MEDIRECT BANK (MALTA) PLC
(formerly Mediterranean Bank plc)

Annual Report and Consolidated Financial Statements
31 March 2018

Company Registration Number: C 34125

Directors' report

The directors present their annual report of MeDirect Bank (Malta) plc (the "Bank" or "MeDirect Malta"), formerly Mediterranean Bank plc, and the Bank and its subsidiary ("the Group" or "MeDirect Malta Group") for the year ended 31 March 2018. This report is prepared in terms of the Maltese Companies Act (Cap. 386) and complies with the disclosure requirements of the Sixth Schedule to the same Act.

The Group's results reflect the consolidated position of MeDirect Malta and its principal subsidiary MeDirect Bank SA ("MeDirect Belgium") (the "Subsidiary"). The Group also includes Grand Harbour I B.V., a controlled special purpose entity, established in The Netherlands and Medifin Estates, a property leasing partnership. The comparative financial information also include the financial results of Mediterranean Corporate Bank Limited ("MedCorp").

Change in name

By virtue of a shareholders' resolution dated 15 November 2017, the shareholders of the Bank resolved to change the name of the Bank from Mediterranean Bank plc to MeDirect Bank (Malta) plc.

Principal activities

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

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

The principal customer-related activities of the Bank include the following:

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

MeDirect Malta's previous subsidiary, MedCorp, was focused on providing a full range of banking services to corporate clients in Malta, including corporate lending, deposit taking, foreign exchange services and payment services. For accounting purposes, with effect from 1 April 2017, MedCorp was merged with MeDirect Malta.

Directors' report - continued

Principal activities - continued

MeDirect Malta's wholly owned subsidiary MeDirect Belgium established a highly competitive online offering for the Belgian market through its Belgian Branch and such operations were transferred to this subsidiary in Belgium on 1 June 2015. MeDirect Belgium's operations are based on:

- Online client delivery;
- Competitive and cost effective savings and wealth management products;
- Transparent and customer friendly products and delivery; and
- The provision of senior secured loans to foreign companies.

The MeDirect Malta Group is made up as follows:

- MeDirect Bank (Malta) plc, that includes Grand Harbour I B.V. ("GH I") - a controlled special purpose entity, established in The Netherlands, as part of the Group's funding strategy.
- MeDirect SA - a wholly owned subsidiary by MeDirect Malta that took over the operations in Belgium as from June 2015.
- Medifin Estates.

Business review

During the financial year ended 31 March 2018, the Group continued to implement its business plan with the aim of sustaining the Group's long-term profitability by building its international corporate lending portfolio and its deposit and wealth management customer base in the mass affluent market both in Malta and Belgium and also with select corporates in Malta.

The Group recorded a profit after tax for the financial year ended 31 March 2018 of €19.5 million (2017: €15.2 million). The tax credit in this financial year is mainly due to the new notional interest deduction rules that were introduced by the Maltese Government in October 2017. This resulted in an over provision of current tax in the preceding financial year and the recognition of deferred tax assets on any unutilised notional interest deduction allowances.

Total operating income for the year ended 31 March 2018 was €70.2 million (2017: €66.9 million).

The Group's profitability has been mainly driven through the increase in capital together with a healthy level of savings and term deposit customers, primarily in the Maltese and Belgian markets, deploying liquidity in the Group's international corporate lending activities and efforts to achieve efficient cost management.

The Group continues to fund its portfolios through deposits and through the international wholesale financial markets. The growth of the Group's deposit base in Belgium has strengthened and made more robust the Group's funding platform. Access to the Eurex repo platform also provided efficient funding for the Group. The Group's core deposit offering is a range of fixed-term and other savings products. As at 31 March 2018, the Group's deposit base reached €2 billion (2017: €1.9 billion). Growth of the Group's deposit base has also provided a cross selling opportunities base for investment and wealth management products.

The Group's loans and advances to customers ("Lending Portfolio") largely consist of senior secured loans and revolving credit facilities to corporate borrowers domiciled in Western Europe. Substantially, all loans and revolving credit facilities in the portfolio are denominated in euro or pound sterling and substantially all of the loans are floating rate instruments (some have interest rate floors embedded within the contracts) and would not be adversely affected by material decreases in interest rates.

Directors' report - continued

Business review - continued

In this respect, the Group's Lending Portfolio (international and domestic) stood at €1.7 billion (2017: €1.5 billion) as of 31 March 2018, net of collective impairment loss allowances of €5.6 million (2017: €5.1 million) and specific impairment loss allowances of €17.0 million (2017: €16.9 million). In addition the Group had commitments of €361.8 million under revolving credit facilities as at 31 March 2018 (2017: €288.3 million) and other undrawn credit facilities of €74.7 million (2017: €49.5 million).

The Group also holds a portfolio of liquid assets. As of 31 March 2018, the Group's treasury portfolio stood at €560.2 million (2017: €698.5 million) consisting of available-for-sale ("AFS") securities. The fair value of the AFS book is risk managed through interest rate derivatives such as interest rate swaps where the hedge accounting methodology under IAS 39 was adopted.

The Group also continues to make significant investments in technology that have allowed it to enhance its online banking and investment services for its customers, together with systems to support such services. Investment services include online execution of brokerage transactions in equities, bonds and funds as well as foreign exchange execution capabilities. The Group also offers online retirement and investment planning capabilities, model portfolios analytical tools to enable customers to analyse portfolio and investment alternatives and a broad range of research and market data resources.

Throughout the preceding financial year, the MeDirect Malta Group started utilising the GH I structure again as MeDirect Malta and MeDirect Belgium ("the MeDirect banking entities") transferred a portfolio of syndicated senior secured loans to GH I. GH I was funded through two intragroup loan facilities subscribed to by MeDirect Malta and MeDirect Belgium that led to a transfer of risk from MeDirect Belgium to MeDirect Malta, without however changing MeDirect Malta Group's overall risk on a consolidated basis. MeDirect Belgium and MeDirect Malta invested in GH I on a 78% - 22% basis (2017: 69% - 31% basis) with the tranche bought by MeDirect Belgium (the "Senior Loan") having a senior ranking vis-à-vis the facility taken up by MeDirect Malta (the "Junior Loan").

Capital, specifically instruments that qualify as Common Equity Tier 1 capital ("CET1") in terms of the Capital Requirements Regulation ("CRR") is key to the Group's growth. By virtue of board resolutions dated 29 September 2017, 1 November 2017, 7 November 2017 and 29 March 2018 the Group accepted capital contributions from its immediate parent company, MDB Group Limited (formerly MeDirect Group Limited), amounting to €8.2 million, €12.0 million, €55.4 million and €10.9 million respectively.

The Group remains committed to operating with strong regulatory ratios and a robust liquidity position. MDB Group Limited is the immediate parent company of MeDirect Malta and this parent company together with its subsidiaries ("the Regulatory Group" or "MDB Group") are covered by the regulatory supervision. At 31 March 2018, the Regulatory Group's Capital Adequacy Ratio stood at 16.6% (2017: 13.7%), whilst the Regulatory Group's Liquidity Coverage Ratio stood at 636.0% (2017: 576.7%).

Under the Single Supervisory Mechanism ("SSM"), as from January 2016, the Regulatory Group came under the direct supervision of the European Central Bank ("ECB"). The Regulatory Group continues to ensure that appropriate capital levels are maintained reflecting the economic environment and the challenges that the Regulatory Group is faced with. The SSM has led to further strengthening of the controls and corporate governance of the Regulatory Group. It is also a good opportunity to continue strengthening the reputation of the Regulatory Group both in Malta and internationally. The Regulatory Group is confident that it will continue meeting the high expectations of the ECB.

Key performance indicators

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

Directors' report - continued

Key performance indicators - continued

The Board primarily focuses on quantitative KPIs and does not actively monitor on a regular basis any specific non-financial KPIs. However, the Board engages in regular substantive discussions in which it evaluates non-financial metrics such as customer satisfaction, employee involvement and engagement and sustainability. The Board is developing a regular framework for the regular evaluation and monitoring of such non-financial metrics and the establishment of non-financial KPIs.

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

Key performance indicators	**2018**	2017
Business performance management		
Annualised return on equity	**8.6%**	8.0%
Overall net interest margin	**2.7%**	2.5%
Capital management		
CET 1 ratio	**14.2%**	11.7%
Leverage ratio	**10.29%**	7.29%
Liquidity management		
Liquidity coverage ratio ("LCR")	**636.0%**	576.7%
Net stable funding ratio ("NSFR")	**140.0%**	128.9%
Credit management		
Non-performing loans ratio	**4.4%**	4.4%
Loan loss provisioning ratio	**1.4%**	1.5%

Outlook and future business developments

The ongoing robustness of capital and liquidity ratios provides a stable foundation from which to produce attractive and sustainable returns. The strategy that has been defined by the Board of Directors over the last few years has resulted in significant growth whilst producing attractive returns and an ability to invest in the capabilities of the Group.

The relative overall stability of the European markets had an overall positive effect on the Group's funding cost and securities portfolios. Stability in the international capital markets results in a positive effect on the Group's wealth management and investment services businesses since greater investor confidence leads to increased customer interest in the investment products offered by the Group.

The eurozone macroeconomic environment remains challenging, especially with the uncertainty surrounding the UK Brexit, and that any reversal of positive trends described above would have a negative effect on the Group's asset portfolios and business. Despite these ongoing challenges, the Group remains confident that its underlying strategy will continue to result in profitable growth. Furthermore, the Group is currently exploring new opportunities in order to diversify the Group's asset classes and the relative revenue streams.

MeDirect Malta will consolidate and expedite its Maltese growth strategy through its portfolio of Maltese clients which is complementary to the Group's existing customer base and is aligned with the Group's future growth strategies.

The Group has recently been operating with a relatively stable leverage ratio of 10.29% (2017: 7.29%) and intends to continue to operate with a capital adequacy ratio in excess of the minimum capital requirements provided by the Capital Requirements Directive ("CRD") IV and also in conformity with any other guidance issued by the Group's regulator, the ECB's Joint Supervisory Team (the "JST").

Directors' report - continued

Outlook and future business developments - continued

The developments mentioned above enable the Board of Directors to look forward to the future with cautious optimism.

Risk management

A comprehensive risk management framework is applied throughout the Group, with effective governance and corresponding risk management tools. This framework is underpinned by the Group's risk culture. The Group is exposed to a mixed blend of risks and hence operates a risk management strategy with the objective of controlling and minimising their impact on the financial performance and position of the Group.

An established risk governance framework and ownership structure ensures oversight of accountability for the effective management of risk. The Group's risk management framework fosters the continuous monitoring of the risk environment and an integrated evaluation of risks and their interaction. The Group's risk management framework is designed to provide appropriate risk monitoring and assessment.

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

The Group's RAS articulates the type and quantum of risk that the Group is able and willing to accept in pursuit of delivering its strategy. The Group's RAS is mostly based on qualitative statements which express the risk taking intent of the Group, and is supported by quantitative limits and controls. Internal quantitative measures enable measurement of the Group's risk profile against risk appetite and risk capacity.

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

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

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

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

Directors' report - continued

Environmental and employee matters

Sustainability

November 2017 marked a new chapter in the Bank's story. As part of our strategy to strengthen brand recognition and having outgrown the Valletta headquarters, the support and administrative functions were consolidated within new offices located at The Centre, Tigné Point, Sliema. The new premises also house the Sliema Branch, Charts and the Corporate Banking Team.

As part of this relocation exercise, we also took the opportunity to overhaul and upgrade our entire network and security infrastructure so that we now have the very latest technology in place and make use of different service providers with multiple fibre optic cables connecting us to our customers in Malta and across Europe.

Managing our own environmental footprint supports business efficiency and is part of our long-term contribution to society. During this financial year, the Group continued to invest in energy efficient technology through the use of more efficient LED technology. Furthermore, the Group has introduced various initiatives in order to reduce paper printing by its staff.

Employees

We believe that if someone is worth talking to, they are worth listening to. Exchange meetings are our way of doing that: meetings with no agendas and where human resources representatives are participants rather than leaders. These meetings allow people to express themselves without interruption or rebuttal.

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

Grievances

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

Financial crime and human rights

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

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

Directors' report - continued

Board of Directors

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

The directors of the Bank who held office during the year were:

Michael Bussey (Chairman)
Mark A. Watson (Chief Executive Officer)
Benjamin Hollowood
Dominic Wallace
Frederick Mifsud Bonnici – resigned on 17 July 2017
Joaquin Vicent
Michael Walker
John Zarb – appointed on 17 July 2017

Dividends and reserves

By virtue of a directors' resolution dated 23 March 2018, the Bank approved and paid an interim dividend of €10 million.

After adjusting the Reserve for General Banking Risks in accordance with the requirements of Banking Rule ("BR") 09 - Measures addressing credit risk arising from the assessment of the quality of asset portfolios of credit institutions authorised under the Maltese Banking Act (Cap. 371), the retained earnings of the Group amounted to €42.5 million (2017: €32.9 million) and the retained earnings of the Bank amounted to €28.6 million (2017: €1.2 million). The directors of the Bank do not recommend the payment of a final dividend.

Statement of directors' responsibilities for the financial statements

The directors are required by the Maltese Banking Act (Cap. 371) and the Maltese Companies Act (Cap. 386) to prepare financial statements that give a true and fair view of the state of affairs of the Bank and the Group as at the end of each reporting year and of the profit or loss for that year.

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

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

The directors are also responsible for designing, implementing and maintaining internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and that comply with the Maltese Banking Act (Cap. 371). They are also responsible for safeguarding the assets of the Bank and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The financial statements of MeDirect Bank (Malta) plc for the year ended 31 March 2018 are included in the Annual Report 2018, which is published in hard-copy printed form and will be made available on the Bank's website.

Directors' report - continued

Statement of directors' responsibilities for the financial statements - continued

The directors are responsible for the maintenance and integrity of the Annual Report on the website in view of their responsibility for the controls over, and the security of, the website. Access to information published on the Bank's website is available in other countries and jurisdictions, where legislation governing the preparation and dissemination of financial statements may differ from requirements or practice in Malta.

Related parties

During the year ended 31 March 2018, other than the transactions described under note 34 to the financial statements, there were no material changes in related party transactions as compared with those detailed within the financial statements for the year ended 31 March 2017. During the financial years ended 31 March 2018 and 2017, no related party transactions materially affected the financial position or liquidity of the Group, with the exception of loan agreements with group companies, dividend payment and movement in shareholders' contributions as described in Notes 15, 16, 17, 21 and 34.

Furthermore, there were no material contracts to which the Bank, or anyone of its subsidiary undertakings, was party and in which anyone of the directors was directly or indirectly interested.

Events after the reporting date

Transfer of shareholding in Charts to MeDirect Malta and merger of Charts into MeDirect Malta

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

Dividends paid

By virtue of a shareholders' resolution dated 30 May 2018, MeDirect Malta approved and paid an interim dividend of €7.23 million.

Shareholder contributions received

By virtue of board resolutions dated 30 May 2018 the Group accepted capital contributions from its immediate parent company, MDB Group Limited amounting to €3.1 million.

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

Standard licence conditions applicable under the Investment Services Act

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

Directors' report - continued

Going concern

After due consideration of the Bank's profitability, financial position and solvency together with the capital adequacy ratio at a MDB Group consolidated level, the directors declare, pursuant to MFSA Listing Rule 5.62, that the Bank is in a position to continue operating as a going concern for the foreseeable future.

Additional regulatory disclosures

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

The Bank forms part of a regulated banking group, the parent holding company of which is MDB Group Limited.

MDB Group Limited is supervised on a consolidated basis by the ECB's JST and is subject to the same supervision as that exercised over institutions in terms of the CRR. Accordingly, in terms of article 7(2) of the CRR, the obligation of MeDirect Malta to comply with the disclosure requirements has been waived.

MDB Group Limited publishes full Pillar 3 disclosures as a separate document that is appended to the MDB Group Limited financial statements.

Auditors

PricewaterhouseCoopers have indicated their willingness to continue in office and a resolution for their re-appointment will be proposed at the Annual General Meeting.

Statement by the directors pursuant to Listing Rule 5.68

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

On behalf of the board

Michael Bussey
Chairman

Mark A. Watson
Director and Chief Executive Officer

Registered Office
The Centre, Tigné Point,
Sliema, TPO 0001
Malta

30 July 2018

Statement of compliance with the Principles of good corporate governance

Introduction

MeDirect Bank (Malta) plc (the "Bank" or "MeDirect Malta") hereby reports on the extent to which the Code of Principles of Good Corporate Governance (the "Code") has been adopted as required by the Listing Rules of the Malta Listing Authority as amended on 11 August 2016.

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

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

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

Compliance with the Code

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

The Board of Directors (the "Board") is composed of persons with a diverse range of skills and experience acquired in senior roles with international banks and financial organisations, professional firms and governmental entities. At 31 March 2018, the Board consisted of five non-executive members and two executive members. Taking into account certain factors such as the size of the Bank, the size of the Board and the balance of skills and experience represented by its members, the directors are considered to be appropriate for the requirements of the business of the Bank.

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

Principle 2: Chairman and Chief Executive

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

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

Statement of compliance with the Principles of good corporate governance - continued

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

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

Functioning of the Board

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

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

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

Statement of compliance with the Principles of good corporate governance - continued

This section provides details of the members of the Board of Directors of the Bank and the members of each of the committees of the Board.

Board of Directors

Since the date of the previous annual general meeting of the Bank, fourteen Board meetings were held, including eight regularly scheduled meetings and six ad hoc meetings.

		Meetings attended %
Michael Adrian Bussey	Independent Chairman and Non-Executive Director	100
John Zarb	Independent Non-Executive Director (appointed on 17 July 2017)	89
Michael Walker	Independent Non-Executive Director	86
Frederick Mifsud Bonnici	Independent Non-Executive Director (resigned on 17 July 2017)	100
Dominic Wallace	Non-Executive Director	100
Benjamin Hollowood	Non-Executive Director	86
Mark A. Watson	Executive Director – Chief Executive Officer	100
Joaquin Vicent	Executive Director – Director of Treasury and Investments	100

Committees of the Board

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

Statement of compliance with the Principles of good corporate governance - continued

Board Committees

A. Audit Committee

The Audit Committee is primarily responsible for reviewing and approving specific matters relating to the audit of the Bank, internal control and risk management systems. In particular, the Audit Committee:

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

The members of the Audit Committee are:

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

In terms of Listing Rules 5.117 and 5.118, John Zarb is the director whom the Board considers as competent in accounting and/or auditing.

John Zarb retired from his role as partner at PwC at the end of 2014 after a career spanning over 40 years spent within the audit and advisory practices of the firm. He is a past president of the Malta Institute of Accountants, and served for a number of years on the Accountancy Board and as Malta's representative on the EU Accounting Regulatory Committee. John is currently the chairman of PG plc, a board member and chairman of the audit committee of Tumas Investments plc and a director of Foster Clark Products Limited.

During the year ended 31 March 2018, eight meetings of the Bank's Audit Committee were held. The Chief Financial Officer, the Chief Internal Audit Officer, the Group Head of Compliance, the Head of Commercial Strategy and Legal and a representative of the external auditors attend the Audit Committee meetings by invitation.

B. Nomination and Remuneration Committee

The Nomination and Remuneration Committee is considered under the Remuneration Report. The disclosures in the Remuneration Report reflect the requirements of the EU Capital Requirements Regulation (575/2013) to the extent applicable to the financial year under review.

The Nomination and Remuneration Committee is composed of non-executive directors with no personal financial interest, being Michael Bussey (Chairman), Michael Walker and Benjamin Hollowood.

Statement of compliance with the Principles of good corporate governance - continued

Board Committees - continued

C. Board Risk Committee

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

The current members of the Risk Committee are:

Michael Walker	Committee Chairman and Independent Non-Executive Director
Dominic Wallace	Member and Non-Executive Director
Benjamin Hollowood	Member and Non-Executive Director

The Chief Executive Officer and the Chief Risk Officer attend the Risk Committee meetings by invitation. The Chairman of the Board and the Chairman of the Audit Committee attend the Risk Committee meetings as an observer.

The main objective of the Risk Committee is to ensure that the Bank adheres to the approved risk policy and procedures, and operates within the approved risk appetite of the Board. The key Committee functions are to:

- review and approve changes to the risk policy and procedures;
- ensure that the risk functions are appropriately resourced and structured to meet their obligations and are working effectively to maintain an effective control environment;
- review any violations to the lending limits;
- review the product distribution strategy, including product structure, pricing and targeting; and
- monitor:
    - the effectiveness of risk management processes implemented in support of risk policies;
    - portfolio risk and sector concentration risk, including evolution of the risk profile against plan;
    - credit quality trends;
    - provision levels;
    - regulatory ratios;
    - interest rate, currency and other market risk;
    - liquidity risk;
    - operational risk; and
    - contingent exposures.

The Chairman of the Committee reports on all matters to the Board after each meeting and notifies the Board of any decisions made. The Committee makes whatever recommendations to the main Board that it deems necessary. The Committee is convened at least on a bi-monthly basis, and more frequently if the need arises. All attendees and invitees receive copies of the minutes.

Statement of compliance with the Principles of good corporate governance - continued

Principal Management Committees

A. Executive Management Committees ("EXCO")

The ExCo management structure is split into two different management forums in order 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 senior management, meeting fortnightly, that focuses on the Group's broader growth strategies and new initiatives and monitors the Group's ability to respond to new regulatory developments. It is thus responsible for the formulation and implementation of Board-approved strategies and plans and for ensuring that the Group's business is operated in accordance with such strategies and plans. The Strategy ExCo is chaired by the Chief Executive Officer and includes the Executive Director of Treasury and Investments, the Chief Risk Officer, the Chief Investment Officer, the Chief Technology Officer, the Group Chief Financial Officer, the Chief Strategy Officer and the MeDirect Bank SA Chief Executive Officer.
- The Management ExCo meets weekly and is responsible for the ongoing priorities that underpin the Group Business model and the regulatory environment in which the Group operates. The Management ExCo is chaired by the Chief Executive Officer and includes the Executive Director of Treasury and Investments, the Chief Risk Officer, the Chief Investment Officer, the Chief Technology Officer, the Group Chief Financial Officer, the Chief Strategy Officer, the Group Head of Treasury, the Group Head of Human Resources and Administration, the Head of Commercial Strategy and Legal, the Group Head of Operations, the Head of Business Development, the Group Head of Wealth Products and the MeDirect Bank SA Chief Executive Officer. The Chief Internal Audit Officer is a standing invitee to the Management ExCo.

B. Management Credit Committee

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

The MCC is composed of three sub-committees:

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

The Committee is chaired by the Chief Risk Officer who carries the casting vote and a right of veto in all Credit Committees. Members of the Credit Committee in attendance would also include at least two of the following: the Chief Investment Officer, an assistant portfolio manager from the corporate credit team, a member of the corporate credit risk team and a member of the corporate credit team.

Statement of compliance with the Principles of good corporate governance - continued

Principal Management Committees – continued

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

C. Asset and Liability Committee ("ALCO")

ALCO sets and reviews overall policies and objectives for asset and liability management, capital management and allocation, capital usage and efficiency, transfer pricing, risk management, and underwriting, dealing and trading activities according to the risk appetite set by the Board.

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

D. New Products and Services Committee

The New Products and Services Committee exists to analyse potential new products and services that the Group proposes to offer to its customers or to undertake on its own account. Its primary mandate is to ensure that these products and services are not implemented or offered to customers unless the Group is adequately prepared, both legally and operationally. While EXCO acts as the main commercial decision-making body and hence decides on whether the Group intends, subject to this preparedness, to offer a new product or service, NPSC has the mandate to assess whether EXCO was fully informed of all material facts and risks when it made its decision.

The Chief Risk Officer is the Chairman of MeDirect Malta's New Products and Services Committee. No meeting of this Committee will be deemed quorate unless members from the Operations, Finance, Technology and Legal and Compliance teams are in attendance, or have nominated delegates who are in attendance.

Code Provision 4.2.7 - Succession planning

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

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

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

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

Statement of compliance with the Principles of good corporate governance - continued

Principle 6: Information and professional development

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

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

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

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

Principle 7: Evaluation of the Board's performance

On an annual basis, the Board carries out an evaluation procedure whereby Board members are requested to complete a questionnaire on the Board's performance and that of its committees. The evaluation is co-ordinated by the Board's Chairman, an independent non-executive director, and all directors participate in the process. Feedback from the evaluation is presented to the Board for analysis.

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

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

The Bank's ultimate controlling party is represented on its Board of Directors and actively monitors its investment in the Bank.

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

Statement of compliance with the Principles of good corporate governance - continued

Principle 11: Conflicts of interest

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

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

Principle 12: Corporate social responsibility

During the financial year ended 31 March 2018, MeDirect Malta proudly continued to support and promote Maltese sports, culture, and charitable causes and events. The Bank's commitment to these initiatives was once again established through the various sponsorships and donation agreements that support a wide variety of community organisations.

Sports

MeDirect Malta's patronage of the sporting community was further strengthened with a number of donations to sporting associations and events. The Bank's significant support of the Malta Rugby Football Union (MRFU), including the women national rugby team, has assisted the MRFU to further its ambitions at both an international level as well as at a local level, where the game's popularity continues to rapidly grow. The MRFU Cup (the local senior division league), is known as the 'MeDirect Bank Cup'. MRFU started promoting the 7's tournament internationally last year and has actively started promoting Rugby in schools as an inclusion and educational program as from last year.

The Bank is also present in Gozo where the Bank sponsors the Otters Water Polo Club/Aquatic club. Another presence in Gozo is the collaboration with Oasi, a rehabilitation and inclusion centre for kids and adults alike, where the Bank has funded the trophies for their annual marathon and fund raising event and also donated funds for some essential goods needed by the centre.

Maltese Heritage

The preservation of Malta's national heritage is also important to the Bank and to this end it has supported a number of organisations and initiatives.

Music and Performing Arts

As part of the Bank's on-going corporate social responsibility programme and commitment, it also continues to support and promote the music and performing arts scene. In line with this commitment, the Bank is once again the main benefactor of the Manoel Theatre for the coming season.

Also as a continuous support to the Malta Philharmonic Orchestra ("MPO"), MeDirect Malta donated funds to support the production of certain events and sponsors one of its musicians.

Statement of compliance with the Principles of good corporate governance - continued

Principle 12: Corporate social responsibility - continued

Youth and charity

The Salesians Brigade summer school benefitted from a donation for one of their events organised to raise funds. The National Blood Transfusion Centre was donated merchandise to be given to blood donors and the Sliema Scout Group was also supported during one of their events.

The Bank is proud of its continued support to the Lady Bird Foundation and in fact once again chose this foundation to be the beneficiary of its 2017 annual Christmas charity campaign reflecting business generated during the month of December. The Bank also maintained its yearly appointment and presented a donation to the President's Community Chest Fund Campaign L-Istrina, on behalf of MeDirect Malta.

Last but not least, upon staff initiative and supported by the Bank, proceeds derived from the Christmas raffle at the Group's Christmas Staff Party, that were doubled by the Bank, were donated to the Malta Hospice for their remarkable work carried out with cancer patients and their families.

Education

As part of MeDirect Malta's collaboration towards the promotion of educational programmes nationwide, MeDirect Malta part sponsored a project, in collaboration with another local company, the local Government and the local Councils, called EM Citizen. This initiative comprised tutorial and informative meetings held around Malta and Gozo to teach senior citizens how to get familiar with a smartphone, tablet and the internet in general and various apps that can make their life comfortable without them having to leave their home, such as internet banking and a supermarket app.

Other Disclosures

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

Management's internal controls over financial reporting

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

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

Statement of compliance with the Principles of good corporate governance - continued

Management's internal controls over financial reporting

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

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

Michael Bussey
Chairman

Mark A. Watson
Director and Chief Executive Officer

30 July 2018

Remuneration report

Remuneration governance

The primary purpose of the Nomination and Remuneration Committee ("NRC") is to review remuneration levels in the Group and to consider whether to approve performance-related bonus awards and long-term incentive plan awards.

The NRC receives recommendations from the management of the Group regarding remuneration levels and the awarding of bonuses. It may request market-related information from time to time to verify the recommendations made by management.

One of the NRC's primary functions is to ensure that the Group is able to attract and retain suitable employees at all levels at an acceptable cost.

Membership and meetings

The members of the NRC are:

Michael Bussey	Committee Chairman/Independent Non-Executive Board Chairman
Michael Walker	Independent Non-Executive Director
Benjamin Hollowood	Non-Executive Director

During the year ended 31 March 2018, the NRC met on two occasions and these meetings were attended by all members of the NRC.

Remuneration policy statement

The Board is responsible for ensuring that this statement and its contents adhere to all laws, rules and regulations issued by the Malta Financial Services Authority, particularly BR 12, and international regulations incorporated in the Capital Requirement Directive. The Board, directly and through the NRC, carries out effective monitoring and evaluation of the Group's remuneration system on an on-going basis. The NRC and the Board monitor the on-going performance by executive directors and senior management and determine the design and implementation of an effective remuneration system.

The NRC is charged with aligning the Group's remuneration policy and in particular performance-related elements of remuneration, with the best interests of the stakeholders and with the Group's business strategy and risk tolerance, objectives, values and long-term interests.

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

Compliance with the Group's rules and requirements and involvement on a continuing basis in risk management are taken into account when determining performance-based remuneration for all employees. Other non-financial factors are considered such as skills acquired, personal development, commitment to the Group's business strategies and policies and contribution to the performance of the team. Performance is measured in relation to non-financial and financial goals and, where appropriate, failure to perform in non-financial areas of responsibility outweighs success in profit generation in determining compensation. Control functions are adequately rewarded in order to ensure that the Group is able to attract skilled individuals for such roles.

The Group's remuneration policy includes "clawback" provisions applicable to all identified and key staff where, even though variable compensation is remunerated in cash, it is possible for the Group to clawback variable performance related pay if respective employees were responsible for circumstances that resulted in significant losses to the Group or in situations where the most appropriate standards of fitness and propriety were not met during the period for which the performance bonus was awarded.

Remuneration report - continued

Remuneration policy statement - continued

The Group does not intend to effect any changes to its remuneration policy for the following financial year.

(a) Measures of performance as basis for awarding of pay

Base pay is expected to comprise the majority of the Group's overall compensation cost.

i. All staff

The NRC considers a variety of factors in determining compensation tailored to the role of the individual concerned and takes into account factors such as risk management, development of systems, monitoring of risk and creation of long-term value for the Group.

In accordance with Article 450 of the CRR we confirm that there is only one employee that receive a total remuneration equal to or greater than €1 million. The salary of such employee is in the range €1 million - €1.5 million.

ii. Members of management and control functions

Recommendations by management as to the remuneration of members of control functions are made by the Chief Executive Officer. Such recommendations are reviewed and approved or rejected by the NRC.

Variable remuneration is not contractual and depends on both individual and collective performance. It takes into account quantitative and qualitative criteria and is not directly or solely linked to the amount of profits or revenues generated. Assessment of performance is made in the context of a multi-year analysis, taking into account the business cycle and the Group's business risks. The criteria used to set variable remuneration pools, as well as their allocation, takes into account all risks, both qualitative and quantitative.

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

Senior members of management have historically participated in a Long-term Incentive Plan ("LTIP"), through the purchase of shares in the ultimate parent company, enabling such managers to participate in the long-term profitability of the Group. This plan was originally designed to incentivise senior management to maximise the long-term value of the Group.

In view of regulatory considerations, the Group amended the LTIP to provide that participants would receive no more than the original purchase price of such shares upon exit by the ultimate controlling party from its investment in the Group.

iii. Non-executive directors

The remuneration of non-executive directors is not performance based and is not linked to the Group's short term results. It is determined based on remuneration levels for directors of similar financial companies and takes into account factors such as time invested and responsibilities.

Remuneration report - continued

Remuneration policy statement - continued

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

A bonus pool is established for the Group as a whole and is calculated at Group level based on the success of the Group in meeting its business objectives. The variable remuneration pool shall be set and shall be calculated on the basis of the qualitative and quantitative factors.

These objectives relate, amongst other things, to profitability, sustainability of performance, risk management, building of business lines and creation of long-term shareholder value.

Quantitative factors shall include:

- economic capital, economic profit, return on risk weighted assets and return on allocated equity;
- the cost and quality of the capital required for the risks of its activities;
- the cost and quantity of liquidity risk assumed in the course of business; and
- indirect liquidity costs.

Qualitative factors include:

- market practices in terms of remuneration;
- general conditions in the markets in which the results were generated;
- the stage of maturity of the activity; and
- an independent assessment carried out by the Risk Management Function regarding risk management and compliance.

Individuals, including executive directors, are compensated out of that bonus pool based on their contribution to the achievement of the Group's business objectives. Such individual criteria depend on the role of the individual in the Group.

The allocations of individual variable remuneration awards shall be correlated to the staff member's formalised annual individual appraisal that takes into consideration quantitative and qualitative objectives known to the employees, as well as risk management considerations. Individuals will be compensated out of that bonus pool based on their contribution to the achievement of the Group's and/or the subsidiary's business objectives. Such individual criteria will depend on the role of the individual in the Group. For example, portfolio managers will be judged on factors such as risk management, overall continuing performance of the portfolio, contribution to development of the Group's or a subsidiary's systems, while members of the Treasury team will be assessed on effectiveness in managing liquidity. The amount of variable remuneration will vary depending on the performance of the staff member, as well as of the staff member's business unit and the institution as a whole. Depending on performance, variable remuneration can be reduced to zero. Variable remuneration will be significantly reduced or nullified in the case of any kind of unethical or non-compliant behaviour.

The ratio between the variable components of remuneration and the fixed components shall be limited to 100% (200% with shareholders' approval subject to certain conditions being met).There were no instances throughout the current financial year and the preceding financial year when such ratio was exceeded.

Variable remuneration that as mentioned above may never exceed 100% of the fixed remuneration component, is delivered in the form of cash and such variable pay is never larger than €100,000. Such variable remuneration is normally paid out in the first quarter of the subsequent financial year as determined by the Nomination and Remuneration Committee. Variable remuneration paid to identified staff and other key personnel is subject to clawback provisions. The clawback provisions state that the bonus may have to be repaid to the Group in certain circumstances that would have led to significant losses to the Group or in case of failure to meet appropriate standards of fitness and propriety, including cases of fraud, dishonesty or gross negligence.

Remuneration report - continued

Remuneration policy statement - continued

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

As per Article 450 of the CRR we confirm that there is no remuneration that is subject to deferral.

Control functions are judged on success in developing appropriate policies, developing effective risk management controls and procedures, monitoring risk and building control systems. Whilst the general bonus pool of the Group will be based on the Group's financial results, compensation of control functions is not directly tied to the results of any business unit.

Staff savings account

All of the Group's Malta-based employees are entitled to make equal monthly deposits of a specified amount direct from after tax payroll into an employee savings account. At the end of each calendar year, the Bank will pay 5% interest on the accumulated savings remaining in the account in December. On such date, amounts remaining in such savings accounts may be withdrawn and the terms of such accounts may be reset.

Home loan subsidy

As from 2018 the Bank is granting its Malta employees an annual subsidy equivalent to a 2% interest rate in respect of the home loans that such employees have acquired from third party banks.

Identified staff

The target population defined as Identified Staff for the purposes of this report (excluding those allocated to the Supervisory function) represents 7.77% of the total number of employees in the Group. Identified staff were determined in line with the Regulatory Technical Standard EU 604/2014 that came into force in June 2014 and includes:

- Non-executive directors that are responsible for providing a monitoring role;
- Executive directors that are also responsible for certain business units; and
- Senior management responsible for business units/business lines or Finance, Administration and Human Resources, as well as those responsible for internal audit and risk management functions of the Group.

