COMPANY ANNOUNCEMENT

The following is a company announcement issued by MeDirect Bank (Malta) plc (the "Bank") pursuant to the Listing Authority Listing Rule 5.

Quote

At a meeting of the Board of Directors of MeDirect Bank (Malta) plc held on 20 May 2020, the Board of Directors approved the Annual Report and Audited Financial Statements of the Bank for the nine-month period ended 31 December 2019 which are attached to this company announcement. These financial statements were audited by PricewaterhouseCoopers and can also be viewed at the registered office of the Bank at The Centre, Tigné Point, Sliema TPO 0001 and on the Bank's website at http://www.medirect.com.mt/about-us/investor-relations.

Unquote

Henry Schmeltzer
Company Secretary
21 May 2020

MEDIRECT BANK (MALTA) PLC

Annual Report and Consolidated Financial Statements
31 December 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 period ended 31 December 2019. This report is prepared in terms of the Maltese Companies Act (Cap. 386) and complies with the disclosure requirements of the Sixth Schedule to the same Act.

The Group's results reflect the consolidated position of 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 deposit savings products and wealth management, as well as local corporate banking in Malta.

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

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

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

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

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
- The provision of senior secured loans to foreign companies and the senior loan facility to Grand Harbour I B.V.; and
- The financing of Dutch mortgages

The 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.

Change in accounting reference date

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

Business Development

Change in management and restructuring plan

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

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

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

New Dutch state-guaranteed mortgages business line

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

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

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

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

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

Issue of 4% Subordinated Unsecured Bonds due 2024-2029

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

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

Other developments

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

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

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

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

The Group also continues to make significant investments in technology to enhance its retail online banking capabilities with the introduction of the new public website, the pilot phase of the new digital on-boarding process and the development of the mobile app for retail clients aimed for launch in 2020. Significant investment went into the systems supporting the new business lines and there is ongoing investment to enhance the Group's anti-money laundering and financial crime controls along with the continued strengthening of the cyber security posture.

Financial Performance

The Group reported a profit before tax of €7.0 million for the nine months ended 31 December 2019 compared with €21.5 million for the twelve months ended 31 March 2019. The results for the period were mainly impacted by the loss of revenues as a result the decrease in the international lending portfolio as part of the Group's diversification strategy towards Dutch mortgages and the increase in operating expenses as a result of the restructuring exercise undertaken during the financial period. These were slightly mitigated by net gains equivalent to €3.4 million on disposal of investments and loans and advances and lower expected credit losses registered throughout this financial period at approximately €0.1 million compared to €5.8 million in the financial year ending 31 March 2019.

During the nine-months ended 31 December 2019, the Group registered net interest income of €44.0 million (Year ended 31 March 2019: €67.6 million). Total operating income amounted to €54.9 million (Year ended 31 March 2019: €80.3 million). Total operating expenses amounted to €47.7 million (Year ended 31 March 2019: €53.0 million).

As previously mentioned throughout this financial period the Group started diversifying its asset base as the traditional lending portfolio decreased to €1.4 billion, net of expected credit losses of €22.4 million (31 March 2019: €1.9 billion net of expected credit losses of €23.9 million) and as at 31 December 2019 the Group had a Dutch mortgages portfolio amounting to €133.2 million and holdings in securitisation structures amounting to €253.6 million.

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

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

At 31 December 2019 the Group's Capital Adequacy Ratio stood at 17.3% (31 March 2019: 15.2%), whilst the Group's Liquidity Coverage Ratio stood at 716.2% (31 March 2019: 460.1%).

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

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

Key performance indicators

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

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

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

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

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

*** Based on Banking Rule 09 framework*

Outlook and future business developments

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

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

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

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

Risk management

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

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

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

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

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

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

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

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

Environmental and employee matters

Sustainability

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

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

Employees

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

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

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

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

Grievances

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

Financial crime and human rights

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

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

Board of Directors

In accordance with the 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

Arnaud Denis – Chief Executive Officer – appointed on 15 October 2019

Mark A. Watson - Chief Executive Officer ("CEO") until 24 June 2019 and resigned on 19 December 2019

Philippe Delva – appointed on 26 August 2019 and resigned on 15 October 2019

Benjamin Hollowood

Alex Konewko – appointed on 16 October 2019

Radoslaw Ksiezopolski – appointed on 10 October 2019

Michael Walker – resigned on 31 July 2019

Dominic Wallace

Joaquin Vicent – resigned on 19 December 2019

John Zarb

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

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

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 €61.7 million (31 March 2019: €56.1 million) and the retained earnings of the Bank amounted to €49.8 million (31 March 2019: €45.7 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 period ended 31 December 2019 are included in the Annual Report 2019, which is published in hard-copy printed form and will be made available on the 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 period ended 31 December 2019, other than the transactions described under note 34 to the financial statements, there were no material changes in related party transactions as compared with those detailed within the financial statements for the year ended 31 March 2019. During the financial periods ended 31 December 2019 and 31 March 2019, no related party transactions materially affected the financial position or liquidity of the Group, with the exception of loan agreements with group companies, dividend payment and movement in shareholders' contributions as described in Notes 15, 16, 17, 22 and 34.

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

<u>COVID-19 global pandemic outbreak</u>

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

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

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

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

- A number of measures to ensure that significant banks can continue to fulfil their role in funding the real economy. As such, the ECB will allow significant banks to temporarily operate below the level of capital defined by the Pillar 2 Guidance and the capital conservation buffer, to operate below the liquidity coverage ratio and to partially use capital instruments that do not qualify as Common Equity Tier 1 capital to meet the Pillar 2 Requirements.

- A €750 billion Pandemic Emergency Purchase Programme.
- Further flexibility in prudential treatment of loans backed by public support measures, encouraging banks to avoid excessive procyclical effects when applying IFRS 9.
- The lowering of the countercyclical buffer requirement to zero in a number of countries.
- Requesting banks to suspend shareholder distributions for the 2019 financial year as well as for fiscal year 2020 at least until October.

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

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

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

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

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

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

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

- The Group's analysis assumes a sharp downturn in the global economy during the first half of the year, followed by a gradual recovery later in the year and into 2021, but more severe outcomes have also been tested, at this stage excluding the impact of further regulatory and/or government measures which may be taken as a result of this. The eventual outcome of the pandemic nevertheless remains unclear at this time and the Group is accordingly continually working on further measures and plans that could be put into effect should the outcome of the pandemic be materially more adverse than currently envisaged. Alternatively, additional governmental measures may be taken in coming months which lessen the adverse economic impacts assumed in the Group's analysis.
- Within the overall economic scenario arising from the pandemic that is assumed by the Group, the estimation of expected credit losses entails a high degree of judgment at this early stage. The projected expected credit losses, particularly in respect of the Group's international lending portfolio, have a significant impact on the projected financial results during the initial part of the forecast period referred to above. The Directors believe that reasonable judgments have been made by management on the basis of the information in hand in estimating these losses.
- On the basis of a stressed case that excludes from consideration any future increases in capital and also assumes a more prudent outlook on a number of initiatives and other measures planned by management, the Group would partially utilise its capital buffers during the explicit period. In the opinion of the Directors the judgments made on this matter are consistent with the guidance issued by the ECB to all significant banks.

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

Dutch Residential Mortgage-Backed Security Transaction

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

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

Going concern

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

Standard licence conditions applicable under the Investment Services Act (Cap. 370)

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

Pillar 3 disclosures

The 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.

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

Arnaud Denis
Chief Executive Officer

The Centre, Tigné Point,
Sliema, TPO 0001
Malta

20 May 2020

Statement of compliance with the Principles of good corporate governance

Introduction

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.

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 December 2019, the Board consisted of four non-executive members and three 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 period, eighteen Board meetings were held. The percentage of meetings attended by the following during their directorship being:

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

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

Committees of the Board

Certain responsibilities of 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 non-executive 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 period ended 31 December 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), Benjamin Hollowood and Marcia De Wachter.

C. Board Risk Committee

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

The current members of the Risk Committee are:

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

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

Amongst the primary responsibilities of the Board Risk Committee are:

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

The Chairman of the Committee reports on all matters to the Bank's 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. In fact throughout this financial period the Risk Committee met seven times. All attendees and invitees receive copies of the minutes.

Principal Management Committees

A. Executive Management Committees ("EXCO")

The Board delegates the execution of the strategy to the ExCo. The ExCo serves as a management forum in order to enhance the execution of Group's business priorities and reinforce the governance of the Group's activities, It 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 Management ExCo is chaired by the Chief Executive Officer and includes the Group Chief Financial officer, the Group Chief Risk Officer, the Chief Investment Officer, the Group Chief Financial Officer, the Group Head of Treasury, the Group Head of Human Resources and Administration, the Group Head of Compliance, the Head of Corporate Banking, the Head of Commercial Strategy and Legal, the Group Head of Operations, the Group Head of Change and Technology, the Group Head of Wealth Products, the MeDirect Bank SA Chief Executive Officer and the MeDirect Bank SA Chief Financial Officer. The Chief Internal Audit Officer and the Group Company Secretary are standing invitees to the ExCo.

B. Management Credit Committee

The 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. They will meet at least quarterly to review the Group's respective lending portfolios and to make decisions on internal credit ratings and recommendations on any impairments to be taken.

C. Asset and Liability Committee ("ALCO")

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

The members of ALCO include the Bank's Head of Treasury (Committee Chairman), Chief Executive Officer, 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.

E. Management Risk Committee

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

The key "MRC" responsibilities are to:

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

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

F. Commercial Committee

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

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

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

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

G. Compliance and client acceptance committee

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

Other general compliance-related responsibilities of this committee being:

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

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

Code Provision 4.2.7 - Succession planning

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. An external independent evaluation (which occurs every three years) was due to take place in mid-2020 but this may be deferred if the Boards of the Group and MeDirect Belgium have to continue to operate remotely through the year as a result of the COVID-19 crisis.

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

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

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

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 to maintain a level of quality that would otherwise be difficult without the help of sponsors.

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

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

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

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

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

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

Other Disclosures

There were no material contracts to which 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

Chairman

Arnaud Denis

Chief Executive Officer

20 May 2020

Remuneration report

Remuneration governance

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

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

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

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

Membership and meetings

The members of the Group's NRC are:

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

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

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

Remuneration policy statement

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

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

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

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

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

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

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

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

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

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

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

The Group's reward strategy

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

Fixed remuneration

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

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

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

Staff savings account

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

Home loan subsidy

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

Variable remuneration

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

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

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

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

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

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

(a) Determination of the performance bonus variable remuneration pools

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

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

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

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

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

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

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

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

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

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

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

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

(c) Individual allocation of the variable remuneration

i. All staff (including material risk takers)

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

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

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

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

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

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

<u>Internal control functions</u>

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

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

<u>Other matters on variable remuneration</u>

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

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

There were no instances throughout the current financial year and the preceding financial year when the 100% ratio for MeDirect Malta staff and 50% for the MeDirect Belgium Staff was exceeded. This is the only deviation for staff in Belgium compared to staff in other jurisdictions.

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

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

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

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

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

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

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

ii. Material Risk Takers

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

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

Thus Material Risk Takers are classified as follows:

- Supervisory function

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

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

- Management function

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

- Retail and corporate banking

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

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

- Corporate functions

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

- Independent control functions

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

The above Material risk takers would also include:

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

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

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

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

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

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

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

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

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

Remuneration – MeDirect Malta directors

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

MeDirect Malta Non-executive directors

Fees are determined by reference to other Maltese companies and comparable entities within Europe. Based on the recommendations of the Group's NRC, the directors' fees earned by the MeDirect Malta's non-executive directors, representing 3 out of the 6 members of the supervisory function in the preceding table, including the Chairman, for the period ended 31 December 2019 amounted to €0.3 million (Year ended 31 March 2019: €0.4 million).

MeDirect Malta Executive directors

All the MeDirect Malta executive directors as of 31 December 2019 were engaged under indefinite employment contracts. Total emoluments earned by the executive directors of MeDirect Malta, representing 4 out of the 7 members of the management function in the preceding table, during the period ended 31 December 2019, are reported below. Remuneration disclosed within these tables in the remuneration report represents the remuneration that was charged to the Group's statement of comprehensive income.

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

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

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

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

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

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

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

Michael Bussey

Chairman

Arnaud Denis

Chief Executive Officer

20 May 2020

Independent auditor's report

To the Shareholders of MeDirect Bank (Malta) plc

Report on the audit of the financial statements

Our opinion

In our opinion:

- MeDirect Bank (Malta) plc's consolidated and stand-alone parent company financial statements (the "financial statements") give a true and fair view of the Group's and the Bank's financial position as at 31 December 2019, and of the Group's and the Bank's financial performance and cash flows for the period then ended in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the EU; and
- The financial statements have been prepared in accordance with the requirements of the Maltese Banking Act (Cap. 371) and the Maltese Companies Act (Cap. 386).

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 41 to 164, comprise:

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

Basis for opinion

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

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

Independent auditor's report - continued

To the Shareholders of MeDirect Bank (Malta) plc

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).

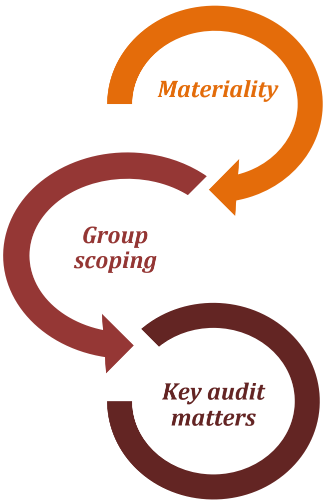
The non-audit services that we have provided to the Bank and its subsidiaries, in the period from 1 April 2019 to 31 December 2019 are disclosed in Note 27 to the financial statements.

Emphasis of matter – COVID-19

We draw attention to Note 40 in the financial statements, which describes the directors' assessment of the estimated impacts of COVID-19 on the Group's projected financial results and financial position. This matter is considered to be of fundamental importance to the understanding of the financial statements, due to its nature and significance. Our opinion is not modified in respect of this matter.

Our audit approach

Overview



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

- The audit carried out by the group engagement team covered the three components of the group: the local component as at and for the period ended 31 December 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	€871,000
How we determined it	5% of annualised profit before tax adjusted for one-time items
Rationale for the materiality benchmark applied	We chose annualised profit before tax adjusted for one-time items as the benchmark because, in our view, it is the benchmark against which the performance of the Group is most commonly measured by users and is a generally accepted benchmark. We chose 5% based on professional judgement, noting that it is also within the range of commonly accepted profit related benchmarks.

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

Independent auditor's report - continued

To the Shareholders of MeDirect Bank (Malta) plc

Key audit matters

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

Key audit matter	How our audit addressed the Key audit matter
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. During the preceding financial period, the Group transitioned to IFRS 9, a new and complex accounting standard which introduced the measurement of credit loss allowances based on an expected loss model rather than an incurred loss model previously applied. The Group and the Bank have three principal lending portfolios: • the international lending portfolio, comprising syndicated senior secured loans to international large corporates, with a gross carrying amount at 31 December 2019 of €1,159.1 million and €1,019.6 million for the Group and Bank respectively; • the Dutch mortgage portfolio originated by the Group during the current financial period, which includes secured residential mortgages offered in the Netherlands, with a gross carrying amount of €133.5 million at 31 December 2019; and • a local lending portfolio, predominantly consisting of loans to the real estate activities sector in Malta, with a gross carrying amount at 31 December 2019 of €89.3 million for both Group and Bank.	Subsequent to the first year of adoption of IFRS 9, we continued to focus on the key drivers of the estimation of ECL. Apart from assessing the continued appropriateness of management assumptions, we evaluated and tested updates to key parameters and enhancements to the ECL calculation. Discussions with the Audit Committee included: • the final ECL for Stage 1 and 2 exposures estimated by the vendor's model, focusing on key parameters driving movements in ECL during the period; • changes to the model during the period, such as updates to the underlying parameters used in the conversion of Through-The-Cycle (TTC) PDs to Point-in-Time (PiT) PDs; • the reasonableness of management overlays in the ECL calculation for Stage 1 and 2 exposures, in particular the reversal of the management overlay which had been applied in preceding financial reporting periods for UK exposures to reflect the increased level of uncertainty in the geographical area due to Brexit; and • impairment allowances in respect of exposures classified as Stage 3. In respect of the Group's ECL models used for estimating credit loss allowances attributable to defaulted and non-defaulted exposures respectively, the continued appropriateness of the modelling policy and methodology used was independently assessed by reference to the requirements of IFRS 9.

Key audit matter	How our audit addressed the Key audit matter
The measurement of ECLs in respect of loans and advances to customers is considered a key area of focus particularly for the international lending portfolio. All loans within the Group's international portfolio are considered individually significant. As a result, credit loss allowances relating to all loans and advances within the international portfolio are calculated at an instrument level. A considerable level of judgement is required in the development and / or calibration of the models designed to estimate ECLs on loans measured at amortised cost in accordance with the requirements of IFRS 9. In general, the Group calculates ECL by using the following key inputs: probability of default (PD), loss given default (LGD) and exposure at default (EAD). The maximum period considered when measuring ECL is the maximum period over which the Group is exposed to credit risk. In general, the EAD for exposures within the international portfolio is based on behavioural maturity, reflecting management expectations on the exercise of prepayment or extension options. For non-defaulted (Stages 1 and 2) exposures, the Group uses a model developed by an external vendor in which key risk parameters, including both PDs and LGDs, are estimated using statistical models mainly by benchmarking exposure-specific characteristics against an underlying dataset. Specifically, the PDs and LGDs of the Group's international portfolio are developed on a name by name basis by reference to the default and loss history of comparable borrowers with similar characteristics in terms of size, industry and country of operations. The Group's ECL model estimates Through-The-Cycle (TTC) PDs at a borrower level based on quantitative (financial statement information) and qualitative (borrower characteristics such as management's ability to create realistic budgets through a comparison of actual to budgeted performance) model inputs, benchmarking these	*ECL calculation for non-defaulted exposures within the International lending portfolio* We understood and critically assessed the model used by the Group to measure expected credit loss allowances on international lending portfolio exposures classified within Stages 1 and 2. In this regard, we obtained an understanding of updates and enhancements to the model parameters and the algorithmic processes underlying the model. Accordingly, our audit approach focused specifically on: • obtaining comfort over the accuracy and completeness of model inputs, with the updating process being largely manual; • testing the reasonableness of key parameters driving the measurement of credit loss allowances for such exposures, including the staging logic built into the Group's ECL model, the logic for TTC to PiT conversion and the macroeconomic modelling aspect within the ECL model; • challenging judgemental aspects made by management (such as staging criteria overlays); and • backtesting the ECL outcome against the Group's historical experience. The design and operating effectiveness of specific control activities relevant to the ECL calculation process, specifically in respect of stage classification, were tested. In this respect, we specifically obtained comfort around monitoring of Stage 1 exposures by both the Group's first and second lines of defence through control procedures. We determined that we could rely on such controls for the purpose of our audit. In order to obtain comfort on the credit loss allowances for Stage 1 and 2 exposures within the international lending portfolio, which is vendor model driven, we carried out the following substantive procedures: • Tested the completeness and accuracy of the model data inputs used for the purposes of the

Key audit matter	How our audit addressed the Key audit matter
model inputs against those of peers with similar credit risk characteristics and operating in the same industry. TTC PDs are then adjusted using a macroeconomic modelling tool to first reflect current macroeconomic conditions (unconditional Point-in-Time or PiT PD) and then simulate the PD under multiple macroeconomic forecasts developed by the external vendor (conditional PiT PD). On the other hand, the LGD is estimated at a facility level to reflect the effect of relative seniority of facilities on expected losses. Similar to PDs, the Group's ECL model estimates the LGD by benchmarking facility-specific model inputs against observed losses for facilities which are similar in nature. In this respect, the model takes into consideration both quantitative and qualitative aspects when developing LGDs. The quantitative aspect is principally driven by the nature of the exposure (term vs. revolver), the relative ranking of the facility in the borrower's capital structure, the country and industry in which the borrower operates, together with the borrower-specific PD. The qualitative aspect, in turn, differentiates between exposures in terms of the borrower's covenant violation history as well as the relative creditor friendliness across legal jurisdictions. The same macroeconomic modelling elements used to transform TTC PDs to PiT PDs is then used to convert the TTC LGDs to conditional PiT LGDs. In this regard, macroeconomic conditioning is applied to the LGD term structure through a modelled correlation between PD and LGD term structures. During the previous financial year, Management also applied an overlay for UK exposures to reflect the increased level of uncertainty due to Brexit. As at the end of the current financial period, the overlay which was previously applied to UK exposures was not deemed necessary as the effects of Brexit were deemed to be adequately considered within the macro-economic scenarios	period end ECL calculation against source data. This included testing of financial statement inputs, qualitative inputs (e.g. covenant breaches), as well as instrument-specific inputs (e.g. nature of loan, exposure amount, effective interest rate, etc.). • Performed backtesting to obtain comfort on key variables / parameters such as: ○ Expected maturities – assessed the historical accuracy of management predictions of expected maturities compared to actual maturities. ○ PDs – assessed the reasonableness of PDs through a comparison of predicted vs. actual default rates, as well as assessing observed trends in movements in PiT PDs across countries; and ○ LGDs – benchmarked the LGDs estimated by the model with the Group's own history of losses on defaulted exposures. • Evaluated the continuing appropriateness of the model calibration of TTC PDs produced by the model. • Assessed the appropriateness of the Group's SICR criteria used for downgrading exposures to Stage 2, including quantitative SICR staging criteria used in the model. We performed procedures to obtain comfort on the manual model overrides effected by management in respect of exposures downgraded to Stage 2 on a quantitative basis and migrated back to Stage 1 on the basis of a qualitative assessment. The reasonableness and appropriateness of manual model overrides was assessed through examination of relative factual information and circumstances attributable to a risk-based sample of exposures. • Assessed the reasonableness of the movements in credit loss allowances for Stage 1 and 2

Key audit matter	How our audit addressed the Key audit matter
developed by the vendor and accordingly utilised within the Group's ECL model. Staging is determined based on a combination of quantitative and qualitative criteria. Quantitative criteria are based on a comparison of model-calculated PDs/implied ratings as at reporting date with the calculated PDs/implied ratings on origination. Meanwhile, qualitative criteria are based on aspects such as the regular monitoring of the financial performance of borrowers against forecasts, compliance with covenants, as well as strategic developments affecting the borrowers' future repayment abilities. In this regard, the Group applies a set of Significant Increase in Credit Risk (SICR) and Unlikeliness-to-Pay (UTP) criteria in order to determine staging on a qualitative basis, which requires a significant element of judgement. For those loans which are classified as Stage 3 (defaulted) exposures, judgement is required to estimate the expected future cash flows related to that loan. In this regard, the ECL calculation for defaulted exposures is manually driven, based on an internally developed methodology. Estimated future cash flows are generally dependent on parameters or assumptions such as market multiples in relation to borrowers' enterprise values, the estimation of borrowers' operating cash flows, and the use of multiple scenarios to determine a probability weighted recoverable amount of the loan. In this respect, 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	exposures during the period to ensure that these were in line with expectations. • Challenged the impact of changes that were implemented during the period to the logic/algorithms within the vendor model affecting the PiT conversions as well as the macroeconomic modelling within the ECL calculation. • Tested the multiple macroeconomic scenarios and variables to assess their reasonableness. We assessed the economic scenarios being used against publicly available macroeconomic information to obtain comfort on the general direction of forecasted macroeconomic variables. • Assessed the appropriateness of the removal of the management overlay previously applied to UK exposures through the model. Based on the evidence obtained, we found the model assumptions, data used within the model, the model staging overrides and the ECL calculation logic to be reasonable. In respect of staging classification of exposures within the international lending portfolio, principally between Stage 2 and Stage 3, we reviewed the internal processes for identifying Unlikeliness-to-Pay (UTP) trigger events used to classify exposures into Stage 3 and also performed a comprehensive credit file review for Stage 2 exposures to ensure that these are appropriately classified as non-defaulted exposures. In this regard, our audit procedures provided us with sufficient comfort on the appropriateness of the Group's exposures' staging classification. *ECL calculation for defaulted exposures within the International lending portfolio* For Stage 3 exposures within the international lending portfolio, the appropriateness of provisioning methodologies and policies was independently assessed.

Key audit matter	How our audit addressed the Key audit matter
inputs are required for the impairment calculation. The process remains largely manual, although there are plans to automate the process and enhance the governance structure around the impairment calculation process. This increases risk around completeness and accuracy of model data inputs. The estimation of ECLs is subjective in nature and inherently judgemental, also in respect of both timing of recognition of impairment and the estimation of the size of any such impairment. Whilst the current level of delinquencies and defaults remains low, the risk of misstatement in credit loss allowances remains significant. In view of the above reasons, the Group's application of the IFRS 9 impairment requirements is deemed to be an area of focus. Accordingly, summarising the key areas relevant to the Group's measurement of ECLs would include: • Allocation of international corporate loans to stage 1, 2, or 3 using criteria in accordance with IFRS 9; • Accounting interpretations and modelling assumptions used to build the models that calculate the ECL; • Completeness and accuracy of data used to calculate the ECL; • Inputs and assumptions used to estimate the impact of multiple macroeconomic scenarios; and • Measurements of individually assessed provisions including the assessment of multiple scenarios. Relevant references in the Annual Report and Financial Statements: • Accounting policy: Note 1.5; • Credit risk: Note 2.2; • accounting estimates and judgements: Note 3.3;	A substantive testing approach has been adopted in this respect. For Stage 3 loans, we performed tests of detail to review and challenge the Group's estimate of credit loss allowances, in the light of the latest developments at the level of the borrower, together with the appropriateness of key parameters used. We also considered whether key judgements were appropriate given the borrowers' circumstances. An independent view was formed on the level of credit loss allowances recorded based on the detailed loan and customer information available. In particular, we formed our view on key inputs to the ECL calculation including market multiples used to determine borrowers' enterprise values, the suitability of peers when determining such multiples, the estimation of borrowers' operating cash flows as well as the plausibility of the scenarios used and the probabilities associated with such scenarios. We engaged our valuation experts to review and critique the market multiples applied by management. In fact, our valuation experts performed work to provide comfort about the reasonableness and appropriateness of multiples used by the Group to arrive at the borrower's enterprise value. Based on the evidence obtained, we formed a different view from that of management on the level of credit loss allowances recorded by management in respect of a limited number of exposures, but in our view the differences were within a reasonable range of outcomes.

Key audit matter	How our audit addressed the Key audit matter
• Note on Loans and advances to customers: Note 7; and • Note on Change in expected credit losses and other impairment charges: Note 28.	
Recognition of interest income on loans and advances utilising the effective interest rate method Interest income on loans and advances to customers is recognised using the effective interest rate method. Measuring interest income on loans and advances to customers under the effective interest rate method requires management to apply judgement, particularly in the case of the Group's 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	Our audit procedures in respect of the application of the effective interest rate method to loans and advances within the international lending portfolio, in particular relating to the assumptions on loan expected lives and to the determination of which fees are considered to form an integral part of the effective interest rate, included the following: • We assessed the historical accuracy of management predictions of expected maturities by comparing with actual maturities. • We challenged the appropriateness of changes to assumed expected lives in relation to specific loans by reference to the available emerging information in relation to such borrowers. • We assessed the accuracy of the model used for the recognition of interest income and for the measurement of loans and receivables at amortised cost using the effective interest rate method by re-performing a sample of effective interest rate calculations at individual loan level. Our audit procedures comprised performing tests of detail on the selected sample of lending arrangements by agreeing transaction details 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

Key audit matter	How our audit addressed the Key audit matter
to a change in assumed expected life can vary significantly between different loans, depending on the characteristics, terms and conditions of the underlying lending transaction and parameters included within the respective effective interest rate calculation such as fee income and discounts or premiums identified at inception. The Group has historical experience in respect of the international lending portfolio, for the purposes of supporting the expected life assumption applied to each loan. Consequently, the Group determines loan expected life assumptions on the basis of its forecasting process, which takes into account historical data but also the Group's expertise and experience in this specialised lending sector. Any changes in the expected loan life assumptions are based on management's assessment of emerging market trends (for instance changes in market interest rates and the ability of the borrower to re-finance in the circumstances) and borrower specific information that indicates changes to repayment profiles and the extent of such changes. Relevant references in the Annual Report and Financial Statements: • Accounting policy: Note 1.5; and • Accounting estimates and judgements: Note 3.2.	were reasonable and that the model gives rise to accurate calculations.

How we tailored our group audit scope

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

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

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

Other information

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

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

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

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

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

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

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

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

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 Banking Act (Cap. 371) and the Maltese Companies Act (Cap. 386), and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Group's and the 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 and the Bank's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

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

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

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

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.

Independent auditor's report - continued

To the Shareholders of MeDirect Bank (Malta) plc

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 19 to 25 as 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
- 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.

