

COMPANY ANNOUNCEMENT

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

Quote

The Board of Directors of MeDirect Bank (Malta) plc has today, 28 June 2019, approved the audited consolidated financial statements for the financial year ended 31 March 2019. A preliminary statement of annual results is being attached herewith in terms of the Listing Rules.

The Board of Directors did not recommend the payment of a final dividend and resolved to repay the shareholder contribution amounting to €10 million.

Unquote



Dr. Paula Galea Farrugia
Company Secretary
28 June 2019

MEDIRECT BANK (MALTA) PLC

Preliminary statement of annual results

31 March 2019

Statements of financial position

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

The financial statements were approved and authorised for issue by the Board of Directors on 28 June 2019 and signed on its behalf by:



Michael Bussey
Chairman



John Zarb
Director

Statements of comprehensive income

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

Statements of changes in equity

Group	Share capital €000	Share premium €000	Shareholders' contributions €000	Reserve for general banking risks €000	Other reserves €000	Retained earnings €000	Total €000
Balance at 1 April 2017	117,450	13,464	60,803	1,694	(2,511)	32,923	223,823
Total comprehensive income							
Profit for the year	-	-	-	-	-	19,545	19,545
Other comprehensive income, net of tax:							
Fair valuation of available-for-sale financial investments:							
- Net change in fair value arising during the year, net of tax	-	-	-	-	807	-	807
- Reclassification adjustments: net amount reclassified to profit or loss, net of tax	-	-	-	-	(28)	-	(28)
Total other comprehensive income, net of tax	-	-	-	-	779	-	779
Total comprehensive income, net of tax	-	-	-	-	779	19,545	20,324
Transactions with owners							
Shareholders' contributions	-	-	86,550	-	-	-	86,550
Dividends to equity holders	-	-	-	-	-	(10,000)	(10,000)
Total transactions with owners	-	-	86,550	-	-	(10,000)	76,550
Balance at 31 March 2018 as originally reported	117,450	13,464	147,353	1,694	(1,732)	42,468	320,697
Impact of transition to IFRS 9	-	-	-	-	1,426	(7,901)	(6,475)
Impact of merger	-	-	-	-	-	78	78
Balance at 1 April 2018 as restated	117,450	13,464	147,353	1,694	(306)	34,645	314,300
Total comprehensive income							
Profit for the year	-	-	-	-	-	22,868	22,868
Other comprehensive income, net of tax:							
Fair valuation of financial investments measured at fair value through other comprehensive income:							
- Net change in fair value arising during the year, net of tax	-	-	-	-	1,176	-	1,176
Total comprehensive income, net of tax	-	-	-	-	1,176	22,868	24,044
Transfer to Reserve for general banking risks	-	-	-	1,387	-	(1,387)	-
Transactions with owners							
Shareholders' contributions	-	-	3,073	-	-	-	3,073
Repayment of shareholders' contributions	-	-	(7,230)	-	-	-	(7,230)
Total transactions with owners	-	-	(4,157)	-	-	-	(4,157)
Balance at 31 March 2019	117,450	13,464	143,196	3,081	870	56,126	334,187

Statements of changes in equity - continued

Bank	Share capital €000	Share premium €000	Shareholders' contributions €000	Reserve for general banking risks €000	Other reserves €000	Retained earnings €000	Total €000
Balance at 1 April 2017	117,450	13,464	60,803	1,694	19,695	1,235	214,341
Total comprehensive income							
Profit for the year	-	-	-	-	-	22,374	22,374
Other comprehensive income, net of tax:							
Fair valuation of available-for-sale financial investments:							
- Net change in fair value arising during the year, net of tax	-	-	-	-	812	-	812
- Reclassification adjustments: net amount reclassified to profit or loss, net of tax	-	-	-	-	(28)	-	(28)
Total other comprehensive income, net of tax	-	-	-	-	784	-	784
Total comprehensive income, net of tax	-	-	-	-	784	22,374	23,158
Realisation of previously recognised fair value reserve upon merger of subsidiary with Bank	-	-	-	-	(14,971)	14,971	-
Transactions with owners							
Shareholders' contributions	-	-	86,550	-	-	-	86,550
Dividends to equity holders	-	-	-	-	-	(10,000)	(10,000)
Total transactions with owners	-	-	86,550	-	-	(10,000)	76,550
Balance at 31 March 2018 as originally reported	117,450	13,464	147,353	1,694	5,508	28,580	314,049
Impact of transition to IFRS 9	-	-	-	-	1,539	(5,968)	(4,429)
Impact of merger	-	-	-	-	-	78	78
Balance at 1 April 2018 as restated	117,450	13,464	147,353	1,694	7,047	22,690	309,698
Total comprehensive income							
Profit for the year	-	-	-	-	-	20,984	20,984
Other comprehensive income, net of tax:							
Fair valuation of financial investments measured at fair value through other comprehensive income:							
- Net change in fair value arising during the year, net of tax	-	-	-	-	414	-	414
Total comprehensive income, net of tax	-	-	-	-	414	20,984	21,398
Realisation of previously recognised fair value reserve upon merger of subsidiary with Bank	-	-	-	-	(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

Statements of cash flows

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

Basis of preparation

The preliminary statement of annual results is published pursuant to Listing Rule 5.54 of the MFSA Listing Authority and Article 4 (2) (b) of the Prevention of Financial Markets Abuse (Disclosure and Notification) Regulations, 2005. Figures have been extracted from MeDirect Bank (Malta) plc's Annual Report and Accounts which have been audited by PricewaterhouseCoopers.

