institutions) and all other creditors. As at 31 December 2019, subordinated liabilities included within Tier 2 capital comprised the following debt securities issued which are unsecured and in the event of the winding-up of the issuer, these are subordinated to the claims of depositors and all other creditors of the issuer:

- debt securities, bearing interest payable at 5%, repayable on 13 October 2027, with a 13 October 2022 early redemption option held by the Group.
- debt securities, bearing interest payable at 4%, repayable on 5 November 2029, with a 5 November 2024 early redemption option held by the Group.

9.2 Own funds – other disclosures

The Group does not have items included in the 'Total capital' which have values differing from those reported within IFRS compliant Statement of Financial Position, with the exception of Subordinated liabilities included as part of Tier 2 capital, since these are amortised in line with Article 64 of the CRR.

Retained earnings form part of Own funds only if those profits have been verified by persons independent of the Group that are responsible for the auditing of the Group's financial statements and the Group has demonstrated to the satisfaction of the competent authority that any foreseeable charge or dividend has been deducted from the amount of those profits.

9.2.1 Composition of Own Funds

MDB Group Limited is the primary provider of equity capital to its subsidiaries. These investments are substantially funded through the issuance of equity, shareholder's contribution and by profit retention. As part of its capital management process, MDB Group Limited seeks to maintain a balance between the composition of its capital and its investment in subsidiaries. In line with the requirement of Article 436 of the CRR in accordance with directive 2013/36/EU, there is no current or foreseen impediment to MDB Group Limited's ability to provide funding for such investments. The ability of subsidiaries to pay dividends or advance monies to MDB Group Limited depends on, among other things, their respective local regulatory capital and banking requirements, exchange controls, statutory reserves, and financial and operating performance.

In December 2013 the European Commission published regulation (EU) No 1423/2013 being the 'Implementing Technical Standards with regard to Disclosure for Own Funds Requirements for institutions according to Regulation (EU) 575/2013 (CRR)'. In order to increase transparency regarding the regulatory capital of European institutions the regulation provided a set of templates which will help to facilitate cross-jurisdictional comparisons.

Below is a table showing the composition of the own funds of the Group in accordance with the CRR and the related captions within the Statement of Financial Position included in the Annual Report 2019.

At 31 December 2019	**€000**
Common Equity Tier 1 (CET1) capital	
Common Equity Tier 1 (CET1) capital: instruments and reserves	
Capital instruments and the related share premium accounts	69,495
Retained earnings	127,117
Accumulated other comprehensive income (and other reserves)	128,161
Funds for general banking risk	3,357
Common Equity Tier 1 (CET1) capital before regulatory adjustments	328,130
Common Equity Tier 1 (CET1) capital: regulatory adjustments	
Additional value adjustments	(510)
Intangible assets (net of related tax liability)	(16,927)
Deferred tax assets that rely on future profitability	(14,655)
Other regulatory adjustments – IFRS 9 transitional arrangement	3,537
Total regulatory adjustments to Common Equity Tier 1 (CET1)	(28,555)
Common Equity Tier 1 (CET1) capital	**299,575**
Tier 1 capital	**299,575**
Tier 2 (T2) capital: instruments and provisions	
Capital instruments and the related share premium accounts (Subordinated loans)	42,457
Tier 2 capital	**42,457**
Total capital	**342,032**
Total risk weighted assets	**1,972,756**
Capital ratios and buffers	**%**
Common Equity Tier 1 ratio	15.19%
Tier 1 ratio	15.19%
Total capital ratio	17.34%
Institution specific buffer requirement	7.42%
of which: Capital conservation buffer requirement	2.50%
of which: Countercyclical buffer requirement	0.34%
of which: Other Systemically Important Institution (O-SII) buffer	0.50%
Common Equity Tier 1 available to meet buffers in excess of the CRR 4.5% minimum requirement	10.69%
Amounts below the thresholds for deduction (before risk weighting)	**€000**
Deferred tax assets arising from temporary differences (amount below 10% threshold, net of related tax liability where the conditions of Article 38(3) are met)	8,947

Note: CET1 capital, Tier 1 capital and Total capital disclosed in the table above includes the regulatory adjustment in relation to the transitional arrangements for the introduction of IFRS 9 on own funds. Refer to template IFRS 9-FL for a comparison of the Group's own funds and capital and leverage ratios with and without the application of transitional arrangements for IFRS 9.

As shown above, there were no other items requiring deduction that were not deducted from the own funds in accordance with Section 3, Chapter 2, Title I, Part Two of CRR. In particular, in terms of article 48 of CRR, the Group's deferred tax assets dependent on future profitability and arising from temporary differences did not exceed the 10% threshold and therefore were not required to be deducted from own funds. The Group does not have any systemic risk buffer as at 31 December 2019.

In line with Article 2 in the Commission Implementing Regulation (EU) No 1423/2013 and Part Eight Article 437 (1) of the CRR, the following is a full reconciliation of the Group's Own Funds items to the audited financial statements as at 31 December 2019.

Capital Base	**At 31 December 2019 €000**
Shareholders' equity according to the Group's balance sheet	332,259
Market value of assets pledged in favour of Depositor Compensation Scheme	(4,128)
Deferred tax assets that are dependent on future profitability and do not arise from temporary differences (transitional definition)	(14,655)
Intangible assets	(16,927)
Other adjustments:	
IFRS 9 transitional arrangements	3,536
AVA valuation adjustments	(510)
Common Equity Tier 1 capital / Tier 1 capital	**299,575**
Tier 2 instruments: subordinated loans	54,820
Amortisation of tier 2 instruments	(12,363)
Tier 2 capital	**42,457**
Total capital	**342,032**

In line with Section 2 of the EBA "Guidelines on uniform disclosures under Article 473a of Regulation (EU) No 575/2013 as regards transitional arrangements for mitigating the impact of the introduction of IFRS 9 on own funds", the following table is a comparison of the institutions' own funds, Common Equity Tier 1 capital, Tier 1 capital, risk-weighted assets, Common Equity Tier 1 capital ratio, Tier 1 capital ratio, total capital ratio and leverage ratio with and without the application of transitional arrangements for IFRS 9 or analogous ECLs.

IFRS 9-FL: Comparison of institutions' own funds and capital and leverage ratios with and without the application of transitional arrangements for IFRS 9 or analogous ECLs

		31 December 2019	30 September 2019	30 June 2019	31 March 2019	31 December 2018
	Available capital (amounts in €000)					
1	Common Equity Tier 1 (CET1) capital	299,575	300,897	309,629	310,505	312,693
2	Common Equity Tier 1 (CET1) capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	296,038	294,764	303,496	303,579	304,993
3	Tier 1 capital	299,575	300,897	309,629	310,505	312,693
4	Tier 1 capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	296,038	294,764	303,496	303,579	304,993
5	Total capital	342,031	338,924	356,373	358,460	361,561
6	Total capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	338,495	332,792	350,240	351,533	353,862
	Risk-weighted assets (amounts in €000)					
7	Total risk-weighted assets	1,972,756	2,069,072	2,264,106	2,357,063	2,228,742
8	Total risk weighted assets as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	1,965,029	2,063,744	2,262,740	2,348,616	2,231,927
	Capital ratios					
9	Common Equity Tier 1 (as a percentage of risk exposure amount)	15.19%	14.54%	13.68%	13.17%	14.03%
10	Common Equity Tier 1 (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	15.07%	14.28%	13.41%	12.93%	13.67%
11	Tier 1 (as a percentage of risk exposure amount)	15.19%	14.54%	13.68%	13.17%	14.03%
12	Tier 1 (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	15.07%	14.28%	13.41%	12.93%	13.67%
13	Total capital (as a percentage of risk exposure amount)	17.34%	16.38%	15.74%	15.21%	16.22%
14	Total capital (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	17.23%	16.13%	15.48%	14.97%	15.85%
	Leverage ratio					
15	Leverage ratio total exposure measure (€000)	3,417,687	3,274,566	3,282,030	3,113,091	3,082,655
16	Leverage ratio	8.77%	9.19%	9.43%	9.97%	10.14%
17	Leverage ratio as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	8.67%	9.04%	9.28%	9.83%	9.91%

As laid down in Regulation (EU) 2017/2395, the Group has opted to apply the transitional arrangements laid down in the same regulation to mitigate the impact of the introduction of IFRS 9 on own funds. Thus, during the transitional period ending 31 December 2022, the Group will be adding back a proportion of:

- the Day 1 impact as a result of the introduction of IFRS 9, being the difference between IFRS 9 expected credit losses ("ECLs") on 1 April 2018 and IAS 39 provisions determined at 31 March 2018; and

- on difference in the IFRS 9 ECLs determined at reporting date and the ECLs determined on 'day 1' of the introduction of IFRS 9 (being 1 April 2018 for the Group) for Stage 1 (12-months ECLs) and Stage 2 (lifetime ECLs) assets.