Independent auditor's report - continued

To the Shareholders of MeDirect Bank (Malta) plc

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 five years.

PricewaterhouseCoopers
78, Mill Street
Qormi
Malta

Fabio Axisa
Partner

20 May 2020

Statements of financial position

		Group		Bank	
		31 December 2019	31 March 2019	**31 December 2019**	31 March 2019
	Notes	**€000**	€000	**€000**	€000
ASSETS					
Balances with central banks and cash	4	**241,726**	146,988	**32,757**	28,801
Derivative financial instruments	5	**2,020**	716	**6,226**	5,088
Loans and advances to financial institutions	6	**223,287**	118,439	**154,493**	108,732
Loans and advances to customers	7	**1,359,377**	1,842,555	**1,088,688**	1,610,559
Investments					
- Treasury portfolio	8	**930,491**	690,581	**511,741**	475,086
- Securitisation portfolio	8	**253,626**	-	**127,887**	-
- Subsidiaries	9	**-**	-	**225,001**	225,001
Property and equipment	10	**12,443**	2,071	**10,592**	1,781
Intangible assets	11	**16,455**	5,815	**9,682**	5,365
Non-current assets classified as held for sale	12	**1,785**	1,785	**1,785**	1,785
Current tax assets		**3,089**	10,797	**2,859**	10,586
Deferred tax assets	13	**22,279**	21,338	**18,885**	17,804
Prepayments and accrued income	14	**15,978**	18,383	**13,562**	15,946
Other assets	15	**48,512**	23,323	**17,407**	22,486
Total assets		**3,131,068**	2,882,791	**2,221,565**	2,529,020
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	**133,196**	143,196	**133,196**	143,196
Reserve for general banking risks	16	**3,357**	3,081	**3,160**	2,751
Other reserves	16	**(2,731)**	870	**2,521**	4,396
Retained earnings	16	**61,724**	56,126	**49,831**	45,682
Total equity		**326,460**	334,187	**319,622**	326,939
LIABILITIES					
Derivative financial instruments	5	**4,182**	11,327	**2,363**	7,989
Amounts owed to financial institutions	17	**224,012**	198,887	**961,647**	1,228,871
Amounts owed to customers	18	**2,439,126**	2,202,091	**777,723**	799,154
Subordinated liabilities	19	**54,820**	67,138	**54,820**	67,138
Current tax liabilities		**276**	158	**72**	49
Deferred tax liabilities	13	**199**	491	**199**	232
Provisions for liabilities and other charges	20	**4,528**	1,633	**4,528**	1,633
Accruals and deferred income	21	**40,906**	39,450	**34,167**	35,105
Other liabilities	22	**36,559**	27,429	**66,424**	61,910
Total liabilities		**2,804,608**	2,548,604	**1,901,943**	2,202,081
Total equity and liabilities		**3,131,068**	2,882,791	**2,221,565**	2,529,020
Memorandum items					
Commitments to purchase financial assets	7	**40,073**	60,843	**30,072**	60,843
Commitments to extend credit, guarantees and other commitments	33 - 34	**814,210**	523,991	**530,539**	523,742

The notes on pages 46 to 164 are an integral part of these financial statements. The financial statements on pages 41 to 164 were approved and authorised for issue by the Board of Directors on 20 May 2020 and signed on its behalf by:

Michael Bussey
Chairman

Arnaud Denis
Director

Statements of comprehensive income

		Group		Bank	
		Period ended from 1 April to 31 December 2019	Year ended 31 March 2019	Period ended from 1 April to 31 December 2019	Year ended 31 March 2019
	Notes	€000	€000	€000	€000
Interest income		**67,924**	96,183	**60,761**	83,517
Interest expense		**(23,897)**	(28,581)	**(30,058)**	(39,732)
Net interest income	23	**44,027**	67,602	**30,703**	43,785
Fee and commission income		**5,593**	7,066	**3,970**	5,139
Fee and commission expense		**(1,375)**	(1,508)	**(833)**	(758)
Net fee and commission income	24	**4,218**	5,558	**3,137**	4,381
Net trading income	25.1	**3,001**	3,128	**2,848**	3,083
Net income from other financial instruments at fair value through profit or loss		**187**	3,448	**187**	3,448
Other operating income					
– Realised gains on disposal of other investments	25.2	**5,092**	87	**1,019**	87
– Realised (losses)/gains on disposal of loans and advances		**(1,647)**	412	**(406)**	379
– Other income		**51**	40	**23**	27
Total operating income		**54,929**	80,275	**37,511**	55,190
Personnel expenses	26	**(22,824)**	(21,411)	**(17,316)**	(14,361)
Depreciation and amortisation	10-11	**(3,817)**	(779)	**(2,821)**	(771)
Other administrative expenses	27	**(21,103)**	(30,820)	**(11,685)**	(15,692)
Total operating expenses		**(47,744)**	(53,010)	**(31,822)**	(30,824)
Net operating income before changes in expected credit losses		**7,185**	27,265	**5,689**	24,366
Change in expected credit losses and other credit impairment charges	28	**(136)**	(5,795)	**(1,313)**	(5,635)
Profit before tax		**7,049**	21,470	**4,376**	18,731
Taxation	29	**(1,029)**	1,398	**(362)**	2,253
Profit for the period		**6,020**	22,868	**4,014**	20,984
Other comprehensive income					
Items that may be reclassified subsequently to profit or loss					
Fair valuation of financial investments measured at fair value through other income:					
- Net change in fair value, before tax		**(28)**	1,651	**(937)**	636
- Net amount reclassified to profit or loss, before tax		**(5,098)**	-	**(1,112)**	-
Income tax relating to other comprehensive income		**1,379**	(475)	**718**	(222)
Other comprehensive income, net of tax		**(3,747)**	1,176	**(1,331)**	414
Total comprehensive income, net of tax		**2,273**	24,044	**2,683**	21,398
Earnings per share	30	**5c**	19c		

The notes on pages 46 to 164 are an integral part of these financial statements.

Statements of changes in equity

Group	Share capital €000	Share premium €000	Shareholders' contributions €000	Reserve for general banking risks €000	Other reserves €000	Retained earnings €000	Total €000
Balance at 1 April 2018	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 period, 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
Balance at 1 April 2019	**117,450**	**13,464**	**143,196**	**3,081**	**870**	**56,126**	**334,187**
Total comprehensive income							
Profit for the period	**-**	**-**	**-**	**-**	**-**	**6,020**	**6,020**
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	**-**	**-**	**-**	**-**	**(20)**	**-**	**(20)**
- Reclassification adjustments: net amount reclassified to profit or loss, net of tax	**-**	**-**	**-**	**-**	**(3,727)**	**-**	**(3,727)**
Total comprehensive income, net of tax	**-**	**-**	**-**	**-**	**(3,747)**	**6,020**	**2,273**
Transfer to Legal reserve	**-**	**-**	**-**	**-**	**146**	**(146)**	**-**
Transfer to Reserve for general banking risks	**-**	**-**	**-**	**276**	**-**	**(276)**	**-**
Transactions with owners							
Repayment of shareholders' contributions	**-**	**-**	**(10,000)**	**-**	**-**	**-**	**(10,000)**
Balance at 31 December 2019	**117,450**	**13,464**	**133,196**	**3,357**	**(2,731)**	**61,724**	**326,460**

The notes on pages 46 to 164 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 2018	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
Balance at 1 April 2019	**117,450**	**13,464**	**143,196**	**2,751**	**4,396**	**45,682**	**326,939**
Total comprehensive income							
Profit for the period	**-**	**-**	**-**	**-**	**-**	**4,014**	**4,014**
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	**-**	**-**	**-**	**-**	**(609)**	**-**	**(609)**
- Reclassification adjustments: net amount reclassified to profit or loss, net of tax	**-**	**-**	**-**	**-**	**(722)**	**-**	**(722)**
Total comprehensive income, net of tax	**-**	**-**	**-**	**-**	**(1,331)**	**4,014**	**2,683**
Realisation of previously recognised fair value reserve upon merger of subsidiary with Bank (see note 16)	**-**	**-**	**-**	**-**	**(544)**	**544**	**-**
Transfer to Reserve for general banking risks	**-**	**-**	**-**	**409**	**-**	**(409)**	**-**
Transactions with owners							
Repayment of shareholders' contributions	**-**	**-**	**(10,000)**	**-**	**-**	**-**	**(10,000)**
Balance at 31 December 2019	**117,450**	**13,464**	**133,196**	**3,160**	**2,521**	**49,831**	**319,622**

The notes on pages 46 to 164 are an integral part of these financial statements.

Statements of cash flows

	Note	Group		Bank	
		Period from 1 April to 31 December 2019	Year ended 31 March 2019	**Period from 1 April to 31 December 2019**	Year ended 31 March 2019
		€000	€000	**€000**	€000
Cash flows from operating activities					
Interest and commission receipts		**78,617**	118,351	**70,276**	104,509
Interest and commission payments		**(22,724)**	(30,186)	**(32,860)**	(41,160)
Payments to employees and suppliers		**(33,458)**	(58,863)	**(18,302)**	(37,184)
Operating cash flows before changes in operating assets/liabilities		**22,435**	29,302	**19,114**	26,165
(Increase)/decrease in operating assets:					
- Reserve deposit with central banks		**(117,930)**	(108,313)	**(27,174)**	471
- Loans and advances to financial institutions and customers		**472,553**	(182,119)	**539,928**	(269,449)
Increase/(decrease) in operating liabilities:					
- Amounts owed to financial institutions and customers		**33,616**	312,344	**(516,017)**	181,987
- Other payables		**(14,629)**	16,658	**(16,843)**	16,461
- Derivative financial instruments		**-**	(2,234)	**-**	(2,234)
Tax refunded/(paid)		**6,942**	(1,878)	**6,992**	(1,475)
Net cash from operating activities		**402,987**	63,760	**6,000**	(48,074)
Cash flows from investing activities					
Acquisition of property and equipment		**(325)**	(884)	**(236)**	(844)
Acquisition and development of intangible assets		**(3,419)**	(3,301)	**(1,712)**	(3,161)
Acquisition of investments measured at amortised cost		**(264,593)**	(31,107)	**(138,843)**	-
Acquisition of investments measured at fair value through other comprehensive income		**(654,640)**	(164,713)	**(134,913)**	(26,886)
Acquisition of investments measured at fair value through profit or loss		**(1,750)**	-	**(1,750)**	-
Disposal/redemption of investments measured at fair value through other comprehensive income		**417,842**	58,903	**101,346**	28,047
Disposal/redemption of investments measured at fair value through profit or loss		**-**	3,368	**-**	3,368
Net cash (used in)/from investing activities		**(506,885)**	(137,734)	**(176,108)**	524
Cash flows from financing activities					
Receipt of shareholders' contributions		**-**	1,044	**-**	1,044
Repayment of shareholders' contributions		**(10,000)**	(7,230)	**(10,000)**	(7,230)
Issuance of subordinated liabilities		**35,044**	-	**35,044**	-
Redemption of subordinated liabilities		**(47,229)**	-	**(47,229)**	-
Principal element of lease payments		**(1,892)**	-	**(1,166)**	-
Net advances from immediate parent company		**33**	162	**33**	162
Net movement in balances with group companies		**4,669**	(2,207)	**9,031**	3,537
Net cash used in financing activities		**(19,375)**	(8,231)	**(14,287)**	(2,487)
Net (decrease)/increase in cash and cash equivalents		**(123,273)**	(82,205)	**(184,395)**	(50,037)
Cash and cash equivalents at beginning of period		**69,083**	151,288	**65,672**	115,709
Cash and cash equivalents at end of period	31	**(54,190)**	69,083	**(118,723)**	65,672

The notes on pages 46 to 164 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.

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

The consolidated financial statements of MeDirect Malta as at and for the financial year ended 31 December 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 December 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 Belgium is a credit institution licensed in Belgium and is carrying out all of the Group's activities in Belgium.

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

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

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

1.2 Basis of preparation

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

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

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

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

Standards, interpretations and amendments to published standards effective in 2019

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

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

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

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

The Group applied IFRS 16 on its mandatory adoption date of 1 April 2019 using a modified retrospective approach with no restatement of comparative information. Under this approach, the lease liability was measured at the present value of the remaining lease payments as at 1 April 2019, which management has estimated to amount to €21.4 million and €14.4 million for the Group and the Bank, respectively and the right-of-use assets at that date were equivalent to this lease liability (with no adjustment to equity). In general, it is not expected that the discount rate implicit in the lease is available for the Group's lease arrangements so the lessee's incremental borrowing rate is used. This is the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset in a similar economic environment with similar terms and conditions. The weighted average rate applied at 1 April 2019 is 4.25%. As at 31 December 2019 the carrying amount of right-of-use assets within property and equipment was equivalent to €10.5 million and €9.0 million and within intangible assets was equivalent to €8.4 million and €3.7 million for the Group and Bank respectively. The relative lease liability as at 31 December 2019 amounted to €17.7 million and €12.0 million.

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

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

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

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

1.3 Consolidation

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

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

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

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

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

In the 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 the performance of the servicing.

Modification of terms

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

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

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

Classification and measurement

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(iii) Expectations about future sales activity.

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

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

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

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

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

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

Financial assets measured at amortised cost

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

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

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

Financial assets measured at fair value through other comprehensive income

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

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

Financial instruments mandatorily measured at fair value through profit or loss

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

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

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

Financial instruments designated at fair value through profit or loss

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

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

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

Assets acquired in exchange for loans

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

Impairment of amortised cost and FVOCI financial assets

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

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

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

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

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

Three stage expected credit loss approach

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

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

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

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

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

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

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

Significant increase in credit risk (SICR) or Stage 2

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

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

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

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

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

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

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

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

- *International Lending portfolio:*

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

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

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

SICR assessment for the International Lending portfolio*:*

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

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

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

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

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

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

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

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

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

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

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

Hard Trigger based on Internal Risk Classifications

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

- *Local Lending portfolio*

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

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

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

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

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

Financial instruments that:

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

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

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

- *Dutch Mortgage portfolio*

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

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

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

Additional SICR hard triggers or backstops are applied:

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

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

- *Treasury Investment portfolio*

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

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

- *Securitisation Investment portfolio*

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

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

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

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

Credit-impaired (Stage 3)

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Write-offs

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

Modified financial assets

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

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

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

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

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

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

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

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

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

Purchased or originated credit-impaired

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

Movement between stages

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

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

- Where qualitative triggers were used to determine SICR: Stage transfer from Stage 2 to Stage 1 is subjective. Where implied rating SICR triggers were not a determinant for reclassification in the first instance, it is expected that any qualitative SICR triggers that were observed that derived the SICR event must be fully resolved and evidenced for a 90-day period prior to any reclassification.

- Where quantitative triggers were used to determine SICR:

  - Rating and PD SICR triggers: Asset must evidence an improvement and return to the external or implied default risk rating at the point of inception (instrument should evidence an implied default rating in line or better than the original inception rating in order to trigger a reclassification from Stage 2 to Stage 1).

  - Days past-due criteria: Any instrument that is no longer 30-days past due can only be reclassified to Stage 1 when: (i) all contractual arrears have been remediated (Nil days past due); and (ii) no further non-payment has been observed for a minimum of 90 days. This is subject to regulatory materiality thresholds defined in Credit Risk policy.

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

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

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

Measurement of Expected credit losses

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

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

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

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

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

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

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

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

Probability of Default

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

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

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

Loss Given Default

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

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

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

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

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

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

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

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

Exposure at Default

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

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

- *International Lending portfolio*

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

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

- *Local Lending portfolio*

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

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

- *Dutch Mortgage portfolio*

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

- *Treasury Investment portfolio*

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

- *Securitisation Investment portfolio*

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

Credit-Impaired financial assets (Stage 3)

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

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

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

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

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

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

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

Forward-looking information

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

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

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

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

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

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

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

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

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

Presentation of ECL in the Statement of financial position

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

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

1.6 Offsetting financial instruments

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

1.7 Intangible assets

1.7.1 Goodwill

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

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

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

1.7.2 Computer software

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

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

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

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

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

1.8 Property, plant and equipment

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

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

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

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

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

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

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

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

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

1.9 Impairment of non-financial assets

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

1.10 Non-current assets classified as held for sale

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

1.11 Current and deferred income tax

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

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

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

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

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

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

1.12 Share capital

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

1.13 Financial liabilities

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

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

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

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

1.14 Derivative financial instruments

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

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

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

1.14.1 Fair value hedges

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

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

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

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

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

1.15 Provisions

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

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

1.16 Interest income and expense

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

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

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

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

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

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

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

1.17 Fees and commissions

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

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

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

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

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

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

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

1.18 Net trading income

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

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

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

1.20 Leases

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

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

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

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

1.21 Share-based compensation

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

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

1.22 Financial guarantee contracts and loan commitments

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

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

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

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

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

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

1.23 Cash and cash equivalents

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

1.24 Customer assets

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

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

1.25 Dividend distribution

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

2. Financial risk management

2.1 Introduction and overview

The Group's core business activities include:

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

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

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

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

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

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

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

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

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

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

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

2.1.1 Risk management framework

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

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

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

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

Figure 1: Three Lines of Defence Model

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

Each of these three "lines" play a distinct role within the Group's wider governance framework. 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.

The Board of Directors has established risk appetite limits for exposures to individual credits based on the Capital Requirements Regulation ("CRR") regulatory requirements governing large exposures of credit institutions, as well as prudential requirements. Exposure limits are monitored on an 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 Group's Asset and Liability Committee ("ALCO"). Such limits relate to net exposure, after application of cash (and cash equivalent) collateral, as provided in industry-standard documentation such as the International Swaps and Derivative Association ("ISDA") master agreements and Global Master Repurchase Agreements ("GMRA"), and the Group's Treasury credit framework. The Group's Credit Policy permits it to manage its credit risk through credit derivatives, subject to Board approval, although to date it has never done so.

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

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

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

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

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

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

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

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

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

	Group		**Bank**	
	31 December 2019	31 March 2019	**31 December 2019**	31 March 2019
	€000	€000	**€000**	€000
Net exposure:				
Financial assets measured at amortised cost				
Balances with central banks	**241,723**	146,985	**32,754**	28,798
Loans and advances to financial institutions	**223,287**	118,439	**154,493**	108,732
Loans and advances to customers	**1,359,377**	1,842,555	**1,088,688**	1,610,559
- International Lending portfolio	**1,137,273**	1,756,729	**999,726**	1,524,733
- Local Lending portfolio	**88,962**	85,826	**88,962**	85,826
- Dutch Mortgage portfolio	**133,511**	-	**-**	-
- IFRS basis adjustment: Dutch Mortgage portfolio	**(369)**	-	**-**	-
Investments measured at amortised cost	**682,378**	425,009	**480,287**	348,344
- Treasury portfolio	**430,199**	425,009	**353,847**	348,344
- Securitisation portfolio	**252,179**	-	**126,440**	-
Accrued income	**14,381**	16,800	**11,998**	14,520
Loans to related parties (included in other assets)	**13,044**	15,305	**13,874**	15,801
Other receivables (included in other assets)	**34,336**	6,105	**1,703**	6,031
	2,568,526	2,571,198	**1,783,797**	2,132,785
Investments measured at fair value through other comprehensive income				
- Treasury portfolio	**500,292**	265,572	**157,894**	126,742
Investments mandatorily measured at fair value through profit or loss	**3,467**	716	**7,673**	5,088
- Securitisation portfolio	**1,447**	-	**1,447**	-
- Held for trading derivative financial instruments	**2,020**	716	**6,226**	5,088
	3,072,285	2,837,486	**1,949,364**	2,264,615
Commitments to purchase financial assets	**40,073**	60,843	**30,072**	60,843
Commitments to extend credit, guarantees and other commitments (excluding capital commitments and, for 31 March 2019, lease commitments)	**814,210**	517,936	**530,539**	517,936

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

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

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

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

Bank	At 31 December 2019		At 31 March 2019	
	Gross carrying/ nominal amount	**Credit loss allowance**	Gross carrying/ nominal amount	Credit loss allowance
	€000	**€000**	€000	€000
Balances with central banks	**32,755**	**(1)**	28,799	(1)
Loans and advances to financial institutions	**154,494**	**(1)**	108,733	(1)
Loans and advances to customers	**1,108,904**	**(20,216)**	1,631,239	(20,680)
- International Lending portfolio	**1,019,589**	**(19,863)**	1,544,041	(19,308)
- Local Lending portfolio	**89,315**	**(353)**	87,198	(1,372)
Investments measured at amortised cost	**480,539**	**(252)**	348,405	(61)
- Treasury portfolio	**354,091**	**(244)**	348,405	(61)
- Securitisation portfolio	**126,448**	**(8)**	-	-
Accrued income	**12,118**	**(120)**	14,568	(48)
Loans to related parties (included in other assets)	**13,874**	**-**	15,801	-
Other receivables (included in other assets)	**1,703**	**-**	6,031	-
	1,804,387	**(20,590)**	2,153,576	(20,791)
Commitments to purchase financial assets	**30,072**	**-**	60,843	(52)
Commitments to extend credit, guarantees and other commitments (excluding capital commitments and, for 31 March 2019, lease commitments)	**530,539**	**(2,112)**	517,936	(1,581)
	560,611	**(2,112)**	578,779	(1,633)
Total	**2,364,998**	**(22,702)**	2,732,355	(22,424)

	Fair value	**Credit loss allowance**	Fair value	Credit loss allowance
	€000	**€000**	€000	€000
Investments measured at fair value through other comprehensive income				
- Treasury portfolio	**157,894**	**(142)**	126,742	(21)

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

	Group		Bank	
	At 31 December 2019	At 31 March 2019	**At 31 December 2019**	At 31 March 2019
	€000	€000	**€000**	€000
Held for trading derivative financial instruments	**2,020**	716	**6,226**	5,088
Investments - Securitisation portfolio	**1,447**	-	**1,447**	-

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

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

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

Stage 1 (Performing)

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

Stage 2 (Underperforming)

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

Stage 3 (Non-performing)

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

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

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

Deteriorating Credits

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

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

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

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

	Performing		Under performing	Non-performing	
	Regular	Focus	Under surveillance	Doubtful	Total
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					
- Treasury portfolio	425,009	-	-	-	425,009
Gross	425,074	-	-	-	425,074
Credit loss allowances	(65)	-	-	-	(65)
Accrued income	14,574	872	432	922	16,800
Gross	14,623	878	439	922	16,862
Credit loss allowances	(49)	(6)	(7)	-	(62)
Loans to related parties (included in other assets)	15,305	-	-	-	15,305
Other receivables (included in other assets)	6,105	-	-	-	6,105
	2,082,219	316,197	97,466	75,316	2,571,198
Off balance sheet at nominal amount					
Commitments to purchase financial assets					
Nominal amount	60,843	-	-	-	60,843
Credit loss allowances	(52)	-	-	-	(52)
Commitments to extend credit, guarantees and other commitments					
Nominal amount	376,555	78,788	57,099	5,494	517,936
Credit loss allowances	(1,104)	(166)	(311)	-	(1,581)
	436,242	78,622	56,788	5,494	577,146
Investments measured at fair value through other comprehensive income					
- Treasury portfolio					
Fair value	265,572	-	-	-	265,572
Credit loss allowances	(23)	-	-	-	(23)

	Performing		Under performing	Non-performing	
	Regular	Focus	Under surveillance	Doubtful	Total
Bank	€000	€000	€000	€000	€000
As at 31 December 2019					
Balances with central banks	32,754	-	-	-	32,754
Gross	32,755	-	-	-	32,755
Credit loss allowances	(1)	-	-	-	(1)
Loans and advances to financial institutions	154,493	-	-	-	154,493
Gross	154,494	-	-	-	154,494
Credit loss allowances	(1)	-	-	-	(1)
Loans and advances to customers	590,288	310,548	125,578	62,274	1,088,688
- International Lending portfolio	*518,397*	*305,530*	*121,183*	*54,616*	*999,726*
Gross	*521,647*	*308,787*	*123,139*	*66,016*	*1,019,589*
Credit loss allowances	*(3,250)*	*(3,257)*	*(1,956)*	*(11,400)*	*(19,863)*
- Local Lending portfolio	*71,891*	*5,018*	*4,395*	*7,658*	*88,962*
Gross	*72,137*	*5,051*	*4,468*	*7,659*	*89,315*
Credit loss allowances	*(246)*	*(33)*	*(73)*	*(1)*	*(353)*
Investments measured at amortised cost	480,287	-	-	-	480,287
- Treasury portfolio	*353,847*	-	-	-	*353,847*
Gross	*354,091*	-	-	-	*354,091*
Credit loss allowances	*(244)*	-	-	-	*(244)*
- Securitisation portfolio	*126,440*	-	-	-	*126,440*
Gross	*126,448*	-	-	-	*126,448*
Credit loss allowances	*(8)*	-	-	-	*(8)*
Accrued income	9,693	1,530	325	450	11,998
Gross	9,712	1,559	344	503	12,118
Credit loss allowances	(19)	(29)	(19)	(53)	(120)
Loans to related parties (included in other assets)	13,874	-	-	-	13,874
Other receivables (included in other assets)	1,703	-	-	-	1,703
	1,283,092	312,078	125,903	62,724	1,783,797
Off balance sheet at nominal amount					
Commitments to purchase financial assets					
Nominal amount	30,072	-	-	-	30,072
Credit loss allowances	-	-	-	-	-
Commitments to extend credit, guarantees and other commitments					
Nominal amount	403,960	62,597	55,759	8,223	530,539
Credit loss allowances	(1,239)	(248)	(346)	(279)	(2,112)
	432,793	62,349	55,413	7,944	558,499
Investments measured at fair value through other comprehensive income					
- Treasury portfolio					
Fair value	157,894	-	-	-	157,894
Credit loss allowances	(142)	-	-	-	(142)

	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					
- Treasury portfolio	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					
- Treasury portfolio					
Fair value	126,742	-	-	-	126,742
Credit loss allowances	*(21)*	-	-	-	*(21)*

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

Treasury portfolio	Measured at amortised cost				Measured at fair value through other comprehensive income			
	Group		Bank		Group		Bank	
	31 December 2019	31 March 2019	31 December 2019	31 March 2019	31 December 2019	31 March 2019	31 December 2019	31 March 2019
	€000	€000	€000	€000	€000	€000	€000	€000
Regional Government securities								
AAA	82,742	84,693	51,870	53,644	31,215	53,159	5,885	34,183
AA+ to AA-	142,169	143,589	106,697	107,984	120,096	27,935	120,096	27,934
A- to BBB-	-	-	-	-	23,493	-	-	-
Other securities								
AAA	181,571	185,181	171,563	175,171	181,484	159,453	304	62,781
AA+ to AA-	11,515	11,546	11,515	11,545	140,464	25,025	31,609	1,844
A- to BBB-	-	-	-	-	3,540	-	-	-
Not Rated	12,202	-	12,202	-	-	-	-	-
	430,199	425,009	353,847	348,344	500,292	265,572	157,894	126,742

Securitisation portfolio	Measured at amortised cost				Measured at fair value through other comprehensive income			
	Group		Bank		Group		Bank	
	31 December 2019	31 March 2019	31 December 2019	31 March 2019	31 December 2019	31 March 2019	31 December 2019	31 March 2019
	€000	€000	€000	€000	€000	€000	€000	€000
AAA	247,530	-	121,791	-	-	-	-	-
AA+ to AA-	1,650	-	1,650	-	-	-	-	-
A- to BBB-	1,400	-	1,400	-	-	-	-	-
BB+ to B-	1,599	-	1,599	-	-	-	-	-
	252,179	-	126,440	-	-	-	-	-
Total	682,378	425,009	480,287	348,344	500,292	265,572	157,894	126,742

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

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

2.2.3 Past due but not credit-impaired financial assets

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

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

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

2.2.4 Detailed information on credit quality of financial assets

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

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

	Gross carrying/nominal amount				Credit loss allowance				ECL coverage %			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
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%

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

	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 December 2019												
On balance sheet at amortised cost:												
Balances with central banks	32,755	-	-	32,755	(1)	-	-	(1)	-	-	-	-
Loans and advances to financial institutions	154,494	-		154,494	(1)	-	-	(1)	-	-	-	-
Loans and advances to customers												
- International Lending portfolio	830,434	123,139	66,016	1,019,589	(6,507)	(1,956)	(11,400)	(19,863)	0.8%	1.6%	17.3%	1.9%
- Local Lending portfolio	77,188	4,468	7,659	89,315	(279)	(73)	(1)	(353)	0.4%	1.6%	-	0.4%
Investments measured at amortised cost												
- Treasury portfolio	354,091	-	-	354,091	(244)	-	-	(244)	0.1%	-	-	0.1%
- Securitisation portfolio	126,448	-	-	126,448	(8)	-	-	(8)	-	-	-	-
Accrued income	11,271	344	503	12,118	(48)	(19)	(53)	(120)	0.4%	5.5%	10.5%	1.0%
Loans to related parties (included in other assets)	13,874	-	-	13,874	-	-	-	-	-	-	-	-
Other receivables (included in other assets)	1,703	-	-	1,703	-	-	-	-	-	-	-	-
Off balance sheet at nominal amount:												
Commitments to purchase financial assets	30,072	-	-	30,072	-	-	-	-	-	-	-	-
Commitments to extend credit, financial guarantees and other commitments	466,557	55,759	8,223	530,539	(1,476)	(346)	(279)	(2,101)	0.3%	0.6%	3.4%	0.4%
	2,098,887	183,710	82,401	2,364,998	(8,564)	(2,394)	(11,733)	(22,691)	0.4%	1.3%	14.2%	1.0%

