MEDIRECT BANK (MALTA) PLC

Annual Report and Consolidated Financial Statements

31 March 2019

Company Registration Number: C 34125

Directors' report

The directors present their annual report of MeDirect Bank (Malta) plc (the "Bank" or "MeDirect Malta"), and the Bank and its subsidiary (the "Group" or "MeDirect Malta Group" or the "Banks") for the year ended 31 March 2019. This report is prepared in terms of the Maltese Companies Act (Cap. 386) and complies with the disclosure requirements of the Sixth Schedule to the same Act.

The Group's results reflect the consolidated position of 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.

Principal activities

The principal activities of the Bank comprise lending to international and Maltese 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. As at 31 March 2019 the Bank had four branches.

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.

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

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

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

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 Bank SA - a wholly owned subsidiary that handles the Group's operations in Belgium.
- Medifin Estates – a property leasing partnership.

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

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

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

Business review

During the financial year ended 31 March 2019, the Group continued to implement its business plan with the aim of sustaining the Group's long-term profitability by building its international 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's profitability has been mainly driven through the increase in capital in the prior financial year together with a consistent level of savings and term deposit customers, primarily in the Maltese and Belgian markets, deploying liquidity in the Group's international lending activities and efficient cost management.

The Group recorded a profit after tax for the financial year ended 31 March 2019 of €23.3 million (2018: €19.5 million). This increase in profitability is mainly due to the increase in the net interest income that increased by 7.3% compared to the prior financial year that was attributable to both an increase in the lending portfolio and changes to interest rates on customer deposits throughout the year. The significant tax credit in the comparative financial year is mainly due to the notional interest deduction rules that were introduced by the Maltese Government in October 2017. These new regulations had resulted in an over provision of current tax in the financial year ended 31 March 2017 and the recognition of deferred tax assets on any unutilised notional interest deduction allowances.

Total operating income for the year ended 31 March 2019 was €80.3 million (2018: €70.2 million).

The Group continues to fund its portfolios through deposits and through the international wholesale financial markets. The growth of the Group's deposit base in Belgium, especially with the introduction of the regulated savings product, has strengthened and made more robust the Group's funding platform. Access to the Eurex repo platform continues to provide efficient funding for the Group. The Group's core deposit offering is a range of fixed-term and other savings products. As at 31 March 2019, the Group's deposit base reached €2.2 billion (2018: €2.0 billion). Growth of the Group's deposit base has also provided cross selling opportunities 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.

In this respect, the Group's Lending Portfolio (international and domestic) stood at €1.8 billion (2018: €1.7 billion) as of 31 March 2019, net of expected credit losses of €23.9 million (2018: collective impairment loss allowances of €5.6 million and specific impairment loss allowances of €17 million). In addition the Group had commitments of €448.1 million under revolving credit facilities as at 31 March 2019 (2018: €361.8 million) and other undrawn credit facilities of €61.3 million (2018: €74.7 million).

The Group also holds a portfolio of liquid assets. As of 31 March 2019, the Group's treasury portfolio stood at €690.6 million (2018: €560.2 million) consisting of a portfolio of hold to collect ("HTC") securities and a portfolio of hold to collect and sell ("HTC&S") securities. The fair value of the debt securities portfolio 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 and the Group's support functions. 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 investment planning capabilities and model portfolios analytical tools to enable customers to analyse portfolio and investment alternatives and a broad range of research and market data resources.

The MeDirect Malta Group also utilises the GH I structure that is funded through two intragroup loan facilities subscribed to by MeDirect Malta and MeDirect Belgium ("the MeDirect banking entities" or "the Banks"). MeDirect Belgium and MeDirect Malta invested in GH I on a 74% - 26% basis (2018: 78% - 22% 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") as a result of which the Bank has retained substantially all risks and rewards pertaining to the activities of GH I.

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. 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 2019, the Regulatory Group's Capital Adequacy Ratio stood at 15.2% (2018: 16.6%), whilst the Regulatory Group's Liquidity Coverage Ratio stood at 465.1% (2018: 636.0%).

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

The 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 metrics are constantly monitored. KPIs play an essential role within the Group's performance management process.

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

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

Key performance indicators	**2019**	2018
Business performance management		
Annualised return on equity	**7.1%**	8.6%
Overall net interest margin	**2.6%**	2.7%
Capital management		
Common equity tier 1 ("CET 1") ratio	**13.2%**	14.2%
Leverage ratio	**10.0%**	10.3%
Liquidity management		
Liquidity coverage ratio ("LCR")	**460.1%**	636.0%
Net stable funding ratio ("NSFR")	**136.1%**	140.0%
Credit management		
Non-performing loans ratio	**5.2%**	4.4%
Loan loss ratio	**1.5%**	1.4%

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 related revenue streams. In particular the Group is currently in the process of embarking on a new journey of growth and transformation by launching new business opportunities such as the setting up and management of securitisation structures and entrance into the Dutch residential mortgages market.

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 10.0% (2018: 10.3%) 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").

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

An established risk governance framework and ownership structure ensures oversight of accountability for the effective management of risk. The Group's risk management framework 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 articulates both qualitative statements which express the risk taking intent of the Group, as well as a comprehensive set of quantitative limits and controls, covering both financial and non-financial risk categories. Internal quantitative measures enable measurement of the Group's risk profile against risk appetite and risk capacity.

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

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

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

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

Environmental and employee matters

Sustainability

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

Employees

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

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

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

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.

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 ("CEO")

Benjamin Hollowood

Dominic Wallace

Joaquin Vicent

Michael Walker

John Zarb

As from 24 June 2019 Mark A. Watson (CEO) and Joaquin Vicent (Director of Treasury and Investments) no longer serve in an executive capacity with the Group. Philippe Delva, the CEO of MeDirect Belgium will serve as CEO of the Group until the Group's new CEO, Mr. Arnaud Denis and the Group's new Finance Director, Mr. Radoslaw Ksiezopolski, join the Group by September.

Dividends and reserves

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 €56.1 million (2018: €42.5 million) and the retained earnings of the Bank amounted to €45.7 million (2018: €28.6 million).

By virtue of a shareholders' resolution dated 30 May 2018 and 28 June 2019, MeDirect Bank (Malta) plc approved the repayment of the shareholder contribution equivalent to €7.23 million and €10 million respectively.

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 2019 are included in the Annual Report 2019, which is published in hard-copy printed form and will be made available on the Bank's website.

The directors are responsible for the maintenance and integrity of the Annual Report on the website in view of their responsibility for the controls over, and the security of, the website. Access to information published on the 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 2019, other than the transactions described under note 36 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 2018. During the financial years ended 31 March 2019 and 2018, 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, 22 and 36.

Furthermore, pursuant to Listing Rule 5.70.1 we confirm that 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

New Dutch state-guaranteed mortgages business line

On 3 June 2019, the Governing Council of the ECB consented to the strategic decision of MeDirect Bank SA to enter into a new business line, namely the origination of Dutch state-guaranteed mortgages ('Nationale Hypotheek Garantie' or NHG) under Article 77 of the Belgian Banking Law. These mortgages are prime Dutch mortgages that benefit from a guarantee from a private non-profit fund and indirectly from a government guarantee.

The launch of this new business line is part of the Group's strategic objective to diversify its business model. MeDirect Belgium will do this via an established third party mortgage originator in the Netherlands that after origination would transfer the mortgages to MeDirect Belgium through a silent assignment.

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

Subsequent to the end of the reporting period the Group and Bank changed their intention in relation to a specific sub-portfolio of their international lending portfolio, classified as hold to collect and with a total carrying amount as at 31 March 2019 equivalent to €266.1 million and €257.8 million respectively. The reasons for this change in business model are driven by the Group's intention to set up a securitisation structure as part of a new strategy, through which part of the international lending portfolio will be sold by the Group to this structured entity and derecognised from the Group's statement of financial position, subsequent to which structured notes will be issued by the structured entity to third party investors.

However, the Group's change in intention is not deemed to constitute a reclassification event, since the Group's remaining hold to collect portfolio will retain its classification and the above mentioned sale from the international lending portfolio for the purpose of setting up a securitisation structure is classified as an isolated non-recurring event.

In view of the Group's projected exposure to the total variability of the structured entity's returns, taking into account of its maximum exposure as a collateral manager (i.e. incorporating all cash flows, including management and incentive fees), a significant share of the exposure to variable returns is transferred to other tranche holders and therefore the Group will not consolidate the structured entity.

Repayment of shareholder contribution

On 28 June 2019, the Board of directors of MeDirect Malta approved the repayment of the shareholder contribution equivalent to €10 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 (Cap. 370)

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

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.

Pillar 3 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 on an annual basis as a separate document that is appended to the MDB Group Limited financial statements.

Auditors

PricewaterhouseCoopers have indicated their willingness to continue in office 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	John Zarb Director

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

28 June 2019

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 2019, 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 Officer

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

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.

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

Throughout the financial year, sixteen Board meetings were held, including nine regularly scheduled meetings and seven ad hoc meetings

		Meetings attended %
Michael Adrian Bussey	Independent Chairman and Non-Executive Director	100
John Zarb	Independent Non-Executive Director	88
Michael Walker	Independent Non-Executive Director	100
Dominic Wallace	Non-Executive Director	100
Benjamin Hollowood	Non-Executive Director	88
Mark A. Watson	Executive Director – Chief Executive Officer	94
Joaquin Vicent	Executive Director – Treasury and Investments	94

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.

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;
- reviews work performed on all internal audit engagements;
- vets and approves related party transactions in accordance with Listing Rule 5.138; and
- reviews and interacts with external auditors on the annual statutory audit to obtain feedback on the internal control framework and financial reporting of 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 2019, thirteen meetings of the Bank's Audit Committee were held. The Group Chief Financial Officer, the Chief Internal Audit Officer, the Group Head of Compliance, the Head of Commercial Strategy and Legal and a representative of the external auditors attend the Audit Committee meetings by invitation.

B. Nomination and Remuneration Committee

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.

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.

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 - Treasury and Investments, the Chief Risk Officer, the Chief Investment Officer, the Group Head of Change and Technology, the Group Chief Financial 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's 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 Group Chief Financial Officer, the Group Head of Treasury, the Group Head of Human Resources and Administration, the Group Head of Compliance, the Head of Commercial Strategy and Legal, the Group Head of Operations, the Group Head of Change and Technology, the Group Head of Wealth Products and the MeDirect Bank SA Chief Executive Officer. The Chief Internal Audit Officer and the Group Company Secretary are standing invitees to the Management ExCo.

B. Management Credit Committee

The Management Credit Committees ("MCCs") are 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 MCCs are composed of three sub-committees:

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

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

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

C. Asset and Liability Committee ("ALCO")

The purpose of the Group's Asset and Liability Committee ("ALCO") is to ensure the Group has in place, and operates effectively, appropriate and robust strategies and policies to manage and optimise the Group's asset-liability mix and oversee the Group's capital, liquidity and market risk position.

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

D. Operations Committee

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

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

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

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

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.

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

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

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

Periodically, 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.

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 2019, MeDirect Malta proudly continued to support local talent in sports, culture, and charitable institutions, 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.

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) 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 grow rapidly. The MRFU Cup (the local senior division league), is known as the 'MeDirect Bank Cup'. MRFU continued promoting the 7's tournament internationally and promoting Rugby in schools as an inclusion and educational program. MeDirect Malta also pays tuition as a form of donation to the Kavallieri RFC Women's team on a yearly basis. Through the above, the Bank helps to strengthen its' relationship with the rugby community on all levels.

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

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 following an annual evaluation.

The Bank has always supported local talent, and is very fond of music and performing arts and hence 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. MeDirect Bank is the official Patron of the Manoel Theatre. The Bank also continues its' support towards the Malta Philharmonic Orchestra where with its donation it helps support the orchestra, its events and most importantly its musicians.

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

Amongst other organisations that the Bank helped during its financial year being: The National Blood Transfusion Unit, The Salesians Brigade, The Sliema Scout Group and the food donations collected by the staff towards the reverse advent calendar in aid of the Richmond Foundation. The Bank also maintained the small donation to the Cystic Fibrosis (CF) and the Muscular Dystrophy Group supporting their annual fundraising events. The Bank also kept its yearly appointment and presented a donation to the President's Community Chest Fund Campaign L-Istrina, on behalf of MeDirect Malta.

Finally, upon MeDirect Bank's staff initiative and supported by the Bank, the annual Christmas Donation derived entirely from the Group raffle led to donations to finance the acquisition of a Go-Kart for an autistic child, making every Christmas special.

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.

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	John Zarb
Chairman	Director

28 June 2019

Remuneration report

Remuneration governance

The primary purpose of the Nomination and Remuneration Committee ("NRC") of the Bank and its principal subsidiary is to review remuneration levels in the Group and to consider whether to approve performance-related, retention and deferred bonus awards.

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

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

One of the NRCs' primary functions is to ensure that the Group is able to attract and retain suitable employees at all levels at an acceptable cost. It may request market-related information from time to time, to verify the recommendations made by management.

Membership and meetings

The members of the Bank's 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 2019, the Bank's NRC met on six occasions, three of which were telephone conference calls. These meetings were attended by all members of the NRC.

Remuneration policy statement

The purpose of the remuneration policy is to set out the overall principles that the Banks, whether direct or indirect, must follow when determining the remuneration and compensation of its management and staff members. This policy establishes an effective framework for determining role descriptions, performance measurement, risk adjustment of compensation and the linkages to reward. The Bank's 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, and to ensure that the remuneration practices are based on sound governance processes that take the Group's risk strategy and profile into account.

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

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

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

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

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

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

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

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

The Group's reward strategy

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

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

Benefits take account of market practice and include the provision of medical insurance and life assurance and other benefits.

Variable remuneration may consist of performance bonuses, retention bonuses, and remuneration linked to performance and retention awarded under deferred bonus plans.

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

i. All staff

The NRCs consider 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.

Performance related 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.

In accordance with Article 450 of the CRR we confirm that there are two employees that receive a total remuneration greater than €1 million. The total remuneration of one of these employees is in the range €1 million - €1.5 million whereas the total remuneration of the other employee is in the range €2 million - €2.5 million.

ii. Members of management and control functions

Recommendations as to the fixed and variable remuneration of members of senior management and control functions are made by the Banks' Chief Executive Officers. Such recommendations are reviewed and approved or rejected by the NRCs.

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.

The NRCs may select key personnel to participate in a deferred bonus plan and such performance and/or retention bonuses may be paid in the form of the following: 1) upfront cash; 2) an upfront share-linked instrument award; and/or 3) a deferred award representing an award granted in respect of share-linked instruments subject to deferral. Such award of share-linked instruments for the purpose of Article 94 (1) (i) of CRD IV entitles the employee to a cash payment based on the market value of a share of the MDB Group but does not entitle the employee to shares or any interest in or right over such shares. The upfront share-linked award and the deferred share-linked award shall be subject to a retention period, as determined by the NRCs, of not less than 12 months but not greater than 5 years. Any tranche of a deferred award which has not yet been paid will lapse if the employee leaves employment before the end of the deferral period, unless the employee leaves due to certain specific reasons as listed in the deferred bonus plan approved by the Bank's NRC.

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.

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

The variable remuneration pool shall be set and shall be calculated on the basis of the following qualitative and quantitative factors:

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

The pool would be further adjusted to the extent required to ensure that all relevant identified current and future risks are reflected or in light of the Group's capital position.

Individuals, including executive directors, are compensated out of that bonus pool based on their contribution to the achievement of the Group's business objectives as well as personal objectives. Such individual criteria depend on the role of the individual in the Group. The allocations of individual variable remuneration awards shall be correlated to the staff member's formalised annual individual appraisal, that takes into consideration quantitative and qualitative objectives known to the employee, as well as risk management considerations. Individuals 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 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.

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 but should provide incentives for such staff to deliver the best performance in their role. Thus control functions are judged on success in developing appropriate policies, developing effective risk management controls and procedures, monitoring risk and building control systems.

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) for variable remuneration paid to MeDirect Malta staff and 50% for variable remuneration paid to MeDirect Belgium staff. There were no instances throughout the current financial year and the preceding financial year when such ratio was exceeded.

Where variable remuneration is more than €100,000 for MeDirect Malta employees and €75,000 for MeDirect Belgium employees, or for lower values more than 100% of the fixed remuneration, a minimum of 50% of the variable remuneration cannot be delivered in the form of cash.

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

Subject to regulatory de minimis limits, for Material Risk Takers deferral will apply to at least 40% of annual variable remuneration (depending on the quantum of each individual's total remuneration, and being at least 60% where annual variable remuneration outcomes are significant, as determined in accordance with applicable regulations) , including both cash and instrument payments under the Deferred Bonus Plan.

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

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 up to a certain size, that such employees have acquired from third party banks.

Material Risk Takers

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

Material Risk Takers include:

- Non-executive directors that are responsible for providing a monitoring role;
- Executive directors that are also responsible for certain business units;
- Heads of a material business unit and key personnel in control functions;
- Staff members authorised to take, approve or veto discussions on material credit risk exposures or is a member of a committee which has authority to take decisions on material credit risk exposures;
- Staff members responsible for initiating credit proposals or structuring credit products which relate to material credit risk exposures;
- Staff members authorised to approve or veto the introduction of new products; and
- Senior management responsible for business units/business lines or Finance, Administration and Human Resources, as well as those responsible for internal audit, compliance and risk management functions of the Group.

Material risk takers would also include staff members that have been awarded total remuneration in the previous financial year equal to or in excess of other material risk takers (excluding non-executive, support function and control function roles). The list of Material Risk Takers is reviewed and reconsidered by the Bank's NRC on at least an annual basis.

The target population defined as Material Risk Takers for the purposes of this report (excluding those allocated to the Supervisory function) represents 10.5% of the average total number of employees in the Group throughout the financial year. For the purposes of information provided hereunder 'Senior Management' shall mean Directors and Management Executive Committee members and other management as determined by the Bank's NRC.

For the purposes of remuneration, Material Risk Takers 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.

	Supervisory function	Management function	Investment banking and wealth management	Retail banking	Corporate functions	Independent control functions
Senior Management						
Number of material risk takers	6	3	2	3	8	1
Total fixed remuneration (€)[1]	565,316	3,094,790	199,246	1,109,201	1,729,600	204,712
Total variable remuneration (€) (delivered in cash)	-	1,259,992	45,000	71,720	240,079	157,400
Non-senior management						
Number of material risk takers	-	-	1	1	6	2
Total fixed remuneration (€)[1]	-	-	104,762	271,583	545,595	345,805
Total variable remuneration (€) (delivered in cash)	-	-	-	96,990	75,000	60,000
Total						
Number of material risk takers	6	3	3	4	14	3
Total fixed remuneration (€)[1]	565,316	3,094,790	304,008	1,380,784	2,275,195	550,517
Total variable remuneration (€) (delivered in cash)	-	1,259,992	45,000	168,710	315,079	217,400

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

The following is an analysis of the deferred remuneration awarded during the financial year that are also outstanding as at 31 March 2019 since no deferred remuneration was paid throughout the financial year.

	Senior management	
	Vested	**Unvested**
	€	**€**
Total outstanding deferred remuneration – Share-linked instruments	**466,600**	**1,324,800**

The total expense and liability recognised in the financial year arising from deferred share-based payments amounted to €0.9 million.

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 Bank's NRC, the directors' fees earned by the Bank's non-executive directors, including the Chairman, for the Bank's directorship in the year ended 31 March 2019 amounted to €0.4 million.

Total emoluments earned by the executive directors of the Bank during the year ended 31 March 2019, are reported below:

	€	%
Fixed remuneration	**2,325,935**	64
Variable remuneration	**1,209,992**	34
Non-cash benefits	**65,661**	2
	3,601,588	100

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 2019 were engaged under indefinite employment contracts.

Remuneration - senior management

Total emoluments received by 15 senior management (excluding directors), during the year ended 31 March 2019 are reported below:

	€	%
Fixed remuneration	**3,818,970**	84
Variable remuneration	**564,199**	13
Non-cash benefits	**126,984**	3
	4,510,153	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 2019, there were no new sign-on and severance payments made either to directors or members of senior management of the Group.

Michael Bussey
Chairman

John Zarb
Director

28 June 2019

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 2019, 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 32 to 137, comprise:

- the consolidated and parent company statements of financial position as at 31 March 2019;
- the consolidated and parent company statements of 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 these Codes.

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).

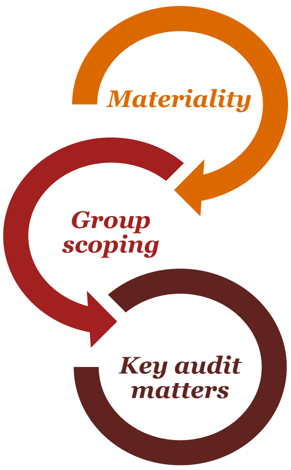
The non-audit services that we have provided to the group and its subsidiaries, in the period from 1 April 2018 to 31 March 2019, are disclosed in the note 27 to the financial statements.

Independent auditor's report - continued

To the Shareholders of MeDirect Bank (Malta) plc

Our audit approach

Overview



- Overall group materiality: €1.1 million, which represents 5% of profit before tax.

- The audit carried out by the group engagement team covered the local component as at and for the year ended 31 March 2019 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.

- Credit loss allowances in respect 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

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	€1,074,000 (2018: €705,000)
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 €107,000 as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Key audit matters

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

Key audit matter	How our audit addressed the key audit matter
Credit loss allowances in respect of loans and advances to customers of the Group and the Bank Credit loss allowances in respect of loans and advances to customers represent management's best estimate of expected credit losses ('ECLs') within the loan portfolios at the balance sheet date. On 1 April 2018, the group transitioned to IFRS 9, a new and complex accounting standard which introduced the measurement of credit loss allowances based on an expected loss model rather than an incurred loss model previously applied under IAS 39. 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 gross carrying amount of €1,779.2 million at 31 March 2019, and a significantly smaller local lending portfolio, predominantly consisting of loans to the real estate activities sector in Malta, with a gross carrying amount of €87.2 million at 31 March 2019. The measurement of ECLs in respect of loans and advances to customers is considered a key area of focus particularly for the international lending portfolio. All loans within the Group's international portfolio are considered individually significant. As a result, credit loss allowances relating to all loans and advances within the international portfolio are calculated at an instrument level. A considerable level of judgement is required in the development and / or calibration of the models designed to estimate ECLs on loans measured at amortised cost in accordance with the requirements of IFRS 9. In general the group calculates ECL by using the following key inputs: probability of default (PD), loss given default (LGD) and exposure at default (EAD). The maximum period considered when measuring ECL is the maximum period over which the Group is exposed to credit risk. In general, the EAD for exposures within the international portfolio is based on behavioural maturity, reflecting management expectations on the exercise of prepayment or extension options. For non-defaulted (Stages 1 and 2) exposures, the Bank uses a model developed by an external vendor in which key risk parameters, including both PDs and LGDs, are estimated using statistical models mainly by benchmarking exposure-specific characteristics against an underlying dataset. Specifically, the PDs and LGDs of the Group's international portfolio are developed on a name by name basis by reference to the default and loss history of comparable	As IFRS 9 was adopted at the start of the year, we performed audit procedures on the opening balances to gain assurance on the transition from IAS 39. This included evaluating the accounting interpretations to apply the requirements of IFRS 9 and testing the adjustments and disclosures made on transition. Discussions with the Audit Committee included: • the policies and methodologies used by the Group in respect of computing ECLs on loans and advances; • the final ECL for Stage 1 and 2 exposures estimated by the vendor's model, focusing on key parameters driving movements in ECL during the year; and • impairment allowances in respect of exposures classified as Stage 3. In respect of the Group's ECL models used for estimating credit loss allowances in respect of defaulted and non-defaulted exposures respectively, the appropriateness of the modelling policy and methodology used was independently assessed by reference to the requirements of IFRS 9. Specifically for exposures classified as Stage 1 and 2, the more judgemental interpretations of IFRS 9 made by management comprise in particular the conversion of TTC to PiT PDs and the macroeconomic modelling aspects. *ECL calculation for non-defaulted exposures* We understood and critically assessed the model used by the Group to measure ECL allowances on exposures classified within Stages 1 and 2. In this regard, we obtained an understanding of the model parameters and the algorithmic processes underlying the model. Accordingly, our audit approach focused specifically on • obtaining comfort over the accuracy and completeness of model inputs, with the updating process being largely manual; • testing the reasonableness of key parameters driving the measurement of credit loss allowances for such exposures, including the logic for TTC to PiT conversion and the macroeconomic modelling aspect; • challenging judgemental estimates made by management (such as staging criteria and overlays); and • backtesting the ECL outcome against the Group's historical experience. Given that management introduced controls over its modelling processes throughout the year, generally we did not rely on controls performed by management, as they were not effective throughout the entire reporting period.

Key audit matter	How our audit addressed the key audit matter

borrowers with similar characteristics in terms of size, industry and country of operations.
 	
The Bank's ECL model estimates Through-The-Cycle (TTC) PDs at a borrower level based on quantitative (financial statement information) and qualitative (borrower characteristics such as management's ability to create realistic budgets through a comparison of actual to budgeted performance) model inputs, benchmarking these model inputs against those of peers with similar credit risk characteristics and operating in the same industry. TTC PDs are then adjusted using a macroeconomic modelling tool to first reflect current macroeconomic conditions (unconditional Point-in-Time or PiT PD) and then simulate the PD under multiple macroeconomic forecasts developed by the external vendor (conditional PiT PD).
 	
On the other hand, the LGD is estimated at a facility level to reflect the effect of relative seniority of facilities on expected losses. Similar to PDs, the Bank's ECL model estimates the LGD by benchmarking facility-specific model inputs against observed losses for facilities which are similar in nature. In this respect, the model takes into consideration both quantitative and qualitative aspects when developing LGDs. The quantitative aspect is principally driven by the nature of the exposure (term vs. revolver), the relative ranking of the facility in the borrower's capital structure, the country and industry in which the borrower operates, together with the borrower-specific PD. The qualitative aspect, in turn, differentiates between exposures in terms of the borrower's covenant violation history as well as the relative creditor friendliness across legal jurisdictions.
 	
The same macroeconomic modelling elements used to transform TTC PDs to PiT PDs is then used to convert the TTC LGDs to conditional PiT LGDs. In this regard, macroeconomic conditioning is applied to the LGD term structure through a modelled correlation between PD and LGD term structures.
 	
Management also applies an overlay for UK exposures to reflect the increased level of uncertainty which exists in the geographical area at the moment due to Brexit.
 	
Staging is determined based on a combination of quantitative and qualitative criteria. Quantitative criteria are based on a comparison of model-calculated PDs/implied ratings as at reporting date with the calculated PDs/implied ratings on origination. Meanwhile, qualitative criteria are based on aspects such as the regular monitoring of the financial performance of borrowers against forecasts, compliance with covenants, as well as strategic developments affecting the borrowers' future repayment abilities. In this regard, the Group applies a set of Significant Increase in Credit Risk (SICR) and Unlikeliness-to-Pay (UTP) criteria in order to determine staging on a qualitative basis, which requires a significant element of judgement.
 	
For those loans which are classified as Stage 3 (defaulted) exposures, judgement is required to estimate the expected
	We did however partially rely on controls in respect of stage classification. In this respect, we specifically obtained comfort around monitoring of Stage 1 exposures by both the Group's first and second lines of defence through control procedures. The design and operating effectiveness of these key controls were tested and accordingly, it was determined that we could rely on such controls for the purpose of our audit.
	
	In order to obtain comfort on the credit loss allowances for Stage 1 and 2 exposures within the international portfolio, which is vendor model driven, we carried out the following substantive procedures:
	
	• Tested the completeness and accuracy of the model data inputs used for the purposes of the year end ECL calculation against source data. This included testing of financial statement inputs, qualitative inputs (e.g. covenant breaches), as well as instrument-specific inputs (e.g. nature of loan, exposure amount, effective interest rate, etc.).
	
	• Performed risk-based testing of model components and / or parameters, including the application of an independent challenge of key assumptions. This comprised backtesting to obtain comfort on key variables / parameters such as:
	  o Expected maturities – assessed the historical accuracy of management predictions of expected maturities compared to actual maturities.
	  o PDs – assessed the reasonableness of PDs through a comparison of predicted vs. actual default rates, as well as assessing observed trends in movements in PiT PDs across countries; and
	  o LGDs – benchmarked the LGDs estimated by the model with the Group's own history of losses on defaulted exposures.
	