Identified staff consist of members of staff whose actions have a material impact on the risk profile of the Group.

For the purposes of remuneration, Identified staff have been aggregated and split into business areas according to the European Banking Authority ("EBA") guidelines on the remuneration benchmarking exercise EBA/GL/2014/08 dated 16 July 2014. The following tables therefore include total fixed and variable remuneration and number of beneficiaries per and within each business area.

Remuneration report - continued

Identified staff - continued

For the purposes of information provided hereunder 'Senior Management' shall mean Directors and Management Executive Committee members and other management as determined by the NRC. Material Risk Takers consist of the remaining identified staff.

	Supervisory function	Management function	Investment banking and wealth management	Retail banking	Corporate functions	Independent control functions
Senior Management						
Number of identified staff	6	2	3	3	7	1
Total fixed remuneration (€)[1]	502,913	1,769,404	886,931	731,381	1,659,211	155,031
Total variable remuneration (€) (delivered in cash)	-	200,000	121,298	21,000	362,903	50,000
Material Risk Takers (non-senior management)						
Number of identified staff	-	-	-	-	3	4
Total fixed remuneration (€)[1]	-	-	-	-	411,906	490,275
Total variable remuneration (€) (delivered in cash)	-	-	-	-	90,000	31,000
Total						
Number of identified staff	6	2	3	3	10	5
Total fixed remuneration (€)[1]	502,913	1,769,404	886,931	731,381	2,071,117	645,306
Total variable remuneration (€) (delivered in cash)	-	200,000	121,298	21,000	452,903	81,000

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

Remuneration - directors

Non-executive Directors are non-employees and receive a fee for their services as Directors. They are not eligible to receive a base salary, fixed pay allowance, benefits, pension or any variable pay. The fee levels payable reflect the time commitment and responsibilities required of a non-executive Director. Fees are determined by reference to other Maltese companies and comparable entities within Europe. Based on the recommendations of the NRC, the directors' fees earned by the Bank's non-executive directors, including the Chairman, for the year ended 31 March 2018 amounted to €0.4 million.

Total emoluments earned by the executive directors of the Bank during the year ended 31 March 2018, are reported below:

	€	%
Fixed remuneration	**1,704,194**	87
Variable remuneration	**200,000**	10
Non-cash benefits	**65,210**	3
	1,969,404	100

Remuneration report - continued

Remuneration - directors - continued

Non-cash benefits relate to the gross rent payable on accommodation based in Malta and health and life insurance premiums paid by the Bank on behalf of the directors.

All the executive directors as of 31 March 2018 were engaged under indefinite employment contracts.

Remuneration - senior management

Total emoluments received by 14 senior management (excluding directors), during the year ended 31 March 2018, are reported below:

	€	%
Fixed remuneration	**3,363,713**	84
Variable remuneration	**555,201**	14
Non-cash benefits	**68,842**	2
	3,987,756	100

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

Sign-on and severance payments

During the year ended 31 March 2018, there were no new sign-on and severance payments made either to directors or members of senior management of the Group.

Michael Bussey
Chairman

Mark A. Watson
Director and Chief Executive Officer

30 July 2018

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Independent auditor's report

To the Shareholders of MeDirect Bank (Malta) plc

Report on the audit of the financial statements

Our opinion

In our opinion:

- MeDirect Bank (Malta) plc's consolidated and parent company financial statements (the "financial statements") give a true and fair view of the Group and the Bank's financial position as at 31 March 2018, and of the Group's and the Bank's financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the EU; and
- The financial statements have been prepared in accordance with the requirements of the Maltese Companies Act (Cap. 386) and the Maltese Banking Act (Cap. 371).

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

What we have audited

MeDirect Bank (Malta) plc's financial statements, set out on pages 39 to 185, comprise:

- the consolidated and parent company statements of financial position as at 31 March 2018;
- the consolidated and parent company income statements and statements of other comprehensive income for the year then ended;
- the consolidated and parent company statements of changes in equity for the year then ended;
- the consolidated and parent company statements of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

Basis for opinion

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

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

Independence

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

Independent auditor's report *- continued*

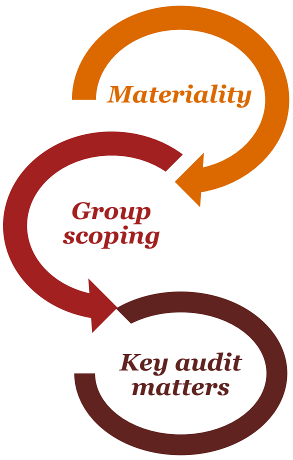
To the Shareholders of MeDirect Bank (Malta) plc

To the best of our knowledge and belief, we declare that non-audit services that we have provided to the parent company and its subsidiaries are in accordance with the applicable law and regulations in Malta and that we have not provided non-audit services that are prohibited under Article 18A of the Accountancy Profession Act (Cap. 281).

The non-audit services that we have provided to the group and its subsidiaries, in the period from 1 April 2017 to 31 March 2018, are disclosed in the note 26 to the financial statements.

Our audit approach

Overview



- Overall group materiality: €0.7 million, which represents 5% of profit before tax.

- The audit carried out by the group engagement team covered the local components as at and for the year ended 31 March 2018 being MeDirect Bank (Malta) plc; Grand Harbour I B.V. ("GH I"), a controlled special purpose entity established to raise funding to cover identified assets; and MeDirect Bank SA, a subsidiary based in Belgium.

- Impairment of loans and advances to customers of the Group and the Bank

- Recognition of interest income on loans and advances utilising the effective interest rate method

Independent auditor's report - *continued*

To the Shareholders of MeDirect Bank (Malta) plc

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

Materiality

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

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

Overall group materiality	€705,000 (2017: €926,000)
How we determined it	5% of profit before tax
Rationale for the materiality benchmark applied	We chose profit before tax as the benchmark because, in our view, it is the benchmark against which the performance of the Group is most commonly measured by users, and is a generally accepted benchmark. We chose 5% which is within the range of acceptable quantitative materiality thresholds in auditing standards.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above €71,000 as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Independent auditor's report - *continued*

To the Shareholders of MeDirect Bank (Malta) plc

Key audit matters

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

Key audit matter	How our audit addressed the key audit matter
Impairment of loans and advances to customers of the Group and the Bank Impairment allowances in respect of loans and advances to customers represent management's best estimate of the losses incurred within the loan portfolios at the balance sheet date. The Group and the Bank have two principal lending portfolios: the international lending portfolio, comprising syndicated senior secured loans to international large corporates, with a carrying amount of €1,620.2 million at 31 March 2018, and a significantly smaller local lending portfolio, predominantly consisting of loans to the real estate activities sector in Malta, with a carrying amount of €81.5 million at 31 March 2018. Impairment of loans and advances to customers is considered a key area of focus in respect of the international lending portfolio. All loans within the Group's international portfolio are considered individually significant. As a result, impairment losses are calculated on an individual basis. A collective impairment assessment is also performed in respect of the international lending portfolio to cover losses which have been incurred but have not yet been identified on loans subject to individual assessment. The calculation of both collective and individual impairment allowances is inherently judgemental; judgement is applied to determine appropriate parameters and assumptions used to calculate impairment.	The policies and methodologies used by the Group in respect of impairment of loans and advances within the international lending portfolio as well as changes to inputs within the collective allowance models and significant inputs in respect of individually significant loan impairments were discussed with the Audit Committee. For collective allowances in respect of the international lending portfolio the appropriateness of the modelling policy and methodology used was independently assessed by reference to the requirements of accounting standards and market practices. We understood and critically assessed the models used for collective allowances. Since, modelling assumptions and parameters are based on historic data, we assessed whether historic experience was representative of current circumstances and of the recent losses incurred within the portfolio. The appropriateness of management's judgements was also independently considered in respect of calculation methodologies and judgemental overlays. We tested the completeness and accuracy of data extracted from underlying systems that is utilised in the models. Based on the evidence obtained, we found that the model assumptions, data used within the models and overlays to be reasonable. For specific allowances in respect of the international lending portfolio, the appropriateness of provisioning methodologies and policies was independently assessed. We understood and evaluated the processes for identifying impairment events within the loan portfolio, as well as the impairment assessment processes.

Key audit matter	How our audit addressed the key audit matter
Collective impairment allowances are calculated using statistical models, which approximate the impact of current economic and credit conditions on the portfolio of loans. For incurred but not yet identified impairments, this model is based on the probabilities of default and loss given default parameters taking into account the Bank's historical experience as well as the estimated emergence period between impairment occurring and loss recognition. The inputs to these models are subject to management judgement and model overlays are often required. Key assumptions and judgements include the probabilities of default based on the transition from one credit grade to another and the loss given default based on the Group's historical experience, measured by reference to impairment charges and write offs in respect of impaired loans. The methodologies used by the Bank to calculate collective impairment allowances are relatively standard, which means that modelling risk is low but that changes in individual inputs can have a significant bearing on the impairment charge recognised in profit or loss. Due to the nature of the Bank's international lending, management validates its collective impairment allowance through the utilisation of a separate model that uses market implied probabilities of default and recovery rates for loans of a similar nature. For specific impairments in respect of the international lending portfolio, judgement is required to determine when an impairment event has occurred and then to estimate the expected future cash flows related to that loan. In the case of the Group, estimated future cash flows are generally dependent on parameters or assumptions such as market multiples in	The controls management has established to identify which loans and advances are impaired were tested. For individual loans, this includes a review and approval process that management have in place for the identification of impairment events, in the form of a thorough quarterly portfolio review process through which each individual loan is scrutinised for impairment indicators both by the front-line business as well as by the Group's independent risk management function. We determined that we could rely on these controls for the purposes of our audit, particularly in respect of fully performing loans. For underperforming loans, we assessed critically the criteria used for determining whether an impairment event had occurred and therefore whether there was a requirement to compute a specific impairment allowance. We performed tests of detail on a sample of underperforming loans (for instance customers experiencing financial difficulty) to challenge whether impairment events had actually occurred by forming our own judgement as to whether the classification of the loans as unimpaired was appropriate and to challenge whether all relevant events had been identified by management. For all individually impaired loans within the international lending portfolio we performed tests of detail to review the latest developments at the level of the borrower and the basis of measuring the impairment provisions. We considered whether key judgments were appropriate given the borrowers' circumstances. An independent view was formed on the level of provisions recorded based on the detailed loan and customer information available. In particular, we formed our view on key inputs to the impairment calculation including market multiples used to determine borrowers' enterprise values, the estimation of borrowers' operating cash flows as well as the plausibility of the scenarios used and the probabilities associated with such scenarios. We also engaged our valuation specialist to review and critique the market multiples applied by management.

Key audit matter	How our audit addressed the key audit matter
relation to borrowers' enterprise values, the estimation of borrowers' operating cash flows, and the use of multiple scenarios to estimate impairments where uncertainty surrounding the borrower's circumstances exists. We focused on impairment due to the subjective nature of the calculations and the subjective judgements involved in both timing of recognition of impairment and the estimation of the size of any such impairment. Relevant references in the Annual Report and Financial Statements: • Accounting policy: Note 1.6; • Credit risk management: Note 2.2; • Critical accounting judgements and estimates: Note 3.3; • Note on Loans and advances to customers: Note 7; and • Note on Net impairment charges: Note 27.	Based on the evidence obtained, we found management's judgements to be reasonable.
Recognition of interest income on loans and advances utilising the effective interest rate method Interest income on loans and advances to customers is recognised using the effective interest rate method. Measuring interest income on loans and advances to customers under the effective interest rate method requires management to apply judgement, particularly in the case of the Group's and Bank's senior secured loans to international borrowers, constituting the international lending portfolio. A model is utilised by the Group to compute the impact of application of the effective interest rate method on an individual loan basis, by discounting estimated future cash flows through the expected life of the instrument to the net carrying amount, including all fees and points paid or received that are an integral part of the	Our audit procedures in respect of the application of the effective interest rate method to loans and advances within the international lending portfolio, in particular relating to the assumptions on loan expected lives and to the determination of which fees are considered to form an integral part of the effective interest rate, included the following: • We challenged the appropriateness of assumed expected lives on a loan by loan basis, by comparing these to available historical borrowing customer data and trends; • We challenged the appropriateness of changes to assumed expected lives in relation to specific loans by reference to our own expectations, based on our knowledge of the Group, our experience of the industry and of the specialised lending sector, taking into consideration the available emerging information in relation to such borrowers in respect of which assumptions have been modified; • We assessed the accuracy of the model used for the recognition of interest income and for the

Key audit matter	How our audit addressed the key audit matter
effective interest rate, transaction costs and all other premiums or discounts. A key judgement in respect of the application of the effective interest rate method to the international lending portfolio is the assumed expected life for the loans, effectively determining the period over which interest income is recognised utilising the effective interest rate method, and accordingly determining the pattern of recognition of income throughout different accounting periods. The determination as to which fees are considered an integral part of the effective interest rate and hence included within the effective interest rate calculations is also judgemental for the international lending portfolio. Management determines an assumed expected life for each individual loan within its international lending portfolio. The sensitivity to a change in assumed expected life can vary significantly between different loans, depending on the characteristics, terms and conditions of the underlying lending transaction and parameters included within the respective effective interest rate calculation such as fee income and discounts or premiums identified at inception. The Group has historical experience in respect of the international lending portfolio, which is limited to six years, for the purposes of supporting the expected life assumption applied to each loan. Consequently, the Group determines loan expected life assumptions on the basis of its forecasting process, which takes into account historical data but also the Group's expertise and experience in this specialised lending sector. Any changes in the expected loan life assumptions are based on management's assessment of emerging market trends (for instance changes in market interest rates and the ability of the	measurement of loans and receivables at amortised cost using the effective interest rate method by re-performing a sample of effective interest rate calculations at individual loan level. Our audit procedures comprised performing tests of detail on the selected sample of lending arrangements by agreeing transaction details within the respective model to loan agreements and other supporting documentation. For the selected sample, we also assessed whether all the appropriate fees had been reflected within the effective interest rate calculations based on the requirements within the relevant accounting pronouncements. Based on the results of our audit procedures we concluded that the assumptions used by management were reasonable.

Independent auditor's report - continued

To the Shareholders of MeDirect Bank (Malta) plc

Key audit matter	How our audit addressed the key audit matter
borrower to re-finance in the circumstances) and borrower specific information that indicates changes to repayment profiles and the extent of such changes. Relevant references in the Annual Report and Financial Statements: • Accounting policy: Note 1.5.2.2; and • Critical accounting judgements and estimates: Note 3.2.	

How we tailored our group audit scope

The Group is composed of three components: MeDirect Bank (Malta) plc (the parent company), and its subsidiary MeDirect Bank SA, which is determined to be a financially significant entity, together with Grand Harbour I B.V. (GH I) which is a controlled special purpose entity established to raise funding to cover identified assets. The parent company has retained substantially all risks and rewards pertaining to the activities of GH I and hence pertaining to assets, liabilities, income and expenditure attributable to GH I, and as such, all assets, liabilities and related income and expenditure have been reflected within the parent company's stand-alone financial statements.

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

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

Other information

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

- Directors' report;
- Remuneration report;
- Five year comparisons;
- Shareholder register information; and
- Company information

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

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

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

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

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

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

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

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

The directors are responsible for the preparation of financial statements that give a true and fair view in accordance with IFRSs as adopted by the EU and the requirements of the Maltese Companies Act (Cap. 386) and the Maltese Banking Act (Cap. 371), and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's or the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group or the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

Independent auditor's report - *continued*

To the Shareholders of MeDirect Bank (Malta) plc

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

Report on other legal and regulatory requirements

Report on the statement of compliance with the Principles of Good Corporate Governance

The Listing Rules issued by the Malta Listing Authority require the directors to prepare and include in their Annual Report a Statement of Compliance providing an explanation of the extent to which they have adopted the Code of Principles of Good Corporate Governance and the effective measures that they have taken to ensure compliance throughout the accounting period with those Principles.

The Listing Rules also require the auditor to include a report on the Statement of Compliance prepared by the directors.

We read the Statement of Compliance and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements included in the Annual Report. Our responsibilities do not extend to considering whether this statement is consistent with any other information included in the Annual Report.

We are not required to, and we do not, consider whether the Board's statements on internal control included in the Statement of Compliance cover all risks and controls, or form an opinion on the effectiveness of the Company's corporate governance procedures or its risk and control procedures. In our opinion, the Statement of Compliance set out on pages 10 to 20 has been properly prepared in accordance with the requirements of the Listing Rules issued by the Malta Listing Authority.

Opinion on other matters prescribed by the Maltese Banking Act (Cap. 371)

In our opinion:

- we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purpose of our audit;
- proper books of account have been kept by the Bank, so far as appears from our examination of those books;
- the Bank's financial statements are in agreement with the books of account; and
- to the best of our knowledge and according to the explanations given to us, the financial statements give the information required by any law in force in the manner so required.

Independent auditor's report - *continued*

To the Shareholders of MeDirect Bank (Malta) plc

Other matters on which we are required to report by exception

We also have responsibilities:

- under the Maltese Companies Act (Cap. 386) to report to you if, in our opinion:
  - returns adequate for our audit have not been received from branches not visited by us; and
  - certain disclosures of directors' remuneration specified by law are not made in the financial statements, giving the required particulars in our report.

- under the Listing Rules to review the statement made by the directors that the business is a going concern together with supporting assumptions or qualifications as necessary.

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

Appointment

We were first appointed as auditors of the Bank on 29 July 2015. Our appointment has been renewed annually by shareholder resolution representing a total period of uninterrupted engagement appointment of three years.

PricewaterhouseCoopers
78, Mill Street
Qormi
Malta

F Axisa

Fabio Axisa
Partner

30 July 2018

Statements of financial position

		Group		Bank		
		31 March		31 March		1 April
	Notes	**2018** €000	2017 €000	**2018** €000	2017 €000 (restated)	2016 €000 (restated)
ASSETS						
Balances with Central Banks and cash	4	**103,739**	245,194	**65,610**	49,855	28,797
Derivative financial instruments	5	**470**	1,627	**3,886**	2,872	3,964
Loans and advances to financial institutions	6	**113,623**	106,895	**106,740**	94,350	50,546
Loans and advances to customers	7	**1,701,716**	1,449,970	**1,375,674**	1,162,732	673,933
Investments						
- Corporate		**-**	-	**-**	-	21,293
- Treasury	8	**560,245**	698,474	**483,278**	647,004	820,975
- Subsidiaries	9	**-**	-	**225,001**	180,001	130,001
Property and equipment	10	**1,223**	402	**1,194**	347	835
Intangible assets	11	**2,495**	4	**2,495**	2	8
Non-current assets classified as held for sale	12	**1,785**	1,785	**1,785**	1,785	-
Current tax assets		**9,527**	8,391	**9,527**	8,390	5,624
Deferred tax assets	13	**16,104**	14,178	**12,598**	10,105	10,199
Prepayments and accrued income	14	**18,168**	19,138	**16,822**	16,785	15,627
Other assets	15	**16,510**	25,233	**15,798**	28,798	66,389
Total assets		**2,545,605**	2,571,291	**2,320,408**	2,203,026	1,828,191

The notes on pages 49 to 185 are an integral part of these financial statements.

Statements of financial position - continued

		Group		Bank		
		31 March		31 March		1 April
		2018	2017	**2018**	2017	2016
	Notes	**€000**	€000	**€000**	€000	€000
					(restated)	(restated)
EQUITY						
Called up issued share capital	16	**117,450**	117,450	**117,450**	117,450	117,450
Share premium	16	**13,464**	13,464	**13,464**	13,464	13,464
Shareholders' contributions	16	**147,353**	60,803	**147,353**	60,803	60,803
Reserve for general banking risks	16	**1,694**	1,694	**1,694**	1,694	1,194
Other reserves	16	**(1,732)**	(2,511)	**5,508**	19,695	14,857
Retained earnings/(accumulated losses)	16	**42,468**	32,923	**28,580**	1,235	(3,447)
Total equity		**320,697**	223,823	**314,049**	214,341	204,321
LIABILITIES						
Derivative financial instruments	5	**3,581**	2,323	**3,639**	2,732	8,250
Amounts owed to financial institutions	17	**126,428**	359,183	**1,019,082**	1,003,365	767,696
Amounts owed to customers	18	**1,979,159**	1,901,512	**841,927**	872,709	777,057
Subordinated liabilities	19	**66,949**	47,043	**66,949**	47,043	47,380
Current tax liabilities		**156**	71	**39**	71	69
Accruals and deferred income	20	**34,266**	30,428	**31,458**	28,365	21,158
Other liabilities	21	**14,369**	6,908	**43,265**	34,400	2,260
Total liabilities		**2,224,908**	2,347,468	**2,006,359**	1,988,685	1,623,870
Total equity and liabilities		**2,545,605**	2,571,291	**2,320,408**	2,203,026	1,828,191
Memorandum items						
Commitments to purchase financial assets	7 - 8	**118,250**	108,865	**118,250**	97,495	152,962
Commitments to extend credit, guarantees and other commitments	31 - 33	**449,153**	352,222	**439,055**	351,542	184,086

The notes on pages 49 to 185 are an integral part of these financial statements.

The financial statements on pages 39 to 185 were approved and authorised for issue by the Board of Directors on 30 July 2018 and signed on its behalf by:

Michael Bussey
Chairman

Mark A. Watson
Director and Chief Executive Officer

Income statements

	Notes	Group 2018 €000	Group 2017 €000	Bank 2018 €000	Bank 2017 €000 (restated)
Interest income		**90,835**	89,863	**78,754**	53,995
Interest expense		**(27,902)**	(32,299)	**(31,474)**	(20,059)
Net interest income	22	**62,933**	57,564	**47,280**	33,936
Fee and commission income					
– Corporate lending fees		**141**	711	**141**	601
– Other		**5,641**	3,682	**3,755**	2,681
Fee and commission expense					
– Corporate lending fees		**(244)**	(282)	**(155)**	(165)
– Other		**(1,313)**	(1,370)	**(920)**	(894)
Net fee and commission income	23	**4,225**	2,741	**2,821**	2,223
Net trading income	24.1	**3,929**	2,178	**3,833**	2,126
Net income from other financial instruments at fair value through profit or loss		**128**	-	**128**	-
Other operating income					
– Realised gains on disposal of other investments	24.2	**43**	800	**43**	800
– Realised (losses)/gains on disposal of loans and advances		**(1,028)**	3,594	**(1,192)**	3,547
– Other income	24.3	**11**	14	**11**	14
Total operating income		**70,241**	66,891	**52,924**	42,646
Personnel expenses	25	**(17,593)**	(17,046)	**(12,425)**	(13,968)
Depreciation and amortisation	10-11	**(259)**	(551)	**(231)**	(501)
Other administrative expenses	26	**(29,992)**	(25,163)	**(16,447)**	(13,761)
Total operating expenses		**(47,844)**	(42,760)	**(29,103)**	(28,230)
Net operating income before impairment charges		**22,397**	24,131	**23,821**	14,416
Net impairment charges	27	**(8,302)**	(5,607)	**(7,597)**	(6,518)
Profit before tax		**14,095**	18,524	**16,224**	7,898
Taxation	28	**5,450**	(3,373)	**6,150**	(2,716)
Profit for the year		**19,545**	15,151	**22,374**	5,182
Earnings per share	29	**17c**	13c		

The notes on pages 49 to 185 are an integral part of these financial statements.

Statements of other comprehensive income

	Group		Bank	
	2018	2017	**2018**	2017
	€000	€000	**€000**	€000 (restated)
Profit for the year	**19,545**	15,151	**22,374**	5,182
Other comprehensive income				
Items that may be reclassified subsequently to profit or loss				
Fair valuation of available-for-sale financial assets:				
- Net change in fair value, before tax	**1,230**	8,474	**1,250**	8,238
- Net amount reclassified to profit or loss, before tax	**(43)**	(800)	**(43)**	(800)
Income tax relating to other comprehensive income	**(408)**	(2,681)	**(423)**	(2,600)
Other comprehensive income, net of tax	**779**	4,993	**784**	4,838
Total comprehensive income, net of tax	**20,324**	20,144	**23,158**	10,020

The notes on pages 49 to 185 are an integral part of these financial statements.

Statements of changes in equity

Group	Share capital €000	Share premium €000	Shareholders' contributions €000	Reserve for general banking risks €000	Other reserves €000	Retained earnings €000	Total €000
Balance at 1 April 2016	117,450	13,464	60,803	1,194	(7,580)	18,348	203,679
Total comprehensive income							
Profit for the year	-	-	-	-	-	15,151	15,151
Other comprehensive income, net of tax:							
Fair valuation of available-for-sale financial assets:							
- Net change in fair value arising during the year, net of tax	-	-	-	-	5,527	-	5,527
- Reclassification adjustments – net amounts reclassified to profit or loss, net of tax	-	-	-	-	(534)	-	(534)
Total other comprehensive income, net of tax	-	-	-	-	4,993	-	4,993
Total comprehensive income, net of tax	-	-	-	-	4,993	15,151	20,144
Transfer to Reserve for general banking risks	-	-	-	500	-	(500)	-
Transfer to Statutory legal reserve	-	-	-	-	76	(76)	-
Balance at 31 March 2017	**117,450**	**13,464**	**60,803**	**1,694**	**(2,511)**	**32,923**	**223,823**

The notes on pages 49 to 185 are an integral part of these financial statements.

Statements of changes in equity - continued

Group	Share capital €000	Share premium €000	Shareholders' contributions €000	Reserve for general banking risks €000	Other reserves €000	Retained earnings €000	Total €000
Balance at 1 April 2017	117,450	13,464	60,803	1,694	(2,511)	32,923	223,823
Total comprehensive income							
Profit for the year	-	-	-	-	-	19,545	19,545
Other comprehensive income, net of tax:							
Fair valuation of available-for-sale financial assets:							
- Net change in fair value arising during the year, net of tax	-	-	-	-	807	-	807
- Reclassification adjustments – net amounts reclassified to profit or loss, net of tax	-	-	-	-	(28)	-	(28)
Total other comprehensive income, net of tax	-	-	-	-	779	-	779
Total comprehensive income, net of tax	-	-	-	-	779	19,545	20,324
Transactions with owners							
Shareholders' contributions	-	-	86,550	-	-	-	86,550
Dividends to equity holders	-	-	-	-	-	(10,000)	(10,000)
Total transactions with owners	-	-	86,550	-	-	(10,000)	76,550
Balance at 31 March 2018	**117,450**	**13,464**	**147,353**	**1,694**	**(1,732)**	**42,468**	**320,697**

The notes on pages 49 to 185 are an integral part of these financial statements.

Statements of changes in equity - continued

Bank	**Share capital €000**	**Share premium €000**	**Shareholders' contributions €000**	**Reserve for general banking risks €000**	**Other reserves €000**	**Retained earnings €000**	**Total €000**
Balance at 1 April 2016 as previously stated	117,450	13,464	60,803	593	14,857	(3,703)	203,464
Impact of merger (note 38)	-	-	-	601	-	256	857
Balance at 1 April 2016 as restated	117,450	13,464	60,803	1,194	14,857	(3,447)	204,321
Total comprehensive income							
Profit for the year	-	-	-	-	-	5,182	5,182
Other comprehensive income, net of tax:							
Fair valuation of available-for-sale financial assets:							
- Net change in fair value arising during the year, net of tax	-	-	-	-	5,372	-	5,372
- Reclassification adjustments – net amounts reclassified to profit or loss, net of tax	-	-	-	-	(534)	-	(534)
Total other comprehensive income, net of tax	-	-	-	-	4,838	-	4,838
Total comprehensive income, net of tax	-	-	-	-	4,838	5,182	10,020
Transfer to Reserve for general banking risks	-	-	-	500	-	(500)	-
Balance at 31 March 2017	**117,450**	**13,464**	**60,803**	**1,694**	**19,695**	**1,235**	**214,341**

The notes on pages 49 to 185 are an integral part of these financial statements.

Statements of changes in equity - continued

Bank	Share capital €000	Share premium €000	Shareholders' contributions €000	Reserve for general banking risks €000	Other reserves €000	Retained earnings €000	Total €000
Balance at 1 April 2017	117,450	13,464	60,803	1,694	19,695	1,235	214,341
Total comprehensive income							
Profit for the year	-	-	-	-	-	22,374	22,374
Other comprehensive income, net of tax:							
Fair valuation of available-for-sale financial assets:							
- Net change in fair value arising during the year, net of tax	-	-	-	-	812	-	812
- Reclassification adjustments – net amounts reclassified to profit or loss, net of tax	-	-	-	-	(28)	-	(28)
Total other comprehensive income, net of tax	-	-	-	-	784	-	784
Total comprehensive income, net of tax	-	-	-	-	784	22,374	23,158
Realisation of previously recognised fair value reserve upon merger of subsidiary with Bank (Note 16)	-	-	-	-	(14,971)	14,971	-
Transactions with owners							
Shareholders' contributions	-	-	86,550	-	-	-	86,550
Dividends to equity holders	-	-	-	-	-	(10,000)	(10,000)
Total transactions with owners	-	-	86,550	-	-	(10,000)	76,550
Balance at 31 March 2018	**117,450**	**13,464**	**147,353**	**1,694**	**5,508**	**28,580**	**314,049**

The notes on pages 49 to 185 are an integral part of these financial statements.

Statements of cash flows

	Group		Bank	
	2018	2017	**2018**	2017
	€000	€000	**€000**	€000 (restated)
Cash flows from operating activities				
Interest and commission receipts	**108,380**	110,999	**91,186**	76,145
Interest and commission payments	**(29,530)**	(35,761)	**(33,081)**	(22,286)
Payments to employees and suppliers	**(45,908)**	(43,523)	**(28,300)**	(28,738)
Operating profit before changes in operating assets/liabilities	**32,942**	31,715	**29,805**	25,121
Decrease/(increase) in operating assets:				
- Reserve deposit with Central Banks	**178,076**	(184,630)	**(275)**	(1,333)
- Loans and advances to financial institutions and customers	**(276,168)**	(225,770)	**(229,804)**	(495,703)
(Decrease)/increase in operating liabilities:				
- Amounts owed to financial institutions and customers	**(125,893)**	357,360	**140,867**	413,731
- Other payables	**5,831**	1,776	**7,100**	545
- Derivative financial instruments	**(848)**	(7,494)	**(182)**	(8,260)
Tax refunded/(paid)	**2,065**	(7,989)	**2,065**	(7,984)
Net cash used in operating activities	**(183,995)**	(35,032)	**(50,424)**	(73,883)

The notes on pages 49 to 185 are an integral part of these financial statements.

Statements of cash flows - continued

		Group		Bank	
	Note	**2018 €000**	2017 €000	**2018 €000**	2017 €000 (restated)
Net cash used in operating activities		**(183,995)**	(35,032)	**(50,424)**	(73,883)
Cash flows from investing activities					
Additional investment in subsidiary		**-**	-	**(45,000)**	(50,000)
Acquisition of property and equipment		**(1,053)**	(7)	**(1,053)**	(7)
Acquisition and development of intangible assets		**(2,559)**	-	**(2,559)**	(205)
Acquisition of available-for-sale assets		**(25,717)**	(26,939)	**-**	(2,816)
Disposal/redemption of available-for-sale assets		**154,469**	196,078	**154,469**	193,076
Disposal of equity investments		**-**	81	**-**	81
Repayment of advances to subsidiary		**-**	-	**-**	64,985
Net cash from investing activities		**125,140**	169,213	**105,857**	205,114
Cash flows from financing activities					
Shareholders' contributions		**86,550**	-	**86,550**	-
Issue of debt securities		**19,913**	-	**19,913**	-
Dividends paid		**(10,000)**	-	**(10,000)**	-
Net advances from immediate parent company		**8,287**	595	**8,287**	595
Net advances from intermediate and ultimate parent company		**-**	548	**-**	487
Net advances from group companies		**1,376**	3,337	**6,634**	3,342
Net cash from financing activities		**106,126**	4,480	**111,384**	4,424
Net increase in cash and cash equivalents		**47,271**	138,661	**166,817**	135,655
Cash and cash equivalents at beginning of year		**102,143**	(36,518)	**(52,982)**	(188,637)
Cash and cash equivalents at end of year	30	**149,414**	102,143	**113,835**	(52,982)

The notes on pages 49 to 185 are an integral part of these financial statements.

Notes to the financial statements

1. Summary of significant accounting policies

1.1 Reporting entity

MeDirect Bank (Malta) plc ("MeDirect Malta" or the "Bank") is a limited liability company domiciled and incorporated in Malta.

The consolidated financial statements of MeDirect Malta as at and for the financial year ended 31 March 2018 comprise the financial statements of MeDirect Malta and its subsidiary, together referred to as "the Group". Therefore, these financial statements report the consolidated financial results of MeDirect Malta for the financial year ended 31 March 2018, including the financial results of MeDirect Bank SA ("MeDirect") and Grand Harbour I B.V. ("GH I"), a controlled special purpose entity established to obtain funding for identified assets. The Group has retained substantially all risks and rewards pertaining to the activities of GH I and hence to assets, liabilities and related income and expenditure attributable to GH I, and as such, all assets, liabilities and related income and expenditure have been reflected within the Group's consolidated financial statements.

The comparative consolidated financial information of the Group also comprises the results and financial position of Mediterranean Corporate Bank Limited ("MedCorp"), a subsidiary of the Bank which merged into the Bank during the current financial year. MedCorp became a principal subsidiary of MeDirect Malta on 25 September 2014, the date of acquisition. On 21 November 2016, MeDirect Malta announced that the Boards of Directors of MeDirect Malta and MedCorp have each voted to merge MedCorp into MeDirect Malta, subject to receipt of all applicable regulatory approvals and completion of all legal requirements. With effect from 1 April 2017, the merger between MeDirect Malta and MedCorp became effective for accounting purposes. Thus all the transactions of MedCorp have been treated as being those of MeDirect Malta with effect from 1 April 2017 (see Note 38). Within the financial statements for the current financial year, this merger is reflected as if it had already taken place at the beginning of the earliest period to be presented, i.e. 1 April 2016 using predecessor accounting. Accordingly whilst this accounting treatment has no impact on consolidated financial information presented within these financial statements, the comparative stand-alone financial information of the Bank has been restated to include the financial results and financial position of MedCorp, as if MedCorp had already been merged into MeDirect Malta as at 1 April 2016.

MeDirect Bank SA is a credit institution licensed in Belgium. As from May 2015 it took over the operations from the branch that MeDirect Malta had established in Belgium in prior years. On 1 June 2015, MeDirect Bank SA was authorised as a Belgian credit institution, which is now carrying out all of the Group's activities in Belgium.

During the financial year ended 31 March 2017, MeDirect Malta and MeDirect Belgium transferred a portfolio of syndicated senior secured loans to GH I. GH I was funded through two intragroup loan facilities subscribed to by MeDirect Malta and MeDirect Belgium. The transaction lead to a transfer of risk from MeDirect Belgium to MeDirect Malta, without changing the Group's overall risk profile on a consolidated basis. MeDirect Belgium and MeDirect Malta invested in GH I on a 78% - 22% basis (2017: 69% - 31% basis) respectively, with the tranche bought by MeDirect Belgium (the "Senior Loan") amounting to €893 million (2017: €474 million) having a senior ranking vis-à-vis the tranche acquired by MeDirect Malta (the "Junior Loan") amounting to €252 million (2017: €214 million).

Medifin Estates, a property leasing partnership, was set up to lease property which is then leased back to the Group.

1. Summary of significant accounting policies - continued

1.2 Basis of preparation

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

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

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

- available-for-sale financial assets which are measured at fair value;
- derivative financial instruments which are measured at fair value;
- recognised financial assets designated as hedged items in qualifying fair value hedge relationships which are measured at amortised cost adjusted for changes in fair value attributable to the risk being hedged; and
- equity investments which are measured at fair value.