	Fair value				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	%	%	%	%
As at 31 December 2019												
Investments at fair value through other comprehensive income												
- Treasury portfolio	157,894	-	-	157,894	(142)	-	-	(142)	0.1%	-	-	0.1%

	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%

	Fair value				Credit loss allowance				ECL coverage %			
	Stage 1 €000	Stage 2 €000	Stage 3 €000	Total €000	Stage 1 €000	Stage 2 €000	Stage 3 €000	Total €000	Stage 1 %	Stage 2 %	Stage 3 %	Total %
As at 31 March 2019												
Investments at fair value through other comprehensive income												
- Treasury portfolio	126,742	-	-	126,742	(21)	-	-	(21)	-	-	-	-

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

	Gross exposure			Credit loss allowance		
	Stage 2	Of which up to 30 DPD	Of which more than 30 DPD	Stage 2	Of which up to 30 DPD	Of which more than 30 DPD
	€000	€000	€000	€000	€000	€000
Group and Bank						
As at 31 December 2019						
Local Lending portfolio						
- Loans and advances to customers	**4,468**	**4,468**	**-**	**(73)**	**(73)**	**-**
- Accrued income	**28**	**28**	**-**	**(19)**	**(19)**	**-**
As at 31 March 2019						
Local Lending portfolio						
- Loans and advances to customers	1,730	1,609	121	(6)	(6)	-
- Accrued income	7	7	-	-	-	-

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

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

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

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

	Fair value					
	Regular €000	Focus €000	Under surveillance €000	Doubtful €000	Total €000	Credit loss allowance €000
Group						
As at 31 March 2019						
Investments measured at fair value through other comprehensive income – Treasury portfolio						
- 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
Bank							
As at 31 December 2019							
On balance sheet at amortised cost:							
Balances with central banks – Stage 1	32,755	-	-	-	32,755	(1)	32,754
Loans and advances to financial institutions							
- Stage 1	154,494	-	-	-	154,494	(1)	154,493
Loans and advances to customers							
- International Lending portfolio							
- Stage 1	521,647	308,787	-	-	830,434	(6,507)	823,927
- Stage 2	-	-	123,139	-	123,139	(1,956)	121,183
- Stage 3	-	-	-	66,016	66,016	(11,400)	54,616
- Local Lending portfolio							
- Stage 1	72,137	5,051	-	-	77,188	(279)	76,909
- Stage 2	-	-	4,468	-	4,468	(73)	4,395
- Stage 3	-	-	-	7,659	7,659	(1)	7,658
Investments measured at amortised cost – Treasury portfolio							
- Stage 1	354,091	-	-	-	354,091	(244)	353,847
Investments measured at amortised cost – Securitisation portfolio							
- Stage 1	126,448	-	-	-	126,448	(8)	126,440
Accrued income							
- Stage 1	9,712	1,559	-	-	11,271	(48)	11,223
- Stage 2	-	-	344	-	344	(19)	325
- Stage 3	-	-	-	503	503	(53)	450
Loans to related parties (included in other assets)							
- Stage 1	13,874	-	-	-	13,874	-	13,874
Other receivables (included in other assets)							
- Stage 1	1,703	-	-	-	1,703	-	1,703
Off balance sheet at nominal amount:							
Commitments to purchase financial assets							
- Stage 1	30,072	-	-	-	30,072	-	30,072
Commitments to extend credit, financial guarantees and other commitments							
- Stage 1	403,960	62,597	-	-	466,557	(1,476)	465,081
- Stage 2	-	-	55,759	-	55,759	(346)	55,413
- Stage 3	-	-	-	8,223	8,223	(279)	7,944
	1,720,893	377,994	183,710	82,401	2,364,998	(22,691)	2,342,307

	Fair value					
	Regular	Focus	Under surveillance	Doubtful	Total	Credit loss allowance
	€000	€000	€000	€000	€000	€000
Bank						
As at 31 December 2019						
Investments measured at fair value through other comprehensive income – Treasury portfolio						
- Stage 1	157,894	-	-	-	157,894	(142)

	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 – Treasury portfolio							
- 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 – Treasury portfolio						
- Stage 1	126,742	-	-	-	126,742	(21)

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

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

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

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

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

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

	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								
Period ended 31 December 2019								
At beginning of period	1,846,217	(12,315)	140,120	(1,640)	74,222	(7,034)	2,060,559	(20,989)
New business	131,526	(560)	-	-	-	-	131,526	(560)
Repayments and disposals	(621,019)	3,148	(41,596)	299	(1,785)	1,441	(664,400)	4,888
Transfers of financial instruments								
- Transfers from Stage 1 to Stage 2	(63,451)	376	63,451	(376)	-	-	-	-
- Transfers to Stage 3	(17,246)	265	-	-	17,246	(265)	-	-
- Transfers from Stage 3	-	-	14,982	(333)	(14,982)	333	-	-
Net remeasurement of ECL arising from stage transfers and changes in risk parameters	-	(432)	-	(660)	-	(6,205)	-	(7,297)
UK economic uncertainty adjustment	-	1,487	-	389	-	-	-	1,876
At end of period	1,276,027	(8,031)	176,957	(2,321)	74,701	(11,730)	1,527,685	(22,082)
ECL charge for the period								(1,093)
Effect of foreign exchange differences								64
Change in expected credit losses and other credit impairment charges for the period								(1,029)

	As at 31 December 2019		Period ended 31 December 2019
	Gross carrying/ nominal amount	Credit loss allowance	ECL (charge)/ release
	€000	€000	€000
Bank			
As per preceding table	**1,527,685**	**(22,082)**	**(1,029)**
Balances at central banks	**32,755**	**(1)**	**-**
Loans and advances to financial institutions	**154,494**	**(1)**	**-**
Loans and advances to customers			
- Local Lending portfolio: drawn exposures	**89,315**	**(353)**	**1,019**
- Local Lending portfolio: undrawn commitments	**57,166**	**-**	**-**
- Local Lending portfolio: write-offs	**-**	**-**	**(1,000)**
- Local Lending portfolio: recoveries	**-**	**-**	**11**
Investments measured at amortised cost			
- Treasury portfolio	**354,091**	**(244)**	**(183)**
- Securitisation portfolio	**126,448**	**(8)**	**(8)**
Other accrued income	**7,467**	**(2)**	**(2)**
Summary of financial instruments to which the impairment requirements in IFRS 9 are applied through the profit or loss	**2,349,421**	**(22,691)**	**(1,192)**
Investments measured at fair value through other comprehensive income			
- Treasury portfolio	**157,894**	**(142)**	**(121)**
Total credit loss allowance/total income statement ECL charge for the period	**2,507,315**	**(22,833)**	**(1,313)**

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

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

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

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

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

	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
Effect of foreign exchange differences								(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)

	As at 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)

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

Credit loss allowances attributable to loans and advances to customers

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

	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 December 2019								
International Lending portfolio	**7,447**	**1,956**	**12,455**	**21,858**	**6,507**	**1,956**	**11,400**	**19,863**
Local Lending portfolio	**279**	**73**	**1**	**353**	**279**	**73**	**1**	**353**
Dutch Mortgages portfolio	**8**	**-**	**-**	**8**	**-**	**-**	**-**	**-**
	7,734	**2,029**	**12,456**	**22,219**	**6,786**	**2,029**	**11,401**	**20,216**

	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

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

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

During the period ended 31 December 2019, interest income amounting to €3.8 million (Year ended 31 March 2019: €4.3 million) and €3.8 million (Year ended 31 March 2019: €4.0 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 Management 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 of cure to demonstrate a significant reduction in the risk of non-payment of future cash flows observed over a one-year period and there are no other indicators of impairment. In contrast, when substantial modification has been made to the terms of the renegotiated loan, the old financial asset is derecognised and a new financial asset is recognised, the latter being classified as a Stage 1 asset unless originated credit-impaired, in which case it is classified as a POCI financial asset.

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

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

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

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

Bank	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 December 2019					
Stage 1					
Neither past due nor credit-impaired	**790,943**	**39,491**	**74,682**	**2,506**	**907,622**
Stage 2					
Neither past due nor credit-impaired	**94,627**	**28,512**	**-**	**-**	**123,139**
Past due but not impaired:					
- by up to 30 days	**-**	**-**	**1,180**	**3,288**	**4,468**
Stage 3					
Impaired, net of credit loss allowances	**4,384**	**50,232**	**426**	**7,232**	**62,274**
Loans and advances, net of Stage 3 credit loss allowances	**889,954**	**118,235**	**76,288**	**13,026**	**1,097,503**
Stage 1 credit loss allowances	**5,334**	**1,173**	**251**	**28**	**6,786**
Stage 2 credit loss allowances	**1,573**	**383**	**-**	**73**	**2,029**
Stage 3 credit loss allowances	**1,595**	**9,805**	**1**	**-**	**11,401**

Bank	**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	1,365,412	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

As at 31 December 2019, total gross forborne loans and advances to customers as a percentage of total gross loans and advances to customers of the Group and Bank were equivalent to 11.72% (31 March 2019: 6.09%) and 12.72% (31 March 2019: 6.50%) respectively.

Interest income recognised by the Group and the Bank during the financial period ended 31 December 2019 in respect of forborne exposures amounted to €7.3 million (year ended 31 March 2019: €6.8 million) and €6.7 million (year ended 31 March 2019: €6.3 million) respectively.

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

	Group		**Bank**	
	31 December 2019	31 March 2019	**31 December 2019**	31 March 2019
	€000	€000	**€000**	€000
At beginning of financial period / year	**113,737**	128,247	**106,077**	124,431
Loans to which forbearance measures have been extended during the year without derecognition	**83,989**	60,330	**66,091**	52,437
Capitalised interest	**507**	1,389	**521**	1,363
Capitalised fees	**(94)**	(222)	**(94)**	(219)
Repayments or disposals	**(34,651)**	(42,324)	**(30,934)**	(39,324)
Loans exiting forborne status during the period / year without derecognition	**-**	(27,919)	**-**	(27,889)
Derecognised forborne loans due to further forbearance measures	**-**	(23,400)	**-**	(19,882)
Newly recognised assets as a result of forbearance measures	**-**	16,110	**-**	13,795
Write-offs	**(1,000)**	(1,671)	**(1,000)**	(1,672)
Recoveries	**-**	2,125	**-**	2,126
Amortisation of premium or discount	**(932)**	535	**103**	605
Exchange differences	**389**	537	**302**	306
At end of financial period / year	**161,945**	113,737	**141,066**	106,077

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

As at 31 December 2019, credit loss allowances on the Group's and Bank's forborne loans were equivalent to €11.9 million (31 March 2019: €9.1 million) and €9.8 million (31 March 2019: €8.0 million) respectively. Additions to credit loss allowances on forborne loans during the period ended 31 December 2019 amounted to €6.5 million (year ended 31 March 2019: €6.7 million) and €5.6 million (year ended 31 March 2019: €5.6 million). Reversals of credit loss allowances on forborne loans during the period ended 31 December 2019 amounted to €3.7 million (year ended 31 March 2019: €6.7 million) and €3.8 million (year ended 31 March 2019: €6.4 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:

	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 December 2019								
Administrative and support services	**16,889**	**-**	**-**	**16,889**	**14,276**	**-**	**-**	**14,276**
Real estate and construction	**2,506**	**18,155**	**7,232**	**27,893**	**2,506**	**18,155**	**7,232**	**27,893**
Information and communication	**13,258**	**-**	**-**	**13,258**	**13,258**	**-**	**-**	**13,258**
Manufacturing	**-**	**13,656**	**26,792**	**40,448**	**-**	**13,656**	**26,704**	**40,360**
Professional, scientific and technical activities	**29,892**	**-**	**17,509**	**47,401**	**11,957**	**-**	**17,509**	**29,466**
Wholesale and retail trade; Repair of motor vehicles and motor cycles	**-**	**-**	**16,056**	**16,056**	**-**	**-**	**15,824**	**15,824**
	62,545	**31,811**	**67,589**	**161,945**	**41,997**	**31,811**	**67,269**	**141,077**

	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

The Group's and Bank's forborne loans within the International Lending portfolio as at 31 December 2019 consist of corporate exposures based in the European Union, amounting to €122 million and €79 million respectively, and in the United States, amounting to €40 million and €38.2 million respectively. All forborne loans within this portfolio as at 31 March 2019 consist of corporate exposures based in the European Union. The forborne loans classified within the Local Lending portfolio are mainly categorised as exposures to corporate customers within the real estate and construction sector.

2.2.6 Write-off policy

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

2.2.7 Collateral

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

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

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

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

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

Group and Bank	Non-forborne		Forborne		Total	
	Gross carrying amount	Credit loss allowance	Gross carrying amount	Credit loss allowance	Gross carrying amount	Credit loss allowance
	€000	€000	€000	€000	€000	€000
As at 31 March 2019						
Stage 1						
c) Not collateralised	717	-	-	-	717	-
d) 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						
b) 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						
c) 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)
d) Partially collateralised						
- greater than 100% LTV	-	-	658	(658)	658	(658)
	480	-	9,955	(1,150)	10,435	(1,150)

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

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

As at 31 December 2019 the Group and the Bank held senior secured loans to international borrowers classified under the International Lending portfolio which amounted to €1.1 billion (31 March 2019: €1.8 billion) and €1.0 billion (31 March 2019: €1.5 billion). In respect of such financial assets, the Group normally has a right over the borrower's unencumbered assets.

All the Group's and Bank's exposures classified under the Treasury Investment portfolio as at 31 December 2019 and 31 March 2019 are unsecured with the exception of a sub-portfolio of covered bonds amounting to €518.6 million (31 March 2019: €381.2 million) and €215.1 million (31 March 2019: 251 million), respectively, which are backed by a separate group of assets in the form of loans. Similarly, all exposures classified under the Securitisation Investment portfolio as at 31 December 2019 are also backed by a separate group of assets in the form of loans.

2.2.8 Forward-looking information incorporated in the ECL model

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

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

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

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

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

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

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

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

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

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

Economic Scenarios MEVs (5yr average Q2 2019 – Q1 2024)	Severe Upside	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

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

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

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

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

2.2.9 Concentration of credit risk exposures

2.2.9.1 Concentration of investment securities

Treasury Investment portfolio

The Group's and Bank's exposure to sovereign Eurozone government bonds as at 31 December 2019 representing 11% (31 March 2019: 8%) and 4% (31 March 2019: nil), respectively, of the total investment securities within the Treasury Investment portfolio, related to German Government securities.

Credit loss allowances for the Group and Bank amounting to €80 thousand were recognised in respect of these exposures as at 31 December 2019 (31 March 2019: €5 thousand).

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

	Measured at amortised cost				**Measured at fair value through other comprehensive income**			
	Group		**Bank**		**Group**		**Bank**	
	31 December 2019	31 March 2019	**31 December 2019**	31 March 2019	**31 December 2019**	31 March 2019	**31 December 2019**	31 March 2019
	€000	€000	**€000**	€000	**€000**	€000	**€000**	€000
Concentration by type								
Carrying amount:								
Covered bonds	**193,086**	196,727	**183,078**	186,716	**325,488**	184,478	**31,913**	64,625
National and regional government	**35,466**	35,601	**-**	-	**64,936**	18,976	**20,060**	-
Supranational and agencies	**189,445**	192,681	**158,567**	161,628	**109,868**	62,118	**105,921**	62,117
Corporations	**12,202**	-	**12,202**	-	**-**	-	**-**	-
Total	**430,199**	425,009	**353,847**	348,344	**500,292**	265,572	**157,894**	126,742

Securitisation Investment portfolio

The Group's and Bank's Securitisation Investment portfolio comprises the investment in GH1-2019 structured note tranches, amounting to €19.9 million as at 31 December 2019, as well as CLO transactions managed by third-party entities, amounting to €233.7 million and €107.9 million for the Group and Bank respectively. The Group's and Bank's investment in GH1-2019 comprises a 5% vertical slice of each of the tranches for "Risk Retention" purposes, with a pool of leveraged loans as collateral. The Group's and Bank's investment in CLO transactions managed by third-party entities comprises positions in the most senior tranche of nine different CLOs, all of which are also collateralised by a pool of leveraged loans.

As at 31 December 2019, credit loss allowances in respect of exposures classified under these two sub-portfolios and measured at amortised cost amounted to €19 thousand and €8 thousand for the Group and Bank respectively. The Group's investment in the equity tranche of GH1-2019, amounting to €1.4 million as at 31 December 2019, is measured at FVTPL and accordingly is not subject to impairment in accordance with IFRS 9.

2.2.9.2 Concentration of loans and advances to customers

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

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

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

The Group's Dutch Mortgage portfolio consists of Dutch state-guaranteed mortgages ('Nationale Hypotheek Garantie' or NHG). These mortgages are prime Dutch mortgages that benefit from a guarantee from a private non-profit fund and indirectly from a government guarantee.

Group	Gross carrying amount					Credit loss allowance				
	EU	Other European countries	North America	Asia	Total	EU	Other European countries	North America	Asia	Total
	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000
Stage 1										
As at 31 December 2019										
Accommodation and food service activities	**32,173**	**-**	**5,467**	**-**	**37,640**	**(190)**	**-**	**(79)**	**-**	**(269)**
Administrative and support service activities	**38,626**	**-**	**-**	**-**	**38,626**	**(741)**	**-**	**-**	**-**	**(741)**
Arts, entertainment and recreation activities	**50,430**	**-**	**14,969**	**-**	**65,399**	**(245)**	**-**	**(124)**	**-**	**(369)**
Construction	**1,550**	**-**	**-**	**-**	**1,550**	**(13)**	**-**	**-**	**-**	**(13)**
Education	**18,946**	**-**	**1,311**	**-**	**20,257**	**(107)**	**-**	**-**	**-**	**(107)**
Financial and insurance activities	**276,695**	**20,086**	**13,265**	**4,140**	**314,186**	**(1,747)**	**(8)**	**(49)**	**(6)**	**(1,810)**
Households and individuals	**133,519**	**-**	**-**	**-**	**133,519**	**(8)**	**-**	**-**	**-**	**(8)**
Human health and social work activities	**69,674**	**-**	**-**	**-**	**69,674**	**(413)**	**-**	**-**	**-**	**(413)**
Information and communication	**46,688**	**-**	**48,350**	**13,163**	**108,201**	**(309)**	**-**	**(771)**	**(316)**	**(1,396)**
Manufacturing	**147,246**	**-**	**4,149**	**-**	**151,395**	**(931)**	**-**	**(20)**	**-**	**(951)**
Professional, scientific and technical activities	**68,871**	**-**	**-**	**-**	**68,871**	**(817)**	**-**	**-**	**-**	**(817)**
Public administration and defence; compulsory social security	**12,000**	**-**	**-**		**12,000**	**(53)**	**-**	**-**	**-**	**(53)**
Real estate activities	**99,994**	**-**	**-**	**-**	**99,994**	**(338)**	**-**	**-**	**-**	**(338)**
Transport and storage	**7,884**	**-**	**6,855**		**14,739**	**(76)**	**-**	**(92)**	**-**	**(168)**
Water supply; sewerage, waste management and remediation activities	**11,449**	**-**	**-**		**11,449**	**(85)**	**-**	**-**	**-**	**(85)**
Wholesale and retail trade, repairs of motor vehicles and motor cycles	**26,862**	**-**	**-**	**-**	**26,862**	**(196)**	**-**	**-**	**-**	**(196)**
	1,042,607	**20,086**	**94,366**	**17,303**	**1,174,362**	**(6,269)**	**(8)**	**(1,135)**	**(322)**	**(7,734)**
Stage 2										
As at 31 December 2019										
Arts, entertainment and recreation activities	**9,497**	**-**	**-**	**-**	**9,497**	**(295)**	**-**	**-**	**-**	**(295)**
Construction	**14,867**	**-**	**-**	**-**	**14,867**	**(305)**	**-**	**-**	**-**	**(305)**
Financial and insurance activities	**25,936**	**-**	**-**	**-**	**25,936**	**(553)**	**-**	**-**	**-**	**(553)**
Information and communication	**31,167**	**-**	**-**	**-**	**31,167**	**(357)**	**-**	**-**	**-**	**(357)**
Manufacturing	**18,756**	**-**	**11,845**	**-**	**30,601**	**(173)**	**-**	**(184)**	**-**	**(357)**
Professional, scientific and technical activities	**10,769**	**-**	**-**	**-**	**10,769**	**(85)**	**-**	**-**	**-**	**(85)**
Real estate activities	**4,468**	**-**	**-**	**-**	**4,468**	**(73)**	**-**	**-**	**-**	**(73)**
Wholesale and retail trade, repairs of motor vehicles and motor cycles	**330**	**-**	**-**	**-**	**330**	**(4)**	**-**	**-**	**-**	**(4)**
	115,790	**-**	**11,845**	**-**	**127,635**	**(1,845)**	**-**	**(184)**	**-**	**(2,029)**
Stage 3										
As at 31 December 2019										
Financial and insurance activities	**11,952**	**-**	**-**	**-**	**11,952**	**(2,650)**	**-**	**-**	**-**	**(2,650)**
Manufacturing	**-**	**-**	**26,792**	**-**	**26,792**	**-**	**-**	**(1,257)**	**-**	**(1,257)**
Professional, scientific and technical activities	**17,509**	**-**	**-**	**-**	**17,509**	**(3,435)**	**-**	**-**	**-**	**(3,435)**
Real estate activities	**7,659**	**-**	**-**	**-**	**7,659**	**(1)**	**-**	**-**	**-**	**(1)**
Wholesale and retail trade, repairs of motor vehicles and motor cycles	**16,056**	**-**	**-**	**-**	**16,056**	**(5,113)**	**-**	**-**	**-**	**(5,113)**
	53,176	**-**	**26,792**	**-**	**79,968**	**(11,199)**	**-**	**(1,257)**	**-**	**(12,456)**

Group	Nominal amount					Credit loss allowance				
	EU	Other European countries	North America	Asia	Total	EU	Other European countries	North America	Asia	Total
	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000
Commitments to purchase financial assets, commitments to extend credit, guarantees and other commitments										
As at 31 December 2019										
Accommodation and food service activities	12,378	-	-	-	12,378	(16)	-	-	-	(16)
Administrative and support service activities	10,000	-	14,696	-	24,696	(23)	-	(75)	-	(98)
Arts, entertainment and recreation activities	35,713	-	-	-	35,713	(4)	-	-	-	(4)
Construction	17,546	-	-	-	17,546	(98)	-	-	-	(98)
Education	-	-	25,407	-	25,407	-	-	(193)	-	(193)
Electricity, Gas, Steam and Air Conditioning Supply	-	-	17,269	-	17,269	-	-	(46)	-	(46)
Containers, Packaging and Glass	10,000	-	-	-	10,000	-	-	-	-	-
Financial and insurance activities	169,079	10,000	65,582	-	244,661	(506)	(22)	(322)	-	(850)
Households and individuals	283,671	-	-	-	283,671	-	-	-	-	-
Human health and social work activities	42,594	-	8,906	-	51,500	(59)	-	(50)	-	(109)
Information and communication	17,647	-	12,424	-	30,071	(48)	-	(88)	-	(136)
Manufacturing	22,558	-	8,182	-	30,740	(257)	-	(279)	-	(536)
Professional, scientific and technical activities	2,000	-	-	-	2,000	(5)	-	-	-	(5)
Real estate activities	57,450	-	-	-	57,450	(6)	-	-	-	(6)
Wholesale and retail trade, repairs of motor vehicles and motor cycles	8,167	-	-	-	8,167	(15)	-	-	-	(15)
Fishing	14	-	-	-	14	-	-	-	-	-
Transportation and Storage	-	-	3,000	-	3,000	-	-	-	-	-
	688,817	10,000	155,466	-	854,283	(1,037)	(22)	(1,053)	-	(2,112)

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	1,683,898	(10,415)	(105)	(2,238)	(13)	(12,771)
Stage 2										
As at 31 March 2019										
Administrative and support service activities	1,103	-	-	-	1,103	(24)	-	-	-	(24)
Construction	1,296	-	-	-	1,296	(6)	-	-	-	(6)
Financial and insurance activities	86,181	-	2,227	-	88,408	(1,863)	-	-	-	(1,863)
Professional, scientific and technical activities	6,080	-	-	-	6,080	(27)	-	-	-	(27)
Other service activities	-	-	1,650	-	1,650	-	-	(17)	-	(17)
Other	434	-	-	-	434	-	-	-	-	-
	95,094	-	3,877	-	98,971	(1,920)	-	(17)	-	(1,937)
Stage 3										
As at 31 March 2019										
Construction	24,056	-	-	-	24,056	(550)	-	-	-	(550)
Financial and insurance activities	12,903	-	29,458	-	42,361	(2,104)	-	(2,349)	-	(4,453)
Professional, scientific and technical activities	658	-	-	-	658	(933)	-	-	-	(933)
Wholesale and retail trade, repairs of motor vehicles and 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)

Bank	Gross carrying amount					Credit loss allowance				
	EU	Other European countries	North America	Asia	Total	EU	Other European countries	North America	Asia	Total
	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000
Stage 1										
As at 31 December 2019										
Accommodation and food service activities	14,520	-	5,467	-	19,987	(99)	-	(79)	-	(178)
Administrative and support service activities	35,589	-	-	-	35,589	(653)	-	-	-	(653)
Arts, entertainment and recreation activities	50,430	-	14,969	-	65,399	(245)	-	(124)	-	(369)
Construction	1,550	-	-	-	1,550	(13)	-	-	-	(13)
Education	18,946	-	1,311	-	20,257	(107)	-	-	-	(107)
Financial and insurance activities	231,284	10,093	13,265	4,143	258,785	(1,542)	(4)	(49)	(6)	(1,601)
Human health and social work activities	69,708	-	-	-	69,708	(413)	-	-	-	(413)
Information and communication	39,198	-	48,350	13,163	100,711	(284)	-	(771)	(315)	(1,370)
Manufacturing	132,350	-	4,149	-	136,499	(835)	-	(20)	-	(855)
Professional, scientific and technical activities	50,935	-	-	-	50,935	(440)	-	-	-	(440)
Public administration and defence; compulsory social security	12,000	-	-	-	12,000	(53)	-	-	-	(53)
Real estate activities	85,665	-	-	-	85,665	(303)	-	-	-	(303)
Transport and storage	7,880	-	6,855	-	14,735	(76)	-	(92)	-	(168)
Water supply; sewerage, waste management				-						
and remediation activities	8,930	-	-	-	8,930	(67)	-	-	-	(67)
Wholesale and retail trade, repairs of motor vehicles and motor cycles	26,872	-	-	-	26,872	(196)	-	-	-	(196)
	785,857	10,093	94,366	17,306	907,622	(5,326)	(4)	(1,135)	(321)	(6,786)
Stage 2										
As at 31 December 2019										
Arts, entertainment and recreation activities	9,497	-	-	-	9,497	(294)	-	-	-	(294)
Construction	14,856	-	-	-	14,856	(305)	-	-	-	(305)
Financial and insurance activities	25,924	-	-	-	25,924	(553)	-	-	-	(553)
Information and communication	31,162	-	-	-	31,162	(358)	-	-	-	(358)
Manufacturing	18,756	-	11,845	-	30,601	(173)	-	(184)	-	(357)
Professional, scientific and technical activities	10,769	-	-	-	10,769	(85)	-	-	-	(85)
Real estate activities	4,468	-	-	-	4,468	(73)	-	-	-	(73)
Wholesale and retail trade, repairs of motor vehicles and motor cycles	330	-	-	-	330	(4)	-	-	-	(4)
	115,762	-	11,845	-	127,607	(1,845)	-	(184)	-	(2,029)
Stage 3										
As at 31 December 2019										
Financial and insurance activities	5,979	-	-	-	5,979	(1,595)	-	-	-	(1,595)
Manufacturing	-	-	26,704	-	26,704	-	-	(1,257)	-	(1,257)
Professional, scientific and technical activities	17,509	-	-	-	17,509	(3,435)	-	-	-	(3,435)
Real estate activities	7,659	-	-	-	7,659	(1)	-		-	(1)
Wholesale and retail trade, repairs of motor vehicles and motor cycles	15,824	-	-	-	15,824	(5,113)	-	-	-	(5,113)
	46,971	-	26,704	-	73,675	(10,144)	-	(1,257)	-	(11,401)

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 December 2019										
Accommodation and food service activities	12,378	-	-	-	12,378	(16)	-	-	-	(16)
Administrative and support service activities	10,000	-	14,696	-	24,696	(23)	-	(75)	-	(98)
Arts, entertainment and recreation activities	35,713	-	-	-	35,713	(4)	-	-	-	(4)
Construction	17,546	-	-	-	17,546	(98)	-	-	-	(98)
Education	-	-	25,407	-	25,407	-	-	(193)	-	(193)
Electricity, Gas, Steam and Air Conditioning supply	-	-	17,269	-	17,269	-	-	(46)	-	(46)
Financial and insurance activities	169,078	10,000	65,582	-	244,660	(495)	(22)	(322)	-	(839)
Human health and social work activities	42,594	-	8,906	-	51,500	(59)	-	(50)	-	(109)
Information and communication	17,647	-	12,424	-	30,071	(48)	-	(88)	-	(136)
Manufacturing	22,558	-	8,182	-	30,740	(257)	-	(279)	-	(536)
Professional, scientific and technical activities	2,000	-	-	-	2,000	(5)	-	-	-	(5)
Real estate activities	57,450	-	-	-	57,450	(6)	-	-	-	(6)
Wholesale and retail trade, repairs of motor vehicles and motor cycles	8,167	-	-	-	8,167	(15)	-	-	-	(15)
Fishing	14	-	-	-	14	-	-	-	-	-
Transportation and Storage	-	-	3,000	-	3,000	-	-	-	-	-
	395,145	10,000	155,466	-	560,611	(1,026)	(22)	(1,053)	-	(2,101)

Bank	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	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)

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.