	• Evaluated the continuing appropriateness of the model calibration of TTC PDs produced by the model.
	
	• Assessed the appropriateness of the Group's SICR criteria used for downgrading exposures to Stage 2, including quantitative SICR staging criteria used in the model.
	
	• Assessed the reasonableness of the movements in credit loss allowances for Stage 1 and 2 exposures during the year to ensure that these were in line with expectations.
	
	• Challenged the impact of changes occurring during the year to the logic/algorithms within the vendor model affecting the PiT conversions as well as the macroeconomic modelling element within the ECL calculation.

Key audit matter

future cash flows related to that loan. In this regard, the ECL calculation for defaulted exposures is manually driven, based on an internally developed methodology.

Estimated future cash flows are generally dependent on parameters or assumptions such as market multiples in relation to borrowers' enterprise values, the estimation of borrowers' operating cash flows, and the use of multiple scenarios to determine a probability weighted recoverable amount of the loan. In this respect, depending on particular circumstances of the borrower in question, the Group either takes into consideration different work-out options, or develops different scenarios under the same work-out option, adjusting key parameters in the ECL calculation, such as estimated future market multiples and forecasted operating cash flows.

The methodology implemented by the Group to measure credit loss allowances in line with the requirements of IFRS 9 increases the significance of data management since a number of data inputs are required for the impairment calculation.

The process remains largely manual after the first year since implementation of IFRS 9, although there are plans to automate the process and enhance the governance structure around the impairment calculation process. This increases risk around completeness and accuracy of model data inputs.

As outlined previously, in line with the new expected credit loss model introduced by IFRS 9, the Group converts TTC PDs to unconditional PiT PDs, which are further translated into conditional PiT PDs. This effect is also applied to LGDs through a modelled correlation between PDs and LGDs. This part of the modelling process introduces a substantial element of risk in the measurement of credit loss allowances for non-defaulted exposures, which requires management to apply a significant amount of judgement.

The credit environment throughout Europe has remained relatively benign for an extended period of time. Whilst the current level of delinquencies and defaults remains low, the risk of misstatement in credit loss allowances remains significant.

The estimation of ECLs is subjective in nature and inherently judgemental, also in respect of both timing of recognition of impairment and the estimation of the size of any such impairment.

In view of the above reasons, the Group's application of the IFRS 9 impairment requirements is deemed to be an area of focus.

Accordingly, summarising the key areas relevant to the Bank's measurement of ECLs would include:

- Allocation of assets to stage 1, 2, or 3 using criteria in accordance with IFRS 9;

How our audit addressed the key audit matter

- Tested the multiple macroeconomic scenarios and variables to assess their reasonableness. We assessed the economic scenarios being used against publicly available macroeconomic information to obtain comfort on the general direction of forecasted macroeconomic variables.
- Assessed the appropriateness of management overlays applied to UK exposures through the model.

Based on the evidence obtained, we found that the model assumptions, data used within the model and overlays to be reasonable.

In respect of staging classification of exposures, principally between Stage 2 and Stage 3, we reviewed the internal processes for identifying Unlikeliness-to-Pay (UTP) trigger events used to classify exposures into Stage 3 and also performed a comprehensive credit file review for Stage 2 exposures to ensure that these are appropriately classified as non-defaulted exposures.

In this regard, our audit procedures provided us with sufficient comfort on the appropriateness of the Group's exposures' staging classification.

ECL calculation for defaulted exposures

For Stage 3 exposures within the international lending portfolio, the appropriateness of provisioning methodologies and policies was independently assessed. In this regard, we obtained an understanding of the revised methodology adopted by the Group to measure ECL allowances for Stage 3 exposures in line with IFRS 9 and assessed its appropriateness in terms of theoretical soundness and practical application.

A substantive testing approach has been adopted in this respect. For Stage 3 loans, we performed tests of detail to review and challenge the Bank's estimate of credit loss allowances, in the light of the latest developments at the level of the borrower, together with the appropriateness of key parameters used. We also considered whether key judgements were appropriate given the borrowers' circumstances. An independent view was formed on the level of credit loss allowances recorded based on the detailed loan and customer information available.

In particular, we formed our view on key inputs to the ECL calculation including market multiples used to determine borrowers' enterprise values, the suitability of peers when determining such multiples, the estimation of borrowers' operating cash flows as well as the plausibility of the scenarios used and the probabilities associated with such scenarios.

We engaged our valuation specialists to review and critique the market multiples applied by management. In fact, our valuation specialists performed work to provide comfort about the reasonableness and appropriateness of multiples used by the Group to arrive at the borrower's enterprise value.

Based on the evidence obtained, we found management's judgements to be reasonable.

Key audit matter	How our audit addressed the key audit matter
• Accounting interpretations and modelling assumptions used to build the models that calculate the ECL; • Completeness and accuracy of data used to calculate the ECL; • Inputs and assumptions used to estimate the impact of multiple macroeconomic scenarios; and • Measurements of individually assessed provisions including the assessment of multiple scenarios. Relevant references in the Annual Report and Financial Statements: • Accounting policy: Note 1.5; • Credit risk: Note 2.2; • Critical accounting judgements and estimates: Note 3.3; • Note on Loans and advances to customers: Note 7; • Note on Change in expected credit losses and other impairment charges: Note 29; and • Note on Effect of adoption of IFRS 9: Note 38.	
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 paid or received that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts. A key judgement in respect of the application of the effective interest rate method to the international lending portfolio is the assumed expected life for the loans, effectively determining the period over which interest income is recognised utilising the effective interest rate method, and accordingly determining the pattern of recognition of income throughout different accounting periods. The determination as to which fees are considered an integral part of the effective interest rate and hence included within the effective interest rate calculations is also judgemental for the international lending portfolio. Management determines an assumed expected life for each individual loan within its international lending	Our audit procedures in respect of the application of the effective interest rate method to loans and advances within the international lending portfolio, in particular relating to the assumptions on loan expected lives and to the determination of which fees are considered to form an integral part of the effective interest rate, included the following: We assessed the historical accuracy of management predictions of expected maturities by comparing with actual maturities; We challenged the appropriateness of changes to assumed expected lives in relation to specific loans by reference to 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 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.

Key audit matter	How our audit addressed the key audit matter
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 seven 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 borrower to re-finance in the circumstances) and borrower specific information that indicates changes to repayment profiles and the extent of such changes. Relevant references in the Annual Report and Financial Statements: • Accounting policy: Note 1.5; and • 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.

To the Shareholders of MeDirect Bank (Malta) plc

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

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

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

Independent auditor's report - continued

To the Shareholders of MeDirect Bank (Malta) plc

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 Parent 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 Parent 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 Bank's corporate governance procedures or its risk and control procedures.

In our opinion, the Statement of Compliance set out on pages 8 to 14 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.

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 four years.

PricewaterhouseCoopers
78, Mill Street
Qormi
Malta

F Axisa

Fabio Axisa
Partner

28 June 2019

Statements of financial position

		Group		Bank	
		2019	2018	**2019**	2018
	Notes	**€000**	€000	**€000**	€000
ASSETS					
Balances with central banks and cash	4	**146,988**	105,300	**28,801**	67,171
Derivative financial instruments	5	**716**	470	**5,088**	3,886
Loans and advances to financial institutions	6	**118,439**	113,935	**108,732**	107,052
Loans and advances to customers	7	**1,842,555**	1,701,716	**1,610,559**	1,375,674
Investments					
- Treasury	8	**690,581**	560,245	**475,086**	483,278
- Subsidiaries	9	**-**	-	**225,001**	225,001
Property and equipment	10	**2,071**	1,223	**1,781**	1,194
Intangible assets	11	**5,815**	2,495	**5,365**	2,495
Non-current assets classified as held for sale	12	**1,785**	1,785	**1,785**	1,785
Current tax assets		**10,797**	9,527	**10,586**	9,527
Deferred tax assets	13	**21,338**	16,148	**17,804**	12,642
Prepayments and accrued income	14	**18,383**	18,168	**15,946**	16,822
Other assets	15	**23,323**	16,510	**22,486**	15,798
Total assets		**2,882,791**	2,547,522	**2,529,020**	2,322,325
EQUITY					
Called up issued share capital	16	**117,450**	117,450	**117,450**	117,450
Share premium	16	**13,464**	13,464	**13,464**	13,464
Shareholders' contributions	16	**143,196**	147,353	**143,196**	147,353
Reserve for general banking risks	16	**3,081**	1,694	**2,751**	1,694
Other reserves	16	**870**	(1,732)	**4,396**	5,508
Retained earnings	16	**56,126**	42,468	**45,682**	28,580
Total equity		**334,187**	320,697	**326,939**	314,049
LIABILITIES					
Derivative financial instruments	5	**11,327**	3,581	**7,989**	3,639
Amounts owed to financial institutions	17	**198,887**	126,428	**1,228,871**	1,019,082
Amounts owed to customers	18	**2,202,091**	1,979,159	**799,154**	841,927
Subordinated liabilities	19	**67,138**	66,949	**67,138**	66,949
Current tax liabilities		**158**	156	**49**	39
Deferred tax liabilities	13	**491**	44	**232**	44
Provisions for liabilities and other charges	20	**1,633**	-	**1,633**	-
Accruals and deferred income	21	**39,450**	34,266	**35,105**	31,458
Other liabilities	22	**27,429**	16,242	**61,910**	45,138
Total liabilities		**2,548,604**	2,226,825	**2,202,081**	2,008,276
Total equity and liabilities		**2,882,791**	2,547,522	**2,529,020**	2,322,325
Memorandum items					
Commitments to purchase financial assets	7	**60,843**	118,250	**60,843**	118,250
Commitments to extend credit, guarantees and other commitments	33 - 35	**523,991**	449,153	**523,742**	439,055

The notes on pages 37 to 137 are an integral part of these financial statements. The financial statements on pages 32 to 137 were approved and authorised for issue by the Board of Directors on 28 June 2019 and signed on its behalf by:

Michael Bussey
Chairman

John Zarb
Director

Statements of comprehensive income

		Group		Bank	
		2019	2018	**2019**	2018
	Notes	**€000**	€000	**€000**	€000
Interest income		**95,935**	90,835	**83,469**	78,754
Interest expense		**(28,333)**	(27,902)	**(39,684)**	(31,474)
Net interest income	23	**67,602**	62,933	**43,785**	47,280
Fee and commission income					
– Corporate lending fees		**653**	141	**638**	141
– Other		**6,413**	5,641	**4,501**	3,755
Fee and commission expense					
– Corporate lending fees		**(102)**	(244)	**(31)**	(155)
– Other		**(1,406)**	(1,313)	**(727)**	(920)
Net fee and commission income	24	**5,558**	4,225	**4,381**	2,821
Net trading income	25.1	**3,128**	3,929	**3,083**	3,833
Net income from other financial instruments at fair value through profit or loss		**3,448**	128	**3,448**	128
Other operating income					
– Realised gains on disposal of other investments	25.2	**87**	43	**87**	43
– Realised gains/(losses) on disposal of loans and advances		**412**	(1,028)	**379**	(1,192)
– Other income		**40**	11	**27**	11
Total operating income		**80,275**	70,241	**55,190**	52,924
Personnel expenses	26	**(21,411)**	(17,593)	**(14,361)**	(12,425)
Depreciation and amortisation	10-11	**(779)**	(259)	**(771)**	(231)
Other administrative expenses	27	**(30,820)**	(29,992)	**(15,692)**	(16,447)
Total operating expenses		**(53,010)**	(47,844)	**(30,824)**	(29,103)
Net operating income before changes in expected credit losses/impairment charges		**27,265**	22,397	**24,366**	23,821
Net impairment charges	28	**N/A**	(8,302)	**N/A**	(7,597)
Change in expected credit losses and other credit impairment charges	29	**(5,795)**	N/A	**(5,635)**	N/A
Profit before tax		**21,470**	14,095	**18,731**	16,224
Taxation	30	**1,398**	5,450	**2,253**	6,150
Profit for the year		**22,868**	19,545	**20,984**	22,374
Other comprehensive income					
Items that may be reclassified subsequently to profit or loss					
Fair valuation of financial investments measured at fair value through other comprehensive income/available-for-sale financial investments:					
- Net change in fair value, before tax		**1,651**	1,230	**636**	1,250
- Net amount reclassified to profit or loss, before tax		**-**	(43)	**-**	(43)
Income tax relating to other comprehensive income		**(475)**	(408)	**(222)**	(423)
Other comprehensive income, net of tax		**1,176**	779	**414**	784
Total comprehensive income, net of tax		**24,044**	20,324	**21,398**	23,158
Earnings per share	31	**19c**	17c		

The notes on pages 37 to 137 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 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 investments:							
- Net change in fair value arising during the year, net of tax	-	-	-	-	807	-	807
- Reclassification adjustments: net amount 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 as originally reported	**117,450**	**13,464**	**147,353**	**1,694**	**(1,732)**	**42,468**	**320,697**
Impact of transition to IFRS 9 (see note 1 and 38)	-	-	-	-	1,426	(7,901)	(6,475)
Impact of merger (see note 41)	-	-	-	-	-	78	78
Balance at 1 April 2018 as restated	117,450	13,464	147,353	1,694	(306)	34,645	314,300
Total comprehensive income							
Profit for the year	-	-	-	-	-	22,868	22,868
Other comprehensive income, net of tax:							
Fair valuation of financial investments measured at fair value through other comprehensive income:							
- Net change in fair value arising during the year, net of tax	-	-	-	-	1,176	-	1,176
Total comprehensive income, net of tax	-	-	-	-	1,176	22,868	24,044
Transfer to Reserve for general banking risks	-	-	-	1,387	-	(1,387)	-
Transactions with owners							
Shareholders' contributions	-	-	3,073	-	-	-	3,073
Repayment of shareholders' contributions	-	-	(7,230)	-	-	-	(7,230)
Total transactions with owners	-	-	(4,157)	-	-	-	(4,157)
Balance at 31 March 2019	**117,450**	**13,464**	**143,196**	**3,081**	**870**	**56,126**	**334,187**

The notes on pages 37 to 137 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 investments:							
- Net change in fair value arising during the year, net of tax	-	-	-	-	812	-	812
- Reclassification adjustments: net amount 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 (see 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 as originally reported	**117,450**	**13,464**	**147,353**	**1,694**	**5,508**	**28,580**	**314,049**
Impact of transition to IFRS 9 (see note 1 and 38)	-	-	-	-	1,539	(5,968)	(4,429)
Impact of merger (see note 41)	-	-	-	-	-	78	78
Balance at 1 April 2018 as restated	117,450	13,464	147,353	1,694	7,047	22,690	309,698
Total comprehensive income						.	
Profit for the year	-	-	-	-	-	20,984	20,984
Other comprehensive income, net of tax:							
Fair valuation of financial investments measured at fair value through other comprehensive income:							
- Net change in fair value arising during the year, net of tax	-	-	-	-	414	-	414
Total comprehensive income, net of tax	-	-	-	-	414	20,984	21,398
Realisation of previously recognised fair value reserve upon merger of subsidiary with Bank (see note 16)	-	-	-	-	(3,065)	3,065	-
Transfer to Reserve for general banking risks	-	-	-	1,057	-	(1,057)	-
Transactions with owners							
Shareholders' contributions	-	-	3,073	-	-	-	3,073
Repayment of shareholders' contributions	-	-	(7,230)	-	-	-	(7,230)
Total transactions with owners	-	-	(4,157)	-	-	-	(4,157)
Balance at 31 March 2019	**117,450**	**13,464**	**143,196**	**2,751**	**4,396**	**45,682**	**326,939**

The notes on pages 37 to 137 are an integral part of these financial statements.

Statements of cash flows

	Note	Group		Bank	
		2019	2018	**2019**	2018
		€000	€000	**€000**	€000
Cash flows from operating activities					
Interest and commission receipts		**118,351**	108,380	**104,509**	91,186
Interest and commission payments		**(30,186)**	(29,530)	**(41,160)**	(33,081)
Payments to employees and suppliers		**(58,863)**	(45,908)	**(37,184)**	(28,300)
Operating profit before changes in operating assets/liabilities		**29,302**	32,942	**26,165**	29,805
(Increase)/decrease in operating assets:					
- Reserve deposit with central banks		**(108,313)**	178,077	**471**	(275)
- Loans and advances to financial institutions and customers		**(182,119)**	(276,168)	**(269,449)**	(229,804)
Increase/(decrease) in operating liabilities:					
- Amounts owed to financial institutions and customers		**312,344**	(125,893)	**181,987**	140,867
- Other payables		**16,658**	7,704	**16,461**	8,974
- Derivative financial instruments		**(2,234)**	(848)	**(2,234)**	(182)
Tax (paid)/refunded		**(1,878)**	2,065	**(1,475)**	2,065
Net cash from/(used in) operating activities		**63,760**	(182,121)	**(48,074)**	(48,550)
Cash flows from investing activities					
Additional investment in subsidiary		**-**	-	**-**	(45,000)
Acquisition of property and equipment		**(884)**	(1,053)	**(844)**	(1,053)
Acquisition and development of intangible assets		**(3,301)**	(2,559)	**(3,161)**	(2,559)
Acquisition of investments measured at amortised cost		**(31,107)**	N/A	**-**	N/A
Acquisition of investments measured at fair value through other comprehensive income		**(164,713)**	N/A	**(26,886)**	N/A
Disposal/redemption of investments measured at fair value through other comprehensive income		**58,903**	N/A	**28,047**	N/A
Disposal/redemption of investments measured at fair value through profit or loss		**3,368**	-	**3,368**	-
Acquisition of available-for-sale investments		**N/A**	(25,717)	**N/A**	-
Disposal/redemption of available-for-sale investments		**N/A**	154,469	**N/A**	154,469
Net cash (used in)/from investing activities		**(137,734)**	125,140	**524**	105,857
Cash flows from financing activities					
Receipt of shareholders' contributions		**1,044**	86,550	**1,044**	86,550
Repayment of shareholders' contributions		**(7,230)**	-	**(7,230)**	-
Issue of debt securities		**-**	19,913	**-**	19,913
Dividends paid		**-**	(10,000)	**-**	(10,000)
Net advances from immediate parent company		**162**	8,287	**162**	8,287
Net movement in balances with group companies		**(2,207)**	1,376	**3,537**	6,634
Net cash (used in)/ from financing activities		**(8,231)**	106,126	**(2,487)**	111,384
Net (decrease)/increase in cash and cash equivalents		**(82,205)**	49,145	**(50,037)**	168,691
Cash and cash equivalents at beginning of year		**151,288**	102,143	**115,709**	(52,982)
Cash and cash equivalents at end of year	32	**69,083**	151,288	**65,672**	115,709

The notes on pages 37 to 137 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 2019 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 2019, including the financial results of MeDirect Bank SA ("MeDirect") and Grand Harbour I B.V. ("GH I"), a controlled special purpose entity utilised as part of the Group's funding strategy. The Bank 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 Bank's individual financial statements.

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.

GH I is funded through two intragroup loan facilities subscribed to by MeDirect Malta and MeDirect Belgium. MeDirect Belgium and MeDirect Malta invested in GH I on a 74% – 26% basis (2018: 78% - 22% basis) respectively, with the tranche bought by MeDirect Belgium (the "Senior Loan") amounting to €1,029 million (2018: €893 million) having a senior ranking vis-à-vis the tranche acquired by MeDirect Malta (the "Junior Loan") amounting to €361 million (2018: €252 million).

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. The comparative financial statements were not restated using predecessor accounting as the impact on the comparative financial information would have been immaterial.

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

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:

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

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

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

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

Standards, interpretations and amendments to published standards effective in 2019

During the financial year ended 31 March 2019, the Group adopted new standards, amendments and interpretations to existing standards that are mandatory for the Group's accounting period beginning on 1 April 2018.

The Group has adopted the requirements of IFRS 9 "Financial instruments" from 1 April 2018.

The classification and measurement, and impairment requirements are applied retrospectively by adjusting the opening balance sheet at the date of initial application. As permitted by IFRS 9, the Group has not restated comparatives. Adoption reduced net assets of the Group and the Bank at 1 April 2018 by €6.5 million and €4.4 million respectively as a result of the estimation of expected credit loss allowances (with the impact disclosed in Note 38), net of deferred income taxes.

In addition, the Group has adopted the requirements of IFRS 15 ‘Revenue from contracts with customers’ and a number of interpretations and amendments to standards, which have had an insignificant effect on the financial statements.

<u>IFRS 9 transitional requirements</u>

The transitional requirements of IFRS 9 necessitated a review of the designation of financial instruments at fair value. IFRS 9 requires that the designation is revoked where there is no longer an accounting mismatch at 1 April 2018 and permits designations to be revoked or additional designations created at 1 April 2018 if there are accounting mismatches at that date.

The changes in the classification of financial instruments as a result of the transitional requirements are highlighted in Note 38 to these financial statements.

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 2019 reporting periods and which have not been early adopted by the Group, in particular IFRS 16 ‘Leases’.

IFRS 16 ‘Leases’ has an effective date for annual periods beginning on or after 1 January 2019. IFRS 16 results in lessees accounting for most leases within the scope of the standard in a manner similar to the way in which finance leases are currently accounted for under International Accounting Standard (‘IAS’) 17 ‘Leases’. Lessees will recognise a right of use (‘ROU’) asset and a corresponding financial liability on the statement of financial position. The asset will be amortised over the length of the lease, and the financial liability measured at amortised cost. Lessor accounting remains substantially the same as under IAS 17.

<u>Leases in which the Group is a lessee</u>

The Group's lease arrangements comprise long-term leasehold properties and other immovable property leaseholds which were classified as operating leases under IAS 17. As at 31 March 2019 and 2018, the Group and Bank had non-cancellable operating lease commitments amounting to €6.1 million and €5.8 million respectively as disclosed in Note 33. Under IFRS 16, the Group will recognise new assets (ROU asset) and liabilities (lease liabilities) for all its lease arrangements which were previously classified as operating leases under IAS 17, with the exceptions of some arrangements of low value items or short-term arrangements of one year or less. The Group will apply IFRS 16 on its mandatory adoption date of 1 April 2019 using a modified retrospective approach with no restatement of comparative information. Under this approach, the lease liability is measured at the present value of the remaining lease payments as at 1 April 2019, which management has estimated to amount to €9.6 million and €8.6 million for the Group and Bank respectively, and the right-of-use assets at that date will be equivalent to this lease liability (with no adjustment to equity).

Up until 31 March 2019, the Group recognised an operating lease expense on a straight-line basis over the term of the lease and recognised assets and liabilities only to the extent that there was a timing difference between actual lease payments and the expense recognised. The nature of expenses related to these leases will change with effect from 1 April 2019 because IFRS 16 replaces the operating lease expense with an amortisation charge for right-of-use assets and interest expense on lease liabilities.

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

There are no standards, other than IFRS 16, 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.

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. Consistent accounting policies are applied throughout the Group for the purposes of consolidation

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

In the 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

Initial recognition and derecognition

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

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

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

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

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

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

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

Modification of terms

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

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

The accounting treatment in respect of the modification of terms of financial assets, including considerations made to determine whether the terms of the renegotiated asset are substantially different, is described in more detail in the 'Modified financial assets' sub-section on page 47.

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.

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).

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

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

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

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

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

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

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

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

A business model refers to the manner in which financial assets are managed in order to achieve a particular business objective, whether by collecting contractual cash flows only, selling financial instruments, or both. The Group's business model is determined by 'key management personnel' (as defined in Note 36 of this set of financial statements) and the assessment is based on matters of fact, reflecting the strategic purpose and intention for the portfolio and how the performance of the portfolio is assessed.

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

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

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

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

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

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

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

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

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

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

(iii) Expectations about future sales activity.

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

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

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

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

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

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 lending portfolio; and (iii) the local lending portfolio.

Financial assets measured at amortised cost

Financial assets that are held to collect the contractual cash flows and which contain contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest are measured at amortised cost.

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

On the basis of 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 are measured at amortised cost under IFRS 9; and

(ii) a portfolio of debt securities classified as available-for-sale under IAS 39 is measured at amortised cost under IFRS 9.

Financial assets measured at fair value through other comprehensive income

Financial assets held for a business model that is achieved by both collecting contractual cash flows and selling and which contain contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest are measured at fair value through other comprehensive income ("FVOCI"). These comprise primarily a portfolio of debt securities classified as available-for-sale under IAS 39.

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

On the basis of the assessment that the Group conducted a portfolio of debt securities classified as available-for-sale under IAS 39 was classified at FVOCI under IFRS 9 given that the objective of the business model was achieved by both the collection of contractual cash flows and selling of the financial assets.

Financial instruments measured at fair value through profit or loss

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

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

Financial instruments designated at fair value through profit or loss

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

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

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

Assets acquired in exchange for loans

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

Impairment of amortised cost and FVOCI financial assets

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

Since movements in the fair value of financial instruments measured at FVTPL are recognised directly in profit or loss, no 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.

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

Three stage expected credit loss approach

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

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

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

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

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

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

<u>Significant increase in credit risk (SICR) or Stage 2</u>

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 and 3 exposures).

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

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

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

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

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

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

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

- *International Lending portfolio:*

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

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

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

SICR assessment for the international lending portfolio*:*

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

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

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

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

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

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

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

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

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

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

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

Hard Trigger based on Internal Risk Classifications

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

- *Treasury portfolio*

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

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

- *Local Lending portfolio*

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

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

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

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

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

Financial instruments that:

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

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

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

Credit-impaired (Stage 3)

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

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

IFRS 9 introduces a rebuttable presumption that default does not occur later than when a contractual repayment relating to a financial asset is 91 days past due, unless reasonable and supportable information is available to demonstrate that a more lagging criterion is more appropriate. This presumption has not been rebutted by the Group, meaning that default is deemed not to have occurred later than when a financial asset is 91 days past due. Although this presumption is applicable to all 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.

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

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

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

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

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

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

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

Interest income is recognised by applying the effective interest rate to the amortised cost amount, i.e. gross carrying amount less credit loss allowances.

Write-offs

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

Modified financial assets

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

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

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

The assessment of whether a modification is considered to be significant is therefore critical in determining the accounting implications of modifications to an asset's contractual cash flows. The Group 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. Any new financial assets that arise following derecognition events as a result of substantial modification to the terms of the instrument are classified as Stage 1 assets, unless the new financial asset is credit-impaired on initial recognition, in which case it will be classified as a Purchased or Originated Credit-Impaired ('POCI') financial asset. A loss is booked in profit or loss (normally as a write-off) since the new instrument is recognised at fair value.

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

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

Purchased or originated credit-impaired

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

Movement between stages

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

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

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

For the international lending portfolio, curing of Stage 2 classified exposures is governed by the Credit Committee Quarterly Portfolio Review process where supportive evidence of improved performance and thereby stage transfer is reviewed and approved by the committee.

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

Measurement of Expected credit losses

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

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

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

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

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

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

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

Probability of Default

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

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

PDs for the Group's Treasury, international lending and local lending portfolios are estimated based on statistical models, and rating scale to PD matrices developed by external vendors.

Loss Given Default

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

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

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

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

The Group's Treasury 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.

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.

- *International Lending portfolio*

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

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

- *Treasury portfolio*

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

- *Local Lending portfolio*

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

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

Credit-Impaired financial assets (Stage 3)

For Stage 3 assets, the Group estimates ECL on an individual basis. When assessing impairment for these assets, the Group applies a true and fair view to the estimation of both the future cash flows and the collateral valuations. The estimated recoverable amount corresponds to the amount calculated using:

- the present value of estimated future cash flows (excluding future losses not incurred) discounted at the financial asset's original effective interest rate; and
- the estimation of the recoverable amount of a collateralised exposure reflects the cash flows that may result from the liquidation of the collateral.

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

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

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

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

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

Forward-looking information

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

The Group first identifies macroeconomic variables (MEVs) which have the highest correlation to systemic credit risk factors for its obligors using statistical methods developed by external vendors. These macroeconomic variables include, but are not limited to, country-level variables such as country-specific GDP and employment levels, that are deemed to have the highest correlation to the Group's portfolio.

