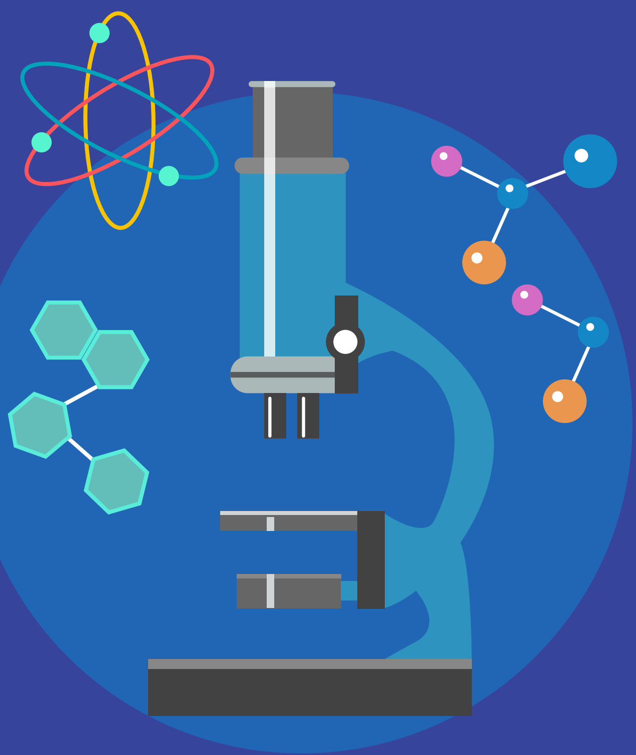
Under the Microscope

A Review of the Maltese Banking Sector for Financial Year 2018/2019



January 2020

kpmg.com.mt

Under the Microscope in its quinquennial year

Welcome to the latest edition of KPMG's *Under the Microscope*. This year marks the fifth edition of the publication and we trust you will find the content as insightful, thought provoking and valuable as that which comprised the previous four editions.

Sixty months on, we have ensured to keep the focus of the Publication – which is to provide a unique document encapsulating an analysis of the financial performance of local Credit Institutions, supported by an array of thought leadership pieces aimed to get our readers, informed and excited about new trends and developments in the wider financial services sector.

In this year's publication one can find articles which touch upon leadership and coaching, strategy, regulation and technology, all rolled into a flavoursome read for financial services players – operators, regulators and practitioners alike.

For each thought leadership piece we have included a QR code which will whisk you away to the relevant author's web page. Here one can find more information on the topic and services offered on the subject matter. We encourage readers to make use of this functionality.

We take this opportunity to thank all our readers for the valuable feedback we have received after each and every publication and encourage readers to continuously provide feedback to ensure this publication continues to deliver the value it sets out to provide.

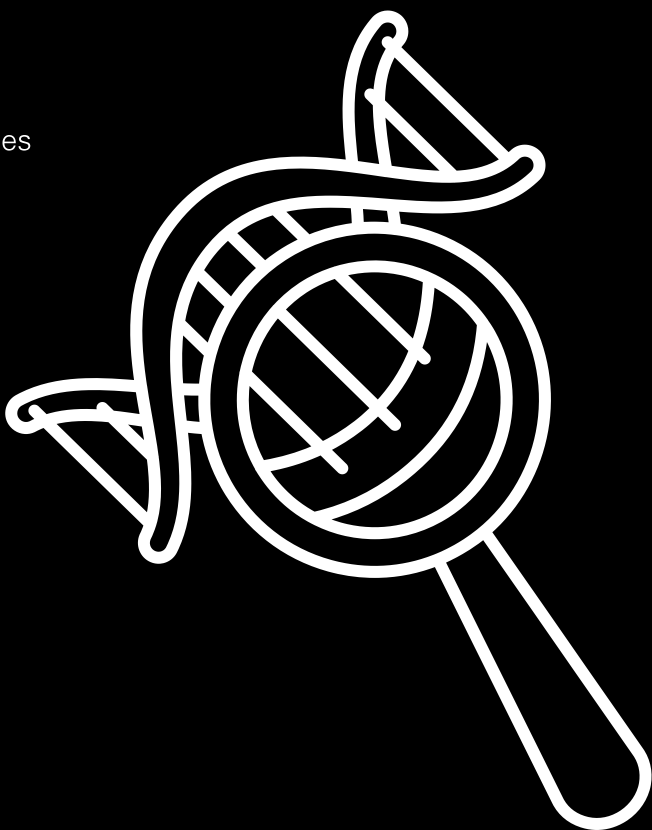
We trust you will find this edition of value and as a point of reference; as was our intention when developing this publication.

Sincerely,

Tonio Zarb
Senior Partner

Mark Curmi
Director
Banking and Fintech
Advisory Services

Noel Mizzi
Partner
Audit Services



Tonio is the Senior Partner at the firm and chairs the firm's Executive Committee. He has extensive experience in Risk Consulting and Deal Advisory services, and has detailed knowledge of strategy and business planning processes. Tonio holds an MBA from Warwick University, is a Certified Public Accountant and holds an Audit Practicing Certificate. He is a valuation specialist having led numerous valuation assignments over a span of more than 30 years. Tonio has also led an engagement involving the valuation of just under 900 properties as part of the Asset Quality Review exercise for Malta's largest bank. Tonio is a past-president of the Malta Institute of Accountants and served as a member of council up to June 2015 for a period of over 20 years. He still serves on the Institute's Ethics Committee. He is also a past president of the Institute of Financial Services Practitioners.