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

	Gross amounts of recognised financial instruments	Gross amounts of recognised financial instruments offset in the statement of financial position	Net amounts of financial instruments presented in the statement of financial position	Related amounts not offset in the statement of financial position		
				Financial instruments that do not meet offsetting criteria	Financial collateral pledged /(received) (incl. cash)	Net amount
	€000	€000	€000	€000	€000	€000
Group						
As at 31 December 2019						
Financial assets						
Derivative financial instruments	**2,020**	**-**	**2,020**	**(939)**	**-**	**1,081**
Financial liabilities						
Derivative financial instruments	**(4,182)**	**-**	**(4,182)**	**939**	**10,051**	**6,808**
Amounts owed to financial institutions	**(224,012)**	**-**	**(224,012)**	**-**	**226,864**	**2,852**
	(228,194)	**-**	**(228,194)**	**939**	**236,915**	**9,660**
As at 31 March 2019						
Financial assets						
Derivative financial instruments	716	-	716	(144)	-	572
Financial liabilities						
Derivative financial instruments	(11,327)	-	(11,327)	144	23,920	12,737
Amounts owed to financial institutions	(198,887)	-	(198,887)	-	197,500	(1,387)
	(210,214)	-	(210,214)	144	221,420	11,350

	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 December 2019						
Financial assets						
Derivative financial instruments	**6,226**	**-**	**6,226**	**(939)**	**-**	**5,287**
Financial liabilities						
Derivative financial instruments	**(2,363)**	**-**	**(2,363)**	**939**	**6,791**	**5,367**
Amounts owed to financial institutions	**(961,647)**	**-**	**(961,647)**	**-**	**226,800**	**(734,847)**
	(964,010)	**-**	**(964,010)**	**939**	**233,591**	**(729,480)**
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)

2.3 Liquidity risk

2.3.1 Management of liquidity risk

The Group's overall liquidity and funding position is managed in the normal course of business by its Treasury team, under the supervision of the Asset and Liability Committee ("ALCO") and by following processes set out in the Group's Liquidity Risk Management Policy ("LRMP").

The Group's Risk team ensures that all liquidity risks are identified, measured, overseen and appropriately reported. These risks principally relate to the Group's banking activities and are managed by MeDirect Malta's Board of Directors. Analysis of liquidity risk is the joint responsibility of the Group's Treasury and Risk teams under the oversight of the ALCO and the Board Risk Committee.

Management Asset and Liability Committee

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

Board Risk Committee

The Board delegates to the Board Risk Committee its oversight responsibilities of the risk function. Therefore, the Board Risk Committee represents the principal forum for overseeing the Group's liquidity and funding risk. In addition, it is responsible for recommending to the Board an appropriate liquidity and funding risk appetite and for approving liquidity risk-related policies and recommendations. The Board Risk Committee is also responsible for ensuring that all liquidity risk controls are in accordance with regulatory requirements and best practice and for advising the Board on the coordination and prioritisation of liquidity risk management issues throughout the Group.

The Board Risk Committee reviews regular reports on the liquidity position of the Group. It is informed immediately of new and emerging liquidity concerns, and ensures that Executive management takes appropriate remedial actions to address the concerns.

Roles and responsibilities

The Treasury team, under the leadership of the Head of Treasury has primary responsibility for managing and reporting the Group's projected liquidity position (the "base case").For liquidity purposes, the Group's balance sheet, encompassing both assets and liabilities, is managed on an intraday and day-to-day basis, and includes monitoring compliance with metrics of current liquidity. The department is also responsible for forecasting the Group's future cash flow profile, as well as for analysis and management of the Group's deposit book. This is executed under the leadership of the Head of Treasury.

The Risk team, under the leadership of the Chief Risk Officer ("CRO"), has primary responsibility for monitoring current liquidity performance as well as defining potential adverse liquidity scenarios that should be considered, and for reporting exposure to these scenarios (the "downside case"). Under the leadership of the CRO, it is responsible for ensuring that all significant risks relating to liquidity are properly identified and clearly incorporated into the Group's risk management and reporting framework. It is also responsible for producing reports that show and analyse the Group's sensitivity to external events related to liquidity, including the definition of severe but plausible events that could constitute stress scenarios.

Funding strategy

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

The Group's strategy to mitigate this risk has four main components:

- Limiting its exposure to customer deposit withdrawal by use of term and notice accounts rather than overnight deposits as its primary instrument of customer funding, by focusing on the retail market to maximise granularity and by expanding outside Malta to reduce its dependence on a single market;
- Limiting its exposure to wholesale funding withdrawal by locking in term, rather than short-dated, funding against illiquid assets (where this is used at all: illiquid assets are primarily deposit funded) and by either diversifying its sources of funding in general or ensuring that it does not rely on funding that is at the discretion of market counterparties;
- Maintaining a contingency source of funding by ensuring that substantially all of its Treasury Investment portfolio is eligible for funding at the ECB or at Eurex if alternative sources are unavailable; and
- Holding a much higher than typical proportion of assets that could over time be liquidated in the secondary market.

The Group's objective is to maintain a prudent funding structure drawn from diverse funding sources in the short-, medium- and long-term.

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

- Deposits from retail and corporate customers;
- Bond issuance, either secured(for example through CLO structures), senior unsecured or subordinated;
- Issuance of capital instruments;
- Interbank funding (either secured, for example through repurchase agreements or Total Return Swaps, or unsecured); and
- Central Bank funding (although it is the Group's strategy not to rely on the Central Bank for funding in the normal course of events, but instead only used as a secondary source of financing).

In order to ensure that the Group and Bank have adequate liquidity to meet its near-term obligations, the Treasury team projects the Group's and Bank'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") in order to assess long-term liquidity:

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

  The table below displays the Group's and Bank's LCR as at 31 December 2019 and 31 March 2019:

	Group		Bank	
	31 December 2019	31 March 2019	**31 December 2019**	31 March 2019
	%	%	**%**	%
Actual LCR	**716.2**	460.1	**450.3**	228.4

During the period ended 31 December 2019 and the year ended 31 March 2019, the LCR was within both the regulatory minimum and the risk appetite set by the Group and Bank. Subsequent to 31 December 2019, as a result of the COVID-19 pandemic outbreak, given that many borrowers wanted to strengthen their balance sheets, in March 2020 the Bank experienced a significant rapid increase in drawdowns in respect of the Bank's revolving credit facilities within the International corporate lending portfolio. These were all honoured by the Bank. As a result of such unexpected rapid increase in drawdowns resulting from this unprecedented stress to the global economy, the Bank's solo stand-alone LCR ratio fell below the regulatory minimum of 100% for two days. The Bank took corrective actions immediately to ensure that the LCR reverts back to levels above 100%. At all times the Regulatory Group's LCR ratio was significantly above 100% as overall the Regulatory Group had strong liquidity levels to withstand these liquidity challenges emanating from the COVID-19 severe downturn.

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

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

  The table below displays the Group's and Bank's NSFR as at 31 December 2019 and 31 March 2019:

	Group		Bank	
	31 December 2019	31 March 2019	**31 December 2019**	31 March 2019
	%	%	**%**	%
Actual NSFR*	**130.1**	135.0	**119.1**	118.2

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

2.3.2 Liquidity risk reporting

Reliable management reporting provides the Executive and the Board with timely and forward-looking information on its liquidity position. Reporting of risk measures is done on a frequent basis and compares current liquidity exposures to established limits to identify any emerging pressures and limit breaches.

The Group's Risk team performs regular stress testing of its liquidity profile, as well as the availability of contingency funding options through both its ILAAP and monthly Maximum Cumulative Outflow ("MCO") report. The MCO analyses the likely risks to the Group's liquidity position and quantifies its ability to withstand the associated shocks through deployment of management contingency funding plan options. Summarised results from all of the various analyses are used as inputs to the MCO, with the liquidity impacts of different levels of severity of both idiosyncratic and market-wide scenarios modelled across a twelve-month time horizon.

The MCO reinforces the Group's oversight of liquidity risk, by not only focusing its risk reporting on the 'current' state, but also providing regular and timely reporting of the potential 'stress' liquidity profile of the Group.

In addition, the Risk team produces a maturity mismatch report each month to provide oversight and monitoring of the mismatch between assets and liabilities. The Risk team also monitors deposit concentration within its monthly risk management report where the Group's top ten depositors are monitored by also looking at the corporate sector and the product maturity ladder

2.3.3 Contractual maturity ladder

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

Group	Not more than 1 month	Between 1 and 3 months	Between 3 months and 1 year	Between 1 and 5 years	More than 5 years	No maturity date	Total
	€000	€000	€000	€000	€000	€000	€000
As at 31 December 2019							
Assets							
Balances with central banks	221,859	-	-	-	-	19,864	241,723
Derivative financial instruments	856	30	150	268	268	448	2,020
Loans and advances to financial institutions	223,287	-	-	-	-	-	223,287
Loans and advances to customers	20,078	34,256	217,569	955,321	132,153	-	1,359,377
- International Lending portfolio	20,078	29,010	194,532	893,653	-	-	1,137,273
- Local Lending portfolio	-	5,246	23,037	60,679	-	-	88,962
- Dutch Mortgage portfolio	-	-	-	989	132,153	-	133,142
Investments	43,738	31,405	340,772	349,796	418,406	-	1,184,117
- Treasury portfolio	43,738	31,405	340,772	349,796	164,780	-	930,491
- Securitisation portfolio	-	-	-	-	253,626	-	253,626
Accrued income	4,569	175	4,009	5,550	78	-	14,381
Loans to related parties (incl. in other assets)	-	-	-	-	-	13,044	13,044
Other receivables (incl. in other assets)	1,803	-	-	-	-	32,533	34,336
Total financial assets	516,190	65,866	562,500	1,310,935	550,905	65,889	3,072,285
Liabilities							
Derivative financial instruments	1,046	1,816	1,320	-	-	-	4,182
Amounts owed to financial institutions	144,012	30,000	50,000	-	-	-	224,012
Amounts owed to customers	1,198,044	82,960	695,375	461,920	827	-	2,439,126
Subordinated liabilities	-	-	-	34,821	19,999	-	54,820
Accrued interest expense (incl. in accruals and deferred income)	709	910	5,642	57	-	-	7,318
Lease liabilities (incl. in other liabilities)	414	806	3,928	9,980	2,535		17,663
Bills payable (incl. in other liabilities)	5,649	-	-	-	-	-	5,649
Amounts due to related parties (incl. in other liabilities)	-	-	-	-	-	3,350	3,350
Total financial liabilities	1,349,874	116,492	756,265	506,778	23,361	3,350	2,756,120
Liquidity gap	(833,684)	(50,626)	(193,765)	804,157	527,544		
Cumulative liquidity gap	(833,684)	(884,310)	(1,078,075)	(273,918)	253,626		

Group	Not more than 1 month	Between 1 and 3 months	Between 3 months and 1 year	Between 1 and 5 years	More than 5 years	No maturity date	Total
	€000	€000	€000	€000	€000	€000	€000
As at 31 March 2019							
Assets							
Balances with central banks	23,373	-	-	-	-	123,612	146,985
Derivative financial instruments	127	-	141	-	-	448	716
Loans and advances to financial institutions	118,439	-	-	-	-	-	118,439
Loans and advances to customers	8,813	10,597	161,994	1,625,934	35,217	-	1,842,555
- International Lending portfolio	-	5,685	149,887	1,601,157	-	-	1,756,729
- Local Lending portfolio	8,813	4,912	12,107	24,777	35,217	-	85,826
Investments – Treasury portfolio	-	22,463	117,143	424,987	125,988	-	690,581
Accrued income	2,056	3,147	3,007	8,427	163	-	16,800
Loans to related parties (incl. in other assets)	-	-	-	-	-	15,305	15,305
Other receivables (incl. 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	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							
Liabilities							
Derivative financial instruments	388	2,940	7,495	355	149	-	11,327
Amounts owed to financial institutions	93,887	15,000	90,000	-	-	-	198,887
Amounts owed to customers	816,418	119,634	738,120	527,919	-	-	2,202,091
Subordinated liabilities	-	-	22,342	-	44,796	-	67,138
Accrued interest expense (incl. in accruals and deferred income)	627	691	3,758	398	-	-	5,474
Bills payable (incl. in other liabilities)	4,551	-	-	-	-	-	4,551
Amounts due to related parties (incl. in other liabilities)	-	-	-	-	-	972	972
Total financial liabilities	915,871	138,265	861,715	528,672	44,945	972	2,490,440
Liquidity gap	(756,958)	(102,058)	(579,430)	1,530,676	116,423		
Cumulative liquidity gap	(756,958)	(859,016)	(1,438,446)	92,230	208,653		

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 December 2019							
Assets							
Balances with central banks	**27,707**	**-**	**-**	**-**	**-**	**5,047**	**32,754**
Derivative financial instruments	**3,751**	**30**	**1,774**	**223**	**-**	**448**	**6,226**
Loans and advances to financial institutions	**154,493**	**-**	**-**	**-**	**-**	**-**	**154,493**
Loans and advances to customers	**10,089**	**34,235**	**161,997**	**882,367**	**-**	**-**	**1,088,688**
- International Lending portfolio	**10,089**	**28,989**	**138,960**	**821,688**	**-**	**-**	**999,726**
- Local Lending portfolio	**-**	**5,246**	**23,037**	**60,679**	**-**	**-**	**88,962**
Investments	**39,729**	**5,884**	**230,675**	**133,175**	**230,165**	**-**	**639,628**
- Treasury portfolio	**39,729**	**5,884**	**230,675**	**133,175**	**102,278**		**511,741**
- Securitisation portfolio	**-**	**-**	**-**	**-**	**127,887**		**127,887**
Accrued income	**3,088**	**280**	**3,661**	**4,891**	**78**	**-**	**11,998**
Loans to related parties (incl. in other assets)	**-**	**-**	**-**	**-**	**-**	**13,874**	**13,874**
Other receivables (incl. in other assets)	**1,703**	**-**	**-**	**-**	**-**	**-**	**1,703**
Total financial assets	**240,560**	**40,429**	**398,107**	**1,020,656**	**230,243**	**19,369**	**1,949,364**
Liabilities							
Derivative financial instruments	**641**	**1,057**	**665**	**-**	**-**	**-**	**2,363**
Amounts owed to financial institutions	**881,647**	**30,000**	**50,000**	**-**	**-**	**-**	**961,647**
Amounts owed to customers	**271,771**	**55,602**	**235,137**	**215,209**	**4**	**-**	**777,723**
Subordinated liabilities	**-**	**-**	**-**	**34,821**	**19,999**	**-**	**54,820**
Accrued interest expense (incl. in accruals and deferred income)	**400**	**567**	**1,323**	**50**	**-**	**-**	**2,340**
Lease liabilities (incl. in other liabilities)	**176**	**388**	**2,328**	**6,677**	**2,437**	**-**	**12,006**
Bills payable (incl. in other liabilities)	**5,649**	**-**	**-**	**-**	**-**	**-**	**5,649**
Amounts due to related parties (incl. in other liabilities)	**-**	**-**	**-**	**-**	**-**	**43,660**	**43,660**
Total financial liabilities	**1,160,284**	**87,614**	**289,453**	**256,757**	**22,440**	**43,660**	**1,860,208**
Liquidity gap	**(919,724)**	**(47,185)**	**108,654**	**763,899**	**207,803**		
Cumulative liquidity gap	**(919,724)**	**(966,909)**	**(858,255)**	**(94,356)**	**113,447**		

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
- International Lending portfolio	-	5,685	126,604	1,392,444	-	-	1,524,733
- Local Lending portfolio	8,813	4,912	12,107	24,777	35,217	-	85,826
Investments – Treasury portfolio	-	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 (incl. in other assets)	-	-	-	-	-	15,801	15,801
Other receivables (incl. 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 (incl. in accruals and deferred income)	598	444	3,054	16	-	-	4,112
Bills payable (incl. in other liabilities)	4,551	-	-	-	-	-	4,551
Amounts due to related parties (incl. in other liabilities)	-	-	-	-	-	36,586	36,586
Total financial liabilities	381,725	1,106,623	321,785	256,737	44,945	36,586	2,148,401
Liquidity gap	(229,278)	(1,069,944)	(63,102)	1,471,250	22,225		
Cumulative liquidity gap	(229,278)	(1,299,222)	(1,362,324)	108,926	131,151		

Current accounts and savings deposits payable on demand or at short notice of the Group and Bank amounted to €1,167 million (31 March 2019: €734 million) and €260 million (31 March 2019: €270 million), respectively, as at 31 December 2019. This amount is disclosed within the 'Not more than 1 month' maturity grouping. As at 31 December 2019 savings deposits with a withdrawal notice period of one month amounting to €6 million (31 March 2019: €7 million) and €790 thousand (31 March 2019: €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 December 2019 savings deposits with a withdrawal notice period of three to six months amounting to €571 million (31 March 2019: €623 million) and €134 million (31 March 2019: €137 million) for the Group and the Bank respectively, are disclosed within the 'Between 3 months and 1 year' maturity grouping. Furthermore, as at 31 December 2019, savings deposits with a withdrawal notice period of one year for the Group and the Bank amounting to €269 million (31 March 2019: €240 million) and €78 million (31 March 2019: €55 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 December 2019, unencumbered financial assets classified as investments measured at fair value through other comprehensive income), with a carrying amount of €175 million (31 March 2019: €223 million) and €110 million (31 March 2019: €84 million) for the Group and the Bank respectively and investments measured at amortised cost with a carrying amount of €223 million (31 March 2019: €258 million) and €157 million (31 March 2019: €181 million) for the Group and the Bank respectively, form part of the high quality liquid asset portfolio for LCR purposes. Accordingly, they may be liquidated within one month.

The Group's and Bank's cash from margin balances amounting to €14.1 million (31 March 2019: €26.4 million) and €3.59 million (31 March 2019: €15.52 million), respectively, 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 December 2019							
Non-derivative liabilities							
Amounts owed to financial institutions							
- Due to clearing houses	**220,000**	**219,566**	**139,859**	**29,964**	**49,743**	**-**	**-**
- Due to other banks	**4,012**	**4,012**	**4,012**	**-**	**-**	**-**	**-**
Amounts owed to customers	**2,439,126**	**2,605,361**	**1,200,625**	**87,151**	**723,434**	**591,757**	**2,394**
Subordinated liabilities	**54,820**	**70,343**	**-**	**-**	**2,444**	**44,801**	**23,098**
Lease liabilities (included in other liabilities)	**17,663**	**19,006**	**59**	**812**	**4,035**	**10,758**	**3,342**
Bills payable (included in other liabilities)	**5,649**	**5,649**	**5,649**	**-**	**-**	**-**	**-**
	2,741,270	**2,923,937**	**1,350,204**	**117,927**	**779,656**	**647,316**	**28,834**
31 March 2019							
Non-derivative liabilities							
Amounts owed to financial institutions							
- Due to clearing houses	195,000	194,693	89,899	14,973	89,821	-	-
- Due to other banks	3,887	3,887	3,887	-	-	-	-
Amounts owed to customers	2,202,091	2,409,957	831,193	123,177	783,651	671,936	-
Subordinated liabilities	67,138	87,186	-	-	26,582	10,121	50,483
Bills payable (included in other liabilities)	4,551	4,551	4,551	-	-	-	-
	2,472,667	2,700,274	929,530	138,150	900,054	682,057	50,483

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 December 2019							
Non-derivative liabilities							
Amounts owed to financial institutions							
- Due to clearing houses	**220,000**	**219,306**	**139,869**	**29,964**	**49,473**	**-**	**-**
- Due to other banks	**741,647**	**741,647**	**741,647**	**-**	**-**	**-**	**-**
Amounts owed to customers	**777,723**	**870,286**	**274,224**	**59,539**	**261,175**	**275,344**	**4**
Subordinated liabilities	**54,820**	**70,343**	**-**	**-**	**2,444**	**44,801**	**23,098**
Lease liabilities (included in other liabilities)	**12,006**	**13,522**	**177**	**392**	**2,391**	**8,605**	**1,957**
Bills payable (included in other liabilities)	**5,649**	**5,649**	**5,649**	**-**	**-**	**-**	**-**
	1,811,845	**1,920,753**	**1,161,566**	**89,895**	**315,483**	**328,750**	**25,059**
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

The following is an analysis of undiscounted cash flows relating to the Group's and Bank'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 December 2019							
Derivative assets							
Derivative financial instruments							
- Interest rate swaps	**536**	**527**	**-**	**-**	**(56)**	**(300)**	**883**
- Foreign exchange swaps	**1,036**	**699**	**806**	**25**	**(132)**	**-**	**-**
Inflows		**109,442**	**58,642**	**2,697**	**48,103**	**-**	**-**
Outflows		**(108,743)**	**(57,836)**	**(2,672)**	**(48,235)**	**-**	**-**
- Other derivative financial instruments (no maturity)	**448**	**-**	**-**	**-**	**-**	**-**	**-**
	2,020	**1,226**	**806**	**25**	**(188)**	**(300)**	**883**
Derivative liabilities							
Derivative financial instruments							
- Foreign exchange swaps	**4,182**	**(4,769)**	**(1,049)**	**(1,880)**	**(1,840)**	**-**	**-**
Inflows		**155,260**	**15,259**	**31,841**	**108,160**	**-**	**-**
Outflows		**(160,029)**	**(16,308)**	**(33,721)**	**(110,000)**	**-**	**-**
	4,182	**(4,769)**	**(1,049)**	**(1,880)**	**(1,840)**	**-**	**-**

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

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 December 2019							
Derivative assets							
Derivative financial instruments							
- Interest rate swaps	**223**	**223**	**-**	**-**	**-**	**223**	**-**
- Foreign exchange swaps	**5,555**	**5,827**	**3,712**	**25**	**2,090**	**-**	**-**
Inflows		**294,686**	**125,645**	**2,697**	**166,344**	**-**	**-**
Outflows		**(288,859)**	**(121,933)**	**(2,672)**	**(164,254)**	**-**	**-**
- Others (no maturity)	**448**	**-**	**-**	**-**	**-**	**-**	**-**
	6,226	**6,050**	**3,712**	**25**	**2,090**	**223**	**-**
Derivative liabilities							
Derivative financial instruments							
- Foreign exchange swaps	**2,363**	**(2,641)**	**(644)**	**(1,110)**	**(887)**	-	-
Inflows		**95,347**	**18,915**	**21,435**	**54,997**	**-**	**-**
Outflows		**(97,988)**	**(19,559)**	**(22,545)**	**(55,884)**	**-**	**-**
	2,363	**(2,641)**	**(644)**	**(1,110)**	**(887)**	**-**	**-**

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)

2.3.5 Encumbered assets

The following tables set out the availability of the Group's and Bank'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 December 2019					
Balances with central banks and cash	**-**	**-**	**241,726**	**-**	**241,726**
Derivative financial instruments	**-**	**-**	**-**	**2,020**	**2,020**
Loans and advances to financial institutions	**45,507**	**43,535**	**-**	**134,245**	**223,287**
Loans and advances to customers – corporate	**-**	**-**	**-**	**1,359,377**	**1,359,377**
- International Lending portfolio	**-**	**-**	**-**	**1,137,273**	**1,137,273**
- Local Lending portfolio	**-**	**-**	**-**	**88,962**	**88,962**
- Dutch Mortgage portfolio	**-**	**-**	**-**	**133,142**	**133,142**
Investments	**519,496**	**-**	**410,995**	**253,626**	**1,184,117**
- Treasury portfolio	**519,496**	**-**	**410,995**	**-**	**930,491**
- Securitisation portfolio	**-**	**-**	**-**	**253,626**	**253,626**
Accrued income	**-**	**-**	**-**	**14,381**	**14,381**
Loans and advances to related parties (included in other assets)	**-**	**-**	**-**	**13,044**	**13,044**
Other receivables (included in other assets)	**-**	**-**	**-**	**34,336**	**34,336**
	565,003	**43,535**	**652,721**	**1,811,029**	**3,072,288**
31 March 2019					
Balances with central banks and cash	52	-	146,862	74	146,988
Derivative financial instruments	-	-	-	716	716
Loans and advances to financial institutions	43,274	26,420	-	48,745	118,439
Loans and advances to customers – corporate	-	-	-	1,842,555	1,842,555
- International Lending portfolio	-	-	-	1,756,729	1,756,729
- Local Lending portfolio	-	-	-	85,826	85,826
Investments – Treasury portfolio	204,776	4,917	480,888	-	690,581
Accrued income	-	-	-	16,800	16,800
Loans and advances to related parties (included in other assets)	-	-	-	15,305	15,305
Other receivables (included in other assets)	-	-	-	6,105	6,105
	248,102	31,337	627,750	1,930,300	2,837,489

Bank	Encumbered		Unencumbered		
	Pledged as collateral	Other*	Available as collateral	Other**	Total
	€000	€000	€000	€000	€000
31 December 2019					
Balances with central bank and cash	**-**	**-**	**32,757**	**-**	**32,757**
Derivative financial instruments	**-**	**-**	**-**	**6,226**	**6,226**
Loans and advances to financial institutions	**44,440**	**6,791**	**-**	**103,262**	**154,493**
Loans and advances to customers – corporate	**-**	**-**	**-**	**1,088,688**	**1,088,688**
- International Lending portfolio	**-**	**-**	**-**	**999,726**	**999,726**
- Local Lending portfolio	**-**	**-**	**-**	**88,962**	**88,962**
Investments	**231,960**	**-**	**279,781**	**127,887**	**639,628**
- Treasury portfolio	**231,960**	**-**	**279,781**	**-**	**511,741**
- Securitisation portfolio	**-**	**-**	**-**	**127,887**	**127,887**
Accrued income	**-**	**-**	**-**	**11,998**	**11,998**
Loans and advances to related parties (included in other assets)	**-**	**-**	**-**	**13,874**	**13,874**
Other receivables (included in other assets)	**-**	**-**	**-**	**1,703**	**1,703**
	276,400	**6,791**	**312,538**	**1,353,638**	**1,949,367**
31 March 2019					
Balances with central bank and cash	52	-	28,675	74	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	-	-	-	1,610,559	1,610,559
- International Lending portfolio	-	-	-	1,524,733	1,524,733
- Local Lending portfolio	-	-	-	85,826	85,826
Investments – Treasury portfolio	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	294,068	1,697,423	2,264,618

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

2.4 Market risk

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

2.4.1 Management of market risks

Management of market risk is the responsibility of the Group's Treasury team and is overseen by the Risk team, under the oversight of the Group's ALCO and the Board Risk Committee, and as set out in the foreign exchange ("FX") risk policy and Interest Rate Risk in the Banking Book ("IRRBB") policy.

2.4.2 Foreign exchange risk

FX risk is the risk that the value of the Group's positions may fluctuate due to movements in underlying foreign currency exchange rates. The Group seeks to minimise FX risk and thus hedges all major exposures in accordance with its risk appetite. The Group is mainly exposed to currency risk on FX movements relating to the US Dollar and GB Pound, originating from the Group's corporate banking business. In the majority of cases, the Group hedges this risk by ensuring that its foreign currency denominated liabilities are matched with corresponding assets in the same currency. Any mismatches that arise are monitored closely. The Group's Treasury team is permitted to use spots, forwards and swaps in order to hedge the Group's FX risk.

