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Annual Report

Pillar 3 Disclosures March 2019

MDB Group Limited

Pillar 3 disclosures report – Annual report
31 March 2019

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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, 449, 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 year ended 31 March 2019 amounted to 1.0%.

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. During the previous financial year, 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", 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. During the current financial year, Charts Investment Management Service Limited ("Charts"), which was a stockbroking firm authorised to carry out investment services under a Category 3 licence, merged with MeDirect Bank (Malta) plc.

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 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.

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	John Zarb
Chairman	Director

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 management 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:

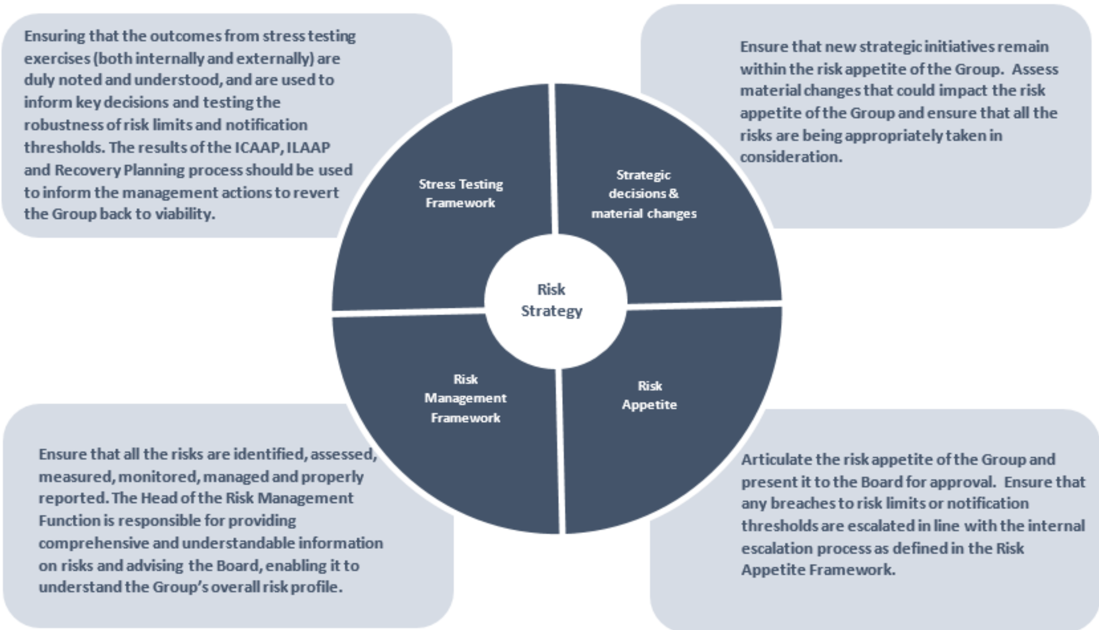


FIGURE 1: RISK STRATEGY

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”); and
- Stress Testing Policy (“STP”).

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.

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, Regulatory Risk, IT security risk, Market 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 CRO has a direct reporting line to the Chief Executive Officer (“CEO”), as well as to the Board of Directors and the members of the Group’s Board Risk Committee. The CRO also has the unchallenged authority to meet members of the Board Risk Committee or other Non-Executive Directors without the presence of the CEO or other Executive Directors. Among the list of responsibilities, the CRO is:

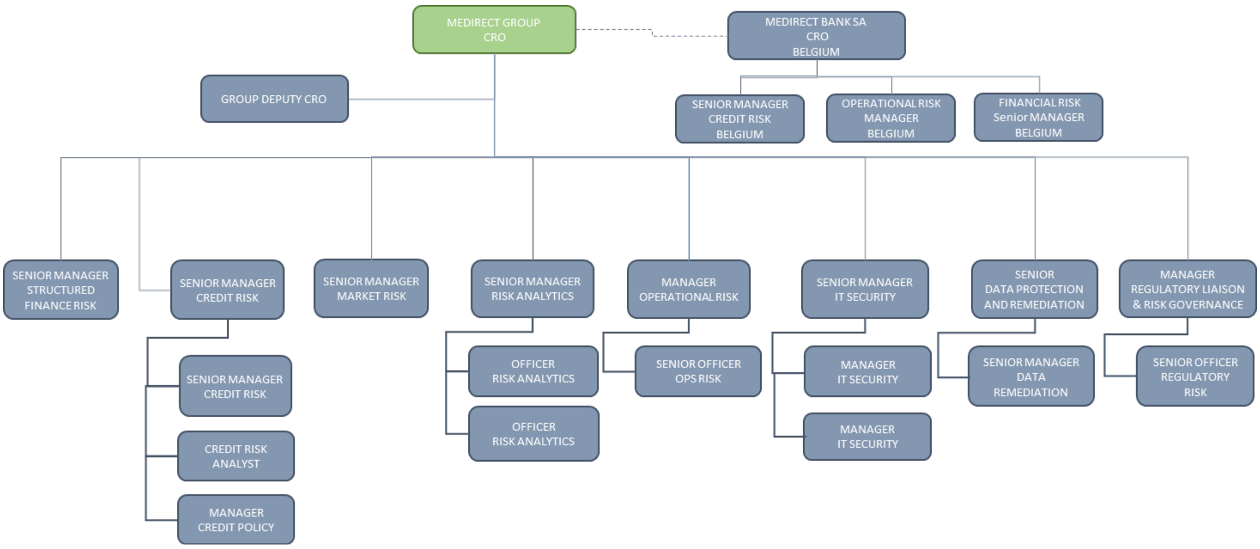
- Responsible for ensuring that the Risk Management Function is adequately resourced, taking into account the complexity and risks of the Group as well as its RAF and strategy;

- 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 and responding to queries.

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 March 2019, the Group's risk management function comprised twenty-four full time positions under the management of the Group CRO, including the Group Deputy CRO and the CRO for the subsidiary, MeDirect SA. 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.	Three 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.	Two FTEs + One 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.	Three FTEs

Risk Management Function	Main Responsibilities	Number of staff members
Regulatory Risk	This function is primarily responsible for the monitoring of the regulatory environment, acting as an initial filter for regulatory announcements and overseeing the planning and implementation of regulatory changes to meet key deliverables. Material changes in regulation are discussed during the Regulatory Committee that is the responsible forum that oversees regulatory change work streams and escalates significant updates and regulatory issues to the Group Executive Management Committee ("EXCO") for discussion and follow-up. The regulatory risk function is also responsible for coordinating the responses to information requests that the Group receives from various regulatory bodies and acts as the main coordination point between the Group and the regulator.	Two 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 GH1 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.	Five FTEs + One FTE in Belgium
Market Risk	The 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.	One FTE
Data Protection Risk	The data protection function 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.	Two FTEs

Financial Risk	The Senior Financial Risk Manager will be assisting the Belgian CRO in managing and monitoring the financial risk management for MeDirect Bank SA. The team provides risk management oversight of the Banks 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 Banks asset and liability portfolios, and maintenance of risk measurement tools and models.	One FTE in Belgium

The Group's Risk Management Function is adequately resourced and possesses the right knowledge and experience to provide relevant independent information, analysis and expert judgement on risk exposures, as well as decision making capabilities on proposals and recommendations made by business lines and other internal units, as well as to the management body.

The CRO for MeDirect Bank SA is based in Belgium and reports directly into the Group CRO. A Deputy CRO was also recruited to assist the Group CRO with the management and oversight of the risk pillars. The Deputy CRO reports directly 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; Strategy EXCO; Operations Committee ("OpsCo") and Asset & Liability Committee ("ALCO"). The Group CRO is also involved in various Steering Committees and has delegated sign-off responsibilities when required.

2.1.2 Overview of the management of key risks

The Group's balance sheet structurally comprises of an EU deposit-funded portfolio of internationally syndicated and domestic bilateral loans, as well as a portfolio of high-grade Treasury securities. The Group's strategy for the FYE March 2020 is to continue growing and expanding its savings and investments offering to its mass affluent customers in its home-markets of Malta and Belgium, and reinforce its market share in the leveraged lending market. The Group is also actively considering other new asset classes and new adjacent corporate products as a means to diversify its revenue streams and business model.

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 a risk analysis to assess the significance 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 indicators, and internal controls testing. 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 corrective action, 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 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, controls and systems through which risk appetite 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. It should be noted that 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 strategy and business model.

2.1.4 Risk appetite triggers

The main component of the RAF is the Risk Appetite Statement ("RAS") and respective notification thresholds or 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 (March 2019)	Actual (March 2019)
CET 1 capital ratio	13.10%	13.17%
Tier 1 capital ratio	13.10%	13.17%
Total capital ratio	15.10%	15.21%
Leverage Ratio	5%	9.97%
Liquidity		
Risk Metric	Risk Appetite Limit (March 2019)	Actual (March 2019)
Liquidity Coverage ratio (LCR)	115%	460.14%
Net Stable Funding ratio (NSFR)	110%	136.10%

Performance and adherence to risk appetite is performed at the Board Committee level (inclusive of 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.

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 the portfolio 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.

Board oversight

Key risks are discussed during both during Board of Directors' meetings and Board Risk Committee meetings where risk exposures are tracked against risk appetite and notification thresholds. The Group's formal risk reporting schedule and processes have been established in accordance with Principle 10 of the Basel Committee's "Principles for effective risk data aggregation and risk reporting", with flash reports produced daily (either system-generated or created by operational departments) and more in-depth reports produced monthly.

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, limits, and risk aggregation and reporting framework to ensure that these are sufficient to maintain its level of risk within its appetite.