The factors used to adjust the above ECLs will decline across the transitional period, starting at 95% during the financial year ended 31 March 2019 to 25% in the final transitional year ending 31 December 2022. The above treatment is in accordance with the requirements laid down in paragraph 2 and paragraph 4 of Regulation (EU) 2017/2395.

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As noted in template IFRS 9-FL, the impact of the transitional arrangement on the Group's capital ratio as at 31 December 2019 amounted to 11 bps at the reporting period under review. This was a result of an add-back in capital of €3.5 million mitigated by an increase of €7.7 million in risk-weighted assets. Similarly, the Group's leverage ratio is 'overstated' by 10 bps in view of the transitional arrangement applied.

In line with Part Eight Article 437 of the CRR the following table discloses the main features and the terms and conditions of Tier 1 and Tier 2 instruments.

Capital instruments' main features

	Instruments	MDB Group Limited Ordinary shares	MDB Group Limited Share premium	MeDirect Bank (Malta) plc 5% Subordinated Unsecured Bonds EUR 2027	MeDirect Bank (Malta) plc 5% Subordinated Unsecured Bonds GBP 2027
1	Issuer	MDB Group Limited	MDB Group Limited	MeDirect Bank (Malta) plc	MeDirect Bank (Malta) plc
2	Unique identifier	N/A	N/A	MT0000551284	MT0000551292
3	Governing law(s) of the instrument	Maltese Law	Maltese Law	Maltese Law	Maltese Law
	Regulatory treatment				
4	Transitional CRR rules	Tier 1	Tier 1	Tier 2	Tier 2
5	Post-transitional CRR rules	Tier 1	Tier 1	Tier 2	Tier 2
6	Eligible at solo/(sub-) consolidated/solo & (sub-) consolidated	Solo & (Sub) Consolidated	Solo & (Sub) Consolidated	Solo & (Sub) Consolidated	Solo & (Sub) Consolidated
7	Instrument type	Tier 1 as published in Regulation (EU) No 575/2013 articles 26 and 28	Tier 1 as published in Regulation (EU) No 575/2013 articles 26 and 28	Tier 2 as published in Regulation (EU) No 575/2013 article 63	Tier 2 as published in Regulation (EU) No 575/2013 article 63
8	Amount recognised in regulatory capital	EUR55.7 million	EUR13.8 million	EU14.5 million	EUR0.9 million
9	Nominal amount of instrument	EUR55.7 million	EUR13.8 million	EUR18.7 million	EUR1.2 million
9a	Issue price	EUR1 per share	EUR0.335 per share	EUR100 per EUR Bond	GBP100 per GBP Bond
9b	Redemption price	N/A	N/A	EUR100 per EUR Bond	GBP100 per GBP Bond
10	Accounting classification	Share capital	Share premium	Liability - amortised cost	Liability - amortised cost
11	Original date of issuance	10 June 2004	10 June 2004	27 October 2017 (Note 1)	27 October 2017 (Note 1)
12	Perpetual or dated	Perpetual	Perpetual	Dated	Dated
13	Original maturity date	N/A	N/A	13 October 2027	13 October 2027
14	Issuer call subject to prior supervisory approval	No	No	N/A (Note 2)	N/A (Note 2)
15	Optional call date, contingent call dates, and redemption amount	No	No	N/A (Note 2)	N/A (Note 2)
16	Subsequent call dates, if applicable	No	No	N/A (Note 2)	N/A (Note 2)
	Coupons/dividends				
17	Fixed or floating dividend/coupon	Floating	N/A	Fixed	Fixed
18	Coupon rate and any related index	N/A	N/A	5% per annum	5% per annum
19	Existence of a dividend stopper	No	No	No	No
20 a	Fully discretionary, partially discretionary or mandatory - in terms of timing	Fully discretionary	N/A	Mandatory	Mandatory
20 b	Fully discretionary, partially discretionary or mandatory - in terms of amount	Fully discretionary	N/A	Mandatory	Mandatory
21	Existence of step up or other incentive to redeem	N/A	N/A	No	No
22	Noncumulative or cumulative	Non-cumulative	Non-cumulative	Cumulative	Cumulative
23	Convertible or non-convertible	Non-convertible	Non-convertible	Non-convertible	Non-convertible
30	Write-down features	No	No	No	No
35	Position in subordination hierarchy in liquidation	Subordinated to MeDirect Bank Malta plc subordinated bonds	Subordinated to MeDirect Bank Malta plc subordinated bonds	Subordinated to senior creditors and depositors	Subordinated to senior creditors and depositors
	Non-compliant transitioned features	No	No	No	No

Note (1): The subordinated loan capital in Tier 2 capital represents the subordinated unsecured bonds of MDB Group Limited. They are included as part of Tier II Capital as they fully qualify for the provisions listed under CRR (575/2013) Part Two, Title 1, Chapter 4, Article 63. Specifically they rank after the claim of all other creditors and are not to be repaid until all other debts outstanding at the time have been settled. As at 31 December 2019 the subordinated bonds listed above had a remaining maturity of more than 5 years and had all been fully paid up. These securities are included in the Group's Own Funds figure following a haircut in accordance with article 87 under CRR (575/2013).equivalent to €4.5 million.

Note (2): Redemption of the subordinated loan capital shall take place on 13 October 2027, provided that in the event that a Regulatory Change Event occurs, the Group shall at its sole discretion but subject to the prior approval of the JST, have the option to redeem the subordinated loan capital in full prior to the scheduled redemption date.

Capital instruments' main features

	Instruments	MeDirect Bank (Malta) plc 4% Subordinated Unsecured Bonds EUR 2029	MeDirect Bank (Malta) plc 4% Subordinated Unsecured Bonds GBP 2029
1	Issuer	MeDirect Bank (Malta) plc	MeDirect Bank (Malta) plc
2	Unique identifier	MT0000551300	MT0000551318
3	Governing law(s) of the instrument	Maltese Law	Maltese Law
	Regulatory treatment		
4	Transitional CRR rules	Tier 2	Tier 2
5	Post-transitional CRR rules	Tier 2	Tier 2
6	Eligible at solo/(sub-)consolidated/solo & (sub-)consolidated	Solo & (Sub) Consolidated	Solo & (Sub) Consolidated
7	Instrument type	Tier 2 as published in Regulation (EU) No 575/2013 article 63	Tier 2 as published in Regulation (EU) No 575/2013 article 63
8	Amount recognised in regulatory capital	EUR24.9 million	EUR2.2 million
9	Nominal amount of instrument	EUR32.2 million	EUR2.8 million
9a	Issue price	EUR1,000 per EUR Bond	GBP1,000 per GBP Bond
9b	Redemption price	EUR1,000 per EUR Bond	GBP1,000 per GBP Bond
10	Accounting classification	Liability - amortised cost	Liability - amortised cost
11	Original date of issuance	5 November 2019 (Note 1)	5 November 2019 (Note 1)
12	Perpetual or dated	Dated	Dated
13	Original maturity date	5 November 2029	5 November 2029
14	Issuer call subject to prior supervisory approval	N/A (Note 2)	N/A (Note 2)
15	Optional call date, contingent call dates, and redemption amount	N/A (Note 2)	N/A (Note 2)
16	Subsequent call dates, if applicable	N/A (Note 2)	N/A (Note 2)
	Coupons / dividends		
17	Fixed or floating dividend/coupon	Fixed	Fixed
18	Coupon rate and any related index	4% per annum	4% per annum
19	Existence of a dividend stopper	No	No
20a	Fully discretionary, partially discretionary or mandatory - in terms of timing	Mandatory	Mandatory
20b	Fully discretionary, partially discretionary or mandatory - in terms of amount	Mandatory	Mandatory
21	Existence of step up or other incentive to redeem	No	No
22	Noncumulative or cumulative	Cumulative	Cumulative
23	Convertible or non-convertible	Non-convertible	Non-convertible
30	Write-down features	No	No
35	Position in subordination hierarchy in liquidation	Subordinated to senior creditors and depositors	Subordinated to senior creditors and depositors
	Non-compliant transitioned features	No	No

Note (1): The subordinated loan capital in Tier 2 capital represents the subordinated unsecured bonds of MDB Group Limited. They are included as part of Tier II Capital as they fully qualify for the provisions listed under CRR (575/2013) Part Two, Title 1, Chapter 4, Article 63. Specifically they rank after the claim of all other creditors and are not to be repaid until all other debts outstanding at the time have been settled. As at 31 December 2019 the subordinated bonds listed above had a remaining maturity of more than 5 years and had all been fully paid up. These securities are included in the Group's Own Funds figure following a haircut in accordance with article 87 under CRR (575/2013) equivalent to €7.9 million.