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

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

Standards, interpretations and amendments to published standards effective in 2018

During the financial year ended 31 March 2018, the Group adopted new standards, amendments and interpretations to existing standards that are mandatory for the Group's accounting period beginning on 1 April 2017. The adoption of these revisions to the requirements of IFRSs as adopted by the EU did not result in significant changes to the Group's accounting policies impacting the Group's financial performance and position.

Voluntary change in accounting policies

The change in accounting policies noted below results in the financial statements providing more reliable and relevant information about the effects of events or conditions on the Bank's stand-alone financial position and financial performance.

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

During the current financial year, the Bank changed its accounting policy with respect to subsequent measurement of investments in subsidiaries in the Bank's stand-alone financial statements whereby these assets shall be accounted for by the cost method of accounting and subsequently carried at historical cost less impairment. Prior to the change in accounting policy, investments in subsidiaries were accounted for by the fair value method of accounting and were subsequently stated at fair value. Investment in subsidiaries were treated as available-for-sale financial assets with changes in fair value being taken to 'Other Comprehensive Income'.

1. Summary of significant accounting policies - continued

1.2 Basis of preparation - continued

This change in accounting policy has been applied retrospectively in accordance with the requirements of IAS 8, 'Accounting policies, changes in accounting estimates and errors'. Accordingly the Bank was required to adjust the opening balance of each affected component of equity for the earliest period presented in the stand-alone financial statements i.e. 1 April 2016 and other comparative amounts disclosed for the comparative period presented as if the revised accounting policy had always been applied. However this change in accounting policy did not have any impact on the stand-alone financial information presented within these financial statements, taking cognisance of the restatement of comparative financial information in view of the merger of MedCorp into MeDirect Malta and of the fact that no fair value adjustments had been recognised in respect of MeDirect Belgium under the Bank's previous accounting policy.

In the opinion of Directors, the fair value method of accounting is not deemed to give rise to relevant and reliable information anymore in view of the merger of MedCorp into MeDirect Malta and given that through the utilisation of the GH1 structure, MeDirect Belgium's main asset is the senior loan facility to GH1.

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

Certain new accounting standards and interpretations have been published, which are not mandatory for 31 March 2018 reporting periods and which have not been early adopted by the Group, in particular IFRS 9 'Financial Instruments'.

There are no standards, other than IFRS 9, that are not yet effective and that would be expected to have a material impact on the Group in the current or future reporting periods and on foreseeable future transactions.

Future accounting developments

IFRS 9 "Financial Instruments"

The IASB issued the final version of IFRS 9 'Financial Instruments' in July 2014 to replace IAS 39 'Financial Instruments: Recognition and Measurement'. This comprehensive standard is effective for financial periods beginning on or after 1 January 2018, with the possibility of early adoption. In this regard, the Group has not early adopted the provisions of IFRS 9 and, as a result, the date of initial application of IFRS 9 for the Group is set at 1 April 2018. The adoption and implementation of IFRS 9 requires the Group to revise its accounting processes and internal controls relating to the reporting of financial instruments so as to ensure that the requirements emanating from IFRS 9 relating to the classification of financial assets and liabilities, the impairment of financial assets and hedge accounting are met.

Classification and measurement

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

1. Summary of significant accounting policies - continued

1.2 Basis of preparation - continued

Classification and measurement - continued

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

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

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

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

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

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

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

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

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

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

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

1. Summary of significant accounting policies - continued

1.2 Basis of preparation - continued

Classification and measurement - continued

(i) how the performance of the business model and the financial assets held within it are evaluated and reported to key management personnel;
(ii) how managers are compensated for business performance (e.g., whether the compensation is based on the fair value of the assets managed or the contractual cash flows collected); and
(iii) consideration of risks affecting performance and how they are managed.

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

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

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

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

(i) The historical frequency, timing and value of sales;
(ii) The reason for the sales (such as credit deterioration); and
(iii) Expectations about future sales activity.

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

1. Summary of significant accounting policies - continued

1.2 Basis of preparation - continued

Classification and measurement - continued

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

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

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

(i) Variable interest rates, which typically consider the time value of money, credit risk and other basic lending risks and costs;
(ii) Leverage, which is a contractual cash flow characteristic that results in increased variability in contractual cash flows;
(iii) Modifications of the time value of money; and
(iv) Contractual features that could alter the timing or amount of contractual cash flows of a financial asset, such as contingent events, prepayment and extension options.

More specifically, from the assessment that the Group conducted the following classification and measurement matters have been determined:

(i) loans and advances to banks and to customers that are classified as loans and receivables under IAS 39 will continue to be measured at amortised cost under IFRS 9; and
(ii) a portfolio of debt securities classified as available-for-sale under IAS 39 will be classified at FVOCI under IFRS 9 given that the objective of the business model is achieved by both the collection of contractual cash flows and selling of the financial assets, while a portfolio of debt securities classified as available-for-sale under IAS 39 will be measured at amortised cost under IFRS 9.

The Group has estimated that, on the adoption of IFRS 9 at 1 April 2018, the impact of these changes (before tax), attributable mainly to the measurement of certain debt securities at amortised cost under IFRS 9, is an increase in the Group’s equity of €2.2 million.

1. Summary of significant accounting policies - continued

1.2 Basis of preparation - continued

Impairment

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

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

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

IFRS 9 impairment requirements are also applicable to loan commitments that are not measured at FVTPL (if the terms and conditions of the arrangement give rise to an enforceable contract to extend credit), financial guarantee contracts and recognised lease receivables to which IAS 17 Leases applies. None of these are within the scope of IFRS 9 but are still subject to impairment requirements in accordance with IFRS 9.

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

In this regard, financial instruments that:

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

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

1. Summary of significant accounting policies - continued

1.2 Basis of preparation - continued

Impairment - continued

Significant increase in credit risk

The concept of default risk is central to IFRS 9 – therefore, a key risk parameter used by the Group in its credit risk management activities is the probability that the obligor defaults either within the next 12-month period (in case of Stage 1 exposures) or over the lifetime of the exposure (in case of Stage 2 / 3 exposures).

In order to identify indicators of SICR since initial recognition, the Group compares the credit risk level on each financial instrument at each IFRS 9 reporting date with the credit risk level as at the date of initial recognition. The assessment requires the consideration of all reasonable and supportable information that is available without undue cost. If a SICR is identified, the financial instruments are transferred into Stage 2 and lifetime ECLs are recognised.

It is possible for multiple instruments to the same borrower to be classified under different stages. This may occur when the Group holds exposures originated at differing time intervals whereby the relative increase in credit risk since origination between two instruments may be significant for one instrument, but less significant for an instrument originated at a later time interval.

To assess a SICR event, the Group considers both actual and forward-looking information relating to external market indicators, internal factors and borrower-specific information.

The Group's credit risk management framework comprises the use of both quantitative and qualitative SICR triggers. However, the assessment performed by the Group to identify a SICR varies across each of the Group's portfolios of financial instruments.

- *International Corporate Lending portfolio:*

Financial instruments within the Group's International Corporate Lending portfolio are managed on an individual basis for credit purposes, whereby the Group's credit analysts have access to the obligors and their financial information, the latter comprising both historical and forecasted financial information.

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

1. Summary of significant accounting policies - continued

1.2 Basis of preparation - continued

Impairment - continued

The four credit quality classifications below describe the credit quality of the Group's key financial assets. An internal risk grade is assigned to each obligor. Throughout the Group's Credit Committee meetings, the members of the Credit Committee review the grading proposed by the Corporate Credit team and reviewed by the Risk Management team. The following are the internal risk grades:

(i) Regular - no material credit concerns.
(ii) Focus - no immediate prospect that a loss will ultimately be suffered, but worthy of close attention.
(iii) Under Surveillance - significant credit concerns and some prospect that a loss may ultimately be suffered.
(iv) Impaired - exposures have been assessed individually as impaired.

In order to identify SICR, the Group has adopted a holistic approach covering both qualitative and quantitative indicators of risk. Accordingly, the Group has defined a number of qualitative triggers for the identification of SICR through its Credit policy. These triggers are designed to capture the level of credit risk linked to each financial instrument and are reflected through the internal risk grade proposed by the Group's credit analysts and reviewed / approved by the Credit Committee. Meanwhile, the Group's quantitative assessment to determine whether a SICR has occurred since initial recognition is based on a ratings-based approach that uses 'Point in Time' (PiT) PDs (i.e. PD in current economic conditions) for the identification of SICR.

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

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

Unconditional PDs refer to the PD term structure based on historical information and prior to the application of the forward-looking scenarios. The Group then applies multiple forward-looking macroeconomic scenarios to the unconditional PiT PD term structure in order to estimate the forward-looking probability weighted conditional PiT PD at an obligor level.

1. Summary of significant accounting policies - continued

1.2 Basis of preparation - continued

Impairment - continued

PDs are determined at an obligor-level rather than at a facility-level. Therefore, different facilities with the same obligor originated at the same time are expected to have an identical PD, whereas facilities with the same obligor originated at different time intervals will probably have different PDs, since the credit risk related to an obligor is likely to have changed in the meantime.

For the purposes of the identification of SICR, the forward-looking probability weighted conditional PiT PD estimated by the model is mapped to an implied default rating, which adopts Moody's public ratings agency scale terminology from Caa–C up to AAA.

When performing the SICR assessment, the Group compares the implied rating at origination to the implied rating at the reporting date and determines the difference in notches between them. The Group's staging criteria is therefore deemed to be based on a ratings/notch deterioration approach.

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

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

The relative threshold approach involves calculating the magnitude of the difference between the reporting date rating and the origination date rating based on the deterioration in the number of notches between the two ratings. The appropriate stage is determined based on the magnitude of this difference. On the other hand, the stage allocation decision using an absolute threshold is based on the reporting date rating of the instrument.

The quantitative assessment through the Group's implied credit rating staging criteria is considered alongside qualitative SICR triggers and form part of the overall SICR trigger assessment. In this regard, where qualitative SICR triggers are observed by credit analysts, the Group applies a management override to the model, thereby overriding the SICR quantitative assessment made by the model.

1. Summary of significant accounting policies - continued

1.2 Basis of preparation - continued

Impairment - continued

- *Treasury portfolio:*

The provisions of IFRS 9 include a practical expedient to measure impairment allowances using 12-month ECL for financial instruments having low credit risk as at the reporting date. In practical terms, this means that, in those cases where a financial instrument is deemed to have low credit risk, management is not required to perform an assessment to determine whether a SICR has occurred.

Given that credit ratings are a reflection of possible significant increases in credit risk, the Group simply refers to external credit ratings in order to monitor SICR in relation to its Treasury portfolio, which comprises exposures to which a credit rating has been assigned by Moody's, Fitch and Standard & Poor's. In this regard, an exposure is deemed to have low credit risk if it is assigned an investment grade status by one of these three external credit rating agencies.

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

- *Local Lending portfolio:*

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

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

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

Financial instruments that:

(i) Have not deteriorated significantly in credit quality since initial recognition must be recognised as either "1-Regular" or "2-Focus" within the Group's internal risk grading system;
(ii) Have incurred a SICR is classified as "3-Under Surveillance", in which case the Group recognises lifetime ECLs; and
(iii) Demonstrate objective evidence of default are classified as "4-Doubtful" and assessed individually for provisioning purposes.

1. Summary of significant accounting policies - continued

1.2 Basis of preparation - continued

Impairment - continued

Definition of default

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

IFRS 9 introduces a rebuttable presumption that default does not occur later than when a contractual repayment relating to a financial asset is 90 days past due, unless reasonable and supportable information is available to demonstrate that a more lagging criterion is more appropriate.

This presumption has not been rebutted by the Group, meaning that default is deemed not to have occurred later than when a financial asset is 90 days past due. Although this presumption is applicable to all three portfolios managed by the Group, it is much more relevant for identifying defaulted exposures within the Local Lending portfolio.

The definition of default is addressed in more detail by guidelines issued by the European Banking Authority (EBA) and the Basel Committee on Banking Supervision (BCBS). These guidelines provide detailed definitions of what should be considered in the determination of defaulted exposures for regulatory purposes.

As a result, the Group has decided to align the IFRS 9 definition of default to the definitions provided in the EBA and BCBS guidelines with the definition used for accounting purposes, thereby ensuring that a single consistent view of credit risk is applied for internal risk management, regulatory capital and the measurement of ECLs.

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

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

The Group defines a financial asset as credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Therefore, since the criteria for credit-impaired under IFRS 9 can be interpreted consistently with the definition of default for regulatory purposes, all defaults in terms of regulation are deemed to be credit-impaired, and vice versa. Defaulted exposures are therefore classified under Stage 3 for IFRS 9 purposes.

1. Summary of significant accounting policies - continued

1.2 Basis of preparation - continued

Impairment - continued

Modified financial assets

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

(i) If the modification is not considered to be significant, the modified cash flows are considered to pertain to the original financial asset; or
(ii) If the modification is considered to be significant, the original asset is considered to be extinguished and accordingly the original asset is derecognised and replaced by a new financial asset.

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

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

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

When there is a substantial modification to the terms of a financial asset resulting in the derecognition of the existing financial asset and the subsequent recognition of the modified financial asset, the modified asset is considered a 'new' financial asset. A loss is booked in profit or loss (normally as a write-off) since the carrying amount of the new instrument is calculated as the present value of future cash flows discounted at the original effective interest rate.

Forbearance measures

A financial asset is also derecognised if, as a result of the deterioration in the borrower's credit position, the exposure is restructured in such a manner that would result in a write-off of a portion of the debt and the inclusion of equity warrants instead.

1. Summary of significant accounting policies - continued

1.2 Basis of preparation - continued

Impairment - continued

Forbearance measures consist of concessions extended to any exposure towards a debtor facing or about to face difficulties in meeting its financial commitments with a view to recover expected principal and interest payments when a borrower is in financial difficulties. Concessions may consist of:

(i) 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
(ii) a total or partial refinancing of a troubled debt contract, that would not have been granted had the debtor not been in financial difficulties.

Forbearance measures typically result in terms and conditions that are more favourable than those provided initially. The key objective of granting forbearance measures is to pave the way for non-performing borrowers to exit their non-performing status, or to help prevent performing borrowers from reaching a non-performing status.

Through the extension of forbearance measures, the Group aims to return the exposure to a situation of sustainable repayment and is only considered viable where it can demonstrate that the obligor can realistically afford the forbearance solution. Therefore, the extension of forbearance measures is always backed up by a complete assessment of the borrower’s financial situation.

The modification of a financial instrument only leads to derecognition if it is significant. In this regard, when the modification of a financial instrument is deemed significant, the new instrument is typically deemed to be credit-impaired as at the modification date and therefore classified as POCI. In this case, the instrument is classified as POCI until derecognition, meaning that lifetime ECLs are required to be measured in relation to that asset until maturity (i.e. no cure is permitted).

However, in those cases where a modification is not significant enough to warrant derecognition the Group performs an assessment of whether the instrument can be classified as performing forborne (i.e. not credit impaired). This can only be the case if the exposure was not deemed to be credit-impaired at the date when the forbearance measures were extended, and the extension of the forbearance measures do not lead the exposure to be classified as credit-impaired. If the Group deems that the obligor will be able to comply with the modified terms, the exposure is deemed performing forborne and generally classified as Stage 2.

Expected credit losses

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

1. Summary of significant accounting policies - continued

1.2 Basis of preparation - continued

Impairment - continued

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

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

Probability of Default

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

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

The PDs for the Group's Treasury and International Corporate Lending portfolios are estimated based on statistical models developed by external vendors. On the other hand, due to the lack of internally available history of defaults within the local lending portfolio, the PDs for the Group's Local Lending portfolio are estimated based on observations of other portfolios within the market.

Loss Given Default

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

The LGD of an exposure measures the size of the estimated loss (as a proportion of the total EAD) that is expected to materialise in the event that a borrower defaults. It is based on the difference between the contractual cash flows due and the cash flows that the Group expects to receive from the borrower, whether from the borrower's cash flows or from any collateral.

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

1. **Summary of significant accounting policies** - continued

1.2 Basis of preparation - continued

Impairment - continued

The Group's Treasury portfolio consists of covered bonds, bonds issued by supranational organisations and sovereign bonds. For its supranational exposures and sovereign exposures, the Group uses the LGD value obtained from the statistical model developed by an external vendor while for covered bonds the LGD is aligned with regulatory standards.

For all of its assets within its International Corporate Lending portfolio, the Group also uses the external vendor model to estimate recovery by benchmarking exposure-specific characteristics with the underlying dataset.

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

Exposure at Default

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

The maximum period over which ECLs are measured is the maximum contractual period over which the Group is exposed to credit risk. For exposures within the Treasury and Local Lending portfolios, the maturity date is deemed to be equal to the contractual maturity of the exposure. However, for its International Corporate Lending portfolio, the Group makes use of behavioural rather than contractual maturity, thereby reflecting expectations on the exercise of prepayment or extension options.

To measure the EAD of off-balance sheet exposures, including loan commitments, the Group estimates the amount that a borrower will have drawn down by the time of default. Therefore, the Group estimates the part of the undrawn facility that the borrower is expected to convert into a funded amount typically referred to as a credit conversion factor (CCF).

Forward looking information

The recognition and measurement of ECL requires the incorporation of multiple forward-looking economic conditions into the ECL estimates to meet the measurement objective of IFRS 9.

As a result, in estimating ECLs, the Group considers both its own expectations of credit losses based on obligor-specific information (such as historical or projected financial performance), thereby capturing idiosyncratic credit risk, and observable market information deemed to influence the obligor's credit risk (such as the correlation between credit risk and GDP movements), thereby capturing systemic risk.

1. Summary of significant accounting policies - continued

1.2 Basis of preparation - continued

Impairment - continued

The Group takes into consideration reasonable and supportable information relating to forecasts of future macroeconomic conditions in order to determine the expected level of and movement in credit risk for specific obligors.

Through statistical selection methods to determine the macroeconomic variables that have the highest correlation to systemic credit risk factors, the Group selects the macroeconomic variables deemed relevant for the estimation of ECLs for each exposure within the portfolios of financial instruments in question in order to capture systemic risk in the ECL calculation.

IFRS 9 does not require every possible scenario to be identified. However, it requires the Group to estimate ECLs by taking into consideration multiple forward-looking macroeconomic scenarios, since the use of a single 'most likely' scenario is not deemed sufficient. As a result, the measurement of ECLs in line with IFRS 9 involves the use of significant judgement.

The development of multiple macroeconomic scenarios is necessary to capture the non-linear relationship between different forward-looking scenarios and corresponding ECL outcomes.

In this regard, the Group uses the external vendor model solution for all of its portfolios in order to capture the level of systemic risk linked to an obligor, and to estimate forward-looking probability weighted conditional PiT PDs using multiple forecasts of macroeconomic conditions.

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

- *International Corporate Lending and Treasury portfolios*

The Group applies five macroeconomic scenarios, to the unconditional PD and LGD term structures for the estimation of ECLs for its Stage 1 and Stage 2 exposures within its International Corporate Lending and Treasury portfolios. These macroeconomic scenarios are linked to a set of macroeconomic variables, including country-level variables such as country-specific GDP, that are deemed to have the highest correlation to the Group's portfolio.

The Group uses five macroeconomic scenarios to capture non-linearity across credit portfolios. The scenarios include a base case scenario as predicted by market forecasts and two additional scenarios on each side of the base case scenario to reflect severe and less severe upside and downside scenarios.

These macroeconomic forecasts are sourced from an external vendor and are supported by a scenario narrative that reflects the current principal and emergent risks.

1. Summary of significant accounting policies - continued

1.2 Basis of preparation - continued

Impairment - continued

The relative severity of each scenario, together with the relative probability weights, disclosed in the table below, are determined by the Group based on expert judgement. In doing so, the Group determines the relative portion of the probability distribution which is representative of each of the five scenarios selected.

Scenarios	Severe Upside	Upside	Base case	Downside	Severe Downside
Severity	96%	90%	50%	10%	4%
Probability Weight	7%	23%	40%	23%	7%

The appropriateness of the relative severity and probability weights of the scenarios will be re-assessed on a periodic basis in order to ensure that the model is accurately estimating unbiased and probability-weighted ECLs.

With regards to Stage 3 exposures within the Group's International Corporate Lending portfolio, ECLs are based on a fundamental analysis aimed at assessing the level of credit risk in detail and estimating the recoverable amount for the instrument. In line with IFRS 9 requirements, such exposures still require a consideration of multiple forward-looking scenarios. The scenarios are designed specifically for each obligor in question by considering:

(i) The different work-out options available to the Group in respect of each impaired exposure, such as the initiation of court proceedings to enforce foreclosure of collateral or reaching an amicable out-of-court agreement with the obligor to sell the collateral in the market and repay the exposure from the sales proceeds, also assigning probability weightings;
(ii) The different cash flows that may accrue to the Group under different macro-economic scenarios; and
(iii) The different cash flows that may accrue to the Group under the contractual agreement resulting from restructuring, which may include derivative features including pay-outs if certain targets or objectives are met at a future date.

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

- *Local Lending portfolio*

The Group uses the same conceptual framework as that used for the International Corporate Lending and Treasury portfolios to estimate unbiased and probability-weighted ECLs based on forward-looking macroeconomic scenarios for exposures classified in Stage 1 and 2.

1. Summary of significant accounting policies - continued

1.2 Basis of preparation - continued

Impairment - continued

In this regard, the Group also determines the key macroeconomic variables driving the systemic credit risk of exposures within the Local Lending portfolio, establishes the relative severity of the multiple macroeconomic scenarios and assigns probability weights to each scenario.

The key difference lies within the number of scenarios used for Local Lending exposures, since the Group estimates unbiased and probability-weighted ECLs using three (rather than five) macroeconomic scenarios, due to the lack availability of a full set of five scenarios for the local market.

The three scenarios include a base case scenario and two additional outer scenarios, representing an upside and a downside scenario, supported by a scenario narrative that reflects less likely but emergent risks.

The severity of the upside scenario is established to reflect more favourable conditions than 90% of the possible scenarios, whereas only 10% of possible scenarios are more severe than downside scenario. The probability weights assigned to each of these scenarios (as per the below table) are determined based on expert judgement and are deemed appropriate for the computation of unbiased ECLs.

Scenarios	**Upside**	**Base case**	**Downside**
Severity	90%	50%	10%
Probability Weight	30%	40%	30%

Presentation of ECL in the Statement of Financial Position

The loss allowance for financial assets that are measured at amortised cost is presented as a deduction from the gross carrying amount of the assets. On the other hand, for financial assets measured at FVOCI, the loss allowance is presented within other comprehensive income rather than against the carrying amount of the assets. Therefore, no deduction is made from the carrying amount of financial assets measured at FVOCI, which is always shown at fair value.

Transition

The classification and measurement and impairment requirements of IFRS 9 are applied retrospectively by adjusting the statement of financial position at the date of initial application, which is 1 April 2018 for the Group. Since it is impracticable to restate comparatives without undue cost and effort, the Group has not restated comparative periods in the financial statements for the year ending 31 March 2018.

In this regard, the Group applies the provisions of IFRS 9 retrospectively by adjusting the opening balance of its retained earnings to take account of the effect of applying the new standard in the year of initial application. Any difference between the previous carrying amount and the carrying amount at the beginning of the annual reporting period that includes the date of initial application is recognised in the opening retained earnings.

1. Summary of significant accounting policies - continued

1.2 Basis of preparation - continued

Transition - continued

Based on the data and current implementation status of IFRS 9 as at 31 March 2018, the Group estimates the adoption of IFRS 9 to lead to an overall reduction in the Group's total shareholders' equity of approximately €8 million before tax. This reduction results from increased IFRS 9 impairment requirements of approximately €10 million, compensated for by an increase in equity of €2.2 million, which as described earlier, result from changes to the classification and measurement of certain debt securities.

The MDB Group has adopted the regulatory transitional arrangements adopted by the EU on 27 December 2017. These permit banks to add back to their capital base a proportion of the impact that IFRS 9 has upon their impairment allowances during the first five years of use. The proportion that banks may add back starts at 95% in the financial year ending 31 March 2019, and reduces to 25% in the financial year ending 31 March 2023. As a result, MDB Group's CET 1 ratio after the regulatory transitional period of five years is expected to reduce by 22 basis points.

The Group is in the final stages of determining the amount of the impact referred to above. This assessment is subject to further transition work including refinement of the Group's models for ECL calculations. The new accounting policies, assumptions, judgements and estimation techniques employed are subject to refinement until the Group finalises its first financial statements that include the date of initial application.

IFRS 9 disclosures

IFRS 9 requires extensive new disclosures, particularly relating to classification and measurement, the criteria used to identify significant increases in credit risk, impairment methodology, ECLs, the use of forward looking information and hedge accounting.

The objective of the transition disclosures is to help market participants understand how ECL works, its implications and the choices made by the Group in implementing IFRS 9. Transition disclosures also play an important role in helping market participants understand the implications of differences between the IAS 39 and IFRS 9 provisioning models, together with explaining how IAS 39 incurred loss concepts map onto new ECL-related concepts. Such disclosures will be required in the year of initial application of IFRS 9, which will be the financial year ending 31 March 2019.

Hedge Accounting

The general hedge accounting requirements aim to simplify hedge accounting, creating a stronger link with risk management strategy and permitting hedge accounting to be applied to a greater variety of hedging instruments and risks, but do not explicitly address macro hedge accounting strategies.

In this regard, IFRS 9 allows entities to continue applying IAS 39 hedge accounting requirements of IAS 39. In this regard, the Group has opted to maintain the accounting policy on hedge accounting in line with the provisions of IAS 39 on all of its hedging relationships.

1. Summary of significant accounting policies - continued

1.3 Consolidation

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

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

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

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. The accounting policies of the subsidiaries are consistent with the policies adopted by the Group.

1. Summary of significant accounting policies - continued

1.3 Consolidation - continued

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

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

1.4 Foreign currency transactions and balances

a) Functional and presentation currency

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

b) Transactions and balances

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

1.5 Financial assets

1.5.1 Initial recognition and derecognition

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

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

1. Summary of significant accounting policies - continued

1.5 Financial assets - continued

1.5.1 Initial recognition and derecognition - continued

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

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

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

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

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

1.5.2 Classification

The Group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, held-to-maturity financial assets and available-for-sale investments. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

1.5.2.1 Financial assets at fair value through profit or loss

This category comprises two sub-categories: financial assets classified as held for trading, and financial assets designated by the Group as at fair value through profit or loss upon initial recognition.

Financial instruments classified within this category are recognised initially at fair value and transaction costs are taken directly to profit or loss. These instruments are subsequently measured at fair value. Gains and losses arising from changes in fair value are included directly in profit or loss.

Held for trading

A financial instrument is classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term, or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. Derivatives are also categorised as held for trading unless they are designated as hedging instruments and the related hedging relationships are effective.

The Group’s held for trading financial instruments comprise derivative contracts.

1. Summary of significant accounting policies - continued

1.5 Financial assets - continued

1.5.2 Classification - continued

1.5.2.1 Financial assets at fair value through profit or loss - continued

Designated as at fair value through profit or loss upon initial recognition.

The Group may designate certain financial assets upon initial recognition as at fair value through profit or loss (fair value option). This designation cannot be subsequently changed. According to IAS 39, the fair value option is only applied when the following conditions are met:

- the application of the fair value option reduces or eliminates an accounting mismatch that would otherwise arise; or
- the financial assets are part of a portfolio of financial instruments which is risk managed and reported to senior management on a fair value basis; or
- the financial assets consist of debt hosts and embedded derivatives that must be separated.

The Group has designated certain equity investments as financial assets as at fair value through profit or loss upon initial recognition.

1.5.2.2 Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than:

- those that the Group intends to sell immediately or in the short-term, which are classified as held for trading, and those that the entity upon initial recognition designates as at fair value through profit or loss;
- those that the Group upon initial recognition designates as available-for-sale; or
- those for which the holder may not recover substantially all of their initial investment, other than because of credit deterioration.

Loans and receivables are initially recognised at fair value – which is the cash consideration to originate or purchase the loan including any transaction costs – and measured subsequently at amortised cost using the effective interest rate method. Amortised cost is the initial measurement amount adjusted for the amortisation of any difference between the initial and maturity amounts using the effective interest method. Interest on loans and receivables is included in profit or loss and is reported as ‘interest income’. In the case of an impairment, the impairment loss is reported as a deduction from the carrying value of the loan and receivable and recognised in profit or loss as ‘net impairment charges’.

Loans and receivables mainly consist of balances with Central Banks, loans and advances to banks and customers, other receivables together with accrued income and other assets.

1. Summary of significant accounting policies - continued

1.5 Financial assets - continued

1.5.2 Classification - continued

1.5.2.3 Held-to-maturity financial assets

Held-to-maturity financial assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity, other than:

- those that the Group upon initial recognition designates as at fair value through profit or loss;
- those that the Group designates as available-for-sale; and
- those that meet the definition of loans and receivables.

These are initially recognised at fair value, including direct and incremental transaction costs, and measured subsequently at amortised cost using the effective interest rate method.

Interest on held-to-maturity financial assets is included in profit or loss and reported as "interest income". In the case of an impairment, the impairment loss is being reported as a deduction from the carrying value of the investment and recognised in profit or loss.

The Group did not hold any held-to-maturity financial assets as at the end of the current and preceding reporting periods.

1.5.2.4 Available-for-sale financial assets

Available-for-sale financial assets are financial assets that are intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices, or that are not classified as loans and receivables, held-to-maturity financial assets or financial assets at fair value through profit or loss.

Available-for-sale financial assets are initially recognised at fair value, which is the cash consideration including any transaction costs, and measured subsequently at fair value with gains and losses being recognised in other comprehensive income, except for impairment losses and foreign exchange gains and losses (in case of monetary assets), until the financial asset is derecognised. If an available-for-sale financial asset is determined to be impaired, the cumulative gain or loss previously recognised in other comprehensive income is reclassified to profit or loss.

Interest income is calculated using the effective interest method and is recognised in profit or loss, as are foreign currency gains and losses on monetary assets classified as available-for-sale. Changes in the fair value of monetary securities denominated in foreign currency classified as available-for-sale are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in amortised cost are recognised in profit or loss, and other changes in carrying amount are recognised in other comprehensive income. Dividends on available-for-sale equity instruments are recognised in profit or loss when the Group's right to receive payment is established.

1. Summary of significant accounting policies - continued

1.5 Financial assets - continued

1.5.2 Classification - continued

1.5.2.4 Available-for-sale financial assets - continued

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analyses, and option pricing models making maximum use of market inputs and relying as little as possible on entity-specific inputs.

The Group's principal investments, consisting mainly of debt securities and Malta Government treasury bills, are classified as available-for-sale as at the end of the reporting period.

1.6 Impairment of financial assets

1.6.1 Assets carried at amortised cost

The Group assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a loss event) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The criteria that the Group uses to determine that there is objective evidence of an impairment loss include:

- significant financial difficulty of the issuer or obligor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- the lender, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
- it becomes probable that the borrower will enter bankruptcy or other financial reorganisation;
- the disappearance of active market for financial asset because of financial difficulties; or
- observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including:
    - adverse changes in the payment status of borrowers in the portfolio; and
    - national or local economic conditions that correlate with defaults on the assets in the portfolio.

The estimated period between a loss occurring and its identification is determined by management for each identified portfolio. In general, the periods used throughout the financial year under review and the comparative financial year vary between three months and twelve months.

1. Summary of significant accounting policies - continued

1.6 Impairment of financial assets - continued

1.6.1 Assets carried at amortised cost - continued

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in profit or loss. If a loan or held-to-maturity financial asset has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (i.e. on the basis of the Group's grading process that considers asset type, collateral type, past due status and other relevant factors). Those characteristics are relevant to the estimation of future cash flows for groups of such assets being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the group and historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not currently exist.

Estimates of changes in future cash flows for groups of assets should reflect and be directionally consistent with changes in related observable data from period to period (for example, changes in unemployment rates, property prices, payment status, or other factors indicative of changes in the probability of losses in the group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Group to reduce any differences between loss estimates and actual loss experience.

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

1. Summary of significant accounting policies - continued

1.6 Impairment of financial assets - continued

1.6.1 Assets carried at amortised cost - continued

Assets acquired in exchange for loans

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

1.6.1.1 Forborne loans

Forbearance describes concessions made on the contractual terms of a loan in response to an obligor’s financial difficulties.

Forbearance activity is undertaken selectively where it has been identified that repayment difficulties against the original terms already have, or are very likely to materialise, i.e. where the customer is experiencing, or is very likely to experience, difficulty in meeting a payment obligation to the Group due to current credit distress.

Loans that have been identified as forborne retain this designation until payment performance has been observed for an extended period of time.

Forborne loans are typically assessed for impairment individually. The individual impairment assessment takes into account the higher risk of the non-payment of future cash flows inherent in forborne loans. Loans subject to individual impairment assessment, which have been subject to a forbearance measure, are subject to ongoing review to determine whether they remain impaired.

A forborne loan is classified as impaired when:

- there has been a change in contractual terms as a result of a concession which the Group would otherwise not consider by offering terms it would not normally be prepared to offer as not based on current market rates; and
- it is probable that without the concession, the borrower would be unable to meet contractual payment obligations in full.

A forborne loan will continue to be disclosed as impaired until there is sufficient evidence to demonstrate a significant reduction in the risk of non-payment of future cash flows, and there are no other indicators of impairment. The minimum period of payment performance required depends on the nature of the loan in the portfolio, but is not less than twelve months. The period of performance will vary depending on the frequency of payments to be made by the customer under the amended agreement and the extent to which the customer’s financial position is considered to have improved. Forborne loans cannot be returned to a non-impaired grade when a specific impairment allowance remains against any of the customer’s credit facilities.

Forborne loans are not classified as impaired where the forbearance has resulted from significant concern about a borrower’s ability to meet their contractual payment terms but the modified terms are based on current market rates and contractual cash flows are expected to be collected in full following the renegotiation. Non-impaired forborne loans also include previously impaired forborne loans that have demonstrated satisfactory performance over a period of time or have been assessed based on all available evidence as having no remaining indicators of impairment.

1. Summary of significant accounting policies - continued

1.6 Impairment of financial assets - continued

1.6.1 Assets carried at amortised cost - continued

1.6.1.1 Forborne loans - continued

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

The impairment loss before an expected restructuring is measured as follows:

- If the expected restructuring will not result in derecognition of the existing asset, then the estimated cash flows arising from the modified financial asset are included in the measurement of the existing asset based on their expected timing and amounts discounted at the original effective interest rate of the existing financial asset.

- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

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

1.6.2 Assets classified as available-for-sale

Available-for-sale financial assets are assessed at each reporting date for objective evidence of impairment. If such evidence exists as a result of one or more events that occurred after initial recognition of the financial asset (a ‘loss event’) and that loss event has an impact, which can be reliably measured, on the estimated future cash flows of the financial asset, an impairment loss is recognised.

If the available-for-sale financial asset is impaired, the difference between the financial asset’s acquisition cost (adjusted for any principal repayments and amortisation) and the current fair value, less any previous impairment loss recognised in profit or loss, is reclassified from other comprehensive income and recognised in profit or loss as a reclassification adjustment.

In assessing objective evidence of impairment at the reporting date in relation to available-for-sale debt securities, the Group considers all available evidence, including observable data or information about events specifically relating to the securities which may result in a shortfall in recovery of future cash flows. Financial difficulties of the issuer, as well as other factors such as information about the issuers’ liquidity, business and financial risk exposures, levels of any trends in default for similar financial assets, national and local economic trends and conditions, and the fair value of collateral and guarantees may be considered individually, or in combination, to determine if there is objective evidence of impairment.