Board oversight provides information on how 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 firm's strategy, to ensure that the key goals in that strategy are and remain within the agreed risk appetite and to oversee the Executive 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 norms. The set of high-level financial KPIs are approved by the Board.

The Group Executive Committee ("EXCO") is responsible for cascading the Board approved KPIs into granular strategic objectives down to core business lines and critical functions. The KPIs are reported to the Board, at least every two months, to ensure proper 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 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 an internal heat map, and external top and emerging risks, and risk oversight, which includes a comprehensive overview of the main 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.
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. Additional supporting analysis is also included, for example, the impact of credit rating downgrades as well as details of any significant depositors. 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:** this report 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, portfolio performance on each 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 Leveraged Loan market 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 (FX risk) faced 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:** this 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) **Financial crime and 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 meetings and internal committee meetings.

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 risks and other hot topics or regulatory announcements that could result in material impact to the Group. Important 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].

Risk culture

A risk-aware culture is about the employees of the Group becoming 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 a challenge in itself, however it strives to improve its risk culture through policies, communication and training of staff, which is done through a number of initiatives namely, Risk Awareness email bursts, eLearning and Employee Training programmes.

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

[1] (EU) No 575/2013

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 discussed 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 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 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.

EXCO is composed of two different management forums, which are intended to enhance the execution of the Group's business priorities and reinforce the governance of the Group's activities. The Strategy EXCO is made up of a small group of executive management and focuses on the Group's broader growth strategies and new initiatives. The Management 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 sub-committees, each operating under their own terms of reference:

a. Management Credit Committees ("MCC");
b. Asset and Liability Committee ("ALCO");
c. Operations Committee ("OpsCo");
d. Wealth Management and Investment Services Committee; and
e. Regulatory Oversight Committee ("ROC").

Internal control functions

The internal control functions of the Group comprise the risk management function, the compliance function and the internal audit function. The risk management and compliance functions represent the second line of defence and are subject to review by the internal audit function that is the third line of defence.

The Heads of the internal control functions are independent of the business lines or the units they control. The CRO, the Head of Compliance and the Chief Internal Audit Officer ("CIAO") are the heads of the internal control functions of the Group. Similar to the CRO, the Head of the Compliance Function and the CIAO have a direct reporting line to the CEO, as well as to the Board of Directors and the members of the Group's Board Audit Committee. They also have the unchallenged authority to meet members of the Board Audit Committee or other Non-Executive Directors without the presence of the CEO or other Executive Directors.

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 includes a list of all the internal policies as well as policy owners and process for review. 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 consultants 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.

2.1.9 *Risk management of the Group's regulated 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.

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:

- *Operational objectives:* these relate to the achievement of the Group's mission statement and address the effectiveness and efficiency of the Group's operations;
- *Financial reporting objectives:* these relate to the preparation of reliable published financial statements and regulatory reporting; 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 spread widening). 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.

<u>Credit risk profile</u>

The Group's credit risk emanates from two main sources: from its lending activities and from its treasury activities. The Group's 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.

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 senior secured loans extended to corporate counterparties.

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 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.

During the financial year ending March 2019, a strategic decision was taken with regard to discontinue offering the service of FX forwards to corporate clients.

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.

Credit risk quantification and assessment

The Group adopts the standardised approach to credit risk as outlined in the CRD IV 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.

Credit risk management and control

The Group's lending activities are governed by the credit risk policy and associated credit frameworks, covering the international corporate loan portfolio, treasury portfolio and the local lending portfolio.

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 this financial year, the focus was primarily on the review and update of the credit risk policy, primarily to fine tune processes following the implementation of the ECB guidance on leveraged transactions (May 2017), the EBA guidelines on the application of the definition of default[2], and the EBA report on non-performing and forborne exposures[3].

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 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. 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.

[2] EBA Final Report on Guidelines on the application of the definition of default under Article 178 of Regulation (EU) No 575/2013 – EBA/GL/2016/07 dated 28 September 2016
[3] EBA Final Report on non-performing and forborne exposures – EBA/GL/2018/06 dated 31 October 2018

Collateral valuation

Collateral values are conservatively estimated, based on current economic conditions. The Group applies minimum haircuts in respect of the property valuation by an independent valuer. Any collateral haircut can be subject to further increases and is determined on a case by case basis taking into account particular idiosyncrasies such as valuer's expertise and experience, valuation/s of similar collateral and, locations and conditions of property. This monitoring may lead to amendments to the values assigned to the collateral hence all conclusions are appropriately documented by the Local Lending Unit.

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.

An assessment is made on the collateral to determine whether the 'market value' of the collateral is the best estimate of the net realisable value of the said asset. The Local Lending 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. For immovable property, forced sales discounts are applied to reflect the particular characteristics and conditions of the local market to arrive at the best prudent estimate of the realisable value of the collateral.

The Group applies haircuts in respect of the property valuation by the independent valuer. Such a haircut should be 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. This monitoring may lead to amendments to the values assigned to the collateral hence all conclusions are appropriately documented by the Local Lending Unit.

Haircuts applied 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 (LL-MCC). This committee is responsible for approving credit recommendations and making other credit decisions under its delegated authority.

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 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. For individually significant loans, including but not limited to those exceeding €3m 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 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 LL-MCC 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>

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.

All credit decisions, approved or otherwise, are documented and retained, with suitable MCC minutes recorded. 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.

Credit classification and staging criteria

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 IFRS9 general approach is applicable for all assets that are not credit impaired at the point of investment (initial recognition). The general approach adopts the IFRS9 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 year, the Group did not enter into any credit derivative hedges.

Credit monitoring

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 identified and clearly incorporated into the Group's risk management and reporting framework. Additionally, the risk management function is responsible for monitoring the overall 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 management 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 leverage, covenant structure and deleveraging profile. The Group has adopted these triggers to govern the overall delegated authority of the International Corporate Loan 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; and
- Unsecured lending limit.

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 introduced 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. Single issuer concentration limits have also been applied to the Treasury portfolio.

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.

<u>Non-performing and default exposures</u>

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

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 financial statements.

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.

<u>Liquidity risk identification</u>

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 risk*: 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;
- *wholesale funding risk*: the level of asset encumbrance of the Group's non-HQLA asset portfolios; and
- *contingency liquidity risk:* the level of contingent funding capacity available relative to extreme funding outflow stress-testing assumptions.

<u>Liquidity risk quantification and assessment</u>

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. For the 2018 ILAAP, the Group 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 Executive Director of Credit and Investments. 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 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 EUR 000s	**Total unweighted value (average)**				**Total weighted value (average)**			
Quarter ending on:	Apr – Jun 2018	July – Sept 2018	Oct – Dec 2018	Jan – Mar 2019	Apr – June 2018	July – Sept 2018	Oct – Dec 2018	Jan – Mar 2019
Number of data points used in the calculation of averages	12	12	12	12	12	12	12	12
HIGH-QUALITY LIQUID ASSETS								
1 Total high-quality liquid assets (HQLA)					**389,163**	**401,645**	**388,398**	**415,007**
CASH – OUTFLOWS								
2 Retail deposits and deposits from small business customers, of which:	333,167	337,826	338,468	399,999	34,567	34,951	34,862	40,868
3 Stable deposits	*1,173*	*1,093*	*967*	*889*	*59*	*55*	*48*	*44*
4 Less stable deposits	*331,899*	*336,659*	*337,446*	*399,054*	*34,413*	*34,822*	*34,759*	*40,769*
5 Unsecured wholesale funding	183,507	179,721	158,064	140,599	73,827	70,313	62,504	56,837
7 Non-operational deposits (all counterparties)	*183,507*	*179,721*	*158,064*	*140,599*	*73,827*	*70,313*	*62,504*	*56,837*
9 Secured wholesale funding					2,133	467	204	321
10 Additional requirements	559,001	602,503	586,907	573,807	80,627	90,922	89,160	84,330
11 Outflows related to derivative exposures and other collateral requirements	*11,810*	*13,250*	*13,029*	*13,106*	*11,810*	*13,250*	*13,209*	*13,106*
13 Credit and liquidity facilities	*547,191*	*589,253*	*573,698*	*560,701*	*68,816*	*77,672*	*75,951*	*71,224*
14 Other contractual funding obligations	12,582	13,764	16,091	18,845	9,110	10,165	12,235	15,156
16 TOTAL CASH OUTFLOWS					**200,264**	**206,818**	**198,966**	**197,512**
CASH – INFLOWS								
18 Inflows from fully performing exposures	222,814	171,218	126,794	108,527	220,114	168,744	124,195	104,562
19 Other cash inflows	11,205	12,807	11,229	12,771	5,986	7,167	5,360	6,660
20 TOTAL CASH INFLOWS	**234,019**	**184,025**	**138,023**	**121,298**	**226,100**	**175,911**	**129,555**	**111,162**
EU-20c Inflows subject to 75% cap	234,019	184,025	138,023	121,298	226,100	175,911	129,555	111,162
21 LIQUIDITY BUFFER					**389,163**	**401,645**	**388,398**	**415,007**
22 TOTAL NET CASH OUTFLOWS					**58,077**	**76,257**	**79,795**	**89,274**
23 LIQUIDITY COVERAGE RATIO (%)					**688.3%**	**602.8%**	**553.3%**	**513.9%**

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 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 funding sources such as TRS are to be used as 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 92.6% of total liabilities being in euro. The only other currency considered 'significant' for LCR reporting purposes, as required in Article 415(2) of the CRR, is Pound Sterling, which represented 5.7% 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 March 2019, the euro-denominated LCR was 487.3% and the Pound Sterling-denominated LCR was 22.6%. 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 March 2019 amounted to 460.1%.

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, either by absorbing excess liquidity through inter-company deposits or by providing additional liquidity through intercompany loans.