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

Group

	EUR currency €000	GBP currency €000	USD currency €000	Other €000	Total €000
As at 31 December 2019					
Financial assets					
Balances with central banks and cash	241,726	-	-	-	241,726
Derivative financial instruments	984	150	620	266	2,020
Loans and advances to financial institutions	148,423	24,555	44,546	5,763	223,287
Loans and advances to customers	1,018,253	319,855	19,427	1,842	1,359,377
- International Lending portfolio	796,149	319,855	19,427	1,842	1,137,273
- Local Lending portfolio	88,962	-	-	-	88,962
- Dutch Mortgage portfolio	133,142	-	-	-	133,142
Investments	1,178,232	5,885	-	-	1,184,117
- Treasury portfolio	924,606	5,885	-	-	930,491
- Securitisation portfolio	253,626	-	-	-	253,626
Accrued income	12,599	1,286	436	60	14,381
Loans to related parties (included in other assets)	13,017	27	-	-	13,044
Other receivables (included in other assets)	32,533	-	1,803	-	34,336
	2,645,767	351,758	66,832	7,931	3,072,288
Financial liabilities					
Derivative financial instruments	-	4,181	1	-	4,182
Amounts owed to financial institutions	223,576	-	436	-	224,012
Amounts owed to customers	2,271,940	127,696	20,884	18,606	2,439,126
Subordinated liabilities	50,580	4,240	-	-	54,820
Accrued interest expense (included in accruals and deferred income)	6,690	547	25	56	7,318
Bills payable (included in other liabilities)	5,649	-	-	-	5,649
Amounts owed to related parties (included in other liabilities)	3,350	-	-	-	3,350
	2,561,785	136,664	21,346	18,662	2,738,457
Net on-balance sheet financial position		215,094	45,486	(10,731)	
Notional of derivative financial instruments		(217,177)	(44,442)	11,025	
Residual exposure		(2,083)	1,044	294	

Group

	EUR 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	1,795	1,842,555
- International Lending portfolio	1,256,666	469,271	28,997	1,795	1,756,729
- Local Lending portfolio	81,965	23	3,838	-	85,826
Investments – Treasury portfolio	684,779	5,802	-	-	690,581
Accrued income	13,582	2,902	296	20	16,800
Loans to related parties (included in other assets)	15,290	15	-	-	15,305
Other receivables (included in other assets)	11,217	576	(5,688)	-	6,105
	2,276,382	489,091	64,164	7,852	2,837,489
Financial liabilities					
Derivative financial instruments	504	10,443	380	-	11,327
Amounts owed to financial institutions	196,883	1,567	437	-	198,887
Amounts owed to customers	2,033,824	125,583	24,093	18,591	2,202,091
Subordinated liabilities	60,648	6,490	-	-	67,138
Accrued interest expense (included in accruals and deferred income)	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	

Bank

	EUR Currency €000	GBP currency €000	USD currency €000	Other €000	Total €000
As at 31 December 2019					
Financial assets					
Balances with central banks and cash	**32,757**	**-**	**-**	**-**	**32,757**
Derivative financial instruments	**671**	**4,669**	**620**	**266**	**6,226**
Loans and advances to financial institutions	**91,270**	**16,466**	**41,397**	**5,360**	**154,493**
Loans and advances to customers	**818,911**	**248,741**	**19,194**	**1,842**	**1,088,688**
- International Lending portfolio	**729,949**	**248,741**	**19,194**	**1,842**	**999,726**
- Local Lending portfolio	**88,962**	**-**	**-**	**-**	**88,962**
Investments	**633,743**	**5,885**	**-**	**-**	**639,628**
- Treasury portfolio	**505,856**	**5,885**	**-**	**-**	**511,741**
- Securitisation portfolio	**127,887**	**-**	**-**	**-**	**127,887**
Accrued income	**10,355**	**1,147**	**436**	**60**	**11,998**
Loans to related parties (included in other assets)	**13,364**	**94**	**416**	**-**	**13,874**
Other receivables (included in other assets)	**-**	**-**	**1,703**	**-**	**1,703**
	1,601,071	**277,002**	**63,766**	**7,528**	**1,949,367**
Financial liabilities					
Derivative financial instruments	**-**	**2,363**	**-**	**-**	**2,363**
Amounts owed to financial institutions	**772,976**	**188,235**	**436**	**-**	**961,647**
Amounts owed to customers	**616,494**	**125,658**	**17,680**	**17,891**	**777,723**
Subordinated liabilities	**50,580**	**4,240**	**-**	**-**	**54,820**
Accrued interest expense (included in accruals and deferred income)	**1,712**	**548**	**24**	**56**	**2,340**
Bills payable (included in other liabilities)	**5,649**	**-**	**-**	**-**	**5,649**
Amounts owed to related parties (included in other liabilities)	**38,956**	**3,843**	**451**	**410**	**43,660**
	1,486,367	**324,887**	**18,591**	**18,357**	**1,848,202**
Net on-balance sheet financial position		**(47,885)**	**45,175**	**(10,829)**	
Notional of derivative financial instruments		**46,008**	**(44,558)**	**11,062**	
Residual exposure		**(1,877)**	**617**	**233**	

Bank

	EUR 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	1,236,732	339,197	32,835	1,795	1,610,559
- International Lending portfolio	1,154,767	339,174	28,997	1,795	1,524,733
- Local Lending portfolio	81,965	23	3,838	-	85,826
Investments – Treasury portfolio	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)	11,218	501	(5,688)	-	6,031
	1,831,048	361,837	64,034	7,699	2,264,618
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 (included in accruals and deferred income)	3,303	743	11	55	4,112
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	18,535	2,148,401
Net on-balance sheet financial position		(714)	41,421	(10,836)	
Notional of derivative financial instruments		373	(41,903)	11,683	
Residual exposure		(341)	(482)	847	

The Group and Bank uses derivative financial instruments to hedge movements in foreign exchange rates by entering into derivative contracts with notional amounts which substantially reflect the net exposure in each currency. As a result the Group 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 Group's and MeDirect Belgium's Interest Rate Risk in Banking Book (IRRBB) position is managed through the 3 lines of defence: 1st line being ALM function together with MeDirect Group/Belgium Treasury, 2nd line being Risk, 3rd line being Internal Audit. It is managed according to the Group's/MeDirect Belgium's IRRBB policy with limits established by the risk function and monitored by both the 1st and 2nd lines of defence.

The monitoring/reporting activity is reviewed and managed independently by Group/MeDirect Belgium ALCO for the 1st line of defence, by the Risk Committee for the 2nd line of defence, and by the Audit Committee for the 3rd line of defence.

Interest rate risk is managed by comparing the interest rate risk profile of assets with the profile of liabilities, and by hedging unmatched interest rate risk arising in the balance sheet by purchasing interest rate derivatives, primarily interest rate swaps.

Interest rate risk reporting and analysis

As part of its monitoring duties, the Group's Risk team prepares and reports on the Group's interest rate risk position on a monthly basis. The report outputs show the effects of a number of the interest rate shocks prescribed by the regulator on the:

- Projected net interest margin –∆NII;
- Group's capital position –∆EVE; and
- Time bucket sensitivity – PV01.

The Group 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 December 2019						
Balances with central banks	**241,723**	**241,723**	-	-	-	-
Loans and advances to financial institutions	**223,287**	**223,287**	-	-	-	-
Loans and advances to customers	**1,359,377**	**980,590**	**245,645**	**988**	**-**	**132,154**
- International Lending portfolio	**1,137,273**	**927,804**	**209,469**	**-**	**-**	**-**
- Local Lending portfolio	**88,962**	**52,786**	**36,176**	**-**	**-**	**-**
- Dutch Mortgage portfolio	**133,511**	**-**	**-**	**988**	**-**	**132,523**
- IFRS basis adjustment: Dutch Mortgage portfolio	**(369)**	**-**	**-**	**-**	**-**	**(369)**
Investments	**1,182,670**	**97,184**	**230,139**	**340,771**	**349,796**	**164,780**
– Treasury portfolio	**930,491**	**43,739**	**31,405**	**340,771**	**349,796**	**164,780**
– Securitisation portfolio	**252,179**	**53,445**	**198,734**	**-**	**-**	**-**
	3,007,057	**1,542,784**	**475,784**	**341,759**	**349,796**	**296,934**
Amounts owed to financial institutions:	**224,012**	**174,012**	**50,000**	**-**	**-**	**-**
- Due to clearing houses	**220,000**	**170,000**	**50,000**	**-**	**-**	**-**
- Due to other banks	**4,012**	**4,012**	**-**	**-**	**-**	**-**
Amounts owed to customers	**2,439,126**	**1,281,003**	**695,376**	**366,620**	**95,300**	**827**
Subordinated liabilities	**54,820**	**-**	**-**	**-**	**54,820**	**-**
	2,717,958	**1,455,015**	**745,376**	**366,620**	**150,120**	**827**
Interest rate repricing gap		**87,769**	**(269,592)**	**(24,861)**	**199,676**	**296,107**
Impact of hedging interest rate derivatives – notional amounts	**536**	**(119,800)**	**-**	**22,500**	**(58,600)**	**(38,700)**
Net interest rate repricing gap		**(32,031)**	**(269,592)**	**(2,361)**	**141,076**	**257,407**

Group		Repricing in:				
	Carrying amount	Not more than 3 months	Between 3 months to 1 year	Between 1 and 3 years	Between 3 and 5 years	More than 5 years
	€000	€000	€000	€000	€000	€000
As at 31 March 2019						
Balances with central banks	146,985	146,985	-	-	-	-
Loans and advances to financial institutions	118,439	118,439	-	-	-	-
Loans and advances to customers	1,842,555	1,642,610	199,930	15	-	-
- International Lending portfolio	1,756,729	1,565,228	191,501	-	-	-
- Local Lending portfolio	85,826	77,382	8,429	15	-	-
Investments – Treasury portfolio	690,581	104,923	121,735	270,194	67,741	125,988
	2,798,560	2,012,957	321,665	270,209	67,741	125,988
Amounts owed to financial institutions:	198,887	108,887	90,000	-	-	-
- Due to clearing houses	195,000	105,000	90,000	-	-	-
- Due to other banks	3,887	3,887	-	-	-	-
Amounts owed to customers	2,202,091	936,052	738,120	437,928	89,991	-
Subordinated liabilities	67,138	-	47,174	-	19,964	-
	2,468,116	1,044,939	875,294	437,928	109,955	-
Interest rate repricing gap		968,018	(553,629)	(167,719)	(42,214)	125,988
Impact of hedging interest rate derivatives – notional amounts	(504)	(119,000)	-	65,000	43,000	(11,000)
Net interest rate repricing gap		849,018	(553,629)	(102,719)	786	114,988

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 December 2019						
Balances with central banks	32,754	32,754	-	-	-	-
Loans and advances to financial institutions	154,493	154,493	-	-	-	-
Loans and advances to customers	1,088,688	853,882	234,806	-	-	-
- International Lending portfolio	999,726	801,096	198,630	-	-	-
- Local Lending portfolio	88,962	52,786	36,176	-	-	-
Investments	638,181	93,175	78,878	230,675	133,175	102,278
- Treasury portfolio	511,741	39,729	5,884	230,675	133,175	102,278
- Securitisation portfolio	126,440	53,446	72,994	-	-	-
	1,914,116	1,134,304	313,684	230,675	133,175	102,278
Amounts owed to financial institutions:	961,647	911,647	50,000	-	-	-
- Due to clearing houses	220,000	170,000	50,000	-	-	-
- Due to other banks	741,647	741,647	-	-	-	-
Amounts owed to customers	777,723	327,372	235,138	162,350	52,859	4
Subordinated liabilities	54,820	-	-	-	54,820	-
	1,794,190	1,239,019	285,138	162,350	107,679	4
Interest rate repricing gap		(104,715)	28,546	68,325	25,496	102,274
Impact of hedging interest rate derivatives – notional amounts	223	119,000	-	(65,000)	(43,000)	(11,000)
Net interest rate repricing gap		14,285	28,546	3,325	(17,504)	91,274

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	-	-
- International Lending portfolio	1,524,733	1,356,331	168,402	-	-	-
- Local Lending portfolio	85,826	77,382	8,429	15	-	-
Investments – Treasury portfolio	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:	1,228,871	1,138,871	90,000	-	-	-
- 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		499	(50,660)	13,084	(7,702)	20,791

The Group's exposure to interest rate risk arises predominantly from its asset/liability structure, specifically the lag which exists between the Group's International Lending portfolio that reprices periodically (generally every three months) and the term structure of customer deposits, as well as from possible impacts on the Mark-to-Market ("MtM") value of its fixed rate instruments if market interest rates increase. The presence of interest rate floors embedded in the majority of the International Lending portfolio enables the Group to mitigate its repricing risk from the Group's asset/liability structure, whilst the Group generally hedges the repricing risk from its financial assets, namely the treasury securities, and wholesale repo funding.

With the introduction of the new Dutch Mortgage business line in September 2019, the Group's and MeDirect Belgium's exposure to interest rate risk increased due to the fixed interest rate nature of the product. The risk is managed through a hedging strategy which uses a series of plain vanilla interest rate swaps that form a run-off profile matching a mortgage portfolio run-off profile with behavioural pre-payment assumptions.

The Group's Securitisation Investment portfolio comprises an investment in the equity tranche of GH1-2019 amounting to €1.4 million. The returns relating to this financial instrument are variable, with repayments being equivalent to any residual amounts after the commitments relating to more senior tranches in GH1-2019 are repaid. In this regard, this financial instrument is not deemed to be subject to interest rate risk and has been excluded from the table above accordingly.

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

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

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

31 December 2019

- NIM would decrease by €2.4 million / increase by €12.4 million.
- Economic value would increase by €13 million / decrease by €4.0 million.

31 March 2019

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

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

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

- Interest bearing assets are assumed to mature on their expected maturity and are not replaced for the ∆EVE purposes (run off balance sheet);
- Interest bearing assets are assumed to mature on their expected maturity and are replaced on like for like basis for the ∆NII purposes (constant balance sheet);
- The rate index on the Senior Secured Loan book is predominantly floored at zero and hence due to the prevailing euro negative rate environment the shift down scenario does not result in loss of interest income. On the other hand, the 1% shift up scenario will not yield 1% more income as the rate index lifts itself from below zero.
- The Group will not change deposit rates in the next 12 months even if there is an increase or decrease in ECB base rate;
- There is an implicit zero floor option on retail customer deposits as the Group will not charge negative rates to the retail segment of its customer base;
- The ∆ NII and ∆ EV metrics include the effect of changes in value of the automatic options embedded in the banking book assets; and
- Customer deposits follow their behavioural schedule.

Interest rate movements affect reported equity in the following ways:

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

2.5 Operational risk

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

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

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

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management within each 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 December 2019 were calculated at €132.0 million (31 March 2019: €128.7 million).

2.6 Capital management - regulatory capital

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

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

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

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

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

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

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

The Regulatory Group has complied with all externally imposed capital requirements throughout the 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 from the instrument;
- selecting an appropriate discount rate for the instrument; and
- judgement to determine what model to use to calculate fair value in areas where the choice of valuation model is particularly subjective.

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

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

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

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

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

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

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

2.7.3 Financial instruments measured at fair value

The following table analyses financial instruments measured at fair value at the end of the reporting period, 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 December 2019**				As at 31 March 2019			
	Level 1	**Level 2**	**Level 3**	**Total**	Level 1	Level 2	Level 3	Total
	€000	**€000**	**€000**	**€000**	€000	€000	€000	€000
Assets								
Investments measured at fair value through other comprehensive income								
- Treasury portfolio	**500,292**	**-**	**-**	**500,292**	265,572	-	-	265,572
Investments mandatorily measured at fair value through profit or loss								
- Securitisation portfolio	**-**	**-**	**1,447**	**1,447**	-	-	-	-
Derivative financial instruments	**-**	**2,020**	**-**	**2,020**	-	716	-	716
Total financial assets	**500,292**	**2,020**	**1,447**	**503,759**	265,572	716	-	266,288
Liabilities								
Derivative financial instruments	**-**	**4,182**	**-**	**4,182**	-	11,327	-	11,327

Bank	**As at 31 December 2019**				As at 31 March 2019			
	Level 1	**Level 2**	**Level 3**	**Total**	Level 1	Level 2	Level 3	Total
	€000	**€000**	**€000**	**€000**	€000	€000	€000	€000
Assets								
Investments measured at fair value through other comprehensive income								
- Treasury portfolio	**157,894**	**-**	**-**	**157,894**	126,742	-	-	126,742
Investments mandatorily measured at fair value through profit or loss								
- Securitisation portfolio	**-**	**-**	**1,447**	**1,447**	-	-	-	-
Derivative financial instruments	**-**	**6,226**	**-**	**6,226**	-	5,088	-	5,088
Total financial assets	**157,894**	**6,226**	**1,447**	**165,567**	126,742	5,088	-	131,830
Liabilities								
Derivative financial instruments	**-**	**2,363**	**-**	**2,363**	-	7,989	-	7,989

As at 31 December 2019 and 31 March 2019, the fair value of debt securities within the Treasury Investment portfolio represents the closing bid price quoted in an active market, and such instruments are therefore categorised as Level 1 assets.

Level 2 assets principally comprise derivatives held for risk management that are fair valued based on valuation models with the key methodology utilised comprising the calculation of the net present value of a series of expected cash flows, taking into account the different terms of each specific contract/instrument (discounted cash flow approach). These models use as their basis independently sourced market parameters including, for example, interest rate yield curves. Market parameters are either directly observable or are implied from observable instrument prices. The model may perform numerical procedures in respect of pricing such as interpolation when input values do not directly correspond to the most active market trade parameters.

Level 3 assets consist of the Group's investment in the equity tranche of GH1-2019, for which a fair value is determined using third party valuation models to estimate the net present value of a series of expected cash flows, taking into consideration instrument-specific contractual terms (discounted cash flow approach). Amongst other things, these models take into consideration the characteristics of the underlying portfolio of assets (including quality of underlying assets), historical portfolio performance, and the liability structure of the CLO transaction. These models also make use of independently sourced market parameters including, for example, interest rate yield curves.

In view of the size of the Group's exposure to level 3 assets, the directors determined that any changes in unobservable inputs to underlying models will not result in a significantly higher or lower fair value of such assets. Accordingly, a sensitivity analysis of the fair value measurement to changes in unobservable inputs is not deemed relevant.

2.7.3.1 Transfers between levels

The Group recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the transfer has occurred.

There were no transfers between levels of the fair value hierarchy during the financial periods ended 31 December 2019 and 31 March 2019.

2.7.4 Financial instruments not measured at fair value

The following table sets out the fair values of financial instruments not measured at fair value and analyses them in terms of the respective level within the fair value hierarchy into which the respective fair value measurement is categorised. This table includes only financial instruments in respect of which fair value is estimated to be materially different than the carrying amounts.

Group	**As at 31 December 2019**				
	Level 1	**Level 2**	**Level 3**	**Total fair values**	**Total carrying amount**
	€000	**€000**	**€000**	**€000**	**€000**
Assets					
Loans and advances to customers – International Lending portfolio	**-**	**301,211**	**428,298**	**729,509**	**764,033**
Investments	**417,193**	**-**	**252,449**	**669,642**	**670,176**
- Treasury portfolio	**417,193**	**-**	**-**	**417,193**	**417,997**
- Securitisation portfolio	**-**	**-**	**252,449**	**252,449**	**252,179**
Total financial assets	**417,193**	**301,211**	**680,747**	**1,399,151**	**1,434,209**
Liabilities					
Subordinated liabilities	**56,756**	**-**	**-**	**56,756**	**54,820**

	As at 31 March 2019				
	Level 1	Level 2	Level 3	Total fair values	Total carrying amount
	€000	€000	€000	€000	€000
Assets					
Loans and advances to customers – International Lending portfolio	-	818,870	472,437	1,291,307	1,305,771
Investments – Treasury portfolio	423,187	-	-	423,187	425,009
Total financial assets	423,187	818,870	472,437	1,714,494	1,730,780
Liabilities					
Subordinated liabilities	68,595	-	-	68,595	67,138

Bank

	As at 31 December 2019				
	Level 1	Level 2	Level 3	Total fair values	Total carrying amount
	€000	€000	€000	€000	€000
Assets					
Loans and advances to customers – International Lending portfolio	**-**	**257,361**	**392,762**	**650,123**	**680,640**
Investments	**340,980**	**-**	**126,592**	**467,572**	**468,085**
- Treasury portfolio	**340,980**	**-**	**-**	**340,980**	**341,645**
- Securitisation portfolio	**-**	**-**	**126,592**	**126,592**	**126,440**
Total financial assets	**340,980**	**257,361**	**519,354**	**1,117,695**	**1,148,725**
Liabilities					
Subordinated liabilities	**56,756**	**-**	**-**	**56,756**	**54,820**

	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 – International Lending portfolio	-	720,401	416,172	1,136,573	1,148,633
Investments – Treasury portfolio	346,647	-	-	346,647	348,344
Total financial assets	346,647	720,401	416,172	1,483,220	1,496,977
Liabilities					
Subordinated liabilities	68,595	-	-	68,595	67,138

The Level 1 fair values reflected in the tables above consist of the closing bid price quoted in an active market in respect of debt securities classified under the Treasury Investment portfolio and subordinated bonds issued by the Group.

The Level 2 and Level 3 fair value disclosures of the International Lending portfolio mainly comprise price quotations sourced from an online platform in respect of internationally traded loans and advances, consisting of the Group's international loan book with foreign corporates. Loans and advances to customers forming part of the International Lending portfolio amounting to €373 million (31 March 2019: €451 million), net of expected credit losses, and a corporate debt security within the Treasury Investment portfolio, with a carrying amount of €12.2 million (31 March 2019: nil), have not been reflected within the preceding table given that there were no observable market prices or any public information available but the contractual terms of these instruments, that mainly re-price within three months, and the nature of the borrowers, are similar to those of the instruments in the preceding table and thus their fair valuation characteristics would not differ significantly from those of the instruments included in the preceding table.

The Level 3 assets also include the Group's investments in tranches of securitisation structures amounting to €253.6 million which are mainly rated AAA, and for which a fair value is determined using third party valuation models to estimate the net present value of a series of expected cash flows, taking into consideration instrument-specific contractual terms (discounted cash flow approach). Amongst other things, these models take into consideration the characteristics of the underlying portfolio of assets (including quality of underlying assets), historical portfolio performance, and the liability structure of the CLO transaction. These models also make use of independently sourced market parameters including, for example, interest rate yield curves.

Furthermore, Dutch mortgages amounting to €133 million (31 March 2019: nil) included in Loans and advances to customers were not reflected in the preceding table since the fair value is not deemed to differ significantly from their carrying amount at the reporting date given that this portfolio is still in its infancy with these mortgages having been originated at the end of September.

As at 31 December 2019, the carrying amount for loans and advances to customers classified under the Local Lending portfolio amounting to €88.9 million (31 March 2019: €85.8 million) approximates their fair value because these loans are repriceable at the Group's discretion.

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

All exposures classified under loans and advances to financial institutions amounting to €223.3 million (31 March 2019: €118.7 million), and balances with central banks amounting to €241.7 million as at 31 December 2019 (31 March 2019: €147.0 million), reprice or mature in less than one year. Hence their fair value is not deemed to differ materially from their carrying amount at the reporting date.

Fair values referred to above are estimated using discounted cash flows, applying market rates. These estimates are considered Level 3 fair value estimates.

The majority of the 'Amounts owed to financial institutions' of the Group and the Bank as at 31 December 2019 amounting to €224 million (31 March 2019: €198.9 million) and €961 million (31 March 2019: €1.2 billion), respectively, and 'Amounts owed to customers' of the Group and the Bank amounting to €1.7 billion (31 March 2019: €1.7 billion) and €562.5 million (31 March 2019: €542.8 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 3 fair value estimates. The fair value of a demand deposit is not less than the amount payable on demand, discounted from the first date on which the amount payable is required to be paid.

3. Accounting estimates and judgements

3.1 Critical accounting estimates and judgements in applying the Group's accounting policies

Estimates and judgements are continually evaluated and based on historical experience and other factors including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. These estimates and assumptions present a risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year. The Group's management also makes judgements, apart from those involving estimations, in the process of applying the entity's accounting policies that may have a significant effect on the amounts recognised in the financial statements.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

Information about assumptions, estimations and uncertainties that have a significant risk of resulting in a material adjustment in the year ending 31 December 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, for the purposes of supporting the expected life assumption applied to each loan. Consequently, the Group determines loan expected life assumptions on the basis of its forecasting process, which takes into account historical data but also the Group's expertise and experience in this specialised lending sector. Any changes in the expected loan life assumptions are based on management's assessment of emerging market trends (for instance changes in market interest rates and the ability of the borrower to re-finance in the circumstances) and borrower specific information that indicates changes to repayment profiles and the extent of such changes.

3.3 Expected credit losses on loans and advances to customers

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

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

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

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

Defaulted exposures in both International and Local Lending portfolios are assessed on their own merits. Estimates of recoverable cash flows are independently reviewed and approved by the Group's credit risk function.

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

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

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

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

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

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

Management also applies judgement in the determination and modelling of any management overlays, specifically to these financial statements an overlay applied to UK exposures within the international lending portfolio in respect of the level of political and economic uncertainty which exists in the geographical area at the moment due to Brexit. In this regard, a significant level of judgement is required in order to first evaluate the appropriateness of the model output, which is based on the application of a number of macroeconomic scenarios taking into consideration different Brexit outcomes, and then, on the basis of ongoing developments surrounding Brexit, determine if a management overlay is required through notch downgrades to TTC implied ratings as described in note 2.2.8.

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

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

3.4 Application of judgement in respect of the transfer of a part of the International Lending portfolio to a newly set up securitisation structure

During the financial period ended 31 December 2019, the Group changed its strategy in relation to a specific sub-portfolio of its International Lending portfolio, classified as hold to collect. The reasons for this change in business model were driven by the Group's intention to set up a securitisation structure as part of a new strategy as referred to below.

The Group's management made significant judgements in the process of applying the entity's accounting policies that had a significant effect on the amounts recognised in the financial statements in respect of this transfer.

The Group established a structured entity, Grand Harbour CLO 2019-1 Designated Activity Company ("GH1-2019"), and transferred a portfolio of leveraged loans totalling €296.9 million to this structured entity, derecognising these assets from the Group's statement of financial position. Subsequent to the transfer of this portfolio of loans, the structured entity issued structured notes to third party investors which are structured into separate tranches carrying different levels of risks depending on the seniority (credit rating of the tranche). MeDirect Malta acquired a 5% vertical slice of each of the tranches for "Risk Retention" purposes in accordance with Article 6 30 (a) of regulation EU 2017/2402 totalling €20.3 million, while MeDirect Belgium acquired a 35% share of the tranche with the highest credit rating (i.e. AAA) amounting to €87 million which share was subsequently sold during the financial period ended 31 December 2019.

The Group's change in intent in respect of this sub-portfolio was not deemed to constitute a reclassification event, since the Group's remaining hold to collect portfolio retained its classification and the abovementioned sale from the International Lending portfolio for the purpose of setting up a securitisation structure was classified as an isolated non-recurring event.

The Group entered into a Collateral Management Agreement with the structured entity to provide the structured entity with collateral management services. Under the Collateral Management Agreement, the collateral manager is primarily responsible for carrying out the following key functions on a daily basis:

a) Management of leveraged loans; and
b) In the event of default, minimisation of credit losses (e.g. through sale of loans to third parties).

In assessing whether the transfer of the leveraged loans portfolio qualifies for derecognition, an evaluation was performed by the Group based on the derecognition requirements of IFRS 9.

The Group's involvement as collateral manager requires it to perform the key day-today activities of the structured entity and although these activities are considered limited these were identified as the relevant activities of the business. Furthermore, the Group receives remuneration in relation to its services as collateral manager which together with its investment in 5% of each tranche issued by the structured entity, exposed the Group to variable returns.

Albeit, after considering the level of variability of returns from the activities of the structured entity to both the Group and other noteholders and the extent of powers conferred to the Group in its role as a collateral manager which would enable the Group to influence the amounts of returns from the structured entity, the Group concluded that the transferred portfolio qualifies for full derecognition. This is based on the fact that at the point of sale of such assets, more than 90% of economic variability had been transferred to third parties, the powers of the Group in relation to the structured entity were somewhat limited as well as on the basis that despite the existence of an incentive fee for its role as collateral manager, the Group determined that the returns from such services will be predominantly in the form of fixed management fees.