1. Summary of significant accounting policies - continued

1.6 Impairment of financial assets - continued

1.6.2 Assets classified as available-for-sale - continued

The primary indicators of potential impairment are considered to be adverse fair value movements and the disappearance of an active market for a security, while changes in credit ratings are of secondary importance.

In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is objective evidence of impairment resulting in the recognition of an impairment loss.

Once an impairment loss has been recognised on an available-for-sale debt security, a subsequent decline in the fair value of the instrument is recognised in profit or loss when there is further objective evidence of impairment as a result of further decreases in the estimated future cash flows of the financial asset. Where there is no further objective evidence of impairment, the decline in the fair value of the financial asset is recognised in other comprehensive income. If the fair value of a debt security increases in a subsequent period, and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, or the instrument is no longer impaired, the impairment loss is reversed through profit or loss.

For an available-for-sale equity security, all subsequent increases in the fair value of the instrument are treated as a revaluation and are recognised in other comprehensive income. Impairment losses recognised in profit or loss on equity instruments are not reversed through profit or loss. Subsequent decreases in the fair value of the available-for-sale equity security are recognised in profit or loss, to the extent that further cumulative impairment losses have been incurred.

1.7 Offsetting financial instruments

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

1.8 Intangible assets

1.8.1 Goodwill

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

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

1. Summary of significant accounting policies - continued

1.8 Intangible assets - continued

1.8.1 Goodwill - continued

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

1.8.2 Computer software

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

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

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

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

Capitalised development costs are amortised from the point at which the asset is ready for use.

Other development expenditure that does not meet these criteria is recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

1. Summary of significant accounting policies - continued

1.9 Property, plant and equipment

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

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

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

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

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

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

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

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

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

1.10 Impairment of non-financial assets

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

1. Summary of significant accounting policies - continued

1.11 Non-current assets classified as held for sale

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

1.12 Current and deferred income tax

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

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

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

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

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

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

1. Summary of significant accounting policies - continued

1.13 Investment in subsidiaries

The Group classifies investments in entities which it controls as subsidiaries.

The Company's investments in subsidiaries are stated at cost less impairment losses. Impairment losses recognised in prior periods are reversed through profit or loss if there has been a change in the estimates used to determine the investment's recoverable amount since the last impairment loss was recognised.

1.14 Share capital

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

1.15 Financial liabilities

The Group recognises a financial liability on its statement of financial position when it becomes a party to the contractual provisions of the instrument. The Group's financial liabilities, other than derivative financial liabilities (refer to Note 1.16), are classified as financial liabilities which are not at fair value through profit or loss under IAS 39.

Financial liabilities not at fair value through profit or loss are recognised initially at fair value, being the fair value of consideration received, net of transaction costs that are directly attributable to the acquisition or the issue of the financial liability. These liabilities are subsequently measured at amortised cost using the effective interest method.

The Group derecognises a financial liability from its statement of financial position when it is extinguished, that is the obligation specified in the contract or arrangement is discharged, is cancelled or expires.

Financial liabilities measured at amortised cost comprise principally amounts owed to financial institutions, amounts owed to customers, other payables and other liabilities.

1.16 Derivative financial instruments

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

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

1. Summary of significant accounting policies - continued

1.16 Derivative financial instruments - continued

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

1.16.1 Fair value hedges

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

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

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

1.17 Embedded derivatives

Derivatives may be embedded in another contractual arrangement (a host contract). The Group accounts for an embedded derivative separately from the host contract when:

- the host contract is not itself carried at fair value through profit or loss;
- the terms of the embedded derivative would meet this definition of a derivative if they were contained in a separate contract; and
- the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract.

Separated embedded derivatives are measured at fair value, with all changes in fair value recognised in profit or loss.

1.18 Provisions

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

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

1. Summary of significant accounting policies - continued

1.19 Interest income and expense

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

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

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

Interest income and expense presented in the income statement include:

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

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

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

1.20 Fees and commissions

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

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

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

1. Summary of significant accounting policies - continued

1.20 Fees and commissions - continued

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

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

Consideration payable to customers, comprising incremental costs in the form of cash amounts that the Group pays to wealth management customers, are incurred in acquiring new customer contracts. These costs are deferred within “Other assets” and subsequently amortised over the life of the contract as follows:
- For customer contracts with a contractual fixed period, these cots are amortised over the contractual life.
- For customer contracts with no contractual fixed period, these costs are amortised over the estimated life of the contract, which is reviewed periodically with reference to the Group’s experience with surrenders by wealth management customers.

1.21 Net trading income

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

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

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

1.23 Leases - Group is the lessee

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight-line basis over the period of the lease.

1. Summary of significant accounting policies - continued

1.24 Financial guarantee contracts

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

Financial guarantees are initially recognised in the financial statements at fair value on the date the guarantee was given. The fair value of a financial guarantee at the time of signature is zero because all guarantees are agreed on arm's length terms and the value of the premium agreed corresponds to the value of the guarantee obligation. No receivable for the future premiums is recognised. Subsequent to initial recognition, the Group's liabilities under such guarantees are measured at the higher of the initial amount, less amortisation of fees recognised in accordance with IAS 18, and the best estimate of the amount required to settle the guarantee. These estimates are determined based on experience of similar transactions and history of past losses, supplemented by the judgement of management. The fee income earned is recognised in profit or loss over the life of the guarantee. Any increase in the liability relating to guarantees is recognised in profit or loss.

1.25 Cash and cash equivalents

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

1.26 Customer assets

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

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

1.27 Dividend distribution

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

2. Financial risk management

2.1 Introduction and overview

The Group's core business activities include:
- deposit taking;
- the provision of wealth management and investment services; and
- the granting of loans to international and local corporates.

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

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

The major components within the Group's asset base are a portfolio of loans to international corporates, a treasury debt securities portfolio and another portfolio of loans to local customers, mainly corporates.

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

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

2.1.1 Risk management framework

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

The Group's objective is to deploy an integrated risk management approach that ensures an awareness of, and accountability for, the risks taken throughout the Group and also to develop the tools needed to address those risks. This integrated approach is implemented through the governance structure of the Group and relies on three lines of defence – business units' management, an independent risk management function, and independent on-going reviews by internal audit.

2. Financial risk management - continued

2.2 Credit risk

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

2.2.1 Management of credit risk

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

With respect to its debt securities portfolio, the Group focuses on acquiring securities, mainly covered bonds, issued by financial institutions (some of which may carry a government guarantee), supranational agencies and governments. Lending to corporate borrowers, by subscribing to debt securities or by providing loans and revolving credit facilities, is typically on a senior secured basis. MeDirect Malta's Credit and Investment Policy permits it to manage its credit risk through credit derivatives, subject to Board approval, although to date it has not done so.

The purpose of the Bank's Credit and Investment Policy is to establish the credit standards, internal controls, reporting requirements and approval processes that govern the selection and on-going management of the investment assets of the Group.

2. **Financial risk management** - continued

2.2 Credit risk - continued

2.2.1 Management of credit risk - continued

The Board of Directors has established limits for exposures to individual credits based on the CRR regulatory requirements governing large exposures of credit institutions, as well as prudential requirements. Exposure limits are monitored on an on-going basis by the Risk, Corporate Credit and Treasury teams. The Credit and Investment Policy among others outlines the following specific exposures and trading limits:

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

Limits on counterparty exposure are established by 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 Treasury Management Policy.

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

The Group’s credit risk taking activities comprise principally investments in debt securities within its treasury portfolio and loans to international corporate clients, which activities are described below.

All securities in the portfolio as well as international corporate loans undergo a thorough analytical credit research process. The research process reviews all securities and international corporate loans not only from a credit perspective but also from a legal, financial and ratings perspective. The Credit team, which manages the credit analysis and research process, is composed of highly-trained individuals with specialised skill sets and years of experience in the Fixed Income and Corporate Syndicated Loans markets. The credit analysis and research process subjects potential investments to scenario analysis to determine whether they can withstand significant adverse credit and market events. Additionally, the portfolio is subject to a continual, thorough monitoring and oversight process in order to identify any securities and loans which require increased monitoring of performance. Further details on the credit approval and monitoring processes are provided within the Group’s Additional Regulatory Disclosures.

2. **Financial risk management** - continued

2.2 Credit risk - continued

2.2.2 Maximum exposure to credit risk

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

Group	**2018** **€000**	2017 €000
Net exposure:		
Loans and receivables		
Balances with Central Banks and cash	**103,739**	245,194
Loans and advances to financial institutions	**113,623**	106,895
Loans and advances to customers	**1,701,716**	1,449,970
Accrued income	**15,878**	16,830
Loans to related parties (included in other assets)	**14,965**	24,040
	1,949,921	1,842,929
Available-for-sale debt investments	**560,245**	698,474
Held for trading derivative financial instruments	**470**	861
Derivative financial instruments designated as hedging instruments	**-**	766
	2,510,636	2,543,030
Commitments to purchase financial assets	**118,250**	108,865
Commitments to extend credit, guarantees and other commitments (excluding operating leases and capital commitments)	**441,677**	345,649

2. Financial risk management - continued

2.2 Credit risk - continued

2.2.2 Maximum exposure to credit risk - continued

Bank	**2018**	2017
	€000	€000
Net exposure:		
Loans and receivables		
Balances with Central Banks and cash	**65,610**	49,855
Loans and advances to financial institutions	**106,740**	94,350
Loans and advances to customers	**1,375,674**	1,162,732
Accrued income	**14,682**	14,604
Loans to related parties (included in other assets)	**15,422**	28,543
	1,578,128	1,350,084
Available-for-sale debt investments	**483,278**	647,004
Held for trading derivative financial instruments	**3,886**	2,106
Derivative financial instruments designated as hedging instruments	**-**	766
	2,065,292	1,999,960
Commitments to purchase financial assets	**118,250**	97,495
Commitments to extend credit, guarantees and other commitments (excluding operating leases and capital commitments)	**431,914**	345,239

2.2.3 Credit quality of financial assets

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

As disclosed in the Group's Additional Regulatory Disclosures (ARDs) presented in line with CRR requirements, the Group adopts a five-scale internal credit classification rating scale. This aligns to the Group's Standardised Approach to credit risk and takes cognisance of the IFRS 9 principles that will be applicable with effect from 1 April 2018. Throughout the Group's Credit Committee meetings, the members of the Credit Committee review the grading proposed by the Corporate Credit team and reviewed by the Risk Management team.

Performing

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

Underperforming

3. Under Surveillance - significant credit concerns and some prospect that a loss may ultimately be suffered.

Non-Performing

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

2. **Financial risk management** - continued

2.2 Credit risk - continued

2.2.3 Credit quality of financial assets - continued

Deteriorating Credits

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

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

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

a) material exposures which are more than 90 days past-due;

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

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

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

2. Financial risk management - continued

2.2 Credit risk - continued

2.2.3 Credit quality of financial assets - continued

The following table presents information about the credit quality of financial assets held by the Group and the Bank and the related impairment allowances:

	Performing		Under performing	Non-performing		
	Regular	Focus	Under surveillance	Impaired	Impairment allowances	Total
Group	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**
As at 31 March 2018						
Balances with Central Banks	103,543	-	-	-	-	**103,543**
Derivative financial instruments	470	-	-	-	-	**470**
Loans and advances to financial institutions	113,623	-	-	-	-	**113,623**
Loans and advances to customers	1,364,412	170,681	112,926	76,335	(22,638)	**1,701,716**
Investments	560,245	-	-	-	-	**560,245**
Accrued income	13,515	859	1,048	456	-	**15,878**
Loans to related parties (included in other assets)	14,965	-	-	-	-	**14,965**
	2,170,773	171,540	113,974	76,791	(22,638)	**2,510,440**

	Performing		Under performing	Non-performing		
	Regular	Focus	Under surveillance	Impaired	Impairment allowances	Total
Group	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**
As at 31 March 2017						
Balances with Central Banks	244,895	-	-	-	-	244,895
Derivative financial instruments	1,627	-	-	-	-	1,627
Loans and advances to financial institutions	106,895	-	-	-	-	106,895
Loans and advances to customers	1,090,059	181,355	136,271	64,347	(22,062)	1,449,970
Investments	698,474	-	-	-	-	698,474
Accrued income	13,330	899	1,888	713	-	16,830
Loans to related parties (included in other assets)	24,040	-	-	-	-	24,040
	2,179,320	182,254	138,159	65,060	(22,062)	2,542,731

2. **Financial risk management** - continued

2.2 Credit risk - continued

2.2.3 Credit quality of financial assets - continued

	Performing		Under performing	Non-performing		
	Regular	Focus	Under surveillance	Impaired	Impairment allowances	Total
Bank	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**
As at 31 March 2018						
Balances with Central Banks	65,414	-	-	-	-	**65,414**
Derivative financial instruments	3,886	-	-	-	-	**3,886**
Loans and advances to financial institutions	106,740	-	-	-	-	**106,740**
Loans and advances to customers	1,077,074	139,895	111,497	68,210	(21,002)	**1,375,674**
Investments	483,278	-	-	-	-	**483,278**
Accrued income	12,523	773	1,048	338	-	**14,682**
Loans to related parties (included in other assets)	15,422	-	-	-	-	**15,422**
	1,764,337	140,668	112,545	68,548	(21,002)	**2,065,096**

	Performing		Under performing	Non-performing		
	Regular	Focus	Under surveillance	Impaired	Impairment allowances	Total
Bank	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**
As at 31 March 2017						
Balances with Central Banks	49,556	-	-	-	-	**49,556**
Derivative financial instruments	2,872	-	-	-	-	**2,872**
Loans and advances to financial institutions	94,350	-	-	-	-	**94,350**
Loans and advances to customers	836,761	152,010	130,745	64,347	(21,131)	**1,162,732**
Investments	647,004	-	-	-	-	**647,004**
Accrued income	11,540	567	1,784	713	-	**14,604**
Loans to related parties (included in other assets)	28,543	-	-	-	-	**28,543**
	1,670,626	152,577	132,529	65,060	(21,131)	**1,999,661**

2. Financial risk management - continued

2.2 Credit risk - continued

2.2.3 Credit quality of financial assets - continued

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

	Group		Bank	
	2018	2017	**2018**	2017
	€000	€000	**€000**	€000
National Government securities				
A+ to A	**7,022**	7,097	**7,022**	7,097
Regional Government securities				
AAA	**52,755**	42,063	**17,025**	21,789
AA+ to AA-	**14,502**	-	**4,329**	-
Other securities				
AAA	**338,272**	389,042	**307,208**	357,846
AA+ to AA-	**147,694**	196,913	**147,694**	196,913
A+ to A	**-**	63,359	**-**	63,359
Total	**560,245**	698,474	**483,278**	647,004

The portfolio of available-for-sale securities is also categorised under the four credit quality classifications used by the Group (i.e. regular, focus, under surveillance and impaired) and these ratings would be determined by MeDirect Malta's Credit Committee.

2.2.4 Past due but not impaired financial assets

An exposure is "past due" when any amount of principal, interest or fee has not been paid on the date it was due. Past due but not 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. The Group's past due exposures consist solely of loans and advances to customers.

2. **Financial risk management** - continued

2.2 Credit risk - continued

2.2.4 Past due but not impaired financial assets - continued

The past due but not impaired ageing analysis of the Group's and Bank's loans and advances to customers is reflected in the following table:

	Group and Bank	
	2018	2017
	€000	€000
Up to 30 days		
Principal	**317**	15,788
Interest	**-**	95
31 to 60 days		
Principal	**92**	3,995
Interest	**-**	35
Total	**409**	19,913

MeDirect Malta and MeDirect Belgium do not have any exposures forming part of the international corporate loan portfolio which are past due but not impaired. All past due but not impaired facilities form part of the local lending portfolio to counterparties domiciled in Malta and are concentrated within the real estate and construction sector.

2.2.5 Impaired financial assets and impairment allowances

The Group's impaired financial assets comprise solely loans and advances to customers. All credit exposures have been reviewed on a case by case basis (see Accounting Policy Note 1.6). Impaired loans are those where there is objective evidence that a loss event has occurred since initial recognition and the Group establishes that the loss event has an impact on future estimated cash flows as it is unlikely that it will collect the full principal and/or interest due according to the contractual terms of the loan without reverting to the respective collateral.

The Group establishes an allowance for impairment losses that represents its estimate of incurred losses in its Lending Portfolio. The main component of this allowance is a specific loss component that relates to individual exposures. The Group also establishes an allowance for impairment at collective level on its loans and advances to customers.

The following table analyses the specific impairment allowances recognised for impaired loans and advances that are individually assessed, and collective impairment allowances on loans and advances not classified as individually impaired.

2. Financial risk management - continued

2.2 Credit risk - continued

2.2.5 Impaired financial assets and impairment allowances - continued

	Group		Bank	
	Specific impairment allowances €000	Collective impairment allowances €000	Specific impairment allowances €000	Collective impairment allowances €000
Year ended 31 March 2018				
At beginning of year	16,928	5,134	16,928	4,203
Exchange differences	(899)	-	(899)	-
Loan impairment charge	968	507	363	407
At end of year	**16,997**	**5,641**	**16,392**	**4,610**
- of which relating to local lending portfolio	3,995	537	3,995	537
New allowances	7,160	5,641	6,555	4,610
Release of allowances no longer required	(6,192)	(5,134)	(6,192)	(4,203)
Total loan impairment charge	968	507	363	407
- of which relating to local lending portfolio	(1,408)	(154)	(1,408)	(154)
Year ended 31 March 2017				
At beginning of year as previously stated	12,369	4,439	4,723	1,901
Impact of merger (Note 38)	-	-	7,646	696
At beginning of year as restated	12,369	4,439	12,369	2,597
Exchange differences	318	-	318	-
Loan impairment charge	4,241	695	4,241	1,606
At end of year	16,928	5,134	16,928	4,203
- of which relating to local lending portfolio	5,403	691	5,403	691
New allowances	6,489	5,134	6,489	4,203
Release of allowances no longer required	(2,248)	(4,439)	(2,248)	(2,597)
Total loan impairment charge	4,241	695	4,241	1,606
- of which relating to local lending portfolio	(2,243)	(4)	(2,243)	(4)

The impaired local loans and advances are mainly attributable to the real estate and construction sector. Sectorial information in respect of impairment charges relating to international loans and advances is not deemed meaningful.

During the current financial year, interest income amounting to €2.9 million (2017: €2.6 million) and €2.5 million (2017: €2.4 million) of the Group and the Bank respectively was recognised in profit or loss on loans for which individually assessed impairment allowances existed.

2. Financial risk management - continued

2.2 Credit risk - continued

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

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

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

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

A concession is defined in the 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;
- 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.

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

Typically, the Group 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.

2. Financial risk management - continued

2.2 Credit risk - continued

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

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

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

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

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

Irrespective of whether loans with renegotiated terms have been derecognised, as outlined previously, they remain disclosed as impaired until there is sufficient evidence to demonstrate a significant reduction in the risk of non-payment of future cash flows and there are no other indicators of impairment.

2. Financial risk management - continued

2.2 Credit risk - continued

2.2.6 Loans and advances to customers with renegotiated terms and the Group's forbearance policy - continued

The following table shows the carrying amount of the Group's loans and advances to customers by forbearance and past due status:

Group	International Lending Portfolio		Local Lending Portfolio		
	Non forborne exposures €000	Forborne exposures €000	Non forborne exposures €000	Forborne exposures €000	Total €000
As at 31 March 2018					
Performing					
Neither past due nor impaired	1,465,415	2,902	66,202	250	**1,534,769**
Past due but not impaired:					
- by up to 30 days	-	-	298	-	**298**
- between 31 to 60 days	-	-	26	-	**26**
Under performing					
Neither past due nor impaired	45,711	64,419	447	2,264	**112,841**
Past due but not impaired:					
- by up to 30 days	-	-	19	-	**19**
- between 31 to 60 days	-	-	66	-	**66**
Non-performing					
Impaired, net of specific impairment allowances	9,090	37,769	704	11,775	**59,338**
Loans and advances, net of specific impairment allowances	**1,520,216**	**105,090**	**67,762**	**14,289**	**1,707,357**
Specific impairment allowances	7,482	5,520	647	3,348	**16,997**
Collective impairment allowances	4,865	239	532	5	**5,641**

2. Financial risk management - continued

2.2 Credit risk - continued

2.2.6 Loans and advances to customers with renegotiated terms and the Group's forbearance policy - continued

Group	International Lending Portfolio		Local Lending Portfolio		
	Non forborne exposures €000	Forborne exposures €000	Non forborne exposures €000	Forborne exposures €000	Total €000
As at 31 March 2017					
Performing					
Neither past due nor impaired	1,209,936	21,053	24,255	1,201	1,256,445
Past due but not impaired:					
- by up to 30 days	-	-	10,974	-	10,974
- between 31 to 60 days	-	-	3,504	491	3,995
Under performing					
Neither past due nor impaired	59,583	71,590	190	94	131,457
Past due but not impaired:					
- by up to 30 days	-	-	12	4,802	4,814
Non-performing					
Impaired, net of specific impairment allowances	4,494	31,038	788	11,099	47,419
Loans and advances, net of specific impairment allowances	1,274,013	123,681	39,723	17,687	1,455,104
Specific impairment allowances	6,741	4,784	644	4,759	16,928
Collective impairment allowances	4,091	352	597	94	5,134

2. Financial risk management - continued

2.2 Credit risk - continued

2.2.6 Loans and advances to customers with renegotiated terms and the Group's forbearance policy - continued

Bank	International Lending Portfolio		Local Lending Portfolio		
	Non forborne exposures €000	Forborne exposures €000	Non forborne exposures €000	Forborne exposures €000	Total €000
As at 31 March 2018					
Performing					
Neither past due nor impaired	1,147,290	2,903	66,202	250	1,216,645
Past due but not impaired:					
- by up to 30 days	-	-	298	-	298
- between 31 to 60 days	-	-	26	-	26
Under performing					
Neither past due nor impaired	44,531	64,170	447	2,264	111,412
Past due but not impaired:					
- by up to 30 days	-	-	19	-	19
- between 31 to 60 days	-	-	66	-	66
Non-performing					
Impaired, net of specific impairment allowances	4,800	34,539	704	11,775	51,818
Loans and advances, net of specific impairment allowances	**1,196,621**	**101,612**	**67,762**	**14,289**	**1,380,284**
Specific impairment allowances	7,215	5,182	647	3,348	16,392
Collective impairment allowances	3,835	238	532	5	4,610

2. Financial risk management - continued

2.2 Credit risk - continued

2.2.6 Loans and advances to customers with renegotiated terms and the Group's forbearance policy - continued

Bank	**International Lending Portfolio**		**Local Lending Portfolio**		
	Non forborne exposures €000	**Forborne exposures €000**	**Non forborne exposures €000**	**Forborne exposures €000**	**Total €000**
As at 31 March 2017					
Performing					
Neither past due nor impaired	929,100	19,246	24,255	1,201	973,802
Past due but not impaired:					
- by up to 30 days	-	-	10,974	-	10,974
- between 31 to 60 days	-	-	3,504	491	3,995
Under performing					
Neither past due nor impaired	57,523	68,124	190	94	125,931
Past due but not impaired:					
- by up to 30 days	-	-	12	4,802	4,814
Impaired, net of specific impairment allowances	4,494	31,038	788	11,099	47,419
Loans and advances, net of specific impairment allowances	991,117	118,408	39,723	17,687	1,166,935
Specific impairment allowances	6,741	4,784	644	4,759	16,928
Collective impairment allowances	3,178	334	597	94	4,203

2. **Financial risk management** - continued

2.2 Credit risk - continued

2.2.6 Loans and advances to customers with renegotiated terms and the Group's forbearance policy - continued

As at 31 March 2018, total gross forborne loans and advances to customers as a percentage of total gross loans and advances to customers of the Group and Bank were equivalent to 7% (2017: 10%) and 9% (2017: 12%) respectively.

Interest income recognised by the Group and the Bank during the financial year ended 31 March 2018 in respect of forborne exposures amounted to €10.5 million (2017: €9.2 million) and €8.2 million (2017: €9.2 million) respectively.

The movement in the carrying amount of forborne loans and advances to customers, before specific and collective impairment allowances, is analysed below:

Group	**2018**	2017
	€000	€000
Year ended 31 March		
At beginning of year	**150,911**	101,626
Loans to which forbearance measures have been extended during the year without derecognition	**54,107**	72,231
Capitalised interest	**2,551**	1,419
Capitalised fees	**(102)**	(97)
Repayments or disposals	**(72,985)**	(24,169)
Exchange differences	**(673)**	(206)
Write-offs	**(6,218)**	-
Issue of warrants	**(240)**	-
Amortisation of premium or discount	**896**	107
At end of year	**128,247**	150,911

Bank	**2018**	2017
	€000	€000
Year ended 31 March		
At beginning of year	**145,638**	72,077
Loans to which forbearance measures have been extended during the year without derecognition	**63,188**	81,572
Capitalised interest	**2,551**	1,419
Capitalised fees	**(102)**	(44)
Repayments or disposals	**(82,743)**	(9,339)
Exchange differences	**(598)**	(206)
Write-offs	**(6,218)**	-
Issue of warrants	**(240)**	-
Amortisation of premium or discount	**2,955**	159
At end of year	**124,431**	145,638

2. Financial risk management - continued

2.2 Credit risk - continued

2.2.6 Loans and advances to customers with renegotiated terms and the Group's forbearance policy - continued

As at 31 March 2018, specific impairment allowances on the Group's and Bank's forborne loans were equivalent to €8.9 million (2017: €9.5 million) and €8.5 million (2017: €9.5 million) respectively. Reversals of specific impairment allowances on forborne loans reflected in profit or loss during the current year amounted to €7.3 million (2017: charge of €1.8 million).

The following tables show the gross carrying amounts of the Group's and Bank's holdings of renegotiated loans and advances to customers analysed by industry sector and credit quality classification:

Group	**Neither past due nor impaired €000**	**Past due but not impaired €000**	**Impaired €000**	**Total €000**
As at 31 March 2018				
Real estate and construction	**2,264**	**-**	**11,198**	**13,462**
Manufacturing	**37,433**	**-**	**-**	**37,433**
Other	**30,138**	**-**	**47,214**	**77,352**
	69,835	**-**	**58,412**	**128,247**
As at 31 March 2017				
Financial services	-	-	40	40
Real estate and construction	827	4,086	10,983	15,896
Manufacturing	14,615	1,207	-	15,822
Other	78,496	-	40,657	119,153
	93,938	5,293	51,680	150,911

Bank	**Neither past due nor impaired €000**	**Past due but not impaired €000**	**Impaired €000**	**Total €000**
As at 31 March 2018				
Real estate and construction	**2,264**	**-**	**11,198**	**13,462**
Manufacturing	**37,332**	**-**	**-**	**37,332**
Other	**29,991**	**-**	**43,646**	**73,637**
	69,587	**-**	**54,844**	**124,431**
As at 31 March 2017				
Financial services	-	-	40	40
Real estate and construction	827	4,086	10,983	15,896
Manufacturing	14,486	1,207	-	15,693
Other	73,352	-	40,657	114,009
	88,665	5,293	51,680	145,638

2. **Financial risk management** - continued

2.2 Credit risk - continued

2.2.6 Loans and advances to customers with renegotiated terms and the Group's forbearance policy - continued

The Group's and the Bank's forborne loans consist of corporate exposures based in the European Union. The forborne local loans are mainly categorised as exposures to corporate customers within the real estate and construction sector.

2.2.7 Write-off policy

The Group writes off financial assets when the relevant Credit Committee of the Bank or its subsidiary determines that the balance is uncollectible. This determination is made after considering information such as the occurrence of significant changes in the borrower's/issuer's financial position such that the borrower/issuer can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure. Financial assets written off by the Group during the year amounted to €6.8 million (2017: €0.7 million).

2.2.8 Collateral

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

Depending on the customer's standing and the type of product, facilities may be provided on an unsecured basis. For other lending 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.

Collateral received by the Group includes residential and commercial property, as well financial collateral such as debt securities and cash on deposit. The immovable property collateral received is mainly located in Malta. 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 regulation. Collateral that is not eligible in terms of CRR is not taken into consideration for credit risk mitigation.

The financial collateral is mostly made up of high quality debt securities, comprising bonds issued by a Central Government. This collateral is valued daily against statements received from the Central Bank showing bond values after haircuts, in order to determine whether additional collateral is required in respect of the relative exposure.

2. Financial risk management - continued

2.2 Credit risk - continued

2.2.8 Collateral - continued

The following tables show the gross amount (before impairment allowances) of the local loans and advances to customers by level of collateral expressed through the loan-to-value ratio ("LTV"). The collateral measured for the purposes of the tables below consists of fixed first charges on real estate and charges over cash and marketable financial instruments. The collateral amounts represent the expected market value on an open market basis: no adjustment has been made to the collateral for any expected costs of recovery. Cash is valued at its nominal value and marketable securities at their fair value.

Group and Bank	Forborne		Non-forborne		Total	
	2018	2017	**2018**	2017	**2018**	2017
	€000	€000	**€000**	€000	**€000**	€000
Non-impaired						
a) Not collateralised	**-**	-	**967**	67	**967**	67
b) Fully collateralised						
- Up to 50% LTV	**1,694**	4,777	**41,744**	24,522	**43,438**	29,298
- 51% to 75% LTV	**820**	1,811	**19,087**	11,960	**19,907**	13,771
- 76% to 90% LTV	**-**	-	**2,350**	480	**2,350**	480
- 91% to 100% LTV	**-**	-	**1,300**	1,906	**1,300**	1,906
c) Partially collateralised						
- greater than 100% LTV	**-**	-	**1,610**	-	**1,610**	-
- of which collateral value	**-**	-	***822***	-	***822***	-
	2,514	6,588	**67,058**	38,935	**69,572**	45,522
Impaired						
a) Not collateralised	**-**	243	**60**	237	**60**	480
b) Fully collateralised						
- Up to 50% LTV	**5,345**	4,126	**328**	231	**5,673**	4,357
- 51% to 75% LTV	**-**	10,426	**963**	-	**963**	10,426
- 76% to 90% LTV	**-**	1,063	**-**	-	**-**	1,063
- 91% to 100% LTV	**9,778**	-	**-**	-	**9,778**	-
c) Partially collateralised						
- greater than 100% LTV	**-**	-	**-**	964	**-**	964
- of which collateral value	**-**	-	**-**	*880*	**-**	*880*
	15,123	15,858	**1,351**	1,432	**16,474**	17,290

As at 31 March 2018 the Group held senior secured loans to international borrowers which amounted to €1.6 billion (2017: €1.4 billion). In respect of such financial assets, the Group normally has a right over the borrower's unencumbered assets.

With respect to the Group's debt securities portfolio, as at 31 March 2018, the Group held covered bonds amounting to €237.7 million (2017: €303.3 million) which are backed by a separate group of assets in the form of loans.

2. **Financial risk management** - continued

2.2 Credit risk - continued

2.2.9 Concentration of credit risk exposures

2.2.9.1 Concentration of investment securities

The Group's and Bank's exposure to sovereign Eurozone government bonds as at 31 March 2018 represented 13% (2017: 7%) and 6% (2017: 4%) of the total investment securities respectively. As at 31 March 2018 and 2017, the Group's exposure to sovereign Eurozone governments related to Maltese and German Government securities.

No impairment provisions in respect of these exposures were required during the years ended 31 March 2018 and 2017.

The Group monitors concentrations of investment securities for credit risk by type of exposure. An analysis of concentrations of credit risk at the reporting date is shown below.

	Investments			
	Group		**Bank**	
	2018	2017	**2018**	2017
	€000	€000	**€000**	€000
Concentration by type				
Carrying amount:				
Covered bonds	**237,746**	303,280	**227,632**	293,176
Government and regional government securities	**74,279**	49,160	**28,376**	28,886
Supranationals and agencies	**248,220**	265,475	**227,270**	244,383
Unsecured corporate and treasury lending	**-**	80,559	**-**	80,559
	560,245	698,474	**483,278**	647,004

2. **Financial risk management** - continued

2.2 Credit risk - continued

2.2.9 Concentration of credit risk exposures - continued

2.2.9.2 Concentration of loans and advances to customers

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

The local Lending Portfolio, categorised within EU in the tables below, is mainly attributable to the real estate activities sector.

Group	**EU**	**Other European countries**	**North America**	**Asia**	**Total**
	€000	**€000**	**€000**	**€000**	**€000**
As at 31 March 2018					
Accommodation and food service activities	**171,318**	**-**	**-**	**-**	**171,318**
Administrative and support service activities	**218,932**	**14,750**	**24,510**	**10,279**	**268,471**
Arts, entertainment and recreation activities	**84,063**	**-**	**8,750**	**-**	**92,813**
Construction	**31,428**	**-**	**-**	**-**	**31,428**
Financial and insurance activities	**34,082**	**-**	**7,002**	**-**	**41,084**
Households and individuals	**8,846**	**-**	**-**	**-**	**8,846**
Human health and social work activities	**58**	**-**	**-**	**-**	**58**
Information and communication	**214,073**	**-**	**55,359**	**-**	**269,432**
Manufacturing	**475,582**	**6,500**	**74,856**	**-**	**556,938**
Professional, scientific and technical activities	**4,305**	**-**	**-**	**-**	**4,305**
Real estate activities	**45,260**	**-**	**-**	**-**	**45,260**
Wholesale and retail trade, repairs of motor vehicles and motor cycles	**68,157**	**4,000**	**-**	**-**	**72,157**
Other service activities	**115,581**	**16,542**	**-**	**-**	**132,123**
Other	**30,121**	**-**	**-**	**-**	**30,121**
	1,501,806	**41,792**	**170,477**	**10,279**	**1,724,354**

2. **Financial risk management** - continued

2.2 Credit risk - continued

2.2.9 Concentration of credit risk exposures - continued

2.2.9.2 Concentration of loans and advances to customers - continued

Group	**EU**	**Other European countries**	**North America**	**Asia**	**Total**
	€000	**€000**	**€000**	**€000**	**€000**
As at 31 March 2017					
Accommodation and food service activities	78,429	-	-	-	**78,429**
Administrative and support service activities	110,234	-	-	-	**110,234**
Arts, entertainment and recreation activities	91,553	-	-	-	**91,553**
Construction	28,956	-	-	-	**28,956**
Financial and insurance activities	35,738	9,830	-	-	**45,568**
Households and individuals	7,066	-	-	-	**7,066**
Human health and social work activities	51,767	-	-	-	**51,767**
Information and communication	240,615	10,957	59,811	-	**311,383**
Manufacturing	360,938	-	49,022	-	**409,960**
Professional, scientific and technical activities	37,460	-	-	10,270	**47,730**
Real estate activities	25,850	148	-	-	**25,998**
Transport and storage	38,930	-	-	-	**38,930**
Wholesale and retail trade, repairs of motor vehicles and motor cycles	76,445	-	-	-	**76,445**
Other service activities	57,072	11,461	21,670	-	**90,203**
Other	57,810	-	-	-	**57,810**
	1,298,863	**32,396**	**130,503**	**10,270**	**1,472,032**

2. **Financial risk management** - continued

2.2 Credit risk - continued

2.2.9 Concentration of credit risk exposures - continued

2.2.9.2 Concentration of loans and advances to customers - continued

Bank	**EU**	**Other European countries**	**North America**	**Asia**	**Total**
	€000	**€000**	**€000**	**€000**	**€000**
As at 31 March 2018					
Accommodation and food service activities	**124,989**	**-**	**-**	**-**	**124,989**
Administrative and support service activities	**159,462**	**5,115**	**21,369**	**10,297**	**196,243**
Arts, entertainment and recreation activities	**66,118**	**-**	**8,750**	**-**	**74,868**
Construction	**31,428**	**-**	**-**	**-**	**31,428**
Financial and insurance activities	**34,082**	**-**	**7,002**	**-**	**41,084**
Households and individuals	**8,846**	**-**	**-**	**-**	**8,846**
Human health and social work activities	**57**	**-**	**-**	**-**	**57**
Information and communication	**161,458**	**-**	**55,359**	**-**	**216,817**
Manufacturing	**406,484**	**6,500**	**55,331**	**-**	**468,315**
Professional, scientific and technical activities	**4,305**	**-**	**-**	**-**	**4,305**
Real estate activities	**45,260**	**-**	**-**	**-**	**45,260**
Wholesale and retail trade, repairs of motor vehicles and motor cycles	**68,034**	**4,000**	**-**	**-**	**72,034**
Other service activities	**83,289**	**16,629**	**-**	**-**	**99,918**
Other	**12,512**	**-**	**-**	**-**	**12,512**
	1,206,324	**32,244**	**147,811**	**10,297**	**1,396,676**
As at 31 March 2017					
Accommodation and food service activities	39,914	-	-	-	**39,914**
Administrative and support service activities	79,479	-	-	-	**79,479**
Arts, entertainment and recreation activities	71,807	-	-	-	**71,807**
Construction	28,956	-	-	-	**28,956**
Financial and insurance activities	35,806	-	-	-	**35,806**
Households and individuals	7,066	-	-	-	**7,066**
Human health and social work activities	22,736	-	-	-	**22,736**
Information and communication	172,750	-	59,890	-	**232,640**
Manufacturing	318,710	-	48,803	-	**367,513**
Professional, scientific and technical activities	37,461	-	-	10,299	**47,760**
Real estate activities	25,850	148	-	-	**25,998**
Transport and storage	39,055	-	-	-	**39,055**
Wholesale and retail trade, repairs of motor vehicles and motor cycles	73,952	-	-	-	**73,952**
Other service activities	49,688	11,606	21,655	-	**82,949**
Other	28,232	-	-	-	**28,232**
	1,031,462	**11,754**	**130,348**	**10,299**	**1,183,863**

2. Financial risk management - continued

2.2 Credit risk - continued

2.2.9 Concentration of credit risk exposures - continued

2.2.9.2 Concentration of loans and advances to customers - continued

Exposures to United Kingdom counterparties which are included within the EU categorisation in the preceding table, as at 31 March 2018 of the Group and Bank amounted to €523.6 million (2017: €423.3 million) and €326.2 million (2017: €241.5 million) respectively.