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 (future) 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

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 significant amount 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 the lag which exists between the Group's loans which reprice 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 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. 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.

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 Director of Treasury and Investments, 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;
- ΔNII under parallel shock scenarios;
- ΔEVE under 7 shock scenarios; and
- PV01 to Own Funds.

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.

<u>Operational risk identification</u>

As outlined in the Group's Operational Risk Management Framework ("ORMF"), 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. The ORMF covers; operational risk awareness, Risk Control Self-Assessments ("RCSAs"), operational risk controls testing, operational risk reporting and incident management and business continuity.

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 ORMF 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.

Following the completion of the 2018 RCSA exercise, the following risk themes were identified:

1. *Fraud risk*, which may arise from a number of activities, either internally or externally. Internal fraud is civil or criminal activity by at least one internal party, such as an employee or distribution associate, 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 by customers, contractors or third parties (excluding cyber-attacks), for example: collusion, fraud, misuse of position, misappropriation of assets and identity theft.

2. *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. The Group is aware that 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.

3. *Outsourcing risk* referring to inadequate outsourcing arrangements or instances where a third-party provider fails to meet contractual terms or service level agreements, may have serious consequences such as business disruption and reputational impacts. Regulatory oversight of outsourcing arrangements has also become more prominent, particularly if the institution is viewed as systemically important. This risk may arise from external parties where the Group fails to establish and manage adequate outsourcing arrangements, transactions or other interactions with external parties including independent brokers, fund managers, IT providers, insurers and other parties for example: failure to meet agreed quality of service levels, inadequate contracting, poor relationship governance, service provider failure. 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.

4. *People risk* reflects the ability of the Group to manage both 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.

5. *Process risk*, which may arise from inadequate or failed business processes that deliver products and services in order to grow shareholder value. This includes inadequate or failed processes related to aggregation of data and reporting, inadequate or failed transaction processing (including delays as well as errors), governance or general process management, inadequate or failed processes related to financial or risk modelling and from inadequate or failed processes related to product development, product introduction, mergers and acquisitions, and the execution risk of failure to deliver change programmes or key strategic and regulatory projects.

6. *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.

7. *Project execution risk* arises from failure in delivery significant processes (mostly regulatory related). It has risen in prominence in 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 reviews of the risk register following each RCSA exercise. The different risk themes 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 events or issues 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 next section on operational risk measurement and assessment.

The primary responsibility for the development and implementation of controls to address operational risk 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 result of the RCSA analysis is 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 Subsidiaries.

Operational risk control testing

Operational risk controls testing prioritises monitoring of key controls identified through the operational risk assessment process so that the focus of control effectiveness testing and remediation is on those controls, which materially mitigate inherent operational risks.

Control testing focuses on:

- use of a risk-based approach;
- prioritisation of a more 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.

Operational risk is also monitored through:

i. Control owners alerting risk owners to changes in the operational risk profiles;
ii. Control owners alerting risk owners to any controls which do not operate as anticipated;
iii. Risk and control owners alerting operational risk management of control deficiencies as they see them – both through the RCSA process and general day-to-day process management;
iv. Operational risk management identify changes to operational risk profiles and the effectiveness of controls through the execution of the operational risk management framework; and
v. Internal Audit monitors operational risk and provides assurance both directly through their assessment of operational risk management, and indirectly through their reviews of business areas.

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 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 is 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 are tracked on a daily, weekly and monthly basis, and disclosed in the weekly and 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 draft guidelines on ICT and Security Risk Management. 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:

1. Significant cyber security incident;
2. Outstanding core access rights review process;
3. Malware detection on infrastructure and DDoS attempt identification;
4. Outstanding critical or high-risk external assessment findings;
5. Data leakage and data protection; and
6. 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 either emanate from: issues related with internal 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. The Group reported two significant cyber security incidents to the ECB during the financial year relating to a phishing incident that did not result in any loss of data, systems or network compromise, however was reported in line with the ECB cyber-incident reporting guidelines.

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 four sub-categories for financial crime compliance risk:

1. *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.

2. *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.

3. *Market abuse and conflicts of Interest risk* that may be triggered from certain types of behaviours, such as insider dealing and market manipulation, can amount to market abuse. Financial institutions are required by law to have safeguards in place to identify and reduce the risk of market abuse and other financial crime. There are various regulations and tools to help firms identify and reduce the risk of market abuse, such as the Market Abuse Regulation ("MAR") and the Suspicious Transaction and Order Reporting ("STOR").

4. *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.

The Group has measures in place to monitor financial crime compliance risk, of which these are 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.

Apart from Financial Crime Compliance Risk, the Group also faces Regulatory Compliance Risk that needs to monitor. The Group has identified two sub-categories for regulatory compliance risk:

1. Conduct risk; and
2. Legal risk.

As part of the Group's qualitative 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:

1. *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.

2. *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.

3. *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 Committee ("ROC") to ensure changes to regulations are captured, reviewed and embedded within the Group's policies and processes. This new sub-committee of the EXCO oversees all regulatory compliance matters, thereby ensuring that all regulatory requirements and updates are adhered to. The scope of the ROC includes changes which need to be announced, ad hoc requests made to the group, for example by the regulator, and oversight of existing regulatory change work streams. It also includes other matters relating to the Group's external environment.

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:

1. Customer reputational risk;
2. Firm specific reputational risk; and
3. 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.

The Board of Directors, after considering: (1) the strategies and processes to manage risks to which the Group is exposed; (2) the structure and organisation of the risk management function, its authority and statute; (3) the scope and nature of risk reporting and measurement systems; and (4) the policies for hedging and mitigating risk, together with the strategies and processes for monitoring the continuing effectiveness of hedges; is of the opinion that the risk management arrangements of the Group are adequate and provide assurance that the risk management systems put in place are appropriate with regard to the Group's profile and strategy. 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.

3 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.

3.1 Credit risk exposure – analysis by exposure class

The following table shows the net exposure values as at 31 March 2019 by exposure classes and the average net exposure value of this financial year; based on the last 4 end of quarter observations.

EU CRB-B: Total and average net amount of exposures

	Net value of exposures at end of year[4] €000	**Average net exposures over the year €000**
15 **Total IRB approach**	**-**	**-**
16 Central governments or central banks	165,956	128,508
17 Regional governments or local authorities	54,589	57,225
18 Public sector entities	108,904	111,749
19 Multilateral development banks	121,119	113,850
20 International organisations	28,012	28,360
21 Institutions	137,774	114,504
22 Corporates	2,199,047	2,226,465
23 of which SMEs	*18*	*581*
24 Retail	5,112	7,298
25 of which SMEs	*1,203*	*2,705*
26 Secured by mortgages on immovable property	72,871	53,917
27 of which SMEs	*12,377*	*13,128*
28 Exposures in default	94,839	61,365
29 Items associated with particular high risk	57,955	51,188
30 Covered bonds	384,127	275,047
33 Equity exposure	-	681
34 Other items	21,269	16,074
35 **Total standardised approach**	**3,451,574**	**3,246,231**
36 **Total**	**3,451,574**	**3,246,231**

[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.

3.2 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 March 2019 by geographical distribution broken down by exposure classes.

EU CRB-C: Geographical breakdown of exposures

		Net value of exposures								
		Malta €000	**United Kingdom €000**	**Germany €000**	**Italy €000**	**Netherlands €000**	**France €000**	**United States €000**	**Other countries €000**	**Total €000**
6	**Total IRB approach**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
7	Central government or central banks	47,533	-	-	-	-	-	-	118,423	**165,956**
8	Regional governments or local authorities	-	-	54,589	-	-	-	-	-	**54,589**
9	Public sector entities	-	-	-	-	-	108,904	-	-	**108,904**
10	Multilateral development banks	-	-	-	-	-	-	-	121,119	**121,119**
11	International organisations	-	-	-	-	-	-	-	28,012	**28,012**
12	Institutions	2,658	56,402	245	2,000	17	2,575	27,539	46,338	**137,774**
13	Corporates	20,770	586,506	226,105	170,387	159,039	346,385	276,681	413,174	**2,199,047**
14	Retail	5,107	5	-	-	-	-	-	-	**5,112**
15	Secured by mortgages on immovable property	72,634	120	-	-	-	-	-	117	**72,871**
16	Exposures in default	7,677	21,532	14,665	3,050	47,915	-	-	-	**94,839**
17	Items associated with particular high risk	57,955	-	-	-	-	-	-	-	**57,955**
18	Covered bonds	-	130,422	60,552	-	64,197	9,658	-	119,298	**384,127**
22	Other items	21,269	-	-	-	-	-	-	-	**21,269**
23	**Total standardised approach**	**235,603**	**794,987**	**356,156**	**175,437**	**271,168**	**467,522**	**304,220**	**846,481**	**3,451,574**
24	**Total**	**235,603**	**794,987**	**356,156**	**175,437**	**271,168**	**467,522**	**304,220**	**846,481**	**3,451,574**

Note to EU CRB-C Table: Other countries account for circa 25% of the total net exposure value and comprise of 16 countries, the main ones being Belgium, Luxembourg, Sweden and Spain.