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

4. Balances with central banks and cash

	Group		Bank	
	31 December 2019	31 March 2019	**31 December 2019**	31 March 2019
	€000	€000	**€000**	€000
At amortised cost:				
Balances with central banks	**241,723**	146,985	**32,754**	28,798
Cash	**3**	3	**3**	3
	241,726	146,988	**32,757**	28,801

As at 31 December 2019, balances held with central banks include reserve deposits of the Group amounting to €19.9 million (31 March 2019: €123.6 million) relating to the Minimum Reserve Requirement in terms of Regulation (EC) No 1745/2003 of the ECB, of which €5.0 million (31 March 2019: €5.4 million) relates to MeDirect Malta. Balances with central banks bear interest at 0% per annum with the exception of overnight deposits with central banks amounting to €122.5 million (31 March 2019: €123.6 million) and €2.45 million (31 March 2019: €23.3 million) that were subject to a negative interest rate of 0.5% (31 March 2019: negative interest rate of 0.4%) per annum.

Balances with central banks in the table above are shown net of credit loss allowances amounting to €1 thousand as at 31 December 2019 (31 March 2019: €1 thousand) both for the Group and the Bank.

5. Derivative financial instruments

The Group, through MeDirect Malta, established derivative lines with counterparties to purchase interest rate caps, swaps and swaptions, foreign exchange swaps and other appropriate instruments approved for hedging risks.

The Group uses over-the-counter foreign exchange swaps to hedge its exposure to changes in foreign exchange rates. All foreign exchange swaps mature within 6 months (31 March 2019: 10 months) from the reporting date.

The Group and the Bank uses over-the-counter interest rate swaps to hedge its exposure to changes in the fair values of specific fixed rate securities attributable to changes in market interest rates (micro fair value hedging). Interest rate swaps are matched to fixed rate securities in designated fair value hedging transactions. The net losses on the related hedging instruments for the Group and the Bank during the period ended 31 December 2019 was €0.4 million (Year ended 31 March 2019: €2.0 million). The net gains on the hedged items arising during the period attributable to the hedged risk was €0.3 million (Year ended 31 March 2019: €1.5 million).

The Group also uses over-the-counter interest rate swaps to hedge its exposure to interest rate risk emanating from a portfolio of fixed-rate mortgages (see Note below – macro fair value hedging under the EU carve-out version of IAS 39). The net gains on the related hedging instruments during the period ended 31 December 2019 for the Group was €0.3 million (Year ended 31 March 2019: nil). The net losses on the hedged items arising during the period attributable to the hedged risk for the Group was €0.4 million (Year ended 31 March 2019: nil).

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

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

	Group		Bank	
	31 December 2019	31 March 2019	**31 December 2019**	31 March 2019
	€000	€000	**€000**	€000
Derivative financial assets	**2,020**	716	**6,226**	5,088
Derivative financial liabilities	**(4,182)**	(11,327)	**2,363**	(7,989)

The Group applies fair value hedge accounting on micro level in which one hedged item is hedged with one or multiple hedging instruments as well as on macro level whereby a portfolio of items is hedged with multiple hedging instruments. For macro hedges of interest rate risk the Group applies the EU 'carve-out' version of IAS 39. The EU 'carve-out' rules for macro hedging enable a group of derivatives (or proportions) to be viewed in combination and jointly designated as the hedging instrument and remove some of the limitations in fair value hedge accounting relating to hedging core deposits and under-hedging strategies. Within retail operations, interest rate exposures on retail funding (savings and current accounts) and retail lending (mortgages) are initially offset. The remaining exposure is hedged in a portfolio hedge, using the EU 'carve-out' version of IAS 39, in which a portion of the retail mortgage lending portfolio is designated as a hedged item for hedge accounting purposes. The Group applies the following types of hedge accounting:

Fair value hedges

Hedging the interest rate risk in the banking book (macro hedge)

The hedged portfolio comprises fixed-rate mortgages of MeDirect Belgium (refer to note 7). These are mortgages that have a fixed-rate interest period of more than six months. The hedging instruments are interest rate swaps entered into as part of interest rate risk management in the Asset and Liability Management ('ALM') process. The risk being hedged is the risk of change in fair value of the portfolio attributable to movements in market interest rates. Effectiveness assessments are performed on a retrospective and a prospective basis, using the dollar offset method.

Hedging the interest rate risk on investments (micro hedge)

The interest rate risk on specific fixed-income investments (refer to note 8), on an individual asset basis, is hedged by swapping the coupon to a floating interest rate using interest rate swaps. The country or credit spread is not hedged. The hedges provide protection for changes in fair value of the relevant fixed-income investments attributable to movements in market interest rates. Effectiveness assessments are performed on a retrospective and a prospective basis, using the dollar offset method.

The fair values of the held for trading derivatives and derivatives designated as hedging instruments in fair value hedges together with the related notional amounts, distinguishing between micro hedges and macro hedges for the purposes of hedge accounting, are as follows:

	Group				Bank			
	Notional	**Fair value**	Notional	Fair value	**Notional**	**Fair value**	Notional	Fair value
	31 December 2019	**31 December 2019**	31 March 2019	31 March 2019	**31 December 2019**	**31 December 2019**	31 March 2019	31 March 2019
	€000	**€000**	€000	€000	**€000**	**€000**	€000	€000
Derivatives held for trading – Assets								
Instrument type:								
- Foreign exchange swaps	**108,918**	**1,036**	34,894	268	**294,212**	**5,554**	226,968	4,640
- Other derivative financial instruments		**448**		448		**448**		448
		1,484		716		**6,002**		5,088
Derivatives held for trading – Liabilities								
Instrument type:								
- Foreign exchange swaps	**159,603**	**(4,182)**	409,258	(10,823)	**97,839**	**(2,363)**	350,701	(7,485)
Net derivatives held for trading		**(2,698)**		(10,107)		**3,639**		(2,397)
Derivatives designated as hedging instruments in fair value hedges – Assets/(Liabilities)								
Instrument type:								
- Interest rate swaps maturing in								
More than one year and less than five years								
- Micro hedges	**56,000**	**223**	108,000	(355)	**56,000**	**224**	108,000	(355)
- Macro hedges	**25,100**	**45**	-	-	**-**	**-**	-	-
More than five years – micro hedges	**38,700**	**268**	11,000	(149)	**-**	**-**	11,000	(149)
Net derivatives designated as hedging instruments in fair value hedges		**536**		(504)		**224**		(504)

6. Loans and advances to financial institutions

	Group		Bank	
	31 December 2019	31 March 2019	**31 December 2019**	31 March 2019
	€000	€000	**€000**	€000
At amortised cost:				
Repayable on call and at short notice	**213,896**	94,039	**148,363**	90,602
Term loans and advances	**9,391**	24,400	**6,130**	18,130
	223,287	118,439	**154,493**	108,732

As at 31 December 2019, an amount of €3.7 million (31 March 2019: 3.7 million) in the form of High Quality Liquid Assets and €2.5 million (31 March 2019: €1.5 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 in the form of High Quality Liquid Assets as at 31 December 2019 and 31 March 2019 were also contributed to Eurex Clearing AG to cover for daily margining.

Loans and advances to financial institutions as at 31 December 2019 and 31 March 2019 were neither past due nor credit-impaired and no forbearance measures were applied by the Group 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 to €1 thousand (31 March 2019: €1 thousand) both at the Group and the Bank.

7. Loans and advances to customers

	Group		Bank	
	31 December 2019 €000	31 March 2019 €000	**31 December 2019 €000**	31 March 2019 €000
International Lending portfolio				
Term loans and advances: corporate	**1,159,131**	1,779,210	**1,019,589**	1,544,041
Local Lending portfolio				
Repayable on call and short notice: retail	**1,191**	2,723	**1,191**	2,723
Repayable on call and short notice: corporate	**5,265**	8,909	**5,265**	8,909
Term loans and advances: retail	**8,089**	4,146	**8,089**	4,146
Term loans and advances: corporate	**74,770**	71,420	**74,770**	71,420
Dutch Mortgage portfolio				
Term loans and advances: retail	**133,150**	-	**-**	-
Gross loans and advances to customers	**1,381,596**	1,866,408	**1,108,904**	1,631,239
Less: Credit loss allowances	**(22,219)**	(23,853)	**(20,216)**	(20,680)
	1,359,377	1,842,555	**1,088,688**	1,610,559

Group	**International Lending portfolio**		**Local Lending portfolio**		**Dutch Mortgage portfolio**		**Total**	
	31 December 2019	31 March 2019	**31 December 2019**	31 March 2019	**31 December 2019**	31 March 2019	**31 December 2019**	31 March 2019
Credit loss allowances:								
- Allowances booked under Stage 1	**(7,447)**	(12,555)	**(279)**	(216)	**(8)**	-	**(7,734)**	(12,771)
- Allowances booked under Stage 2	**(1,956)**	(1,931)	**(73)**	(6)	**-**	-	**(2,029)**	(1,937)
- Allowances booked under Stage 3	**(12,455)**	(7,995)	**(1)**	(1,150)	**-**	-	**(12,456)**	(9,145)
	(21,858)	(22,481)	**(353)**	(1,372)	**(8)**	-	**(22,219)**	(23,853)

Bank	**International Lending portfolio**		**Local Lending portfolio**		**Total**	
	31 December 2019	31 March 2019	**31 December 2019**	31 March 2019	**31 December 2019**	31 March 2019
Credit loss allowances:						
- Allowances booked under Stage 1	**(6,507)**	(10,951)	**(279)**	(216)	**(6,786)**	(11,167)
- Allowances booked under Stage 2	**(1,956)**	(1,323)	**(73)**	(6)	**(2,029)**	(1,329)
- Allowances booked under Stage 3	**(11,400)**	(7,034)	**(1)**	(1,150)	**(11,401)**	(8,184)
	(19,863)	(19,308)	**(353)**	(1,372)	**(20,216)**	(20,680)

The Group’s Dutch Mortgage portfolio in the table above include fair value adjustments amounting to €369 thousand attributable to hedged risk in which interest rate swaps were entered into as part of the interest rate risk management in the ALM process to hedge the risk of change in fair value of the portfolio attributable to movements in market interest rates (refer to note 5).

MeDirect Malta set up a controlled special purpose entity, GHI, 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 €973.4 million (31 March 2019: €1.3 billion) pertaining to the controlled special purpose entity are recognised on the Group’s and Bank’s statement of financial position. Further information on structure of GH I is reflected within Note 17.

As at 31 December 2019, the acquisition of €40.1 million (31 March 2019: €60.8 million) of the Group’s “Term loans and advances to customers: corporate”, out of which and €30.1 million (31 March 2019: €60.8 million) relates to the Bank, were contracted but beneficial ownership was not yet transferred. Also, at 31 March 2019 disposals of loans and advances of the Group’s and Bank’s with a carrying amount of €17 million were contracted but in respect of which instruments’ beneficial ownership was not yet transferred.

Loans and advances relating to exposures within the Group’s and Bank’s Local Lending portfolio amounting to €1 million have been written off during the current financial period. During the financial year ended 31 March 2019, write-offs relating to exposures within the International Lending and Local Lending portfolios amounted to €17.3 million and €16 million for the Group and Bank, respectively. Consequently, during the financial period ended 31 December 2019, credit loss allowances amounting to €0.9 million and €0.9 million (Year ended 31 March 2019: €17.3 million and €16.7 million) of the Group and Bank, respectively relating to such write-offs have been released to profit or loss.

Throughout the financial year ended 31 March 2019, MeDirect Malta derecognised loans and advances to a European corporation with a gross carrying amount of €23.4 million and €19.8 million for the Group and Bank respectively as a result of restructuring procedures. As at the date of the restructuring, credit loss allowances recognised in respect of these financial instruments amounted to €7.6 million and €6.4 for the Group and Bank respectively. These financial instruments were replaced by new loans and advances to customers with a gross carrying amount of €16.1 million and €13.7 for the Group and Bank respectively that were classified as hold to collect financial assets measured at amortised cost on initial recognition and unlisted equity in this European corporation that was classified as financial assets at fair value through profit or loss which was assigned a nil fair value on initial recognition. In this regard, the restructuring led to a net positive impact on profit or loss amounting to €0.4 million and €0.3 million for the Group and Bank respectively. The holding of the new loans and advances to customers and the unlisted equity represent the continuing interaction with this customer. During the financial period ended 31 December 2019, no such events took place.

As at 31 December 2019, gross loans and advances to customers amounting to €79.9 million (31 March 2019: €83.5 million) and €67.5 million (31 March 2019: €78.4 million) for the Group and Bank, respectively were classified as Stage 3.

8. Treasury and Securitisation Investment portfolios

Treasury Investment Portfolio

	Group		Bank	
	31 December 2019 €000	31 March 2019 €000	**31 December 2019 €000**	31 March 2019 €000
Investments measured at amortised cost including basis adjustment attributable to the hedged risk				
• Debt and other fixed income securities	**430,448**	425,074	**354,091**	348,405
• Less: Credit loss allowances	**(249)**	(65)	**(244)**	(61)
Investments measured at fair value through other comprehensive income				
• Debt and other fixed income securities	**500,292**	265,572	**157,894**	126,742
	930,491	690,581	**511,741**	475,086
Credit loss allowances:				
• On investments measured at amortised cost	**(249)**	(65)	**(244)**	(61)
• On investments measured at fair value through other comprehensive income	**(144)**	(23)	**(142)**	(21)
	(393)	(88)	**(386)**	(82)

	Group				Bank			
	Measured at amortised cost		Measured at fair value through other comprehensive income		Measured at amortised cost		Measured at fair value through other comprehensive income	
	31 December 2019 €000	31 March 2019 €000	**31 December 2019 €000**	31 March 2019 €000	**31 December 2019 €000**	31 March 2019 €000	**31 December 2019 €000**	31 March 2019 €000
Debt securities and other fixed income securities								
Issued by public bodies								
- foreign national and regional governments	**35,466**	35,601	**64,936**	18,976	**-**	-	**20,060**	-
- supranational	**189,445**	192,681	**109,868**	62,118	**158,567**	161,628	**105,921**	62,117
Issued by other bodies								
- foreign banks	**193,086**	196,727	**325,488**	184,478	**183,078**	186,716	**31,913**	64,625
- corporations	**12,202**	-	**-**		**12,202**	-	**-**	-
	430,199	425,009	**500,292**	265,572	**353,847**	348,344	**157,894**	126,742
Listing status								
- listed on foreign recognised exchanges	**417,997**	425,009	**500,292**	265,572	**341,645**	348,344	**157,894**	126,742
- not listed	**12,202**	-	**-**	-	**12,202**	-	**-**	-
	430,199	425,009	**500,292**	265,572	**353,847**	348,344	**157,894**	126,742

	Group				Bank			
	Measured at amortised cost		Measured at fair value through other comprehensive income		Measured at amortised cost		Measured at fair value through other comprehensive income	
	Period ended 31 December 2019	Year ended 31 March 2019	**Period ended 31 December 2019**	Year ended 31 March 2019	**Period ended 31 December 2019**	Year ended 31 March 2019	**Period ended 31 December 2019**	Year ended 31 March 2019
	€000	€000	**€000**	€000	**€000**	€000	**€000**	€000
At beginning of period	**425,009**	401,555	**265,572**	160,898	**348,344**	355,749	**126,742**	129,897
Additions	**12,398**	31,107	**567,640**	164,713	**12,398**	-	**134,913**	26,886
Disposal/Redemptions	**-**	-	**(325,641)**	(58,903)	**-**	-	**(100,327)**	(28,047)
Gains on hedged items attributable to the hedged risk	**284**	1,526	**-**	-	**284**	1,526	**-**	-
Amortisation of premium/discount	**(7,308)**	(9,137)	**(2,273)**	(2,874)	**(6,996)**	(8,889)	**(1,358)**	(2,717)
Exchange differences	**-**	-	**120**	87	**-**	-	**94**	87
Changes in fair value	**-**	-	**(5,126)**	1,651	**-**	-	**(2,049)**	636
Movement in credit loss allowances	**(184)**	(42)	**-**	-	**(183)**	(42)	**(121)**	-
At end of period	**430,199**	425,009	**500,292**	265,572	**353,847**	348,344	**157,894**	126,742

The investment securities are pledged as collateral with Eurex against the provision of borrowing facilities (Note 17), except for investments which are free and unencumbered securities as at 31 December 2019 with a nominal value amounting to €508 million (31 March 2019: €468.4 million) and €262.9 million (31 March 2019: €257.9 million) for the Group and Bank respectively, and a carrying amount of €519.5 million (31 March 2019: €480.9 million) and €264.6 million (31 March 2019: €265.40 million) for the Group and the Bank, respectively.

The cash value of unutilised borrowing facilities (headroom) of the Group and the Bank as at 31 December 2019 which are secured by investment securities amounted to €402.4 million (31 March 2019: €469.8 million) and €262.2 million (31 March 2019: €262.2 million) respectively.

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

As at 31 December 2019 and 31 March 2019, the Group and the Bank had no commitment to purchase further investment securities.

Securitisation Investment Portfolio

	Group		Bank	
	31 December 2019	31 March 2019	**31 December 2019**	31 March 2019
	€000	€000	**€000**	€000
Investments measured at amortised cost				
• Debt and other fixed income securities	**252,198**	-	**126,448**	-
• Less: Credit loss allowances	**(19)**	-	**(8)**	-
Investments mandatorily measured at fair value through profit or loss				
• Debt and other fixed income securities	**1,447**	-	**1,447**	-
	253,626	-	**127,887**	-

Group	Measured at amortised cost		Measured at fair value through other comprehensive income		Measured at fair value through profit or loss	
	Period ended 31 December 2019	Year ended 31 March 2019	**Period ended 31 December 2019**	Year ended 31 March 2019	**Period ended 31 December 2019**	Year ended 31 March 2019
	€000	€000	**€000**	€000	**€000**	€000
Additions	**252,195**	-	**87,000**	-	**1,750**	-
Disposal/Redemptions	**-**	-	**(87,109)**	-	**-**	-
Amortisation of premium/discount	**3**	-	**-**	-	**-**	-
Changes in fair value	**-**	-	**109**	-	**(303)**	-
Impairment	**(19)**	-	**-**	-	**-**	-
At end of period/year	**252,179**	-	**-**	-	**1,447**	-

Bank	Measured at amortised cost		Measured at fair value through profit or loss	
	Period ended 31 December 2019	Year ended 31 March 2019	**Period ended 31 December 2019**	Year ended 31 March 2019
	€000	€000	**€000**	€000
Additions	**126,445**	-	**1,750**	-
Amortisation of premium/discount	**3**	-	**-**	-
Changes in fair value	**-**	-	**(303)**	-
Impairment	**(8)**	-	**-**	-
At end of period / year	**126,440**	-	**1,447**	-

MeDirect Malta acquired a 5% vertical slice in each of the GH1-2019 structured note tranches for risk retention purposes, for the amount of €20.2 million. With the exception of the equity tranche amounting to €1.4 million measured at FVTPL, MeDirect Malta's investment in the remaining tranches amounting to €18.5 million is measured at amortised cost. In turn, MeDirect Belgium acquired a 35% share of the tranche with the highest credit rating for an amount of €87 million, which investment was held in a 'hold to collect and sell' business model and measured at FVOCI. This investment was sold during the financial period ended 31 December 2019 at a gain of €109 thousand.

The Group also acquired portions in CLO transactions managed by third party entities corresponding to tranches with the highest credit rating in such CLO structures. These acquired portions in CLO transactions are listed on recognised exchanges but not centrally traded. The underlying assets for these CLO transactions are leveraged loans, predominantly senior secured leveraged loans, and high yield corporate bonds. These positions, amounting to €233.7 million and €108.0 million in total for the Group and the Bank, respectively, as at 31 December 2019, are held in a 'hold to collect' business model and measured at amortised cost.

9. Investment in subsidiaries

Name of subsidiary	Country of incorporation	Nature of business	Equity interest		Carrying amount	
			31 December 2019	31 March 2019	**31 December 2019**	31 March 2019
			%	%	**€000**	€000
MeDirect Bank SA	Belgium	Banking	**100**	100	**225,000**	225,000
Medifin Estates (partnership)	Malta	Operating lease of branches	**100**	97	**1**	1
					225,001	225,001

	Period ended 31 December 2019	Year ended 31 March 2019
	€000	€000
At beginning of period	**225,001**	225,001
Acquisition of subsidiary (refer to note below)	**-**	743
Impact of merger (refer to note below)	**-**	(743)
At end of period	**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 1 February 2018, MeDirect Malta announced that the boards of directors of MeDirect Malta and Charts have each voted to merge Charts into MeDirect Malta, subject to receipt of all applicable regulatory approvals and completion of all legal requirements. On 1 April 2018 the shares held by MDB Group Limited in Charts were transferred to MeDirect Malta for a consideration of €0.7 million. With effect from 1 April 2018, the merger between MeDirect Malta and Charts became effective for accounting purposes. Thus, all the transactions of Charts have been treated as being those of MeDirect Malta with effect from 1 April 2018.

10. Property and equipment

Group	Improvements to premises €000	Computer equipment €000	Other equipment €000	Fixtures and fittings €000	Motor vehicles €000	Right-of-use assets €000	Total €000
As at 1 April 2018							
Cost	509	264	156	1,161	142	-	2,232
Accumulated depreciation	(93)	(156)	(20)	(598)	(142)	-	(1,009)
Net book amount	416	108	136	563	-	-	1,223
Year ended 31 March 2019							
At beginning of year	416	108	136	563	-	-	1,223
Additions	90	860	32	128	-	-	1,110
Disposals	-	-	-	(16)	(29)	-	(45)
Depreciation for the year	(64)	(107)	(9)	(78)	-	-	(258)
Depreciation released on disposals	-	-	-	12	29	-	41
Reclassification - Cost	87	(14)	(97)	24	-	-	-
Reclassification - Accumulated depreciation	-	2	-	(2)	-	-	-
At end of year	529	849	62	631	-	-	2,071
As at 31 March 2019							
Cost	686	1,110	91	1,297	113	-	3,297
Accumulated depreciation	(157)	(261)	(29)	(666)	(113)	-	(1,226)
Net book amount	529	849	62	631	-	-	2,071
Period ended 31 December 2019							
At beginning of period as previously stated	**529**	**849**	**62**	**631**	**-**	**-**	**2,071**
Impact of adopting IFRS 16	**-**	**-**	**-**	**-**	**-**	**12,110**	**12,110**
At beginning of period as restated	**529**	**849**	**62**	**631**	**-**	**12,110**	**14,181**
Additions	**-**	**215**	**12**	**18**	**-**	**80**	**325**
Disposals	**(113)**	**(87)**	**(14)**	**(523)**	**(113)**	**(411)**	**(1,261)**
Depreciation for the period	**(51)**	**(217)**	**(16)**	**(72)**	**-**	**(1,250)**	**(1,606)**
Depreciation released on disposals	**95**	**83**	**14**	**499**	**113**	**-**	**804**
Reclassification - Cost	**(11)**	**(43)**	**-**	**54**	**-**	**-**	**-**
At end of period	**449**	**800**	**58**	**607**	**-**	**10,529**	**12,443**
As at 31 December 2019							
Cost	**562**	**1,195**	**89**	**846**	**-**	**11,779**	**14,471**
Accumulated depreciation	**(113)**	**(395)**	**(31)**	**(239)**	**-**	**(1,250)**	**(2,028)**
Net book amount	**449**	**800**	**58**	**607**	**-**	**10,529**	**12,443**

Bank	Improvements to premises €000	Computer equipment €000	Other equipment €000	Fixtures and fittings €000	Motor vehicles €000	Right-of-use assets €000	Total €000
As at 1 April 2018							
Cost	509	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
Period ended 31 December 2019							
At beginning of period as previously stated	**464**	**797**	**30**	**490**	**-**	**-**	**1,781**
Impact of adopting IFRS 16	**-**	**-**	**-**	**-**	**-**	**10,379**	**10,379**
At beginning of period as restated	**464**	**797**	**30**	**490**	**-**	**10,379**	**12,160**
Additions	**-**	**184**	**5**	**11**	**-**	**36**	**236**
Disposals	**(113)**	**(87)**	**(14)**	**(523)**	**(113)**	**(411)**	**(1,261)**
Depreciation for the period	**(47)**	**(211)**	**(9)**	**(53)**	**-**	**(1,027)**	**(1,347)**
Depreciation released on disposals	**95**	**83**	**14**	**499**	**113**	**-**	**804**
At end of period	**399**	**766**	**26**	**424**	**-**	**8,977**	**10,592**
As at 31 December 2019							
Cost	**508**	**1,086**	**50**	**575**	**-**	**10,004**	**12,223**
Accumulated depreciation	**(109)**	**(320)**	**(24)**	**(151)**	**-**	**(1,027)**	**(1,631)**
Net book amount	**399**	**766**	**26**	**424**	**-**	**8,977**	**10,592**

As at 31 December 2019 the Group and Bank operated from six and five immovable properties, respectively which are held under lease agreements. The right-of-use assets disclosed in the preceding table reflect the following assets relating to leases:

	Group		Bank	
	31 December 2019 €000	1 April 2019 €000	**31 December 2019 €000**	1 April 2019 €000
Premises	**8,138**	9,429	**7,575**	8,815
Computer equipment	**2,149**	2,400	**1,162**	1,302
Other equipment	**242**	281	**240**	262
	10,529	12,110	**8,977**	10,379

The movement in the carrying amount of right-of-use assets is analysed in the following table:

	Group			
	Premises €000	Computer equipment €000	Other equipment €000	Total €000
Period ended 31 December 2019				
At beginning of period	9,429	2,400	281	12,110
Additions	-	80	-	80
Disposals	(411)	-	-	(411)
Depreciation for the period	(880)	(331)	(39)	(1,250)
At end of the period	8,138	2,149	242	10,529
As at 31 December 2019				
Cost	9,018	2,480	281	11,779
Accumulated depreciation	(880)	(331)	(39)	(1,250)
Net book amount	8,138	2,149	242	10,529

	Bank			
	Premises €000	Computer equipment €000	Other Equipment €000	Total €000
Period ended 31 December 2019				
At beginning of period	8,815	1,302	262	10,379
Additions	-	36	-	36
Disposals	(411)	-	-	(411)
Depreciation for the period	(829)	(176)	(22)	(1,027)
At end of the period	7,575	1,162	240	8,977
As at 31 December 2019				
Cost	8,404	1,338	262	10,004
Accumulated depreciation	(829)	(176)	(22)	(1,027)
Net book amount	7,575	1,162	240	8,977

The relevant lease liabilities are disclosed and analysed in notes 22 and 37 to these financial statements

There were no capitalised staff costs in respect of the financial period ended 31 December 2019, included with “Additions” in the table above (year ended 31 March 2019: €0.3 million) in respect of assets which have not yet been put in use. There were no capitalised borrowing costs related to the acquisition of property and equipment during the period (Year ended 31 March 2019: nil).

11. Intangible assets

	Group			Bank		
	Computer software	Right-of-use assets	Total	Computer software	Right-of-use assets	Total
	€000	€000	€000	€000	€000	€000
As at 1 April 2018						
Cost	2,934	-	2,934	2,861	-	2,861
Accumulated amortisation	(439)	-	(439)	(366)	-	(366)
Net book amount	2,495	-	2,495	2,495	-	2,495
Year ended 31 March 2019						
At beginning of year	2,495	-	2,495	2,495	-	2,495
Additions	3,841	-	3,841	3,388	-	3,388
Amortisation for the year	(521)	-	(521)	(518)	-	(518)
At end of year	5,815	-	5,815	5,365	-	5,365
As at 31 March 2019						
Cost	6,775	-	6,775	6,249	-	6,249
Accumulated amortisation	(960)	-	(960)	(884)	-	(884)
Net book amount	5,815	-	5,815	5,365	-	5,365
Period ended 31 December 2019						
At beginning of period as previously stated	**5,815**	**-**	**5,815**	**5,365**	**-**	**5,365**
Impact of adopting IFRS 16	**-**	**9,427**	**9,427**	**-**	**4,090**	**4,090**
At beginning of period as restated	**5,815**	**9,427**	**15,242**	**5,365**	**4,090**	**9,455**
Additions	**3,203**	**233**	**3,436**	**1,590**	**122**	**1,712**
Disposals	**(346)**	**-**	**(346)**	**(346)**	**-**	**(346)**
Amortisation for the period	**(944)**	**(1,267)**	**(2,211)**	**(923)**	**(551)**	**(1,474)**
Amortisation released on disposal	**334**	**-**	**334**	**335**	**-**	**335**
At end of period	**8,062**	**8,393**	**16,455**	**6,021**	**3,661**	**9,682**
As at 31 December 2019						
Cost	**9,632**	**9,660**	**19,292**	**7,493**	**4,212**	**11,705**
Accumulated amortisation	**(1,570)**	**(1,267)**	**(2,837)**	**(1,472)**	**(551)**	**(2,023)**
Net book amount	**8,062**	**8,393**	**16,455**	**6,021**	**3,661**	**9,682**

The right-of-use assets reflected in preceding table relates to leased computer software. The relevant lease liabilities are disclosed and analysed in notes 22 and 37 to these financial statements.