2.2.10 Offsetting financial assets and financial liabilities

The Group is eligible to present certain financial assets and financial liabilities on a net basis in the statement of financial position in accordance with the Group's policy described in Note 1.7 'Offsetting Financial Instruments'.

The following tables set out:

- the impact of offsetting financial assets and financial liabilities on the consolidated statement of financial position;
- the financial impact of netting for instruments subject to an enforceable master netting arrangement or similar agreement; and
- the available financial collateral received or pledged in relation to the total amounts of assets and liabilities that were not offset.

The Group enters into derivative transactions under International Swap and Derivatives Association (ISDA) master netting agreements. In general, under such agreements the amounts owed by each counter-party on a single day in respect of all transactions outstanding in the same currency are aggregated into a single net amount that is payable by one party to the other. In certain circumstances such as when an event of default occurs, all outstanding transactions under the agreement are terminated and settled in a single net amount per currency.

The ISDA agreements do not meet the criteria for offsetting the positive and negative values in the statement of financial position. This is attributable to the fact that the Group and its counterparties do not have any currently legally enforceable right to settle on a net basis or to realise the assets and settle the liability simultaneously because the right to offset is enforceable only on the occurrence of future credit events.

The Group also enters in certain transactions which are settled through clearing houses. The gross settlement mechanisms used by clearing houses, with features that eliminate credit and liquidity risk in a single settlement process, are effectively equivalent to net settlement. As a result such financial assets and liabilities are offset and the net amount is reported in the consolidated statement of financial position.

The Group also pledges and receives collateral in the form of cash and marketable securities primarily for sale and repurchase agreements and for margining purposes on OTC derivative transactions. Pledges are generally conducted under terms that are usual and customary for standard contracts and transactions of this nature. The rights of set off relating to such collateral are conditional upon the default of the counterparty.

The net amount of financial instruments that do not meet the on-balance sheet offsetting criteria, including collateral pledged and received, presented within the following tables is equal to the amount presented in the statement of financial position for that instrument.

2. **Financial risk management** - continued

2.2 Credit risk - continued

2.2.10 Offsetting financial assets and financial liabilities - continued

Below is a table showing financial instruments subject to offsetting, enforceable master netting arrangements and similar agreements.

	Gross amounts of recognised financial instruments	Gross amounts of recognised financial instruments offset in the statement of financial position	Net amounts of financial instruments presented in the statement of financial position	Related amounts not offset in the statement of financial position		
				Financial instruments that do not meet off-setting criteria	Financial collateral pledged /(received) (incl. cash)	Net amount
	€000	€000	€000	€000	€000	€000
Group						
As at 31 March 2018						
Financial assets						
Derivative financial instruments	**470**	**-**	**470**	**-**	**(2)**	**468**
Financial liabilities						
Derivative financial instruments	**(3,581)**	**-**	**(3,581)**	**-**	**3,581**	**-**
Amounts owed to financial institutions	**(126,428)**	**-**	**(126,428)**	**118,428**	**8,000**	**-**
	(130,009)	**-**	**(130,009)**	**118,428**	**11,581**	**-**
As at 31 March 2017						
Financial assets						
Derivative financial instruments	1,627	-	1,627	-	(633)	994
Financial liabilities						
Derivative financial instruments	(2,323)	-	(2,323)	-	2,200	(123)
Amounts owed to financial institutions	(359,183)	-	(359,183)	348,265	10,918	-
	(361,506)	-	(361,506)	348,265	13,118	(123)
Bank						
As at 31 March 2018						
Financial assets						
Derivative financial instruments	**3,886**	**-**	**3,886**	**-**	**(3,886)**	**-**
Financial liabilities						
Derivative financial instruments	**(3,639)**	**-**	**(3,639)**	**-**	**3,639**	**-**
Amounts owed to financial institutions	**(1,019,082)**	**-**	**(1,019,082)**	**1,011,082**	**8,000**	**-**
	(1,022,721)	**-**	**(1,022,721)**	**1,011,082**	**11,639**	**-**
As at 31 March 2017						
Financial assets						
Derivative financial instruments	2,872	-	2,872	-	(633)	2,239
Financial liabilities						
Derivative financial instruments	(2,732)	-	(2,732)	-	2,609	(123)
Amounts owed to financial institutions	(1,003,365)	-	(1,003,365)	992,447	10,918	-
	(1,006,097)	-	(1,006,097)	992,447	13,527	(123)

2. Financial risk management - continued

2.3 Liquidity risk

2.3.1 Management of liquidity risk

The Group's management of liquidity risk is the responsibility of the MeDirect Malta's Treasury team and is monitored by MeDirect Malta's Risk Office, under the oversight of the Management Asset-Liability Committee and the Board Risk Committee of the Banks, taking into account the approach set out in MeDirect Malta's Treasury Management Policy.

Treasury Management Policy ("TMP")

The Bank's TMP establishes the principles, standards, internal controls, high-level reporting requirements together with escalation and approval processes that govern the ongoing management of the:

- liquidity and asset-liability mix;
- market, interest rate and currency risks; and
- credit risk taken on in connection with the activities above.

It is also designed to ensure compliance with all laws and regulations that are applicable to these activities.

Management Asset and Liability Committee

MeDirect Malta and MeDirect Belgium established a Management Asset and Liability Committee ("ALCO") which is responsible for the management of funding, liquidity, interest rate and currency risks. ALCO sets and reviews overall policies and objectives for asset and liability management, capital management and allocation. The Committee is responsible for approving the asset classes in which the Treasury team invests taking into account the risk appetite set by the respective Board; reviewing the liquidity position of the Group, and for approving the pricing of the Group's deposits. ALCO also monitors the Group's interest rate risk exposures by reference to the limits established within the TMP, and approves the permitted hedging instruments for managing interest rate risk.

Board Risk Committee

The Banks' Risk Committees of MeDirect Malta and MeDirect Belgium are responsible for setting policies in respect of liquidity and funding, interest rate and currency risks and for reviewing and approving any changes to the overall asset-liability management strategy, taking into account the strategy set by the Board.

Roles and responsibilities

Management of the Group's liquidity position and of its market risk is the responsibility of the Bank's Treasury function and is monitored by the Bank's Risk function (under the oversight of ALCO and of the Board Risk Committee of the MeDirect banking entities, as is management of the credit risk that arises from these activities. In broad terms:

- Treasury has primary responsibility for managing and reporting the Group's projected liquidity position (the "base case"), and for managing its market risk position on a day-to-day basis; and
- Risk has primary responsibility for defining potential adverse liquidity scenarios that should be considered and for reporting exposure to these scenarios (the "downside case"), as well as for regular formal reporting of the Group's market risk position.

2. Financial risk management - continued

2.3 Liquidity risk - continued

2.3.1 Management of liquidity risk - continued

Funding strategy

Banks traditionally perform a role of liquidity transformation, whereby they fund through liabilities that are liquid in the short to medium term, in order to invest in longer term and less liquid assets. This mismatch of liquid liabilities and less liquid assets is a near-universal feature of bank balance sheets and clearly leads to a risk if liabilities cannot be rolled over when they mature (which may be every day in the case of money held in current or savings accounts).

The Group’s strategy to mitigate this risk has three main components:

- Limiting its exposure to customer deposit withdrawals by use of term rather than overnight deposits as its primary instrument of customer funding;
- Limiting its exposure to wholesale funding withdrawal by locking in term funding against less liquid assets and by diversifying its sources of funding; and
- Maintaining a contingency source of funding by ensuring that the bulk of its Treasury portfolio is eligible for funding as part of the ECB programmes if alternative sources are unavailable.

The Group’s objective is to maintain a prudent funding structure drawn from diverse funding sources while recognising its position as a regulated credit institution.

Alternative funding sources may include, but are not limited to:

- Deposits from retail and corporate customers;
- Bond issuance, either secured, senior unsecured or subordinated;
- Issuance of capital instruments;
- Interbank funding (either secured, for example through repurchase agreements or Total Return Swaps, or unsecured); and
- Central Bank funding.

In order to ensure that the Group has adequate liquidity to meet its near-term obligations, Treasury projects the Group’s expected liquidity position for each day over the subsequent week, as well as the “residual” cash balance that takes into account known inflows and outflows (for example settlements of asset purchases or sales) beyond this period.

The Group monitors liquidity risk by referencing to the following key metric:

- The ratio of liquid assets to wholesale (margin-sensitive) funding was 491.7% as at 31 March 2018 (2017: 147.3%). This cash buffer is designed to ensure that the Group can meet any additional margin requirement that might be imposed by the ECB or by repo counterparties, resulting either from changes in market values of assets or from increases in applicable haircuts.

2. **Financial risk management** - continued

2.3 Liquidity risk - continued

2.3.1 Management of liquidity risk - continued

MDB Group Limited is the parent company of MeDirect Malta and this parent company together with its subsidiaries are referred to as “the Regulatory Group” or “MDB Group”. The MDB Group and the MeDirect Malta Group comply with the Liquidity Coverage Ratio (“LCR”) in relation to short term liquidity and monitor the Net Stable Funding Ratio (“NSFR”) ratio in order to assess long term liquidity:

- The Liquidity Coverage Ratio (“LCR”): The ratio aims to ensure that institutions are able to withstand a 30-day period of stress by virtue of having sufficient unencumbered High Quality Liquidity Assets (“HQLA”). HQLA consist of cash or assets that can be converted into cash at little or no loss of value in the markets. The LCR metric is designed to promote the short-term resilience of the Group’s liquidity profile, and became a minimum regulatory standard from 1 October 2015, under European Commission (“EC”) Delegated Regulation 2015/61.

The table below displays the LCR year-end levels for the MDB Group and the LCR year-end levels for MeDirect Malta:

	MDB Group		**Bank**	
	2018	**2017**	**2018**	2017
	%	**%**	**%**	%
At 31 March				
Actual LCR Ratio	**636.0**	**576.7**	**276.29**	273.1
Regulatory Minimum – Transitional provisions	**100**	**80**	**100**	80
Regulatory Minimum – Fully phased in	**100**	**100**	**100**	100

During the year ended 31 March 2018 and 2017 the LCR ratio was within both the regulatory minimum and the risk appetite set by the MDB Group.

- The Net Stable Funding Ratio (“NSFR”): This ratio looks at the relationship between long term assets and long term funding. The NSFR requires institutions to maintain sufficient stable funding relative to required stable funding, and reflects a bank’s long term funding profile (funding with a term of more than a year). It is designed to complement the LCR.

The European calibration of NSFR is pending following the European Commission’s proposal in November 2016. As a result, the Regulatory Group calculates NSFR in line with Basel Committee on Banking Supervision Publication 295, pending its implementation in Europe. This calculation requires various interpretations of the text, and therefore the Group’s NSFR may not be directly comparable with the ratios of other institutions.

	MDB Group		**Bank**	
	2018	2017	**2018**	2017
	%	%	**%**	%
At 31 March				
Actual NSFR Ratio	**140.0**	128.9	**132.5**	103.0

2. **Financial risk management** - continued

2.3 Liquidity risk - continued

2.3.2 Liquidity risk reporting

MeDirect Malta's Risk Office is responsible for producing three key reports that describe the key risks to the Group's liquidity position and quantify its ability to withstand the associated shocks:

- Scenario analysis report, quantifying the potential liquidity impact of adverse market movements or rating agency actions on the Group's asset base and any associated wholesale funding eligibility, considering a number of scenarios of varying severity;

- Deposit concentration report, highlighting borrower-level and sector-level concentrations that can be used to assess the Group's vulnerability to deposit flight; and

- Maximum cumulative outflow report, projecting the Group's cash position in both idiosyncratic and market wide adverse (stress) scenarios through time, modelling the effectiveness of contingency funding actions that can be taken. The liquidity stress scenarios are modelled monthly and take into account a wide range of potential funding outflows including:

  i. Deposit flight (retail and corporate; specific and general);
  ii. Undrawn commitments;
  iii. Margin postings due to market movements and haircut changes; and
  iv. Failure of bilateral repo counterparties to roll financing.

2. **Financial risk management** - continued

2.3 Liquidity risk - continued

2.3.3 Contractual maturity ladder

The following is an analysis of financial assets and liabilities by remaining contractual maturities as at the reporting date with the exception of the analysis of loans and advances to customers that is based on the expected maturities since this is how the liquidity of the Group is monitored on a regular basis. Refer also to Note 2.3.5 that provides an analysis of encumbered investments.

Group	Not more than 1 month	Between 1 and 3 months	Between 3 months and 1 year	Between 1 and 5 years	More than 5 years	No maturity date	Total
	€000	€000	€000	€000	€000	€000	€000
As at 31 March 2018							
Assets							
Balances with central banks	88,242	-	-	-	-	15,301	103,543
Derivative financial instruments	32	69	1	-	-	368	470
Loans and advances to financial institutions	113,623	-	-	-	-	-	113,623
Loans and advances to customers	17,509	15,095	238,893	1,403,369	26,850	-	1,701,716
Investments	-	10,015	49,362	459,154	41,714	-	560,245
Accrued income	6,002	6,454	3,422	-	-	-	15,878
Loans to related parties (included in other assets)	-	-	-	-	-	14,965	14,965
Total financial assets	225,408	31,633	291,678	1,862,523	68,564	30,634	2,510,440
Liabilities							
Derivative financial instruments	1,094	2,039	-	300	148	-	3,581
Amounts owed to financial institutions	21,428	40,000	65,000	-	-	-	126,428
Amounts owed to customers	563,289	86,587	858,256	470,720	307	-	1,979,159
Subordinated liabilities	-	-	-	22,276	44,673	-	66,949
Accrued interest expense	1,125	886	3,749	10	-	-	5,770
Amounts due to related parties (included in other liabilities)	-	-	-	-	-	4,815	4,815
Total financial liabilities	586,936	129,512	927,005	493,306	45,128	4,815	2,186,702
Liquidity gap	(361,528)	(97,879)	(635,327)	1,369,217	23,436		
Cumulative liquidity gap	(361,528)	(459,407)	(1,094,734)	274,483	297,919		

2. Financial risk management - continued

2.3 Liquidity risk - continued

2.3.3 Contractual maturity ladder - continued

Group	Not more than 1 month	Between 1 and 3 months	Between 3 months and 1 year	Between 1 and 5 years	More than 5 years	No maturity date	Total
	€000	€000	€000	€000	€000	€000	€000
As at 31 March 2017							
Assets							
Balances with central banks	231,770	-	-	-	-	13,125	244,895
Derivative financial instruments	763	94	4	650	116	-	1,627
Loans and advances to financial institutions	106,895	-	-	-	-	-	106,895
Loans and advances to customers	12,224	40,668	92,729	1,289,983	14,366	-	1,449,970
Investments	17,999	-	56,598	570,507	53,370	-	698,474
Accrued income	6,130	5,207	5,493	-	-	-	16,830
Loans to related parties (included in other assets)	-	-	-	-	-	24,040	24,040
Total financial assets	375,781	45,969	154,824	1,861,140	67,852	37,165	2,542,731
Liabilities							
Derivative financial instruments	855	1,344	1	123	-	-	2,323
Amounts owed to financial institutions	69,183	130,000	160,000	-	-	-	359,183
Amounts owed to customers	516,866	65,182	977,418	341,221	825	-	1,901,512
Subordinated liabilities	-	-	-	22,341	24,702	-	47,043
Accrued interest expense	1,255	1,221	3,708	18	-	-	6,202
Amounts due to related parties (included in other liabilities)	-	-	-	-	-	3,184	3,184
Total financial liabilities	588,159	197,747	1,141,127	363,703	25,527	3,184	2,319,447
Liquidity gap	(212,378)	(151,778)	(986,303)	1,497,437	42,325		
Cumulative liquidity gap	(212,378)	(364,156)	(1,350,459)	146,978	189,303		

2. Financial risk management - continued

2.3 Liquidity risk - continued

2.3.3 Contractual maturity ladder - continued

Bank	Not more than 1 month	Between 1 and 3 months	Between 3 months and 1 year	Between 1 and 5 years	More than 5 years	No maturity date	Total
	€000	€000	€000	€000	€000	€000	€000
As at 31 March 2018							
Assets							
Balances with central banks	59,543	-	-	-	-	5,871	65,414
Derivative financial instruments	1,533	1,982	3	-	-	368	3,886
Loans and advances to financial institutions	106,740	-	-	-	-	-	106,740
Loans and advances to customers	17,509	15,066	199,943	1,116,306	26,850	-	1,375,674
Investments	-	10,015	18,361	413,188	41,714	-	483,278
Accrued income	5,662	5,779	3,241	-	-	-	14,682
Loans to related parties (included in other assets)	-	-	-	-	-	15,422	15,422
Total financial assets	190,987	32,842	221,548	1,529,494	68,564	21,661	2,065,096
Liabilities							
Derivative financial instruments	1,117	2,074	-	300	148	-	3,639
Amounts owed to financial institutions	21,423	932,659	65,000	-	-	-	1,019,082
Amounts owed to customers	382,329	45,614	189,274	224,403	307	-	841,927
Subordinated liabilities	-	-	-	22,276	44,673	-	66,949
Accrued interest expense	873	1,062	2,977	9	-	-	4,921
Loans to related parties (included in other liabilities)	-	-	-	-	-	34,645	34,645
Total financial liabilities	405,742	981,409	257,251	246,988	45,128	34,645	1,971,163
Liquidity gap	(214,755)	(948,567)	(35,703)	1,282,506	23,436		
Cumulative liquidity gap	(214,755)	(1,163,322)	(1,199,025)	83,481	106,917		

2. Financial risk management - continued

2.3 Liquidity risk - continued

2.3.3 Contractual maturity ladder - continued

Bank	Not more than 1 month	Between 1 and 3 months	Between 3 months and 1 year	Between 1 and 5 years	More than 5 years	No maturity date	Total
	€000	€000	€000	€000	€000	€000	€000
As at 31 March 2017							
Assets							
Balances with central banks	43,991	-	-	-	-	5,565	49,556
Derivative financial instruments	1,309	793	4	650	116	-	2,872
Loans and advances to financial institutions	94,350	-	-	-	-	-	94,350
Loans and advances to customers	11,612	40,703	90,886	1,004,553	14,366	612	1,162,732
Investments	17,998	-	56,598	519,038	53,370	-	647,004
Accrued income	2,693	6,531	5,191	-	-	189	14,604
Loans to related parties (included in other assets)	-	-	-	-	-	28,543	28,543
Total financial assets	171,953	48,027	152,679	1,524,241	67,852	34,909	1,999,661
Liabilities							
Derivative financial instruments	1,013	1,595	1	123	-	-	2,732
Amounts owed to financial institutions	239,365	604,000	160,000	-	-	-	1,003,365
Amounts owed to customers	387,057	35,069	231,725	218,033	825	-	872,709
Subordinated liabilities	-	-	-	22,341	24,702	-	47,043
Accrued interest expense	1,037	1,924	2,835	18	-	-	5,814
Loans to related parties (included in other liabilities)	-	-	-	-	-	32,880	32,880
Total financial liabilities	628,472	642,588	394,561	240,515	25,527	32,880	1,964,543
Liquidity gap	(456,519)	(594,561)	(241,882)	1,283,726	42,325		
Cumulative liquidity gap	(456,519)	(1,051,080)	(1,292,962)	(9,236)	33,089		

Current accounts and savings deposits payable on demand or at short notice of the Group and Bank amounted to €478 million (2017: €483 million) and €350 million (2017: €357 million), respectively, as at 31 March 2018. This amount is disclosed within the 'Not more than 1 month' maturity grouping. In addition, as at 31 March 2018 savings deposits with a withdrawal notice period of three months amounting to €765 million (2017: €883 million) and €132 million (2017: €149 million) for the Group and the Bank respectively, are disclosed within the 'Between 3 months and 1 year' maturity grouping. Furthermore, as at 31 March 2018, savings deposits with a withdrawal notice period of one year for the Group and the Bank amounting to €181 million and €33 million, respectively, are disclosed within the 'Between 1 year and 5 years' maturity grouping. However, in practice these deposits are maintained with the Bank for longer periods; hence the effective date of repayment is later than the contractual date.

2. Financial risk management - continued

2.3 Liquidity risk - continued

2.3.3 Contractual maturity ladder - continued

As of 31 March 2018, unencumbered financial assets classified as available-for-sale amounting to €453 million (2017: €334 million) and €376 million (2017: €248 million) for the Group and the Bank respectively, form part of the high quality liquid asset portfolio for LCR purposes. Accordingly, they may be liquidated within one month.

2.3.4 Residual contractual maturities of financial liabilities

The following is an analysis of undiscounted cash flows payable under the principal non-derivative financial liabilities by remaining contractual maturities as at the reporting date.

Group	**Carrying amount €000**	**Total outflows €000**	**Less than 1 month €000**	**Between 1 and 3 months €000**	**Between 3 months and 1 year €000**	**Between 1 and 5 years €000**	**More than 5 years €000**
31 March 2018							
Non-derivative liabilities							
Amounts owed to financial institutions							
- Due to clearing houses	**105,000**	104,707	-	39,893	64,814	-	-
- Due to other banks	**21,428**	21,428	21,428	-	-	-	-
Amounts owed to customers	**1,979,159**	2,150,108	560,888	90,451	900,450	597,974	345
Subordinated liabilities	**66,949**	91,295	-	-	4,227	34,108	52,960
	2,172,536	**2,367,538**	**582,316**	**130,344**	**969,491**	**632,082**	**53,305**
31 March 2017							
Non-derivative liabilities							
Amounts owed to financial institutions							
- Due to clearing houses	**340,000**	339,390	49,934	129,822	159,634	-	-
- Due to other banks	**19,183**	19,183	19,183	-	-	-	-
Amounts owed to customers	**1,901,512**	1,982,275	517,170	65,793	1,014,055	384,254	1,003
Subordinated liabilities	**47,043**	65,065	-	-	3,259	32,215	29,591
	2,307,738	2,405,913	586,287	195,615	1,176,948	416,469	30,594

2. **Financial risk management** - continued

2.3 Liquidity risk - continued

2.3.4 Residual contractual maturities of financial liabilities - continued

Bank	**Carrying amount €000**	**Total outflows €000**	**Less than 1 month €000**	**Between 1 and 3 months €000**	**Between 3 months and 1year €000**	**Between 1 and 5 years €000**	**More than 5 years €000**
31 March 2018							
Non-derivative liabilities							
Amounts owed to financial institutions							
- Due to clearing houses	**105,000**	104,707	-	39,893	64,814	-	-
- Due to other banks	**914,082**	914,082	914,082	-	-	-	-
Amounts owed to customers	**841,927**	994,968	379,916	49,365	228,366	336,975	346
Subordinated liabilities	**66,949**	91,295	-	-	4,227	34,108	52,960
	1,927,958	**2,105,052**	**1,293,998**	**89,258**	**297,407**	**371,083**	**53,306**
31 March 2017							
Non-derivative liabilities							
Amounts owed to financial institutions							
- Due to clearing houses	**340,000**	339,390	49,934	129,822	159,634	-	-
- Due to other banks	**663,365**	663,365	663,365	-	-	-	-
Amounts owed to customers	**872,709**	926,004	376,434	33,893	263,488	251,186	1,003
Subordinated liabilities	**47,043**	65,065	-	-	3,260	32,215	29,590
	1,923,117	1,993,824	1,089,733	163,715	426,382	283,401	30,593

2. **Financial risk management** - continued

2.3 Liquidity risk - continued

2.3.4 Residual contractual maturities of financial liabilities - continued

The following is an analysis of undiscounted cash flows relating to the Group's principal derivative financial instruments by remaining contractual maturities as at the reporting date:

Group	**Carrying amount €000**	**Inflows/ (Outflows) €000**	**Less than 1 month €000**	**Between 1 and 3 months €000**	**Between 3 months and 1 year €000**	**Between 1 and 5 years €000**	**More than 5 years €000**
31 March 2018							
Derivative assets							
Derivative financial instruments							
- Foreign exchange swaps	**102**	**15**	**1**	**13**	**1**	**-**	**-**
Inflows		*62,570*	*35,710*	*26,818*	*42*	-	-
Outflows		*(62,555)*	*(35,709)*	*(26,805)*	*(41)*	-	-
- Others (no maturity)	**368**	**-**	**-**	**-**	**-**	**-**	**-**
	470	**15**	**1**	**13**	**1**	**-**	**-**
Derivative liabilities							
Derivative financial instruments							
- Interest rate swaps	**448**	**(1,000)**	**-**	**-**	**(106)**	**(724)**	**(170)**
- Foreign exchange swaps	**3,133**	**(3,510)**	**(1,102)**	**(2,408)**	**-**	**-**	**-**
Inflows		*316,598*	*119,923*	*196,634*	*41*	-	-
Outflows		*(320,108)*	*(121,025)*	*(199,042)*	*(41)*	-	-
	3,581	**(4,510)**	**(1,102)**	**(2,408)**	**(106)**	**(724)**	**(170)**
31 March 2017							
Derivative assets							
Derivative financial instruments							
- Interest rate swaps	766	1,442	-	-	90	1,202	150
- Foreign exchange swaps	861	837	747	86	4	-	-
Inflows		*125,016*	*93,880*	*30,996*	*140*	-	-
Outflows		*(124,179)*	*(93,133)*	*(30,910)*	*(136)*	-	-
	1,627	2,279	747	86	94	1,202	150
Derivative liabilities							
Derivative financial instruments							
- Interest rate swaps	123	(245)	-	-	(26)	(219)	-
- Foreign exchange swaps	2,200	(2,333)	(862)	(1,468)	(3)	-	-
Inflows		*191,332*	*80,127*	*111,068*	*137*	-	-
Outflows		*(193,665)*	*(80,989)*	*(112,536)*	*(140)*	-	-
	2,323	(2,578)	(862)	(1,468)	(29)	(219)	-

2. **Financial risk management** - continued

2.3 Liquidity risk - continued

2.3.4 Residual contractual maturities of financial liabilities - continued

Bank	**Carrying amount €000**	**Inflows/ (Outflows) €000**	**Less than 1 month €000**	**Between 1 and 3 months €000**	**Between 3 months and 1year €000**	**Between 1 and 5 years €000**	**More than 5 years €000**
31 March 2018							
Derivative assets							
Derivative financial instruments							
- Foreign exchange swaps	**3,518**	**3,717**	**1,540**	**2,111**	**66**	**-**	**-**
Inflows		*408,813*	*173,215*	*213,884*	*21,714*	-	-
Outflows		*(405,096)*	*(171,675)*	*(211,773)*	*(21,648)*	-	-
- Others (no maturity)	**368**	**-**	**-**	**-**	**-**	**-**	**-**
	3,886	**3,717**	**1,540**	**2,111**	**66**	**-**	**-**
Derivative liabilities							
Derivative financial instruments							
- Interest rate swaps	**448**	**(1,000)**	**-**	**-**	**(106)**	**(724)**	**(170)**
- Foreign exchange swaps	**3,191**	**(3,395)**	**(1,121)**	**(2,274)**	**-**	**-**	**-**
Inflows		*385,162*	*124,041*	*261,080*	*41*	-	-
Outflows		*(388,557)*	*(125,162)*	*(263,354)*	*(41)*	-	-
	3,639	**(4,395)**	**(1,121)**	**(2,274)**	**(106)**	**(724)**	**(170)**
31 March 2017							
Derivative assets							
Derivative financial instruments							
- Interest rate swaps	766	1,442	-	-	90	1,202	150
- Foreign exchange swaps	2,106	2,250	1,309	937	4	-	-
Inflows		*270,719*	*145,705*	*124,874*	*140*	-	-
Outflows		*(268,469)*	*(144,396)*	*(123,937)*	*(136)*	-	-
	2,872	3,692	1,309	937	94	1,202	150
Derivative liabilities							
Derivative financial instruments							
- Interest rate swaps	123	(245)	-	-	(26)	(219)	-
- Foreign exchange swaps	2,609	(2,702)	(1,017)	(1,682)	(3)	-	-
Inflows		*268,300*	*121,526*	*146,637*	*137*	-	-
Outflows		*(271,002)*	*(122,543)*	*(148,319)*	*(140)*	-	-
	2,732	(2,947)	(1,017)	(1,682)	(29)	(219)	-

2. **Financial risk management** - continued

2.3 Liquidity risk - continued

2.3.5 Encumbered assets

The following tables set out the availability of the Group's financial assets to support future funding.

Group	**Encumbered**		**Unencumbered**		
	Pledged as collateral	**Other***	**Available as collateral**	**Other****	**Total**
	€000	**€000**	**€000**	**€000**	**€000**
31 March 2018					
Balances with Central Banks and cash	52	-	103,491	196	**103,739**
Derivative financial instruments	-	-	-	470	**470**
Loans and advances to financial institutions	42,082	19,233	-	52,308	**113,623**
Loans and advances to customers – corporate	-	-	-	1,694,141	**1,694,141**
Loans and advances to customers – retail	-	-	-	7,575	**7,575**
Investments	107,181	5,479	447,585	-	**560,245**
Accrued income	-	-	-	15,878	**15,878**
Loans and advances to related parties (included in other assets)	-	-	-	14,965	**14,965**
	149,315	**24,712**	**551,076**	**1,785,533**	**2,510,636**
31 March 2017					
Balances with Central Banks and cash	52	-	241,782	3,360	245,194
Derivative financial instruments	-	-	-	1,627	1,627
Loans and advances to financial institutions	-	21,139	-	85,756	106,895
Loans and advances to customers – corporate	-	-	-	1,438,586	1,438,586
Loans and advances to customers – retail	-	-	-	11,384	11,384
Investments	350,089	5,880	324,506	17,999	698,474
Accrued income	-	-	-	16,830	16,830
Loans and advances to related parties (included in other assets)	-	-	-	24,040	24,040
	350,141	**27,019**	**566,288**	**1,599,582**	**2,543,030**

**Represents assets that are not pledged for funding purposes but that the Group believes it is restricted from using to secure funding, for legal or other reasons.*
***Represents assets that are not restricted for use as collateral, but that the Group would not consider as readily available to secure funding in the normal course of business.*

2. **Financial risk management** - continued

2.3 Liquidity risk - continued

2.3.5 Encumbered assets - continued

The following tables set out the availability of the Bank's financial assets to support future funding.

Bank	**Encumbered**		**Unencumbered**		
	Pledged as collateral €000	**Other* €000**	**Available as collateral €000**	**Other** €000**	**Total €000**
31 March 2018					
Balances with Central Bank and cash	52	-	65,362	196	**65,610**
Derivative financial instruments	-	-	-	3,886	**3,886**
Loans and advances to financial institutions	42,082	19,233	-	45,425	**106,740**
Loans and advances to customers – corporate	-	-	-	1,368,099	**1,368,099**
Loans and advances to customers – retail	-	-	-	7,575	**7,575**
Investments	107,181	5,479	370,618	-	**483,278**
Accrued income	-	-	-	14,682	**14,682**
Loans and advances to related parties (included in other assets)	-	-	-	15,422	**15,422**
	149,315	**24,712**	**435,980**	**1,455,285**	**2,065,292**
31 March 2017					
Balances with Central Bank and cash	52	-	46,359	3,444	49,855
Derivative financial instruments	-	-	-	2,872	2,872
Loans and advances to financial institutions	-	21,139	-	73,211	94,350
Loans and advances to customers – corporate	-	-	-	1,151,355	1,151,355
Loans and advances to customers – retail	-	-	-	11,377	11,377
Investments	384,438	5,880	238,687	17,999	647,004
Accrued income	-	-	-	14,604	14,604
Loans and advances to related parties (included in other assets)	-	-	-	28,543	28,543
	384,490	**27,019**	**285,046**	**1,303,405**	**1,999,960**

**Represents assets that are not pledged for funding purposes but that the Group believes it is restricted from using to secure funding, for legal or other reasons.*
***Represents assets that are not restricted for use as collateral, but that the Group would not consider as readily available to secure funding in the normal course of business.*

2. Financial risk management - continued

2.4 Market risk

Market risk is the risk that changes in market prices, such as interest rates, foreign exchange rates and credit spreads (not relating to changes in the obligor's/issuer's credit standing) will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

2.4.1 Management of market risks

Similar to liquidity risk, management of market risk is the responsibility of MeDirect Malta's Treasury team and is monitored by MeDirect Malta's Risk Office, under the oversight of the ALCO and the Board Risk Committee of the Banks taking into account the approach set out in MeDirect Malta's Treasury Management Policy.

2.4.2 Foreign exchange risk

Foreign exchange risk is the risk that the value of the Group's positions may fluctuate due to movements in underlying foreign currency exchange rates. Although a large majority of the Group's assets and liabilities are denominated in euro, the Group does offer deposits in other major currencies and its Lending Portfolio includes a number of exposures denominated in pound sterling. The Group seeks to minimise foreign exchange risk and thus hedges all material net exposures in the different currencies in this area through the use of currency swaps and forward foreign exchange contracts.

The following table provides an analysis of the principal financial assets and financial liabilities of the Group and the Bank into relevant currency groupings.