3.3 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 March 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	-	146,985	-	-	-	-	18,971	**165,956**
8	Regional governments or local authorities	-	-	-	-	-	-	54,589	**54,589**
9	Public sector entities	-	-	-	-	-	-	108,904	**108,904**
10	Multilateral development banks	-	121,119	-	-	-	-	-	**121,119**
11	International organisations	-	-	-	-	-	-	28,012	**28,012**
12	Institutions	-	137,774	-	-	-	-	-	**137,774**
13	Corporates	304,108	1,247,988	10,149	171,714	219,215	51,045	194,828	**2,199,047**
14	Retail	148	24	686	-	-	189	4,065	**5,112**
15	Secured by mortgages on immovable property	-	14,514	23,969	1,534	-	6,391	26,463	**72,871**
16	Exposures in default	-	43,730	21,319	15,923	-	12,998	869	**94,839**
17	Items associated with particular high risk	-	-	42,903	-	-	-	15,052	**57,955**
18	Covered bonds	-	384,127	-	-	-	-	-	**384,127**
22	Other items	-	-	-	-	-	-	21,269	**21,269**
23	**Total standardised approach**	**304,256**	**2,096,261**	**99,026**	**189,171**	**219,215**	**70,623**	**473,022**	**3,451,574**
24	**Total**	**304,256**	**2,096,261**	**99,026**	**189,171**	**219,215**	**70,623**	**473,022**	**3,451,574**

3.4 Credit risk exposure – analysis by residual maturity

The following table shows the distribution of the exposures (net values of on-balance sheet and off balance sheet balances) as at 31 March 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	146,985	210	12,357	-	6,404	**165,956**
8 Regional governments or local authorities	-	-	46,007	8,582	-	**54,589**
9 Public sector entities	-	-	108,904	-	-	**108,904**
10 Multilateral development banks	-	34,570	86,549	-	-	**121,119**
11 International organisations	-	28,012	-	-	-	**28,012**
12 Institutions	72,912	55,152	9,466	244	-	**137,774**
13 Corporates	1,859	231,260	1,941,426	9,429	15,073	**2,199,047**
14 Retail	1,074	1,331	1,825	882	-	**5,112**
15 Secured by mortgages on immovable property	10,857	2,189	3,321	56,504	-	**72,871**
16 Exposures in default	7,123	202	87,416	98	-	**94,839**
17 Items associated with particular high risk	945	10,421	43,750	2,839	-	**57,955**
18 Covered bonds	-	37,818	228,609	117,700	-	**384,127**
22 Other exposures	4	2,926	2,380	5,850	10,109	**21,269**
23 **Total standardised approach**	**241,759**	**404,091**	**2,572,010**	**202,128**	**31,586**	**3,451,574**
24 **Total**	**241,759**	**404,091**	**2,572,010**	**202,128**	**31,586**	**3,451,574**

3.5 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 March 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	-	165,957	1	-	1	**165,956**
17 Regional governments or local authorities	-	54,594	5	-	5	**54,589**
18 Pubic sector entities	-	108,921	17	-	17	**108,904**
19 Multilateral development banks	-	121,127	8	-	8	**121,119**
20 International organisations	-	28,014	2	-	2	**28,012**
21 Institution	-	137,775	1	-	1	**137,774**
22 Corporates	-	2,207,501	8,454	-	3,403	**2,199,047**
23 of which SMEs	-	*18*	-	-	-	***18***
24 Retail	-	5,117	5	-	(101)	**5,112**
25 of which SMEs	-	*1,203*	-	-	*(105)*	***1,203***
26 Secured by mortgages on immovable property	-	72,968	97	-	(21)	**72,871**
27 of which SMEs	-	*12,377*	-	-	*(17)*	***12,377***
28 Exposures in default	104,038	-	9,199	-	(6,351)	**94,839**
29 Items associated with particular high risk	2,272	55,997	314	-	(1,500)	**57,955**
30 Covered bonds	-	384,151	24	-	24	**384,127**
34 Other exposures	-	21,269	-	-	-	**21,269**
35 **Total standardised approach**	**106,310**	**3,363,391**	**18,127**	-	**(4,512)**	**3,451,574**
36 **Total**	**106,310**	**3,363,391**	**18,127**	**-**	**(4,512)**	**3,451,574**
37 of which: Loans and advances	106,310	2,400,236	18,071	-	(4,512)	**2,488,475**
38 of which: Debt securities	-	696,807	56			**696,751**
39 of which: Off-balance-sheet exposures		579,067				**579,067**

[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.

In December 2018, the EBA published its Final Report for Guidelines on disclosure of non-performing and forborne exposures (EBA/GL/2018/10). These guidelines mainly 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. These disclosures are meant to also address key disclosure recommendations related to non-performing loans as provided in the Guidance on non-performing loans (Appendix 7) issued by the ECB in March 2017.

In view of the requirements in the ECB report and the new guidelines in EBA/GL/2018/10, the Group has 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 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. In this respect, the Group's NPL ratio as at 31 March 2019 amounted to 4.7%, which is not considerably above the EU average NPL ratio of 3.1% (as at 31 March 2019) and below the 6% threshold required under the Banking Rule 09. Therefore, the Group is not required to report such table.

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**	**2,838,409**	**101,372**	**101,372**	**85,246**	**23,971**		**-**
2	Malta	118,894	11,227	11,227	11,227	1,371		-
3	Belgium	153,542	-	-	-	-		-
4	Germany	303,339	14,997	14,997	14,997	1,887		-
5	Denmark	33,896	-	-	-	10		-
6	Spain	62,703	-	-	-	136		-
7	France	397,073	-	-	-	1,667		-
8	United Kingdom	693,960	23,244	23,244	7,118	7,943		-
9	Luxembourg	82,913	-	-	-	515		-
10	Ireland	13,784	-	-	-	84		-
11	Italy	141,362	5,042	5,042	5,042	2,886		-
12	Netherlands	224,151	46,862	46,862	46,862	4,021		-
13	Sweden	109,760	-	-	-	272		-
14	United States	212,386	-	-	-	2,425		-
15	Other countries	290,646	-	-	-	754		-
16	**Off balance sheet exposures**	**584,560**	**5,493**	**5,493**	**-**		**1,633**	
17	Malta	72,194	-	-	-		-	
18	Germany	56,913	-	-	-		303	
19	Denmark	11,432	-	-	-		22	
20	Spain	5,148	-	-	-		6	
21	France	71,546	-	-	-		263	
22	United Kingdom	104,875	-	-	-		184	
23	Luxembourg	53,702	-	-	-		213	
24	Ireland	-	-	-	-		-	
25	Italy	37,368	-	-	-		12	
26	Netherlands	51,869	5,493	5,493	-		118	
27	Sweden	8,933	-	-	-		10	
28	United States	96,109	-	-	-		480	
29	Other countries	14,471	-	-	-		22	
30	**Total**	**3,422,969**	**106,865**	**106,865**	**85,246**	**23,970**	**1,633**	**-**

[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.

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 March 2019, as per the EBA Guidelines on disclosure of non-performing and forborne exposures.

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	Agriculture, forestry and fishing	715	-	-	715	-	-
2	Mining and quarrying	31	-	-	31	-	-
3	Manufacturing	255,789	-	-	255,789	1,524	-
5	Water supply	3,029	-	-	3,029	8	-
6	Construction	49,173	24,225	24,225	49,173	625	-
7	Wholesale and retail trade	71,931	16,207	16,207	71,931	3,469	-
9	Accommodation and food service activities	1,643	-	-	1,643	-	-
10	Information and communication	181,942	-	-	181,942	1,671	-
12	Real estate activities	26,999	-	-	26,999	123	-
13	Professional, scientific and technical activities	164,818	17,127	17,127	164,818	3,264	-
14	Administrative and support service activities	24,322	-	-	24,322	183	-
16	Education	5,802	-	-	5,802	30	-
17	Human health services and social work activities	52,479	-	-	52,479	342	-
18	Arts, entertainment and recreation	44,660	-	-	44,660	301	-
19	Other services	1,653	-	-	1,653	17	-
20	**Total**	**884,986**	**57,559**	**57,559**	**884,986**	**11,557**	**-**

The following table provides an overview of forborne exposures as at 31 March 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	20,261	94,811	94,811	76,684	136	8,122	9,659	9,659
5	*Other financial corporations*	-	*36,826*	*36,826*	*36,826*	-	*2,928*	-	-
6	*Non-financial corporations*	*20,191*	*57,214*	*57,214*	*41,087*	*136*	*5,194*	*8,818*	*8,818*
7	*Households*	*70*	*771*	*771*	*771*	-	-	*841*	*841*
9	Loan commitments given	-	5,493	5,493	5,493	-	-	-	-
10	**Total**	**20,261**	**100,304**	**100,304**	**82,177**	**136**	**8,122**	**9,659**	**9,659**

The following table provides a split of those exposures classified as forborne exposures as at 31 March 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	1,327
2	Non-performing forborne loans and advances that failed to meet the non-performing exit criteria	91,308

3.6 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 March 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 financial statements.