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

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

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

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

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

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

Presentation of ECL in the Statement of financial position

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

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

1.6 Offsetting financial instruments

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

1.7 Intangible assets

1.7.1 Goodwill

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

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

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

1.7.2 Computer software

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

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

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

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

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

1.8 Property, plant and equipment

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

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

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

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

Depreciation on assets, recognised in profit or loss, is calculated using the straight-line method to allocate their cost 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.

1.9 Impairment of non-financial assets

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

1.10 Non-current assets classified as held for sale

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

1.11 Current and deferred income tax

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

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

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

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

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

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

1.12 Share capital

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

1.13 Financial liabilities

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

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

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

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

1.14 Derivative financial instruments

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

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

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

1.14.1 Fair value hedges

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

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

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

1.15 Provisions

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

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

1.16 Interest income and expense

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

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

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

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

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

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

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

1.17 Fees and commissions

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

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

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

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

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

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

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

1.18 Net trading income

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

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

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

1.20 Share-based compensation

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

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

1.21 Financial guarantee contracts and loan commitments

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

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

1.21.1 Applicable from 1 April 2018

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

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

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

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

1.21.2 Applicable until 31 March 2018

Financial guarantees were 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 was zero because all guarantees were 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 was recognised. Subsequent to initial recognition, the Group's liabilities under such guarantees were 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 were determined based on experience of similar transactions and history of past losses, supplemented by the judgement of management. The premium received 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.

1.22 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.

1.23 Customer assets

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

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

1.24 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.

1.25 Accounting policies applied to financial instruments prior to 1 April 2018

Financial assets

i. Classification of financial assets

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.

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.

- 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.

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.

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.

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.

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, are classified as available-for-sale as at the end of the reporting period.

ii) Impairment of financial assets

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.

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.

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.

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.

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.

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.

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 Maltese corporates.

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

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

The major components within the Group's asset base are a portfolio of loans to international corporates, a treasury debt securities portfolio and another portfolio of loans to Maltese 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 (RMF) and therefore it has adopted a comprehensive risk management process that provides an appropriate balance between the growth of the Group, maximising its profitability and managing the associated risks.

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

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

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

Figure 1: Three Lines of Defence Model

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

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

2.2 Credit risk

Credit risk is the risk of loss to the Group's business or of adverse change in 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 high-quality liquid assets ("HQLA") 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 providing loans and revolving credit facilities, is typically on a senior secured basis. The Group's Credit 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 Group's Credit 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.

The Board of Directors has established risk appetite 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 Policy among others outlines the following specific exposures and trading limits:

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

Limits on counterparty exposure are established by the 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 Credit Framework.

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

Accordingly, the Group's credit risk taking activities comprise principally 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 credit analysis process. The analysis process reviews all securities and international corporate loans not only from a credit perspective but also from a legal, financial and credit ratings perspective. The respective Credit teams, who manage the credit analysis and research process, are composed of highly-trained individuals with specialised skill sets and years of experience in the Securities and Corporate Syndicated Loans markets. The credit analysis and research process subjects potential investments to scenario analysis to determine whether they can withstand significant adverse credit, idiosyncratic and market events. Additionally, the portfolio is subject to a continual, thorough monitoring and oversight process in order to identify any financial instruments which require increased monitoring of performance. Further details on the credit approval and monitoring processes are provided within the Group's Pillar III Disclosures.

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.

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

	Group		**Bank**	
	2019	2018	**2019**	2018
	€000	€000	**€000**	€000
Net exposure:				
Financial assets measured at amortised cost				
Balances with central banks	**146,985**	105,104	**28,798**	66,975
Loans and advances to financial institutions	**118,439**	113,935	**108,732**	107,052
Loans and advances to customers	**1,842,555**	1,701,716	**1,610,559**	1,375,674
Investments measured at amortised cost	**425,009**	-	**348,344**	-
Accrued income	**16,800**	15,878	**14,520**	14,682
Loans to related parties (included in other assets)	**15,305**	14,965	**15,801**	15,422
Other receivables (included in other assets)	**6,105**	-	**6,031**	-
	2,571,198	1,951,598	**2,132,785**	1,579,805
Investments measured at fair value through other comprehensive income	**265,572**	-	**126,742**	-
Available-for-sale debt investments	**-**	560,245	**-**	483,278
Held for trading derivative financial instruments	**716**	470	**5,088**	3,886
	2,837,486	2,512,313	**2,264,615**	2,066,969
Commitments to purchase financial assets	**60,843**	118,250	**60,843**	118,250
Commitments to extend credit, guarantees and other commitments (excluding operating leases and capital commitments)	**517,936**	441,677	**517,936**	431,914

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

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

Group	At 31 March 2019		At 1 April 2018	
	Gross carrying/ nominal amount	Allowance for ECL	Gross carrying/ nominal amount	Allowance for ECL
	€000	€000	€000	€000
Balances with central banks	146,986	(1)	105,104	-
Loans and advances to financial institutions	118,440	(1)	113,935	-
Loans and advances to customers	1,866,408	(23,853)	1,724,354	(33,111)
Investments measured at amortised cost	425,074	(65)	401,555	(23)
Accrued income	16,862	(62)	15,878	(263)
Loans to related parties (included in other assets)	15,305	-	14,965	-
Other receivables (included in other assets)	6,105	-	-	-
	2,595,180	(23,982)	2,375,791	(33,397)
Commitments to purchase financial assets	60,843	(52)	118,250	-
Commitments to extend credit, guarantees and other commitments (excluding operating leases and capital commitments)	517,936	(1,581)	441,677	(1,022)
	578,779	(1,633)	559,927	(1,022)
Total	3,173,959	(25,615)	2,935,718	(34,419)

	Fair value	Allowance for ECL	Fair value	Allowance for ECL
	€000	€000	€000	€000
Financial investments (debt securities) measured at fair value through other comprehensive income	265,572	(23)	160,898	(9)

Bank	At 31 March 2019		At 1 April 2018	
	Gross carrying/ nominal amount	Credit loss allowance	Gross carrying/ nominal amount	Credit loss allowance
	€000	€000	€000	€000
Balances with central banks	28,799	(1)	66,975	-
Loans and advances to financial institutions	108,733	(1)	107,052	-
Loans and advances to customers	1,631,239	(20,680)	1,396,676	(29,024)
Investments measured at amortised cost	348,405	(61)	355,749	(19)
Accrued income	14,568	(48)	14,682	(260)
Loans to related parties (included in other assets)	15,801	-	15,422	-
Other receivables (included in other assets)	6,031	-	-	-
	2,153,576	(20,791)	1,956,556	(29,303)
Commitments to purchase financial assets	60,843	(52)	118,250	-
Commitments to extend credit, guarantees and other commitments (excluding operating leases and capital commitments)	517,936	(1,581)	431,914	(900)
	578,779	(1,633)	550,164	(900)
Total	2,732,355	(22,424)	2,506,720	(30,203)

	Fair value	Credit loss allowance	Fair value	Credit loss allowance
	€000	€000	€000	€000
Financial investments (debt securities) measured at fair value through other comprehensive income	126,742	(21)	129,897	(7)

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

	Group		Bank	
	2019	2018	**2019**	2018
	€000	€000	**€000**	€000
Derivative financial instruments designated as hedging instruments	**716**	470	**5,088**	3,886

2.2.2 Summary of 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 previously explained in the accounting policy (refer to note 1.5), the Group adopts a five-scale internal credit classification rating scale in order to assess the relative credit quality of exposures within its portfolios of financial instruments. 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. Each of the five internal credit classification rating scales is aligned to the Group's approach for determining the relative staging of financial assets in line with the requirements emanating from IFRS 9 as follows:

Stage 1 (Performing)

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

Stage 2 (Under performing)

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

Stage 3 (Non-performing)

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

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

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

Deteriorating Credits

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

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

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

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

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

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

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

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

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

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

The following table presents information about the credit quality of financial assets held by the Group and the Bank that may be subject to impairment and the related credit loss allowances:

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

	Performing		Under performing	Non-performing	
	Regular	Focus	Under surveillance	Doubtful	Total
Group	**€000**	**€000**	**€000**	**€000**	**€000**
As at 31 March 2018					
Balances with central banks	105,104	-	-	-	105,104
Loans and advances to financial institutions	113,935	-	-	-	113,935
Loans and advances to customers	1,359,698	170,115	112,565	59,338	1,701,716
- International lending portfolio	*1,297,687*	*165,882*	*109,774*	*46,859*	*1,620,202*
Gross	*1,301,896*	*166,421*	*110,130*	*59,861*	1,638,308
Impairment allowances	*(4,209)*	*(539)*	*(356)*	*(13,002)*	(18,106)
- Local lending portfolio	*62,011*	*4,233*	*2,791*	*12,479*	*81,514*
Gross	*62,516*	*4,260*	*2,796*	*16,474*	86,046
Impairment allowances	*(505)*	*(27)*	*(5)*	*(3,995)*	(4,532)
Accrued income	13,515	859	1,048	456	15,878
Loans to related parties (included in other assets)	14,965	-	-	-	14,965
	1,607,217	170,974	113,613	59,794	1,951,598
Off balance sheet at nominal amount					
Commitments to purchase financial assets	118,250	-	-	-	118,250
Commitments to extend credit, guarantees and other commitments	393,252	48,425	-	-	441,677
	511,502	48,425	-	-	559,927
Available-for-sale investments measured at fair value through other comprehensive income	560,245	-	-	-	560,245

	Performing		Under performing	Non-performing	
	Regular	Focus	Under surveillance	Doubtful	Total
Bank	**€000**	**€000**	**€000**	**€000**	**€000**
As at 31 March 2019					
Balances with central banks	28,798	-	-	-	28,798
Gross	*28,799*	-	-	-	*28,799*
Credit loss allowances	*(1)*	-	-	-	*(1)*
Loans and advances to financial institutions	108,732	-	-	-	108,732
Gross	*108,733*	-	-	-	*108,733*
Credit loss allowances	*(1)*	-	-	-	*(1)*
Loans and advances to customers	1,198,146	259,156	83,062	70,195	1,610,559
- International lending portfolio	*1,124,354*	*258,131*	*81,338*	*60,910*	*1,524,733*
Gross	*1,133,500*	*259,936*	*82,661*	*67,944*	*1,544,041*
Credit loss allowances	*(9,146)*	*(1,805)*	*(1,323)*	*(7,034)*	*(19,308)*
- Local lending portfolio	*73,792*	*1,025*	*1,724*	*9,285*	*85,826*
Gross	*74,008*	*1,025*	*1,730*	*10,435*	*87,198*
Credit loss allowances	*(216)*	-	*(6)*	*(1,150)*	*(1,372)*
Investments measured at amortised cost	348,344	-	-	-	348,344
Gross	*348,405*	-	-	-	*348,405*
Credit loss allowances	*(61)*	-	-	-	*(61)*
Accrued income	12,711	624	394	791	14,520
Gross	*12,749*	*628*	*400*	*791*	*14,568*
Credit loss allowances	*(38)*	*(4)*	*(6)*	-	*(48)*
Loans to related parties (included in other assets)	15,801	-	-	-	15,801
Other receivables (included in other assets)	6,031	-	-	-	6,031
	1,718,563	259,780	83,456	70,986	2,132,785
Off balance sheet at nominal amount					
Commitments to purchase financial assets					
Nominal amount	60,843	-	-	-	60,843
Credit loss allowances	*(52)*	-	-	-	*(52)*
Commitments to extend credit, guarantees and other commitments					
Nominal amount	376,555	78,788	57,099	5,494	517,936
Credit loss allowances	*(1,104)*	*(166)*	*(311)*	-	*(1,581)*
	436,242	78,622	56,788	5,494	577,146
Investments measured at fair value through other comprehensive income					
Fair value	126,742	-	-	-	126,742
Credit loss allowances	*(21)*	-	-	-	*(21)*

	Performing		Under performing	Non-performing	
	Regular	Focus	Under surveillance	Doubtful	Total
Bank	**€000**	**€000**	**€000**	**€000**	**€000**
As at 31 March 2018					
Balances with central banks	66,975	-	-	-	66,975
Loans and advances to financial institutions	107,052	-	-	-	107,052
Loans and advances to customers	1,073,285	139,430	111,141	51,818	1,375,674
- International lending portfolio	*1,011,274*	*135,197*	*108,350*	*39,339*	*1,294,160*
Gross	*1,014,558*	*135,635*	*108,701*	*51,736*	*1,310,630*
Impairment allowances	*(3,284)*	*(438)*	*(351)*	*(12,397)*	*(16,470)*
- Local lending portfolio	*62,011*	*4,233*	*2,791*	*12,479*	*81,514*
Gross	*62,516*	*4,260*	*2,796*	*16,474*	*86,046*
Impairment allowances	*(505)*	*(27)*	*(5)*	*(3,995)*	*(4,532)*
Accrued income	12,523	773	1,048	338	14,682
Loans to related parties (included in other assets)	15,422	-	-	-	15,422
	1,275,257	140,203	112,189	52,156	1,579,805
Off balance sheet at nominal amount					
Commitments to purchase financial assets	118,250	-	-	-	118,250
Commitments to extend credit, guarantees and other commitments	383,489	48,425	-	-	431,914
	501,739	48,425	-	-	550,164
Investments measured at fair value through other comprehensive income	483,278	-	-	-	483,278

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:

	Measured at fair value through other comprehensive income (available-for-sale as at 31 March 2018)				Measured at amortised cost			
	Group		Bank		Group		Bank	
	2019	2018	**2019**	2018	**2019**	2018	**2019**	2018
	€000	€000	**€000**	€000	**€000**	€000	**€000**	€000
National Government securities								
A+ to A	**-**	7,022	**-**	7,022	-	-	-	-
Regional Government securities								
AAA	**53,159**	52,755	**34,183**	17,025	**84,693**	-	**53,644**	-
AA+ to AA-	**27,935**	14,502	**27,934**	4,329	**143,589**	-	**107,984**	-
Other securities								
AAA	**159,453**	338,272	**62,781**	307,208	**185,181**	-	**175,171**	-
AA+ to AA-	**25,025**	147,694	**1,844**	147,694	**11,546**	-	**11,545**	-
Total	**265,572**	560,245	**126,742**	483,278	**425,009**	-	**348,344**	-

This portfolio is also categorised under the credit quality classifications used by the Group (i.e. regular, focus, under surveillance and doubtful) and these ratings are determined by MeDirect Malta's Credit Committee. All the investment securities are classified as regular.

2.2.3 Past due but not credit-impaired financial assets

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

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

The past due but not credit-impaired ageing analysis of the Group's and Bank's loans and advances to customers within the local lending portfolio is shown in section 2.2.4 in the table on page 70.

2.2.4 Detailed information on credit quality of financial assets

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

<u>Summary of credit risk (excluding derivative financial instruments and debt instruments measured at FVOCI) by stage distribution and ECL coverage</u>

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

	Gross carrying/nominal amount				Credit loss allowance				ECL coverage %			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Bank	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000
As at 31 March 2019												
On balance sheet at amortised cost:												
Balances with central banks	28,799	-	-	28,799	(1)	-	-	(1)	-	-	-	-
Loans and advances to financial institutions	108,733	-	-	108,733	(1)	-	-	(1)	-	-	-	-
Loans and advances to customers												
- International lending portfolio	1,393,436	82,661	67,944	1,544,041	(10,951)	(1,323)	(7,034)	(19,308)	0.8%	1.6%	10.4%	1.3%
- Local lending portfolio	75,033	1,730	10,435	87,198	(216)	(6)	(1,150)	(1,372)	0.3%	0.3%	11.0%	1.6%
Investments measured at amortised cost	348,405	-	-	348,405	(61)	-	-	(61)	-	-	-	-
Accrued income	13,377	400	791	14,568	(42)	(6)	-	(48)	0.3%	1.5%	-	0.3%
Loans to related parties (included in other assets)	15,801	-	-	15,801	-	-	-	-	-	-	-	-
Other receivables (included in other assets)	6,031	-	-	6,031	-	-	-	-	-	-	-	-
Off balance sheet at nominal amount:												
Commitments to purchase financial assets	60,843	-	-	60,843	(52)	-	-	(52)	0.1%	-	-	0.1%
Commitments to extend credit, financial guarantees and other commitments	455,343	57,099	5,494	517,936	(1,270)	(311)	-	(1,581)	0.3%	0.5%	-	0.3%
	2,505,801	141,890	84,664	2,732,355	(12,594)	(1,646)	(8,184)	(22,424)	0.5%	1.2%	9.7%	0.8%

	Gross carrying/nominal amount				Credit loss allowance				ECL coverage %			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000
Group												
As at 1 April 2018												
On balance sheet at amortised cost:												
Balances with central banks	105,104	-	-	105,104	-	-	-	-	-	-	-	-
Loans and advances to financial institutions	113,935	-	-	113,935	-	-	-	-	-	-	-	-
Loans and advances to customers												
- International lending portfolio	1,468,317	110,130	59,861	1,638,308	(13,993)	(1,584)	(13,002)	(28,579)	1.0%	1.4%	21.7%	1.7%
- Local lending portfolio	66,776	2,796	16,474	86,046	(532)	(5)	(3,995)	(4,532)	0.8%	0.2%	24.3%	5.3%
Investments measured at amortised cost	401,555	-	-	401,555	(23)	-	-	(23)	-	-	-	-
Accrued income	14,374	1,048	456	15,878	(254)	(9)	-	(263)	1.8%	0.9%	-	1.7%
Loans to related parties (included in other assets)	14,965	-	-	14,965	-	-	-	-	-	-	-	-
Off balance sheet at nominal amount:												
Commitments to purchase financial assets	118,250	-	-	118,250	-	-	-	-	-	-	-	-
Commitments to extend credit, financial guarantees and other commitments	441,677	-	-	441,677	(1,022)	-	-	(1,022)	0.2%	-	-	0.2%
	2,744,953	113,974	76,791	2,935,718	(15,824)	(1,598)	(16,997)	(34,419)	0.6%	1.4%	22.1%	1.2%

	Gross carrying/nominal amount				Credit loss allowance				ECL coverage %			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000
Bank												
As at 1 April 2018												
On balance sheet at amortised cost:												
Balances with central banks	66,975	-	-	66,975	-	-	-	-	-	-	-	-
Loans and advances to financial institutions	107,052	-	-	107,052	-	-	-	-	-	-	-	-
Loans and advances to customers												
- International lending portfolio	1,150,193	108,701	51,736	1,310,630	(10,511)	(1,584)	(12,397)	(24,492)	0.9%	1.5%	24.0%	1.9%
- Local lending portfolio	66,776	2,796	16,474	86,046	(532)	(5)	(3,995)	(4,532)	0.8%	0.2%	24.3%	5.3%
Investments measured at amortised cost	355,749	-	-	355,749	(19)	-	-	(19)	-	-	-	-
Accrued income	13,296	1,048	338	14,682	(251)	(9)	-	(260)	1.9%	0.9%	-	1.8%
Loans to related parties (included in other assets)	15,422	-	-	15,422	-	-	-	-	-	-	-	-
Off balance sheet at nominal amount:												
Commitments to purchase financial assets	118,250	-	-	118,250	-	-	-	-	-	-	-	-
Commitments to extend credit, financial guarantees and other commitments	431,914	-	-	431,914	(900)	-	-	(900)	0.2%	-	-	0.2%
	2,325,627	112,545	68,548	2,506,720	(12,213)	(1,598)	(16,392)	(30,203)	0.5%	1.4%	23.9%	1.2%

Unless identified at an earlier stage, all financial assets are deemed to have suffered a significant increase in credit risk when they are more than 30 days past due. The following disclosure presents the ageing of stage 2 financial assets in the local lending portfolio. It distinguishes between those assets that are classified as stage 2 when they are up to 30 days past due (1 – 30 DPD) from those that are classified as stage 2 due to ageing and are more than 30 DPD (>30 DPD). Past due financial instruments are those loans where customers have failed to make payments in accordance with the contractual terms of their facilities. None of the exposures which are classified as past due but not credit-impaired were classified as Stage 1 exposures as at 31 March 2019 and 1 April 2018.

	Gross exposure			Credit loss allowance		
	Stage 2	Of which up to 30 DPD	Of which more than 30 DPD	Stage 2	Of which up to 30 DPD	Of which more than 30 DPD
	€000	€000	€000	€000	€000	€000
Group and Bank						
As at 31 March 2019						
Local lending portfolio						
- Loans and advances to customers	**1,730**	**1,609**	**121**	**(6)**	**(6)**	**-**
- Accrued income	**7**	**7**	**-**	**-**	**-**	**-**
As at 1 April 2018						
Local lending portfolio						
- Loans and advances to customers	2,796	2,704	92	(5)	(5)	-
- Accrued income	9	9	-	-	-	-

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

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

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

	Gross carrying amount/nominal amount						
	Regular	Focus	Under surveillance	Doubtful	Total	Credit loss allowance	Net
	€000	€000	€000	€000	€000	€000	€000
Group							
As at 1 April 2018							
On balance sheet at amortised cost:							
Balances with central banks – Stage 1	105,104	-	-	-	105,104	-	105,104
Loans and advances to financial institutions							
- Stage 1	113,935	-	-	-	113,935	-	113,935
Loans and advances to customers							
- International lending portfolio							
- Stage 1	1,301,896	166,421	-	-	1,468,317	(13,993)	1,454,324
- Stage 2	-	-	110,130	-	110,130	(1,584)	108,546
- Stage 3	-	-	-	59,861	59,861	(13,002)	46,859
- Local lending portfolio							
- Stage 1	62,516	4,260	-	-	66,776	(532)	66,244
- Stage 2	-	-	2,796	-	2,796	(5)	2,791
- Stage 3	-	-	-	16,474	16,474	(3,995)	12,479
Investments measured at amortised cost							
- Stage 1	401,555	-	-	-	401,555	(23)	401,532
Accrued income							
- Stage 1	13,515	859	-	-	14,374	(254)	14,120
- Stage 2	-	-	1,048	-	1,048	(9)	1,039
- Stage 3	-	-	-	456	456	-	456
Loans to related parties (included in other assets)							
- Stage 1	14,965	-	-	-	14,965	-	14,965
Off balance sheet at nominal amount:							
Commitments to purchase financial assets							
- Stage 1	118,250	-	-	-	118,250	-	118,250
Commitments to extend credit, financial guarantees and other commitments							
- Stage 1	393,252	48,425	-	-	441,677	(1,022)	440,655
	2,524,988	219,965	113,974	76,791	2,935,718	(34,419)	2,901,299

	Fair value					
	Regular	Focus	Under surveillance	Doubtful	Total	Credit loss allowance
	€000	€000	€000	€000	€000	€000
Group						
As at 1 April 2018						
Investments measured at fair value through other comprehensive income						
- Stage 1	160,898	-	-	-	160,898	(9)

	Gross carrying amount/nominal amount						
	Regular	Focus	Under surveillance	Doubtful	Total	Credit loss allowance	Net
	€000	€000	€000	€000	€000	€000	€000
Bank							
As at 31 March 2019							
On balance sheet at amortised cost:							
Balances with central banks – Stage 1	**28,799**	**-**	**-**	**-**	**28,799**	**(1)**	**28,798**
Loans and advances to financial institutions							
- Stage 1	**108,733**	**-**	**-**	**-**	**108,733**	**(1)**	**108,732**
Loans and advances to customers							
- International lending portfolio							
- Stage 1	**1,133,500**	**259,936**	**-**	**-**	**1,393,436**	**(10,951)**	**1,382,485**
- Stage 2	**-**	**-**	**82,661**	**-**	**82,661**	**(1,323)**	**81,338**
- Stage 3	**-**	**-**	**-**	**67,944**	**67,944**	**(7,034)**	**60,910**
- Local lending portfolio							
- Stage 1	**74,008**	**1,025**	**-**	**-**	**75,033**	**(216)**	**74,817**
- Stage 2	**-**	**-**	**1,730**	**-**	**1,730**	**(6)**	**1,724**
- Stage 3	**-**	**-**	**-**	**10,435**	**10,435**	**(1,150)**	**9,285**
Investments measured at amortised cost							
- Stage 1	**348,405**	**-**	**-**	**-**	**348,405**	**(61)**	**348,344**
Accrued income							
- Stage 1	**12,749**	**628**	**-**	**-**	**13,377**	**(42)**	**13,335**
- Stage 2	**-**	**-**	**400**	**-**	**400**	**(6)**	**394**
- Stage 3	**-**	**-**	**-**	**791**	**791**	**-**	**791**
Loans to related parties (included in other assets)							
- Stage 1	**15,801**	**-**	**-**	**-**	**15,801**	**-**	**15,801**
Other receivables (included in other assets)							
- Stage 1	**6,031**	**-**	**-**	**-**	**6,031**	**-**	**6,031**
Off balance sheet at nominal amount:							
Commitments to purchase financial assets							
- Stage 1	**60,843**	**-**	**-**	**-**	**60,843**	**(52)**	**60,791**
Commitments to extend credit, financial guarantees and other commitments							
- Stage 1	**376,555**	**78,788**	**-**	**-**	**455,343**	**(1,270)**	**454,073**
- Stage 2	**-**	**-**	**57,099**	**-**	**57,099**	**(311)**	**56,788**
- Stage 3	**-**	**-**	**-**	**5,494**	**5,494**	**-**	**5,494**
	2,165,424	**340,377**	**141,890**	**84,664**	**2,732,355**	**(22,424)**	**2,709,931**

	Fair value					
	Regular	Focus	Under surveillance	Doubtful	Total	Credit loss allowance
	€000	€000	€000	€000	€000	€000
Bank						
As at 31 March 2019						
Investments measured at fair value through other comprehensive income						
- Stage 1	**126,742**	**-**	**-**	**-**	**126,742**	**(21)**

	Gross carrying amount/nominal amount						
	Regular	Focus	Under surveillance	Doubtful	Total	Credit loss allowance	Net
	€000	€000	€000	€000	€000	€000	€000
Bank							
As at 1 April 2018							
On balance sheet at amortised cost:							
Balances with central banks – Stage 1	66,975	-	-	-	66,975	-	66,975
Loans and advances to financial institutions							
- Stage 1	107,052	-	-	-	107,052	-	107,052
Loans and advances to customers							
- International lending portfolio							
- Stage 1	1,014,558	135,635	-	-	1,150,193	(10,511)	1,139,682
- Stage 2	-	-	108,701	-	108,701	(1,584)	107,117
- Stage 3	-	-	-	51,736	51,736	(12,397)	39,339
- Local lending portfolio							
- Stage 1	62,516	4,260	-	-	66,776	(532)	66,244
- Stage 2	-	-	2,796	-	2,796	(5)	2,791
- Stage 3	-	-	-	16,474	16,474	(3,995)	12,479
Investments measured at amortised cost							
- Stage 1	355,749	-	-	-	355,749	(19)	355,730
Accrued income							
- Stage 1	12,523	773	-	-	13,296	(251)	13,045
- Stage 2	-	-	1,048	-	1,048	(9)	1,039
- Stage 3	-	-	-	338	338	-	338
Loans to related parties (included in other assets)							
- Stage 1	15,422	-	-	-	15,422	-	15,422
Off balance sheet at nominal amount:							
Commitments to purchase financial assets							
- Stage 1	118,250	-	-	-	118,250	-	118,250
Commitments to extend credit, financial guarantees and other commitments							
- Stage 1	383,489	48,425	-	-	431,914	(900)	431,014
	2,136,534	189,093	112,545	68,548	2,506,720	(30,203)	2,476,517

	Fair value					
	Regular	Focus	Under surveillance	Doubtful	Total	Credit loss allowance
	€000	€000	€000	€000	€000	€000
Bank						
As at 1 April 2018						
Investments measured at fair value through other comprehensive income						
- Stage 1	129,897	-	-	-	129,897	(7)

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

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

Within the tables below, the line items "New Business" and "Repayments and disposals" represent movements within the Group's and Bank's portfolio in respect of gross carrying/nominal amounts and associated credit loss allowances. "New Business" reflects amounts determined as at 31 March 2019. "Repayments and disposals" reflects amounts determined as at 31 March 2018.