Note (2): Redemption of the subordinated loan capital shall take place on 5 November 2029, provided that in the event that a Regulatory Change Event occurs, the Group shall at its sole discretion but subject to the prior approval of the JST, have the option to redeem the subordinated loan capital in full prior to the scheduled redemption date.

10 Capital requirements

Capital requirements represent the amount of capital resources that a bank must hold as required by the regulator. In line with CRR, the Group is placing much of its emphasis and monitoring on Common Equity Tier 1 capital.

The scope of permissible CRR approaches and those adopted by the Group are described below.

- Credit risk – The Group calculates its risk weighted credit risk exposure in accordance with the Standardised Approach, described in Chapter 2 of Title II of Part Three of the CRR. To calculate the risk-weighted exposure amounts, risk weights are applied based on the exposure class and the related credit quality. Credit quality may be determined by reference to the credit assessments of ECAIs that have been determined as eligible by the EBA. In the Group's calculations, senior secured loans and other corporate credit exposures are assigned risk weights corresponding to unrated positions and for the remainder of its securities investment portfolio the Group has nominated well-known risk rating agencies such as Fitch, Standard and Poor's and Moody's. Accordingly, the Group complies with the standard association of the external ratings of ECAIs with the credit quality steps prescribed in CRR.

  The Group has commenced mortgage lending in the Netherlands under the NHG mortgage criteria under the standardised approach to credit risk. When applying a risk weighting to mortgage loans, the Group should take into account the terms and conditions that govern the National Mortgage Guarantee (NHG) scheme and, hence, the credit protection it provides.

  As at 31 December 2019 the Dutch mortgages were risk weighted in accordance with the Standardised Approach ("SA"), described in Chapter 2 of Title II of Part Three of the CRR, using the risk weightings applicable to exposures secured by mortgages on immovable property and retail exposures in accordance with the relevant loan to value ratio. However, changes are currently being proposed to the NHG guarantee for mortgage loans that will lead to its recognition as a guarantee under Capital Requirements Regulation for banks.

  Such proposed change would imply that under the Standardised Approach, the risk-weights for exposures secured by mortgages on residential property are set by Articles 123 to 125 of the Capital Requirements Regulation (CRR). In the case of residential mortgage loans that are guaranteed by a Dutch National Mortgage Guarantee (NHG), the risk-weights for such exposures are amended in accordance with the credit risk mitigation framework of Part Three, Title II, Chapter 4 of the CRR, provided the bank has determined that the NHG guarantee meets the conditions of, in particular, Articles 213 to 215 of the CRR.

- Operational risk – The Group calculates its capital requirement using the Basic Indicator Approach, in terms of Article 315 of the CRR. The own funds requirement amounts to 15% of the average three years of the relevant indicator, as defined in Article 316 of the CRR. Elements within the relevant indicator include interest receivable and similar income, interest payable and similar charges, income from shares and other variable/fixed-yield securities, commissions and fees receivable/payable, net profit or net loss on financial operations and other operating income, adjusted for, amongst others stipulated in the CRR, profits on sale of non-trading book items and extraordinary or irregular items.

- Counterparty credit risk – The Group adopted the mark-to-market method in order to determine the potential future credit exposure, in line with Article 274 of the CRR, primarily on its derivative exposures.

- Foreign exchange risk – The Group has adopted the basic method to determine its foreign exchange risk requirement in accordance with Article 351 of the CRR. In terms of this Article, the Group does not calculate the capital requirement for foreign exchange risk as its net foreign exchange position is less than 2% of its own funds.

- Credit valuation adjustment risk – The Group uses the standardised approach, as per Article 384 of the CRR.

The following table provides an overview of the total RWA and the capital requirement for credit risk split by the different exposure classes as well as capital for operational risk, foreign exchange risk and credit valuation adjustment risk. No capital is allocated for market risk as the Group does not operate a trading book. Moreover, the capital allocated to settlement risk and commodities risk is nought. The exposure value is equal to the total on-balance sheet and off-balance sheet net of value adjustments and provisions and post CCF. The most significant changes between the two periods were due to a decrease in the international lending portfolio and an increase in the Dutch mortgages business.

EU OV1: Overview of RWAs **Exposure Class**	**31 December 2019 Risk weighted assets €000**	**31 September 2019 Risk weighted assets €000**	**31 December 2019 Minimum Capital Requirements €000**
1 Credit risk (excluding CCR)	**1,781,721**	**1,857,051**	**142,537**
2 of which the standardised approach	**1,781,721**	**1,857,051**	**142,537**
Central governments or central banks	22,366	19,255	1,789
Public sector entities	4,028	4,050	322
Institutions	48,821	22,789	3,906
Corporates	1,326,581	1,527,656	106,126
Retail	18,160	3,218	1,453
Secured by mortgages on immovable property	100,281	36,180	8,022
Exposures in default	145,876	141,950	11,670
Items associated with particular high risk	43,133	40,687	3,451
Covered bonds	52,423	37,922	4,194
Other items	20,052	23,344	1,604
6 CCR	**3,008**	**2,260**	**241**
7 of which mark to market	2,373	1,582	190
12 of which CVA	635	678	51
14 Securitisation exposures in the banking book (after the cap)	**55,989**	**81,020**	**4,479**
18 of which standardised approach	55,989	81,020	4,479
23 Operational risk	**132,038**	**128,741**	**10,563**
24 of which the basic indicator approach	132,038	128,741	10,563
27 Amounts below the thresholds for Deduction (subject to 250% risk weight)	22,366	19,255	1,789
29 Total	**1,972,756**	**2,069,072**	**157,820**

The Group's total capital ratio computation is as follows:

Own funds	**€000**
Common Equity Tier 1 capital	299,575
Tier 2 capital	42,456
Total own funds	**342,031**
Total capital ratio	**17.32%**

In respect of the Group, BR 15: *"Capital Buffers of Credit Institutions authorised under the Maltese Banking Act (Cap. 371)"*, requires additional buffers, namely the 'capital conservation buffer', the 'countercyclical buffer', 'other systemically important institutions (O-SII) buffer' and the 'systemic risk buffer'. Automatic restrictions on capital distributions apply if the Group's CET1 capital falls below the level of its CRD IV combined buffer.

The Group is required to maintain a capital conservation buffer of 2.5%, made up of CET1 capital, on its risk weighted exposures.

CRD IV also contemplates a countercyclical buffer in line with Basel III, in the form of an institution-specific countercyclical buffer and the application of increased requirements to address macro-prudential or systemic risk. This is expected to be set in the range of 0 - 2.5% of relevant credit exposure RWAs, whereby the rate shall consist of the weighted average of the 'countercyclical buffer' rates that apply in the jurisdiction where the relevant exposures are located. The following table represents the Group's geographical distribution of credit exposures relevant for the calculation of the countercyclical capital buffer at 31 December 2019.

Table 1: Geographical distribution of credit exposures relevant for the calculation of the countercyclical capital buffer

Country	General credit exposures	Securitisation exposures	Own funds requirement			Own funds requirement weights	Counter-cyclical capital buffer rate
	Exposure value for SA €000	*Exposure value for SA* €000	*of which: General credit exposures* €000	*of which: securitisation exposures* €000	*Total* €000	%	%
Austria	55,718	1,119	446	13	459	0.32%	0.00%
Australia	14,112	665	1,129	35	1,164	0.82%	0.00%
Belgium	16,165	2,626	1,685	59	1,744	1.22%	0.00%
Brazil	11,527	-	92	-	92	0.06%	0.00%
Canada	-	439	-	26	26	0.02%	0.00%
Czech Republic	-	329	-	4	4	0.00%	1.50%
Denmark	40,138	2,748	988	69	1,057	0.74%	1.00%
Finland	12,982	3,122	104	107	211	0.15%	0.00%
France	281,946	61,381	20,099	1,197	21,296	14.92%	0.25%
Germany	215,980	31,504	14,986	694	15,680	10.99%	0.00%
Guernsey	12,845	-	1,028	-	1,028	0.72%	0.00%
Hong Kong	4,138	161	331	2	333	0.23%	0.00%
Ireland	20,076	2,405	1,606	41	1,647	1.15%	1.00%
Israel	13,023	933	1,042	66	1,108	0.78%	0.00%
Italy	202,425	8,481	14,942	184	15,126	10.60%	0.00%
Jersey	20,086	-	1,607	-	1,607	1.13%	0.00%
Luxembourg	46,188	9,768	1,339	241	1,580	1.11%	0.00%
Malta	112,410	1,115	9,717	14	9,731	6.82%	0.00%
Netherlands	315,878	25,746	12,827	569	13,396	9.39%	0.00%
Norway	26,119	2,936	209	66	275	0.19%	2.50%
Poland	8,234	-	66	-	66	0.05%	0.00%
Russian federation	50	-	1	-	1	0.00%	0.00%
Spain	33,398	17,331	2,443	457	2,900	2.03%	0.00%
Sweden	97,337	11,235	3,978	316	4,294	3.01%	2.50%
Switzerland	5,002	4,494	401	74	475	0.33%	0.00%
United Kingdom	472,439	42,174	27,767	1,108	28,875	20.24%	1.00%
United States	206,678	42,947	17,714	801	18,515	12.98%	0.00%
Total	**2,244,894**	**273,659**	**136,547**	**6,143**	**142,690**		

In view of the above exposure values, the following table identifies the Group's countercyclical capital buffer requirement.