EBA-NPL 3: Credit quality of performing and non-performing exposures by past due days

		Gross carrying amount/nominal amount		
		Performing exposures		
		€000	Not past due or past due ≤ 30 days **€000**	Past due > 30 days ≤ 90 days **€000**
1	Loans and advances	2,040,230	2,038,929	1,301
2	*Central banks*	*146,985*	*146,985*	-
4	*Credit institutions*	*135,974*	*135,974*	-
5	*Other financial corporations*	*923,884*	*923,884*	-
6	*Non-financial corporations*	*827,427*	*826,126*	*1,301*
7	*Of which SMEs*	*17,107*	*16,986*	*121*
8	*Households*	*5,960*	*5,960*	-
9	Debt securities	696,807	696,807	-
11	*General governments*	*191,529*	*191,529*	-
12	*Credit institutions*	*505,278*	*505,278*	-
15	Off balance sheet exposures	579,067		
19	*Other financial corporations*	*346,293*		
20	*Non-financial corporations*	*231,021*		
21	*Households*	*1,753*		
22	**Total**	**3,316,104**	**2,735,736**	**1,301**

		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	101,372	92,559	-	17	140	1,046	6,610	1,000	101,372
2	*Central banks*	-	-	-	-	-	-	-	-	-
4	*Credit institutions*	-	-	-	-	-	-	-	-	-
5	*Other financial corporations*	*42,900*	*42,900*	-	-	-	-	-	-	*42,900*
6	*Non-financial corporations*	*57,559*	*48,874*	-	-	*29*	*1,046*	*6,610*	*1,000*	*57,559*
7	*Of which SMEs*	*10,313*	*1,628*	-	-	*29*	*1,046*	*6,610*	*1,000*	*10,313*
8	*Households*	*913*	*785*	-	*17*	*111*	-	-	-	*913*
9	Debt securities	-	-	-	-	-	-	-	-	-
11	*General governments*	-	-	-	-	-	-	-	-	-
12	*Credit institutions*	-	-	-	-	-	-	-	-	-
15	Off balance sheet exposures	5,493								5,493
19	*Other financial corporations*	*5,493*								*5,493*
20	*Non-financial corporations*	-								-
21	*Households*	-								-
22	**Total**	**106,865**	**92,559**	**-**	**17**	**140**	**1,046**	**6,610**	**1,000**	**106,865**

Out of the €8.8 million past due more than 90 days stated in EBA-NPL 3 above, €7.8 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 March 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	2,040,230	1,844,029	196,200	101,372	-	85,246
2	*Central banks*	*146,985*	*146,985*	-	-	-	-
4	*Credit institutions*	*135,974*	*135,974*	-	-	-	-
5	*Other financial corporations*	*923,884*	*800,025*	*123,859*	*42,900*	-	*42,900*
6	*Non-financial corporations*	*827,427*	*755,085*	*72,342*	*57,559*	-	*41,433*
7	*Of which SMEs*	*17,107*	*16,986*	*121*	*10,314*	-	*10,314*
8	*Households*	*5,960*	*5,960*	-	*913*	-	*913*
9	Debt securities	696,807	696,807	-	-	-	-
11	*General governments*	*191,529*	*191,529*	-	-	-	-
12	*Credit institutions*	*505,278*	*505,278*	-	-	-	-
15	Off balance sheet exposures	579,067	579,067	-	5,493	-	5,493
19	*Other financial corporations*	*346,293*	*346,293*	-	*5,493*	-	*5,493*
20	*Non-financial corporations*	*231,021*	*231,021*	-	-	-	-
21	*Households*	*1,753*	*1,753*	-	-	-	-
22	**Total**	**3,316,104**	**3,119,903**	**196,201**	**106,865**	**-**	**90,739**

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	15,131	11,179	3,952	8,783	-	8,282	-	75,359	10,033
2	*Central banks*	-	-	-	-	-	-	-	-	-
4	*Credit institutions*	*788*	*788*	-	-	-	-	-	-	-
5	*Other financial corporations*	*7,974*	*5,615*	*2,359*	*3,590*	-	*3,590*	-	*7,759*	-
6	*Non-financial corporations*	*6,364*	*4,771*	*1,593*	*5,193*	-	*4,692*	-	*62,038*	*9,119*
7	*Of which SMEs*	*28*	-	-	-	-	-	-	*17,057*	*9,119*
8	*Households*	*5*	*5*	-	-	-	-	-	*5,562*	*914*
9	Debt securities	56	56	-	-	-	-	-	-	-
11	*General governments*	*23*	*23*	-	-	-	-	-	-	-
12	*Credit institutions*	*33*	*33*	-	-	-	-	-	-	-
15	Off balance sheet exposures	1,633	1,633	-	-	-	-		-	-
19	*Other financial corporations*	*1,166*	*1,166*	-	-	-	-		-	-
20	*Non-financial corporations*	*467*	*467*	-	-	-	-		-	-
21	*Households*	-	-	-	-	-	-		-	-
22	**Total**	**16,820**	**12,868**	**3,952**	**8,783**	**-**	**8,282**	**-**	**75,359**	**10,033**

The following table provides an analysis the change in stock of specific credit risk adjustment for the financial year ended 31 March 2019.

EU CR2–A: Changes in the stock of specific credit risk adjustments

	Accumulated specific credit risk adjustments €000
1 Opening balance at 1 April 2018	22,638
2 Increases due to amounts set aside for estimated loan losses during the period	14,247
3 Decreases due to amounts reversed for estimated loan losses during the period	(18,777)
6 Impact of exchange rate differences	19
9 **Closing balance at 31 March 2019**	**18,127**
10 Recoveries on credit risk adjustments recorded directly to the statement of profit or loss	2,746
11 Specific credit risk adjustments recorded directly to the statement of profit or loss	17,311

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 2018	66,107
2 Loans and debt securities that have defaulted or impaired since the last reporting period	98,429
3 Returned to non-defaulted status	(1)
4 Amounts written off	(17,311)
5 Other changes	(40,914)
Closing balance at 31 March 2019	**106,310**

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 2018)	66,107	
2	Inflows to non-performing portfolios	98,429	
3	Outflows from non-performing portfolios	(58,226)	
4	*Outflow to performing portfolio*	*(1)*	
5	*Outflow due to loan repayment, partial or total*	*(23,073)*	
8	*Outflow due to sale of instruments*	*(17,841)*	-
10	*Outflow due to write-off*	*(17,311)*	
13	**Final stock of non-performing loans and advances (31 March 2019)**	**106,310**	

3.7 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') 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.

Throughout the financial year under review, as a result of the restructuring of certain loans and advances, the Group derecognised these loans and advances to customers in their entirety. These financial instruments were replaced by new loans and advances to customers that were classified as hold to collect financial assets measured at amortised cost and unlisted equity in this European corporation that were classified as financial assets at fair value through profit or loss. The holding of the new loans and advances to customers and the unlisted equities represent the continuing involvement with this customer. The Group sustained a gain of €0.4 million on the de-recognition of the former loans and advances to customers and the recognition of the new loans and advances to customers measured at amortised cost and the financial assets at fair value through profit or loss.

3.8 Credit risk mitigation

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.

3.8.1 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.

3.8.2 On and off balance sheet netting and set-off

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.

3.8.3 Collateral and other credit enhancements

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.

The following table shows an analysis of the on-balance sheet exposure value (carrying amount net of provisions) as at 31 March 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	1,831,088	79,393	78,843	550
2 Total debt securities	696,752	-	-	-
3 Total exposures	**2,527,840**	**79,393**	**78,843**	**550**
4 of which Defaulted	81,713	9,687	9,687	-

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 March 2019, in line with the EBA Guidelines on disclosure of non-performing and forborne exposures.

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	2,141,602	2,040,230	1,301	101,372	92,559
2	Of which secured	86,759	75,576	1,301	11,183	2,414
3	Of which secured with immovable property	59,566	49,465	1,301	10,101	2,413
4	Of which instruments with LTV higher than 60% and lower or equal to 80%	11,561	6,008		5,553	-
5	Of which instruments with LTV higher than 80% and lower or equal to 100%	5,246	5,246		-	-
7	Accumulated impairment for secured assets	1,368	218	6	1,150	217
8	Collateral					
9	Of which value capped at the value of exposure	85,392	75,359	1,295	10,033	2,196
10	Of which immovable property	84,923	74,890	1,295	10,033	2,196
11	Of which value above the cap	141,222	126,297	1,134	14,925	5,544
12	Of which immovable property	139,550	124,681	1,096	14,869	5,504

[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.

		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	8,813	-	17	140	1,046	6,610	1,000
2	Of which secured	8,769	-	17	117	1,025	6,610	1,000
3	Of which secured with immovable property	7,688	-	17	36	1,025	6,610	-
4	Of which instruments with LTV higher than 60% and lower or equal to 80%	5,553						
5	Of which instruments with LTV higher than 80% and lower or equal to 100%	-						
7	Accumulated impairment for secured assets	933	-	-	-	-	-	933
8	Collateral							
9	Of which value capped at the value of exposure	7,836	-	17	117	1,025	6,610	67
10	Of which immovable property	7,836	-	17	117	1,025	6,610	67
11	Of which value above the cap	9,381	-	86	378	1,982	5,990	945
12	Of which immovable property	9,366	-	71	378	1,982	5,990	945

The following table details out the types of eligible collateral held for each exposure class as at 31 March 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	-	-	165,956
Regional governments or local authorities	-	-	-	-	-	54,589
Public sector entities	-	-	-	-	-	108,904
Multilateral development banks	-	-	-	-	-	121,119
International organisations	-	-	-	-	-	28,012
Institutions	-	-	-	-	-	137,774
Corporates	-	-	-	-	-	1,919,767
Retail	2,015	1,250	-	-	-	427
Secured by mortgages on immovable property	22,000	16,980	-	-	-	740
Exposures in default	3,257	4,376	-	-	-	84,460
Items associated with particular high risk	21,992	6,972	-	-	-	-
Covered bonds	-	-	-	-	-	384,127
Other	-	-	-	190	-	17,988
Total	**49,264**	**29,578**	**31**	**190**	**-**	**3,023,863**

[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 two tables provide an overview of the foreclosed assets obtained from non-performing exposures as at 31 March 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

		Collateral obtained by taking possession	
		Value at initial recognition €000	Accumulated negative changes €000
2	Other than PP&E	1,785	-
4	*Commercial immovable property*	*1,785*	-
8	**Total**	**1,785**	**-**

EBA-NPL 10: Collateral obtained by taking possession and execution processes – vintage breakdown