The line item "Transfers of financial instruments" represents the impact of stage transfers on gross carrying/nominal amounts and associated credit loss allowances determined as at 31 March 2018. The line item "Net re-measurement and movement due to exposure and risk parameter changes" represents the increase or decrease in credit loss allowances due to modified measurement basis from 12-month to lifetime in relation to stage transfers. It also includes the effects of changes in other expected credit loss measurement factors and model parameters such as, but not limited to, change in time to maturity of assets; changes in underlying credit ratings; changes in measurement of loss given default and changes in respect of multiple economic scenarios. Finally, this line item also comprises the increase in ECL in respect of assets written off during the year measured as the movement between 1 April 2018 and the date of write-off.

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

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

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

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

The movement over the year in the gross carrying amount and associated expected credit losses for the Treasury portfolio was not considered significant taking cognisance of the absolute level of expected credit loss allowances.

	As at 31 March 2019		Year ended 31 March 2019
	Gross carrying/ nominal amount	Credit loss allowance	ECL (charge)/ release
	€000	€000	€000
Group			
As per preceding table	**2,297,243**	**(24,176)**	**(6,350)**
Balances at central banks	**146,986**	**(1)**	**(1)**
Loans and advances to financial institutions	**118,440**	**(1)**	**(1)**
Loans and advances to customers			
- Local lending portfolio	**87,198**	**(1,372)**	**3,160**
- Local lending portfolio write-offs	**-**	**-**	**(2,547)**
Investments measured at amortised cost	**425,051**	**(65)**	**(42)**
Summary of financial instruments to which the impairment requirements in IFRS 9 are applied through the profit or loss	**3,074,918**	**(25,615)**	**(5,781)**
Investments measured at fair value through other comprehensive income	**265,572**	**(23)**	**(14)**
Total credit loss allowance/total income statement ECL charge for the year	**3,340,490**	**(25,638)**	**(5,795)**

	Non-credit-impaired				Credit-impaired		Total	
	Stage 1		Stage 2		Stage 3			
	Gross carrying/ nominal amount	Credit loss allowance	Gross carrying/ nominal amount	Credit loss allowance	Gross carrying/ nominal amount	Credit loss allowance	Gross carrying/ nominal amount	Credit loss allowance
	€000	€000	€000	€000	€000	€000	€000	€000
International lending portfolio								
Bank								
Year ended 31 March 2019								
At beginning of year	**1,645,138**	**(11,662)**	**109,749**	**(1,593)**	**52,074**	**(12,397)**	**1,806,961**	**(25,652)**
New business	**657,125**	**(4,298)**	**2,501**	**(75)**	**-**	**-**	**659,626**	**(4,373)**
Repayments and disposals	**(336,047)**	**1,275**	**(25,366)**	**64**	**(31,120)**	**1,900**	**(392,533)**	**3,239**
Transfers of financial instruments						**-**		
- Transfers from Stage 1 to Stage 2	**(133,705)**	**430**	**133,705**	**(430)**	**-**	**-**	**-**	**-**
- Transfers from Stage 2 to Stage 1	**63,513**	**(623)**	**(63,513)**	**623**	**-**	**-**	**-**	**-**
- Transfers to Stage 3	**(49,807)**	**559**	**(16,956)**	**208**	**66,763**	**(767)**	**-**	**-**
Net remeasurement and movement due to exposure and risk parameter changes	**-**	**20**	**-**	**(896)**	**-**	**(9,265)**	**-**	**(10,141)**
UK economic uncertainty adjustment	**-**	**1,984**	**-**	**459**	**-**	**-**	**-**	**2,443**
Assets written off	**-**	**-**	**-**	**-**	**(13,495)**	**13,495**	**(13,495)**	**13,495**
At end of year	**1,846,217**	**(12,315)**	**140,120**	**(1,640)**	**74,222**	**(7,034)**	**2,060,559**	**(20,989)**
ECL released for the period								**4,663**
Other								**(104)**
Change in expected credit losses for the period								**4,559**
Recoveries								**2,746**
Assets written off								**(13,495)**
Change in expected credit losses and other credit impairment charges								**(6,190)**

	Year ended 31 March 2019		Year ended 31 March 2019
	Gross carrying/ nominal amount	Credit loss allowance	ECL (charge)/ release
	€000	€000	€000
Bank			
As per preceding table	**2,060,559**	**(20,989)**	**(6,190)**
Balances at central banks	**28,799**	**(1)**	**(1)**
Loans and advances to financial institutions	**108,733**	**(1)**	**(1)**
Loans and advances to customers			
- Local lending portfolio	**87,198**	**(1,372)**	**3,160**
- Local lending portfolio write-offs	**-**	**-**	**(2,547)**
Investments measured at amortised cost	**348,405**	**(61)**	**(42)**
Summary of financial instruments to which the impairment requirements in IFRS 9 are applied through the profit or loss	**2,633,694**	**(22,424)**	**(5,621)**
Investments measured at fair value through other comprehensive income	**126,742**	**(21)**	**(14)**
Total credit loss allowance/total income statement ECL charge for the year	**2,760,436**	**(22,445)**	**(5,635)**

Credit loss allowances attributable to loans and advances to customers

The following table shows the credit loss allowances on loans and advances to customers recognised as at 31 March 2019, analysed by stage distribution, and the impairment allowances on loans and advances to customers as at 31 March 2018, distinguishing between the exposures which were individually assessed or collectively assessed for impairment.

	Group				Bank			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
	€000	€000	€000	€000	€000	€000	€000	€000
As at 31 March 2019								
International lending portfolio	**12,555**	**1,931**	**7,995**	**22,481**	**10,951**	**1,323**	**7,034**	**19,308**
Local lending portfolio	**216**	**6**	**1,150**	**1,372**	**216**	**6**	**1,150**	**1,372**
	12,771	**1,937**	**9,145**	**23,853**	**11,167**	**1,329**	**8,184**	**20,680**

	Group			Bank		
	Individually assessed	Collectively assessed	Total	Individually assessed	Collectively assessed	Total
	€000	€000	€000	€000	€000	€000
As at 31 March 2018						
International lending portfolio	13,002	5,104	18,106	12,397	4,073	16,470
Local lending portfolio	3,995	537	4,532	3,995	537	4,532
	16,997	5,641	22,638	16,392	4,610	21,002

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

The following table analyses the loan impairment charges for the financial year ended 31 March 2018 and the impairment allowances recognised as at 31 March 2018 for impaired loans and advances that were individually assessed, and collective impairment allowances on loans and advances classified as not impaired.

	Group		Bank	
	Specific impairment allowances	Collective impairment allowances	Specific impairment allowances	Collective impairment allowances
	€000	€000	€000	€000
Year ended 31 March 2018				
At beginning of year as restated	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)

The credit-impaired local loans and advances are mainly attributable to the real estate and construction sector. Sectorial information in respect of changes in credit loss allowances/impairment charges relating to international loans and advances is represented in Section 2.2.8.

During the current financial year, interest income amounting to €4.3 million (2018: €2.9 million) and €4.0 million (2018: €2.5 million) of the Group and the Bank respectively was recognised in profit or loss on credit-impaired loans.

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

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

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

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

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

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

The revised terms usually applied by the Group include extending the maturity, amending the terms of loan covenants and partial write-offs where there is reasonable financial evidence to demonstrate the borrower's inability to repay the loan in full. 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 either categorises a forborne exposure as performing; or classifies the exposure as forborne non-performing if unlikely-to-pay indicators are evidenced, as outlined in the Non-Performing and Default Exposure section of the Group's Credit Policy.

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

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

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

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

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

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

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

Group	**International Lending Portfolio**		**Local Lending Portfolio**		
	Non forborne exposures	**Forborne exposures**	**Non forborne exposures**	**Forborne exposures**	**Total**
	€000	**€000**	**€000**	**€000**	**€000**
As at 31 March 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

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 2019					
Stage 1					
Neither past due nor credit-impaired	1,365,412	28,024	75,033	-	**1,468,469**
Stage 2					
Neither past due nor credit-impaired	76,958	5,703	-	-	**82,661**
Past due but not impaired:					
- by up to 30 days	-	-	1,175	434	**1,609**
- between 31 to 60 days	-	-	121	-	**121**
Stage 3					
Impaired, net of credit loss allowances	5,321	55,589	480	8,805	**70,195**
Loans and advances , net of Stage 3 credit loss allowances	**1,447,691**	**89,316**	**76,809**	**9,239**	**1,623,055**
Stage 1 credit loss allowances	10,487	464	216	-	**11,167**
Stage 2 credit loss allowances	1,307	16	6	-	**1,329**
Stage 3 credit loss allowances	662	6,372	-	1,150	**8,184**

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

As at 31 March 2019, 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 6% (2018: 7%) and 7% (2018: 9%) respectively.

Interest income recognised by the Group and the Bank during the financial year ended 31 March 2019 in respect of forborne exposures amounted to €6.8 million (2018: €10.5 million) and €6.3 million (2018: €8.2 million) respectively.

The movement in the gross carrying amount of forborne loans and advances to customers, before credit loss allowances (2018: specific and collective impairment allowances), is analysed below:

	Group		Bank	
	2019	2018	**2019**	2018
	€000	€000	**€000**	€000
Year ended 31 March				
At beginning of year	**128,247**	150,911	**124,431**	145,638
Loans to which forbearance measures have been extended during the year without derecognition	**60,330**	54,107	**52,437**	63,188
Capitalised interest	**1,389**	2,551	**1,361**	2,551
Capitalised fees	**(222)**	(102)	**(219)**	(102)
Repayments or disposals	**(70,242)**	(72,985)	**(67,210)**	(82,743)
Exchange differences	**537**	(673)	**306**	(598)
Write-offs	**(6,836)**	(6,218)	**(5,634)**	(6,218)
Issue of warrants	**-**	(240)	**-**	(240)
Amortisation of premium or discount	**534**	896	**605**	2,955
At end of year	**113,737**	128,247	**106,077**	124,431

As at 31 March 2019, credit loss allowances on the Group's and Bank's forborne loans were equivalent to €9.1 million (2018: €9.1 million) and €8.0 million (2018: €8.8 million) respectively. Additions to credit loss allowances on forborne loans during the year amounted to €6.7 million (2018: €7.8 million) and €5.6 million (2018:€7.8 million). Reversals of credit loss allowances on forborne loans during the year amounted to €6.7 million (2018: €8.7 million) and €.6.4 million (2018: €8.7 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 stage (2018: credit quality classification):

	Group				Bank			
	Stage 1	**Stage 2**	**Stage 3**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
	€000	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**
As at 31 March 2019								
Real estate and construction	**-**	**-**	**23,717**	**23,717**	**-**	**-**	**23,701**	**23,701**
Manufacturing	**14,397**	**-**	**-**	**14,397**	**14,391**	**-**	**-**	**14,391**
Financial and insurance activities	**16,127**	**-**	**36,379**	**52,506**	**13,633**	**-**	**31,592**	**45,225**
Professional, scientific and technical activities	**-**	**5,704**	**658**	**6,362**	**-**	**5,704**	**658**	**6,362**
Wholesale and retail trade; Repair of motor vehicles and motor cycles	**-**	**-**	**15,987**	**15,987**	**-**	**-**	**15,630**	**15,630**
Other	**-**	**433**	**335**	**768**	**-**	**433**	**335**	**768**
	30,524	**6,137**	**77,076**	**113,737**	**28,024**	**6,137**	**71,916**	**106,077**

	Neither past due nor Impaired	**Past due but not impaired**	**Impaired**	**Total**	**Neither past due nor Impaired**	**Past due but not impaired**	**Impaired**	**Total**
	€000	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**
As at 31 March 2018								
Real estate and construction	2,264	-	11,198	13,462	2,264	-	11,198	13,462
Manufacturing	37,433	-	-	37,433	37,332	-	-	37,332
Wholesale and retail trade; Repair of motor vehicles and motor cycles	20,737	-	21,184	41,921	20,590	-	21,155	41,745
Other	9,401	-	26,030	35,431	9,401	-	22,491	31,892
	69,835	-	58,412	128,247	69,587	-	54,844	124,431

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.

2.2.6 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 €17.3 million (2018: €6.8 million).

2.2.7 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 assets held as collateral are assigned a fair value at the time of credit approval. The assigned value is regularly monitored to identify assets that need revaluation.

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

Collateral received by the Group includes residential and commercial property, as well as financial collateral such as debt securities and cash on deposit. The immovable property collateral received 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 following tables show the gross carrying 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. If an exposure is fully cash secured (100% LTV), no ECL is measured in this respect, whereas ECL is calculated on exposures which are partially cash secured and having a LTV ratio less than 100%.

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

Group and Bank		Non-forborne 2018 €000	Forborne 2018 €000	Total 2018 €000
As at 31 March 2018				
a)	Not collateralised	967	-	967
b)	Fully collateralised			
	- Up to 50% LTV	41,744	1,694	43,438
	- 51% to 75% LTV	19,087	820	19,907
	- 76% to 90% LTV	2,350	-	2,350
	- 91% to 100% LTV	1,300	-	1,300
c)	Partially collateralised			
	- greater than 100% LTV	1,610	-	1,610
		67,058	2,514	69,572
Impaired				
a)	Not collateralised	60	-	60
b)	Fully collateralised			
	- Up to 50% LTV	328	5,345	5,673
	- 51% to 75% LTV	963	-	963
	- 91% to 100% LTV	-	9,778	9,778
		1,351	15,123	16,474

As at 31 March 2019 the Group held senior secured loans to international borrowers which amounted to €1.8 billion (2018: €1.6 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 2019, the Group held covered bonds amounting to €381.2 million (2018: €237.7 million) which are backed by a separate group of assets in the form of loans.

2.2.8 Forward-looking information incorporated in the ECL model

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

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

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

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

The following table describes key country-level macroeconomic variables in the baseline and alternative scenarios. Note that Eurozone MEVs are in some cases used in ECL models rather than the country-level MEVs as they are deemed to have a higher correlation to the country-specific portfolio assets.

Economic Scenarios MEVs: (5-year average Q2 2019 - Q2 2023)

Economic Scenarios MEVs (5yr average Q1 2019 - Q4 2023)	Severe Upside	Upside	Baseline	Downside	Severe Downside
	“Exceptionally Strong Growth”	“Stronger Near-Term Growth”	“Consensus Scenario”	“Moderate to Deep Recession”	“Protracted Slump”
Real Gross Domestic Product - Annualised Growth %					
Austria	2.4%	2.1%	1.7%	0.6%	0.2%
Belgium	2.8%	2.3%	1.7%	1.1%	0.3%
Denmark	1.9%	1.8%	1.1%	0.3%	-0.3%
Finland	2.4%	1.7%	1.4%	0.3%	-0.8%
France	2.3%	2.0%	1.6%	0.9%	0.3%
Germany	2.4%	1.8%	1.3%	0.7%	-0.1%
Italy	1.3%	1.2%	1.0%	0.5%	0.1%
Luxembourg	4.0%	3.6%	3.0%	2.3%	1.5%
Malta	2.4%	2.2%	1.8%	1.1%	0.4%
Netherlands	1.2%	1.1%	0.8%	0.4%	0.1%
Spain	2.5%	2.1%	1.8%	0.4%	-0.1%
Sweden	2.1%	2.0%	1.8%	1.7%	1.5%
Switzerland	2.5%	2.1%	1.6%	1.1%	0.5%
United Kingdom	2.5%	2.2%	1.6%	0.9%	0.3%
United States	3.4%	2.8%	2.2%	1.7%	1.2%
Euro Zone	2.3%	1.9%	1.5%	0.8%	0.1%
Stock Market Index - Annualised Growth %					
Austria	8.2%	6.9%	5.0%	1.0%	-3.3%
Belgium	6.3%	5.4%	4.7%	4.3%	1.4%
Denmark	3.8%	2.6%	2.1%	1.0%	-1.5%
Finland	4.9%	3.8%	3.5%	1.9%	0.6%
France	7.8%	7.4%	5.9%	2.3%	-1.4%
Germany	7.1%	5.4%	4.3%	3.3%	-1.1%
Italy	6.2%	5.2%	4.1%	2.3%	-2.3%
Luxembourg	7.8%	5.4%	2.9%	-1.5%	-7.6%
Malta	2.1%	1.8%	1.4%	0.7%	0.2%
Netherlands	7.4%	5.6%	4.6%	3.6%	-2.8%
Spain	6.0%	5.1%	4.5%	3.7%	1.9%
Sweden	1.6%	1.4%	1.3%	1.3%	-0.2%
Switzerland	2.4%	1.9%	1.5%	1.3%	-1.7%
United Kingdom	4.9%	4.3%	3.2%	2.2%	0.3%
United States	6.2%	4.8%	3.7%	1.5%	-3.5%
Euro Zone	7.1%	5.9%	4.7%	2.9%	-1.2%
Unemployment rate - Annualised Growth %					
Austria	0.4%	-0.2%	0.6%	3.4%	5.1%
Belgium	-0.5%	1.6%	3.7%	7.7%	10.1%
Denmark	-3.6%	-3.0%	-0.3%	1.8%	3.8%
Finland	-4.8%	-0.6%	1.7%	7.4%	11.9%
France	-2.9%	-2.2%	-1.2%	0.7%	2.0%
Germany	1.8%	2.2%	3.1%	5.2%	6.1%
Italy	-2.2%	-1.9%	-0.3%	3.8%	6.4%
Luxembourg	-1.3%	-0.1%	1.8%	4.0%	6.1%
Malta	-1.2%	-0.5%	-0.2%	1.2%	2.6%
Netherlands	1.7%	3.5%	5.1%	8.8%	14.3%
Spain	-3.5%	-2.2%	-1.5%	0.5%	2.9%
Sweden	0.7%	1.0%	1.3%	4.9%	8.6%
Switzerland	-4.2%	-3.5%	-2.1%	-1.2%	-0.2%
United Kingdom	-2.6%	0.0%	4.0%	10.2%	13.8%
United States	0.5%	2.6%	4.2%	9.8%	13.1%
Euro Zone	-2.2%	-1.3%	-0.1%	2.9%	5.2%

Management Overlay

Other forward-looking considerations not otherwise incorporated within the calculated ECL are considered by senior management. Senior management exercises judgement, reviews additional analysis, and recommends overlays as deemed necessary. Management has invoked this additional step at the beginning of the financial year and again at 31 March 2019, due to the specific uncertainties facing the UK economy at the time of reporting, resulting in the recognition of additional ECL, 'a management overlay' for Brexit uncertainty. The overlay to ECL has been applied to reflect the risks pertaining to the UK market given Brexit uncertainty.

Brexit is one of the most significant economic events impacting the UK economy and its effects are subject to unprecedented levels of uncertainty of outcomes, with the full range of possible effects unknown. At 1 April 2018, a management overlay of €6 million was included in the ECL measurement for the Group to address the high degree of uncertainty in estimating the ECL for UK exposures at the time. This overlay was effected by applying a three-notch downgrade to the Through-The-Cycle ("TTC") implied ratings (and indirectly to the underlying PDs) of all UK exposures in the International Corporate Lending portfolio.

With regards to the overlay applied to the 31 March 2019 ECL calculation, consideration was given to the fact that forward-looking economic scenarios used for the 31 March 2019 ECL calculation, taken in isolation, are more pessimistic than the scenarios included in the ECL calculation as at 1 April 2018. This more pessimistic outlook, to some extent, had already been included in the March 2018 management overlay. A Brexit uncertainty overlay for 31 March 2019 ECL measurement was deemed to be required, albeit to a lesser extent compared to that applied to the 31 March 2018 ECL calculation.

The overlay applied to 31 March 2019 modelled ECL was a 1-notch rating downgrade to the Through the Cycle (TTC) rating for all UK obligors, as opposed to a three-notch downgrade applied to UK exposures as at 1 April 2018. This led to a management overlay for the Group at 31 March 2019 of €1.9 million (a reduction in management overlay of €4.1 million compared to 1 April 2018).

2.2.9 Concentration of credit risk exposures

2.2.9.1 Concentration of investment securities

The Group's exposure to sovereign Eurozone government bonds as at 31 March 2019 represented 8% (2018: 13%) of the total investment securities respectively. The Group's exposure to sovereign Eurozone governments related to German Government securities as at 31 March 2019, and to Maltese and German Government securities as at 31 March 2018.The Bank did not have any exposure to sovereign Eurozone government bonds as at 31 March 2019 (2018: 6%).

Credit loss allowances amounting to €5 thousand ware recognised in respect of these exposures as at 31 March 2019 (2018: nil).

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.

	Measured at fair value through other comprehensive income (available-for-sale as at 31 March 2018)				**Measured at amortised cost**			
	Group		**Bank**		**Group**		**Bank**	
	2019	2018	**2019**	2018	**2019**	2018	**2019**	2018
	€000	€000	**€000**	€000	**€000**	€000	**€000**	€000
Concentration by type								
Carrying amount:								
Covered bonds securities	**184,476**	237,746	**64,622**	227,632	**196,723**	-	**186,712**	-
Government and regional government	**18,978**	74,279	**-**	28,376	**35,605**	-	**-**	-
Supranational and agencies	**62,118**	248,220	**62,120**	227,270	**192,681**	-	**161,632**	-
Total	**265,572**	560,245	**126,742**	483,278	**425,009**	-	**348,344**	-

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 credit loss 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	**Gross carrying amount**					**Credit loss allowance**				
	EU	**Other European countries**	**North America**	**Asia**	**Total**	**EU**	**Other European countries**	**North America**	**Asia**	**Total**
	€000	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**
Stage 1										
As at 31 March 2019										
Accommodation and food service activities	1,635	-	-	-	**1,635**	-	-	-	-	**-**
Administrative and support service activities	17,480	-	5,731	-	**23,211**	135	-	23	-	**158**
Arts, entertainment and recreation activities	44,451	-	-	-	**44,451**	301	-	-	-	**301**
Construction	23,499	-	-	-	**23,499**	70	-	-	-	**70**
Financial and insurance activities	765,372	28,467	60,578	-	**854,417**	5,915	63	555	-	**6,533**
Human health and social work activities	52,086	-	-	-	**52,086**	342	-	-	-	**342**
Information and communication	117,833	-	66,351	-	**184,184**	598	-	1,062	-	**1,660**
Manufacturing	251,390	-	5,404	-	**256,794**	1,484	-	23	-	**1,507**
Professional, scientific and technical activities	103,102	13,452	16,950	10,187	**143,691**	1,191	42	535	13	**1,781**
Real estate activities	26,901	-	-	-	**26,901**	123	-	-	-	**123**
Wholesale and retail trade, repairs of motor vehicles and motor cycles	38,218	-	17,373	-	**55,591**	220	-	40	-	**260**
Other	17,438	-	-	-	**17,438**	36	-	-	-	**36**
	1,459,405	**41,919**	**172,387**	**10,187**	**1,683,890**	**10,415**	**105**	**2,238**	**13**	**12,771**
Stage 2										
As at 31 March 2019										
Administrative and support service activities	1,103	-	-	-	**1,103**	24	-	-	-	**24**
Construction	1,296	-	-	-	**1,296**	6	-	-	-	**6**
Financial and insurance activities	86,181	-	2,227	-	**88,408**	1,863	-	-	-	**1,863**
Professional, scientific and technical activities	6,080	-	-	-	**6,080**	27	-	-	-	**27**
Other service activities	-	-	1,650	-	**1,650**	-	-	17	-	**17**
Other	434	-	-	-	**434**	-	-	-	-	**-**
	95,094	**-**	**3,877**	**-**	**98,971**	**1,920**	**-**	**17**	**-**	**1,937**
Stage 3										
As at 31 March 2019										
Construction	24,056	-	-	-	**24,056**	550	-	-	-	**550**
Financial and insurance activities	12,903	-	29,458	-	**42,361**	2,104	-	2,349	-	**4,453**
Professional, scientific and technical activities	658	-	-	-	**658**	933	-	-	-	**933**
Wholesale and retail trade, repairs of motor vehicles and motor cycles	15,987	-	-	-	**15,987**	3,209	-	-	-	**3,209**
Other	477	-	-	-	**477**	-	-	-	-	**-**
	54,081	**-**	**29,458**	**-**	**83,539**	**6,796**	**-**	**2,349**	**-**	**9,145**

Group	**Nominal amount**					**Credit loss allowance**				
	EU	**Other European countries**	**North America**	**Asia**	**Total**	**EU**	**Other European countries**	**North America**	**Asia**	**Total**
	€000	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**
Commitments to purchase financial assets, commitments to extend credit, guarantees and other commitments										
As at 31 March 2019										
Accommodation and food service activities	2,808	-	-	-	**2,808**	-	-	-	-	**-**
Administrative and support service activities	313	-	-	-	**313**	-	-	-	-	**-**
Arts, entertainment and recreation activities	16,010	-	-	-	**16,010**	-	-	-	-	**-**
Construction	50,742	-	-	-	**50,742**	24	-	-	-	**24**
Financial and insurance activities	216,652	10,000	115,753	-	**342,405**	704	26	389	-	**1,119**
Human health and social work activities	23,314	-	8,908	-	**32,222**	60	-	-	-	**60**
Information and communication	21,537	-	17,738	-	**39,275**	11	-	139	-	**150**
Manufacturing	40,368	-	-	-	**40,368**	191	-	-	-	**191**
Professional, scientific and technical activities	28,456	-	-	-	**28,456**	41	-	-	-	**41**
Real estate activities	7,028	-	-	-	**7,028**	-	-	-	-	**-**
Wholesale and retail trade, repairs of motor vehicles and motor cycles	7,435	-	9,000	-	**16,435**	-	-	-	-	**-**
Other	2,717	-	-	-	**2,717**	14	-	34	-	**48**
	417,380	**10,000**	**151,399**	**-**	**578,779**	**1,045**	**26**	**562**	**-**	**1,633**

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

Bank	Gross carrying amount					Allowance for ECL				
	EU	Other European countries	North America	Asia	Total	EU	Other European countries	North America	Asia	Total
	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000
Stage 1										
As at 31 March 2019										
Accommodation and food service activities	1,635	-	-	-	1,635	-	-	-	-	-
Administrative and support service activities	17,480	-	5,731	-	23,211	135	-	23	-	158
Arts, entertainment and recreation activities	44,451	-	-	-	44,451	301	-	-	-	301
Construction	23,499	-	-	-	23,499	70	-	-	-	70
Financial and insurance activities	597,298	18,652	60,578	-	676,528	4,603	50	556	-	5,209
Human health and social work activities	52,086	-	-	-	52,086	342	-	-	-	342
Information and communication	108,303	-	66,351	-	174,654	548	-	1,062	-	1,610
Manufacturing	234,661	-	5,404	-	240,065	1,401	-	23	-	1,424
Professional, scientific and technical activities	91,817	13,452	16,950	10,191	132,410	1,046	42	533	13	1,634
Real estate activities	26,901	-	-	-	26,901	123	-	-	-	123
Wholesale and retail trade, repairs of motor vehicles and motor cycles	38,218	-	17,373	-	55,591	220	-	40	-	260
Other	17,438	-	-	-	17,438	36	-	-	-	36
	1,253,787	32,104	172,387	10,191	1,468,469	8,825	92	2,237	13	11,167
Stage 2										
As at 31 March 2019										
Administrative and support service activities	1,103	-	-	-	1,103	24	-	-	-	24
Construction	1,296	-	-	-	1,296	6	-	-	-	6
Financial and insurance activities	71,603	-	2,225	-	73,828	1,255	-	-	-	1,255
Professional, scientific and technical activities	6,080	-	-	-	6,080	27	-	-	-	27
Other service activities	-	-	1,650	-	1,650	-	-	17	-	17
Other	434	-	-	-	434	-	-	-	-	-
	80,516	-	3,875	-	84,391	1,312	-	17	-	1,329
Stage 3										
As at 31 March 2019										
Construction	24,040	-	-	-	24,040	550	-	-	-	550
Financial and insurance activities	8,280	-	29,294	-	37,574	1,143	-	2,349	-	3,492
Professional, scientific and technical activities	658	-	-	-	658	933	-	-	-	933
Wholesale and retail trade, repairs of motor vehicles and motor cycles	15,630	-	-	-	15,630	3,209	-	-	-	3,209
Other	477	-	-	-	477	-	-	-	-	-
	49,085	-	29,294	-	78,379	5,835	-	2,349	-	8,184

Bank	**Nominal amount**					**Credit loss allowance**				
	EU	**Other European countries**	**North America**	**Asia**	**Total**	**EU**	**Other European countries**	**North America**	**Asia**	**Total**
	€000	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**
Commitments to purchase financial assets, commitments to extend credit, guarantees and other commitments										
As at 31 March 2019										
Accommodation and food service activities	**2,808**	**-**	**-**	**-**	**2,808**	**-**	**-**	**-**	**-**	**-**
Administrative and support service activities	**313**	**-**	**-**	**-**	**313**	**-**	**-**	**-**	**-**	**-**
Arts, entertainment and recreation activities	**16,010**	**-**	**-**	**-**	**16,010**	**-**	**-**	**-**	**-**	**-**
Construction	**50,742**	**-**	**-**	**-**	**50,742**	**24**	**-**	**-**	**-**	**24**
Financial and insurance activities	**216,652**	**10,000**	**115,753**	**-**	**342,405**	**704**	**26**	**389**	**-**	**1,119**
Human health and social work activities	**23,314**	**-**	**8,908**	**-**	**32,222**	**60**	**-**	**-**	**-**	**60**
Information and communication	**21,537**	**-**	**17,738**	**-**	**39,275**	**11**	**-**	**139**	**-**	**150**
Manufacturing	**40,368**	**-**	**-**	**-**	**40,368**	**191**	**-**	**-**	**-**	**191**
Professional, scientific and technical activities	**28,456**	**-**	**-**	**-**	**28,456**	**41**	**-**	**-**	**-**	**41**
Real estate activities	**7,028**	**-**	**-**	**-**	**7,028**	**-**	**-**	**-**	**-**	**-**
Wholesale and retail trade, repairs of motor vehicles and motor cycles	**7,435**	**-**	**9,000**	**-**	**16,435**	**-**	**-**	**-**	**-**	**-**
Other	**2,717**	**-**	**-**	**-**	**2,717**	**14**	**-**	**34**	**-**	**48**
	417,380	**10,000**	**151,399**	**-**	**578,779**	**1,045**	**26**	**562**	**-**	**1,633**

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 2019, exposures to United Kingdom counterparties of the Group and Bank which are included within the EU categorisation in the preceding table, amounted to €484.2 million (2018: €523.6 million) and €373.6 million (2018: €326.2 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 1.6 'Offsetting Financial Instruments'.