These financial statements have been prepared and presented in accordance with International Financial Reporting Standards as adopted by the EU.

Business review

During the financial year ended 31 March 2019, MeDirect Bank (Malta) plc and its subsidiaries (the "Group") continued to implement its business plan with the aim of sustaining the Group's long-term profitability by building its international corporate lending portfolio and its deposit and wealth management customer base in the mass affluent market both in Malta and Belgium and also with select corporates in Malta.

The Group's profitability has been mainly driven through the increase in capital in the prior financial year together with a consistent level of savings and term deposit customers, primarily in the Maltese and Belgian markets and deploying liquidity in the Group's international corporate lending activities.

The Group recorded a profit after tax for the financial year ended 31 March 2019 of €22.9 million (2018: €19.5 million). This increase in profitability is mainly due to the increase in the net interest income that increased by 7.4% compared to the prior financial year that is attributable to both an increase in the lending portfolio and changes to interest rates on customer deposits throughout the year. The significant tax credit in the comparative financial year is mainly due to the notional interest deduction rules that were introduced by the Maltese Government in October 2017. These new regulations had resulted in an over provision of current tax in the financial year ended 31 March 2017 and the recognition of deferred tax assets on any unutilised notional interest deduction allowances.

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

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

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

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

The Group also holds a portfolio of liquid assets. As of 31 March 2019, the Group's treasury portfolio stood at €690.6 million (2018: €560.2 million) consisting of a portfolio of hold to collect ("HTC") securities and a portfolio of hold to collect and sell ("HTC&S") securities. The fair value of the investment portfolio is risk managed through interest rate derivatives such as interest rate swaps where the hedge accounting methodology under IAS 39 was adopted.

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

The Group also utilises the Grand Harbour I ("GH I") structure, a controlled special purpose entity established in the Netherlands, that is funded through two intragroup loan facilities subscribed to by MeDirect Bank (Malta) plc ("MeDirect Malta") and MeDirect Bank S.A. ("MeDirect Belgium"). MeDirect Belgium and MeDirect Malta invested in GH I on a 74% - 26% basis (2018: 78% - 22% basis) with the tranche bought by MeDirect Belgium (the "Senior Loan") having a senior ranking vis-à-vis the facility taken up by MeDirect Malta (the "Junior Loan") as a result of which MeDirect Malta has retained substantially all risks and rewards pertaining to the activities of GH I.

The Group remains committed to operating with strong regulatory ratios and a robust liquidity position. MDB Group Limited is the immediate parent company of MeDirect Malta and this parent company together with its subsidiaries ("the Regulatory Group") are covered by the regulatory supervision. The Regulatory Group continues to ensure that appropriate capital levels are maintained reflecting the economic environment and the challenges that the Regulatory Group is faced with. The Group falls under the Single Supervisory Mechanism ("SSM"). The SSM refers to the system of banking supervision in Europe. It comprises the European Central Bank ("ECB") and the national supervisory authorities of the participating countries, that is Malta and Belgium. Its main aims are to ensure the safety and soundness of the European banking system, increase financial integration and stability and ensure consistent supervision.

MeDirect Malta is also classified as an Other Systemically Important Institution ("OSII"). Being designated as an OSII brings to the Group an operating standard akin to the largest banks within the Eurozone and thus the Board has been highly focused on the infrastructure that supports the Group's underlying business strategy. The Board is satisfied that significant progress has been made on many of these fronts over the past twelve months and that this will provide a strong foundation for the Group's current business model as the Group will also diversify its business lines from the historic core competencies.

Outlook and future business developments

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

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

The Group has recently received an Article 77 Change of Strategy approval for MeDirect Belgium, which will enable the Group to enter the Dutch mortgage market through a partner platform and deploy its excess liquidity into this attractive opportunity. This is a significant step forward in developing a broader strategy for the Group and the Board looks forward to the successful evolution of this business. To support the build out of the Belgian bank, the Group will continue to invest in the necessary resources to ensure compliance with all regulatory obligations and work closely throughout the Group to deliver the appropriate support to achieve the primary commercial objectives.

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

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

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

Events after the reporting date

New Dutch state-guaranteed mortgages business line

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

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

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

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

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

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

Repayment of shareholder contribution

On 28 June 2019, the directors of MeDirect Malta approved the repayment of the shareholder contribution to MDB Group Limited equivalent to €10 million.