Table 2: Amount of institution-specific countercyclical capital buffer

	As at 31 December 2019
Total risk exposure amount (€000)	1,972,756
Institution specific countercyclical buffer rate (%)	0.34%
Institution specific countercyclical buffer requirement (€000)	6,682

Given the Group's position and its systemic relevance to the financial system in Malta, the Group is also required to maintain an Other Systemically Important Institution ("O-SII") buffer also made up of CET1 capital. This buffer is also institution specific and may be set at a maximum of 2% of a systemically important institution's total risk exposure amount.

The Group's O-SII buffer has been set at 0.5%. In addition to the measures above, CRD IV sets out a 'systemic risk buffer' for the financial sector as a whole, or one or more sub-sectors, to be deployed as necessary by each EU member state with a view to mitigate structural macro-prudential risk. The 'systemic risk buffer' may range between 0% and 5%.

Moreover, in light of the fact that the Group is supervised by the ECB as part of the Single Supervisory Mechanism, MDB Group is subject to the Supervisory Review and Evaluation Process ("SREP"), which determines the capital requirement by the ECB.

During 2019, the Group received notification from the ECB on the own funds requirements that it is required to meet as of 1 January 2020, following the results of the SREP of 2019. MDB Group remained subject to a total SREP capital requirement ("TSCR") of 11% on a consolidated level. The TSCR is composed of a 8% minimum own funds requirement in line with Article 92(1) of the CRR, and a 3% Pillar II requirement ("P2R"), which is to be made up of CET1 capital. Thus, the total CET1 capital minimum requirement for 2020 amounts to 7.5%, composed of a minimum Pillar I requirement of 4.5% and the P2R of 3%. In addition, the Group is required to comply with the capital buffer requirements, consisting of a capital conservation buffer of 2.50% and the O-SII buffer of 0.50%. Thus, this results in a total CET1 capital requirement of 10.50% for 2020. With a CET1 capital ratio of 15.2% at 31 December 2020, MDB Group comfortably meets its requirements for 2020 and is expected to continue meeting the relative requirements in the coming years.

Also, the ECB communicated to the Group an individual expectation to hold a further Pillar 2 CET 1 capital add-on, commonly referred to as the Pillar 2 guidance. The capital add-on pursuant to the Pillar 2 guidance is separate from and in addition to the Pillar 2 requirement. As from 1 January 2020 the Pillar 2 guidance will be in addition to the total overall capital requirement. The ECB has stated that it expects banks to meet the Pillar 2 guidance although it is not legally binding, and failure to meet the Pillar 2 guidance does not lead to automatic restrictions of capital distributions.

Moreover, the Group is required to hold a countercyclical buffer of 0.34% as at 31 December 2020. As at 31 December 2019 the countercyclical buffer rate was equivalent to 0.34%. The countercyclical buffer rate of Belgium, France, Germany and United Kingdom was set at 0.5%, 0.5%, 0.25% and 2% with effect from 1 July 2020, 2 April 2020, 1 July 2020 and 16 December 2020 respectively. Furthermore, Denmark announced that the countercyclical buffer rate will increase to 1.5% as from 30 June 2020 and to 2% as from 30 December 2020. However, in light of the current COVID-19 developments several counties, including United Kingdom, France, Norway and Sweden have announced the full release of the countercyclical capital buffers in a bid to encourage lending throughout the coronavirus crisis.

The Group also conducts an ICAAP to determine a forward looking assessment of the capital requirements given its business strategy, risk profile, risk appetite and capital plan. This process incorporates the risk management processes and governance framework. A range of stress tests are applied to the base capital plan. The ICAAP ensures that risks faced by the Group are appropriately identified, measured, aggregated and monitored; the capital coverage determined by internal calculations is sufficient for the fundamental risks the Group is exposed to; and the Group has an adequate risk management framework in place, which it continuously develops in accordance with the risk factors identified.

The Group covers Pillar II capital requirements through stress testing processes to forecast the Group's projected capital requirements. Stress testing is a technique used by financial firms to gauge their potential vulnerability to severe but plausible events. This testing process contributes to the strategic planning of the Group by guaranteeing that it can meet its minimum regulatory capital requirements under a stressed environment.

Under the supervision of a dedicated working team consisting of the Group's senior management, the preparation of the ICAAP is carried out by the relevant teams that include: Risk, Finance and Treasury. After the completion of an iterative process of review and feedback, the senior management team present their observations to the Board of Directors for their consideration. The non-executive Directors play a crucial role in providing the Group with an independent evaluation of the document, assisted by the Group's Internal Audit function.

11 Securitisation

The CRR defines a securitisation as a transaction or scheme where the credit risk of an exposure or pool of exposures is tranched, where the payments arising from the transaction or scheme are dependent upon the performance of the underlying exposure(s) and where the subordination of tranches determines the distribution of losses during the ongoing life of the transaction or scheme.

During the financial period ended 31 December 2019, the Group changed its intention in relation to a specific sub-portfolio of its International Lending portfolio, classified as hold to collect. The reasons for this change in business model were driven by the Group's intention to set up a securitisation structure, through which part of the International Lending portfolio with a total carrying amount of €296.9 million were sold by the Group to this structured entity, Grand Harbour CLO 2019-1 Designated Activity Company ("GH1-2019"), and derecognised from the Group's statement of financial position, subsequent to which structured notes were issued by the structured entity to the Group and third party investors.

However, the Group's change in intention was not deemed to constitute a reclassification event, since the Group's remaining hold to collect portfolio retained its classification and the abovementioned sale from the International Lending portfolio for the purpose of setting up a securitisation structure was classified as an isolated non-recurring event. MeDirect Malta acquired a 5% vertical slice in each of the structured note tranches for risk retention purposes, for the amount of €20.3 million. MeDirect Belgium acquired a 35% share of the tranche with the highest credit rating for an amount of €87 million, which was subsequently sold during the financial period ended 31 December 2019.

In view of the Group's projected exposure to the total variability of the structured entity's returns, taking into account its maximum exposure as a collateral manager (i.e. incorporating all cash flows, including management and incentive fees) and its exposure to variability of returns from the 5% vertical slice of the structured notes, a significant share of the exposure to variable returns was transferred to other tranche holders and therefore the Group does not consolidate the structured entity. During the year the Group also effected investments in CLO transactions managed by third-party entities which together with the structured notes referred to above constitute the Group's Securitisation Investments portfolio.

MeDirect Malta acquired a 5% vertical slice in each of the structured note tranches for risk retention purposes, for the amount of €20.3 million. MeDirect Belgium acquired a 35% share of the tranche with the highest credit rating for an amount of €87 million, which was subsequently sold during the financial period ended 31 December 2019.

During the year the Group also effected investments in CLO transactions managed by third-party entities which together with the structured notes referred to above constitute the Group's Securitisation Investments portfolio.

From a regulatory point of view the investment in securitisations is risk weighted by looking through to the underlying assets of the securitisation structure. As per standardised approach the Bank uses ratings from three External Credit Assessment Institutions, Moody's, Standard & Poor's and Fitch.

A new securitisation framework has been introduced through amendments to the CRR and the introduction of a new Securitisation Regulation. The new framework has been used for the calculation of risk-weighted exposures for these positions that were originated during 2019.

<u>Investment in tranches within a Collateralised Loan Obligation Structured Entity ("CLO SE") originated and managed by the Group</u>

The Group assesses the staging of the tranche rather than the facilities within the underlying portfolio of financial assets. The Group determines an Implied Rating (as a proxy measure of credit risk) for each tranche at different points in time. Expected losses and average life are used to assign an Implied Rating to each tranche based on an external vendor's methodology and observed defaults in the industry. The Implied Rating at reporting date is benchmarked to the Implied Rating at origination date of the tranche in order to determine whether a SICR has occurred since initial recognition.

In line with the Group's approach for the identification of SICR events and the determination of staging for the International Corporate Credit and Treasury portfolio, a quantitative ratings-based approach is utilised in order to assess the movement in credit risk since initial recognition of the Group's investment in the tranches of the CLO.

In respect of tranches of CLOs to which an investment-grade Implied Rating is assigned, the Group makes use of the low credit risk exemption. As a result, the Group assumes that no SICR has occurred since initial recognition as long as the tranche retains an investment-grade Implied Rating. Hence, the Group assumes that the credit risk attributable to tranches to which the low credit risk exemption is applied has not increased significantly since initial recognition, and therefore does not perform an SICR assessment for such tranches unless their Implied Rating falls to sub-investment grade.