		Debt balance reduction		Total collateral obtained by taking possession			
						Foreclosed ≤ 2 years	
		Gross carrying amount €000	Accumulated negative changes €000	Value at initial recognition €000	Accumulated negative changes €000	Value at initial recognition €000	Accumulated negative changes €000
2	Collateral obtained by taking possession other than that classified as PP&E	2,384	735	1,785	-	-	-
4	*Commercial immovable property*	*2,384*	*735*	*1,785*	-	-	-
8	**Total**	**2,384**	**735**	**1,785**	**-**	**-**	**-**

		Total collateral obtained by taking possession					
		Foreclosed > 2 years ≤ 5 years		Foreclosed > 5 years		Of which non-current assets held-for-sale	
		Value at initial recognition €000	Accumulated negative changes €000	Value at initial recognition €000	Accumulated negative changes €000	Value at initial recognition €000	Accumulated negative changes €000
2	Collateral obtained by taking possession other than that classified as PP&E	1,785	-	-	-	1,785	-
4	*Commercial immovable property*	*1,785*	-	-	-	*1,785*	-
8	**Total**	**1,785**	**-**	**-**	**-**	**1,785**	**-**

The following table shows the exposures together with the relevant credit risk mitigation undertaken for each class as at 31 March 2019:

EU CR4: Standardised approach – Credit risk exposure and CRM effects

Exposure classes	Exposures before CCF and CRM[13]		Exposures post CCF and CRM		RWA and RWA density	
	On-Balance sheet amount €000	Off-Balance sheet amount €000	On-Balance sheet amount €000	Off-Balance sheet amount €000	RWAs €000	RWA density %
1 Central governments or central banks	165,987	-	165,987	-	16,009	10%
2 Regional governments or local authorities	54,594	-	54,589	-	-	0%
3 Public sector entities	108,921	-	108,904	-	-	0%
4 Multilateral development banks	121,127	-	121,119	-	-	0%
5 International organisations	28,014	-	28,012	-	-	0%
6 Institutions	132,836	-	132,835	-	26,567	20%
7 Corporates	1,698,632	508,288	1,690,177	229,084	1,919,261	100%
8 Retail	3,698	1,263	3,692	-	2,769	75%
9 Secured by mortgages on immovable property	39,076	33,840	38,980	740	30,279	76%
10 Exposures in default	98,544	5,494	89,346	2,747	133,490	145%
11 Items associated with particular high risk	29,279	28,991	28,964	-	43,446	150%
12 Covered bonds	384,151	-	384,127	-	38,413	10%
16 Other items	14,837	6,684	14,836	3,342	14,703	81%
17 Total	**2,879,696**	**584,560**	**2,861,568**	**235,913**	**2,224,937**	**72%**

The table above does not cover derivative instruments exposures as at 31 March 2019 with an exposure value of €5.4 million post CCF and CRM, of which the respective RWAs amounted to €2.6 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	159,583	-	-	-	-	-	-	-	6,404	165,987
2 Regional governments or local authorities	54,589	-	-	-	-	-	-	-	-	54,589
3 Public sector entities	108,904	-	-	-	-	-	-	-	-	108,904
4 Multilateral development banks	121,119	-	-	-	-	-	-	-	-	121,119
5 International organisations	28,012	-	-	-	-	-	-	-	-	28,012
6 Institutions	-	-	134,604	-	2,926	-	244	-	-	137,774
7 Corporates	-	-	-	-	-	-	1,919,767	-	-	1,919,767
8 Retail	-	-	-	-	-	3,692	-	-	-	3,692
9 Secured by mortgages on immovable property	-	-	-	9,409	6,651	-	23,660	-	-	39,720
10 Exposures in default	-	-	-	-	-	-	9,298	82,795	-	92,093
11 Items associated with particular high risk	-	-	-	-	-	-	-	28,964	-	28,964
12 Covered bonds	-	384,127	-	-	-	-	-	-	-	384,127
16 Other items	3,477	-	-	-	-	-	14,701	-	-	18,178
17 Total	**475,684**	**384,127**	**134,604**	**9,409**	**9,577**	**3,692**	**1,967,670**	**111,759**	**6,404**	**3,102,926**

3.9 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.

3.10 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 March 2019, is calculated to be €817,909 on a total exposure of €4,690,378.

EU CCR2: CVA Capital Charge

	Exposure value €000	RWAs €000
4 All portfolios subject to the standardised method	**4,690**	**818**

3.11 Exposures in equities

The equity instruments held by the Group as at the end of the reporting period had a nil value. The equity instruments held by the Group throughout the year and not included in the trading book, were accounted for at fair value and consisted of locally quoted equity instruments issued by local well known corporates. These equity instruments were disposed throughout the financial year and the realised gains on the sale of such investments amounted to €3.4 million.

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.

[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.

4 Counterparty credit risk

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 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.

4.1 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 March 2019	Replacement cost/current market value €000	Potential future credit exposure €000	EAD post CRM €000	RWAs €000
1 Mark to market	716	4,729	5,445	2,567
11 **Total**	**716**	**4,729**	**5,445**	**2,567**

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				-	245	100%	245
Interest rate swaps	Over one year, not exceeding five years	108,000					
Interest rate swaps	Over five years	11,000					
Foreign currency contracts	One year or less	165,699	1.00%	127	1,642	20%	354
Foreign currency contracts	One year or less	278,453	1.00%	141	2,784	50%	1,462
Contracts concerning equities	Over five years	579	10.00%	448	58	100%	506

The below table shows the counterparty credit risk exposure split by exposure class:

	Exposure value €000	Risk weighted assets €000
Institutions	4,939	2,061
of which exposure to a qualifying central counterparty	*245*	*245*
Corporates	506	506
	5,445	**2,567**

[15] Applicable percentages per Table 1 of Article 274(2)(c)

5 External credit assessment institutions

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 year ended 31 March 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 March 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	118,423
Central governments or central banks	2	47,564
Regional governments or local authorities	1	54,589
Public sector entities	1	108,904
Multilateral development banks	1	121,119
International organisations	1	28,012
Institutions	1	6,356
Institutions	2	82,718
Institutions	3	29,324
Institutions	Unrated	19,376
Corporates	Unrated	1,919,767
Retail	Unrated	3,692
Secured by mortgages on immovable property	Unrated	39,720
Exposures in default	5	29,895
Exposures in default	Unrated	62,198
Items associated with particular high risk	Unrated	28,964
Covered bonds	1	384,127
Other items	Unrated	18,178
Total		**3,102,926**

6 Interest rate risk in non-trading book

6.1 Managing Interest rate risk

A summary of the Group's interest rate gap position on non-trading portfolios is found in the Group's financial statements.

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 fall / rise in the yield curves would be as follows:

31 March 2019

- Under parallel shock up by 100 bps the Economic Value increases by €8.8 million meanwhile under shock down by 100 bps it increases by €35.0 million.
- Under parallel shock up by 100 bps there is positive impact on Net Interest Income equal to €11.8 million meanwhile under parallel down by 100 bps the impact is negative and equal to €0.7 million.

The following table provides a further analysis of such results by currency.

	Euro		British Pound		Other currencies in Euro	
31 March 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	6.3	33.8	1.9	1.4	0.6	(0.2)
Impact on NIM	10.7	(0.8)	1.0	0.0	0.1	1.5

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 contractual maturity and are not replaced for the ∆EVE purposes (run off balance sheet);
- Interest bearing assets are assumed to mature on their contractual maturity and are replaced on like for like basis for the ∆NII purposes (constant balance sheet);
- Certain senior secured loans have floors and thus are not fully affected by a decrease in interest rate;
- 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 customer deposits as the Group will not charge negative rates to customers;
- 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.

7 Operational risk

7.1 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 March 2019 amounted to €128.7 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.

$$Aggregate\ capital\ requirement = \sqrt{\sum\sum_{i,j} \rho_{i,j} \times RA_i \times RA_j}$$

$$\rho_{i,j} = linear\ correlation\ coefficient\ between\ scenarios\ i\ and\ j; with\ RA_i\ and\ RA_j = \ Risk\ add - ons.$$

8 Own funds

8.1 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.

8.1.1 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.

8.1.2 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 financial statements.

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.

8.1.3 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 March 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 7.5%, repayable on 14 December 2019.
- debt securities, bearing interest payable at 6%, repayable on 28 November 2024, with a 28 November 2019 early redemption option held by the Group.
- debt securities, bearing interest payable at 5%, repayable on 13 October 2027, with a 13 October 2022 early redemption option held by the Group.

8.2 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.

8.2.1 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 March 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	124,163
Accumulated other comprehensive income (and other reserves)	128,068
Funds for general banking risk	3,081
Common Equity Tier 1 (CET1) capital before regulatory adjustments	324,807
Common Equity Tier 1 (CET1) capital: regulatory adjustments	
Additional value adjustments	(279)
Intangible assets (net of related tax liability)	(6,324)
Deferred tax assets that rely on future profitability	(14,625)
Other regulatory adjustments – IFRS 9 transitional arrangement	6,926
Total regulatory adjustments to Common Equity Tier 1 (CET1)	(14,302)
Common Equity Tier 1 (CET1) capital	**310,505**
Tier 1 capital	**310,505**
Tier 2 (T2) capital: instruments and provisions	
Capital instruments and the related share premium accounts (Subordinated loans)	47,955
Tier 2 capital	**47,955**
Total capital	**358,460**
Total risk weighted assets	**2,357,063**
Capital ratios and buffers	**%**
Common Equity Tier 1 ratio	13.17%
Tier 1 ratio	13.17%
Total capital ratio	15.21%
Institution specific buffer requirement	7.81%
of which: Capital conservation buffer requirement	2.50%
of which: Countercyclical buffer requirement	0.31%
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	8.67%
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)	6,404

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 March 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 March 2019.