Capitalised staff costs in respect of the period ended 31 December 2019, included within “Additions” of the Group and Bank in the table above amounted to €1.5 million (Year ended 31 March 2019: €2.3 million). Amortisation of amounts capitalised by the Group and Bank of €0.7 million (Year ended 31 March 2019: €1.4 million) had not yet commenced by the end of the reporting period.

There were no capitalised borrowing costs related to the acquisition of software during the year (Year ended 31 March 2019: nil).

12. Non-current assets classified as held for sale

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

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

13. Deferred tax assets and liabilities

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

	Group		Bank	
	31 December 2019	31 March 2019	**31 December 2019**	31 March 2019
	€000	€000	**€000**	€000
Deferred tax assets	**22,279**	21,338	**18,885**	17,804
Deferred tax liabilities	**(199)**	(491)	**(199)**	(232)
	22,080	20,847	**18,686**	17,572

Deferred tax assets and liabilities are attributable to the following:

	Group		Bank	
	31 December 2019	31 March 2019	**31 December 2019**	31 March 2019
	€000	€000	**€000**	€000
Property and equipment	**(126)**	(149)	**(126)**	(149)
Investments measured at fair value through other comprehensive income	**1,110**	(269)	**708**	(10)
Derivative financial instruments	**(73)**	(73)	**(73)**	(73)
Unutilised tax losses	**2,487**	2,735	**-**	-
Unutilised notional interest deduction	**8,742**	8,642	**8,742**	8,642
Credit loss allowances	**9,940**	9,961	**9,435**	9,162
Net deferred tax assets	**22,080**	20,847	**18,686**	17,572

Deferred taxes are calculated on all temporary differences under the liability method and are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled based on tax rates (and tax laws) that have been substantively enacted by the end of the reporting period. The principal tax rates used are 35% (31 March 2019: 35%) in relation to the Maltese jurisdiction and 25% (31 March 2019: 25%) in respect of the Belgian fiscal authority.

Under notional interest deduction rules for Maltese corporate income tax purposes, Maltese entities may claim a deduction of notional interest computed by reference to risk capital and a benchmark interest rate.

Excess notional interest deduction in Malta which cannot be utilised against chargeable income for the respective financial year can be carried forward and added to the notional interest deduction for the following financial year. Unutilised notional interest deduction does not have an expiry date. A deferred tax asset is recognised in respect of unutilised notional interest deduction only to the extent that it is probable that sufficient future taxable profits will be available against which the unutilised deduction can be used.

The recognised deferred tax assets are expected to be recovered or settled principally after more than 12 months from the end of the reporting period, except for the deferred tax asset recognised attributable to unutilised notional interest deduction that is expected to be realised principally in the next 12 months from the end of the reporting period. Unutilised tax losses and unutilised notional interest deduction have no expiry date and can be carried forward indefinitely.

As at 31 December 2019, the Group and the Bank had unutilised notional interest deduction carried forward amounting to €12.9 million (31 March 2019: nil) and €6.6 million (31 March 2019: nil) respectively in respect of which no deferred tax assets were recognised as deferred income tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised. The deferred tax assets on such unutilised notional interest deduction would have been equivalent to €4.5 million for the Group and €2.3 million for the Bank.

Movements in deferred tax during the period:

Group

	At beginning of period €000	Recognised in profit or loss €000	Recognised in other comprehensive income €000	At end of period €000
Period ended 31 December 2019				
Property and equipment	**(149)**	**23**	**-**	**(126)**
Investments measured at fair value through other comprehensive income	**(269)**	**-**	**1,379**	**1,110**
Derivative financial instruments	**(73)**	**-**	**-**	**(73)**
Unutilised tax losses	**2,735**	**(248)**	**-**	**2,487**
Unutilised notional interest deduction	**8,642**	**100**	**-**	**8,742**
Credit loss allowances	**9,961**	**(21)**	**-**	**9,940**
	20,847	**(146)**	**1,379**	**22,080**
Year ended 31 March 2019				
Property and equipment	15	(164)	-	(149)
Investments measured at fair value through other comprehensive income	206	-	(475)	(269)
Derivative financial instruments	(44)	(29)	-	(73)
Unutilised tax losses	3,076	(341)	-	2,735
Unutilised notional interest deduction	2,846	5,796	-	8,642
Credit loss allowances	13,082	(3,121)	-	9,961
	19,181	2,141	(475)	20,847

Bank

	At beginning of period €000	Recognised in profit or loss €000	Recognised in other comprehensive €000	At end of period €000
Period ended 31 December 2019				
Property and equipment	**(149)**	**23**	**-**	**(126)**
Investments measured at fair value through other comprehensive income	**(10)**	**-**	**718**	**708**
Derivative financial instruments	**(73)**	**-**	**-**	**(73)**
Unutilised notional interest deduction	**8,642**	**100**	**-**	**8,742**
Credit loss allowances	**9,162**	**273**	**-**	**9,435**
	17,572	**396**	**718**	**18,686**
Year ended 31 March 2019				
Property and equipment	15	(164)	-	(149)
Investments measured at fair value through other comprehensive income	212	-	(222)	(10)
Derivative financial instruments	(44)	(29)	-	(73)
Unutilised notional interest deduction	2,846	5,796	-	8,642
Credit loss allowances	11,954	(2,792)	-	9,162
	14,983	2,811	(222)	17,572

14. Prepayments and accrued income

	Group		Bank	
	31 December 2019	31 March 2019	**31 December 2019**	31 March 2019
	€000	€000	**€000**	€000
Prepayments	**1,597**	1,583	**1,564**	1,426
Accrued income	**14,381**	16,800	**11,998**	14,520
	15,978	18,383	**13,562**	15,946

15. Other assets

	Group		Bank	
	31 December 2019	31 March 2019	**31 December 2019**	31 March 2019
	€000	€000	**€000**	€000
Amounts receivable from:				
- ultimate parent company	**2,475**	2,412	**2,475**	2,412
- immediate parent company	**199**	232	**199**	232
- subsidiary company	**-**	-	**830**	496
- other group companies	**10,370**	12,661	**10,370**	12,661
Deferred customer contract costs	**1,132**	1,351	**108**	135
Other receivables	**34,336**	6,105	**1,703**	6,031
Other assets	**-**	562	**1,722**	519
	48,512	23,323	**17,407**	22,486

Amounts receivable from ultimate parent company amounting to €1.8 million as at 31 December 2019 and 31 March 2019 are unsecured, subject to interest at 3% per annum and repayable in November 2020. The residual amounts receivable from ultimate parent company and amounts receivable from the immediate parent company are unsecured, interest free and repayable on demand.

Amounts receivable from immediate parent company and subsidiary company are unsecured, interest free and repayable on demand.

Amounts receivable from other group companies are unsecured, interest free and repayable on demand but as long as alternative financing is available. The repayment of amounts receivable from other group companies is not expected within the next twelve months. None of these assets are deemed credit-impaired at 31 December 2019 and 31 March 2019. In this respect, the ultimate parent company provided a letter of comfort to MeDirect Malta, showing the intention of assisting these group companies to meet obligations.

As at 31 December 2019, the Group's 'Other receivables' comprises balances amounting to €30.7 million held with a third-party mortgage originator in the Netherlands until the relevant NHG eligibility criteria for specific loan applications relating to the Dutch Mortgage portfolio are fulfilled in the future.

Expected credit losses in relation to such balances are deemed to be insignificant as at 31 December 2019.

16. Capital and reserves

Share capital

	31 December 2019	31 March 2019
	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

	31 December 2019	31 March 2019
	€	€
Issued and fully paid up:		
Ordinary 'A' shares of €1 each	**117,450,106**	117,450,106
Ordinary 'B' shares of €1 each	**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.

<u>Share premium</u>

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

	Number	Premium	Share premium	
	of shares	per share	31 December 2019	31 March 2019
Issue date		€	€000	€000
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

<u>Shareholders’ contributions</u>

By virtue of board resolutions dated 30 May 2018 MeDirect Malta accepted shareholders’ contributions from MDB Group Limited amounting to €3.1 million.

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.

<u>Reserve for general banking risks</u>

Banking Rule (“BR”) 09 issued by the MFSA requires banks in Malta to hold additional reserves for general banking risks in respect of non-performing loans. This reserve is required to be funded from retained earnings. As at 31 December 2019, the reserve for general banking risks of the Group and the Bank was equivalent to €3.4 million (31 March 2019: €3.1 million) and €3.2 million (31 March 2019: €2.8 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.

<u>Other reserves</u>

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, 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 period	**793**	(383)	**18**	(396)
Fair value adjustments	**(27)**	1,651	**(937)**	636
Deferred tax on fair value adjustments	**7**	(475)	**328**	(222)
Reclassification adjustment to profit or loss upon disposal	**(5,098)**	-	**(1,112)**	-
Deferred tax on reclassification adjustments	**1,371**	-	**390**	-
At the end of period	**(2,954)**	793	**(1,313)**	18

Other reserve

Other reserve of the Group also consists of legal reserves amounting to €0.2 million (31 March 2019: €0.1 million) that is required to be maintained by MeDirect Belgium in line with Article 616 of the Belgian Companies Code which requires MeDirect Belgium to assign at least 5% of MeDirect Belgium's net profits to the legal reserve until such legal reserve amounts to 10% of MeDirect Belgium share capital.

Other reserve of the Bank is equivalent to €3.8 million (31 March 2019: €4.4 million). 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 Group's and the Bank's retained earnings and shareholders' contributions, are non-distributable.

Dividends

The directors of the Bank do not propose any final dividends for distribution.

17. Amounts owed to financial institutions

	Group		Bank	
	31 December 2019	31 March 2019	**31 December 2019**	31 March 2019
	€000	€000	**€000**	€000
Repayable on call and at short notice	**4,012**	3,887	**4,012**	3,887
Term deposits	**220,000**	195,000	**957,635**	1,224,984
	224,012	198,887	**961,647**	1,228,871

As at 31 December 2019, an amount of €220 million (31 March 2019: €195 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 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 70% -30% basis (31 March 2019: 74%-26% 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 (31 March 2019: 2.5% margin) and the one-month EURIBOR for the euro denominated note, and an aggregate of a 2.5% margin (31 March 2019: 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 €737.6 million as at 31 December 2019 (31 March 2019: €1,029 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	
	31 December 2019	31 March 2019	**31 December 2019**	31 March 2019
	€000	€000	**€000**	€000
Repayable on call and at short notice	**1,166,569**	734,362	**260,291**	270,441
Term deposits	**1,272,557**	1,467,729	**517,432**	528,713
	2,439,126	2,202,091	**777,723**	799,154

19. Subordinated liabilities

	Group and Bank	
	31 December 2019	31 March 2019
	€000	€000
At beginning of period	**67,138**	66,949
Debt securities issued	**35,044**	-
Debt securities redeemed	**(47,229)**	-
Foreign exchange differences	**22**	96
Transaction costs incurred	**(230)**	-
Transaction costs amortised to profit or loss	**75**	93
At end of period	**54,820**	67,138
Analysed as follows:		
7.5% Subordinated Bonds 2019	**-**	22,342
6% Subordinated Unsecured Bonds 2019 – 2024	**-**	24,832
5% Subordinated Unsecured Bonds 2022 – 2027	**19,999**	19,964
4% Subordinated Unsecured Bonds 2024 – 2029	**34,821**	-
	54,820	67,138

During June 2013, MeDirect Malta issued the euro equivalent of €10 million of 7.50% Subordinated Bonds redeemable on 4 December 2019. The debt securities were unsecured and were listed on the Malta Stock Exchange. Interest payable on these bonds was fixed at 7.5% per annum (effective interest rate of 7.6%) and the bonds were redeemable at their nominal value. During December 2013 these subordinated bonds were merged with the euro equivalent of €12.5 million bonds that were originally issued on 21 November 2012.

On 3 November 2014, MeDirect Malta announced the issue of €15 million 6% Subordinated Unsecured Bonds maturing on 28 November 2024 with a 28 November 2019 early redemption option held by the Bank. These bonds were issued on the Malta Stock Exchange in euro and pound sterling. The interest payable was fixed at 6% (effective interest rate of 6.23%) and the bonds were redeemable at their nominal value. This was increased to a euro equivalent of €25 million as a result of an over subscription. As a result of MeDirect Malta's allotment methodology, MeDirect Malta issued £1.4 million (euro equivalent to €1.7 million) bonds in pound sterling and €23.3 million bonds in euro.

On 16 October 2017, MeDirect Malta announced the issue of 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.

On 8 October 2019 MeDirect Malta announced the issue and listing of €35 million 4% Subordinated Unsecured Bonds (effective interest rate:4.2%) denominated in euro and pound sterling maturing on 5 November 2029 with a 5 November 2024 early redemption option held by MeDirect Malta. The proceeds were used as follows:

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

The above liabilities will, in the event of the winding up of 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 periods ended 31 December 2019 and 31 March 2019. As at 31 December 2019, the euro equivalent contractual amount due at maturity is €55.0 million (31 March 2019: €67.3 million). As at 31 December 2019 and 31 March 2019 the carrying amount of the subordinated debt securities in issue is €0.2 million lower than the contractual amount.

20. Provisions for liabilities and other charges

	Group and Bank	
	31 December 2019	31 March 2019
	€000	€000
Credit loss allowances in respect of loan commitments and financial guarantee contracts	**2,112**	1,633
Restructuring costs	**2,416**	-
	4,528	1,633

	Group and Bank	
	Period ended	Year ended
	31 December 2019	31 March 2019
	€000	€000
Credit loss allowances in respect of loan commitments and financial guarantee contracts		
At beginning of period	**1,633**	1,022
Change in expected credit losses	**479**	611
At end of period	**2,112**	1,633
Restructuring costs		
Additional provisions – charged to profit or loss	**6,019**	-
Amounts utilised	**(3,603)**	-
At end of period	**2,416**	-

The provision for restructuring costs, which is mainly current in nature, covers one-time payment obligations emanating from severance costs attributable to the former Group senior management as a result of the organisational restructuring, staff redundancy costs in the context of the closure of specific branches and other restructuring costs, principally consultancy costs relating to restructuring plan amounting to €0.7 million and lease termination charges.

	Group and Bank	
	Period ended	Year ended
	31 December 2019	31 March 2019
	€000	€000
Severance costs attributable to former senior management – included within Personnel expenses	**4,551**	-
Staff redundancy costs (Note 26) – included within Personnel expenses	**513**	-
Other restructuring costs (Note 27) – included within Other administrative expenses	**955**	-
Total	**6,019**	-

21. Accruals and deferred income

	Group		Bank	
	31 December 2019	31 March 2019	**31 December 2019**	31 March 2019
	€000	€000	**€000**	€000
Accrued interest expense	**7,318**	5,474	**2,340**	4,112
Other accrued expenses	**10,583**	8,445	**8,829**	5,462
Deferred income	**23,005**	25,531	**22,998**	25,531
	40,906	39,450	**34,167**	35,105

22. Other liabilities

	Group		Bank	
	31 December 2019	31 March 2019	**31 December 2019**	31 March 2019
	€000	€000	**€000**	€000
Amounts due to subsidiary company	**-**	**-**	**40,310**	35,614
Amounts due to other group companies	**3,350**	972	**3,350**	972
Indirect taxes payable	**1,568**	1,193	**966**	463
Bills payable	**5,649**	4,551	**5,649**	4,551
Lease liabilities	**17,663**	-	**12,006**	-
Other liabilities	**8,329**	20,713	**4,143**	20,310
	36,559	27,429	**66,424**	61,910

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

The lease liabilities associated with the recognised right-of-use are analysed below.

	Group		Bank	
	31 December 2019	31 March 2019	**31 December 2019**	31 March 2019
	€000	€000	**€000**	€000
Non-current				
Premises	**6,897**	8,173	**6,365**	7,580
Computer	**1,133**	1,797	**607**	980
Other equipment	**126**	214	**134**	197
Computer software	**4,587**	6,715	**445**	2,929
	12,743	16,899	**7,551**	11,686
Current				
Premises	**1,213**	1,164	**1,130**	1,143
Computer	**811**	603	**432**	323
Other equipment	**90**	67	**87**	65
Computer software	**2,806**	2,712	**2,806**	1,160
	4,920	4,546	**4,455**	2,691
	17,663	21,445	**12,006**	14,377

The extension options in leases have been included in the lease liability as the lease term reflects the exercise of such options.

The total cash outflows for leases in 2019 was €1.9 million and €1.2 million for the Group and the Bank, respectively. The contractual undiscounted cash flows attributable to lease liabilities as at 31 December 2019 are analysed in Note 2.3.4.

The total amount of lease liabilities for computer, other equipment and computer software are attributable to arrangements with Medifin Leasing Limited, a related party.

The movement in the carrying amount of these liabilities is analysed in the following table:

	Group	Bank
	Period ended	**Period ended**
	31 December 2019	**31 December 2019**
	€000	**€000**
As at 1 April 2019	**21,445**	**14,377**
Additions	**313**	**158**
Payments	**(4,719)**	**(2,945)**
Interest charge	**624**	**416**
Total	**17,663**	**12,006**

23. Net interest income

	Group		Bank	
	Period ended 31 December 2019	Year ended 31 March 2019	**Period ended 31 December 2019**	Year ended 31 March 2019
	€000	€000	**€000**	€000
Interest income				
Loans and advances to financial institutions	**-**	-	**109**	-
Loans and advances to customers	**69,992**	99,228	**62,463**	86,281
Loans and advances to ultimate parent company	**42**	46	**42**	46
Investment securities				
- interest on investment securities	**7,584**	9,359	**6,617**	9,235
- amortisation of net premiums on investment securities	**(9,578)**	(12,011)	**(8,354)**	(11,606)
- net losses representing ineffective portion of fair value hedges	**(116)**	(439)	**(116)**	(439)
Total interest income	**67,924**	96,183	**60,761**	83,517
Interest expense				
Loans and advances to financial institutions	**711**	248	**-**	48
Amounts owed to financial institutions	**3,200**	4,467	**19,394**	25,777
Amounts owed to customers	**16,197**	19,612	**7,083**	9,653
Lease liabilities	**624**	-	**416**	-
Subordinated liabilities	**3,165**	4,254	**3,165**	4,254
Total interest expense	**23,897**	28,581	**30,058**	39,732
Net interest income	**44,027**	67,602	**30,703**	43,785

The Group's negative interest income attributable to loans and advances to financial institutions is presented within interest expense rather than netted off within interest income.

An amount of €3.8 million (Year ended 31 March 2019: €4.3 million) and €3.8 million (Year ended 31 March 2019: €4 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 December 2019.

In the financial period ended 31 December 2019, fair value losses of the Group and the Bank amounting to €0.1 million (Year ended 31 March 2019: €2.0 million) arising on derivatives designated in micro fair value hedge relationships and €0.1 million (Year ended 31 March 2019: €1.5 million) representing net increases in the fair value of the hedged items attributable to the hedged risk are included within the Group's and the Bank's net interest income. These hedging relationships comprise interest rate swaps hedging interest rate risk on specific fixed rate debt securities, on an individual asset basis. The losses are reflected within interest arising from investment securities, where interest on the hedged items is presented.

On the other hand, for the macro hedging relationships comprising interest rate swaps hedging interest rate risk on portfolio of the Group's fixed rate mortgages, fair value gains of €0.3 million (Year ended 31 March 2019: nil) arising on derivatives designated in fair value hedge relationships and €0.4 million (Year ended 31 March 2019: nil) representing net decreases in the fair value of the hedged items attributable to the hedged risk are included within the Group's net interest income. The losses are reflected within interest arising from loans and advances to customers, where interest on the hedged items is presented.

	Group		Bank	
	Period ended	Year ended	**Period ended**	Year ended
	31 December 2019	31 March 2019	**31 December 2019**	31 March 2019
	€000	€000	**€000**	€000
Micro hedging:				
Losses on hedging instruments	**(400)**	(1,965)	**(400)**	(1,965)
Gains on hedged items attributable to the hedged risk – basis adjustment to Treasury Investments measured at amortised cost (see Note 8)	**284**	1,526	**284**	1,526
	(116)	(439)	**(116)**	(439)
Macro hedging:				
Gains on hedging instruments	**313**	-	**-**	-
Losses on hedged items attributable to the hedged risk – basis adjustment to Dutch Mortgages portfolio (see Note 7)	**(369)**	-	**-**	-
	(56)	-	**-**	-
Net losses representing ineffective portion of fair value hedges	**(172)**	(439)	**(116)**	(439)

24. Net fee and commission income

	Group		Bank	
	Period ended	Year ended	**Period ended**	Year ended
	31 December 2019	31 March 2019	**31 December 2019**	31 March 2019
	€000	€000	**€000**	€000
Fee and commission income				
Corporate secured lending fee income	**817**	653	**811**	638
Banking transactions fee income	**1,366**	2,302	**1,358**	2,293
Investment services fees	**3,410**	4,111	**1,801**	2,208
Total fee and commission income	**5,593**	7,066	**3,970**	5,139
Fee and commission expense				
Corporate secured lending fee expense	**181**	102	**187**	31
Banking transactions fee expense	**207**	159	**173**	129
Investment services transaction and custody fees	**890**	1,146	**405**	524
Other fee expense	**97**	101	**68**	74
Total fee and commission expense	**1,375**	1,508	**833**	758
Net fee and commission income	**4,218**	5,558	**3,137**	4,381

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 in the financial period ended 31 December 2019, includes income of €0.4 million (Year ended 31 March 2019: €0.7 million) and expenses of €0.2 million (Year ended 31 March 2019: €0.1 million) relating to such financial assets and liabilities.

25. Net trading income and other operating income

25.1 Net trading income

	Group		Bank	
	Period ended	Year ended	**Period ended**	Year ended
	31 December 2019	31 March 2019	**31 December 2019**	31 March 2019
	€000	€000	**€000**	€000
Net income from foreign exchange activities	**3,296**	3,454	**3,141**	3,409
Net expense from held for trading financial instruments	**(295)**	(326)	**(293)**	(326)
	3,001	3,128	**2,848**	3,083

25.2 Realised gains on disposal of other investments

	Group		Bank	
	Period ended 31 December 2019	Year ended 31 March 2019	**Period ended 31 December 2019**	Year ended 31 March 2019
	€000	€000	**€000**	€000
Investments measured at fair value through other comprehensive income	**5,092**	87	**1,019**	87

26. Personnel expenses

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

	Group		Bank	
	Period ended 31 December 2019	Year ended 31 March 2019	**Period ended 31 December 2019**	Year ended 31 March 2019
	€000	€000	**€000**	€000
Directors' emoluments				
- salaries	**4,238**	4,388	**3,523**	3,571
- defined contribution social security costs	**27**	90	**27**	42
- fees	**431**	520	**184**	391
- other emoluments	**31**	36	**31**	36
Staff costs				
- salaries	**18,323**	17,235	**13,784**	11,789
- defined contribution social security costs	**1,235**	1,783	**1,040**	1,147
Staff costs capitalised within Property and Equipment (Note 10) and Intangible Assets (Note 11)	**(1,461)**	(2,641)	**(1,273)**	(2,615)
	22,824	21,411	**17,316**	14,361

Personnel expenses for the period ended 31 December 2019 include costs in connection with the Group's and Bank's organisational restructuring comprising the severance costs attributable to the former senior management amounting to €4.6 million (Year ended 31 March 2019: nil) and staff redundancy costs, as a result of closure of branches, amounting to €0.5 million (Year ended 31 March 2019: nil) (refer to note 20).

As per above in the financial period ended 31 December 2019, salary costs amounted to €22.6 million (Year ended 31 March 2019: €21.6 million) and €17.3 million (Year ended 31 March 2019: €15.4 million) for the Group and Bank respectively, with the Group's and Bank's variable remuneration accounting for 11% (Year ended 31 March 2019: 12%) and 14% (Year ended 31 March 2019: 16%) respectively of these amounts.

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

	Group		Bank	
	Period ended 31 December 2019	Year ended 31 March 2019	**Period ended 31 December 2019**	Year ended 31 March 2019
	No.	No.	**No.**	No.
Executive and senior management	**17**	17	**15**	16
Other managerial, supervisory and clerical	**286**	277	**262**	253
Other	**12**	13	**12**	13
	315	307	**289**	282

The number of persons employed by the Group and Bank as at the reporting date, including executive directors, was 280 (31 March 2019: 313) and 252 (31 March 2019: 289), respectively.

Deferred share-based payments were granted to certain Group employees under a deferred performance and retention bonus plan. Under this plan, these employees are entitled to a deferred cash payment that will be based on changes in the fair value of the ordinary shares of MDB Group Limited but does not entitle the employees to shares or any interest in or right over such shares. Share-linked instruments comprise a number of notional ordinary shares of MDB Group Limited determined at award date by reference to the related bonus amounts taking cognisance of the fair value of the shares at that date. The plan contemplates upfront cash amounts, upfront share-linked awards and deferred share linked-awards that shall be subject to a retention period of not less than twelve months but not greater than five years. Any tranche of a deferred award which has not yet been paid will lapse if the employee leaves employment before the end of the deferral period, unless the employee leaves due to certain specific reasons as listed in the deferred bonus plan. Settlement amounts will be determined on the basis of the fair value of the ordinary shares at settlement date, which is the end of the retention period.

An assessment of performance over the relevant period is used to determine the amount of the deferred performance bonus award to be granted. Both deferred performance and retention awards generally require employees to remain in employment over the vesting period and are not subject to performance conditions after the grant date. The share-based payment is classified as cash-settled since the share-based payment transactions with the employees are settled through a cash payment.

The following is an analysis of the deferred remuneration awarded to specific members of senior management during the financial period and payments of deferred remuneration throughout the financial period.

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

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

27. Other administrative expenses

Other administrative expenses are analysed as follows:

	Group		**Bank**	
	Period ended 31 December 2019	Year ended 31 March 2019	**Period ended 31 December 2019**	Year ended 31 March 2019
	€000	€000	**€000**	€000
Operating lease charges (Note 37)	**-**	6,502	**-**	3,912
Expense relating to short-term leases	**333**	-	**317**	-
Expense relating to leases of low value assets	**6**	-	**6**	-
IT support and telecommunication costs	**4,417**	5,242	**2,217**	2,959
Legal and professional expenses	**5,308**	4,593	**3,705**	2,548
Regulatory expenses	**3,116**	4,185	**904**	1,366
Indirect taxation	**2,893**	3,658	**1,673**	1,889
Other expenses	**5,030**	6,640	**2,863**	3,018
	21,103	30,820	**11,685**	15,692

Other administrative expenses include restructuring costs principally consultancy costs relating to restructuring plan amounting to €0.7 million and other charges (refer to Note 20).

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

	Group		**Bank**	
	Period ended 31 December 2019	Year ended 31 March 2019	**Period ended 31 December 2019**	Year ended 31 March 2019
	€000	€000	**€000**	€000
Audit services	**435**	748	**314**	633
Other assurance services	**65**	53	**65**	53
Tax advisory services	**29**	41	**29**	41
Other non-audit services	**125**	250	**63**	189

Other assurance services comprise mainly reviews of interim financial information. Other non-audit services consist of regulatory advisory services in respect of the Group's compliance with elements of the regulatory framework it is exposed to or which the Group will be exposed to in the future. These non-audit services have no linkage whatsoever to the audited financial statements.

28. Change in expected credit losses and other impairment charges

	Group		Bank	
	Period ended 31 December 2019 €000	Year ended 31 March 2019 €000	**Period ended 31 December 2019 €000**	Year ended 31 March 2019 €000
Change in expected credit losses				
Loans and advances to customers, including credit-related commitments				
- International Lending portfolio (including accrued income)	**(179)**	(5,668)	**1,029**	(4,559)
- Local Lending portfolio	**(1,019)**	(3,160)	**(1,019)**	(3,160)
- Dutch Mortgage portfolio	**19**	-	**-**	-
Balances with central banks	**-**	1	**-**	1
Loans and advances to financial institutions	**-**	1	**-**	1
Investments measured at amortised cost				
- Treasury portfolio	**184**	42	**183**	42
- Securitisation portfolio	**19**	-	**8**	-
Investments measured at fair value through other comprehensive income – Treasury portfolio	**121**	14	**121**	14
Other accrued income	**2**	-	**2**	-
Other credit impairment charges				
Recoveries				
- International Lending portfolio	**-**	(2,746)	**-**	(2,746)
- Local Lending portfolio	**(11)**	-	**(11)**	-
Amounts written off on loans and advances to customers				
- International Lending portfolio	**-**	14,764	**-**	13,495
- Local Lending portfolio	**1,000**	2,547	**1,000**	2,547
	136	5,795	**1,313**	5,635

29. Taxation

	Group		Bank	
	Period ended 31 December 2019 €000	Year ended 31 March 2019 €000	**Period ended 31 December 2019 €000**	Year ended 31 March 2019 €000
Current tax expense				
- current year tax charge	**883**	743	**758**	558
Deferred tax (Note 13)				
- current year tax	**146**	(2,141)	**(396)**	(2,811)
Income tax charge/(credit)	**1,029**	(1,398)	**362**	(2,253)

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	
	Period ended 31 December 2019 €000	Year ended 31 March 2019 €000	**Period ended 31 December 2019 €000**	Year ended 31 March 2019 €000
Profit before tax	**7,049**	21,470	**4,376**	18,731
Tax at the applicable rate of 35%	**2,467**	7,515	**1,532**	6,556
Tax effect of:				
Non-deductible expenses	**27**	30	**7**	2
Impact of notional interest deduction rules (Note 13)	**(1,484)**	(9,141)	**(1,396)**	(9,022)
Application of lower effective tax rate and tax refund	**-**	172	**-**	-
Other	**19**	26	**219**	211
Income tax charge/(credit)	**1,029**	(1,398)	**362**	(2,253)

30. 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 period.