Group

	Euro currency €000	GBP currency €000	USD currency €000	Other €000	Total €000
As at 31 March 2018					
Financial assets					
Balances with Central Banks and cash	103,702	5	21	11	**103,739**
Derivative financial instruments	470	-	-	-	**470**
Loans and advances to financial institutions	59,633	9,092	34,600	10,298	**113,623**
Loans and advances to customers	1,219,885	469,470	11,892	469	**1,701,716**
Investments	554,512	5,733	-	-	**560,245**
Accrued income	12,970	2,633	269	6	**15,878**
Loans to related parties (included in other assets)	14,912	53	-	-	**14,965**
	1,966,084	**486,986**	**46,762**	**10,784**	**2,510,636**
Financial liabilities					
Derivative financial instruments	3,581	-	-	-	**3,581**
Amounts owed to financial institutions	118,195	8,233	-	-	**126,428**
Amounts owed to customers	1,790,236	135,885	29,991	23,047	**1,979,159**
Subordinated liabilities	60,556	6,393	-	-	**66,949**
Accrued interest expense	4,718	980	25	47	**5,770**
Amounts owed to related parties (included in other liabilities)	4,762	53	-	-	**4,815**
	1,982,048	**151,544**	**30,016**	**23,094**	**2,186,702**
Net on-balance sheet financial position		**335,442**	**16,766**	**(12,310)**	
Notional of derivative financial instruments		**(336,771)**	**(18,015)**	**12,133**	
Residual exposure		**(1,329)**	**(1,249)**	**(177)**	

2. **Financial risk management** - continued

2.4 Market risk - continued

2.4.2 Foreign exchange risk - continued

Group

	Euro currency €000	**GBP currency €000**	**USD currency €000**	**Other €000**	**Total €000**
As at 31 March 2017					
Financial assets					
Balances with Central Banks and cash	245,158	20	13	3	245,194
Derivative financial instruments	1,627	-	-	-	1,627
Loans and advances to financial institutions	69,093	23,253	8,170	6,379	106,895
Loans and advances to customers	1,031,008	409,154	9,808	-	1,449,970
Investments	692,611	5,863	-	-	698,474
Accrued income	14,923	1,782	125	-	16,830
Loans to related parties (included in other assets)	24,040	-	-	-	24,040
	2,078,460	**440,072**	**18,116**	**6,382**	**2,543,030**
Financial liabilities					
Derivative financial instruments	2,323	-	-	-	2,323
Amounts owed to financial institutions	359,180	3	-	-	359,183
Amounts owed to customers	1,709,427	125,284	40,150	26,651	1,901,512
Subordinated liabilities	41,892	5,151	-	-	47,043
Accrued interest expense	5,178	956	22	46	6,202
Amounts owed to related parties (included in other liabilities)	3,184	-	-	-	3,184
Others	-	-	4,105	-	4,105
	2,121,184	**131,394**	**44,277**	**26,697**	**2,323,552**
Net on-balance sheet financial position		**308,678**	**(26,161)**	**(20,315)**	
Notional of derivative financial instruments		**(308,332)**	**26,247**	**20,149**	
Residual exposure		**346**	**86**	**(166)**	

Bank

	Euro currency €000	**GBP currency €000**	**USD currency €000**	**Other €000**	**Total €000**
As at 31 March 2018					
Financial assets					
Balances with Central Bank and cash	65,573	5	21	11	**65,610**
Derivative financial instruments	3,886	-	-	-	**3,886**
Loans and advances to financial institutions	54,600	7,614	34,363	10,163	**106,740**
Loans and advances to customers	1,107,334	255,979	11,892	469	**1,375,674**
Investments	477,545	5,733	-	-	**483,278**
Accrued income	12,694	1,715	268	5	**14,682**
Loans to related parties (included in other assets)	14,924	119	379	-	**15,422**
	1,736,556	**271,165**	**46,923**	**10,648**	**2,065,292**
Financial liabilities					
Derivative financial instruments	3,639	-	-	-	**3,639**
Amounts owed to financial institutions	835,190	183,892	-	-	**1,019,082**
Amounts owed to customers	657,287	134,264	27,678	22,698	**841,927**
Subordinated liabilities	60,556	6,393	-	-	**66,949**
Accrued interest expense	3,837	1,015	22	47	**4,921**
Amounts owed to related parties (included in other liabilities)	29,523	2,385	2,459	279	**34,646**
	1,590,032	**327,949**	**30,159**	**23,024**	**1,971,164**
Net on-balance sheet financial position		**(56,784)**	**16,764**	**(12,376)**	
Notional of derivative financial instruments		**56,276**	**(18,027)**	**12,150**	
Residual exposure		**(508)**	**(1,263)**	**(226)**	

2. **Financial risk management** - continued

2.4 Market risk - continued

2.4.2 Foreign exchange risk - continued

Bank

As at 31 March 2017	Euro currency €000	GBP currency €000	USD currency €000	Other €000	Total €000
Financial assets					
Balances with Central Bank and cash	49,819	20	13	3	49,855
Derivative financial instruments	2,872	-	-	-	2,872
Loans and advances to financial institutions	58,124	21,966	7,939	6,321	94,350
Loans and advances to customers	966,668	186,310	9,754	-	1,162,732
Investments	641,141	5,863	-	-	647,004
Accrued income	13,343	1,136	125	-	14,604
Loans to related parties (included in other assets)	27,324	1,219	-	-	28,543
	1,759,291	**216,514**	**17,831**	**6,324**	**1,999,960**
Financial liabilities					
Derivative financial instruments	2,732	-	-	-	2,732
Amounts owed to financial institutions	1,003,362	3	-	-	1,003,365
Amounts owed to customers	684,556	123,967	37,681	26,505	872,709
Subordinated liabilities	41,892	5,151	-	-	47,043
Accrued interest expense	4,803	947	19	45	5,814
Amounts owed to related parties (included in other liabilities)	30,483	-	2,282	115	32,880
Others	-	-	4,105	-	4,105
	1,767,828	**130,068**	**44,087**	**26,665**	**1,968,648**
Net on-balance sheet financial position		**86,446**	**(26,256)**	**(20,341)**	
Notional of derivative financial instruments		**(85,690)**	**26,247**	**20,144**	
Residual exposure		**756**	**(9)**	**(197)**	

The net currency exposure in GBP and USD as at 31 March 2018 reflected in the previous tables, is mainly attributable to net of impairment charges.

The Group and Bank use derivative financial instruments to hedge movements in foreign exchange rates by entering into derivative contracts with notional amounts which substantially reflect the net exposure in each currency. As a result the Group and Bank are not materially exposed to fluctuations in foreign exchange rates as evidenced in the tables above, reflecting the policy to eliminate foreign exchange risk as much as is practicable.

In view of the Group’s policy for managing currency risk, the Board does not deem necessary the presentation of a sensitivity analysis disclosing how profit or loss and equity would have been affected by changes in foreign exchange rates that were reasonably possible at the end of the reporting period.

2. Financial risk management - continued

2.4 Market risk - continued

2.4.3 Interest rate risk

The principal risk to which the Group is exposed in this respect is the risk of loss from fluctuations in the future cash flows or fair values of financial instruments because of a change in market interest rates.

The Group's interest rate risk is managed by MeDirect Malta's Treasury team within the prevailing interest rate risk limits approved by ALCO. Adherence to these limits is monitored by MeDirect Malta's Risk Office.

In fact, ALCO of the MeDirect banking entities are the oversight body for compliance with the established limit framework and MeDirect Malta's Risk Office is actively involved in day-to-day monitoring activities.

Interest rate risk is managed principally by matching the interest rate risk profile of assets carried at amortised cost with the fixed term profile of its retail deposits, and by hedging the fair value interest rate risk arising on longer-term fixed rate available-for-sale ("AFS") securities by purchasing interest rate derivatives, primarily interest rate swaps. MeDirect Malta's Treasury team also make use of placements with other institutions and wholesale funding to manage certain residual interest rate risk exposures that arise during given periods.

Interest rate risk reporting and analysis

As part of its monitoring duties, MeDirect Malta's Risk Office prepares and reports on the Group's interest rate risk position on a monthly basis. The report outputs show the effects of 200 basis points shift in yield curves on the:

- Projected net interest margin;
- Group's capital position;
- Economic value of the Group's financial assets and liabilities, assuming that no fixed rate deposits are rolled over; and
- Economic value of the Group's financial assets and liabilities, incorporating assumptions around fixed rate deposit rolls.

2. Financial risk management - continued

2.4 Market risk - continued

2.4.3 Interest rate risk - continued

The table below discloses the mismatch of the dates on which interest on financial assets and financial liabilities are next reset to market rates on a contractual basis or the dates on which the instruments mature. Actual reset dates may differ from contractual dates owing to prepayments and the exercise of options. In addition, contractual terms may not be representative of the behaviour in respect of financial assets and liabilities.

Group

		Repricing in:				
	Carrying amount €000	Not more than 3 months €000	Between 3 months to 1 year €000	Between 1 and 3 years €000	Between 3 and 5 years €000	More than 5 years €000
As at 31 March 2018						
Balances with Central Banks	**103,543**	103,543	-	-	-	-
Loans and advances to financial institutions	**113,623**	113,623	-	-	-	-
Loans and advances to customers	**1,701,716**	1,464,646	237,056	14	-	-
Investments	**560,245**	92,715	18,361	338,117	69,338	41,714
	2,479,127	1,774,527	255,417	338,131	69,338	41,714
Amounts owed to financial institutions:						
- Due to clearing houses	**105,000**	40,000	65,000	-	-	-
- Due to other banks	**21,428**	21,428	-	-	-	-
Amounts owed to customers	**1,979,159**	634,114	866,058	372,439	106,241	307
Subordinated liabilities	**66,949**	-	-	47,021	19,928	-
	2,172,536	695,542	931,058	419,460	126,169	307
Interest rate repricing gap		1,078,985	(675,641)	(81,329)	(56,831)	41,407
Impact of hedging interest rate derivatives – notional amounts – net liabilities	**448**	396,000	-	(273,000)	(78,000)	(45,000)
Net interest repricing gap		1,474,985	(675,641)	(354,329)	(134,831)	(3,593)

2. **Financial risk management** - continued

2.4 Market risk - continued

2.4.3 Interest rate risk - continued

Group

		Repricing in:				
	Carrying amount €000	**Not more than 3 months €000**	**Between 3 months to 1 year €000**	**Between 1 and 3 years €000**	**Between 3 and 5 years €000**	**More than 5 years €000**
As at 31 March 2017						
Balances with Central Banks	**244,895**	244,895	-	-	-	-
Loans and advances to financial institutions	**106,895**	106,895	-	-	-	-
Loans and advances to customers	**1,449,970**	1,221,774	228,104	89	3	-
Investments	**698,474**	75,332	63,694	126,593	379,485	53,370
	2,500,234	1,648,896	291,798	126,682	379,488	53,370
Amounts owed to financial institutions:						
- Due to clearing houses	**340,000**	180,000	160,000	-	-	-
- Due to other banks	**19,183**	19,183	-	-	-	-
Amounts owed to customers	**1,901,512**	582,048	977,418	168,931	172,290	825
Subordinated liabilities	**47,043**	-	-	22,341	-	24,702
	2,307,738	781,231	1,137,418	191,272	172,290	25,527
Interest rate repricing gap		867,665	(845,620)	(64,590)	207,198	27,843
Impact of hedging interest rate derivatives – notional amounts – net assets	**643**	571,000	-	(111,000)	(415,000)	(45,000)
Net interest repricing gap		1,438,665	(845,620)	(175,590)	(207,802)	(17,157)

2. **Financial risk management** - continued

2.4 Market risk - continued

2.4.3 Interest rate risk - continued

Bank

		Repricing in:				
	Carrying amount €000	**Not more than 3 months €000**	**Between 3 months to 1 year €000**	**Between 1 and 3 years €000**	**Between 3 and 5 years €000**	**More than 5 years €000**
As at 31 March 2018						
Balances with Central Banks	**65,414**	65,414	-	-	-	-
Loans and advances to financial institutions	**106,740**	106,740	-	-	-	-
Loans and advances to customers	**1,375,674**	1,168,136	207,524	14	-	-
Investments	**483,278**	15,749	18,360	338,117	69,338	41,714
	2,031,106	1,356,039	225,884	338,131	69,338	41,714
Amounts owed to financial institutions:						
- Due to clearing houses	**105,000**	40,000	65,000	-	-	-
- Due to other banks	**914,082**	914,082	-	-	-	-
Amounts owed to customers	**841,927**	412,180	197,077	147,702	84,661	307
Subordinated liabilities	**66,949**	-	-	47,021	19,928	-
	1,927,958	1,366,262	262,077	194,723	104,589	307
Interest rate repricing gap		(10,223)	(36,193)	143,408	(35,251)	41,407
Impact of hedging interest rate derivatives – notional amounts	**448**	396,000	-	(273,000)	(78,000)	(45,000)
Net interest repricing gap		**385,777**	**(36,193)**	**(129,592)**	**(113,251)**	**(3,593)**

2. Financial risk management - continued

2.4 Market risk - continued

2.4.3 Interest rate risk - continued

Bank

		Repricing in:				
	Carrying amount €000	**Not more than 3 months €000**	**Between 3 months to 1 year €000**	**Between 1 and 3 years €000**	**Between 3 and 5 years €000**	**More than 5 years €000**
As at 31 March 2017						
Balances with Central Banks	**49,556**	49,556	-	-	-	-
Loans and advances to financial institutions	**94,350**	94,350	-	-	-	-
Loans and advances to customers	**1,162,732**	980,018	182,622	89	3	-
Investments	**647,004**	23,862	63,694	126,593	379,485	53,370
	1,953,642	1,147,786	246,316	126,682	379,488	53,370
Amounts owed to financial institutions:						
- Due to clearing houses	**340,000**	180,000	160,000	-	-	-
- Due to other banks	**663,365**	663,365	-	-	-	-
Amounts owed to customers	**872,709**	419,737	231,037	112,307	108,803	825
Subordinated liabilities	**47,043**	-	-	22,341	-	24,702
	1,923,117	1,263,102	391,037	134,648	108,803	25,527
Interest rate repricing gap		(115,316)	(144,721)	(7,966)	270,685	27,843
Impact of hedging interest rate derivatives – notional amounts	**643**	571,000	-	(111,000)	(415,000)	(45,000)
Net interest repricing gap		**455,684**	**(144,721)**	**(118,966)**	**(144,315)**	**(17,157)**

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 the Bank generally hedges the repricing risk from its financial assets, namely the treasury securities, and wholesale repo funding.

2. Financial risk management - continued

2.4 Market risk - continued

2.4.3 Interest rate risk - continued

A positive interest rate sensitivity gap exists where more assets than liabilities reprice during a given period. Although a positive gap position tends to benefit net interest income in a rising interest rate environment, the actual effect will depend on a number of factors, including the extent to which repayments are made earlier or later than the contracted date and variations in interest rates within repricing periods and among currencies. Similarly, a negative interest rate sensitivity gap exists where more liabilities than assets re-price during a given period. A negative gap position tends to benefit net interest income in a declining interest rate environment, but the actual effect will depend on the same factors as for positive interest rate gaps.

The management of interest rate risk attributable to interest rate repricing gap limits is supplemented by monitoring the sensitivity of the Group's financial assets and liabilities to various interest rate scenarios.

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 2018
- NIM would increase by €1.9 million / increase by €8.9 million.
- Economic value would increase by €26.4 million / increase by €7.1 million.

31 March 2017
- NIM would increase by €7.5 million / increase by €9.7 million.
- Economic value would increase by €28.7 million / increase by €10.8 million.

These values are determined taking into account the impact of hedge accounting.

The main assumptions used in the model utilised to measure the benchmarks referred to above are:
- Interest bearing assets are assumed to mature on their contractual maturity and are not replaced (static 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 24 months even if there is an increase or decrease in ECB base rate;
- The liability maturity profile is extended to match the assets' maturity profile;
- There is an implicit zero floor option on customer deposits as the Group will not charge negative rates to customers;
- The ∆ NIM 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 contractual repricing schedule and are not behavioralised.

2. Financial risk management - continued

2.4 Market risk - continued

2.4.3 Interest rate risk - continued

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 available-for-sale financial instruments reported directly in equity.

2.5 Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Group’s processes, personnel, technology and infrastructure and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of the Group’s operations and are faced by all business entities.

The Group’s objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Group’s reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity while maintaining risk taking within a tolerable limit.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management within each 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;
- ethical and business standards; and
- risk mitigation, including insurance where this is effective.

2. Financial risk management - continued

2.5 Operational risk - continued

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 MeDirect Banking entities.

A financial measurement of this risk is calculated by the Group for the purpose of allocating risk capital using the Basic Indicator Approach under Regulation (EU) No. 575/2013 of the European Parliament and of the Council of 26 June 2013, also known as the CRR. The risk weighted assets for operational risk under this method as at 31 March 2018 were calculated at €110.8 million (2017: €85.0 million).

2.6 Capital management - regulatory capital

The Group's regulator, the ECB's Joint Supervisory Team (the "JST") sets and monitors capital requirements for the Group.

The CRR and Capital Requirements Directive ("CRD IV") implemented the Basel III into Europe with the sole objective of improving the banking sector's ability to absorb shocks arising from financial and/or economic stress, which in turn, mitigate spill-over damage to the real economy. The CRD IV legislation has been implemented with an effective date of 1 January 2014.

In implementing current capital requirements, the regulation requires the Group to maintain a prescribed ratio of total capital to total risk-weighted assets.

The Group does not engage in trading and is exempt from having a trading book. Risk-weighted assets on the banking book are determined according to specified requirements that seek to reflect the varying levels of risk attached to assets including balances with counterparties and other illiquid assets.

The Group complies with the provisions of CRR in respect of regulatory capital and it applies the standardised approach for credit risk. For regulatory purposes, the Group's capital base is divided in two main categories, namely Common Equity Tier 1 Capital and Tier 2 Capital.

- Common Equity Tier 1 Capital which includes ordinary share capital, share premium, shareholders' contributions, retained earnings, fair value reserve and other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy purposes including deductions relating to Reserve for Depositor Compensation Scheme ('Other reserves') and certain other regulatory items; and

- Tier 2 Capital consists of unrealised gains included within the fair value reserve and subordinated liabilities in issue, which rank after the claims of all depositors (including financial institutions) and all other creditors.

The Group's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholders' return is also recognised and the Group recognises the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position.

2. Financial risk management - continued

2.6 Capital management – regulatory capital - continued

MDB Group Limited is subject to the same supervision as that exercised over institutions. Accordingly, in terms of article 7(2) of the CRR, the obligation of MeDirect Malta to comply with the disclosure requirements relating to own funds, capital requirements, large exposures, and transferred credit risk have been waived.

The Regulatory Group has complied with all externally imposed capital requirements throughout the year.

MDB Group Limited publishes full Pillar 3 disclosures as a separate document which is appended to the MDB Group Limited financial statements.

2.7 Fair value measurement

'Fair value' is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk.

When available, the Group measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if the transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. The judgement as to whether a market is active may include, but is not restricted to, the consideration of factors such as the magnitude and frequency of trading activity, the availability of prices and the size of bid/offer spreads.

If there is no quoted price in an active market, then the Group uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price - i.e. the fair value of the consideration given or received. If the Group determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by the quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognised in profit or loss only to the extent that it arises from a change in a factor (including time) that market participants would consider in setting a price.

If an asset or a liability measured at fair value has a bid price and an ask price, then the Group measures assets and long positions at a bid price and liabilities and short positions at an ask price.

2. Financial risk management - continued

2.7 Fair value measurement - continued

2.7.1 Fair value hierarchy

The Group measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

- Level 1: inputs that are quoted market prices (unadjusted) in active markets for identical instruments.

- Level 2: inputs other than quoted market prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data. Financial instruments which are generally included in this category include over-the-counter derivatives where the fair value is based on observable inputs.

- Level 3: inputs that are unobservable. This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

2.7.2 Use of valuation techniques

In the event that the market for a financial instrument is not active, a valuation technique is used. Valuation techniques may incorporate assumptions about factors that other market participants would use in their valuations, including:
- the likelihood and expected timing of future cash flows on the instrument;
- selecting an appropriate discount rate for the instrument; and
- judgement to determine what model to use to calculate fair value in areas where the choice of valuation model is particularly subjective.

A range of valuation techniques is employed, dependent on the instrument type and available market data. Most valuation techniques are based upon discounted cash flow analyses, in which expected future cash flows are calculated and discounted to present value using a discounting curve. Prior to considering credit risk, the expected future cash flows may be known, as would be the case for the fixed leg of an interest rate swap, or may be uncertain and require projection, as would be the case for the floating leg of an interest rate swap. Projection utilises market forward curves, if available.

Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premiums used in estimating discount rates, bond and foreign currency exchange rates and expected price volatilities and correlations.

The objective of valuation techniques is to arrive at a fair value measurement that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date.

2. Financial risk management - continued

2.7 Fair value measurement - continued

2.7.2 Use of valuation techniques - continued

The Group uses widely recognised valuation models for determining the fair value of common and simple financial instruments, such as interest rate and currency swaps, that use only observable market data and require minimal management judgement and estimation.

Fair values of investment securities in inactive markets are based on:

- quoted prices of similar instruments, performing numerical procedures such as interpolation when input values do not directly correspond to the most active market trade parameters; or
- price quotations in respect of orderly transactions between market participants provided by reputable dealers.

Observable prices and model inputs are usually available in the market for listed debt and equity securities, exchange traded derivatives and simple over the counter derivatives such as interest rate swaps. Availability of observable market prices and model inputs reduces the need for management judgement and estimation and also reduces the uncertainty associated with determining fair values. Availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets.

2.7.3 Financial instruments measured at fair value

The following table analyses financial instruments measured at fair value at the end of the reporting period, by the respective levels within the fair value hierarchy into which the respective fair value measurement is categorised. The fair value amounts are based on the carrying amounts reflected in the statement of financial position.

Group	**Level 1**	**Level 2**	**Level 3**	**Total**
	€000	**€000**	**€000**	**€000**
As at 31 March 2018				
Assets				
Investments				
- Available-for-sale	**560,245**	**-**	**-**	**560,245**
Derivative financial instruments	**-**	**470**	**-**	**470**
Total financial assets	**560,245**	**470**	**-**	**560,715**
Liabilities				
Derivative financial instruments	**-**	**3,581**	**-**	**3,581**
Total financial liabilities	**-**	**3,581**	**-**	**3,581**

2. Financial risk management - continued

2.7 Fair value measurement - continued

2.7.3 Financial instruments measured at fair value - continued

Group	**Level 1**	**Level 2**	**Level 3**	**Total**
	€000	**€000**	**€000**	**€000**
As at 31 March 2017				
Assets				
Investments				
- Available-for-sale	698,474	-	-	**698,474**
Derivative financial instruments	-	1,627	-	**1,627**
Total financial assets	**698,474**	**1,627**	**-**	**700,101**
Liabilities				
Derivative financial instruments	-	2,323	-	**2,323**
Total financial liabilities	-	**2,323**	-	**2,323**

Bank	**Level 1**	**Level 2**	**Level 3**	**Total**
	€000	**€000**	**€000**	**€000**
As at 31 March 2018				
Assets				
Investments				
- Available-for-sale	**483,278**	**-**		**483,278**
Derivative financial instruments	**-**	**3,886**	**-**	**3,886**
Total financial assets	**483,278**	**3,886**	**-**	**487,164**
Liabilities				
Derivative financial instruments	**-**	**3,639**	**-**	**3,639**
Total financial liabilities	**-**	**3,639**	**-**	**3,639**

2. Financial risk management - continued

2.7 Fair value measurement - continued

2.7.3 Financial instruments measured at fair value - continued

Bank	**Level 1**	**Level 2**	**Level 3**	**Total**
	€000	**€000**	**€000**	**€000**
As at 31 March 2017				
Assets				
Investments				
- Available-for-sale	647,004	-	-	**647,004**
Derivative financial instruments	-	2,872	-	**2,872**
Total financial assets	**647,004**	**2,872**	**-**	**649,876**
Liabilities				
Derivative financial instruments	-	2,732	-	**2,732**
Total financial liabilities	**-**	**2,732**	**-**	**2,732**

As at 31 March 2018 and 31 March 2017, the fair value of the AFS investment securities represents the closing bid price quoted in an active market.

Level 2 assets principally comprise:

- Derivatives held for risk management that are fair valued based on valuation models with the key methodology utilised comprising the calculation of the net present value of a series of expected cash flows, taking into account the different terms of each specific contract/instrument (discounted cash flow approach). These models use as their basis independently sourced market parameters including, for example, interest rate yield curves. Market parameters are either directly observable or are implied from observable instrument prices. The model may perform numerical procedures in respect of pricing such as interpolation when input values do not directly correspond to the most active market trade parameters.

2. Financial risk management - continued

2.7 Fair value measurement - continued

2.7.3.1 Transfers between levels

The Group recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the transfer has occurred.

There were no transfers between Level 1 and Level 2 of the fair value hierarchy during the financial years ended 31 March 2018 and 2017.

2.7.4 Financial instruments not measured at fair value

The following table sets out the fair values of financial instruments not measured at fair value and analyses them by the respective level within the fair value hierarchy into which the respective fair value measurement is categorised. This table includes only financial instruments in respect of which fair value is estimated to be materially different than the carrying amounts.

Group

	Level 1 €000	Level 2 €000	Level 3 €000	Total fair values €000	Total carrying amount €000
As at 31 March 2018					
Assets					
Loans and advances to customers	**-**	**1,149,073**	**-**	**1,149,073**	**1,151,819**
Total financial assets	**-**	**1,149,073**	**-**	**1,149,073**	**1,151,819**
Liabilities					
Subordinated liabilities	**70,309**	**-**	**-**	**70,309**	**66,949**
Total financial liabilities	**70,309**	**-**	**-**	**70,309**	**66,949**
As at 31 March 2017					
Assets					
Loans and advances to customers	-	1,109,807	-	1,109,807	1,124,707
Total financial assets	-	1,109,807	-	1,109,807	1,124,707
Liabilities					
Subordinated liabilities	49,287	-	-	49,287	47,043
Total financial liabilities	49,287	-	-	49,287	47,043

2. **Financial risk management** - continued

2.7 Fair value measurement - continued

2.7.4 Financial instruments not measured at fair value - continued

Bank	**Level 1**	**Level 2**	**Level 3**	**Total fair values**	**Total carrying amount**
	€000	**€000**	**€000**	**€000**	**€000**
As at 31 March 2018					
Assets					
Loans and advances to customers	**-**	**908,997**	**-**	**908,997**	**910,885**
Total financial assets	**-**	**908,997**	**-**	**908,997**	**910,885**
Liabilities					
Subordinated liabilities	**70,309**	**-**	**-**	**70,309**	**66,949**
Total financial liabilities	**70,309**	**-**	**-**	**70,309**	**66,949**
As at 31 March 2017					
Assets					
Loans and advances to customers	-	858,595	-	858,595	871,333
Total financial assets	-	858,595	-	858,595	871,333
Liabilities					
Subordinated liabilities	49,287	-	-	49,287	47,043
Total financial liabilities	49,287	-	-	49,287	47,043

2. Financial risk management - continued

2.7 Fair value measurement - continued

2.7.4 Financial instruments not measured at fair value - continued

The Level 1 fair values reflected in the tables above consist of quoted market prices of debt securities issued which are traded in active markets.

The Level 2 fair value disclosures mainly comprise price quotations in respect of internationally traded loans and advances, consisting of the Group's international loan book with foreign corporates.

The Group's financial instruments not measured at fair value comprise balances with Central Banks, loans and advances to financial institutions and customers, and amounts owed to financial institutions and customers. The fair values of these financial assets and liabilities are not disclosed given that the carrying amount is a reasonable approximation of fair value because these are either re-priced to current market rates frequently or are short-term in nature.

Loans and advances to financial institutions of the Group amounting to €113.6 million (2017: €106.9 million) which represent 100% of all loans and advances to financial institutions (2017: 100%), re-price or mature in less than one year; hence their fair value is not deemed to differ materially from their carrying amount at the reporting date.

Loans and advances to customers forming part of the international lending book of the Group and the Bank amounting to €468 million (2017: €269 million) and €383 million (2017: €235 million), respectively, net of impairment allowances, have not been reflected within the preceding tables. These mainly re-price within three months; hence their fair value is not deemed to differ materially from their carrying amount at the reporting date.

The carrying amount for local loans and advances to customers amounting to €81.5 million (2017: €56.7 million) approximates their fair value because these loans are repriceable at the Group's discretion.

All trade receivables amounting to €2.7 million (2017: €4.5 million) are stated net of specific impairment allowances, within loans and advances to customers. Their fair value is not deemed to differ materially from their carrying amount at the reporting date.

Fair values referred to above are estimated using discounted cash flows, applying market rates. These estimates are considered Level 2 fair value estimates.

The majority of the 'Amounts owed to financial institutions' of the Group and the Bank amounting to €126.4 million (2017: €359.2 million) and €1.0 billion (2017: €1.0 billion), respectively, and 'Amounts owed to customers' of the Group and the Bank amounting to €1.5 billion (2017: €1.6 billion) and €617.2 million (2017: €653.9 million), sourced from the Maltese and Belgian markets, re-price or mature in less than one year; hence their fair value is not deemed to differ materially from their carrying amount at the reporting date. Fair values of these liabilities are estimated using discounted cash flows, applying current rates offered for deposits of similar remaining maturities. These are considered Level 2 fair value estimates. The fair value of a demand deposit is not less than the amount payable on demand, discounted from the first date on which the amount payable is required to be paid.

3. Accounting estimates and judgements

3.1 Critical accounting estimates and judgements in applying the Group's accounting policies

Estimates and judgements are continually evaluated and based on historical experience and other factors including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. These estimates and assumptions present a risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year. The Group's management also makes judgements, apart from those involving estimations, in the process of applying the entity's accounting policies that may have a significant effect on the amounts recognised in the financial statements.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

Information about assumptions, estimations and uncertainties that have a significant risk of resulting in a material adjustment in the year ending 31 March 2018 is set out below in relation to estimated cash flows for the purposes of applying the effective interest method and the impairment of financial instruments.

3.2 Estimated cash flows upon application of the effective interest method

As part of the calculation of the effective interest rate for financial assets and liabilities measured at amortised cost utilising the effective interest method, the Group takes into account the estimated cash flows attributable to the respective financial instrument considering all contractual terms of the instrument (e.g. prepayment, call and similar options), but excluding the impact of future credit losses.

In the case where an instrument gives the issuer the option to require the instrument to be early redeemed or cancelled, and the terms of the instrument are such that it is not certain whether the option will be exercised, the probability of the option being exercised will be assessed in determining the estimated cash flows.

3.3 Impairment losses on loans and advances

Financial assets measured at amortised cost are evaluated for impairment on the basis described in Accounting Policy Note 1.6. Loan impairment allowances represent management's best estimate of losses incurred in the loan portfolios at the balance sheet date. Management is required to exercise judgement in making assumptions and estimates when calculating loan impairment allowances on both individually and collectively assessed loans and advances.

The individual component of the total allowances for impairment applies to financial assets evaluated individually for impairment and is based upon management's best estimate of the present value of the cash flows that are expected to be received. In estimating these cash flows, management makes judgements about a debtor's financial situation and the net realisable value of any underlying collateral. Each impaired asset is assessed on its merits, and the workout strategy and estimate of cash flows considered recoverable are independently approved by the respective subsidiary's Credit Risk Management function.

3. Accounting estimates and judgements - continued

3.3 Impairment losses on loans and advances - continued

For individually assessed loans, judgement is required in determining whether there is objective evidence that a loss event has occurred. In determining whether there is objective evidence that a loss event has occurred, judgement is exercised in evaluating all relevant information on indicators of impairment, including the consideration of whether payments are contractually past-due and the consideration of other factors indicating deterioration in the financial condition and outlook of borrowers affecting their ability to pay. A higher level of judgement is required for loans to borrowers showing signs of financial difficulty in market sectors experiencing economic stress.

The Group might provide loan forbearance to borrowers experiencing financial difficulties by agreeing to modify the contractual payment terms of loans in order to improve the management of customer relationships, maximise collection opportunities or avoid default or repossession. Where forbearance activities are present, higher levels of judgment and estimation uncertainty are involved in determining their effects on loan impairment allowances.

The collective component of the total allowances is established for portfolios of loans and advances with similar credit risk characteristics when there is objective evidence to suggest that they contain impaired items but the individual impaired items cannot yet be identified.

In assessing the need for collective loss allowances, management considers factors such as credit quality, portfolio size, concentrations, and economic factors. To estimate the required allowance, assumptions are made to define the way inherent losses are modelled and to determine the required input parameters, based on historical experience and current economic conditions. The accuracy of the allowances depends on the model assumptions and parameters used in determining the collective allowance.

The estimation methods include the use of statistical analyses of historical information, supplemented with significant management judgement, to assess whether current economic and credit conditions are such that the actual level of incurred losses is likely to be greater or less than historical experience.

The methodology and the assumptions used in calculating impairment losses are reviewed regularly in the light of differences between loss estimates and actual loss experience. Loss rates and the expected timing of future recoveries are regularly benchmarked against actual outcomes to ensure they remain appropriate.

4. Balances with Central Banks and cash

	Group		Bank	
	2018	2017	**2018**	2017
	€000	€000	**€000**	€000
At amortised cost:				
Balances with Central Banks	**103,543**	244,895	**65,414**	49,556
Cash	**196**	299	**196**	299
	103,739	245,194	**65,610**	49,855

Balances held with Central Banks include reserve deposits of the Group relating to the Minimum Reserve Requirement in terms of Regulation (EC) No 1745/2003 of the ECB amounting to €15.3 million, of which €5.9 million relates to the MeDirect Malta (2017: €13.1 million, of which €5.6 million relates to the MeDirect Malta), bearing interest at 0% (2017: 0%) per annum. Overnight deposits with Central Banks amounting to €87.6 million (2017: €227.5 million) and €58.9 million (2017: €39.7 million) of the Group and Bank respectively were subject to a negative interest rate of 0.4% (2017: negative interest rate of 0.4%) per annum.

The group balances with Central Banks also include a balance of €52 thousand (2017: €52 thousand) that is pledged in favour of the Depositor Compensation Scheme ("DCS") in terms of the Depositor Compensation Scheme Regulations (Subsidiary Legislation, 371.09) of the Laws of Malta.

5. Derivative financial instruments

The Group, through MeDirect Malta, established derivative lines with counterparties to purchase interest rate caps, swaps and swaptions, foreign exchange forwards and other appropriate instruments approved for hedging risks.

The Group uses over-the-counter foreign exchange swaps to hedge its exposure to changes in foreign exchange rates. The Group also transacts derivatives to create risk management solutions for clients. This includes the structuring of derivative products to customers to enable them to take, transfer, modify or reduce current or expected risks. As part of this process, the Group considers the customers' suitability in respect of the respective risks involved and the business purpose underlying the transaction. The Group manages these derivative risk positions principally through offsetting derivative transactions with its counterparties.

All foreign exchange swaps mature within 4 months (2017: 12 months) from the reporting date.

The Group uses over-the-counter interest rate swaps to hedge its exposure to changes in the fair values of its fixed rate AFS securities attributable to changes in market interest rates. Interest rate swaps are matched to fixed rate AFS securities in designated fair value hedging transactions. The net loss on the hedging instruments during the year was €2.3 million (2017: €0.9 million). The net gain on the hedged items arising during the year attributable to the hedged risk was €1.9 million (2017: €0.4 million).

5. Derivative financial instruments - continued

Foreign exchange and interest rate swaps are commitments to exchange one set of cash flows for another, resulting in an economic exchange of currencies or interest rates (for example, fixed rate for floating rate). Usually, no exchange of principal takes place. Interest rate swaptions are options granting the right but not the obligation to enter into an underlying swap.