Capital Base	**At 31 March 2019 €000**
Shareholders' equity according to the Group's balance sheet	339,761
Anticipated dividend	(10,000)
Market value of assets pledged in favour of Depositor Compensation Scheme	(4,631)
Deferred tax assets that are dependent on future profitability and do not arise from temporary differences (transitional definition)	(14,625)
Intangible assets	(6,324)
Other adjustments:	
IFRS 9 transitional arrangements	6,926
AVA valuation adjustments	(279)
Other adjustments	(323)
Common Equity Tier 1 capital / Tier 1 capital	**310,505**
Tier 2 instruments: subordinated loans	67,138
Amortisation of tier 2 instruments	(19,183)
Tier 2 capital	**47,955**
Total capital	**358,460**

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 March 2019	31 December 2018	30 September 2018	30 June 2018
	Available capital (amounts in €000)				
1	Common Equity Tier 1 (CET1) capital	310,505	312,693	296,502	304,919
2	Common Equity Tier 1 (CET1) capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	303,579	304,993	290,660	299,441
3	Tier 1 capital	310,505	312,693	296,502	304,919
4	Tier 1 capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	303,579	304,993	290,660	299,441
5	Total capital	358,460	361,561	346,508	356,058
6	Total capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	351,533	353,861	340,666	350,580
	Risk-weighted assets (amounts in €000)				
7	Total risk-weighted assets	2,357,063	2,228,742	2,348,057	2,155,388
8	Total risk weighted assets as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	2,348,616	2,231,927	2,336,740	2,157,934
	Capital ratios				
9	Common Equity Tier 1 (as a percentage of risk exposure amount)	13.17%	14.03%	12.63%	14.15%
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	12.93%	13.67%	12.44%	13.88%
11	Tier 1 (as a percentage of risk exposure amount)	13.17%	14.03%	12.63%	14.15%
12	Tier 1 (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	12.93%	13.67%	12.44%	13.88%
13	Total capital (as a percentage of risk exposure amount)	15.21%	16.22%	14.76%	16.52%
14	Total capital (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	14.97%	15.85%	14.58%	16.25%
	Leverage ratio				
15	Leverage ratio total exposure measure (€000)	3,113,091	3,082,655	3,136,842	2,971,448
16	Leverage ratio	9.97%	10.14%	9.45%	10.26%
17	Leverage ratio as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	9.83%	9.91%	9.33%	10.08%

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 March 2023, 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 March 2023. The above treatment is in accordance with the requirements laid down in paragraph 2 and paragraph 4 of Regulation (EU) 2017/2395.

As noted in template IFRS 9-FL above, the impact of the transitional arrangement on the Group's capital ratio as at 31 March 2019 amounted to 24 bps at the reporting period under review. This was a result of an add-back in capital of €6.9 million mitigated by an increase of €8.4 million in risk-weighted assets. Similarly, the Group's leverage ratio is 'overstated' by 14 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 7.5% Subordinated Bonds EUR 2019	MeDirect Bank (Malta) plc 7.5% Subordinated Bonds GBP 2019
1	Issuer	MDB Group Limited	MDB Group Limited	MeDirect Bank (Malta) plc	MeDirect Bank (Malta) plc
2	Unique identifier	N/A	N/A	MT0000551227	MT0000551235
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	EUR2.7 million	EUR0.5 million
9	Nominal amount of instrument	EUR55.7 million	EUR13.8 million	EUR18.7 million	EUR4.1 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	21 November 2012 (Note 1)	21 November 2012 (Note 1)
12	Perpetual or dated	Perpetual	Perpetual	Dated	Dated
13	Original maturity date	N/A	N/A	14 December 2019	14 December 2019
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	7.5% per annum	7.5% per annum
19	Existence of a dividend stopper	No	No	No	No
20a	Fully discretionary, partially discretionary or mandatory - in terms of timing	Fully discretionary	N/A	Mandatory	Mandatory
20b	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 and 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 March 2019 the subordinated bonds listed above had a remaining maturity of less than 5 years and had all been fully paid up.

Note (2): Redemption of the subordinated loan capital shall take place on 14 December 2019, 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 MFSA, 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 6% Subordinated Unsecured Bonds EUR 2019 - 2024	MeDirect Bank (Malta) plc 6% Subordinated Unsecured Bonds GBP 2019 – 2024
1	Issuer	MeDirect Bank (Malta) plc	MeDirect Bank (Malta) plc
2	Unique identifier	MT0000551268	MT0000551276
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	EUR23.0 million	EUR1.9 million
9	Nominal amount of instrument	EUR23.0 million	EUR1.9 million
9a	Issue price	EUR100 per EUR Bond	Only GBP100 per GBP Bond
9b	Redemption price	EUR100 per EUR Bond	Only GBP100 per GBP Bond
10	Accounting classification	Liability - amortised cost	Liability - amortised cost
11	Original date of issuance	28 November 2014 (Note 1)	28 November 2014 (Note 1)
12	Perpetual or dated	Dated	Dated
13	Original maturity date	28 November 2024	28 November 2024
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	6% per annum	6% per annum
19	Existence of a dividend stopper	No	No
20 a	Fully discretionary, partially discretionary or mandatory - in terms of timing	Mandatory	Mandatory
20 b	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 March 2019 the subordinated bonds listed above had a remaining maturity of more than 5 years and had all been fully paid up. The full value of these securities are included in the Group's Own Funds figure.

Note (2): Redemption of the subordinated loan capital shall take place on 28 November 2024, 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 MFSA, 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 5% Subordinated Unsecured Bonds EUR 2027	MeDirect Bank (Malta) plc 5% Subordinated Unsecured Bonds GBP 2027
1	Issuer	MeDirect Bank (Malta) plc	MeDirect Bank (Malta) plc
2	Unique identifier	MT0000551284	MT0000551292
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	EUR18.7 million	EUR1.2 million
9	Nominal amount of instrument	EUR18.7 million	EUR1.2 million
9a	Issue price	EUR100 per EUR Bond	GBP100 per GBP Bond
9b	Redemption price	EUR100 per EUR Bond	GBP100 per GBP Bond
10	Accounting classification	Liability - amortised cost	Liability - amortised cost
11	Original date of issuance	27 October 2017 (Note 1)	27 October 2017 (Note 1)
12	Perpetual or dated	Dated	Dated
13	Original maturity date	13 October 2027	13 October 2027
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	5% per annum	5% 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 March 2019 the subordinated bonds listed above had a remaining maturity of more than 5 years and had all been fully paid up. The full value of these securities are included in the Group's Own Funds figure.

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 MFSA, have the option to redeem the subordinated loan capital in full prior to the scheduled redemption date.

9 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.

- 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. The Group has no exposure in items representing securitisation positions. 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.

EU OV1: Overview of RWAs	**31 March 2019**	**31 December 2018**	**31 March 2019**
Exposure Class	**Risk weighted assets €000**	**Risk weighted assets €000**	**Minimum Capital Requirements €000**
1 Credit risk (excluding CCR)	**2,224,937**	**2,113,686**	**177,607**
2 of which the standardised approach	2,224,937	2,113,686	177,607
Central governments or central banks	16,009	20,739	1,183
Public sector entities	-	254	-
Institutions	26,567	16,554	2,122
Corporates	1,919,261	1,911,216	153,541
Retail	2,769	3,366	222
Secured by mortgages on immovable property	30,279	19,817	2,422
Exposures in default	133,490	58,585	10,397
Items associated with particular high risk	43,446	47,774	3,476
Covered bonds	38,413	23,678	3,073
Equity exposures	-	2,723	-
Other items	14,703	8,980	1,171
6 CCR	**3,385**	**4,293**	**270**
7 of which mark to market	2,567	2,942	205
12 of which CVA	818	1,351	65
23 Operational risk	**128,741**	**110,763**	**10,299**
24 of which the basic indicator approach	128,741	110,763	10,299
27 Amounts below the thresholds for Deduction (subject to 250% risk weight)	*16,009*	*20,739*	*1,183*
29 Total	**2,357,063**	**2,228,742**	**188,176**

The Group's total capital ratio computation is as follows:

Own funds	**€000**
Common Equity Tier 1 capital	310,505
Tier 2 capital	47,955
Total own funds	**358,460**
Total capital ratio	**15.21%**

The Group will be fully implementing the CRD IV capital requirements with effect from January 2019. 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 will be required to maintain a capital conservation buffer of 2.5%, made up of CET1 capital, on its risk weighted exposures as from 1 January 2019. This buffer was phased in over the period from 1 January 2016 to 31 December 2018.

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 March 2019.

	General credit exposures	**Own funds requirement**		**Own funds requirement weights**	**Counter-cyclical capital buffer rate**
Country	*Exposure value for SA*	*of which: General credit exposures*	*Total*		
	€000	**€000**	**€000**	**%**	**%**
Australia	26,786	2,143	2,143	1.23	-
Belgium	17,077	1,761	1,761	1.01	-
Brazil	11,587	93	93	0.05	-
Denmark	39,547	909	909	0.52	0.50
Finland	350,289	27,328	27,328	15.71	-
France	282,655	20,436	20,436	11.75	-
Germany	57,824	2,883	2,883	1.66	-
Guernsey	2,412	193	193	0.11	-
Hong Kong	10,183	815	815	0.47	-
Ireland	35,822	2,866	2,866	1.65	-
Italy	167,245	13,380	13,380	7.69	-
Jersey	19,635	1,571	1,571	0.90	-
Luxembourg	49,646	2,375	2,375	1.36	-
Malta	100,083	9,113	9,113	5.24	-
Netherlands	190,211	10,811	10,811	6.21	-
Norway	23,472	1,157	1,157	0.67	2.00
Spain	50,550	4,044	4,044	2.32	-
Sweden	94,086	4,490	4,490	2.58	2.00
Switzerland	30,698	2,456	2,456	1.41	-
United Kingdom	641,998	42,604	42,604	24.49	1.00
United States	267,132	22,566	22,566	12.97	-
Total	**2,468,938**	**173,994**	**173,994**		

In view of the above exposure values, the following table identifies the Group's countercyclical capital buffer requirement.