	Group	
	31 December 2019	31 March 2019
Profit attributable to ordinary shareholders (€000)	**6,020**	22,868
Weighted average number of ordinary shares ('000)	**117,450**	117,450
Earnings per share (€cents)	**5**	19

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.

31. Cash and cash equivalents

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

	Group		Bank	
	31 December 2019 €000	31 March 2019 €000	**31 December 2019 €000**	31 March 2019 €000
Analysis of cash and cash equivalents:				
Cash in hand	**3**	3	**3**	3
Call deposits	**169,701**	49,596	**105,168**	46,158
Target 2 overnight deposits	**118**	23,371	**118**	23,398
Amounts owed to financial institutions with original maturity of less than 3 months	**(224,012)**	(3,887)	**(224,012)**	(3,887)
Per Statement of cash flows	**(54,190)**	69,083	**(118,723)**	65,672
Adjustments to reflect:				
Balances with central banks	**241,556**	123,614	**32,586**	5,400
Deposits with original maturity of over 3 months	**53,635**	68,843	**49,376**	62,574
Amounts owed to financial institutions with original maturity of over 3 months	**-**	(195,000)	**(737,636)**	(1,224,984)
Per Statement of financial position	**241,001**	66,540	**(774,397)**	(1,091,338)

		Group		Bank	
		31 December 2019	31 March 2019	**31 December 2019**	31 March 2019
	Notes	**€000**	€000	**€000**	€000
Analysed as follows:					
Balances with central banks and cash	4	**241,726**	146,988	**32,757**	28,801
Loans and advances to financial institutions	6	**223,287**	118,439	**154,493**	108,732
Amounts owed to financial institutions	17	**(224,012)**	(198,887)	**(961,647)**	(1,228,871)
		241,001	66,540	**(774,397)**	(1,091,338)

32. Lease commitments

The Group and the Bank leases a number of branches and office premises under lease arrangements. The Group and the Bank also leases IT-infrastructure and software from Medifin Leasing Limited, a related party.

At 31 March 2019, the maturity analysis of the contractual undiscounted cash flows under non-cancellable operating leases were analysed as follows:

	Group	Bank
	31 March 2019	31 March 2019
	€000	€000
Within one year	1,474	1,388
More than one year but less than five years	3,939	3,776
More than five years	642	642
	6,055	5,806

As highlighted in Note 1 – Significant accounting policies, from 1 April 2019, the Group has adopted the requirements of IFRS 16 "Leases" and accordingly recognised right-of-use assets and corresponding liabilities for all leases as at that date.

33. Contingent liabilities

As at 31 December 2019, the Group and Bank had cash secured guarantee obligations amounting to €6.9 million (31 March 2019: €8.5 million).

34. Commitments to lend

Commitments to lend represent undrawn formal standby facilities, credit facilities and other similar commitments to lend. As at 31 December 2019, the Group and Bank had commitments of €473.4 million (31 March 2019: €448.1 million) under revolving credit facilities. In addition, undrawn facilities on term loans of the Group and Bank amounted to €50.2 million (31 March 2019: €61.3 million) and lending commitments in relation to the Group's Dutch Mortgage portfolio amounting to €283.8 million (31 March 2019: nil). As at 31 December 2019, the Group and Bank also had commitments to purchase term loans amounting to €40.1 million (31 March 2019: €60.8 million) and €30.1 million (31 March: €60.8 million), respectively, of which €29.0 million (31 March 2019: nil) for both the Group and Bank were subject to a back to back sale agreement with a third party.

35. Related parties

Immediate and ultimate parent company

The ultimate controlling party of the Bank is AnaCap Financial Partners II L.P.

The ultimate parent company of the Bank is Medifin Investments Limited, a non-cellular company incorporated and registered in Guernsey.

The intermediate parent company of the Bank is Medifin Finance Limited, a non-cellular 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, the intermediate parent company, the immediate parent company, all entities controlled by the immediate parent company, Key Management Personnel, close family members of Key Management Personnel and entities which are controlled or jointly controlled by Key Management Personnel or their close family members.

Transactions with Key Management Personnel

Key Management Personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Group, being the directors of the respective MDB Group companies.

Key Management Personnel compensation consisting of directors' remuneration is disclosed in Note 26. The Group also provides non-cash benefits to Key Management Personnel, including gross rent payable on accommodation based in Malta, and health and life insurance premiums paid by the Group amounting to €0.1 million in the financial period ended 31 December 2019 (Year ended 31 March 2019: €0.1 million).

Related party balances and transactions

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

The following table provides the total amount of Group transactions which have been entered into, and Group balances with, related parties of the Group for the relevant financial period:

	Period ended 31 December 2019		As at 31 December 2019		
Related party	Income from related parties €000	Expenses charged by related parties €000	Amounts owed by related parties €000	Amounts owed to related parties €000	Transaction/balance type
Ultimate controlling party	-	141	-	-	Monitoring fees
Ultimate parent company	41	-	-	-	Interest income
	-	-	2,475	-	Other assets
Immediate parent company	-	-	199	-	Other assets
Other group companies	-	-	10,370	-	Other assets
	4	3,847	-	-	IT and other support
	-	-	-	3,350	Other liabilities
Key management personnel	5	-	-	-	Interest income
	-	-	197	-	Loans and advances to customers
	-	-	-	214	Amounts owed to customers
	-	-	-	25	Subordinated liabilities

	Year ended 31 March 2019		As at 31 March 2019		
Related party	Income from related parties €000	Expenses charged by related parties €000	Amounts owed by related parties €000	Amounts owed to related parties €000	Transaction/balance type
Ultimate controlling party	-	184	-	-	Monitoring fees
Ultimate parent company	55	-	-	-	Interest income
	-	-	2,412	-	Other assets
Immediate parent company	-	-	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

The directors' fees and personnel expenses in relation to key management personnel are disclosed in note 26 to these financial statements.

In addition to the above, there are also payments to other group companies relating to leases treated in accordance with IFRS 16 requirements amounting to €3.6 million. These are recorded as operating lease charges in prior year amounting to €4.8 million as reflected in the table above. Upon adoption of IFRS 16, the Group recognised lease liabilities in respect of lease arrangements with related parties (refer to Note 22).

Furthermore, as detailed in Note 16:

- By virtue of board resolutions dated 30 May 2018 MeDirect Malta accepted shareholders' contributions from MDB Group Limited amounting to €3.1 million.
- By virtue of a board resolution dated 30 May 2018 and 28 June 2019, MeDirect Malta approved the repayment of the shareholder contributions equivalent to €7.2 million and €10 million respectively.

The related party transactions reflected in the preceding tables and disclosures are also the related party transactions of the Bank with the exception of:

- IT support charges which amounted to €1.5 million (31 March 2019: €2.4 million);
- payments to other group companies relating to leases treated in accordance with IFRS 16 requirements amounted to €2.1 million; and
- operating lease charge which amounted to €2.4 million for the year ended 31 March 2019.

During the period 31 December 2019, MeDirect Malta acquired a loan from MeDirect Belgium with a nominal amount of €5.7 million (Year ended 31 March 2019: nil).

Furthermore, throughout the financial period MeDirect Malta recharged employee compensation and benefits to MeDirect Belgium amounting to €3.6 million (Year ended 31 March 2019: €4.9 million) and paid interest amounting to €19.3 million (Year ended 31 March 2019: €25.8 million) on the senior loan facility provided by MeDirect Belgium.

36. Segmental information

The Group has a single reportable segment represented by its lending portfolio consisting of international corporate lending, corporate lending in Malta and Dutch mortgage lending (commenced this period) together with the investment in high credit quality collateralised instruments such as covered bonds, guaranteed senior bank debt, sovereign related debt and investment in AAA tranches of securitisation special purpose entities (with effect from this financial period). Revenues secured through the above-mentioned assets are complemented by the revenues generated by the Group on its wealth management business. Information about the products and services and geographical areas is set out in Notes 2, 7, 8, 23 and 24 to the financial statements which provide information about the financial risks, credit concentrations by sector and location, together with revenues from the single reportable segment. The investment portfolio is spread across a large number of exposures diversified in government, financial institutions and other corporates.

In accordance with Article 89 of CRD IV, the Regulatory Group must disclose information about turnover, number of employees, profit before tax, tax and public subsidies received by country, taking into account all jurisdictions in which it operates. The Group has not received any public subsidies that relate to the Group's activities as a credit institution.

	Period ended 31 December 2019			As at 31 December 2019
	Turnover *	**Profit before tax**	**Tax income/ (expense)**	**Full-time equivalent staff**
	€000	**€000**	**€000**	**No**
Malta	**53,886**	**5,106**	**(902)**	**252**
Belgium	**33,440**	**1,943**	**(127)**	**28**
	87,326	**7,049**	**(1,029)**	**280**

	Year ended 31 March 2019			As at 31 March 2019
	Turnover *	**Profit before tax**	**Tax income/ (expense)**	**Full-time equivalent staff**
	€000	€000	€000	No
Malta	74,336	20,152	1,582	304
Belgium	41,913	1,318	(184)	9
	116,249	21,470	1,398	313

* Turnover is defined as interest income, fee and commission income and other operating income. The turnover allocated to Belgium in the financial period ended 31 December 2019 includes interest charged to MeDirect Malta amounting to €19.3 million (Year ended 31 March 2019: €25.8 million).

The 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.

37. Effect of adoption of IFRS 16

As indicated in Note 1.2, the Group has adopted IFRS 16 retrospectively from 1 April 2019 but has not restated comparative financial information for the financial year ended 31 March 2019, as permitted under the specific transitional provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening statement of financial position on 1 April 2019. The accounting policies are disclosed in Note 1.20.

The Group's lease arrangements comprise long-term leasehold properties, other immovable property leaseholds and IT infrastructure/software arrangements, which were classified as operating leases under IAS 17. The leases typically run for 4 to 5 years, with an option to renew the lease after that date. Some operating lease agreements provide for additional rent payments that are based on changes in a local price index. The lease agreements do not impose any covenants. Leased assets may not be used as security for borrowing purposes.

Extension and termination options are included in majority of the lease agreements. These terms are used to maximise operational flexibility in respect of managing contracts. The majority of extension and termination options held are exercisable only by the Group and not by the respective lessor. In respect of the main lease arrangements, the extension periods have been included in determining lease term for the respective arrangement.

Adjustments recognised upon adoption of IFRS 16 in the statement of financial position on 1 April 2019

On adoption of IFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17, "Leases". These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 April 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 April 2019 was 4.25%.

The associated right-of-use assets for leases were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to those leases recognised in the statement of financial position as at 31 March 2019. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application.

The change in accounting policy affected the following items in the statement of financial position on 1 April 2019:

- property and equipment – increase by €12.1 million and €10.4 million for the Group and the Bank, respectively
- intangible assets – increase by €9.4 million and €4.1 million for the Group and the Bank, respectively
- prepayments – decrease by €0.1 million for both the Group and the Bank
- other liabilities – increase by €21.4 million and €14.4 million for the Group and the Bank, respectively

The recognised right-of-use assets relate to the following type of assets:

	Group	Bank
	1 April 2019	1 April 2019
	€000	€000
Analysed as follows:		
Property and equipment		
- Premises	9,429	8,815
- Computer equipment	2,400	1,302
- Other equipment	281	262
Intangible assets – computer software	9,427	4,090
Total right-of-use assets	21,537	14,469

Measurement of lease liabilities

The lease liability recognised as at 31 December 2019 amounting to €17.7 million (1 April 2019: €21.4 million) and €12.0 million (1 April 2019: €14.5 million) for the Group and the Bank, respectively, includes a non-current lease liability portion amounting to €12.7 million (1 April 2019: €16.9 million) and €7.1 million (1 April 2019: €9.0 million) for the Group and the Bank, respectively.

	Group	Bank
	1 April 2019	1 April 2019
	€000	€000
Operating lease commitments disclosed as at 31 March 2019	6,055	5,806
Add: adjustments as a result of a different treatment of extension and termination options	17,217	10,344
Discounted using the Group's incremental borrowing rate of at the date of initial application	(365)	(311)
Less: short-term leases not recognised as a liability	(1,462)	(1,462)
Total lease liabilities	21,445	14,377
Of which are:		
Current lease liabilities	4,546	2,691
Non-current lease liabilities	16,899	11,686
Total right-of-use assets	21,445	14,377

In applying IFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- reliance on previous assessments on whether leases are onerous;
- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application; and
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease

Amounts recognised in profit or loss

The income statement includes the following amounts relating to leases:

	Group	Bank
	Period from 1 April 2019 to 31 December 2019	Period from 1 April 2019 to 31 December 2019
	€000	€000
Financial statements line item increase/(decrease):		
Interest expense	624	416
Depreciation and amortisation		
- Premises	880	829
- Computer equipment	331	176
- Other equipment	39	22
- Computer software	1,267	551
Taxation	393	182

The following table summarises the impacts of adopting IFRS 16 on the Group's and Bank's statement of cash flows:

	Group	Bank
	Period from 1 April 2019 to 31 December 2019	Period from 1 April 2019 to 31 December 2019
	€000	€000
Financial statements line item increase/(decrease):		
Interest and commission payments	624	416
Payments to employees and suppliers	(2,516)	(1,581)
Principal element of lease payments	1,892	1,165

Operating lease charges to be reflected within the profit and loss during the period from 1 April 2019 to 31 December 2019 utilising the accounting principles of IAS 17, Leases, had IFRS 16 not been adopted, would have amounted to €4.5 million and €2.5 million for the Group and Bank respectively. Hence, profit before tax for the period ended 31 December 2019 has been impacted favourably by these amounts in view of the adoption of the requirements of IFRS 16.

Segment information has been impacted by the change in policy as reflected in the table below.

	Group
	Impact on profit before tax 1 April 2019 to 31 December 2019
	€000 increase/ (decrease)
Malta	519
Belgium	847
	1,366

Comparative segment information has not been restated. As a consequence, the segment information disclosed for the items noted above is not entirely comparable to the information disclosed for the prior year (refer to Note 36).

38. Investor compensation scheme

In accordance with the provisions of the Investor Compensation Scheme Regulations, 2003, issued under the Maltese Investment Services Act (Cap. 370), licence holders are required to transfer a variable contribution to an Investor Compensation Scheme Reserve and place the equivalent amount with a bank, pledged in favour of the Scheme. Alternatively, licence holders can elect to pay the amount of variable contribution directly to the Scheme. Throughout the current financial period, MeDirect Malta was not required to pay any variable contribution to the Scheme.

39. Trust and custody activities

The Group provides trust and custody services to individuals, trusts, and other institutions, whereby it holds and manages assets or invests funds received in various financial instruments at the direction of the customer. The Group receives fee income for providing these services. Trust assets and assets held in custody are not assets of the Group and are not recognised in the statements of financial position. The Group is not exposed to any credit risk relating to such placements, as it does not guarantee these investments.

At 31 December 2019, the total assets held by the Group and the Bank on behalf of customers amounted to €1,036.3 million (31 March 2019: €926.7 million) and €560.7 million (31 March 2019: €512.1 million) respectively.

40. Events after the reporting date

COVID-19 global pandemic outbreak

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

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

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

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

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

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

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

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

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

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

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

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

- The Group's analysis assumes a sharp downturn in the global economy during the first half of the year, followed by a gradual recovery later in the year and into 2021, but more severe outcomes have also been tested, at this stage excluding the impact of further regulatory and/or government measures which may be taken as a result of this. The eventual outcome of the pandemic nevertheless remains unclear at this time and the Group is accordingly continually working on further measures and plans that could be put into effect should the outcome of the pandemic be materially more adverse than currently envisaged. Alternatively, additional governmental measures may be taken in coming months which lessen the adverse economic impacts assumed in the Group's analysis.
- Within the overall economic scenario arising from the pandemic that is assumed by the Group, the estimation of expected credit losses entails a high degree of judgment at this early stage. The projected expected credit losses, particularly in respect of the Group's international lending portfolio, have a significant impact on the projected financial results during the initial part of the forecast period referred to above. The Directors believe that reasonable judgments have been made by management on the basis of the information in hand in estimating these losses.
- On the basis of a stressed case that excludes from consideration any future increases in capital and also assumes a more prudent outlook on a number of initiatives and other measures planned by management, the Group would partially utilise its capital buffers during the explicit period. In the opinion of the Directors the judgments made on this matter are consistent with the guidance issued by the ECB to all significant banks.

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

Dutch Residential Mortgage-Backed Security Transaction

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

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

41. Statutory information

MeDirect Bank (Malta) plc is a limited liability company and is incorporated in Malta.

The ultimate controlling party of MeDirect Malta is AnaCap Financial Partners II L.P., 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 Malta Business Registry in Malta and on the Group's website https://www.medirect.com.mt/about-us/investor-relations.

42. Comparative financial information

With effect from the current financial period, negative interest income attributable to certain financial assets is presented within interest expense rather than netted off within interest income (refer to note 23).

In this respect, comparative figures disclosed in the main components of these financial statements and the notes have been reclassified to conform to the current year's presentation for the purposes of fairer representation.

Five-year comparison: Statements of comprehensive income

	Group				
	9 month period ended 31 Dec 2019 €000	Year ended 31 Mar 2019 €000	Year ended 31 Mar 2018 €000	Year ended 31 Mar 2017 €000	Year ended 31 Mar 2016 €000
Interest income	**67,924**	96,183	90,835	89,863	77,240
Interest expense	**(23,897)**	(28,581)	(27,902)	(32,299)	(36,408)
Net interest income	**44,027**	67,602	62,933	57,564	40,832
Net fee and commission income	**4,218**	5,558	4,225	2,741	1,342
Net trading income	**3,001**	3,128	3,929	2,178	2,224
Net income from financial instruments carried at fair value through profit or loss	**187**	3,448	128	-	1,108
Other operating income/(expense)	**3,496**	539	(974)	4,408	15,640
Total operating income	**54,929**	80,275	70,241	66,891	61,146
Personnel expenses	**(22,824)**	(21,411)	(17,593)	(17,046)	(17,228)
Depreciation and amortisation	**(3,817)**	(779)	(259)	(551)	(608)
Other administrative expenses	**(21,103)**	(30,820)	(29,992)	(25,163)	(26,186)
Net impairment charges	**N/A**	N/A	(8,302)	(5,607)	(3,747)
Change in expected credit losses and other credit impairment charges	**(136)**	(5,795)	-	-	-
Profit before tax	**7,049**	21,470	14,095	18,524	13,377
Taxation	**(1,029)**	1,398	5,450	(3,373)	(2,061)
Profit for the period	**6,020**	22,868	19,545	15,151	11,316
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	**(28)**	1,651	1,230	8,474	(5,209)
- Net amount reclassified to profit or loss, before tax	**(5,098)**	-	(43)	(800)	(15,712)
Income tax relating to other comprehensive income	**1,379**	(475)	(408)	(2,681)	7,319
Other comprehensive income, net of tax	**(3,747)**	1,176	779	4,993	(13,602)
Total comprehensive income, net of tax	**2,273**	24,044	20,324	20,144	(2,286)

Five-year comparison: Statements of financial position

	Group				
	31 Dec 2019 €000	31 Mar 2019 €000	31 Mar 2018 €000	31 Mar 2017 €000	31 Mar 2016 €000
Assets					
Balances with central banks, treasury bills and cash	**241,726**	146,988	105,300	245,194	33,280
Derivative financial instruments	**2,020**	716	470	1,627	3,964
Loans and advances to financial institutions	**223,287**	118,439	113,935	106,895	59,558
Loans and advances to customers	**1,359,377**	1,842,555	1,701,716	1,449,970	1,238,966
Investments	**1,184,117**	690,581	560,245	698,474	872,497
Property and equipment	**12,443**	2,071	1,223	402	923
Intangible assets	**16,455**	5,815	2,495	4	27
Non-current assets classified as held for sale	**1,785**	1,785	1,785	1,785	-
Current tax assets	**3,089**	10,797	9,527	8,391	5,633
Deferred tax assets	**22,279**	21,338	16,148	14,178	15,000
Prepayments and accrued income	**15,979**	18,383	18,168	19,138	17,720
Other assets	**48,511**	23,323	16,510	25,233	26,733
Total assets	**3,131,068**	2,882,791	2,547,522	2,571,291	2,274,301
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	**133,196**	143,196	147,353	60,803	60,803
Reserve for general banking risks	**3,357**	3,081	1,694	1,694	1,194
Other reserves	**(2,731)**	870	(1,732)	(2,511)	(7,580)
Retained earnings	**61,724**	56,126	42,468	32,923	18,348
Total equity	**326,460**	334,187	320,697	223,823	203,679
Liabilities					
Derivative financial instruments	**4,182**	11,327	3,581	2,323	7,337
Amounts owed to financial institutions	**224,012**	198,887	126,428	359,183	541,925
Amounts owed to customers	**2,439,126**	2,202,091	1,979,159	1,901,512	1,447,355
Subordinated liabilities	**54,820**	67,138	66,949	47,043	47,380
Current tax liabilities	**276**	158	156	71	69
Deferred tax liabilities	**199**	491	44	-	-
Provisions for liabilities and charges	**4,528**	1,633	-	-	-
Accruals and deferred income	**40,906**	39,450	34,266	30,428	23,321
Other liabilities	**36,559**	27,429	16,242	6,908	3,235
Total liabilities	**2,804,608**	2,548,604	2,226,825	2,347,468	2,070,622
Total equity and liabilities	**3,131,068**	2,882,791	2,547,522	2,571,291	2,274,301

Five-year comparison: Statements of cash flows

	Group				
	9 month period ended 31 Dec 2019 €000	Year ended 31 Mar 2019 €000	Year ended 31 Mar 2018 €000	Year ended 31 Mar 2017 €000	Year ended 31 Mar 2016 €000
Cash flows from operating activities					
Interest and commissions receipts	**78,617**	118,351	108,380	110,999	94,228
Interest and commission payments	**(22,724)**	(30,186)	(29,530)	(35,761)	(40,402)
Payments to employees and suppliers	**(33,458)**	(58,863)	(45,908)	(43,523)	(45,206)
Operating cash flows before changes in operating assets/liabilities	**22,435**	29,302	32,942	31,715	8,620
(Increase)/decrease in operating assets:					
Reserve deposit with central banks	**(117,930)**	(108,313)	178,077	(184,630)	(2,407)
Loans and advances to financial institutions and customers	**472,553**	(182,119)	(276,168)	(225,770)	(210,327)
Investment securities		-	-	-	-
(Decrease)/increase in operating liabilities:					
Amounts owed to financial institutions and customers	**33,616**	312,344	(125,893)	357,360	(98,762)
Other payables	**(14,629)**	16,658	7,704	1,776	659
Derivative financial instruments	**-**	(2,234)	(848)	(7,494)	(1,960)
Tax refund/(paid)	**6,942**	(1,878)	2,065	(7,989)	(17,124)
Net cash from/(used in) operating activities	**402,987**	63,760	(182,121)	(35,032)	(321,301)
Cash flows from investing activities					
Acquisition of subsidiary	**-**	-	-	-	-
Acquisition of property and equipment	**(325)**	(884)	(1,053)	(7)	(20)
Disposal of property and equipment		-	-	-	-
Acquisition/development of intangible assets	**(3,419)**	(3,301)	(2,559)	-	(23)
Acquisition of investments measured at amortised cost	**(264,593)**	(31,107)	N/A	-	-
Acquisition of investments measured at fair value through other comprehensive income	**(654,640)**	(164,713)	N/A	-	-
Acquisition of investments measured at fair value through profit or loss	**(1,750)**	-	-	-	-
Disposal/redemption of investments measured at fair value through other comprehensive income	**417,842**	58,903	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**	N/A	(25,717)	(26,939)	(289,592)
Disposal/redemption of available-for-sale assets	**N/A**	N/A	154,469	196,078	898,500
Disposal of equity instruments	**N/A**	N/A	-	81	3,637
Net cash (used in)/from investing activities	**(506,885)**	(137,734)	125,140	169,213	612,502
Cash flows from financing activities					
Shareholders' contributions	**(10,000)**	(6,186)	86,550	-	58,700
Issue of debt securities	**35,044**	-	19,913	-	-
Re-purchase/maturity of debt securities	**(47,229)**	-	-	-	(157,255)
Net proceeds from the debt securities in issue and subordinated liabilities	**-**	-	-	-	-
Dividends paid	**-**	-	(10,000)	-	(22,000)
Payments of lease liabilities	**(1,892)**	-	-	-	-
Net advances from/(to) intermediate and ultimate parent company		-	-	548	(653)
Net advances from/(to) immediate parent company	**33**	162	8,287	595	(7,727)
Net advances (to)/from group companies	**4,669**	(2,207)	1,376	3,337	3,435
Net cash (used in)/ from financing activities	**(19,375)**	(8,231)	106,126	4,480	(125,500)
Net (decrease)/increase in cash and cash equivalents	**(123,273)**	(82,205)	49,145	138,661	165,701
Cash and cash equivalents at beginning of period	**69,083**	151,288	102,143	(36,518)	(202,219)
Cash and cash equivalents at end of period	**(54,190)**	69,083	151,288	102,143	(36,518)

Five year comparison: Accounting ratios

	Group				
	31 Dec 2019 %	**31 Mar 2019 %**	**31 Mar 2018 %**	**31 Mar 2017 %**	**31 Mar 2016 %**
Net interest income and other operating income to total assets	**1.8%**	3.0%	2.8%	2.7%	2.4%
Operating expenses to total assets	**1.6%**	2.0%	1.9%	1.8%	1.7%
Cost to income ratio	**86.92%**	66.04%	68.11%	63.92%	71.8%
Profit before tax to total assets	**0.2%**	0.8%	0.6%	0.7%	0.5%
Profit after tax to total assets	**0.2%**	0.9%	0.8%	0.6%	0.4%
Profit before tax to equity	**2.1%**	6.6%	5.2%	8.7%	7.2%
Profit after tax to equity	**1.8%**	7.0%	7.3%	7.1%	6.1%

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 Dec 2019 No	**31 Mar 2019 No**	**31 Mar 2018 No**	**31 Mar 2017 No**	**31 Mar 2016 No**
Shares in issue	**117,450,107**	117,450,107	117,450,107	117,450,107	117,450,107

	Group				
	31 Dec 2019 €	**31 Mar 2019 €**	**31 Mar 2018 €**	**31 Mar 2017 €**	**31 Mar 2016 €**
Net assets per share	**2.78**	2.85	2.73	1.89	1.73
Earnings per share (cents) based on profit after tax	**5c**	19c	17c	13c	10c

Shareholder Register Information

Analysis of the share capital of MeDirect Bank (Malta) plc as at 31 December 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 December 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 20 May 2020.

Company information

Group company secretary

Galea Farrugia, Paula – resigning with effect from 6 April 2020 and replaced by Schmeltzer, Henry

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:

Denis Arnaud	Group Chief Executive Officer
Bonello Ghio, Lorraine	Group Head - Administration and Human Resources
Buttigieg Scicluna, Walance	Group Head - Treasury
Catania, Deo	Group Head - Operations
Cini, Charles	Head - Corporate Banking
Curtis, Michael	Group Chief Investment Officer
Goumas, Spiridion	Group Head - Compliance
Jaccarini, Edward	Group Chief Internal Audit Officer
Konewko, Alex	Group Chief Risk Officer
Ksiezopolski, Radoslaw	Group Chief Financial Officer
La Ciura, Nicol	Group Head - Wealth Products
Schmeltzer, Henry C.	Group Head - Commercial Strategy and Legal
Yussupov, Alanbek	Group Head - Change and Technology
Delva, Philippe *	Chief Executive Officer – MeDirect Belgium

Registered address

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* MeDirect Belgium has named Timothy Rooney as its new Chief Executive Officer, effective upon receipt of required regulatory approval. He will succeed Philippe Delva whose mandate as CEO of MeDirect Belgium ends at the end of August 2020.