Analysed as follows:

	Group		**Bank**	
	2018	2017	**2018**	2017
	€000	€000	**€000**	€000
Derivative financial assets	**470**	1,627	**3,886**	2,872
Derivative financial liabilities	**(3,581)**	(2,323)	**(3,639)**	(2,732)

The fair values of the held for trading derivatives and derivatives designated as hedging instruments in fair value hedges together with the related notional amounts are as follows:

Group	**Notional 2018**	**Fair value 2018**	Notional 2017	Fair value 2017
	€000	**€000**	€000	€000
Derivatives held for trading – Assets				
Instrument type:				
- Foreign exchange swaps	**62,556**	102	124,379	861
- Other derivative financial instruments		368		-
		470		861
Derivatives held for trading – Liabilities				
Instrument type:				
- Foreign exchange swaps	**320,100**	**(3,133)**	193,325	(2,200)
Net derivatives held for trading		**(2,663)**		(1,339)

5. Derivative financial instruments - continued

Group	Notional 2018 €000	Fair value 2018 €000	Notional 2017 €000	Fair value 2017 €000
Derivatives designated as hedging instruments in fair value hedges – Assets				
Instrument type:				
- Interest rate swaps maturing in				
More than one year and less than five years	**-**	**-**	447,000	650
More than five years	**-**	**-**	45,000	116
		-		766
Derivatives designated as hedging instruments in fair value hedges – Liabilities				
Instrument type:				
- Interest rate swaps maturing in				
More than one year and less than five years	**351,000**	**(300)**	79,000	(123)
More than five years	**45,000**	**(148)**	-	-
		(448)		(123)
Net derivatives designated as hedging instruments in fair value hedges		**(448)**		643

5. Derivative financial instruments - continued

Bank	**Notional 2018 €000**	**Fair value 2018 €000**	Notional 2017 €000	Fair value 2017 €000
Derivatives held for trading – Assets				
Instrument type:				
- Foreign exchange swaps	**408,799**	**3,518**	270,080	2,106
- Other derivative financial instruments		**368**		-
		3,886		2,106
Derivatives held for trading – Liabilities				
Instrument type:				
- Foreign exchange swaps	**388,664**	**(3,191)**	270,293	(2,609)
Net derivatives held for trading		**695**		(503)
Derivatives designated as hedging instruments in fair value hedges – Assets				
Instrument type:				
- Interest rate swaps maturing in				
More than one year and less than five years	**-**	**-**	447,000	650
More than five years	**-**	**-**	45,000	116
		-		766
Derivatives designated as hedging instruments in fair value hedges – Liabilities				
Instrument type:				
- Interest rate swaps maturing in				
More than one year and less than five years	**351,000**	**(300)**	79,000	(123)
More than five years	**45,000**	**(148)**	-	-
		(448)		(123)
Net derivatives designated as hedging instruments in fair value hedges		**(448)**		643

6. Loans and advances to financial institutions

	Group		Bank	
	2018	2017	**2018**	2017
	€000	€000	**€000**	€000
At amortised cost:				
Repayable on call and at short notice	**90,802**	89,438	**83,919**	76,893
Term loans and advances	**22,821**	17,457	**22,821**	17,457
	113,623	106,895	**106,740**	94,350

Loans and advances to financial institutions up to €61 thousand (2017: €68 thousand) are pledged in favour of other banks providing credit card facilities to the Bank's customers.

As at 31 March 2018, an amount of €5.0 million (2017: €5.0 million) has been contributed to a clearing fund held by Eurex Clearing AG, of which the Bank is a member. The clearing fund protects members against losses until they leave the clearing fund.

Loans and advances to financial institutions as at 31 March 2018 and 31 March 2017 were neither past due nor impaired and no forbearance measures were applied by the Group and the Bank in this respect.

7. Loans and advances to customers

	Group		Bank	
	2018	2017	**2018**	2017
	€000	€000	**€000**	€000
At amortised cost:				
Repayable on call and short notice: retail	**4,242**	5,143	**4,242**	5,143
Repayable on call and short notice: corporate	**6,783**	3,446	**6,783**	3,446
Term loans and advances: retail	**4,604**	7,537	**4,604**	7,537
Term loans and advances: corporate	**1,708,725**	1,455,906	**1,381,047**	1,167,737
Gross loans and advances to customers	**1,724,354**	1,472,032	**1,396,676**	1,183,863
Less allowances for impairment				
- Individually assessed allowances	**(16,997)**	(16,928)	**(16,392)**	(16,928)
- Collectively assessed allowances	**(5,641)**	(5,134)	**(4,610)**	(4,203)
	1,701,716	1,449,970	**1,375,674**	1,162,732

MeDirect Malta set up a controlled special purpose entity to grant loans and advances to customers. As risks and rewards are deemed to have been retained by MeDirect Malta, term loans and advances to customers amounting to €1.1 billion (2017: €758.3 million) pertaining to the controlled special purpose entity are recognised on the Group's and Bank's statement of financial position. Further information on the loans and advances pertaining to the controlled special purpose entity is reflected within Note 17.

As at 31 March 2018, the acquisition of €118.3 million (2017: €108.9 million) of the Group's and €118.3 million (2017: €97.5 million) of the Bank's "Term loans and advances to customers: corporate" was contracted but beneficial ownership was not yet transferred.

There were no disposals of loans and advances as at 31 March 2018 and 2017 which were contracted but in respect of which instruments' beneficial ownership was not yet transferred.

7. Loans and advances to customers - continued

Gross loans and advances to customers of the Group and the Bank amounting to €76.3 million (2017: €64.3 million) and €68.2 million (2017: €64.3 million) respectively were deemed to be impaired. Specific impairment allowances recorded on the Group's loans and advances to customers amounted to €17.0 million (2017: €16.9 million), whereas €16.4 million (2017: €16.9 million) were recorded on the Bank's loans and advances to customers.

The aggregate amount of impaired loans and advances of the Group and the Bank on which interest is reserved is €15.6 million (2017: €16.3 million) gross of impairment allowances against which €4.0 million (2017: €5.4 million) is being provided for after taking into account the extendible value of security backing such loans and advances. Interest in suspense as at the end of the reporting period amounted to €4.0 million (2017: €3.5 million).

	Group		Bank	
	2018	2017	**2018**	2017
	€000	€000	**€000**	€000
Specific allowances for impairment				
At beginning of year as previously stated	**16,928**	12,369	**16,928**	4,723
Impact of merger (Note 38)	**-**	-	**-**	7,646
At beginning of year as restated	**16,928**	12,369	**16,928**	12,369
Exchange differences	**(899)**	318	**(899)**	318
Impairment allowances (Note 27)	**968**	4,241	**363**	4,241
At end of year	**16,997**	16,928	**16,392**	16,928
Collective allowances for impairment				
At beginning of year as previously stated	**5,134**	4,439	**4,203**	1,901
Impact of merger (Note 38)	**-**	-	**-**	696
At beginning of year as restated	**5,134**	4,439	**4,203**	2,597
Impairment allowances (Note 27)	**507**	695	**407**	1,606
At end of year	**5,641**	5,134	**4,610**	4,203
Total allowances for impairment	**22,638**	22,062	**21,002**	21,131

Loans and advances amounting to €6.8 million have been written off during the current financial year in view of a debt restructuring. Specific impairment allowances amounting to €5.8 million had been recognised in respect of these loans and advances.

8. Investments

	Group		Bank	
	2018	2017	**2018**	2017
	€000	€000	**€000**	€000
Available-for-sale investments	**560,245**	698,474	**483,278**	647,004

8. Investments - continued

Available-for-sale investments

	Group		Bank	
	2018	2017	**2018**	2017
	€000	€000	**€000**	€000
Debt securities and other fixed income securities				
Issued by public bodies				
- local government	**7,022**	7,097	**7,022**	7,097
- foreign national and regional governments	**67,256**	42,063	**21,354**	21,789
- supranationals	**248,220**	156,985	**227,270**	135,893
Issued by other bodies				
- foreign banks	**237,747**	446,088	**227,632**	435,984
- other foreign issuers	**-**	46,241	**-**	46,241
	560,245	698,474	**483,278**	647,004
Listing status				
- listed on the Malta Stock Exchange	**7,022**	7,097	**7,022**	7,097
- listed on other recognised exchanges	**553,223**	691,377	**476,256**	639,907
	560,245	698,474	**483,278**	647,004

	Group		Bank	
	2018	2017	**2018**	2017
	€000	€000	**€000**	€000
Year ended 31 March				
At beginning of year	**698,474**	872,415	**647,004**	842,186
Additions	**25,717**	26,939	**-**	5,818
Disposal/Redemptions	**(154,469)**	(193,076)	**(154,469)**	(193,076)
Gains on hedged items attributable to the hedged risk	**1,917**	444	**1,917**	444
Amortisation of premium/discount	**(12,496)**	(15,566)	**(12,296)**	(15,450)
Exchange differences	**(128)**	(1,156)	**(128)**	(1,156)
Changes in fair value	**1,230**	8,474	**1,250**	8,238
At end of year	**560,245**	698,474	**483,278**	647,004

No objective evidence of specific impairment was identified on investments during the financial years ended 31 March 2018 and 31 March 2017.

The majority of the investment securities of the Group and the Bank are pledged as collateral with Eurex against the provision of borrowing facilities (Note 17), except for investments amounting to €324 million (2017: €343 million) which are free and unencumbered securities as at 31 March 2018.

8. **Investments** - continued

As at 31 March 2018, investment securities held by the Bank with a nominal value of €5.3 million (2017: €5.8 million) and a fair value of €5.5 million (2016: €5.9 million) are pledged in favour of the DCS.

The cash value of unutilised borrowing facilities (headroom) of the Group and the Bank which are secured by investment securities amounted to €448.4 million as at 31 March 2018 (2017: €312.5 million).

As at 31 March 2018 and 31 March 2017, the Group and the Bank had no commitment to purchase further investment securities.

9. Investment in subsidiaries

Name of subsidiary	Country of incorporation	Nature of business	Equity interest 2018	Equity interest 2017	Carrying amount 2018	Carrying amount 2017
			%	%	**€000**	€000
MeDirect Bank SA	Belgium	Banking	**100**	100	**225,000**	180,000
Medifin Estates (partnership)	Malta	Operating lease of branches	**97**	97	**1**	1
					225,001	180,001

	2018	2017
	€000	€000
Year ended 31 March		
At beginning of year as previously stated	**180,001**	187,715
Impact of merger (Note 38)	**-**	(57,714)
At beginning of year as restated	**180,001**	130,001
Further issue of shares by subsidiary	**45,000**	50,000
At end of year	**225,001**	180,001

9. Investment in subsidiaries - continued

On 11 April 2014, MeDirect Malta entered into an agreement to acquire 100% of the share capital of Volksbank Malta Limited ("Volksbank"). Following regulatory approval by the MFSA, on 25 September 2014, MeDirect Malta acquired 100% of the share capital of Volksbank for a cash consideration of €35.3 million. Volksbank was subsequently re-named Mediterranean Corporate Bank Limited ("MedCorp").

The fair value of identifiable net assets acquired amounted to €57.7 million with the difference of €22.4 million being accounted for in profit or loss within the Group's consolidated financial statements and through other comprehensive income in the Bank's stand-alone financial statements under the Bank's previous accounting policy in respect of accounting for investments in subsidiaries in the Bank's stand-alone financial statements.

On 21 November 2016, MeDirect Malta announced that the board of directors of MeDirect Malta and MedCorp have each voted to merge MedCorp into MeDirect Malta, subject to receipt of all applicable regulatory approvals and completion of all legal requirements. With effect from 1 April 2017, the merger between MeDirect Malta and MedCorp became effective for accounting purposes. Thus all the transactions of MedCorp have been treated as being those of MeDirect Malta with effect from 1 April 2017 (refer to Note 38). The Bank's stand-alone comparative financial information has been restated to reflect the financial results and financial position of MedCorp as if the merger had already taken place as at 1 April 2016.

MeDirect Bank S.A. ("MeDirect Belgium") was incorporated on 16 June 2014 and was authorised as a Belgian credit institution on 1 June 2015. As part of that process, assets and liabilities with a net carrying amount of €80 million attributable to MeDirect Malta's former Belgian branch were contributed to MeDirect Belgium which is carrying out all of the Group's activities in Belgium. The Bank initially transferred net assets amounting to €80 million as outlined above and further transferred loan portfolios with carrying amount of €100 million. During the year ended 31 March 2018 MeDirect Malta injected a further €45 million (2017: €50 million) into MeDirect Belgium to sustain further growth.

Medifin Estates is a partnership set up on 5 June 2012. This partnership enters into operating leases for property to be used as offices and branches which are then leased to the Bank.

10. Property and equipment

Group	Improvements to premises €000	Computer equipment €000	Other equipment €000	Fixtures and fittings €000	Motor vehicles €000	Total €000
As at 1 April 2016						
Cost	1,263	2,406	234	1,512	163	5,578
Accumulated depreciation	(1,148)	(2,008)	(228)	(1,123)	(148)	(4,655)
Net book amount	115	398	6	389	15	923
Year ended 31 March 2017						
At beginning of year	115	398	6	389	15	923
Additions	-	7	-	-	-	7
Depreciation for the year	(35)	(362)	(3)	(118)	(10)	(528)
At end of year	80	43	3	271	5	402
As at 31 March 2017						
Cost	1,263	2,413	234	1,512	163	5,585
Accumulated depreciation	(1,183)	(2,370)	(231)	(1,241)	(158)	(5,183)
Net book amount	80	43	3	271	5	402
Year ended 31 March 2018						
At beginning of year	80	43	3	271	5	402
Additions	398	111	142	402	-	1,053
Disposals	(1,136)	(2,266)	(220)	(757)	(21)	(4,400)
Depreciation for the year	(35)	(35)	(6)	(96)	(5)	(177)
Depreciation released on disposals	1,119	2,253	217	735	21	4,345
At end of year	**426**	**106**	**136**	**555**	**-**	**1,223**
As at 31 March 2018						
Cost	525	258	156	1,157	142	2,238
Accumulated depreciation	(99)	(152)	(20)	(602)	(142)	(1,015)
Net book amount	**426**	**106**	**136**	**555**	**-**	**1,223**

10. **Property and equipment** - continued

Bank	**Improvements to premises €000**	**Computer equipment €000**	**Other equipment €000**	**Fixtures and fittings €000**	**Motor vehicles €000**	**Total €000**
As at 1 April 2016						
Cost	1,111	2,289	234	1,330	224	5,188
Accumulated depreciation	(1,009)	(1,960)	(228)	(998)	(209)	(4,404)
Net book amount	102	329	6	332	15	784
Year ended 31 March 2017						
At beginning of year as previously stated	102	329	6	332	15	784
Impact of merger (Note 38)	13	30	-	8	-	51
At beginning of year as restated	115	359	6	340	15	835
Additions	-	7	-	-	-	7
Depreciation for the year	(35)	(341)	(3)	(106)	(10)	(495)
At end of year	80	25	3	234	5	347
As at 31 March 2017						
Cost	1,111	2,296	234	1,330	224	5,195
Accumulated depreciation	(1,031)	(2,271)	(231)	(1,096)	(219)	(4,848)
Net book amount	80	25	3	234	5	347
Year ended 31 March 2018						
At beginning of year	80	25	3	234	5	347
Additions	398	111	142	402	-	1,053
Disposals	(984)	(2,222)	(220)	(664)	(82)	(4,172)
Depreciation for the year	(35)	(20)	(6)	(85)	(4)	(150)
Depreciation released on disposals	967	2,208	217	643	81	4,116
At end of year	**426**	**102**	**136**	**530**	**-**	**1,194**
As at 31 March 2018						
Cost	525	185	156	1,068	142	2,076
Accumulated depreciation	(99)	(83)	(20)	(538)	(142)	(882)
Net book amount	**426**	**102**	**136**	**530**	**-**	**1,194**

The Group and Bank operate from seven and six immovable properties respectively which are held under operating lease agreements (see Note 31).

There were no capitalised borrowing costs related to the acquisition of property and equipment during the year (2017: nil).

There was no property and equipment not put in use as at the reporting date.

11. Intangible assets

	Group		Bank	
	2018	2017	**2018**	2017
	€000	€000	**€000**	€000
Computer software				
As at beginning of year				
Cost	**1,856**	1,856	**1,778**	1,778
Accumulated amortisation	**(1,852)**	(1,829)	**(1,776)**	(1,770)
Net book amount	**4**	27	**2**	8
Year ended 31 March				
At beginning of year	**4**	27	**2**	8
Additions	**2,559**	-	**2,559**	-
Disposals	**(301)**	-	**(296)**	-
Amortisation for the year	**(82)**	(23)	**(81)**	(6)
Amortisation released on disposals	**315**	-	**311**	-
At end of year	**2,495**	4	**2,495**	2
As at end of year				
Cost	**4,114**	1,856	**4,041**	1,778
Accumulated amortisation	**(1,619)**	(1,852)	**(1,546)**	(1,776)
Net book amount	**2,495**	4	**2,495**	2

Capitalised staff costs included with “Additions” in the table above amount to €1.7 million (2017: nil). Amortisation of amounts capitalised of €1.5 million had not yet commenced by the end of the reporting period.

There were no capitalised borrowing costs related to the acquisition of software during the year (2017: nil).

12. Non-current assets classified as held for sale

As at 31 March 2018, the fair value of assets acquired in satisfaction of debt amounted to €1.8 million (2017: €1.8 million).

Repossessed properties are made available for sale in an orderly fashion, with the proceeds used to reduce or repay the outstanding indebtedness. The Group does not generally occupy repossessed properties for its business use. Repossessed properties consist mainly of immovable property that had been pledged as collateral by customers.

13. Deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Group		Bank	
	2018	2017	**2018**	2017
	€000	€000	**€000**	€000
Assets				
Property and equipment	**15**	24	**15**	24
Available-for-sale securities and derivative financial instruments	**944**	1,396	**997**	1,464
Unutilised tax losses	**3,076**	4,141	**-**	-
Unutilised notional interest deduction	**2,846**	-	**2,846**	-
Impairment allowances	**9,223**	8,617	**8,740**	8,617
Net deferred tax assets	**16,104**	14,178	**12,598**	10,105

The Group's and Bank's deferred tax asset presented within the statement of financial position on a gross basis amounted to €16.1 million (2017: €14.2 million) and €12.6 million (2017: €10.1 million), respectively.

Notional interest deduction rules have recently been introduced for Maltese corporate income tax purposes and apply to the Group with effect from the financial year ended 31 March 2017. Under these amended tax rules Maltese entities may claim a deduction of notional interest computed by reference to risk capital and a benchmark interest rate.

Excess notional interest deduction which cannot be utilised against chargeable income for the respective financial year can be carried forward and added to the notional interest deduction for the following financial year. Unutilised notional interest deduction does not have an expiry date. A deferred tax asset is recognised in respect of unutilised notional interest deduction only to the extent that it is probable that sufficient future taxable profits will be available against which the unutilised deduction can be used.

The recognised deferred tax assets are expected to be recovered or settled principally after more than 12 months from the end of the reporting period, with the exception of the deferred tax asset attributable to unutilised notional interest deduction which is expected to be recovered within 12 months from the reporting date. Unutilised tax losses have no expiry date and can be carried forward indefinitely.

13. Deferred tax assets and liabilities - continued

Movements in deferred tax during the year:

	Balance at beginning of year €000	Recognised in profit or loss €000	Recognised in other comprehensive income €000	Balance at end of year €000
Group				
Year ended 31 March 2018				
Property and equipment	24	(9)	-	15
Available-for-sale securities and derivative financial instruments	1,396	(44)	(408)	944
Unutilised tax losses	4,141	(1,065)	-	3,076
Unutilised notional interest deduction	-	2,846	-	2,846
Impairment allowances	8,617	606	-	9,223
	14,178	**2,334**	**(408)**	**16,104**
Year ended 31 March 2017				
Property and equipment	(66)	90	-	24
Available-for-sale securities and derivative financial instruments	4,077	-	(2,681)	1,396
Unutilised tax losses	4,163	(22)	-	4,141
Impairment allowances	6,826	1,791	-	8,617
	15,000	1,859	(2,681)	14,178

	Balance at beginning of year as previously stated €000	Impact of merger €000	Balance at beginning of year as restated €000	Recognised in profit or loss €000	Recognised in other comprehensive income €000	Balance at end of year €000
Bank						
Year ended 31 March 2018						
Property and equipment	24	-	24	(9)	-	15
Available-for-sale securities and derivative financial instruments	1,464	-	1,464	(44)	(423)	997
Unutilised notional interest deduction	-	-	-	2,846	-	2,846
Impairment allowances	8,617	-	8,617	123	-	8,740
	10,105	**-**	**10,105**	**2,916**	**(423)**	**12,598**
Year ended 31 March 2017						
Property and equipment	(66)	2	(64)	88	-	24
Available-for-sale securities and derivative financial instruments	4,064	-	4,064	-	(2,600)	1,464
Impairment allowances	2,319	3,880	6,199	2,418	-	8,617
	6,317	3,882	10,199	2,506	(2,600)	10,105

14. Prepayments and accrued income

	Group		Bank	
	2018	2017	**2018**	2017
	€000	€000	**€000**	€000
Prepayments	**2,290**	2,308	**2,140**	2,181
Accrued income	**15,878**	16,830	**14,682**	14,604
	18,168	19,138	**16,822**	16,785

15. Other assets

	Group		Bank	
	2018	2017	**2018**	2017
	€000	€000	**€000**	€000
Amount receivable from:				
- immediate parent company	**844**	8,686	**844**	8,686
- ultimate parent company	**275**	240	**275**	240
- subsidiary company	**-**	-	**457**	4,503
- other related companies	**13,846**	15,114	**13,846**	15,114
Deferred customer contract costs	**1,075**	-	**-**	-
Other assets	**470**	1,193	**376**	255
	16,510	25,233	**15,798**	28,798

Amounts receivable from immediate parent company, ultimate parent company, subsidiary and other related companies are unsecured, interest free and repayable on demand. However, the repayment of amounts receivable from other related companies is not expected within the next twelve months. No impairment indicators existed in respect of these assets at 31 March 2018 and 2017.

16. Capital and reserves

Share capital

	2018	2017
	No.	No.
Authorised:		
Ordinary 'A' shares of €1 each	**299,999,999**	299,999,999
Ordinary 'B' shares of €1 each	**1**	1
	300,000,000	300,000,000
Issued and fully paid up:		
Ordinary 'A' shares	**117,450,106**	117,450,106
Ordinary 'B' shares	**1**	1
	117,450,107	117,450,107

Rights and entitlements attached to ordinary shares

The holders of Ordinary 'A' shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at general meetings of the Bank. Ordinary 'B' shareholders are not entitled to vote and do not carry any dividend entitlement. The holders of the Ordinary 'A' shares and the holders of the Ordinary 'B' shares shall be equally entitled to receive notice of general meetings of the Company.

16. Capital and reserves - continued

Share premium

Share premium as at the reporting date represents the issue of shares in prior periods as follows:

Issue date	Number of shares	Premium per share €	Share premium 2018 €000	Share premium 2017 €000
10 August 2010	10,000,000	0.9155	**9,155**	9,155
29 September 2010	19,119,470	0.2254	**4,309**	4,309
			13,464	13,464

Shareholders' contributions

By virtue of board resolutions dated 29 September 2017, 1 November 2017, 7 November 2017 and 29 March 2018 MeDirect Malta accepted capital contributions from MDB Group Limited amounting to €8.2 million, €12.0 million, €55.4 million and €10.9 million respectively.

The terms and conditions of the contributions granted render these instruments equity in nature in accordance with the requirements of IAS 32: Financial Instruments - Presentation:

- The Bank has no obligation to bear any servicing cost or transfer any economic benefits of any kind to the Contributor or any other person in return; and

- The Bank has no obligation to repay the contributions.

The contributions are also eligible as own funds in terms of the Capital Requirements Regulation.

Reserve for general banking risks

Banking Rule ("BR") 09 issued by the MFSA requires banks in Malta to hold additional reserves for general banking risks in respect of non-performing loans. This reserve is required to be funded from retained earnings. As at 31 March 2018, the reserve for general banking risks of the Group and the Bank was equivalent to €1.7 million (2017: €1.7 million). This reserve, which is distributable subject to the formal consent of the Banking Regulator, represents 100% of the regulatory allocation by virtue of paragraph 38 of the Banking Rule.

Other reserves

Fair value reserve

The fair value reserve of the Group and the Bank amounting to negative €1.8 million (2017: negative €2.6 million) and negative €1.9 million (2017: negative €2.7 million), respectively, is attributable to the cumulative net change in the fair value of available-for-sale investments, excluding impairment losses, until the investment is derecognised, net of deferred taxation.

Other reserve

The other reserve of the Group and the Bank is €0.1 million (2017: €0.1 million) and €7.4 million (2017: €22.4 million), respectively. The difference between the purchase consideration of €35.3 million upon acquisition of MedCorp and the fair value of the identifiable net assets acquired of €57.5 million, amounting to €22.4 million, had been reflected within other comprehensive income, as a fair value reserve, in the Bank's stand-alone financial statements for preceding financial

16. Capital and reserves - continued

years in view of the Bank's previous accounting policy whereby investments in subsidiaries were treated as available-for-sale investments within the stand-alone financial information. Upon the merger of MedCorp into MeDirect Malta, this reserve was categorised as an other reserve comprising an adjustment to equity arising on merger (Note 38), rather than a fair value reserve. A portion of this reserve has been treated as realised, and reclassified to retained earnings, reflecting the proportion of the difference arising on acquisition referred to above, which is linked to underlying net assets which would have been realised in the meantime.

All reserves at the reporting date, except for the Bank's retained earnings and shareholders' contributions, are non-distributable.

Dividends

At an extraordinary general meeting held on 23 March 2018, the Bank approved an interim dividend of €10 million amounting to €8.5 cents per ordinary share. The directors of the Bank do not propose any final dividends for distribution.

17. Amounts owed to financial institutions

	Group		**Bank**	
	2018	2017	**2018**	2017
	€000	€000	**€000**	€000
Repayable on call and at short notice	**21,428**	19,183	**21,423**	19,204
Term deposits	**105,000**	340,000	**997,659**	984,161
	126,428	359,183	**1,019,082**	1,003,365

An amount of €105 million (2017: €340 million) from the Group's and Bank's term deposits are secured by a pledge over MeDirect Malta's investments (refer to Note 8).

Throughout the preceding financial year, the MeDirect Malta Group started utilising the GH I structure again as MeDirect Malta and MeDirect Belgium transferred a portfolio of syndicated senior secured loans to GH I. GH I was funded through two intragroup loan facilities subscribed to by MeDirect Malta and MeDirect Belgium that would lead to a transfer of risk from MeDirect Belgium to MeDirect Malta, without however changing MeDirect Malta Group's overall risk on a consolidated basis. MeDirect Belgium and MeDirect Malta invested in GH I on a 78% - 22% basis (2017: 69% - 31% basis) with the tranche bought by MeDirect Belgium (the "Senior Loan") having a senior ranking vis-à-vis the facility taken up by MeDirect Malta (the "Junior Loan"). These facilities were uncommitted and unless previously repaid these loans should be repaid by not later than the expiry of a 10 year period from grant date.

The Senior Interest Rate on each Senior Loan is the aggregate of a 2.5% margin (2017: 2% margin) and the one-month EURIBOR (save for the first interest period where the aggregate of a 2% margin and the three month EURIBOR applies). The interest payable by GH I to MeDirect Malta in relation to the Junior Loans is equal to the difference between:
(i) the amount of accounting profits realised by GH I, Senior Loan repayments and reserves for any given period; and
(ii) an amount equal to 0.05 per cent per annum of the average of the starting point balance plus the ending point balance of the then outstanding collateral.

17. Amounts owed to financial institutions - continued

MeDirect Malta has retained substantially the principal risks and rewards pertaining to the loan portfolio transferred to GH I, which accordingly continues to be recognised within MeDirect Malta's statement of financial position. The principal risks and rewards attributable to the loan portfolio transferred by MeDirect Belgium to GH I has shifted to MeDirect Malta in view of the arrangement reflected above, giving rise to recognition of this portfolio on MeDirect Malta's statement of financial position with an equivalent financial liability owed to MeDirect Belgium. This financial liability is included in the Bank's term deposits with financial institutions and was equivalent to €893 million as at 31 March 2018 (2017: €474 million). The term loans and advances to customers recognised on the Group's and Bank's statement of financial position are disclosed in Note 7.

18. Amounts owed to customers

	Group		Bank	
	2018	2017	**2018**	2017
	€000	€000	**€000**	€000
Repayable on call and at short notice	**477,735**	482,916	**350,212**	372,241
Term deposits	**1,501,424**	1,418,596	**491,715**	500,468
	1,979,159	1,901,512	**841,927**	872,709

19. Subordinated liabilities

	Group and Bank	
	2018	2017
	€000	€000
Year ended 31 March		
At beginning of year	**47,043**	47,380
Debt securities issued	**20,000**	-
Foreign exchange differences	**(106)**	(481)
Transaction costs incurred	**(87)**	-
Transaction costs amortised to profit or loss	**99**	144
At end of year	**66,949**	47,043
Analysed as follows:		
7.5% Subordinated Bonds 2019	**22,276**	22,341
6% Subordinated Unsecured Bonds 2019 - 2024	**24,745**	24,702
5% Subordinated Unsecured Bonds 2022 - 2027	**19,928**	-
	66,949	47,043

During June 2013, MeDirect Malta issued an additional euro equivalent of €10 million of 7.50% Subordinated Bonds due to mature in December 2019. The debt securities are unsecured, mature on 30 December 2019 and are listed on the Malta Stock Exchange. Interest payable on these bonds is fixed at 7.5% per annum (effective interest rate of 7.6%) and the bonds are redeemable at their nominal value. During December 2013 these subordinated bonds were merged with the euro equivalent of €12.5 million bonds that were originally issued on 21 November 2012.

19. Subordinated liabilities - continued

On 3 November 2014, MeDirect Malta announced the issue of €15 million 6% Subordinated Unsecured Bonds maturing on 28 November 2024 with a November 2019 early redemption option held by the issuer. These bonds were issued in euro and pound sterling. The interest payable is fixed at 6% (effective interest rate 6.23%) and the bonds are redeemable at their nominal value. This was increased to a euro equivalent of €25 million as a result of an over subscription. As a result of MeDirect Malta's allotment methodology, MeDirect Malta issued £1.4 million (equivalent to €1.7 million) for bonds in pound sterling and euro bonds amounting to €23.3 million. Interest on these bonds commenced on 28 November 2014.

On 16 October 2017, MeDirect Malta announced the basis of acceptance for the issue of Euro equivalent of €20 million 5% Subordinated Unsecured Bonds 2027 ("the Bonds"). In terms of the Prospectus, the Bonds were available for subscription in the Intermediaries' Offer which was held on 13 October 2017. Amounts subscribed for by Authorised Financial Intermediaries amounted to £1.2 million (equivalent to €1.3 million) and €18.7 million for the GBP Bonds and EUR Bonds respectively. Interest on the Bonds commenced on 13 October 2017. The Bonds were admitted to listing on the Official List of the Malta Stock Exchange on 20 October 2017 and are redeemable in 2027 with a 2022 early redemption option held by the issuer.

The above liabilities will, in the event of the winding up of the issuer, be subordinated to the claims of depositors and all other creditors of the issuer. The Bank has not had any defaults of interest or other breaches with respect to its subordinated debt securities during the years ended 31 March 2018 and 31 March 2017. As at 31 March 2018, the euro equivalent contractual amount due at maturity is €67.2 million (2017: €47.2 million). The carrying amount of the subordinated debt securities in issue is €0.2 million (2017: €0.2 million) lower than the contractual amount due at maturity.

20. Accruals and deferred income

	Group		Bank	
	2018	2017	**2018**	2017
	€000	€000	**€000**	€000
Accrued interest expense	**5,770**	6,202	**4,921**	5,814
Other accrued expenses	**6,985**	5,805	**5,026**	4,130
Deferred income	**21,511**	18,421	**21,511**	18,421
	34,266	30,428	**31,458**	28,365

21. Other liabilities

	Group		Bank	
	2018	2017	**2018**	2017
	€000	€000	**€000**	€000
Amounts due to immediate parent company	**449**	4	**449**	4
Amounts due to related party	**4,366**	3,180	**4,366**	3,180
Amounts due to subsidiary	**-**	-	**29,830**	29,696
Indirect taxes payable	**1,062**	875	**613**	286
Other liabilities	**8,492**	2,849	**8,007**	1,234
	14,369	6,908	**43,265**	34,400

Amounts due to immediate parent company, related party and subsidiary are unsecured, interest free and repayable on demand.

22. Net interest income

	Group		Bank	
	2018	2017	**2018**	2017
	€000	€000	**€000**	€000
Interest income				
Loans and advances to financial institutions	**(277)**	(192)	**(275)**	(195)
Loans and advances to customers	**93,701**	91,331	**81,208**	55,271
Loans and advances to subsidiary company	**-**	-	**228**	99
Investment securities	**(2,589)**	(1,276)	**(2,407)**	(1,180)
Total interest income	**90,835**	89,863	**78,754**	53,995
Interest expense				
Amounts owed to financial institutions	**1,791**	1,349	**15,022**	933
Amounts owed to customers	**22,386**	27,686	**12,727**	15,862
Subordinated liabilities	**3,725**	3,264	**3,725**	3,264
Total interest expense	**27,902**	32,299	**31,474**	20,059
Net interest income	**62,933**	57,564	**47,280**	33,936

An amount of €2.9 million (2017: €2.6 million) and €2.5 million (2017: €2.4 million) in respect of the Group and the Bank respectively relating to impaired financial assets is included within interest income from loans and advances to customers for the year ended 31 March 2018.

Fair value losses of €2.3 million (2017: €0.9 million) arising on derivatives designated in fair value hedge relationships and €1.9 million (2017: €0.4 million) representing net increases in the fair value of the hedged items attributable to the hedged risk are included within the Group's and Bank's interest income. These hedging relationships comprise interest rate swaps hedging interest rate risk on fixed rate available-for-sale debt securities. The gains and losses are reflected within interest income arising from investment securities, where interest income on the hedged items is presented.

	Group and Bank	
	2018	2017
	€000	€000
Losses on hedging instruments	**(2,256)**	(941)
Gains on hedged items attributable to the hedged risk	**1,917**	444
Net losses representing ineffective portion of fair value hedges	**(339)**	(497)

23. Net fee and commission income

	Group		Bank	
	2018	2017	**2018**	2017
	€000	€000	**€000**	€000
Fee and commission income				
Corporate secured lending fee income	**141**	711	**141**	601
Banking transactions fee income	**2,085**	1,256	**2,067**	1,246
Investment services fees	**3,556**	2,426	**1,688**	1,435
Total fee and commission income	**5,782**	4,393	**3,896**	3,282
Fee and commission expense				
Corporate secured lending fee expense	**244**	282	**155**	165
Banking transactions fee expense	**218**	272	**180**	243
Investment services transaction and custody fees	**1,011**	1,034	**664**	587
Other fee expense	**84**	64	**76**	64
Total fee and commission expense	**1,557**	1,652	**1,075**	1,059
Net fee and commission income	**4,225**	2,741	**2,821**	2,223

The Group's and the Bank's net fee and commission income excludes income and expenses that form an integral part of the effective interest rate on financial assets and financial liabilities that are not at fair value through profit or loss, but includes income of €0.1 million (2017: €0.7 million) and expenses of €0.2 million (2017: €0.3 million) relating to such financial assets and liabilities.