The following tables set out:

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

The Group enters into derivative transactions under International Swap and Derivatives Association (ISDA) master netting agreements. In general, under such agreements the amounts owed by each 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.

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

	Gross amounts of recognised financial instruments €000	Gross amounts of recognised financial instruments offset in the statement of financial position €000	Net amounts of financial instruments presented in the statement of financial position €000	Related amounts not offset in the statement of financial position: Financial instruments that do not meet offsetting criteria €000	Related amounts not offset in the statement of financial position: Financial collateral pledged /(received) (incl. cash) €000	Net amount €000
Group						
As at 31 March 2019						
Financial assets						
Derivative financial instruments	**716**	**-**	**716**	**(144)**	**-**	**572**
Financial liabilities						
Derivative financial instruments	**(11,327)**	**-**	**(11,327)**	**144**	**23,920**	**12,737**
Amounts owed to financial institutions	**(198,887)**	**-**	**(198,887)**	**-**	**197,500**	**(1,387)**
	(210,214)	**-**	**(210,214)**	**144**	**221,420**	**11,350**
As at 31 March 2018						
Financial assets						
Derivative financial instruments	470	-	470	(100)	(2)	368
Financial liabilities						
Derivative financial instruments	(3,581)	-	(3,581)	100	11,233	7,752
Amounts owed to financial institutions	(126,428)	-	(126,428)	-	113,000	(13,428)
	(130,009)	-	(130,009)	100	124,233	(5,676)

	Gross amounts of recognised financial instruments €000	Gross amounts of recognised financial instruments offset in the statement of financial position €000	Net amounts of financial instruments presented in the statement of financial position €000	Related amounts not offset in the statement of financial position: Financial instruments that do not meet offsetting criteria €000	Related amounts not offset in the statement of financial position: Financial collateral pledged /(received) (incl. cash) €000	Net amount €000
Bank						
As at 31 March 2019						
Financial assets						
Derivative financial instruments	**5,088**	**-**	**5,088**	**(580)**	**(4,627)**	**(119)**
Financial liabilities						
Derivative financial instruments	**(7,989)**	**-**	**(7,989)**	**580**	**18,650**	**11,241**
Amounts owed to financial institutions	**(1,228,871)**	**-**	**(1,228,871)**	**-**	**196,500**	**(1,032,371)**
	(1,236,860)	**-**	**(1,236,860)**	**580**	**215,150**	**(1,021,130)**
As at 31 March 2018						
Financial assets						
Derivative financial instruments	3,886	-	3,886	(42)	(4,457)	(4,086)
Financial liabilities						
Derivative financial instruments	(3,639)	-	(3,639)	42	11,233	7,635
Amounts owed to financial institutions	(1,019,082)	-	(1,019,082)	-	113,000	906,982
	(1,022,721)	-	(1,022,721)	42	124,233	914,618

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.

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.

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	
	2019	2018	**2019**	2018
	%	**%**	**%**	%
At 31 March				
Actual LCR Ratio	**460.1**	636.0	**228.4**	276.3

During the year ended 31 March 2019 and 2018 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**	
	2019	2018	**2019**	2018
	%	%	**%**	%
At 31 March				
Actual NSFR Ratio	**136.1**	140.0	**118.2**	132.5

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

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 2019							
Assets							
Balances with central banks	**23,373**	**-**	**-**	**-**	**-**	**123,612**	**146,985**
Derivative financial instruments	**127**	**-**	**141**	**-**	**-**	**448**	**716**
Loans and advances to financial institutions	**118,439**	**-**	**-**	**-**	**-**	**-**	**118,439**
Loans and advances to customers	**8,813**	**10,597**	**161,994**	**1,625,934**	**35,217**	**-**	**1,842,555**
Investments	**-**	**22,463**	**117,143**	**424,987**	**125,988**	**-**	**690,581**
Accrued income	**2,056**	**3,147**	**3,007**	**8,427**	**163**	**-**	**16,800**
Loans to related parties (included in other assets)	**-**	**-**	**-**	**-**	**-**	**15,305**	**15,305**
Other receivables (included in other assets)	**6,105**	**-**	**-**	**-**	**-**	**-**	**6,105**
Total financial assets	**158,913**	**36,207**	**282,285**	**2,059,348**	**161,368**	**139,365**	**2,837,486**

Group	Not more 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	No maturity date €000	Total €000
As at 31 March 2019							
Liabilities							
Derivative financial instruments	**388**	**2,940**	**7,495**	**355**	**149**	**-**	**11,327**
Amounts owed to financial institutions	**93,887**	**15,000**	**90,000**	**-**	**-**	**-**	**198,887**
Amounts owed to customers	**816,418**	**119,634**	**738,120**	**527,919**	**-**	**-**	**2,202,091**
Subordinated liabilities	**-**	**-**	**22,342**	**-**	**44,796**	**-**	**67,138**
Accrued interest expense	**627**	**691**	**3,758**	**398**	**-**	**-**	**5,474**
Bills payable (included in other liabilities)	**4,551**	**-**	**-**	**-**	**-**	**-**	**4,551**
Amounts due to related parties (included in other liabilities)	**-**	**-**	**-**	**-**	**-**	**972**	**972**
Total financial liabilities	**915,871**	**138,265**	**861,715**	**528,672**	**44,945**	**972**	**2,490,440**
Liquidity gap	**(756,958)**	**(102,058)**	**(579,430)**	**1,530,676**	**116,423**		
Cumulative liquidity gap	**(756,958)**	**(859,016)**	**(1,438,446)**	**92,230**	**208,653**		
As at 31 March 2018							
Assets							
Balances with central banks	89,803	-	-	-	-	15,301	105,104
Derivative financial instruments	32	69	1	-	-	368	470
Loans and advances to financial institutions	113,935	-	-	-	-	-	113,935
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	227,281	31,633	291,678	1,862,523	68,564	30,634	2,512,313
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
Bills payable (included in other liabilities)	1,873	-	-	-	-	-	1,873
Amounts due to related parties (included in other liabilities)	-	-	-	-	-	4,815	4,815
Total financial liabilities	588,809	129,512	927,005	493,306	45,128	4,815	2,188,575
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		

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 2019							
Assets							
Balances with central banks	**23,398**	**-**	**-**	**-**	**-**	**5,400**	**28,798**
Derivative financial instruments	**3,633**	**866**	**141**	**-**	**-**	**448**	**5,088**
Loans and advances to financial institutions	**108,732**	**-**	**-**	**-**	**-**	**-**	**108,732**
Loans and advances to customers	**8,813**	**10,597**	**138,711**	**1,417,221**	**35,217**	**-**	**1,610,559**
Investments	**-**	**22,463**	**117,143**	**303,689**	**31,791**	**-**	**475,086**
Accrued income	**1,840**	**2,753**	**2,688**	**7,077**	**162**	**-**	**14,520**
Loans to related parties (included in other assets)	**-**	**-**	**-**	**-**	**-**	**15,801**	**15,801**
Other receivables (included in other assets)	**6,031**	**-**	**-**	**-**	**-**	**-**	**6,031**
Total financial assets	**152,447**	**36,679**	**258,683**	**1,727,987**	**67,170**	**21,649**	**2,264,615**
Liabilities							
Derivative financial instruments	**426**	**2,327**	**4,732**	**355**	**149**	**-**	**7,989**
Amounts owed to financial institutions	**93,887**	**1,044,984**	**90,000**	**-**	**-**	**-**	**1,228,871**
Amounts owed to customers	**282,263**	**58,868**	**201,657**	**256,366**	**-**	**-**	**799,154**
Subordinated liabilities	**-**	**-**	**22,342**	**-**	**44,796**	**-**	**67,138**
Accrued interest expense	**598**	**444**	**3,054**	**14**	**-**	**-**	**4,110**
Bills payable (included in other liabilities)	**4,551**	**-**	**-**	**-**	**-**	**-**	**4,551**
Amounts due to related parties (included in other liabilities)	**-**	**-**	**-**	**-**	**-**	**36,586**	**36,586**
Total financial liabilities	**381,725**	**1,106,623**	**321,785**	**256,735**	**44,945**	**36,586**	**2,148,399**
Liquidity gap	**(229,278)**	**(1,069,944)**	**(63,102)**	**1,471,252**	**22,225**		
Cumulative liquidity gap	**(229,278)**	**(1,299,222)**	**(1,362,324)**	**108,928**	**131,153**		
As at 31 March 2018							
Assets							
Balances with central banks	61,104	-	-	-	-	5,871	66,975
Derivative financial instruments	1,533	1,982	3	-	-	368	3,886
Loans and advances to financial institutions	107,052	-	-	-	-	-	107,052
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	192,860	32,842	221,548	1,529,494	68,564	21,661	2,066,969
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
Bills payable (included in other liabilities)	1,873	-	-	-	-	-	1,873
Amounts due to related parties (included in other liabilities)	-	-	-	-	-	34,645	34,645
Total financial liabilities	407,615	981,409	257,251	246,988	45,128	34,645	1,973,036
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		

Current accounts and savings deposits payable on demand or at short notice of the Group and Bank amounted to €734 million (2018: €478 million) and €270 million (2018: €350 million), respectively, as at 31 March 2019. This amount is disclosed within the 'Not more than 1 month' maturity grouping.

As at 31 March 2019 savings deposits with a withdrawal notice period of one month amounting to €7 million and €431 thousand for the Group and the Bank respectively, are disclosed within the 'Between 1 and 3 months' maturity grouping. In addition, as at 31 March 2019 savings deposits with a withdrawal notice period of three to six months amounting to €623 million (2018: €765 million) and €137 million (2018: €132 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 2019, savings deposits with a withdrawal notice period of one year for the Group and the Bank amounting to €240 million (2018: €181 million) and €55 million (2018: €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.

As of 31 March 2019, unencumbered financial assets classified as investments measured at fair value through other comprehensive income (available-for-sale investments in the preceding financial year prior to adoption of IFRS 9), with a carrying amount of €223 million (2018: €448 million) and €84 million (2018: €371 million) for the Group and the Bank respectively and investments measured at amortised cost with a carrying amount of €258 million (2018: nil) and €181 million (2018: nil) 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.

Cash from margin balances can be available upon maturity of the contract, favourable change in the market value/change in the exchange rates or reduction in the initial margins.

2.3.4 Residual contractual maturities of financial liabilities

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

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 2019							
Non-derivative liabilities							
Amounts owed to financial institutions							
- Due to clearing houses	**195,000**	194,693	89,899	14,973	89,821	-	-
- Due to other banks	**3,887**	3,887	3,887	-	-	-	-
Amounts owed to customers	**2,202,091**	2,409,957	831,193	123,177	783,651	671,936	-
Subordinated liabilities	**67,138**	87,186	-	-	26,582	10,121	50,483
Bills payable (included in other liabilities)	**4,551**	4,551	4,551	-	-	-	-
	2,472,667	**2,700,274**	**929,530**	**138,150**	**900,054**	**682,057**	**50,483**
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	566,382	100,662	892,648	590,070	346
Subordinated liabilities	**66,949**	91,295	-	-	4,227	34,108	52,960
Bills payable (included in other liabilities)	**1,873**	1,873	1,873	-	-	-	-
	2,174,409	2,369,411	589,683	140,555	961,689	624,178	53,306

Bank	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 2019							
Non-derivative liabilities							
Amounts owed to financial institutions							
- Due to clearing houses	**195,000**	194,693	89,899	14,973	89,821	-	-
- Due to other banks	**1,033,871**	1,033,871	3,887	1,029,984	-	-	-
Amounts owed to customers	**799,154**	951,220	284,398	61,682	244,528	360,612	-
Subordinated liabilities	**67,138**	87,186	-	-	26,582	10,121	50,483
Bills payable (included in other liabilities)	**4,551**	4,551	4,551	-	-	-	-
	2,099,714	**2,271,521**	**382,735**	**1,106,639**	**360,931**	**370,733**	**50,483**
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	21,423	892,659	-	-	-
Amounts owed to customers	**841,927**	994,929	385,372	59,576	220,564	329,071	346
Subordinated liabilities	**66,949**	91,295	-	-	4,227	34,108	52,960
Bills payable (included in other liabilities)	**1,873**	1,873	1,873	-	-	-	-
	1,929,831	2,106,886	408,668	992,128	289,605	363,179	53,306

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 2019							
Derivative assets							
Derivative financial instruments							
- Foreign exchange swaps	**268**	88	126	(26)	(12)	-	-
Inflows		*34,829*	*12,155*	*5,319*	*17,355*	-	-
Outflows		*(34,741)*	*(12,029)*	*(5,345)*	*(17,367)*	-	-
- Others (no maturity)	**448**	-	-	-	-	-	-
	716	**88**	**126**	**(26)**	**(12)**	**-**	**-**
Derivative liabilities							
Derivative financial instruments							
- Interest rate swaps	**504**	(859)	-	-	(61)	(657)	(141)
- Foreign exchange swaps	**10,823**	(12,743)	(420)	(3,092)	(9,231)	-	-
Inflows		*397,598*	*45,773*	*99,970*	*251,855*	-	-
Outflows		*(410,341)*	*(46,193)*	*(103,062)*	*(261,086)*	-	-
	11,327	**(13,602)**	**(420)**	**(3,092)**	**(9,292)**	**(657)**	**(141)**

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 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)

Bank	Carrying amount €000	Inflows/ (Outflows) €000	Less than 1 month €000	Between 1 and 3 months €000	Between 3 months and 1 year €000	Between 1 and 5 years €000	More than 5 years €000
31 March 2019							
Derivative assets							
Derivative financial instruments							
- Foreign exchange swaps	**4,640**	4,630	3,704	938	(12)	-	-
Inflows		*226,933*	*140,579*	*68,999*	*17,355*	-	-
Outflows		*(222,303)*	*(136,875)*	*(68,061)*	*(17,367)*	-	-
- Others (no maturity)	**448**	-	-	-	-	-	-
	5,088	**4,630**	**3,704**	**938**	**(12)**	**-**	**-**
Derivative liabilities							
Derivative financial instruments							
- Interest rate swaps	**504**	(859)	-	-	(61)	(657)	(141)
- Foreign exchange swaps	**7,485**	(8,576)	(458)	(2,268)	(5,850)	-	-
Inflows		*343,458*	*47,924*	*121,345*	*174,189*	-	-
Outflows		*(352,034)*	*(48,382)*	*(123,613)*	*(180,039)*	-	-
	7,989	**(9,435)**	**(458)**	**(2,268)**	**(5,911)**	**(657)**	**(141)**
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)

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 2019					
Balances with central banks and cash	52	-	146,862	74	**146,988**
Derivative financial instruments	-	-	-	716	**716**
Loans and advances to financial institutions	43,274	26,420	-	48,745	**118,439**
Loans and advances to customers – corporate	-	-	-	1,756,730	**1,756,730**
Loans and advances to customers – retail	-	-	-	85,825	**85,825**
Investments	204,776	4,917	480,888	-	**690,581**
Accrued income	-	-	-	16,800	**16,800**
Loans and advances to related parties (included in other assets)	-	-	-	15,305	**15,305**
Other receivables (included in other assets)	-	-	-	6,105	**6,105**
	248,102	**31,337**	**627,750**	**1,930,300**	**2,837,489**
31 March 2018					
Balances with central banks and cash	52	-	103,491	1,757	105,300
Derivative financial instruments	-	-	-	470	470
Loans and advances to financial institutions	42,082	19,233	-	52,620	113,935
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	1,787,406	2,512,509

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.*

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

Bank	**Encumbered**		**Unencumbered**		
	Pledged as collateral	**Other***	**Available as collateral**	**Other****	**Total**
	€000	**€000**	**€000**	**€000**	**€000**
31 March 2019					
Balances with central bank and cash	52	-	28,650	99	**28,801**
Derivative financial instruments	-	-	-	5,088	**5,088**
Loans and advances to financial institutions	43,232	20,150	-	45,350	**108,732**
Loans and advances to customers – corporate	-	-	-	1,524,734	**1,524,734**
Loans and advances to customers – retail	-	-	-	85,825	**85,825**
Investments	204,776	4,917	265,393	-	**475,086**
Accrued income	-	-	-	14,520	**14,520**
Loans and advances to related parties (included in other assets)	-	-	-	15,801	**15,801**
Other receivables (included in other assets)	-	-	-	6,031	**6,031**
	248,060	**25,067**	**294,043**	**1,697,448**	**2,264,618**
31 March 2018					
Balances with central bank and cash	52	-	65,362	1,757	67,171
Derivative financial instruments	-	-	-	3,886	3,886
Loans and advances to financial institutions	42,082	19,233	-	45,737	107,052
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	1,457,158	2,067,165

Represents assets that are not pledged for funding purposes but that the Group believes it is restricted from using to secure funding, for legal or other reasons.

***Represents assets that are not restricted for use as collateral, but that the Group would not consider as readily available to secure funding in the normal course of business.*

2.4 Market risk

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

2.4.1 Management of market risks

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 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 2019					
Financial assets					
Balances with central banks and cash	146,988	-	-	-	**146,988**
Derivative financial instruments	448	144	-	124	**716**
Loans and advances to financial institutions	65,447	10,358	36,721	5,913	**118,439**
Loans and advances to customers	1,338,631	469,294	32,835	1,796	**1,842,556**
Investments	684,779	5,802	-	-	**690,581**
Accrued income	13,582	2,902	296	19	**16,799**
Loans to related parties (included in other assets)	15,290	15	-	-	**15,305**
Other receivables (included in other assets)	11,217	576	(5,688)	-	6,105
	2,276,382	**489,091**	**64,164**	**7,852**	**2,837,489**
Financial liabilities					
Derivative financial instruments	504	10,443	380	-	**11,327**
Amounts owed to financial institutions	196,883	1,567	437	-	**198,887**
Amounts owed to customers	2,033,824	125,583	24,093	18,591	**2,202,091**
Subordinated liabilities	60,648	6,490	-	-	**67,138**
Accrued interest expense	4,714	693	14	53	**5,474**
Bills payable (included in other liabilities)	4,551	-	-	-	**4,551**
Amounts owed to related parties (included in other liabilities)	972	-	-	-	**972**
	2,302,096	**144,776**	**24,924**	**18,644**	**2,490,440**
Net on-balance sheet financial position		**344,315**	**39,240**	**(10,792)**	
Notional of derivative financial instruments		(347,455)	(39,640)	11,683	
Residual exposure		**(3,140)**	**(400)**	**891**	

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	105,263	5	21	11	105,300
Derivative financial instruments	368	86	13	3	470
Loans and advances to financial institutions	59,945	9,092	34,600	10,298	113,935
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
Deferred acquisition costs (included in other assets)	-	1,074	-	-	1,074
	1,967,855	488,146	46,795	10,787	2,513,583
Financial liabilities					
Derivative financial instruments	448	3,049	45	39	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
Bills payable (included in other liabilities)	1,873	-	-	-	1,873
Amounts owed to related parties (included in other liabilities)	4,762	53	-	-	4,815
	1,980,788	154,593	30,061	23,133	2,188,575
Net on-balance sheet financial position		333,553	16,734	(12,346)	
Notional of derivative financial instruments		(336,771)	(18,015)	12,133	
Residual exposure		(3,218)	(1,281)	(213)	

Bank

	Euro Currency €000	GBP currency €000	USD currency €000	Other €000	Total €000
As at 31 March 2019					
Financial assets					
Balances with central banks and cash	28,801	-	-	-	**28,801**
Derivative financial instruments	448	4,516	-	124	**5,088**
Loans and advances to financial institutions	56,958	9,838	36,175	5,761	**108,732**
Loans and advances to customers	1,236,731	339,197	32,835	1,796	**1,610,559**
Investments	469,284	5,802	-	-	**475,086**
Accrued income	12,304	1,901	296	19	**14,520**
Loans to related parties (included in other assets)	15,303	82	416	-	**15,801**
Other receivables (included in other assets)	11,217	501	(5,688)	-	**6,030**
	1,831,046	**361,837**	**64,034**	**7,700**	**2,264,617**
Financial liabilities					
Derivative financial instruments	504	7,067	418	-	**7,989**
Amounts owed to financial institutions	1,006,883	221,551	437	-	**1,228,871**
Amounts owed to customers	636,345	123,825	20,883	18,101	**799,154**
Subordinated liabilities	60,648	6,490	-	-	**67,138**
Accrued interest expense	3,303	743	11	53	**4,110**
Bills payable (included in other liabilities)	4,551	-	-	-	**4,551**
Amounts owed to related parties (included in other liabilities)	32,468	2,875	864	379	**36,586**
	1,744,702	**362,551**	**22,613**	**18,533**	**2,148,399**
Net on-balance sheet financial position		**(714)**	**41,421**	**(10,833)**	
Notional of derivative financial instruments		373	(41,903)	11,683	
Residual exposure		**(341)**	**(482)**	**850**	

Bank

	Euro currency	GBP currency	USD currency	Other	Total
	€000	€000	€000	€000	€000
As at 31 March 2018					
Financial assets					
Balances with central banks and cash	67,134	5	21	11	67,171
Derivative financial instruments	368	3,502	13	3	3,886
Loans and advances to financial institutions	54,912	7,614	34,363	10,163	107,052
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
	1,734,911	**274,667**	**46,936**	**10,651**	**2,067,165**
Financial liabilities					
Derivative financial instruments	448	3,107	45	39	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
Bills payable (included in other liabilities)	1,873	-	-	-	1,873
Amounts owed to related parties (included in other liabilities)	29,522	2,385	2,459	279	34,645
	1,588,713	**331,056**	**30,204**	**23,063**	**1,973,036**
Net on-balance sheet financial position		**(56,389)**	**16,732**	**(12,412)**	
Notional of derivative financial instruments		**56,276**	**(18,027)**	**12,150**	
Residual exposure		**(113)**	**(1,295)**	**(262)**	

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.

2.4.3 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, according to the Group's IRRBB policy and, 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 is the oversight body responsible 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 debt 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 a number of the interest rate shocks prescribed by the regulator on the:

- Projected net interest margin –∆NII;
- Group's capital position –∆EVE;
- Time bucket sensitivity – PV01; and
- Credit Spread Risk in the Banking Book – CS01.

The Group measure its exposure adopting both contractual and behavioural view (where items without deterministic maturity are assigned certain level of stickiness). The impact of the automatic options embedded in the banking book structure is assessed under ∆NII, ∆EVE and PV01.

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

Group		**Repricing in:**				
	Carrying amount	**Not more than 3 months**	**Between 3 months to 1 year**	**Between 1 and 3 years**	**Between 3 and 5 years**	**More than 5 years**
	€000	**€000**	**€000**	**€000**	**€000**	**€000**
As at 31 March 2019						
Balances with central banks	**146,985**	146,985	-	-	-	-
Loans and advances to financial institutions	**118,439**	118,439	-	-	-	-
Loans and advances to customers	**1,842,555**	1,642,610	199,930	15	-	-
Investments	**690,581**	104,923	121,735	270,194	67,741	125,988
	2,798,560	**2,012,957**	**321,665**	**270,209**	**67,741**	**125,988**
Amounts owed to financial institutions:						
- Due to clearing houses	**195,000**	105,000	90,000	-	-	-
- Due to other banks	**3,887**	3,887	-	-	-	-
Amounts owed to customers	**2,202,091**	936,052	738,120	437,928	89,991	-
Subordinated liabilities	**67,138**	-	47,174	-	19,964	-
	2,468,116	**1,044,939**	**875,294**	**437,928**	**109,955**	**-**
Interest rate repricing gap		**968,018**	**(553,629)**	**(167,719)**	**(42,214)**	**125,988**
Impact of hedging interest rate derivatives – notional amounts	**504**	**119,000**	**-**	**(65,000)**	**(43,000)**	**(11,000)**
Net interest rate repricing gap		**1,087,018**	**(553,629)**	**(232,719)**	**(85,214)**	**114,988**

Group

		Repricing in:				
	Carrying amount	**Not more than 3 months**	**Between 3 months to 1 year**	**Between 1 and 3 years**	**Between 3 and 5 years**	**More than 5 years**
	€000	**€000**	**€000**	**€000**	**€000**	**€000**
As at 31 March 2018						
Balances with central banks	**105,104**	105,104	-	-	-	-
Loans and advances to financial institutions	**113,935**	113,935	-	-	-	-
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
	2,481,000	1,776,400	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		1,080,858	(675,641)	(81,329)	(56,831)	41,407
Impact of hedging interest rate derivatives – notional amounts	**448**	**396,000**	**-**	**(273,000)**	**(78,000)**	**(45,000)**
Net interest rate repricing gap		**1,476,858**	**(675,641)**	**(354,329)**	**(134,831)**	**(3,593)**

Bank

		Repricing in:				
	Carrying amount	**Not more than 3 months**	**Between 3 months to 1 year**	**Between 1 and 3 years**	**Between 3 and 5 years**	**More than 5 years**
	€000	**€000**	**€000**	**€000**	**€000**	**€000**
As at 31 March 2019						
Balances with central banks	**28,798**	**28,798**	**-**	**-**	**-**	**-**
Loans and advances to financial institutions	**108,732**	**108,732**	**-**	**-**	**-**	**-**
Loans and advances to customers	**1,610,559**	**1,433,713**	**176,831**	**15**	**-**	**-**
Investments	**475,086**	**28,258**	**111,340**	**265,663**	**38,034**	**31,791**
	2,223,175	**1,599,501**	**288,171**	**265,678**	**38,034**	**31,791**
Amounts owed to financial institutions:						
- Due to clearing houses	**195,000**	**105,000**	**90,000**	**-**	**-**	**-**
- Due to other banks	**1,033,871**	**1,033,871**	**-**	**-**	**-**	**-**
Amounts owed to customers	**799,154**	**341,131**	**201,657**	**187,594**	**68,772**	**-**
Subordinated liabilities	**67,138**	**-**	**47,174**	**-**	**19,964**	**-**
	2,095,163	**1,480,002**	**338,831**	**187,594**	**88,736**	**-**
Interest rate repricing gap		**119,499**	**(50,660)**	**78,084**	**(50,702)**	**31,791**
Impact of hedging interest rate derivatives – notional amounts	**504**	**119,000**	**-**	**(65,000)**	**(43,000)**	**(11,000)**
Net interest rate repricing gap		**238,499**	**(50,660)**	**13,084**	**(93,702)**	**20,791**

Bank		Repricing in:				
	Carrying amount	Not more than 3 months	Between 3 months to 1 year	Between 1 and 3 years	Between 3 and 5 years	More than 5 years
	€000	€000	€000	€000	€000	€000
As at 31 March 2018						
Balances with central banks	**66,975**	66,975	-	-	-	-
Loans and advances to financial institutions	**107,052**	107,052	-	-	-	-
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
	2,032,979	1,357,912	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		(8,350)	(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 rate repricing gap		**387,650**	**(36,193)**	**(129,592)**	**(113,251)**	**(3,593)**

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.