<u>Investment in tranches within a publicly rated CLO SE originated and managed by a third party, with a public investment grade rating assigned by reputable agency</u>

Similar to the Treasury Portfolio criteria, investment grade rating is an example of a financial instrument that may be considered as having low credit risk; therefore the Group only needs to measure 12-month ECL for publicly rated investment grade tranches of CLOs.

The following tables provide an analysis of the securitisation exposures by looking through to the underlying exposures.

SEC 1: Securitisation exposures in the banking book

	As at 31 December 2019	**Bank acts as investor Traditional €000**	**Bank acts as originator Traditional €000**
6	Wholesale (total) – of which	**234,582**	**20,039**
7	Loans to corporates	**-**	**-**
	- of which:		
	securitisations under the new framework	***234,582***	***20,039***
	securitisations under the pre-existing framework	***-***	***-***

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SEC 3: Securitisation exposures in the banking book and associated capital requirements
Bank acting as originator

		Exposure values (by RW bands)				Exposure values	RWA	Capital charge
	As at 31 December 2019	≤20% RW €000	>20% to 50% RW €000	>50% to 100% RW €000	>100% to <250% RW €000	Standardised approach €000	Standardised approach €000	Standardised approach €000
1	**Total exposures**	**-**	**-**	**-**	**20,039**	**20,039**	**20,802**	**1,664**
2	Traditional securitisation	-	-	-	20,039	20,039	20,802	1,664
3	Of which securitisation	-	-	-	20,039	20,039	20,802	1,664
5	Of which wholesale	-	-	-	20,039	20,039	20,802	1,664

SEC 4: Securitisation exposures in the banking book and associated capital requirements
Bank acting as an investor

		Exposure values (by RW bands)				Exposure values	RWA	Capital charge
	As at 31 December 2019	≤20% RW €000	>20% to 50% RW €000	>50% to 100% RW €000	>100% to <250% RW €000	Standardised approach €000	Standardised approach €000	Standardised approach €000
1	**Total exposures**	**234,582**	**-**	**-**	**-**	**234,582**	**35,187**	**2,815**
2	Traditional securitisation	234,582	-	-	-	234,582	35,187	2,815
3	Of which securitisation	234,582	-	-	-	234,582	35,187	2,815
5	Of which wholesale	234,582	-	-	-	234,582	35,187	2,815

12 Leverage

The CRR requires financial institutions to calculate a non-risk based leverage ratio, to supplement risk-based capital requirements. The leverage ratio measures the relationship between the capital resources of the organisation and its total assets. The leverage ratio is a regulatory supervisory tool for the Regulator, to constrain the build-up of excessive leverage – one of the drivers of the banking crisis – previously not captured within Basel II. To date, the leverage ratio is a non-binding requirement (Pillar 1) measure.

The leverage ratio is calculated by taking capital as a proportion of total exposures at the end of each quarter. Capital is defined as Tier 1 capital in line with Article 25 of the CRR, whilst total exposure relates to the total on and off-balance sheet exposures, less deductions applied to Tier 1 capital.

The current proposed CRD V package will introduce a binding 3% leverage ratio. CRR 2 broadly reflects the Basel leverage ratio. It sets the Tier 1 capital-based leverage ratio requirement at 3% for all EU banks as per the EBA's recommendation. The final framework confirms that firms are allowed to use any Common Equity Tier 1 (CET1) capital that they use to meet their leverage ratio requirements to also meet their Pillar 1 and Pillar 2 capital requirements.

The following table provides a summary of the Group's leverage ratio calculation as at 31 December 2019, determined in accordance with the requirements stipulated by Implementing Regulation (EU) 2016/200.

Compared to the ratio as the end of the prior financial year, the leverage ratio has decreased by 1.2% during the financial year ended 31 December 2019. This decrease is mainly due to a higher asset base as a result of investment in the Dutch Mortgage portfolio; further investment in treasury portfolio consisting of high quality covered bonds and sovereign bonds, and investment in external securitisation structures, as well as an increase in amounts due from other financial institutions. The total increase in the asset base was partly set off by a large reduction in investment in international lending, thus the main driver for the overall change was the diversification and re-balancing of the credit portfolio which had an indirect impact on the leverage ratio.

LRCom: Leverage ratio common disclosure

		€000
	On-balance sheet exposures (excluding derivatives and SFTs)	
1	On-balance sheet items (excluding derivatives and SFTs)	3,132,700
2	Asset amounts deducted in determining Tier 1 capital	(28,556)
3	**Total on-balance sheet exposures (excluding derivatives and SFTs)**	**3,104,144**
	Derivative exposures	
4	Replacement cost associated with all derivatives transactions	1,480
5	Add-on amounts for PFE associated with all derivatives transactions	2,730
11	**Total derivative exposures**	**4,210**
	Other off-balance sheet exposures	
17	Off-balance sheet exposures at gross notional amount	831,203
18	Adjustments for conversion to credit equivalent amounts	(521,870)
19	**Other off-balance sheet exposures**	**309,333**
	Capital and total exposure measure	
20	**Tier 1 capital**	**299,575**
21	**Leverage ratio total exposure measure (sum of lines 3,11 and 19)**	**3,417,687**
	Leverage ratio	
22	**Leverage ratio**	**8.77%**

EU23 - Choice on transitional arrangements for the definition of the capital measure

In line with Article 499 (2) of the CRR and Article 1, EU 2016/200. the disclosed leverage ratio was calculated using the transitional definition (i.e. including IFRS 9 adjustments to Tier 1 capital and risk-weighted assets) and represents the end-of-quarter leverage ratio.

The disclosed leverage ratio was calculated using the transitional definition and represents the end-of-quarter leverage ratio.

The following table provides a reconciliation of accounting assets and leverage ratio exposures.

LRSum: Summary reconciliation of accounting assets and leverage ratio exposures

	As at 31 December 2019	**€000**
1	Total assets as per published financial statements	3,136,876
4	Adjustments for derivative instruments	2,730
6	Adjustment for off-balance sheet items	309,333
7	Other adjustments:	
	Deduction on deferred tax assets	*(14,655)*
	Deduction for intangible assets	*(16,927)*
	Additional value adjustments	*(510)*
	IFRS 9 transitional adjustment	*3,536*
	Other adjustments	*(2,696)*
8	**Leverage ratio exposure**	**3,417,687**

The following table provides a split of the on-balance sheet exposures as at 31 December 2019 in relation to the calculation of the leverage ratio.

LRSpl: Split-up of on balance sheet exposures (excluding derivatives, SFTs and exempted exposures)

		€000
EU-1	**Total on-balance sheet exposures (excluding derivatives, SFTs and exempted exposures)**	**3,132,700**
EU-2	Trading book exposures	-
EU-3	Banking book exposures, of which:	3,132,700
EU-4	*Covered bonds*	*520,660*
EU-5	*Exposures treated as sovereign*	*275,409*
EU-6	*Exposures to regional government, MDB, international organisations and PSE not treated as sovereigns*	*381,706*
EU-7	*Institutions*	*246,333*
EU-8	*Secured by mortgages of immovable properties*	*169,507*
EU-9	*Retail exposures*	*14,170*
EU-10	*Corporate*	*1,087,776*
EU-11	*Exposures in default*	*101,521*
EU-12	*Other exposures*	*335,619*

LRQua: Leverage ratio disclosure of qualitative items

The leverage ratio has decreased by 42 bps during the financial year ended 31 December 2019, when compared to the ratio as at the end of September 2019. This decrease is mainly attributable to the larger increase in the leverage ratio exposure when compared to the Group's capital base, due to increased investment in the Dutch Mortgage portfolio; further investment in treasury portfolio consisting mainly of high quality covered bonds and increase in amounts due from other financial institutions. The total increase in the asset base was set off by the reduction in investment in international lending and some reductions in the treasury bond and securitisation portfolios. The main driver for the overall change was the diversification and re-balancing of the credit portfolio which had an indirect impact on the leverage ratio. There were no significant factors in the macro-economic environment that led directly to this change.

The Group's leverage is managed as part of its risk appetite framework and monitored using a leverage ratio metric within the risk appetite statement set by the Group. The risk appetite statement stipulates the level and types of risk that the Group is willing to accept in its business activities, whereby the risk appetite metrics are set at twice the regulatory minimums to avoid excessive leverage. The leverage ratio is reported to the Group's Board and ExCo on a regular basis.

13 Asset encumbrance

The disclosure on asset encumbrance is a requirement introduced in BR 07 transposing the provisions of the EBA guidelines on disclosure of encumbered and unencumbered assets (EBA/GL/2014/03).