24. Net trading income and other operating income

24.1 Net trading income

	Group		Bank	
	2018	2017	**2018**	2017
	€000	€000	**€000**	€000
Net income from foreign exchange activities	**4,003**	2,008	**3,907**	1,956
Net (expense)/income from held for trading financial instruments	**(74)**	170	**(74)**	170
	3,929	2,178	**3,833**	2,126

24. Net trading income and other operating income - continued

24.2 Realised gains on disposal of other investments

	Group		Bank	
	2018	2017	**2018**	2017
	€000	€000	**€000**	€000
Available-for-sale investments	**43**	800	**43**	800

24.3 Other income

	Group		Bank	
	2018	2017	**2018**	2017
	€000	€000	**€000**	€000
Others	**11**	14	**11**	14

25. Personnel expenses

Personnel expenses incurred, including directors' remuneration and emoluments, are analysed as follows:

	Group		Bank	
	2018	2017	**2018**	2017
	€000	€000	**€000**	€000
Directors' emoluments				
- salaries	**2,924**	2,760	**1,904**	1,818
- defined contribution social security costs	**117**	115	**31**	33
- fees	**457**	344	**327**	314
- other emoluments	**27**	50	**27**	50
Staff costs				
- salaries	**14,675**	12,182	**10,864**	10,759
- defined contribution social security costs	**1,064**	1,143	**944**	979
- other emoluments	**67**	452	**66**	15
Staff costs capitalised within Intangible Assets (Note 11)	**(1,738)**	-	**(1,738)**	-
	17,593	17,046	**12,425**	13,968

25. Personnel expenses - continued

As per above, salary costs amounted to €17.6 million (2017: €14.9 million) and €12.8 million (2017: €11.5 million) for the Group and Bank respectively, with the Group's and Bank's variable remuneration accounting for 14% (2017: 14%) and 18% (2017: 16%) respectively of these amounts.

The weekly average number of persons employed during the year, including executive directors, was as follows:

	Group		Bank	
	2018	2017	**2018**	2017
	No.	No.	**No.**	No.
Executive and senior management	**16**	17	**15**	14
Other managerial, supervisory and clerical	**266**	227	**242**	189
Other	**14**	16	**14**	16
	296	260	**271**	219

The number of persons employed as at the reporting date, including executive directors, was as follows:

	Group		Bank	
	2018	2017	**2018**	2017
	No.	No.	**No.**	No.
Management and administration	**310**	276	**284**	235

26. Other administrative expenses

Other administrative expenses are analysed as follows:

	Group		Bank	
	2018	2017	**2018**	2017
	€000	€000	**€000**	€000
Operating lease charges (Note 31)	**6,363**	5,486	**3,881**	3,239
IT support and telecommunication costs	**4,392**	3,559	**2,558**	2,343
Legal and professional expenses	**5,126**	3,455	**3,319**	2,137
Regulatory expenses	**3,330**	3,261	**1,170**	1,820
Indirect taxation	**3,666**	2,246	**2,153**	1,542
Other expenses	**7,115**	7,156	**3,366**	2,680
	29,992	25,163	**16,447**	13,761

26. Other administrative expenses - continued

Included in other administrative expenses are fees charged by the Group's independent auditors for the year as follows:

	Group		Bank	
	2018	2017	**2018**	2017
	€000	€000	**€000**	€000
Audit services	**425**	165	**165**	131
Other assurance services	**36**	56	**36**	50
Tax advisory services	**63**	33	**63**	30
Other non-audit services	**382**	344	**587**	203

Other assurance services comprise mainly reviews of interim financial information and assurance reports in respect of increases in CET 1 capital. Other non-audit services consist of regulatory advisory services in respect of the Group's compliance with elements of the regulatory framework it is exposed to and in respect of submissions to the regulatory authorities. These non-audit services have no linkage whatsoever to audited financial statements.

27. Net impairment charges

	Group		Bank	
	2018	2017	**2018**	2017
	€000	€000	**€000**	€000
Write-downs				
Loans and advances to customers				
- specific impairment allowances (Note 7)	**7,160**	6,489	**6,555**	6,489
- collective impairment allowances (Note 7)	**5,641**	5,134	**4,610**	4,203
- bad debts written off (Note 7)	**6,827**	671	**6,827**	671
Reversals of write-downs				
Loans and advances to customers				
- specific impairment allowances (Note 7)	**(6,192)**	(2,248)	**(6,192)**	(2,248)
- collective impairment allowances (Note 7)	**(5,134)**	(4,439)	**(4,203)**	(2,597)
Net impairment charges	**8,302**	5,607	**7,597**	6,518

28. Taxation

	Group		Bank	
	2018	2017	**2018**	2017
	€000	€000	**€000**	€000
Current tax expense/(income)				
- current year tax charge	**1,275**	5,232	**1,157**	5,222
- overprovision of tax in preceding financial year attributable to application of notional interest deduction	**(4,391)**	-	**(4,391)**	-
Deferred tax (Note 13)	**(2,334)**	(1,859)	**(2,916)**	(2,506)
Income tax (credit)/expense	**(5,450)**	3,373	**(6,150)**	2,716

28. **Taxation** - continued

The tax recognised in profit or loss on the Group's and the Bank's profit before tax differs from the theoretical amount that would arise using the applicable tax rate in Malta, which is the Bank's country of incorporation, as follows:

	Group		Bank	
	2018	2017	**2018**	2017
	€000	€000	**€000**	€000
Profit before tax	**14,095**	18,524	**16,224**	7,898
Tax at the applicable rate of 35%	**4,933**	6,483	**5,678**	2,764
Tax effect of:				
Non-deductible expenses	**14**	30	**3**	24
Losses on sale of loans by subsidiary reversed on consolidation	**-**	(2,541)	**-**	-
Impact of new notional interest deduction rules attributable to the Bank (Note 13)	**(11,786)**	-	**(11,786)**	-
Notional interest deduction attributable to the subsidiary	**-**	(507)	**-**	-
Impact on deferred tax of changes in tax rates in Belgium	**1,353**	-	**-**	-
Others	**36**	(92)	**(45)**	(72)
Income tax (credit)/expense	**(5,450)**	3,373	**(6,150)**	2,716

29. **Earnings per share**

The calculation of the basic earnings per share has been based on the profit attributable to ordinary shareholders and the weighted average number of ordinary shares in issue during the financial year.

	Group	
	2018	2017
Profit attributable to ordinary shareholders (€000)	**19,545**	15,151
Weighted average number of ordinary shares ('000)	**117,450**	117,450
Earnings per share (€cents)	**17**	13

The Group has no instruments or arrangements which give rise to dilutive potential ordinary shares and accordingly, diluted earnings per share is equivalent to basic earnings per share.

30. Cash and cash equivalents

Balances of cash and cash equivalents as shown in the statements of cash flows are analysed below:

	Group		Bank	
	2018	2017	**2018**	2017
	€000	€000	**€000**	€000
Analysis of cash and cash equivalents:				
Cash in hand	**196**	299	**196**	299
Call deposits	**82,101**	89,256	**75,218**	76,963
Target 2 overnight deposits	**88,545**	51,771	**59,844**	43,960
Amounts owed to financial institutions with original maturity of less than 3 months	**(21,428)**	(39,183)	**(21,423)**	(174,204)
Per Statement of cash flows	**149,414**	102,143	**113,835**	(52,982)
Adjustments to reflect:				
Balance with Central Banks	**15,300**	193,376	**5,872**	5,596
Deposits with original maturity of over 3 months	**31,220**	17,387	**31,220**	17,387
Amounts owed to financial institutions with original maturity of over 3 months	**(105,000)**	(320,000)	**(997,659)**	(829,161)
Per Statement of financial position	**90,934**	(7,094)	**(846,732)**	(859,160)

		Group		Bank	
		2018	2017	**2018**	2017
	Notes	**€000**	€000	**€000**	€000
Analysed as follows:					
Balances with Central Banks, and cash	4	**103,739**	245,194	**65,610**	49,855
Loans and advances to financial institutions	6	**113,623**	106,895	**106,740**	94,350
Amounts owed to financial institutions	17	**(126,428)**	(359,183)	**(1,019,082)**	(1,003,365)
		90,934	(7,094)	**(846,732)**	(859,160)

31. Capital and lease commitments

Capital commitments

Capital commitments of the Group and the Bank as at 31 March 2017 amounted to €0.4 million and mainly related to the improvement of leased premises.

31. Capital and lease commitments - continued

Operating leases

The Group leases a number of branches and office premises under operating leases. The leases typically run for 4 to 5 years, with an option to renew the lease after that date. Some operating lease agreements provide for additional rent payments that are based on changes in a local price index.

During the year, the Group leased IT-infrastructure and software from Medifin Leasing Limited, a related party.

At the end of the reporting year, future minimum lease payments under non-cancellable operating leases are payable as follows:

	Group		**Bank**	
	2018	2017	**2018**	2017
	€000	€000	**€000**	€000
Within one year	**1,434**	1,008	**1,349**	848
After one year but less than five years	**5,225**	5,134	**4,975**	5,024
More than 5 years	**817**	-	**817**	-
	7,476	6,142	**7,141**	5,872

The amount of operating lease expense recognised in profit or loss for the year is disclosed in Note 26.

32. Contingent liabilities

The tax authorities in Belgium are currently reviewing the transfer of tax losses from the former Belgian branch of MeDirect Malta to MeDirect Belgium amounting to €12.3 million and will likely challenge the transfer of these losses. As at 31 March 2018 the Group has a deferred tax asset of €3.1 million in relation to the unutilised tax losses of MeDirect Belgium. On the basis of specialist advice obtained from a number of independent tax advisors in Belgium, the Group is confident that this transfer of tax losses was justified and believe that no adjustment to the deferred tax asset is deemed necessary at the end of the reporting year as it is of the opinion that the position of the Group will be ultimately upheld.

As at 31 March 2018, the Group and Bank had cash secured guarantee obligations amounting to €5.2 million (2017: €7.9 million).

33. Commitments to lend

Commitments to lend represent undrawn formal standby facilities, credit facilities and other similar commitments to lend. As at 31 March 2018, undrawn facilities on term loans of the Group and the Bank amounted to €74.7 million (2017: €49.5 million) and €64.9 million (2017:€48.7 million), respectively. In addition, the Group and Bank had commitments of €361.8 million (2017: €288.3 million) under revolving credit facilities.

The above commitments exclude commitments in relation to capital expenditure and operating leases which are disclosed in Note 31.

34. Related parties

Immediate and ultimate parent company

The ultimate controlling party of MeDirect Malta is AnaCap Financial Partners II L.P.

The ultimate parent company of the Bank is Medifin Investments Limited, a company incorporated and registered in Guernsey.

The intermediate parent company of the Bank is Medifin Finance Limited, a company incorporated and registered in Guernsey.

The immediate parent company of MeDirect Malta is MDB Group Limited, which is a company incorporated and registered in Malta.

Related parties of the Group and the Bank include the subsidiary, the ultimate controlling party, the ultimate parent company, all entities controlled by the ultimate parent company, Key Management Personnel, close family members of Key Management Personnel and entities which are controlled or jointly controlled by Key Management Personnel or their close family members.

Transactions with Key Management Personnel

Key Management Personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Group, being the directors of the respective MDB Group companies.

Key Management Personnel compensation consisting of directors' remuneration is disclosed in Note 25. The Group also provides non-cash benefits to Key Management Personnel, relating to gross rent payable on accommodation based in Malta and health and life insurance premiums paid by the Group amounting €0.1 million (2017: €0.1 million).

Related party balances and transactions

During the course of its activities, the Group conducted business on commercial terms with various related parties, comprising the subsidiary, the ultimate controlling party and entities controlled by the ultimate controlling party.

34. Related parties - continued

The following table provides the total amount of transactions which have been entered into, and balances with, related parties by the Group for the relevant financial year:

31 March 2018

Related party	Income from related parties €000	Expenses charged by related parties €000	Amounts owed by related parties €000	Amounts owed to related parties €000	Transaction/ balance type
Ultimate controlling party					
	-	178	-	-	Monitoring fees
Ultimate parent company					
	-	-	275	-	Other assets
Immediate parent company					
	-	-	844	-	Other assets
	-	-	-	449	Other liabilities
Other group companies					
	-	-	13,846	-	Other assets
	-	-	-	4,364	Other liabilities
	-	5,047	-	-	IT support
	-	5,113	-	-	Operating lease charge
	5	-	-	-	Other income
Key management personnel					
	-	-	125	-	Loans and advances to customers
	-	-	-	255	Amounts owed to customers

34. Related parties - continued

31 March 2017

Related party	Income from related parties €000	Expenses charged by related parties €000	Amounts owed by related parties €000	Amounts owed to related parties €000	Transaction/ balance type
Ultimate controlling party					
	-	178	-	-	Monitoring fees
Ultimate parent company					
	-	-	240	-	Other assets
Immediate parent company					
	-	-	8,686	-	Other assets
	-	-	-	4	Other liabilities
Other group companies					
	-	-	15,114	-	Other assets
	-	-	-	3,180	Other liabilities
	-	4,077	-	-	IT support
	-	4,593	-	-	Operating lease charge
	5	-	-	-	Other income
Key management personnel					
	-	-	-	51	Amounts owed to customers
	-	1	-	-	Interest expense
Other companies controlled by key management personnel					
	-	-	-	1	Amounts owed to customers

The directors' fees and personnel expenses in relation to key management personnel are disclosed in note 25 to these financial statements.

Furthermore, as detailed in Note 16:

- By virtue of board resolutions dated 29 September 2017, 1 November 2017, 7 November 2017 and 29 March 2018 MeDirect Malta accepted capital contributions from its parent company, MDB Group Limited, amounting to €8.2 million, €12.0 million, €55.4 million and €10.9 million respectively.
- At an extraordinary general meeting held on 23 March 2018, the Bank approved an interim dividend of €10 million.

The related party transactions reflected in the preceding tables are also the related party transactions of the Bank with the exception of the directors' fees and personnel expenses for the financial year ended 31 March 2018, which amounted to €327 thousand (2017: €259 thousand) and €2.0 million (2017: €1.8 million) respectively, and IT support changes and operating lease charges that for the Bank amounted to €2.5 million (2017: €2.1 million) and €2.8 million (2017: €2.5 million) respectively.

In addition to the above, as at 31 March 2017, MedCorp had placed funds with MeDirect Malta amounting to €14.3 million.

34. Related parties - continued

In 2017, MeDirect Malta in substance acquired a portfolio of loans from MeDirect Belgium for an aggregate consideration of €498.3 million (refer to Note 17). No such transactions were carried out during the current financial year. On the other hand, MeDirect Malta sold a portfolio of loans to MeDirect Belgium with a carrying amount of €45.3 million (2017: €227.8 million) prior to disposal and MeDirect Malta recorded gains of €0.05 million (2017: €1 million) on such disposals.

Furthermore, MeDirect Malta recharged employee compensation and benefits to MeDirect Belgium amounting to €3 million (2017: €975 thousand).

35. Segmental information

The Group has a single reportable segment represented by the investment in high credit quality collateralised instruments such as covered bonds, guaranteed senior bank debt and sovereign related debt, together with corporate lending. Information about the products and services and geographical areas are set out in Notes 2, 7, 8, 22 and 23 to the financial statements which provide information about the financial risks, credit concentrations by sector and location, together with revenues from the single reportable segment. The investment portfolio is spread across a large number of exposures diversified in government, financial institutions and other corporates.

In accordance with Article 89 of CRD IV, a credit institution must disclose information about turnover, number of employees, profit before tax, tax and public subsidies received by country, taking into account all jurisdictions in which it operates. The Group has not received any public subsidies that relate to the Group's activities as a credit institution.

	Turnover * 2018 €000	Full-time equivalent staff 31 March 2018 No	Profit/(loss) before tax 2018 €000	Tax income/ (expense) 2018 €000
Malta	**78,927**	**301**	**16,223**	**6,150**
Belgium	**30,634**	**9**	**(1,072)**	**(700)**
	109,561	**310**	**15,151**	**5,450**
	2017 €000	**31 March 2017 No**	**2017 €000**	**2017 €000**
Malta	64,200	270	15,158	(2,716)
Belgium	37,613	6	3,366	(657)
	101,813	276	18,524	(3,373)

* Turnover is defined as interest income, fee and commission income and other operating income. The 2018 turnover allocated to Belgium includes interest charged to MeDirect Malta amounting to €16.3 million (2017: €1.1 million).

The MeDirect Malta Group carried out its activities in the countries listed above under the name of MeDirect Malta in Malta and MeDirect Belgium in Belgium. Activities in Malta and Belgium include banking and wealth management.

36. Investor compensation scheme

In accordance with the provisions of the Investor Compensation Scheme Regulations, 2003, issued under the Maltese Investment Services Act (Cap. 370), licence holders are required to transfer a variable contribution to an Investor Compensation Scheme Reserve and place the equivalent amount with a bank, pledged in favour of the Scheme. Alternatively licence holders can elect to pay the amount of variable contribution directly to the Scheme. Throughout the current financial year, MeDirect Malta was not required to pay any variable contribution to the Scheme.

37. Trust and custody activities

The Group provides trust and custody services to individuals, trusts, and other institutions, whereby it holds and manages assets or invests funds received in various financial instruments at the direction of the customer. The Group receives fee income for providing these services. Trust assets and assets held in custody are not assets of the Group and are not recognised in the statements of financial position. The Group is not exposed to any credit risk relating to such placements, as it does not guarantee these investments.

At 31 March 2018, the total assets held by the Group and the Bank on behalf of customers amounted to €821.1 million (2017: €601.3 million) and €454.8 million (2017: €363.2 million) respectively.

38. Merger of MeDirect Malta' subsidiary into MeDirect Malta

On 21 November 2016, MeDirect Malta announced that the boards of directors of MeDirect Malta and MedCorp have each voted to merge MedCorp into MeDirect Malta, subject to receipt of all applicable regulatory approvals and completion of all legal requirements. With effect from 1 April 2017, the merger between MeDirect Malta and MedCorp became effective for accounting purposes. Thus all the transactions of MedCorp have been treated as being those of MeDirect Malta with effect from 1 April 2017.

Within these financial statements, this merger is reflected as if it had already taken place at the beginning of the earliest period presented, i.e. 1 April 2016 using predecessor accounting. Accordingly the comparative stand-alone financial information of the Bank has been restated to include the financial results and financial position of MedCorp, as if MedCorp had already been merged into MeDirect Malta as at 1 April 2016.

38. Merger of MeDirect Malta' subsidiary into MeDirect Malta - continued

The assets and liabilities attributable to MedCorp, reflected within the stand alone financial information of MeDirect Malta as a result of the merger, are as follows:

	As at 1 April 2017 €000	As at 1 April 2016 €000
Balances with Central Bank of Malta and cash	**180**	551
Loans and advances to banks	**14,331**	9,111
Loans and advances to customers	**55,143**	59,137
Current tax assets	**84**	406
Property and equipment	**-**	51
Non-current assets classified as held for sale	**1,785**	-
Deferred tax assets	**3,357**	3,882
Prepayments and accrued income	**550**	854
Other assets	**4**	2
Amounts owed to customers	**(14,877)**	(14,262)
Accruals and deferred income	**(201)**	(1,106)
Other liabilities	**(244)**	(56)

The following tables provide an overview of MedCorp's financial performance and cash flows for the financial years ended 31 March 2017 and 2016. The 2017 financial performance and cash flows have been reflected within MeDirect Malta's comparative stand-alone financial information in view of the merger.

	Year ended 31 March	
	2017 €000	2016 €000
Net interest income	**2,019**	2,070
Net fee and commission income	**479**	245
Net trading income	**15**	36
Other operating income	**3**	3
Total operating income	**2,516**	2,354
Employee compensation and benefits	**(1,148)**	(1,225)
Depreciation and amortisation	**(51)**	(41)
Other administrative expenses	**(519)**	(626)
Total operating expenses	**(1,718)**	(1,892)
Net operating income before impairment charges	**798**	462
Net reversal of impairment charges	**1,576**	587
Profit before taxation	**2,374**	1,049
Tax expense	**(832)**	(368)
Profit for the year – Total comprehensive income	**1,542**	681

38. Merger of MeDirect Malta' subsidiary into MeDirect Malta - continued

	Year ended 31 March	
	2017	2016
	€000	€000
Cash flows from operating activities before changes in operating assets/liabilities	**261**	295
Decrease in operating assets	**3,785**	9,799
Increase in operating liabilities	**803**	5,379
Net cash generated from operating activities	**4,849**	15,473
Net cash generated from investing activities	**-**	4
Net movement in cash and cash equivalents	**4,849**	15,477
Cash and cash equivalents at beginning of year	**9,662**	(5,815)
Cash and cash equivalents at end of year	**14,511**	9,662

39. Events after the reporting date

Transfer of shareholding in Charts to MeDirect Malta and merger of Charts into MeDirect Malta

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

Within the financial statements for the financial year ending 31 March 2019, this merger will be reflected as if it had already taken place at the beginning of the earliest period to be presented, i.e. 1 April 2017 using predecessor accounting. Accordingly, the consolidated and stand-alone financial information of MeDirect Malta within the financial statements for the year ended 31 March 2018 will be restated to reflect the financial results and financial position of Charts as if the merger had already happened as at 1 April 2017.

39. Events after the reporting date - continued

The assets and liabilities that will be reflected by MeDirect Malta as a result of the merger are as follows:

	As at 1 April 2018 €000	As at 1 April 2017 €000
Property and equipment	**-**	7
Investments	**-**	281
Deferred tax assets	**-**	8
Trade and other receivables	**220**	280
Current tax assets	**132**	31
Cash and cash equivalents	**1,565**	1,012
Trade and other payables	**(1,093)**	(67)

The following tables provide an overview of Charts' financial performance and cash flows for the financial years ended 31 March 2018 and 2017.

	Year ended 31 March	
	2018 €000	2017 €000
Revenue	**895**	1,125
Direct costs	**(7)**	(8)
Gross contribution	**888**	1,117
Administrative expenses	**(552)**	(533)
Operating income	**336**	584
Investment income	**16**	6
Gain on sale of available-for-sale financial assets	**74**	-
Profit before tax	**426**	590
Tax expense	**(121)**	(203)
Profit for the year	**305**	387
Other comprehensive income		
Items that may be subsequently reclassified to profit or loss		
Fair valuation of available-for-sale financial assets:		
- Net changes in fair value arising during the year, before tax	**(9)**	29
- Net amount reclassified to profit or loss, before tax	**(74)**	-
Total comprehensive income for the year	**222**	416

39. Events after the reporting date - continued

	Year ended 31 March	
	2018	2017
	€000	€000
Cash generated from operating activities	**479**	549
Taxation paid	**(214)**	(390)
Net cash generated from operating activities	**265**	159
Cash flows from investing activities	**288**	6
Net movement in cash and cash equivalents	**553**	165
Cash and cash equivalents at beginning of year	**1,012**	847
Cash and cash equivalents at end of year	**1,565**	1,012

Dividends paid

By virtue of a shareholders' resolution dated 30 May 2018, MeDirect Malta approved and paid an interim dividend of €7.23 million.

Shareholder contributions received

By virtue of a board resolution dated 30 May 2018, the Bank accepted capital contributions from its immediate parent company, MDB Group Limited amounting to €3.1 million.

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

40. Comparative financial information

As already disclosed in note 38 to these financial statements, the Bank's comparative stand-alone financial information has been restated to reflect the merger of MedCorp into MeDirect Malta as if the merger had already taken place at the beginning of the earliest period presented i.e. 1 April 2016 using predecessor accounting.

41. Statutory information

MeDirect Bank (Malta) plc is a limited liability company and is incorporated in Malta.

The ultimate controlling party of MeDirect Malta is AnaCap Financial Partners II L.P., the registered office of which is Carinthia House, 9 - 12 The Grange, St Peter Port, GY1 4BF, Guernsey.

The ultimate parent company of MeDirect Malta is Medifin Investments Limited, a company incorporated and registered in Guernsey with its registered address 1st and 2nd Floors, Elizabeth House, Les Ruettes Brayes, St Peter Port, Guernsey GY1 1EW.

The immediate parent company of MeDirect Malta is MDB Group Limited, which is incorporated and registered in Malta, the registered address of which is The Centre, Tigne Point, Sliema TPO 0001.

MDB Group Limited prepares consolidated financial statements of the group of which Charts and MeDirect Malta together with its subsidiaries form part. These consolidated financial statements will be filed and available for public inspection at the Registrar of Companies in Malta.

Statements of profit or loss and other comprehensive income: Five year comparison

	Group				Bank
	31 Mar 2018 €000	**31 Mar 2017 €000**	**31 Mar 2016 €000**	**31 Mar 2015 €000**	**31 Mar 2014 €000**
Interest income	**90,835**	89,863	77,240	73,979	64,567
Interest expense	**(27,902)**	(32,299)	(36,408)	(40,492)	(33,589)
Net interest income	**62,933**	57,564	40,832	33,487	30,978
Net fee and commission income	**4,225**	2,741	1,342	1,022	634
Net trading income	**3,929**	2,178	2,224	(1,778)	2,292
Net income/(expense) from financial instruments carried at fair value through profit or loss	**128**	-	1,108	(1,623)	1,883
Gain on initial accounting of a subsidiary	**-**	-	-	22,414	-
Other operating income	**(974)**	4,408	15,640	21,593	28,028
Total operating income	**70,241**	66,891	61,146	75,115	63,815
Personnel expenses	**(17,593)**	(17,046)	(17,228)	(15,767)	(13,785)
Depreciation and amortisation	**(259)**	(551)	(608)	(914)	(877)
Administrative and other expenses	**(29,992)**	(25,163)	(26,186)	(19,716)	(17,186)
Net impairment charges	**(8,302)**	(5,607)	(3,747)	(4,265)	(2,081)
Profit before tax	**14,095**	18,524	13,377	34,453	29,886
Taxation	**5,450**	(3,373)	(2,061)	(4,414)	(10,490)
Profit for the year	**19,545**	15,151	11,316	30,039	19,396
Other comprehensive income					
Fair valuation of Available-for-sale financial assets					
- Net change in fair value	**1,230**	8,474	(5,209)	37,192	1,457
- Net amount reclassified to profit or loss	**(43)**	(800)	(15,712)	(19,173)	(24,948)
Income tax on other comprehensive income	**(408)**	(2,681)	7,319	(6,306)	8,222
Other comprehensive income, net of tax	**779**	4,993	(13,602)	11,713	(15,269)
Total comprehensive income	**20,324**	20,144	(2,286)	41,752	4,127

Statements of financial position: Five year comparison

	Group				Bank
	31 Mar 2018 €000	**31 Mar 2017 €000**	**31 Mar 2016 €000**	**31 Mar 2015 €000**	**31 Mar 2014 €000**
Assets					
Balances with Central Banks, treasury bills and cash	103,739	245,194	33,280	14,384	18,091
Derivative financial instruments	470	1,627	3,964	3,197	808
Loans and advances to financial institutions	113,623	106,895	59,558	167,775	87,714
Loans and advances to customers	1,701,716	1,449,970	1,238,966	1,047,194	621,747
Investments	560,245	698,474	872,497	1,503,462	1,427,337
Investment in subsidiaries	-	-	-	-	1
Property and equipment	1,223	402	923	1,452	1,908
Intangible assets	2,495	4	27	63	128
Non-current assets classified as held for sale	1,785	1,785	-	-	-
Current tax asset	9,527	8,391	5,633	-	-
Deferred tax asset	16,104	14,178	15,000	4,189	3,764
Prepayments and accrued income	18,168	19,138	17,720	21,305	23,262
Other assets	16,510	25,233	26,733	20,542	18,888
Total assets	**2,545,605**	**2,571,291**	**2,274,301**	**2,783,563**	**2,203,648**
Equity					
Share capital	117,450	117,450	117,450	117,450	98,050
Share premium	13,464	13,464	13,464	13,464	13,464
Shareholders' contribution	147,353	60,803	60,803	2,103	9,750
Reserve for general banking risks	1,694	1,694	1,194	1,029	91
Fair value reserve	(1,732)	(2,511)	(7,580)	6,022	(5,691)
Retained earnings	42,468	32,923	18,348	29,197	19,496
Total equity	**320,697**	**223,823**	**203,679**	**169,265**	**135,160**
Liabilities					
Derivative financial instruments	3,581	2,323	7,337	5,200	2,973
Amounts owed to financial institutions	126,428	359,183	541,925	1,166,091	1,008,976
Amounts owed to customers	1,979,159	1,901,512	1,447,355	1,205,586	776,715
Debt securities in issue	-	-	-	157,137	230,127
Subordinated liabilities	66,949	47,043	47,380	47,777	22,385
Current tax liabilities	156	71	69	4,110	10,794
Deferred tax liabilities	-	-	-	1,901	-
Accruals and deferred income	34,266	30,428	23,321	24,600	15,409
Other liabilities	14,369	6,908	3,235	1,896	1,109
Total liabilities	**2,224,908**	**2,347,468**	**2,070,622**	**2,614,298**	**2,068,488**
Total equity and liabilities	**2,545,605**	**2,571,291**	**2,274,301**	**2,783,563**	**2,203,648**

Statements of cash flows: Five year comparison

	Group				Bank
	31 Mar 2018 €000	31 Mar 2017 €000	31 Mar 2016 €000	31 Mar 2015 €000	31 Mar 2014 €000
Cash flows from operating activities					
Interest and commissions receipts	**108,380**	110,999	94,228	105,852	78,759
Interest and commission payments	**(29,530)**	(35,761)	(40,402)	(37,621)	(30,256)
Payments to employees and suppliers	**(45,908)**	(43,523)	(45,206)	(35,617)	(29,064)
Operating profit before changes in operating assets/liabilities	**32,942**	31,715	8,620	32,614	19,439
Decrease/(increase) in operating assets:					
Reserve deposit with Central Banks	**178,076**	(184,630)	(2,407)	(1,551)	(855)
Loans and advances to financial institutions and customers	**(276,168)**	(225,770)	(210,327)	(325,644)	(200,665)
Derivative financial instruments	**(848)**	(7,494)	(1,960)	(37,087)	(4,851)
Investment securities	**-**	-	-	(255,353)	(670,319)
(Decrease)/increase in operating liabilities:					
Amounts owed to financial institutions and customers	**(125,893)**	357,360	(98,762)	376,008	290,750
Other payables	**5,831**	1,776	659	-	-
Tax refund/paid	**2,065**	(7,989)	(17,124)	(11,735)	(7,960)
Net cash flows used in operating activities	**(183,995)**	(35,032)	(321,301)	(222,748)	(574,461)
Cash flows from investing activities					
Acquisition of subsidiary	**-**	-	-	(35,300)	-
Acquisition of property and equipment	**(1,053)**	(7)	(20)	(54)	(171)
Disposal of property and equipment	**-**	-	-	25	9
Acquisition/development of intangible assets	**(2,559)**	-	(23)	(50)	(34)
Acquisition of available-for-sale assets	**(25,717)**	(26,939)	(289,592)	(722,352)	(335,871)
Disposal/redemption of available-for-sale assets	**154,469**	196,078	898,500	987,220	1,126,144
Disposal of equity instruments	**-**	81	3,637	-	-
Net cash from investing activities	**125,140**	169,213	612,502	229,489	790,077
Cash flows from financing activities					
Issue of share capital	**-**	-	-	-	14,700
Shareholders' contributions	**86,550**	-	58,700	(7,647)	1,250
Issue of debt securities	**19,913**	-	-	-	237,359
Re-purchase/maturity of debt securities	**-**	-	(157,255)	(75,204)	(22,912)
Net proceeds from the debt securities in issue and subordinated liabilities	**-**	-	-	25,037	9,907
Dividends paid	**(10,000)**	-	(22,000)	-	-
Advances to intermediate and ultimate parent	**-**	548	(653)	-	-
Advances from/(to) immediate parent company	**8,287**	595	(7,727)	-	(15)
Advances from/(to) Group companies	**1,376**	3,337	3,435	107	(5,329)
Net cash from/(used in) financing activities	**106,126**	4,480	(125,500)	(57,707)	234,960
Movement in cash and cash equivalents	**47,271**	138,661	165,701	(50,966)	450,576
Cash and cash equivalents acquired through business combination	**-**	-	-	(26,007)	-
Cash and cash equivalents at beginning of year	**102,143**	(36,518)	(202,219)	(125,246)	(575,822)
Cash and cash equivalents at end of year	**149,414**	102,143	(36,518)	(202,219)	(125,246)

Accounting ratios: Five year comparison

	Group				Bank
	31 Mar 2018 %	31 Mar 2017 %	31 Mar 2016 %	31 Mar 2015 %	31 Mar 2014 %
Net interest income and other operating income to total assets	2.8%	2.7%	2.4%	3.0%	3.0%
Operating expenses to total assets	1.9%	1.8%	1.7%	1.5%	1.6%
Cost to income ratio	68.11%	63.92%	71.8%	48.5%	53.2%
Profit before tax to total assets	0.6%	0.7%	0.5%	1.4%	1.4%
Profit after tax to total assets	0.8%	0.6%	0.4%	1.2%	0.9%
Profit before tax to equity	5.2%	8.7%	7.2%	22.6%	23.9%
Profit after tax to equity	7.3%	7.1%	6.1%	19.7%	15.6%

	Group				Bank
	31 Mar 2018 No	31 Mar 2017 No	31 Mar 2016 No	31 Mar 2015 No	31 Mar 2014 No
Shares in issue	117,450,107	117,450,107	117,450,107	117,450,107	98,050,107

	Group				Bank
	31 Mar 2018 €	31 Mar 2017 €	31 Mar 2016 €	31 Mar 2015 €	31 Mar 2014 €
Net assets per share	2.73	1.89	1.73	1.44	1.38
Earnings per share (cents) based on profit after tax	17c	13c	10c	26c	23c

The equity and total assets figure are based on the simple average value for the financial year.

Analysis of the share capital of MeDirect Bank (Malta) plc as at 31 March 2018:

MeDirect Bank (Malta) plc C34125

	Type and class of shares	Issued shares	% Paid up	Nominal value per share in EUR
MDB Group Limited	Ordinary A	117,450,106	100	1.000000

	Number of shares	Number of holders
Class A	117,450,106	1
Class B	1	1

Analysis of the share capital of the parent company of MeDirect Bank (Malta) plc, MDB Group Limited, as at 31 March 2018:

MDB Group Limited C34111

	Type and class of shares	Issued shares	% Paid up	Nominal value per share in EUR
Medifin Investments Limited	Ordinary A	56,406,546	100	1.000000
Mark Watson Holdings Limited	Ordinary B	1	100	1.000000

	Number of shares	Number of holders
Class A	56,400,546	1
Class B	1	1

There were no changes in the holding reflected above up to 30 July 2018.

Group company secretary

Galea Farrugia, Paula

Senior management and key officers

The senior management and key officers as at the end of the financial year and as at the date of approval of this annual report were:

Watson, Mark A.	Chief Executive Officer
Bonello Ghio, Lorraine	Group Head of Human Resources and Administration
Borg, Cynthia (resigned on 23 July 2018)	Head of Compliance
Buttigieg Scicluna, Walance	Group Head of Treasury
Calleja, Ray	Head of Consumer Banking
Catania, Deo	Group Head of Operations
Camenzuli, Kelvin	Chief Technology Officer
Camilleri, Owen	Deputy Chief Financial Officer
Cilia Charlotte	Deputy Chief Financial Officer
Cini, Charles	Head of Corporate Banking
Ehmer, Valentin	Chief Strategy Officer
Jaccarini, Edward	Chief Internal Audit Officer
Jackson, Graham	Group Chief Financial Officer
Konewko, Alex	Chief Risk Officer
La Curia, Nicol	Group Head of Wealth Products
Schmeltzer, Henry C.	Head of Commercial Strategy and Legal
Vicent, Joaquin	Director of Treasury and Investments
Yussupov, Alanbek	Head of Business Development
Cassar Charles (appointed on 2 May 2018)	Group Head of Compliance
Curtis, Michael (appointed on 8 May 2018)	Group Chief Investment Officer
De Pauw, Xavier	Chief Executive Officer – MeDirect Belgium

Registered address:

MeDirect Bank (Malta) plc
The Centre, Tigne Point
Sliema TPO 0001
Malta

Telephone:
+356 2557 4000