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

The management of interest rate risk attributable to interest rate repricing gap limits is supplemented by monitoring the sensitivity of the Group's financial assets and liabilities to various interest rate scenarios under the stress testing framework whilst the extent of the difference between risk factors on the asset side and liability side is monitored through the re-fixing gap analysis.

The estimated impact on the Group's Net Interest Margin ("NIM") as a result of a 100 basis points ("bps") movement and on Economic Value as a result of a 100 basis points ("bps") parallel fall / rise in the yield curves would be as follows:

31 March 2019

- NIM would increase by €0.7 million / increase by €11.8 million.
- Economic value would increase by €35 million / increase by €8.8 million.

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.

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

The main assumptions used in the model utilised to measure the benchmarks referred to above are:

- Interest bearing assets are assumed to mature on their contractual maturity and are not replaced for the ∆EVE purposes (run off balance sheet);
- Interest bearing assets are assumed to mature on their contractual maturity and are replaced on like for like basis for the ∆NII purposes (constant balance sheet);
- Certain senior secured loans have floors and thus are not fully affected by a decrease in interest rate;
- The Group will not change deposit rates in the next 12 months even if there is an increase or decrease in ECB base rate;
- There is an implicit zero floor option on customer deposits as the Group will not charge negative rates to customers;
- The ∆ NII and ∆ EV metrics includes the effect of changes in value of the contractual automatic options embedded in the banking book assets; and
- Customer deposits follow their behavioral schedule.

Interest rate movements affect reported equity in the following ways:

- retained earnings arising from increases or decreases in net interest income after taking into consideration the net impact of interest rate hedging instruments; and
- fair value reserves arising from increases or decreases in fair values of investments measured at fair value through other comprehensive income (available-for-sale financial instruments in the preceding financial year) reported directly in equity.

2.5 Operational risk

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

The Group recognises that complete elimination of operational risk is not always feasible. MeDirect Group manages its residual operational risks in the context of its risk appetite statement, whilst allocating risk appetite levels to the different sub-risk categories. Operational risk management encompasses the process of identifying operational risks, measuring the Group's exposures to those risks (where possible), ensuring that effective capital planning and monitoring is in place, taking steps to control or mitigate risk exposures, and reporting the Group's risk exposures and capital positions.

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

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management within each 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.

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 2019 were calculated at €128.7 million (2018: €110.8 million).

2.6 Capital management - regulatory capital

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

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

In implementing current capital requirements, the regulation requires the Group to maintain a prescribed ratio of total capital to total risk-weighted assets. The Group does not engage in trading and is exempt from having a trading book. Risk-weighted assets on the banking book are determined according to specified requirements that seek to reflect the varying levels of risk attached to assets including balances with counterparties and other illiquid assets.

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

- Common Equity Tier 1 Capital which includes ordinary share capital, share premium, shareholders' contributions, retained earnings, fair value reserve and other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy purposes including deductions relating to Reserve for Depositor Compensation Scheme ('Other reserves') and certain other regulatory items; and
- Tier 2 Capital consists of unrealised gains included within the fair value reserve and subordinated liabilities in issue, which rank after the claims of all depositors (including financial institutions) and all other creditors.

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

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

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

2.7.1 Fair value hierarchy

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

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

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

2.7.2 Use of valuation techniques

In the event that the market for a financial instrument is not active, a valuation technique is used. Valuation techniques may incorporate assumptions about factors that other market participants would use in their valuations, including:

- the likelihood and expected timing of future cash flows 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.

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	**As at 31 March 2019**				**As at 31 March 2018**			
	Level 1	**Level 2**	**Level 3**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
	€000	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**
Assets								
Investments								
- measured at fair value through other comprehensive income	**265,572**	**-**	**-**	**265,572**	N/A	N/A	N/A	N/A
- available-for-sale	**N/A**	**N/A**	**N/A**	**N/A**	560,245	-	-	560,245
Derivative financial instruments	**-**	**716**	**-**	**716**	-	470	-	470
Total financial assets	**265,572**	**716**	**-**	**266,288**	560,245	470	-	560,715
Liabilities								
Derivative financial instruments	**-**	**11,327**	**-**	**11,327**	-	3,581	-	3,581

Bank	As at 31 March 2019				As at 31 March 2018			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
	€000	€000	€000	€000	€000	€000	€000	€000
Assets								
Investments								
- measured at fair value through other comprehensive income	**126,742**	**-**	**-**	**126,742**	N/A	N/A	N/A	N/A
- available-for-sale	**N/A**	**N/A**	**N/A**	**N/A**	483,278	-		483,278
Derivative financial instruments	**-**	**5,088**	**-**	**5,088**	-	3,886	-	3,886
Total financial assets	**126,742**	**5,088**	**-**	**131,830**	483,278	3,886	-	487,164
Liabilities								
Derivative financial instruments	**-**	**7,989**	**-**	**7,989**	-	3,639	-	3,639

As at 31 March 2019 and 31 March 2018, the fair value of the investments portfolio 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.

2.7.3.1 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 2019 and 2018.

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	As at 31 March 2019				
	Level 1	Level 2	Level 3	Total fair values	Total carrying amount
	€000	€000	€000	€000	€000
Assets					
Loans and advances to customers	**-**	**805,014**	**451,645**	**1,256,659**	**1,305,771**
Investments	**423,187**	**-**	**-**	**423,187**	**425,009**
Total financial assets	**423,187**	**805,014**	**451,645**	**1,679,846**	**1,730,780**
Liabilities					
Subordinated liabilities	**68,595**	**-**	**-**	**68,595**	**67,138**

Bank	As at 31 March 2019				
	Level 1	Level 2	Level 3	Total fair values	Total carrying amount
	€000	€000	€000	€000	€000
Assets					
Loans and advances to customers	-	712,437	399,683	1,112,120	1,148,633
Investments	346,647	-	-	346,647	348,344
Total financial assets	346,647	712,437	399,683	1,458,767	1,496,977
Liabilities					
Subordinated liabilities	68,595	-	-	68,595	67,138

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 and Level 3 fair value disclosures mainly comprise price quotations sourced from an online platform in respect of internationally traded loans and advances, consisting of the Group's international loan book with foreign corporates.

The Group's financial instruments not measured at fair value comprise balances with central banks, loans and advances to financial institutions and customers, amounts owed to financial institutions and customers, and bills payable (included in other liabilities). The fair values of these financial assets and liabilities are not disclosed given that the carrying amount is a reasonable approximation of fair value because these are either re-priced to current market rates frequently or are short-term in nature.

Loans and advances to financial institutions of the Group amounting to €118.4 million (2018: €113.9 million) which represent 100% of all loans and advances to financial institutions (2018: 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 with a carrying amount of €451 million (2018: €468 million) and €376 million (2018: €383 million), respectively, net of credit loss allowances (2018: impairment allowances), have not been reflected within the preceding tables. Amongst other factors, these loans mainly re-price within three months; their fair value is not expected to differ significantly from their carrying amount at the reporting date.

The carrying amount for local loans and advances to customers amounting to €85.8 million (2018: €81.5 million) approximates their fair value because these loans are repriceable at the Group's discretion.

As at 31 March 2018, all trade receivables amounting to €2.7 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 €198.9 million (2018: €126.4 million) and €1.2 billion (2018: €1.0 billion), respectively, and 'Amounts owed to customers' of the Group and the Bank amounting to €1.7 billion (2018: €1.5 billion) and €542.8 million (2018: €617.2 million) respectively, 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 2020 is set out below in relation to estimated cash flows for the purposes of applying the effective interest method and the impairment of financial instruments.

3.2 Estimated cash flows upon application of the effective interest method

As part of the calculation of the effective interest rate for financial assets and liabilities measured at amortised cost utilising the effective interest method, the Group takes into account the estimated cash flows attributable to the respective financial instrument considering all contractual terms of the instrument (e.g. prepayment, call and similar options), but excluding the impact of future credit losses.

In the case where an instrument gives the issuer the option to require the instrument to be early redeemed or cancelled, and the terms of the instrument are such that it is not certain whether the option will be exercised, the probability of the option being exercised will be assessed in determining the estimated cash flows.

Measuring interest income on loans and advances to customers under the effective interest rate method requires management to apply judgement, particularly in the case of the Group's and Bank's senior secured loans to international borrowers, constituting the international lending portfolio. A model is utilised by the Group to compute the impact of application of the effective interest rate method on an individual loan basis, by discounting estimated future cash flows through the expected life of the instrument to the net carrying amount, including all fees paid or received that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts. A key judgement in respect of the application of the effective interest rate method to the international lending portfolio is the assumed expected life for the loans, effectively determining the period over which interest income is recognised utilising the effective interest rate method, and accordingly determining the pattern of recognition of income throughout different accounting periods. The determination as to which fees are considered an integral part of the effective interest rate and hence included within the effective interest rate calculations is also judgemental for the international lending portfolio.

Management determines an assumed expected life for each individual loan within its international lending portfolio. The sensitivity to a change in assumed expected life can vary significantly between different loans, depending on the characteristics, terms and conditions of the underlying lending transaction and parameters included within the respective effective interest rate calculation such as fee income and discounts or premiums identified at inception.

The Group has historical experience in respect of the international lending portfolio, which is limited to seven 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 borrower to re-finance in the circumstances) and borrower specific information that indicates changes to repayment profiles and the extent of such changes.

3.3 Expected credit losses on loans and advances to customers

Financial assets measured at amortised cost are evaluated for impairment on the basis described in Accounting Policy Note 1.5. Expected credit losses ("ECL") on loans and advances represent management's best estimate of expected credit losses on the loan portfolios subject to IFRS 9 impairment requirements at the end of the reporting period. In this respect, management is required to exercise judgement in defining what is considered to be a significant increase in credit risk, in determining the expected lifetime and point of initial recognition of financial instruments, and in making assumptions and estimates to incorporate relevant information about past events, current conditions and forecasts of economic conditions when calculating expected credit losses.

For those loans which are classified as Stage 3 exposures, judgement is required in determining whether there is objective evidence that an exposure is credit-impaired. In performing this assessment, management applies a significant level of judgement in evaluating all relevant information on indicators of unlikeliness-to-pay, including the consideration of whether payments are contractually past due and the consideration of other factors indicating deterioration in the financial condition and outlook of borrowers affecting their ability to pay, as described in note 1.5. A higher level of judgement is required for loans to borrowers showing signs of financial difficulty in market sectors experiencing economic stress.

The measurement of credit loss allowances in respect of defaulted exposures is performed through an internally developed model based upon management's best estimate of the present value of the cash flows that are expected to be received. In estimating these cash flows for defaulted exposures within the international lending portfolio, management makes judgements about a debtor's financial situation and future repayment prospects, taking into consideration management plans for growth and restructuring, in order to determine the borrower's enterprise value, based on estimated future market multiples and future operating cash flows. In this regard, multiple scenarios are developed to reflect estimated cash flows under different workout strategies for defaulted exposures within the international lending portfolio. Judgement is applied in estimating the expected future cash flows from each borrower under the different scenarios as well as to attach probabilities to those scenarios. For defaulted loans within the local lending portfolio, expected cash flows are modelled based on the expected net realisable value of underlying collateral.

The Group might provide loan forbearance to borrowers experiencing financial difficulties by agreeing to modify the contractual payment terms of loans in order to improve the management of customer relationships, maximise collection opportunities or avoid default or repossession. Where forbearance activities are present, higher levels of judgement and estimation uncertainty are involved in determining their effects on credit loss allowances.

Defaulted exposures in both international and local lending portfolios are assessed on their own merits. Estimates of recoverable cash flows are independently reviewed and approved by the Group's Credit Risk Management function.

For exposures classified as Stage 1 and Stage 2, the Group measures credit loss allowances on the basis of complex models with a number of underlying assumptions. In determining ECL, management is required to exercise judgment in defining what is considered to be a significant increase in credit risk and in making assumptions and estimates to incorporate relevant information about past events, current conditions and forecasts of economic conditions.

The significant judgements in measuring credit loss allowances for such exposures include:

- The Group's criteria for assessing if there has been a significant increase in credit risk, which comprise a combination of qualitative and quantitative criteria, as described in note 1.5;
- The determination of expected maturities at facility level; and
- The calibration of ECL models, including the choice of inputs relating to macroeconomic variables.

The PD, LGD and EAD models used for the measurement of credit loss allowances in respect of Stage 1 and Stage 2 exposures are developed by an external vendor, enabling the estimation of these three key risk parameters at a facility level using statistical models, mainly by benchmarking exposure-specific characteristics against an underlying dataset. Specifically, PDs and LGDs are developed on a name by name basis by reference to the default and loss history of comparable borrowers with similar characteristics in terms of size, industry and country of operations.

In this regard, the methodology together with the assumptions and parameterisation used in the calibration of the model are reviewed on a regular basis by management in order to ensure that the model output remains appropriate in view of the Group's observed default and credit loss history. Significant judgement is also required in the modelling of macroeconomic forecasts, including the selection of macroeconomic variables, as well as calibration of the severities and respective probability weights of macroeconomic scenarios.

The underlying models and their calibration, including how they react to forward-looking macroeconomic conditions, remain subject to review and refinement. This is particularly relevant for lifetime PDs, which have not been previously used in regulatory modelling, and for the incorporation of upside scenarios, that have not generally been subject to experience gained through stress testing.

Management also applies judgement in the determination and modelling of management overlays, specifically an overlay applied to UK exposures in respect of the level of uncertainty which exists in the geographical area at the moment due to Brexit. In this regard, a significant level of judgement is required in order to first evaluate the appropriateness of the model output, which is based on the application of a number of macroeconomic scenarios taking into consideration different Brexit outcomes, and then calibrate and apply a management overlay, in terms of notch downgrades to TTC implied ratings as described in note 2.2.8, to reflect the ongoing developments surrounding Brexit.

The exercise of judgement in making estimations requires the use of assumptions that are highly subjective and very sensitive to the risk factors, detailed in note 1.5, in particular to changes in macroeconomic and credit conditions across a large number of industries and geographical areas. Many of these factors have a high degree of interdependency and there is no single factor to which credit loss allowances as a whole are sensitive.

The determination of expected maturities, which is particularly relevant for Stage 2 exposures, is based on behavioural maturity, reflecting management expectations on the exercise of prepayment or extension options. In this respect, the expected timing of future recoveries are regularly benchmarked against actual outcomes to ensure they remain appropriate.

4. Balances with central banks and cash

	Group		Bank	
	2019	2018	**2019**	2018
	€000	€000	**€000**	€000
At amortised cost:				
Balances with central banks	**146,985**	105,104	**28,798**	66,975
Cash	**3**	196	**3**	196
	146,988	105,300	**28,801**	67,171

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 €123.6 million, of which €5.4 million relates to the MeDirect Malta (2018: €15.3 million, of which €5.9 million relates to the MeDirect Malta), bearing interest at 0% (2018: 0%) per annum. Overnight deposits with central banks amounting to €23.3 million (2018: €87.6 million) and €23.3 million (2018: €61.1 million) of the Group and Bank respectively were subject to a negative interest rate of 0.4% (2018: negative interest rate of 0.4%) per annum.

Balances with central banks also include a balance of €52 thousand (2018: €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.

Balances with central banks in the table above are shown net of credit loss allowances amounting €1 thousand (2018: nil).

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. All foreign exchange swaps mature within 10 months (2018: 4 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 securities attributable to changes in market interest rates. Interest rate swaps are matched to fixed rate securities in designated fair value hedging transactions. The net loss on the hedging instruments during the year was €2.0 million (2018: €2.3 million). The net gain on the hedged items arising during the year attributable to the hedged risk was €1.5 million (2018: €1.9 million).

Foreign exchange and interest rate swaps are commitments to exchange one set of cash flows for another, resulting in an economic exchange of currencies or interest rates (for example, fixed rate for floating rate). Usually, no exchange of principal takes place.

The Group also used to transact derivatives to create risk management solutions for clients but this service was ceased throughout the current financial year. This service included the structuring of derivative products for customers to enable them to take, transfer, modify or reduce current or expected risks. As part of this process, the Group considered the customers' suitability in respect of the respective risks involved and the business purpose underlying the transaction. The Group managed these derivative risk positions principally through offsetting derivative transactions with its counterparties.

	Group 2019 €000	Group 2018 €000	Bank 2019 €000	Bank 2018 €000
Derivative financial assets	**716**	470	**5,088**	3,886
Derivative financial liabilities	**(11,327)**	(3,581)	**(7,989)**	(3,639)

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				Bank			
	Notional 2019 €000	**Fair value 2019 €000**	Notional 2018 €000	Fair value 2018 €000	**Notional 2019 €000**	**Fair value 2019 €000**	Notional 2018 €000	Fair value 2018 €000
Derivatives held for trading – Assets								
Instrument type:								
- Foreign exchange swaps	**34,894**	**268**	62,556	102	**226,968**	**4,640**	408,799	3,518
- Other derivative financial instruments		**448**		368		**448**		368
		716		470		**5,088**		3,886
Derivatives held for trading – Liabilities								
Instrument type:								
- Foreign exchange swaps	**409,258**	**(10,823)**	320,100	(3,133)	**350,701**	**(7,485)**	388,664	(3,191)
Net derivatives held for trading		**(10,107)**		(2,663)		**(2,397)**		695
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	**108,000**	**(355)**	351,000	(300)	**108,000**	**(355)**	351,000	(300)
More than five years	**11,000**	**(149)**	45,000	(148)	**11,000**	**(149)**	45,000	(148)
Net derivatives designated as hedging instruments in fair value hedges		**(504)**		(448)		**(504)**		(448)

6. Loans and advances to financial institutions

	Group 2019 €000	Group 2018 €000	Bank 2019 €000	Bank 2018 €000
At amortised cost:				
Repayable on call and at short notice	**94,039**	91,114	**90,602**	84,231
Term loans and advances	**24,400**	22,821	**18,130**	22,821
	118,439	113,935	**108,732**	107,052

As at 31 March 2018, loans and advances to financial institutions amounting to €61 thousand are pledged in favour of other banks providing credit card facilities to the Bank's customers.

As at 31 March 2019, an amount of €3.7 million in the form of High Quality Liquid Assets (2018: nil) and €1.5 million (2018: €5.0 million) in the form of cash have 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.

A further €1.9 million (2018: nil) in the form of High Quality Liquid Assets were also contributed to Eurex Clearing AG to cover for daily margining.

Loans and advances to financial institutions as at 31 March 2019 and 31 March 2018 were neither past due nor credit-impaired and no forbearance measures were applied by the Group and the Bank in this respect. In addition, loans and advances to financial institutions in the table above are shown net of credit loss allowances amounting €1 thousand (2018: nil).

7. Loans and advances to customers

	Group		Bank	
	2019	2018	**2019**	2018
	€000	€000	**€000**	€000
At amortised cost:				
Repayable on call and short notice: retail	**2,721**	4,242	**2,721**	4,242
Repayable on call and short notice: corporate	**8,909**	6,783	**8,909**	6,783
Term loans and advances: retail	**4,146**	4,604	**4,146**	4,604
Term loans and advances: corporate	**1,850,632**	1,708,725	**1,615,463**	1,381,047
Gross loans and advances to customers	**1,866,408**	1,724,354	**1,631,239**	1,396,676
Less: Credit loss allowance	**(23,853)**	(22,638)	**(20,680)**	(21,002)
	1,842,555	1,701,716	**1,610,559**	1,375,674
Credit loss allowances:				
- Allowances booked under Stage 1	**(12,771)**	N/A	**(11,167)**	N/A
- Allowances booked under Stage 2	**(1,937)**	N/A	**(1,329)**	N/A
- Allowances booked under Stage 3	**(9,145)**	N/A	**(8,184)**	N/A
- Individually assessed allowances	**N/A**	(16,997)	**N/A**	(16,392)
- Collectively assessed allowances	**N/A**	(5,641)	**N/A**	(4,610)
	(23,853)	(22,638)	**(20,680)**	(21,002)

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 €1.3 billion (2018: €1.1 billion) 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 2019, the acquisition of €60.8 million (2018: €118.3 million) of the Group's and Bank's "Term loans and advances to customers: corporate" was contracted but beneficial ownership was not yet transferred. Also at that date, disposals of loans and advances with a carrying amount of €17 million (2018: nil) were contracted but in respect of which instruments' beneficial ownership was not yet transferred.

Loans and advances amounting to €17.3 million (2018: €6.8 million) and €16 million (2018: €6.8 million) of the Group and Bank respectively have been written off during the current financial year. Credit loss allowances amounting to €17.8 million and €16.7 million (2018: specific impairment allowance amounting to €5.8 million) of the Group and the Bank respectively had been recognised in respect of these loans and advances.

Throughout the financial year under review, as a result of the restructuring of certain loans and advances, the Group and the Bank derecognised these loans and advances to customers, to a specific European corporation, with a carrying amount of €7 million and €5.7 million respectively. These financial instruments were replaced by new loans and advances to customers that were classified as hold to collect financial assets measured at amortised cost and unlisted equity in this European corporation that was classified as financial assets at fair value through profit or loss. The holding of the new loans and advances to customers and the unlisted equity represent the continuing interaction with this customer.

Gross loans and advances to customers of the Group and the Bank amounting to €83.5 million (2018: €76.3 million) and €78.4 million (2018: €68.2 million) respectively were classified as Stage 3 (2018: classified as impaired). The aggregate amount of such loans and advances of the Group and the Bank on which interest is reserved is €11 million (2018: €15.6 million) gross of credit loss allowances, against which €0.9 million (2018: €4 million) is being provided for after taking into account the extendible value of security backing such loans and advances.

8. Investments

	Group		Bank	
	2019	2018	**2019**	2018
	€000	€000	**€000**	€000
Investments measured at fair value through other comprehensive income				
- Debt and other fixed income securities	**265,572**	-	**126,742**	-
Investments measured at amortised cost including fair value adjustments attributable to the hedged risk				
- Debt and other fixed income securities	**425,074**	-	**348,405**	-
- Less: Credit loss allowances	**(65)**	-	**(61)**	-
Available-for-sale investments				
- Debt and other fixed income securities	**N/A**	560,245	**N/A**	483,278
	690,581	560,245	**475,086**	483,278
Credit loss allowances:				
On securities measured at amortised cost	**(65)**	N/A	**(61)**	N/A
On securities measured at fair value through other comprehensive income	**(23)**	N/A	**(21)**	N/A
	(88)	N/A	**(82)**	N/A

	Measured at fair value through other comprehensive income (available-for-sale as at 31 March 2018)				Measured at amortised cost			
	Group		Bank		Group		Bank	
	2019	2018	**2019**	2018	**2019**	2018	**2019**	2018
	€000	€000	**€000**	€000	**€000**	€000	**€000**	€000
Debt securities and other fixed income securities								
Issued by public bodies								
- local government	**-**	7,022	**-**	7,022	**-**	-	**-**	-
- foreign national and regional governments	**18,978**	67,256	**-**	21,354	**35,605**	-	**-**	-
- supranational	**62,118**	248,220	**62,120**	227,270	**192,681**	-	**161,632**	-
Issued by other bodies								
- foreign banks	**184,476**	237,747	**64,622**	227,632	**196,723**	-	**186,712**	-
	265,572	560,245	**126,742**	483,278	**425,009**	-	**348,344**	-
Listing status								
- listed on the Malta Stock Exchange	**-**	7,022	**-**	7,022	**-**	-	**-**	-
- listed on other recognised exchanges	**265,572**	553,223	**126,742**	476,256	**425,009**	-	**348,344**	-
	265,572	560,245	**126,742**	483,278	**425,009**	-	**348,344**	-

	Measured at fair value through other comprehensive income (available-for-sale as at 31 March 2018)				Measured at amortised cost			
	Group		Bank		Group		Bank	
	2019	2018	2019	2018	2019	2018	2019	2018
	€000	€000	€000	€000	€000	€000	€000	€000
Year ended 31 March								
At the beginning of year - as previously reported	**560,245**	698,474	**483,278**	647,004	**-**	-	**-**	-
Impact of IFRS 9 reclassification	**(399,347)**	-	**(353,381)**	-	**399,347**	-	**353,381**	-
Impact of remeasurement upon IFRS 9 reclassification	**-**	-	**-**	-	**2,208**	-	**2,368**	-
At beginning of the year - as restated	**160,898**	698,474	**129,897**	647,004	**401,555**	-	**355,749**	-
Additions	**164,713**	25,717	**26,886**	-	**31,107**	-	**-**	-
Disposal/Redemptions	**(58,903)**	(154,469)	**(28,047)**	(154,469)	**-**	-	**-**	-
Gains on hedged items attributable to the hedged risk	**-**	1,917	**-**	1,917	**1,526**	-	**1,526**	-
Amortisation of premium/discount	**(2,874)**	(12,496)	**(2,717)**	(12,296)	**(9,137)**	-	**(8,889)**	-
Exchange differences	**87**	(128)	**87**	(128)	**-**	-	**-**	-
Changes in fair value	**1,651**	1,230	**636**	1,250	**-**	-	**-**	-
Impairment	**-**	-	**-**	-	**(42)**	-	**(42)**	-
At end of year	**265,572**	560,245	**126,742**	483,278	**425,009**	-	**348,344**	-

Upon adoption of IFRS 9, certain debt securities were designated as measured at amortised cost as the Group's intention is to hold such debt securities to collect contractual cash flows. Securities with a fair value (and carrying amount) of €399.3 million and €353.4 million of the Group and the Bank respectively have been reclassified on 1 April 2018 upon application of IFRS 9 categorisation. An adjustment to the carrying amount of these securities of €2.2 million and €2.4 million of the Group and the Bank, respectively was necessary on 1 April 2018 to remeasure these assets at amortised cost rather than fair value. On the other hand the remaining debt securities were designated as measured at fair value through other comprehensive income with an unchanged measurement basis, as these investments are held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and to sell financial assets.

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 which are free and unencumbered securities as at 31 March 2019 with a nominal value amounting to €468.4 million (2018: €421.1 million) and €257.9 million (2018: €345.2 million) and a carrying amount of €480.9 million (2018: €447.6 million) and €265.4 million (2018: €370.6 million) for the Group and the Bank, respectively.

The cash value of unutilised borrowing facilities (headroom) of the Group and the Bank which are secured by investment securities amounted to €469.75 million (2018: €448.41) and €262.16 million (2018: €372.22 million) respectively as at 31 March 2019.

As at 31 March 2019, investment securities held by the Bank with a nominal value of €4.8 million (2018: €5.3 million) and a fair value of €4.9 million (2018: €5.5 million) are pledged in favour of the DCS.

As at 31 March 2019 and 31 March 2018, 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		Carrying amount	
			2019	2018	2019	2018
			%	%	€000	€000
MeDirect Bank SA	Belgium	Banking	**100**	100	**225,000**	225,000
Medifin Estates (partnership)	Malta	Operating lease of branches	**97**	97	**1**	1
					225,001	225,001

	2019	2018
	€000	€000
Year ended 31 March		
At beginning of year	**225,001**	180,001
Acquisition of subsidiary (Note 41)	**743**	-
Impact of merger (Note 41)	**(743)**	-
Further issue of shares by subsidiary	**-**	45,000
At end of year	**225,001**	225,001

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 into MeDirect Belgium to sustain further growth.