The objective of this disclosure is to facilitate an understanding of available and unrestricted assets that could be used to support potential future funding and collateral needs. Further information with respect to the Group's funding model can be found in section 2.2.3 - Liquidity and Funding Risk of this report.

An asset is defined as encumbered if it has been pledged as collateral against an existing liability, and as a result is no longer available to the group to secure funding, satisfy collateral needs or be sold to reduce the funding requirement. There are no differences between the regulatory consolidation scope used for the purpose of these disclosures and the scope applied for the application of the liquidity requirements on a consolidated basis

The disclosure is not designed to identify assets which would be available to meet the claims of creditors or to predict assets that would be available to creditors in the event of a resolution or bankruptcy.

Template A: Encumbered and Unencumbered Assets

		Carrying amount of encumbered assets 2019 €000	Fair value of encumbered assets 2019 €000	Carrying amount of unencumbered assets 2019 €000	Fair value of unencumbere d assets 2019 €000
010	Assets of the reporting institution[16]	285,349		2,634,573	
030	Equity instruments	-	-	-	-
040	Debt securities	219,567	219,567	576,238	476,096
050	*of which: covered bonds*	*208,882*	*208,882*	*156,979*	*156,697*
060	*of which: issued by general governments*	*10,685*	*10,685*	*186,113*	*185,316*
080	*of which: issued by financial corporations*	*208,882*	*208,882*	*365,157*	*299,631*
080	*of which: issued by non-financial corporations*	-	-	*1,964*	*15*
120	Other assets	66,782		2,064,936	

The amounts disclosed in the above table represent the median values, being the rolling quarterly medians over the previous twelve months, determined by interpolation, in accordance with the Draft Regulatory Technical Standards on disclosure of encumbered and unencumbered assets under Article 443 of the CRR issued in March 2017.

The encumbered assets consist of investments used for repo funding (either bilateral or with Eurex Repo) and pledged securities. There are no encumbered assets held between entities of the Group and no over-collateralisation. Bilateral Repo transactions are covered by a Global Repurchase Master Agreement and involve the sale of financial assets with a simultaneous agreement to repurchase at a pre-determined price at a future date. Eurex Repo which is a Centrally Cleared counterparty (CCP) is governed by direct membership documentation. The pledged securities transactions are pledged in favour of the ECB in favour of the depositor compensation scheme.

The unencumbered assets disclosed in the preceding table under item ‘Other assets’ include Loans and advances, cash and short term funds, property, plant and equipment, intangible assets, tax assets and other assets.

The Group continues to recognise encumbered assets since all the risks and rewards of the assets will be substantially retained in a manner that does not result in the encumbered assets being derecognised for accounting purposes. There are no differences between pledged and transferred assets in accordance with the applicable accounting frameworks and the encumbered assets presented in these disclosures.

Further details on encumbered assets, including information regarding the evolution of encumbrance throughout the financial period are available in note 2.3.5 to the MDB Group Limited Annual Report and financial statements for the financial period ended 31 December 2019.

The Group does not encumber any of the collateral received or any of its own debt securities issued

Template B – Collateral Received

		Fair value of encumbered collateral received or own debt securities issued		Unencumbered	
			of which notionally eligible EHQLA and HQLA	Fair value of collateral received or own debt securities issued available for encumbrance	*of which EHQLA and HQLA*
		€000	*€000*	€000	*€000*
130	**Collateral received by the reporting institution**	-	-	-	-
150	Equity instruments	-	-	-	-
160	Debt securities	-	-	-	-
190	*of which: issued by general governments*	-	-	-	-
200	*of which: issued by financial corporations*	-	-	-	-
230	Other collateral received	-	-	-	-
231	*of which: Immovable Property*	-	-	-	-
250	TOTAL ASSETS, COLLATERAL RECEIVED AND OWN DEBT SECURITIES ISSUED	285,349	-		

[16] The terminology “reporting institution” is referring to MDB Group Limited.

Template C: Sources of Encumbrance

		Matching liabilities, contingent liabilities or securities lent 2019 €000	Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered 2019 €000
010	Carrying amount of selected financial liabilities	214,014	243,544
011	*of which:*		
020	*Derivatives*	*4,148*	*15,271*
040	*Repurchase agreements*	*207,377*	*212,335*
160	*Other Sources of encumbrance*	*56,241*	*62,080*
170	*Total sources of encumbrance*	*239,123*	*285,349*

14 Remuneration policy and practices

Information on remuneration policy and practices is disclosed in the Remuneration Report within the Annual Report.

The Group's remuneration policy was developed in conjunction with the Group's principal shareholder and the Nomination and Remuneration Committee of the Group. The Board of directors, management functions and the Nomination and Remuneration Committee of the Group worked closely to ensure that the remuneration policy is consistent with and promotes sound and effective risk management.

15 Recruitment and diversity policy statement

The Group recognises that a robust and professional approach to recruitment and selection helps it to attract and appoint individuals with the necessary skills and attributes to support its business goals. All prospective staff members are subject to a rigorous selection process, taking into account the key activities, tasks and skills required for the position. Multiple interviews are conducted, and the candidate's knowledge, experience, skills, temperament and competency are evaluated against other candidates.

The Group's aim is to develop an effective and efficient recruitment process that recruits the best talent, helps employees identify their potential, promotes a transparent, merit-based selection process and develops a cost effective recruitment process. The Group endeavours to ensure that all appointments (at any level) are made based on the actual knowledge, skills, expertise and merit of the individual involved, in compliance with local legislation and in adherence to the Group diversity policy.

The Group's diversity policy states that its objectives are to ensure that the Group:

- has a workforce profile that delivers competitive advantage through the ability to garner a deep understanding of customer needs;
- has an inclusive workplace where every individual can succeed regardless of gender, cultural identity, age, physical ability, religious beliefs, family status and sexual orientation; and
- leverages the value of diversity for all the Group's stakeholders to deliver the best customer experience, improved financial performance and a stronger corporate reputation.

To achieve these objectives the Group sets objectives for achieving diversity. The Board will:

- assess annually both the objectives and progress in achieving them;
- assess pay equity on an annual basis;
- encourage and support the application of diversity into practice across the business; and
- endeavour to provide employment opportunities for people with disabilities.

The Group's workforce includes nationals of 23 foreign countries (in relation to the location in which they are employed), and 40% of the Group's workforce is female.

With those goals in mind, the Group aims to promote equal opportunities for all employees and to ensure that they are treated fairly and consistently. All candidates are assessed against various selection criteria designed to match the requirements of the position to the skills and experience of an applicant, including professional qualifications and expertise, any past work experience in relation to the requirements of the job, key capabilities, adaptability and flexibility, cultural fit, open mindedness, level of self-motivation and proactivity. The Group is committed to attracting, developing and retaining diverse leaders. Diversity of thought provides tangible business benefits, including innovation, risk mitigation, better problem solving and improved customer service. To ensure that the Group can foster these talents in an inclusive culture, it continues to recruit and develop the best person for the job, regardless of gender, age, race, family or caring responsibilities, disability and sexual orientation, identity or preference.

The Group recognises and embraces the benefits of building a diverse and inclusive Board and sees diversity as an essential component in maintaining competitive advantage. A diverse Board will include and make good use of differences in the skills, industry experience, background, and other distinctions between Directors. The differences will be considered in determining the optimum composition of the Board and when possible should be balanced appropriately.

All Board appointments shall be made based on merit, in the context of the skills, experience, independence and knowledge which the Board as a whole requires to be effective.

The following were the changes in directorships throughout the financial period and after the end of the reporting period:

MDB Group Limited and MeDirect Bank (Malta) plc
Throughout the financial period Arnaud Denis (CEO) and Radoslaw Ksiezopolski (CFO) were appointed as directors as they replaced Mark A Watson and Joaquin Vicent. Alex Konewko (CRO) also joined the board of directors. Philippe Delva served as a director for an interim period throughout which he served as interim CEO of the Group until Arnaud Denis was appointed.

On 23 March 2020, Marcia de Wachter was appointed as a director of MDB Group Limited and MeDirect (Bank) Malta plc.

MeDirect Bank SA
As regards MeDirect Belgium, throughout the financial period Yves Dermaux was appointed as Chairman of the Board instead of Baudouin Velge whose mandate as director came to an end. The mandate of Mark A. Watson also came to an end and Wouter Can Den Kerkhove resigned throughout the financial period.

Mr Hasan Dajani (CRO) was appointed as a director in 30/4/2020. Also it has been announced that MeDirect Belgium has named Timothy Rooney as its new CEO, effective upon receipt of required regulatory approval. He will succeed Philippe Delva whose mandate as CEO of MeDirect Bank SA ends at the end of August. Franca Vossen will also be joining the MeDirect Belgium board as an independent non-executive director, effective upon receipt of required regulatory approval.