	As at 31 March 2019
Total risk exposure amount (€000)	2,357,063
Institution specific countercyclical buffer rate (%)	0.311%
Institution specific countercyclical buffer requirement (€000)	7,324

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% and was phased-in over the period 1 January 2016 to 1 January 2019. 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 2018, the Group received notification from the ECB on the own funds requirements that it is required to meet as of 1 March 2019, following the results of the SREP of 2018. 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 2019 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%. As of 1 January 2019, both buffers have been fully phased-in. Thus, this results in a total CET1 capital requirement of 10.50% for 2019. With a CET1 capital ratio of 13.17% at 31 March 2019, MDB Group comfortably meets its requirements for 2019 and is expected to continue meeting the relative requirements in the coming years. Moreover, the Group is required to hold a countercyclical buffer of 0.31% as at 31 March 2019. This buffer requirement has been increasing in view of the Group's UK exposures since the UK had increased the countercyclical buffer rate to 1% on 28 November 2018, whereas the countercyclical buffer rate of Ireland, France and Luxembourg was set at 1%, 0.25% and 0.25% with effect from 5 July 2019, 1 July 2019 and 1 January 2020 respectively. With respect to France's countercyclical buffer rate, this will further increase to 0.5% as from 2 April 2020.

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.

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 Credit and Investments. 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.

10 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.

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 initial implementation of the current leverage ratio regime is to be effected as a Pillar II measure. In 2016, the European Banking Authority published its report on the impact assessment and calibration of the leverage ratio, recommending the introduction of a leverage ratio minimum requirement in the EU to mitigate the risk of excessive leverage. The analysis suggests that the potential impact of introducing a Pillar I leverage ratio requirement of 3% on the provision of financing by credit institutions would be relatively moderate, while, overall, it should lead to more stable credit institutions. The current proposed CRD V package will introduce a binding 3% leverage ratio and in fact the EBA is assessing the impact of the leverage ratio as a binding measure at 3%.

The following table provides a summary of the Group’s leverage ratio calculation, determined in accordance with the requirements stipulated by Implementing Regulation (EU) 2016/200.

LRCom: Leverage ratio common disclosure

		€000
	On-balance sheet exposures (excluding derivatives and SFTs)	
1	On-balance sheet items (excluding derivatives and SFTs)	2,886,280
2	Asset amounts deducted in determining Tier 1 capital	(14,302)
3	**Total on-balance sheet exposures (excluding derivatives and SFTs)**	**2,871,978**
	Derivative exposures	
4	Replacement cost associated with all derivatives transactions	716
5	Add-on amounts for PFE associated with all derivatives transactions	4,484
11	**Total derivative exposures**	**5,200**
	Other off-balance sheet exposures	
17	Off-balance sheet exposures at gross notional amount	584,560
18	Adjustments for conversion to credit equivalent amounts	(348,647)
19	**Other off-balance sheet exposures**	**235,913**
	Capital and total exposure measure	
20	**Tier 1 capital**	**310,505**
21	**Leverage ratio total exposure measure (sum of lines 3,11 and 19)**	**3,113,091**
	Leverage ratio	
22	**Leverage ratio**	**9.97%**

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 March 2019	**€000**
1	Total assets as per published financial statements	2,888,390
4	Adjustments for derivative instruments	4,484
6	Adjustment for off-balance sheet items	235,913
7	Other adjustments:	
	Deduction on deferred tax assets	*(14,625)*
	Deduction for intangible assets	*(6,324)*
	Additional value adjustments	*(279)*
	IFRS 9 transitional adjustment	*6,926*
	Other adjustments	*(1,394)*
8	**Leverage ratio exposure**	**3,113,091**

The following table provides a split of the on-balance sheet exposures as at 31 March 2019 in relation to the calculation of the leverage ratio.

LRSpl: Split-up of on balance sheet exposures (excluding derivatives, SFTs and exempted exposures)

As at 31 March 2019		**€000**
EU-1	**Total on-balance sheet exposures (excluding derivatives, SFTs and exempted exposures)**	**2,871,978**
EU-2	Trading book exposures	-
EU-3	Banking book exposures, of which:	2,871,978
EU-4	*Covered bonds*	*384,127*
EU-5	*Exposures treated as sovereign*	*165,987*
EU-6	*Exposures to regional government, MDB, international organisations and PSE not treated as sovereigns*	*312,625*
EU-7	*Institutions*	*136,317*
EU-8	*Secured by mortgages of immovable properties*	*38,980*
EU-9	*Retail exposures*	*3,692*
EU-10	*Corporate*	*1,690,177*
EU-11	*Exposures in default*	*89,346*
EU-12	*Other exposures*	*50,727*

LRQua: Leverage ratio disclosure of qualitative items

The leverage multiple has decreased during the financial year ended 31 March 2019. This decrease is mainly attributable to the larger increase in the leverage ratio exposure when compared to the Group's capital base.

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. The leverage ratio is reported to the Group's Board and ExCo on a regular basis.

11 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. 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.

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.

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]	249,901		2,387,556	
030	Equity instruments	-	-	-	-
040	Debt securities	196,572	196,752	404,841	404,841
050	*of which: covered bonds*	*188,702*	*188,702*	*104,078*	*104,078*
060	*of which: issued by general governments*	*11,671*	*11,671*	*182,040*	*182,040*
080	*of which: issued by financial corporations*	*188,702*	*188,702*	*215,570*	*215,570*
120	Other assets	51,770		2,042,765	

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 and pledged securities. There are no encumbered assets held between entities of the Group and no over-collateralisation. Repoed 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. The pledged securities transactions are pledged in favour of the ECB for the purposes of existing and potential long term re-financing operations and also 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, 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.

Further details on encumbered assets, including information regarding the evolution of encumbrance throughout the financial year are available in note 2.3.5 to the financial statements.

[16] The terminology “reporting institution” is referring to MDB Group Limited.

The Group does not encumber any of the collateral received or any of its own debt securities issued

	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	188,843	244,658

12 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 Bank. The Board of directors, management functions and the Nomination and Remuneration Committee of the Bank worked closely to ensure that the remuneration policy is consistent with and promotes sound and effective risk management.

13 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. As such, the Board has set a target of having at least 25% female members within the next three years. Thus, the only foreseeable changes to the overall composition of the Group's management body is in view of the stated target set for the next three years.

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.

For an overview of the directors and other key officers of the Group, their expertise, actual knowledge and skills, kindly refer to the following link:

https://www.MeDirect Malta.com.mt/about-us/management-team

14 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
Michael Walker	Independent Non-Executive Director	3 NED
Dominic Wallace	Non-Executive Director	-
Benjamin Hollowood	Non-Executive Director	2 NED
Mark A. Watson	Executive Director	-
Joaquin Vicent	Executive Director	-

[17] Directorship approved by the UK Prudential Regulation Authority and the Financial Conduct Authority.

15 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: 3 Credit risk and credit risk mitigation ("CRM")
		Credit Valuation Adjustment ("CVA"): 3 Credit risk and credit risk mitigation ("CRM")
		Counterparty credit risk : 4 Counterparty credit risk
		Operational Risk : 7 Operational Risk
		Recruitment policy and Diversity policy : 7 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 2.1.8 Risk governance structure and 13 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 14 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 2.1.8 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 8.2 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 8.2 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 8.2 Own funds – other disclosures
437 (1) (b)	Description of capital resources	See 8.1 Total available capital and 8.2 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 8.2 Own funds – other disclosures
437(1)(d) (iii)	disclosure of the nature and amounts for items not deducted	See 8.2 Own funds – other disclosures
437 (1) (e)	description of all restrictions applied to the calculation of own funds	See 8.2 Own funds – other disclosures
437 (1) (f)	basis on which capital ratios are calculated	Regulation applied - Refer to sections 8.1 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 9 Capital requirements
438 (b)	Result of ICAAP on demand from authorities.	Refer to section 9 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 9 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 9 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 4 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 3.8 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 4.1 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 9 Capital requirements on the Group's relevant CCy 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 3.6 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 3.1 – Credit risk exposure – analysis by exposure class
442 (d)	Disclosures of pre-CRM EAD by geography and exposure class.	Refer to 3.2 Credit risk exposure – analysis by geographical distribution
442 (e)	Disclosures of pre-CRM EAD by industry and exposure	Refer to 3.3 Credit risk exposure – analysis by industry distribution
442 (f)	Disclosures of pre-CRM EAD by residual maturity and	Refer to 3.4 Credit risk exposure – analysis by residual maturity
442 (g)	Breakdown by significant industry or CCP amount of:	Refer to section 3.6 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 3.6 Impairment loss measurement guidelines
442 (i)	Reconciliation of changes in specific and general credit risk adjustments compromising of:	Refer to Section 3.6 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 11 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 5 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 5 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 7 Operational risk
Exposure in equities not included in the trading book		
447 (a)	Differentiation of exposures based on objectives	Refer to Section 3.11 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 6 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	N/A to the Group

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 "Identified staff" 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 10 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 10 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 3.7 Credit risk mitigation (3.7.2 On- and off-balance sheet netting and set-off and 3.8.3 Collateral and other credit enhancements)
453 (b)	How collateral valuation is managed	
453 (c)	Description of types of collateral used	Refer to Section 3.8 Credit risk mitigation (3.8.3 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 3.8 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 3.8 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

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