Medifin Estates is a partnership set up on 5 June 2012. This partnership enters into certain operating leases for property to be used as offices and branches which are then leased to the Bank.

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 (refer to Note 16).

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.

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

On 1 April 2018 the shares held by MDB Group Limited in Charts were transferred to MeDirect Malta 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.

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 2017						
Cost	1,247	2,419	234	1,516	163	5,579
Accumulated depreciation	(1,177)	(2,374)	(231)	(1,237)	(158)	(5,177)
Net book amount	70	45	3	279	5	402
Year ended 31 March 2018						
At beginning of year	70	45	3	279	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	416	108	136	563	-	1,223
As at 31 March 2018						
Cost	509	264	156	1,161	142	2,232
Accumulated depreciation	(93)	(156)	(20)	(598)	(142)	(1,009)
Net book amount	416	108	136	563	-	1,223

	Improvements to premises €000	Computer equipment €000	Other equipment €000	Fixtures and fittings €000	Motor vehicles €000	Total €000
Year ended 31 March 2019						
At beginning of year	416	108	136	563	-	1,223
Additions	90	860	32	128	-	1,110
Disposals	-	-	-	(16)	(29)	(45)
Depreciation for the year	(64)	(107)	(9)	(78)	-	(258)
Depreciation released on disposals	-	-	-	12	29	41
Reclassification - Cost	87	(14)	(97)	24	-	-
Reclassification - Accumulated depreciation	-	2	-	(2)	-	-
At end of year	**529**	**849**	**62**	**631**	**-**	**2,071**
As at 31 March 2019						
Cost	686	1,110	91	1,297	113	3,297
Accumulated depreciation	(157)	(261)	(29)	(666)	(113)	(1,226)
Net book amount	**529**	**849**	**62**	**631**	**-**	**2,071**

Bank

	Improvements to premises €000	Computer equipment €000	Other equipment €000	Fixtures and fittings €000	Motor vehicles €000	Total €000
As at 1 April 2017						
Cost	1,095	2,303	234	1,333	224	5,189
Accumulated depreciation	(1,025)	(2,275)	(231)	(1,092)	(219)	(4,842)
Net book amount	70	28	3	241	5	347
Year ended 31 March 2018						
At beginning of year	70	28	3	241	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	416	105	136	537	-	1,194
As at 31 March 2018						
Cost	509	192	156	1,071	142	2,070
Accumulated depreciation	(93)	(87)	(20)	(534)	(142)	(876)
Net book amount	416	105	136	537	-	1,194
Year ended 31 March 2019						
At beginning of year	416	105	136	537	-	1,194
Additions	25	811	-	8	-	844
Disposals	-	-	-	(16)	(29)	(45)
Depreciation for the year	(64)	(107)	(9)	(73)	-	(253)
Depreciation released on disposals	-	-	-	12	29	41
Reclassification - Cost	87	(14)	(97)	24	-	-
Reclassification - Accumulated depreciation	-	2	-	(2)	-	-
At end of year	**464**	**797**	**30**	**490**	**-**	**1,781**
As at 31 March 2019						
Cost	621	989	59	1,087	113	2,869
Accumulated depreciation	(157)	(192)	(29)	(597)	(113)	(1,088)
Net book amount	**464**	**797**	**30**	**490**	**-**	**1,781**

The Group and Bank operate from six and five immovable properties respectively which are held under operating lease agreements (see Note 33).

Capitalised staff costs included with “Additions” in the table above amount to €0.3 million (2018: nil) in respect of assets which have not yet been put in use. There were no capitalised borrowing costs related to the acquisition of property and equipment during the year (2018: nil).

11. Intangible assets

	Group		Bank	
	2019	2018	**2019**	2018
	€000	€000	**€000**	€000
Computer software				
As at beginning of year				
Cost	**2,934**	676	**2,861**	598
Accumulated amortisation	**(439)**	(672)	**(366)**	(596)
Net book amount	**2,495**	4	**2,495**	2
Year ended 31 March				
At beginning of year	**2,495**	4	**2,495**	2
Additions	**3,841**	2,559	**3,388**	2,559
Disposals	**-**	(301)	**-**	(296)
Amortisation for the year	**(521)**	(82)	**(518)**	(81)
Amortisation released on disposals	**-**	315	**-**	311
At end of year	**5,815**	2,495	**5,365**	2,495
As at end of year				
Cost	**6,775**	2,934	**6,249**	2,861
Accumulated amortisation	**(960)**	(439)	**(884)**	(366)
Net book amount	**5,815**	2,495	**5,365**	2,495

Capitalised staff costs included with “Additions” of the Group and Bank in the table above amounted to €2.3 million (2018: €1.7 million). Amortisation of amounts capitalised by the Group and Bank of €1.4 million (2018: €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 (2018: nil).

12. Non-current assets classified as held for sale

As at 31 March 2019, the fair value of assets acquired in satisfaction of debt amounted to €1.8 million (2018: €1.8 million).

Repossessed properties are made available for sale in an orderly fashion, with the proceeds used to reduce or repay the outstanding indebtedness. The Group does not generally occupy repossessed properties for its business use. Repossessed properties consist mainly of immovable property that had been pledged as collateral by customers.

13. Deferred tax assets and liabilities

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority.

	Group		Bank	
	2019	2018	**2019**	2018
	€000	€000	**€000**	€000
Deferred tax assets	**21,338**	16,148	**17,804**	12,642
Deferred tax liabilities	**(491)**	(44)	**(232)**	(44)
	20,847	16,104	**17,572**	12,598

Deferred tax assets and liabilities are attributable to the following:

	Group		Bank	
	2019	2018	**2019**	2018
	€000	€000	**€000**	€000
Property and equipment	**(149)**	15	**(149)**	15
Investments measured at fair value through other comprehensive income	**(269)**	N/A	**(10)**	N/A
Available-for-sale securities	**N/A**	988	**N/A**	1,041
Derivative financial instruments	**(73)**	(44)	**(73)**	(44)
Unutilised tax losses	**2,735**	3,076	**-**	-
Unutilised notional interest deduction	**8,642**	2,846	**8,642**	2,846
Credit loss allowances/Impairment allowances	**9,961**	9,223	**9,162**	8,740
Net deferred tax assets	**20,847**	16,104	**17,572**	12,598

Deferred taxes are calculated on all temporary differences under the liability method and are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled based on tax rates (and tax laws) that have been substantively enacted by the end of the reporting period. The principal tax rates used are 35% (2018: 35%) in relation to the Maltese jurisdiction and 25% (2018: 29.58%) in respect of the Belgian fiscal authority.

In 2017, notional interest deduction rules were introduced for Maltese corporate income tax purposes and applied to the Group with effect from the financial year ended 31 March 2017. Under these 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. Unutilised tax losses have no expiry date and can be carried forward indefinitely.

Movements in deferred tax during the year:

Group

	At beginning of year as previously reported €000	**Recognised in equity on IFRS 9 adoption on 1 April 2018** (see note 38) **€000**	**Recognised in profit or loss €000**	**Recognised in other comprehensive income €000**	**At end of year €000**
Year ended 31 March 2019					
Property and equipment	15	-	(164)	-	**(149)**
Investments measured at fair value through other comprehensive income	988	(782)	-	(475)	**(269)**
Derivative financial instruments	(44)	-	(29)	-	**(73)**
Unutilised tax losses	3,076	-	(341)	-	**2,735**
Unutilised notional interest deduction	2,846	-	5,796	-	**8,642**
Credit loss allowances	9,223	3,859	(3,121)	-	**9,961**
	16,104	**3,077**	**2,141**	**(475)**	**20,847**
Year ended 31 March 2018					
Property and equipment	24	-	(9)	-	15
Available-for-sale securities	1,396	-	-	(408)	988
Derivative financial instruments	-	-	(44)	-	(44)
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

Bank

	At beginning of year, as previously reported €000	Recognised in equity on IFRS 9 adoption on 1 April 2018 (see note 38) €000	Recognised in profit or loss €000	Recognised in other comprehensive €000	At end of year €000
Year ended 31 March 2019					
Property and equipment	15	-	(164)	-	**(149)**
Investments measured at fair value through other comprehensive income	1,041	(829)		(222)	**(10)**
Derivative financial instruments	(44)	-	(29)	-	**(73)**
Unutilised notional interest deduction	2,846	-	5,796	-	**8,642**
Credit loss allowances	8,740	3,214	(2,792)	-	**9,162**
	12,598	**2,385**	**2,811**	**(222)**	**17,572**
Year ended 31 March 2018					
Property and equipment	24	-	(9)	-	15
Available-for-sale securities	1,464	-	-	(423)	1,041
Derivative financial instruments	-	-	(44)	-	(44)
Unutilised notional interest deduction	-	-	2,846	-	2,846
Impairment allowances	8,617	-	123	-	8,740
	10,105	-	2,916	(423)	12,598

14. Prepayments and accrued income

	Group		Bank	
	2019	2018	**2019**	2018
	€000	€000	**€000**	€000
Prepayments	**1,583**	2,290	**1,426**	2,140
Accrued income	**16,800**	15,878	**14,520**	14,682
	18,383	18,168	**15,946**	16,822

15. Other assets

	Group		Bank	
	2019	2018	**2019**	2018
	€000	€000	**€000**	€000
Amounts receivable from:				
- ultimate parent company	**2,412**	275	**2,412**	275
- immediate parent company	**232**	844	**232**	844
- subsidiary company	**-**	-	**496**	457
- other group companies	**12,661**	13,846	**12,661**	13,846
Deferred customer contract costs	**1,351**	1,075	**135**	-
Other receivables	**6,105**	-	**6,031**	-
Other assets	**562**	470	**519**	376
	23,323	16,510	**22,486**	15,798

Amounts receivable from ultimate parent company amounting to €1.8 million as at 31 March 2019 (2018: €1.8 million) are unsecured, subject to interest at 3% per annum and repayable in November 2018. The residual amounts receivable from ultimate parent company are unsecured, interest free and repayable on demand.

As at 31 March 2019 and 2018, amounts receivable from immediate parent company, subsidiary company and other group companies are unsecured, interest free and repayable on demand.

The repayment of amounts receivable from other group companies is not expected within the next twelve months. None of these assets are deemed credit-impaired at 31 March 2019 and 2018.

16. Capital and reserves

Share capital

	2019	2018
	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 Bank.

Share premium

Share premium as at the reporting date represents the issue of shares in prior periods as follows:

	Number	Premium	Share premium	
	of shares	per share	2019	2018
Issue date		€	**€000**	€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, 29 March 2018 and 30 May 2018 MeDirect Malta accepted shareholders’ contributions from MDB Group Limited amounting to €8.2 million, €12.0 million, €55.4 million, €10.9 million and €3.1 million respectively.

By virtue of board resolutions dated 30 May 2018 and 28 June 2019, MeDirect Malta approved the repayment of the shareholder contribution to MDB Group Limited equivalent to €7.2 million and €10 million respectively.

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 2019, the reserve for general banking risks of the Group and the Bank was equivalent to €3.1 million (2018: €1.7 million) and €2.8 million (2018: €1.7 million), respectively. 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 is attributable to the cumulative net change in the fair value of investments measured at fair value through other comprehensive income (available-for-sale investments prior to adoption of IFRS 9), until the investment is derecognised, net of deferred taxation.

	Group		Bank	
	2019	2018	**2019**	2018
	€000	€000	**€000**	€000
On financial investments:				
At the beginning of year - as previously reported	**(1,809)**	(2,588)	**(1,935)**	(2,719)
Impact of transition to IFRS 9 (see note 1 and 38)	**2,208**	-	**2,368**	-
Deferred tax on impact of transition to IFRS 9	**(782)**	-	**(829)**	-
At beginning of the year - as restated	**(383)**	(2,558)	**(396)**	(2,719)
Fair value adjustments	**1,651**	1,230	**636**	1,250
Deferred tax on fair value adjustments	**(475)**	(423)	**(222)**	(438)
Reclassification adjustment to profit or loss upon disposal	**-**	(43)	**-**	(43)
Deferred tax on reclassification adjustments	**-**	15	**-**	15
At the end of year	**793**	(1,809)	**18**	(1,935)

Other reserve

The other reserve of the Group and the Bank is equivalent to €0.1 million (2018: €0.1 million) and €4.4 million (2018: €7.4 million), respectively. The difference between the purchase consideration of €35.3 million upon acquisition of MedCorp in 2015 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 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, 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	
	2019	2018	**2019**	2018
	€000	€000	**€000**	€000
Repayable on call and at short notice	**3,887**	21,428	**3,887**	21,423
Term deposits	**195,000**	105,000	**1,224,984**	997,659
	198,887	126,428	**1,228,871**	1,019,082

An amount of €195 million (2018: €105 million) from the Group's and Bank's term deposits are secured by a pledge over MeDirect Malta's investments (refer to Note 8).

The MeDirect Malta Group uses the GH I structure that is funded through two intragroup loan facilities subscribed to by MeDirect Malta and MeDirect Belgium. MeDirect Belgium and MeDirect Malta invested in GH I on a 74%-26% basis (2018: 78%-22% 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 ten-year period from grant date.

The Senior Interest Rate on each Senior Loan is the aggregate of a 2.5% margin (2018: 2.5% margin) and the one-month EURIBOR for the euro denominated note, and an aggregate of a 2.5% margin (2018: 2.5% margin) and the one-month LIBOR for the sterling denominated note. 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.

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 Senior Loan granted by MeDirect Belgium to GH I is included in the Bank's term deposits with financial institutions and was equivalent to €1,029 million as at 31 March 2019 (2018: €893 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	
	2019	2018	**2019**	2018
	€000	€000	**€000**	€000
Repayable on call and at short notice	**734,362**	477,735	**270,441**	350,212
Term deposits	**1,467,729**	1,501,424	**528,713**	491,715
	2,202,091	1,979,159	**799,154**	841,927

19. Subordinated liabilities

	Group and Bank	
	2019	2018
	€000	€000
Year ended 31 March		
At beginning of year	**66,949**	47,043
Debt securities issued	**-**	20,000
Foreign exchange differences	**96**	(106)
Transaction costs incurred	**-**	(87)
Transaction costs amortised to profit or loss	**93**	99
At end of year	**67,138**	66,949
Analysed as follows:		
7.5% Subordinated Bonds 2019	**22,342**	22,276
6% Subordinated Unsecured Bonds 2019 – 2024	**24,832**	24,745
5% Subordinated Unsecured Bonds 2022 – 2027	**19,964**	19,928
	67,138	66,949

During June 2013, MeDirect Malta issued the 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.

On 3 November 2014, MeDirect Malta announced the issue of €15 million 6% Subordinated Unsecured Bonds maturing on 28 November 2024 with a 28 November 2019 early redemption option held by the Bank. These bonds were issued on the Malta Stock Exchange in euro and pound sterling. The interest payable is fixed at 6% (effective interest rate of 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 (euro equivalent of €1.7 million) bonds in pound sterling and €23.3 million bonds in euro.

On 16 October 2017, MeDirect Malta announced the issue of the euro equivalent of €20 million 5% Subordinated Unsecured Bonds 2027 maturing on 13 October 2027 with a 13 October 2022 early redemption option held by the Bank. These bonds were issued on the Malta Stock Exchange in euro and pound sterling. The interest payable is fixed at 5% (effective interest rate of 5.19%) and the bonds are redeemable at their nominal value. The amounts subscribed consisted of £1.2 million (euro equivalent to €1.3 million) bonds in pound sterling and €18.7 million bonds in euro.

The above liabilities will, in the event of the winding up of the Bank, be subordinated to the claims of depositors and all other creditors of the Bank. 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 2019 and 31 March 2018. As at 31 March 2019, the euro equivalent contractual amount due at maturity is €67.3 million (2018: €67.2 million). The carrying amount of the subordinated debt securities in issue is €0.2 million lower than the contractual amount due at maturity for 2019 and 2018.

20. Provisions for liabilities and other charges

	Group	Bank
	€000	**€000**
Credit loss allowances in respect of loan commitments and financial guarantee contracts		
Year ended 31 March 2019		
Impact of transition to IFRS 9 on 1 April 2018	**1,022**	**900**
Change in expected credit losses	**611**	**733**
At end of year	**1,633**	**1,633**

21. Accruals and deferred income

	Group		Bank	
	2019	2018	**2019**	2018
	€000	€000	**€000**	€000
Accrued interest expense	**5,474**	5,770	**4,112**	4,921
Other accrued expenses	**8,445**	6,985	**5,462**	5,026
Deferred income	**25,531**	21,511	**25,531**	21,511
	39,450	34,266	**35,105**	31,458

22. Other liabilities

	Group		Bank	
	2019	2018	**2019**	2018
	€000	€000	**€000**	€000
Amounts due to:				
- immediate parent company	**-**	449	**-**	449
- subsidiary company	**-**	-	**35,614**	29,830
- other group companies	**972**	4,366	**972**	4,366
Indirect taxes payable	**1,193**	1,062	**463**	613
Bills payable	**4,551**	1,873	**4,551**	1,873
Other liabilities	**20,713**	8,492	**20,310**	8,007
	27,429	16,242	**61,910**	45,138

Amounts due to immediate parent company, subsidiary and other group companies are unsecured, interest free and repayable on demand.

23. Net interest income

	Group		Bank	
	2019	2018	**2019**	2018
	€000	€000	**€000**	€000
Interest income				
Loans and advances to financial institutions	**(248)**	(277)	**(48)**	(275)
Loans and advances to customers	**99,228**	93,701	**86,281**	81,208
Loans and advances to ultimate parent company	**46**	-	**46**	-
Loans and advances to subsidiary company	**-**	-	**-**	228
Investment securities	**(3,091)**	(2,589)	**(2,810)**	(2,407)
Total interest income	**95,935**	90,835	**83,469**	78,754
Interest expense				
Amounts owed to financial institutions	**4,467**	1,791	**25,777**	15,022
Amounts owed to customers	**19,612**	22,386	**9,653**	12,727
Subordinated liabilities	**4,254**	3,725	**4,254**	3,725
Total interest expense	**28,333**	27,902	**39,684**	31,474
Net interest income	**67,602**	62,933	**43,785**	47,280

An amount of €4.3 million (2018: €2.9 million) and €4 million (2018: €2.5 million) in respect of the Group and the Bank respectively relating to credit-impaired financial assets is included within interest income from loans and advances to customers for the year ended 31 March 2019.

The Group and Bank recorded a gain of €0.3 million and €0.4 million respectively on the derecognition of the former loans and advances to customers and the recognition of the new loans and advances to customers measured at amortised cost and the financial assets at fair value through profit or loss.

Fair value losses of €2.0 million (2018: €2.3 million) arising on derivatives designated in fair value hedge relationships and €1.5 million (2018: €1.9 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 debt securities.

The losses are reflected within interest income arising from investment securities, where interest income on the hedged items is presented.

	Group and Bank	
	2019	2018
	€000	€000
Losses on hedging instruments	**(1,965)**	(2,256)
Gains on hedged items attributable to the hedged risk	**1,526**	1,917
Net losses representing ineffective portion of fair value hedges	**(439)**	(339)

24. Net fee and commission income

	Group		Bank	
	2019	2018	**2019**	2018
	€000	€000	**€000**	€000
Fee and commission income				
Corporate secured lending fee income	**653**	141	**638**	141
Banking transactions fee income	**2,302**	2,085	**2,293**	2,067
Investment services fees	**4,111**	3,556	**2,208**	1,688
Total fee and commission income	**7,066**	5,782	**5,139**	3,896
Fee and commission expense				
Corporate secured lending fee expense	**102**	244	**31**	155
Banking transactions fee expense	**159**	218	**129**	180
Investment services transaction and custody fees	**1,146**	1,011	**524**	664
Other fee expense	**101**	84	**74**	76
Total fee and commission expense	**1,508**	1,557	**758**	1,075
Net fee and commission income	**5,558**	4,225	**4,381**	2,821

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 €0.7 million (2018: €0.1 million) and expenses of €0.1 million (2018: €0.2 million) relating to such financial assets and liabilities.

25. Net trading income and other operating income

25.1 Net trading income

	Group		Bank	
	2019	2018	**2019**	2018
	€000	€000	**€000**	€000
Net income from foreign exchange activities	**3,454**	4,003	**3,409**	3,907
Net expense from held for trading financial instruments	**(326)**	(74)	**(326)**	(74)
	3,128	3,929	**3,083**	3,833

25.2 Realised gains on disposal of other investments

	Group		Bank	
	2019	2018	**2019**	2018
	€000	€000	**€000**	€000
Investments measured at amortised cost including fair value adjustments attributable to the hedged risk	**87**	-	**87**	-
Available-for-sale investments	**N/A**	43	**N/A**	43
	87	43	**87**	43

26. Personnel expenses

Personnel expenses incurred, including directors' remuneration and emoluments, are analysed as follows:

	Group		Bank	
	2019	2018	**2019**	2018
	€000	€000	**€000**	€000
Directors' emoluments				
- salaries	**4,388**	2,991	**3,571**	1,970
- defined contribution social security costs	**90**	117	**42**	31
- fees	**520**	457	**391**	327
- other emoluments	**36**	27	**36**	27
Staff costs				
- salaries	**17,235**	14,675	**11,789**	10,864
- defined contribution social security costs	**1,783**	1,064	**1,147**	944
Staff costs capitalised within Property and Equipment (Note 10) and Intangible Assets (Note 11)	**(2,641)**	(1,738)	**(2,615)**	(1,738)
	21,411	17,593	**14,361**	12,425

As per above, salary costs amounted to €21.6 million (2018: €17.7 million) and €15.4 million (2018: €12.8 million) for the Group and Bank respectively, with the Group's and Bank's variable remuneration accounting for 12% (2018: 14%) and 16% (2018: 18%) respectively of these amounts.

Throughout the current financial year deferred share-based payment awards were granted to certain officers or employees of the Group and the Bank under a deferred performance and retention bonus plan. Under the plan, these officers or employees are entitled to a deferred cash payment that will be based on changes in the fair value of ordinary shares of MDB Group Limited, but does not entitle the employees to shares or any interest in or right over such shares. The plan contemplates upfront cash amounts, upfront share-linked awards and deferred share linked-awards. Share-linked instruments comprise a number of notional ordinary shares of MDB Group Limited determined at award date by reference to the related bonus amounts taking cognisance of the fair value of the shares at that date. Share-linked awards shall be subject to a retention period, defining delay in settlement post vesting, of not less than twelve months but not greater than five years. Settlement amounts will be determined on the basis of the fair value of the ordinary shares at settlement date, which is the end of the retention period.

An assessment of performance over the relevant period is used to determine the amount of the deferred performance bonus award to be granted. Deferred performance awards generally require employees to remain in employment over the vesting period, constituting a deferral period, and are not subject to performance conditions for any period after the grant date. Any tranche of a deferred award which has not yet vested will be forfeited if the employee leaves employment before the end of the deferral or vesting period, unless the employee leaves due to certain specific reasons as listed in the deferred bonus plan. The share-based payments are classified as cash-settled since the share-based payment transactions with the employees are settled through a cash payment.

The following is an analysis of the amounts attributable to deferred share-based remuneration awarded during the current financial year, that is also outstanding as at 31 March 2019 since no deferred remuneration was paid by the end of the financial year. A portion of this deferred remuneration has been reflected in profit or loss for the current financial year as reflected below, to the extent of the vested amounts.

	Senior management	
	Vested	**Unvested**
	€000	**€000**
Total outstanding deferred remuneration		
- Share-based payments	**467**	**1,325**

The total expense recognised during the current financial year, and the resultant liability as at 31 March 2019, arising from share-based payments amounted to €0.9 million. This amount comprises the deferred remuneration disclosed in the above table together with amounts attributable to upfront cash amounts and upfront share-linked awards.

Other disclosure requirements emanating from IFRS 2 in this respect have not been deemed relevant or necessary, also taking into account the extent of share-based remuneration reflected in these financial statements.

The weekly average number of persons employed during the year, including executive directors, was as follows:

	Group		Bank	
	2019	2018	**2019**	2018
	No.	No.	**No.**	No.
Executive and senior management	**17**	16	**16**	15
Other managerial, supervisory and clerical	**277**	266	**253**	242
Other	**13**	14	**13**	14
	307	296	**282**	271

The number of persons employed as at the reporting date, including executive directors, was as follows:

	Group		Bank	
	2019	2018	**2019**	2018
	No.	No.	**No.**	No.
Management and administration	**313**	310	**289**	284

27. Other administrative expenses

Other administrative expenses are analysed as follows:

	Group		Bank	
	2019	2018	**2019**	2018
	€000	€000	**€000**	€000
Operating lease charges (Note 33)	**6,502**	6,363	**3,912**	3,881
IT support and telecommunication costs	**5,242**	4,392	**2,959**	2,558
Legal and professional expenses	**4,593**	5,126	**2,548**	3,319
Regulatory expenses	**4,184**	3,330	**1,366**	1,170
Indirect taxation	**3,656**	3,666	**1,889**	2,153
Other expenses	**6,643**	7,115	**3,018**	3,366
	30,820	29,992	**15,692**	16,447

Included in other administrative expenses are fees charged by the Group's independent auditors for the year as follows:

	Group		Bank	
	2019	2018	**2019**	2018
	€000	€000	**€000**	€000
Audit services	**748**	425	**633**	370
Other assurance services	**53**	36	**53**	36
Tax advisory services	**41**	63	**41**	63
Other non-audit services	**250**	382	**189**	382

Other assurance services comprise mainly reviews of interim financial information. Other non-audit services consist of regulatory advisory services in respect of the Group's compliance with elements of the regulatory framework the Group is exposed to or will be exposed to in the future as a result of new business lines being considered and assistance in respect of regulatory reporting submissions. These non-audit services have no linkage whatsoever to the audited financial statements.

28. Net impairment charges

	Group		Bank	
	2019	2018	**2019**	2018
	€000	€000	**€000**	€000
Write-downs				
Loans and advances to customers				
- specific impairment allowances (Note 7)	**N/A**	7,160	**N/A**	6,555
- collective impairment allowances (Note 7)	**N/A**	5,641	**N/A**	4,610
- bad debts written off (Note 7)	**N/A**	6,827	**N/A**	6,827
Reversals of write-downs				
Loans and advances to customers				
- specific impairment allowances (Note 7)	**N/A**	(6,192)	**N/A**	(6,192)
- collective impairment allowances (Note 7)	**N/A**	(5,134)	**N/A**	(4,203)
Net impairment charges	**N/A**	8,302	**N/A**	7,597

29. Change in expected credit losses and other impairment charges

	Group		Bank	
	2019	2018	**2019**	2018
	€000	€000	**€000**	€000
Change in expected credit losses				
Loans and advances to customers, including accrued income, and other credit-related commitments				
- International lending portfolio	**(5,668)**	N/A	**(4,559)**	N/A
- Local lending portfolio	**(3,160)**	N/A	**(3,160)**	N/A
Balances with central banks	**1**	N/A	**1**	N/A
Loans and advances to financial institutions	**1**	N/A	**1**	N/A
Investments	**56**	N/A	**56**	N/A
Other credit impairment charges				
Recoveries				
- International lending portfolio	**(2,746)**	N/A	**(2,746)**	N/A
Amounts written off on loans and advances to customers				
- International lending portfolio	**14,764**	N/A	**13,495**	N/A
- Local lending portfolio	**2,547**	N/A	**2,547**	N/A
	5,795	N/A	**5,635**	N/A

30. Taxation

	Group		Bank	
	2019	2018	**2019**	2018
	€000	€000	**€000**	€000
Current tax expense/(income)				
- current year tax charge	**743**	1,275	**558**	1,157
- overprovision of tax in preceding financial year attributable to application of notional interest deduction	**-**	(4,391)	**-**	(4,391)
Deferred tax (Note 13)	**(2,141)**	(2,334)	**(2,811)**	(2,916)
Income tax credit	**(1,398)**	(5,450)	**(2,253)**	(6,150)

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	
	2019	2018	**2019**	2018
	€000	€000	**€000**	€000
Profit before tax	**21,470**	14,095	**18,731**	16,224
Tax at the applicable rate of 35%	**7,515**	4,933	**6,556**	5,678
Tax effect of:				
Non-deductible expenses	**30**	14	**2**	3
Impact of notional interest deduction rules attributable to the Bank (Note 13)	**(9,022)**	(11,786)	**(9,022)**	(11,786)
Impact on deferred tax of changes in tax rates in Belgium	**172**	1,353	**-**	-
Other	**(93)**	36	**211**	(45)
Income tax credit	**(1,398)**	(5,450)	**(2,253)**	(6,150)

31. 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	
	2019	2018
Profit attributable to ordinary shareholders (€000)	**22,868**	19,545
Weighted average number of ordinary shares ('000)	**117,450**	117,450
Earnings per share (€cents)	**19**	17

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.