For an overview of the directors and other key officers of the Group and MeDirect Belgium, their expertise, actual knowledge and skills, kindly refer to the following links:

https://www.MeDirect Malta.com.mt/about-us/our-team

https://www.medirect.be/about-medirect/our-team

16 Other directorships

The number of other directorships held by members of MeDirect Malta's Board (excluding the functions exercised in group companies, in personal patrimony/management companies, and in non-profit associations) are listed in the table below:

Director		Number of other directorships held
Michael Bussey	Independent Non-Executive Chairman	1 NED [17]
John Zarb	Independent Non-Executive Director	3 NED
Dominic Wallace	Non-Executive Director	-
Benjamin Hollowood	Non-Executive Director	2 NED[18]
Marcia De Wachter	Non-Executive Director	-
Arnaud Denis	Executive Director	-
Radoslaw Ksiezopolski	Executive Director	-
Alex Konewko	Executive Director	-

[17] Directorship approved by the UK Prudential Regulation Authority and the Financial Conduct Authority.
[18] Directorship approved by the Polish Financial Supervision Authority

17 CRR References

CRR references	High-level summary	Compliance reference
Scope of disclosure requirements		
431 (1)	Requirement to publish Pillar 3 disclosures	MDB Group Limited "the Group" publishes Pillar 3 disclosures
431 (2)	Firms with permission to use specific operational risk methodologies must disclose operational risk information.	No specific permissions in respect of the calculation of specific operational risk granted to the Group.
431 (3)	Institution must have a policy covering frequency of disclosures, their verification, comprehensiveness and overall appropriateness.	The Group compiles the Additional Regulatory Disclosures in accordance with the requirements emanating from the CRR, BR07 and relevant EBA guidelines. Refer to Section 1.1 – Pillar 3 Disclosure Policy
431 (4)	Explanation of ratings decision upon request	N/A
Non-material, proprietary or confidential information		
432 (1)	Institutions may omit information that is not material if certain conditions are respected.	Certain immaterial information falling outside scope of the articles 437 and 450 has not been disclosed separately
432 (2)	Institutions may omit information that is proprietary or confidential if certain conditions are respected.	
432 (3)	Where 432 (1) and (2) apply this must be stated in the disclosures, and more general information must be disclosed.	No item required to be disclosed was purposely fully omitted.
432 (4)	Use of 432 (1) or (2) is without prejudice to scope of liability for failure to disclose material information	
Frequency of disclosure		
433	Disclosures must be published once a year at a minimum, and more frequently if necessary.	Compliance with this provision is covered by the Group's policy. Refer to Section 1 Introduction.
Means of disclosures		
434 (1)	To include of disclosures in one appropriate medium, or provide clear cross-references.	Most disclosures are contained within this document. Signposting directs the reader to the annual report where appropriate.
434 (2)	Disclosures made under other requirements (e.g. accounting) can be used to satisfy Pillar 3 if appropriate.	Any cross-references to accounting or other disclosures are clearly signposted in this document.

Risk management objectives and policies		
435 (1) (a); 435 (1) (b); 435 (1) (c) & 435 (1) (d)	Disclose information on strategies and processes; organisational structure, reporting systems and risk mitigation/hedging.	General information on risk management, objectives and policies: 2 Risk Management, objectives and policies
		Market Risk: 2 Risk Management, objectives and policies
		Reputational Risk: 2 Risk Management, objectives and policies
		Credit Risk: 4 Credit risk and credit risk mitigation ("CRM")
		Credit Valuation Adjustment ("CVA"): 4 Credit risk and credit risk mitigation ("CRM")
		Counterparty credit risk : 5 Counterparty credit risk
		Operational Risk : 8 Operational Risk
		Recruitment policy and Diversity policy: 15 Recruitment and Diversity Policy Statement
435 (1) (e)	Inclusion of a declaration approved by the Board on adequacy of risk management arrangements.	Refer to 2.3 Risk statement
435 (1) (f)	Concise risk statement approved by the management body succinctly describing the institution's overall risk profile associated with the business strategy	Refer to 2.1.2 Overview of the management of key risks and 2.1.3 Risk appetite. This statement covers the principal risks.
435 (2)	Information on governance arrangements:	See Section 2.1.9 Risk governance structure and 15 Recruitment and diversity policy Statement in this report for a description of the Risk Policies and Governance. See also Statement of Compliance with the principles of good corporate governance of the Annual Report which contains information on Board composition, experience and recruitment. See Section 16 for number of directorships held by the directors.
435 (2) (a)	Number of directorships	
435 (2) (b)	Recruitment policy	
435 (2) (c)	Policy on diversity with regard to selection of the management body, objectives and targets.	
435 (2) (d)	Disclosure of whether a dedicated risk committee is in place, and number of meetings in the year.	Please see 2.1.5 Risk Monitoring and 2.1.9 Reporting on Risk Governance and the Statement of Compliance with the principles of good corporate governance of the Annual Report
435 (2) (e)	Description of information flow on risk to Board.	Please see 2.1.5 Risk Monitoring and Reporting on Reporting to the Board and Board Risk Committee.
Scope of application		
436 (a)	Name of institution	Refer to Section 1 Introduction
436 (b)	Difference in basis of consolidation for accounting and prudential purposes, naming entities that are:	
436 (b) (i)	Fully consolidated;	
436 (b) (ii)	Proportionally consolidated;	
436 (b) (iii)	Deducted from own funds;	See 9.2 Own funds – other disclosures
436 (b) (iv)	Neither consolidated nor deducted.	N/A
436 (c)	Impediments to transfer of funds between parent and subsidiaries	See 9.2 Own funds – other disclosures
436 (d)	Capital shortfalls in any subsidiaries outside of scope of consolidation	No regulated entities fall outside the scope of consolidation of MDB Group Limited "Group"
436 (e)	if applicable, the circumstance of making use of the provisions laid down in Articles 7 and 9 on derogations from a) prudential requirements or b) liquidity requirements for individual subsidiaries/entities	Not applicable

Own funds		
437 (1)	Requirements regarding capital resources table :	
437 (1) (a)	Full reconciliation	See 9.2 Own funds – other disclosures
437 (1) (b)	Description of capital resources	See 9.1 Total available capital and 9.2 Own funds – other disclosures
437 (1) (c)	Full terms and conditions of all Common Equity Tier 1, Additional Tier 1 and Tier 2 instruments	
437(1) (d) (i)	disclosure of the nature and amounts for each prudential filter	
437(1)(d) (ii)	disclosure of the nature and amounts for each deduction made	See 9.2 Own funds – other disclosures
437(1)(d) (iii)	disclosure of the nature and amounts for items not deducted	See 9.2 Own funds – other disclosures
437 (1) (e)	description of all restrictions applied to the calculation of own funds	See 9.2 Own funds – other disclosures
437 (1) (f)	basis on which capital ratios are calculated	Regulation applied - Refer to sections 9.1 Total available capital
437 (2)	EBA to publish implementation standards for points above.	The Group follows the implementation standards.
Capital requirements		
438 (a)	Summary of institution's approach to assessing adequacy of capital levels.	Disclosure of approach on assessing adequacy capital requirements are contained in section 10 Capital requirements
438 (b)	Result of ICAAP on demand from authorities.	Refer to section 10 Capital requirements
438 (c)	Capital requirement amounts for credit risk for each Standardised Approach exposure class.	The Group uses the Standardised Approach - Refer to section 10 Capital requirements
438 (d)	Capital requirements amounts for credit risk for each Internal Ratings Based Approach exposure class.	N/A - IRB is not applied.
438 (d) (i)		
438 (d) (ii)		
438 (d) (iii)		
438 (d) (iv)		
438 (e)	Capital requirements amounts for market risk or settlement risk, or large exposures where they exceed limits.	N/A
438 (f)	Capital requirement amounts for operational risk, separately for the basic indicator approach, the standardised approach, and the advanced measurement approaches as applicable.	The Group uses the Standardised Approach - Refer to section 10 Capital requirements
Exposure to counterparty credit risk (CCR)		
439 (a)	Description of process to assign internal capital and credit limits to CCR exposures.	The Group manages its CCP mainly through margins. Refer to section 5 Counterparty credit risk (analysis of CCP Credit risk exposure)
439 (b)	Discussion of process to secure collateral and establishing reserves.	
439 (c)	Discussion of management of wrong-way exposures.	
439 (d)	Disclosure of collateral to be provided (outflows) in the event of a ratings downgrade.	
439 (e)	Derivation of net derivative credit exposure.	Refer to section 4.8 Credit risk mitigation
439 (f)	Exposure values for mark-to-market, original exposure, standardised and internal model methods.	The Group applies a Standardised method refer to section 5.1 Analysis of counterparty credit risk exposure
439 (g)	Notional value of credit derivative hedges and current credit exposure by type of exposure.	N/A – No credit derivative hedges in place throughout the period
439 (h)	Notional amounts of credit derivative transactions for own credit, intermediation, bought and sold, by product type.	
439 (i)	Estimate of alpha, if applicable.	
Capital buffers		
440 (1) (a)	Geographical distribution of relevant credit exposures.	Refer to section 10 Capital requirements on the Group's relevant CCyB by geographical distribution of credit exposures.
440 (1) (b)	Amount of the institution specific countercyclical capital buffer.	
440 (2)	EBA will issue technical implementation standards related to 440 (1)	The Group follows the implementation standards.
Indicators of global systemic importance		
441	Disclosure of the indicators of global systemic importance	N/A to the Group