32. Cash and cash equivalents

Balances of cash and cash equivalents as shown in the statements of cash flows are analysed below:

	Group		Bank	
	2019	2018	**2019**	2018
	€000	€000	**€000**	€000
Analysis of cash and cash equivalents:				
Cash in hand	**3**	196	**3**	196
Call deposits	**49,596**	83,975	**46,158**	77,091
Target 2 overnight deposits	**23,371**	88,545	**23,398**	59,845
Amounts owed to financial institutions with original maturity of less than 3 months	**(3,887)**	(21,428)	**(3,887)**	(21,423)
Per Statement of cash flows	**69,083**	151,288	**65,672**	115,709
Adjustments to reflect:				
Balances with central banks	**123,614**	15,299	**5,400**	5,871
Deposits with original maturity of over 3 months	**68,843**	31,220	**62,574**	31,220
Amounts owed to financial institutions with original maturity of over 3 months	**(195,000)**	(105,000)	**(1,224,984)**	(997,659)
Per Statement of financial position	**66,540**	92,807	**(1,091,338)**	(844,859)

		Group		Bank	
		2019	2018	**2019**	2018
	Notes	**€000**	€000	**€000**	€000
Analysed as follows:					
Balances with central banks and cash	4	**146,988**	105,300	**28,801**	67,171
Loans and advances to financial institutions	6	**118,439**	113,935	**108,732**	107,052
Amounts owed to financial institutions	17	**(198,887)**	(126,428)	**(1,228,871)**	(1,019,082)
		66,540	92,807	**(1,091,338)**	(844,859)

33. Lease commitments

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	
	2019	2018	**2019**	2018
	€000	€000	**€000**	€000
Within one year	**1,474**	1,434	**1,388**	1,349
After one year but less than five years	**3,939**	5,225	**3,776**	4,975
More than 5 years	**642**	817	**642**	817
	6,055	7,476	**5,806**	7,141

The amount of operating lease expense recognised in profit or loss for the year is disclosed in Note 27.

34. Contingent liabilities

As reported in the financial statements for the preceding financial year, throughout the year ended 31 March 2019, the tax authorities in Belgium reviewed the transfer of tax losses from the former Belgian branch of MeDirect Malta to MeDirect Belgium amounting to €12.3 million. As a result of such review the tax authorities confirmed that the transfer of tax losses was justified and therefore no adjustment to the deferred tax asset was deemed necessary as the position of the Group was ultimately upheld.

As at 31 March 2019, the Group and Bank had cash secured guarantee obligations amounting to €8.5 million (2018: €5.2million).

35. Commitments to lend

Commitments to lend represent undrawn formal standby facilities, credit facilities and other similar commitments to lend. As at 31 March 2019, the Group and Bank had commitments of €448.1 million (2018: €361.8 million) under revolving credit facilities. In addition, undrawn facilities on term loans of the Group and Bank amounted to €61.3 million (2018: €74.7 million).

36. 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 26. The Group also provides non-cash benefits to Key Management Personnel, relating to gross rent payable on accommodation based in Malta, together with health and life insurance premiums paid by the Group totalling to €0.1 million (2018: €0.1 million).

Related party balances and transactions

During the course of its activities, the Group conducted business on commercial terms with related parties comprising the ultimate controlling party and entities controlled by the ultimate parent company. The Bank also conducted business on commercial terms with MeDirect Belgium.

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 2019

Related party	Income from related parties €000	Expenses charged by related parties €000	Amounts owed by related parties €000	Amounts owed to related parties €000	Transaction/balance type
Ultimate controlling party	-	184	-	-	Monitoring fees
Ultimate parent company	55	-	-	-	Interest income
	-	-	2,412	-	Other assets
Immediate parent company	-	-	232	-	Other assets
Other group companies	-	-	12,661	-	Other assets
	-	4,895	-	-	IT support
	-	4,822	-	-	Operating lease charge
	-	-	-	972	Other liabilities
Key management personnel	6	-	-	-	Interest income
	-	-	120	-	Loans and advances to customers
	-	-	-	499	Amounts owed to customers

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
	-	-	-	4,366	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

The directors' fees and personnel expenses in relation to key management personnel are disclosed in note 26 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, 29 March 2018 and 30 May 2018 MeDirect Malta accepted shareholders' contributions from MDB Group Limited amounting to €8.2 million, €12.0 million, €55.4 million, €10.9 million and €3.1 million respectively.
- By virtue of a board resolution dated 30 May 2018, MeDirect Bank Malta plc approved the repayment of shareholder contributions equivalent to €7.2 million.
- 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 and disclosures are also the related party transactions of the Bank with the exception of the IT support charges and operating lease charges which amounted to €2.4 million (2018: €2.5 million) and €2.4 million (2018: €2.8 million) respectively.

During the year ended 31 March 2018, MeDirect Malta sold a portfolio of loans to MeDirect Belgium with a carrying amount of €45.3 million prior to disposal and MeDirect Malta recorded gains of €0.05 million on such disposals.

Furthermore, MeDirect Malta recharged employee compensation and benefits to MeDirect Belgium amounting to €4.9 million (2018: €3 million).

37. 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, 23 and 24 to the financial statements which provide information about the financial risks, credit concentrations by sector and location, together with revenues from the single reportable segment. The investment portfolio is spread across a large number of exposures diversified in government, financial institutions and other corporates.

In accordance with Article 89 of CRD IV, 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 * 2019 €000	Full-time equivalent staff 31 March 2019 No	Profit before tax 2019 €000	Tax income/ (expense) 2019 €000
Malta	**74,336**	**304**	**20,152**	**1,582**
Belgium	**41,913**	**9**	**1,318**	**(184)**
	116,249	**313**	**21,470**	**1,398**

	Turnover *	Full-time equivalent staff	Profit/(loss) before tax	Tax income/ (expense)
	2018	31 March 2018	2018	2018
	€000	No	€000	€000
Malta	78,927	301	15,168	6,150
Belgium	30,634	9	(1,073)	(700)
	109,561	310	14,095	5,450

* Turnover is defined as interest income, fee and commission income and other operating income. The 2019 turnover allocated to Belgium includes interest charged to MeDirect Malta amounting to €25.8 million (2018: €16.3 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.

38. Effect of adoption of IFRS 9

Reconciliation of the gross amount of financial assets at 31 March 2018 and 1 April 2018

The differences in the measurement category and the gross amount of financial assets in accordance with IAS 39 and IFRS 9 at the date of initial application, 1 April 2018, are analysed in the tables below through the following elements:

- Reclassifications, reflecting the movement of balances between categories of financial assets with no impact on shareholders' equity. There is no change to the carrying value of financial instruments as a result of reclassifications.
- Remeasurements, which are adjustments due to changes to the measurement bases, resulting in a change to the carrying value of the financial instrument, with a corresponding impact (net of tax) on shareholders' equity.

Upon initial application of IFRS 9, the Group decided to split the debt securities, all of which were classified as available-for-sale financial instruments and measured at FVOCI under IAS 39, into two portfolios, in order to reflect the objective of the respective business models.

One portfolio of debt securities was reclassified to financial assets measured at amortised cost given that the Group considers that these debt securities are held within a business model whose objective is achieved through the collection of contractual cash flows, which represent SPPI.

The rest of the debt securities classified as available-for-sale under IAS 39 will continue to be measured at FVOCI under IFRS 9, since these are held within a business model whose objective is achieved by both collecting contractual cash flows, which represent SPPI, and selling financial assets.

Group	IAS 39 Measurement category	IAS 39 Gross amount €000	Reclassification €000	Remeasurement €000	IFRS 9 Gross amount €000	IFRS 9 Measurement category
Financial assets						
Balances with central banks and cash	Amortised cost (Loans and receivables)	105,300	-	-	105,300	Amortised cost
Derivative financial instruments	FVTPL (Held for trading)	470	-	-	470	FVTPL (Held for trading)
Loans and advances to financial institutions	Amortised cost (Loans and receivables)	113,935	-	-	113,935	Amortised cost
Loans and advances to customers	Amortised cost (Loans and receivables)	1,724,354	-	-	1,724,354	Amortised cost
Investments						
- measured at fair value through other comprehensive income						
Opening balance under IAS 39	FVOCI (Available-for-sale)	560,245				
Reclassification to amortised cost			(399,347)	-		
Opening balance under IFRS 9					160,898	FVOCI
- measured at amortised cost						
Opening balance under IAS 39		-				
Reclassification from Available-for-sale			399,347			
Remeasurement to amortised cost				2,208		
Opening balance under IFRS 9					401,555	Amortised cost
Accrued income	Amortised cost (Loans and receivables)	15,878	-	-	15,878	Amortised cost
Loans to related parties (included in other assets)	Amortised cost (Loans and receivables)	14,965	-	-	14,965	Amortised cost
		2,535,147	**-**	**2,208**	**2,537,355**	

Bank	IAS 39 Measurement category	IAS 39 Gross amount €000	Reclassification €000	Remeasurement €000	IFRS 9 Gross amount €000	IFRS 9 Measurement category
Financial assets						
Balances with central banks and cash	Amortised cost (Loans and receivables)	67,171	-	-	67,171	Amortised cost
Derivative financial instruments	FVTPL (Held for trading)	3,886	-	-	3,886	FVTPL (Held for trading)
Loans and advances to financial institutions	Amortised cost (Loans and receivables)	107,052	-	-	107,052	Amortised cost
Loans and advances to customers	Amortised cost (Loans and receivables)	1,396,676	-	-	1,396,676	Amortised cost
Investments						
- measured at fair value through other comprehensive income						
Opening balance under IAS 39	FVOCI (Available-for-sale)	483,278				
Reclassification to amortised cost			(353,381)	-		
Opening balance under IFRS 9					129,897	FVOCI
- measured at amortised cost						
Opening balance under IAS 39		-				
Reclassification from Available-for-sale			353,381			
Remeasurement to amortised cost				2,368		
Opening balance under IFRS 9					355,749	Amortised cost
Accrued income	Amortised cost (Loans and receivables)	14,682	-	-	14,682	Amortised cost
Loans to related parties (included in other assets)	Amortised cost (Loans and receivables)	15,422	-	-	15,422	Amortised cost
		2,088,167	**-**	**2,368**	**2,090,535**	

All financial liabilities remain measured at amortised cost following initial application of IFRS 9. Therefore, there is no impact from reclassification/remeasurement upon transition to IFRS 9 on such financial liabilities which primarily comprise of customer accounts, deposit by banks and subordinated liabilities.

Reconciliation of impairment allowances under IAS 39 at 31 March 2018 to credit loss allowance under IFRS 9 at 1 April 2018

The following table reconciles the impairment allowance as at 31 March 2018 measured in accordance with the IAS 39 incurred loss model to the new credit loss allowances measured in accordance with the IFRS 9 expected loss model as at 1 April 2018. Following the adoption of IFRS 9, the credit loss allowances in relation to balances with central banks, loans and advances to banks and loans to related parties are deemed to be immaterial to be disclosed in the below table.

	Group			Bank		
	IAS 39 Impairment allowance €000	Remeasurement €000	IFRS 9 Credit loss allowance €000	IAS 39 Impairment allowance €000	Remeasurement €000	IFRS 9 Credit loss allowance €000
Measurement category						
Loans and receivables (IAS 39) / Financial assets at amortised cost (IFRS 9)						
Loans and advances to customers (including accrued income)	22,638	10,736	33,374	21,002	8,282	29,284
Available-for-sale financial instruments (IAS 39) / Financial assets at amortised cost (IFRS 9)						
Investments	-	23	23	-	19	19
Available-for-sale financial instruments (IAS 39) / Financial assets at FVOCI (IFRS 9)						
Investments	-	9	9	-	7	7
Loan commitments and financial guarantee contracts	-	1,022	1,022	-	900	900
Total	**22,638**	**11,790**	**34,428**	**21,002**	**9,208**	**30,210**

39. 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.

40. 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 2019, the total assets held by the Group and the Bank on behalf of customers amounted to €926.7 million (2018: €821.1 million) and €512.1 million (2018: €454.8 million) respectively.

41. 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. The comparative financial statements were not restated using predecessor accounting as the impact on the comparative financial information would have been immaterial.

The assets and liabilities that were reflected by MeDirect Malta as a result of the merger were as follows:

As at 1 April 2018	**€000**
Trade and other receivables	220
Current tax assets	132
Cash and cash equivalents	1,565
Trade and other payables	(1,093)

The following tables provide an overview of Charts' financial performance and cash flows for the financial year ended 31 March 2018.

Year ended 31 March 2018	**€000**
Revenue	895
Direct costs	(7)
Gross contribution	888
Administrative expenses	(552)
Operating income	336
Investment income	16
Gain on sale of available-for-sale financial assets	74
Profit before tax	426
Tax expense	(121)
Profit for the year	305
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)
- Net amount reclassified to profit or loss, before tax	(74)
Total comprehensive income for the year	222

Year ended 31 March 2018	**€000**
Cash generated from operating activities	479
Taxation paid	(214)
Net cash generated from operating activities	265
Cash flows from investing activities	288
Net movement in cash and cash equivalents	553
Cash and cash equivalents at beginning of year	1,012
Cash and cash equivalents at end of year	1,565

42. Events after the reporting date

New Dutch state-guaranteed mortgages business line

On 3 June 2019, the Governing Council of the European Central Bank ("ECB") consented to the strategic decision of MeDirect Belgium to enter into a new business line, namely the origination of Dutch state-guaranteed mortgages ('Nationale Hypotheek Garantie' or NHG) under Article 77 of the Belgian Banking Law. These mortgages are prime Dutch mortgages that benefit from a guarantee from a private non-profit fund and indirectly from a government guarantee.

The launch of this new business line is part of the Group's strategic objective to diversify its business model. MeDirect Belgium will do this via an established third party mortgage originator in the Netherlands that after origination would transfer the mortgages to MeDirect Belgium through a silent assignment.

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

Subsequent to the end of the reporting period, the Group and Bank changed their intention in relation to a specific sub-portfolio of their international lending portfolio, classified as hold to collect and with a total carrying amount as at 31 March 2019 equivalent to €266.1 million and €257.8 million respectively. The reasons for this change in business model are driven by the Group's intention to set up a securitisation structure as part of a new strategy, through which part of the international lending portfolio will be sold by the Group to this structured entity and derecognised from the Group's statement of financial position, subsequent to which structured notes will be issued by the structured entity to third party investors.

However, the Group's change in intention is not deemed to constitute a reclassification event, since the Group's remaining hold to collect portfolio will retain its classification and the above mentioned sale from the international lending portfolio for the purpose of setting up a securitisation structure is classified as an isolated non-recurring event.

In view of the Group's projected exposure to the total variability of the structured entity's returns, taking into account of its maximum exposure as a collateral manager (i.e. incorporating all cash flows, including management and incentive fees), a significant share of the exposure to variable returns is transferred to other tranche holders and therefore the Group will not consolidate the structured entity.

Repayment of shareholder contributions

On 28 June 2019, the Board of directors of MeDirect Malta approved the repayment of shareholder contributions equivalent to €10 million.

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

43. 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., a limited partnership, registered in Guernsey with its registered address at Ground Floor, Cambridge House, Le Truchot, St Peter Port, Guernsey GY1 1WD.

The ultimate parent company of MeDirect Malta is Medifin Investments Limited, a non cellular company, which is incorporated and registered in Guernsey with its registered address at Ground Floor, Cambridge House, Le Truchot, St Peter Port, Guernsey GY1 1WD.

The immediate parent company of MeDirect Malta is MDB Group Limited, a limited liability company, which is incorporated and registered in Malta with its registered address at The Centre, Tigne Point, Sliema TPO 0001.

MDB Group Limited prepares consolidated financial statements of the group of which MeDirect Malta together with its subsidiaries form part. These consolidated financial statements will be filed and available for public inspection at the Registry of Companies Agency in Malta.

Statements of profit or loss and other comprehensive income: Five year comparison

	Group				
	31 Mar 2019 €000	**31 Mar 2018 €000**	**31 Mar 2017 €000**	**31 Mar 2016 €000**	**31 Mar 2015 €000**
Interest income	**95,935**	90,835	89,863	77,240	73,979
Interest expense	**(28,333)**	(27,902)	(32,299)	(36,408)	(40,492)
Net interest income	**67,602**	62,933	57,564	40,832	33,487
Net fee and commission income	**5,558**	4,225	2,741	1,342	1,022
Net trading income	**3,128**	3,929	2,178	2,224	(1,778)
Net income/(expense) from financial instruments carried at fair value through profit or loss	**3,448**	128	-	1,108	(1,623)
Gain on initial accounting of a subsidiary	**-**	-	-	-	22,414
Other operating income/(expense)	**539**	(974)	4,408	15,640	21,593
Total operating income	**80,275**	70,241	66,891	61,146	75,115
Personnel expenses	**(21,411)**	(17,593)	(17,046)	(17,228)	(15,767)
Depreciation and amortisation	**(779)**	(259)	(551)	(608)	(914)
Administrative and other expenses	**(30,820)**	(29,992)	(25,163)	(26,186)	(19,716)
Net impairment charges	**N/A**	(8,302)	(5,607)	(3,747)	(4,265)
Change in expected credit losses and other credit impairment charges	**(5,795)**	-	-	-	-
Profit before tax	**21,470**	14,095	18,524	13,377	34,453
Taxation	**1,398**	5,450	(3,373)	(2,061)	(4,414)
Profit for the year	**28,663**	19,545	15,151	11,316	30,039
Other comprehensive income					
Fair valuation of financial investments measured at fair value through other comprehensive income /available-for-sale financial assets					
- Net change in fair value, before tax	**1,651**	1,230	8,474	(5,209)	37,192
- Net amount reclassified to profit or loss, before tax	**-**	(43)	(800)	(15,712)	(19,173)
Income tax relating to other comprehensive income	**(475)**	(408)	(2,681)	7,319	(6,306)
Change in expected credit losses and other credit impairment charges	**(5,795)**	-	-	-	-
Other comprehensive income, net of tax	**1,176s**	779	4,993	(13,602)	11,713
Total comprehensive income, net of tax	**24,044**	20,324	20,144	(2,286)	41,752

Statements of financial position: Five year comparison

	Group				
	31 Mar 2019 €000	**31 Mar 2018 €000**	**31 Mar 2017 €000**	**31 Mar 2016 €000**	**31 Mar 2015 €000**
Assets					
Balances with central banks, treasury bills and cash	**146,988**	105,300	245,194	33,280	14,384
Derivative financial instruments	**716**	470	1,627	3,964	3,197
Loans and advances to financial institutions	**118,439**	113,935	106,895	59,558	167,775
Loans and advances to customers	**1,842,555**	1,701,716	1,449,970	1,238,966	1,047,194
Investments	**690,581**	560,245	698,474	872,497	1,503,462
Property and equipment	**2,071**	1,223	402	923	1,452
Intangible assets	**5,815**	2,495	4	27	63
Non-current assets classified as held for sale	**1,785**	1,785	1,785	-	-
Current tax assets	**10,797**	9,527	8,391	5,633	-
Deferred tax assets	**21,338**	16,148	14,178	15,000	4,189
Prepayments and accrued income	**18,383**	18,168	19,138	17,720	21,305
Other assets	**23,323**	16,510	25,233	26,733	20,542
Total assets	**2,882,791**	**2,547,522**	**2,571,291**	**2,274,301**	**2,783,563**
Equity					
Share capital	**117,450**	117,450	117,450	117,450	117,450
Share premium	**13,464**	13,464	13,464	13,464	13,464
Shareholders' contribution	**143,196**	147,353	60,803	60,803	2,103
Reserve for general banking risks	**3,081**	1,694	1,694	1,194	1,029
Other reserves	**870**	(1,732)	(2,511)	(7,580)	6,022
Retained earnings	**56,126**	42,468	32,923	18,348	29,197
Total equity	**334,187**	**320,697**	**223,823**	**203,679**	**169,265**
Liabilities					
Derivative financial instruments	**11,327**	3,581	2,323	7,337	5,200
Amounts owed to financial institutions	**198,887**	126,428	359,183	541,925	1,166,091
Amounts owed to customers	**2,202,091**	1,979,159	1,901,512	1,447,355	1,205,586
Debt securities in issue	**-**	-	-	-	157,137
Subordinated liabilities	**67,138**	66,949	47,043	47,380	47,777
Current tax liabilities	**158**	156	71	69	4,110
Deferred tax liabilities	**491**	44	-	-	1,901
Provisions for liabilities and charges	**1,633**	-	-	-	-
Accruals and deferred income	**39,450**	34,266	30,428	23,321	24,600
Other liabilities	**27,429**	16,242	6,908	3,235	1,896
Total liabilities	**2,548,604**	**2,226,825**	**2,347,468**	**2,070,622**	**2,614,298**
Total equity and liabilities	**2,882,791**	**2,547,522**	**2,571,291**	**2,274,301**	**2,783,563**

Statements of cash flows: Five year comparison

	Group				
	31 Mar 2019 €000	**31 Mar 2018 €000**	**31 Mar 2017 €000**	**31 Mar 2016 €000**	**31 Mar 2015 €000**
Cash flows from operating activities					
Interest and commissions receipts	**118,351**	108,380	110,999	94,228	105,852
Interest and commission payments	**(30,186)**	(29,530)	(35,761)	(40,402)	(37,621)
Payments to employees and suppliers	**(58,863)**	(45,908)	(43,523)	(45,206)	(35,617)
Operating profit before changes in operating assets/liabilities	**29,302**	32,942	31,715	8,620	32,614
(Increase)/decrease in operating assets:					
Reserve deposit with central banks	**(108,313)**	178,077	(184,630)	(2,407)	(1,551)
Loans and advances to financial institutions and customers	**(182,119)**	(276,168)	(225,770)	(210,327)	(325,644)
Investment securities	**-**	-	-	-	(255,353)
(Decrease)/increase in operating liabilities:					
Amounts owed to financial institutions and customers	**312,344**	(125,893)	357,360	(98,762)	376,008
Other payables	**16,658**	7,704	1,776	659	-
Derivative financial instruments	**(2,234)**	(848)	(7,494)	(1,960)	(37,087)
Tax (paid)/refund	**(1,878)**	2,065	(7,989)	(17,124)	(11,735)
Net cash from/(used in) operating activities	**63,760**	(182,121)	(35,032)	(321,301)	(222,748)
Cash flows from investing activities					
Acquisition of subsidiary	**-**	-	-	-	(35,300)
Acquisition of property and equipment	**(884)**	(1,053)	(7)	(20)	(54)
Disposal of property and equipment	**-**	-	-	-	25
Acquisition/development of intangible assets	**(3,301)**	(2,559)	-	(23)	(50)
Acquisition of investments measured at amortised cost	**(31,107)**	N/A	-	-	-
Acquisition of investments measured at fair value through other comprehensive income	**(164,713)**	N/A	-	-	-
Disposal/redemption of investments measured at fair value through other comprehensive income	**58,903**	N/A	-	-	-
Disposal/redemption of investments measured at fair value through profit or loss	**3,368**	N/A	-	-	-
Acquisition of available-for-sale assets	**N/A**	(25,717)	(26,939)	(289,592)	(722,352)
Disposal/redemption of available-for-sale assets	**N/A**	154,469	196,078	898,500	987,220
Disposal of equity instruments	**N/A**	-	81	3,637	-
Net cash (used in)/from investing activities	**(137,734)**	125,140	169,213	612,502	229,489
Cash flows from financing activities					
Shareholders' contributions	**(6,186)**	86,550	-	58,700	(7,647)
Issue of debt securities	**-**	19,913	-	-	-
Re-purchase/maturity of debt securities	**-**	-	-	(157,255)	(75,204)
Net proceeds from the debt securities in issue and subordinated liabilities	**-**	-	-	-	25,037
Dividends paid	**-**	(10,000)	-	(22,000)	-
Net advances from/(to) intermediate and ultimate parent company	**-**	-	548	(653)	-
Net advances from/(to) immediate parent company	**162**	8,287	595	(7,727)	-
Net advances (to)/from group companies	**(2,207)**	1,376	3,337	3,435	107
Net cash (used in)/ from financing activities	**(8,231)**	106,126	4,480	(125,500)	(57,707)
Net (decrease)/increase in cash and cash equivalents	**(82,205)**	49,145	138,661	165,701	(50,966)
Cash and cash equivalents acquired through business combination	**-**	-	-	-	(26,007)
Cash and cash equivalents at beginning of year	**151,288**	102,143	(36,518)	(202,219)	(125,246)
Cash and cash equivalents at end of year	**69,083**	151,288	102,143	(36,518)	(202,219)

Accounting ratios: Five year comparison

	Group				
	31 Mar 2019 %	31 Mar 2018 %	31 Mar 2017 %	31 Mar 2016 %	31 Mar 2015 %
Net interest income and other operating income to total assets	3.0%	2.8%	2.7%	2.4%	3.0%
Operating expenses to total assets	2.0%	1.9%	1.8%	1.7%	1.5%
Cost to income ratio	66.04%	68.11%	63.92%	71.8%	48.5%
Profit before tax to total assets	0.8%	0.6%	0.7%	0.5%	1.4%
Profit after tax to total assets	0.9%	0.8%	0.6%	0.4%	1.2%
Profit before tax to equity	6.6%	5.2%	8.7%	7.2%	22.6%
Profit after tax to equity	7.0%	7.3%	7.1%	6.1%	19.7%

The equity and total assets figure for the accounting ratios listed above are based on the simple average value for the financial year.

	Group				
	31 Mar 2019 No	31 Mar 2018 No	31 Mar 2017 No	31 Mar 2016 No	31 Mar 2015 No
Shares in issue	117,450,107	117,450,107	117,450,107	117,450,107	117,450,107

	Group				
	31 Mar 2019 €	31 Mar 2018 €	31 Mar 2017 €	31 Mar 2016 €	31 Mar 2015 €
Net assets per share	2.85	2.73	1.89	1.73	1.44
Earnings per share (cents) based on profit after tax	19c	17c	13c	10c	26c

Analysis of the share capital of MeDirect Bank (Malta) plc as at 31 March 2019:

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 2019:

MDB Group Limited C34111

	Type and class of shares	Issued shares	% Paid up	Nominal value per share in EUR
Medifin Finance Limited	Ordinary A	56,406,546	100	1.000000

	Number of shares	Number of holders
Class A	56,406,546	1
Class B	1	1

There were no changes in the holding reflected above up to 28 June 2019.

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:

Delva, Philippe*	Acting Group Chief Executive Officer and Chief Executive Officer – MeDirect Belgium
Watson, Mark A.**	Chief Executive Officer
Bonello Ghio, Lorraine	Group Head of Administration and Human Resources
Buttigieg Scicluna, Walance	Group Head of Treasury
Calleja, Ray	Head of Consumer Banking
Cassar Charles	Group Head of Compliance
Catania, Deo	Group Head of Operations
Cini, Charles	Head of Corporate Banking
Curtis, Michael	Group Chief Investment Officer
Jaccarini, Edward	Group Chief Internal Audit Officer
Jackson, Graham	Group Chief Financial Officer
Konewko, Alex	Group Chief Risk Officer
La Ciura, Nicol	Group Head of Wealth Products
Schmeltzer, Henry C.	Head of Commercial Strategy and Legal
Vicent, Joaquin**	Executive Director of Treasury and Investments
Yussupov, Alanbek	Group Head of Change and Technology

Registered address

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* Appointed Acting Group Chief Executive Officer as from 24 June 2019

** No longer serving in an executive capacity as from 24 June 2019