Credit risk adjustments		
442 (a)	Disclosure of bank's definitions of past due and impaired.	Section 4.6 Impairment loss measurement guidelines provide a complete description of the Impairment loss measurement guidelines, definitions and approaches adopted.
442 (b)	Approaches for calculating credit risk adjustments.	
442 (c)	Disclosure of pre-CRM EAD by exposure class.	Refer to 4.1 – Credit risk exposure – analysis by exposure class
442 (d)	Disclosures of pre-CRM EAD by geography and exposure class.	Refer to 4.2 Credit risk exposure – analysis by geographical distribution
442 (e)	Disclosures of pre-CRM EAD by industry and exposure	Refer to 4.3 Credit risk exposure – analysis by industry distribution
442 (f)	Disclosures of pre-CRM EAD by residual maturity and	Refer to 4.4 Credit risk exposure – analysis by residual maturity
442 (g)	Breakdown by significant industry or CCP amount of:	Refer to section 4.6 Impairment loss measurement guidelines for an analysis of impaired and past due exposures and allowance for impairment by exposure type
442 (g) (i)	Impairment and past due exposures	
442 (g) (ii)	specific and general credit risk adjustments	
442 (g) (iii)	and impairment charges for the period, by exposure class or counterparty type.	
442 (h)	Impaired, past due exposures, by geographical area, and amounts of specific and general impairment for each geography.	Refer to Section 4.6 Impairment loss measurement guidelines
442 (i)	Reconciliation of changes in specific and general credit risk adjustments compromising of:	Refer to Section 4.6 Impairment loss measurement guidelines for an analysis of the Group's specific credit risk adjustments and to note 2.2.5 "Impaired financial assets and impairment allowance" to the Financial statements i.e. specific and collective impairment allowances.
442 (i) (i)	description of the type of specific and general credit risk adjustments	
442 (i) (ii)	the opening balances	
442 (i) (iii)	amounts taken against the credit risk adjustments during the reporting period	
442 (i) (iv)	any other adjustments including those determined by exchange rate differences, business combinations, acquisitions and disposals of subsidiaries, and transfers between credit risk adjustments	
442 (i) (v)	the closing balance	
442 endnote	Specific credit risk adjustments recorded to income statement are disclosed separately.	

Unencumbered assets		
443	Disclosures on unencumbered assets	Refer to Section 13 Asset encumbrance
Use of ECAIs		
444 (a)	Names of the ECAIs used in the calculation of Standardised Approach RWAs, and reasons for any changes	Refer to Section 6 External credit assessment institutions
444 (b)	Exposure classes associated with each ECAI	
444 (c)	Explanation of the process for translating external ratings into credit quality steps	
444 (d)	Mapping of external rating to credit quality steps	The Group compiles mapping of each nominated ECAI with the credit quality steps according to the standard association published by EBA.
444 (e)	Exposure value pre- and post-credit risk mitigation, by credit quality step.	Refer to Section 6 External credit assessment institutions
Exposure to market risk		
445	Disclosure of position risk, large exposures exceeding limits, FX, settlement and commodities risk.	N/A as the Group does not operate a trading book.
Operational risk		
446	Disclosure of the scope of approaches used to calculate operational risk, discussion of advanced methodology and external factors considered.	Refer to Section 8 Operational risk
Exposure in equities not included in the trading book		
447 (a)	Differentiation of exposures based on objectives	Refer to Section 4.11 Exposures in equities
447 (b)	Recorded and fair value, and actual prices of exchange investments traded equity where it differs from fair value.	
447 (c)	Types, nature and amounts of the relevant classes of equity exposures.	
447 (d)	Realised cumulative gains and losses on sales over the period.	
447 (e)	Total unrealised gains/losses, latent revaluation gains/losses, and amounts included within Tier 1 capital.	N/A – No equity exposures at the end of the reporting period
Exposure to interest rate risk on positions not included in the trading book		
448 (a)	Nature of risk and key assumptions in measurement models.	See Section 7 Interest Rate Risk in Non-Trading Book for key assumptions and interest rate risk Reporting and Analysis
448 (b)	Variation in earnings or economic value, or other measures used by the bank from upward and downward shocks to interest rates, by currency.	
Exposure to securitisation positions		
449	Description of the institution's objectives in relation to securitisation activity	See Section 11 on securitisation exposures

Remuneration disclosures		
450 (1) (a)	information concerning the decision-making process used for determining the remuneration policy	Refer to "Remuneration policy statement" section in remuneration report.
450 (1) (b)	Information on link between pay and performance	
450 (1) (c)	Information on the criteria used for performance measurement	
450 (1) (d)	The ratios between fixed and variable remuneration	Refer to "Personnel expenses" note in financial statements
450 (1) (e)	Information on the performance criteria on which the entitlement to variable remuneration is based.	Refer to "Remuneration policy statement" section in remuneration report.
450 (1) (f)	The main parameters and rationale for any variable component scheme and any other non-cash benefits	
450 (1) (g)	Aggregate quantitative information on remuneration, broken down by business area	Refer to "Material Risk Takers" section in remuneration report.
450 (1) (h)	Aggregate quantitative information on remuneration, broke down by senior management and members of staff whose actions have a material impact	
450 (1) (i)	The number of individuals being remunerated EUR 1 million	Refer to "Remuneration policy statement" section in remuneration report.
450 (1) (j)	Upon demand from the Member State or competent authority, the total remuneration for each member of the management body or senior management	Not applicable
450 (2)	Quantitative information at the level of members of the management body of the institution.	Refer to "Remuneration – Directors" section in remuneration report.
Leverage		
451 (1) (a)	The Leverage ratio and its application	Refer to Section 12 Leverage
451 (1) (b)	Leverage ratio breakdown of total exposure measure, including reconciliation to financial statements	
451 (1) (c)	Where applicable derecognised fiduciary items amount	
451 (1) (d)	Description of the risk management approach to mitigate excessive leverage, and factors that impacted the leverage ratio during the year.	Refer to Section 12 Leverage
451 (1) (e)	Description of factors that impacted the leverage ratio	
Use of the IRB approach to credit risk		
452	Disclosure for calculating the risk-weighted exposure amounts under IRB Approach	N/A to the Group
Use of credit risk mitigation techniques		
453 (a)	Use of on- and off-balance sheet netting	Refer to Collateral Valuation - Section 2.2.1 Credit risk and Section 4.8 Credit risk mitigation (4.8.2 On- and off-balance sheet netting and set-off and 4.8.3 Collateral and other credit enhancements)
453 (b)	How collateral valuation is managed	
453 (c)	Description of types of collateral used	Refer to Section 4.8 Credit risk mitigation (4.8.3 Collateral and other credit enhancements) for the types of eligible collateral held for each exposure class.
453 (d)	Types of guarantor and credit derivative counterparty, and their creditworthiness	The Group did not enter into any credit derivative hedges and did not receive any guarantees to cover part of its exposures.
453 (e)	Disclosure of market or credit risk concentrations within risk mitigation exposures	Refer to Section 4.8 Credit risk mitigation
453 (f)	For exposures under either the Standardised or Foundation IRB approach, disclose the exposure value covered by eligible collateral	The Group applies Standardised approach, refer to Section 4.8 Credit risk mitigation
453 (g)	Exposures covered by guarantees or credit derivatives	The Group did not enter into any credit derivative hedges and did not receive any guarantees to cover part of its exposures.
Use of the Advanced Measurement Approaches to operational risk		
454	Disclosure of Advanced Measurement Approaches to operational risk	N/A to the Group
Use of internal market risk models		
455	Disclosure of internal market risk models	N/A to the Group

Revised Pillar 3 disclosure requirements – BCBS 309

According to this standard, the following considerations should apply to comply with disclosure requirements in respect of Securitisation positions.

Guidelines references	**High-level summary**	**Compliance reference**
Part 6 – Securitisation		
Disclosure requirements on securitisation in Article 449 of the CRR including: - Table SEC A, for information on risk management due to securitisation positions; - Templates SEC 1 or and SEC 2, for the outstanding securitisation exposures (retained originated and sponsored exposures, and purchased exposures); - Templates SEC 3 and SEC 4, for the risk-weighting of exposures and the associated RWAs and capital requirements.		Section 11 - Securitisation

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