Tonio Zarb

Senior Partner

Noel is a Partner and the Head of Audit operations at the firm. He is responsible for the firm's dedicated financial services complement within the Audit Function. Noel holds a BA (Hons) in Accountancy from the University of Malta and is a Certified Public Accountant and Registered Auditor. He is a principal technical advisor on financial instruments standards on issues for the firm and its financial sector clients. Over the last 31 years, since joining KPMG, he has lead the audit of a number of banks operating from Malta, including some of Malta's largest Credit Institutions. His audit portfolio over the years included credit institutions, insurance companies, fund administration and management companies, as well as investment companies.

Noel Mizzi

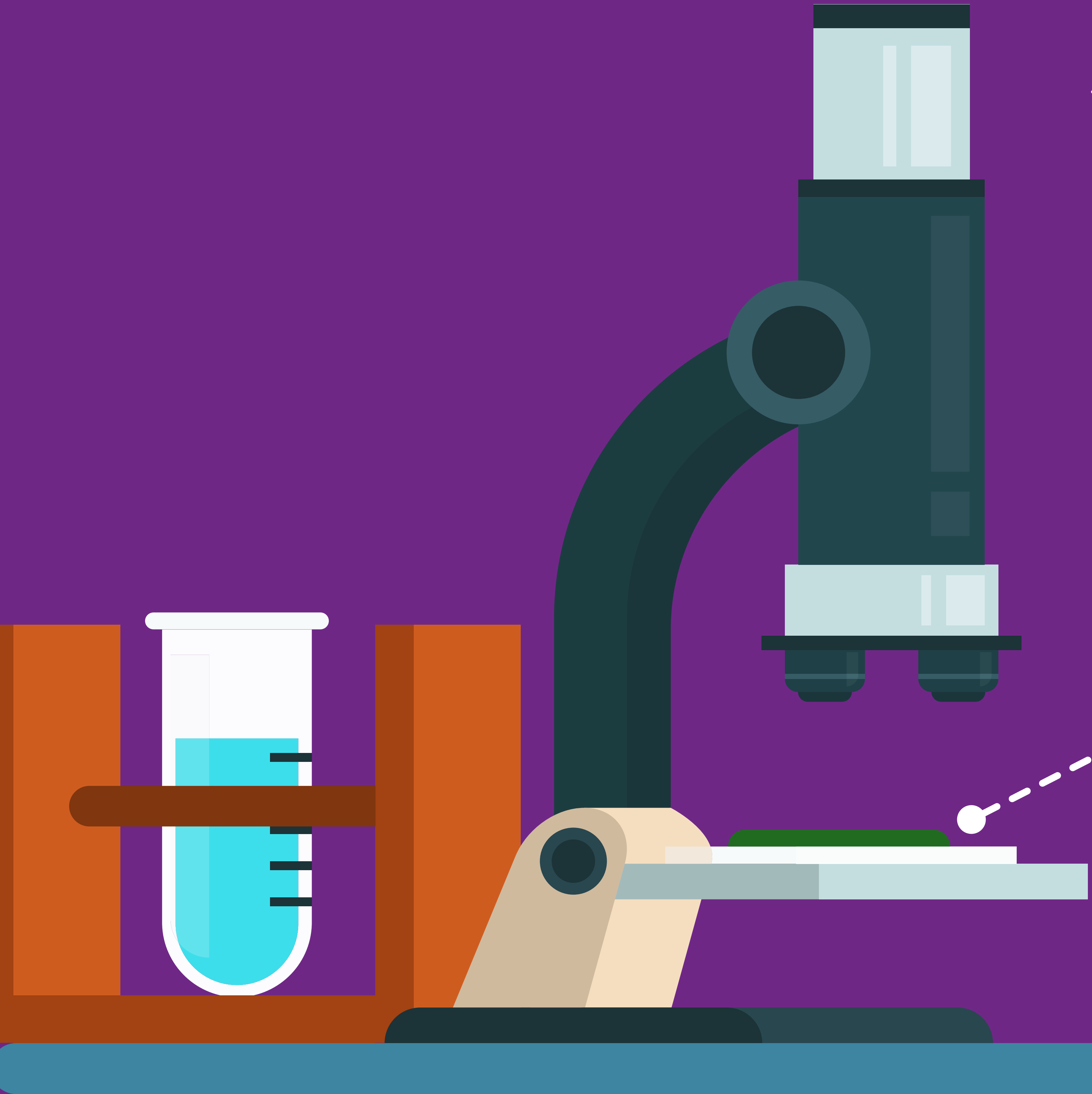
Head of Audit Operations
Audit Services

Mark is a Director in the firm, leading the Banking, and Fintech Advisory services arm of the Malta practice. He holds a Bachelors' degree in Banking, with Honours in Management from the University of Malta, and has in excess of fourteen years of local and international banking and financial services experience. Mark joined KPMG in 2014, to drive the Banking Service offering across Audit, Tax and Advisory within the firm. His role within the firm includes that of an industry specialist, which has seen him at the forefront of some major engagements, including advice with disposals and acquisitions of Banks and Financial Institutions, licencing of new Credit and Financial Institutions, ongoing regulatory advice and assistance, and, more recently assignments related to the emerging fields of financial technology, payment services and Virtual Financial Assets. Mark represents the local practice at KPMG's ECB Office in Frankfurt and forms part of KPMG's Global DLT Working group.

Mark Curmi

Director
Banking and Fintech Advisory Services

Approach



This publication is primarily based on the 2018/2019 Annual Group/Solo financial results and preceding period comparatives of 20 Credit Institutions:

- AgriBank plc
- APS Bank p.l.c.
- Bank of Valletta p.l.c.
- BNF Bank plc
- CommBank Europe Limited
- Credorax Bank Limited
- ECCM Bank plc
- FCM Bank Limited
- Ferratum Bank p.l.c.
- FIMBank p.l.c.
- HSBC Bank Malta p.l.c.
- IIG Bank (Malta) Ltd
- Izola Bank p.l.c.
- Lombard Bank Malta p.l.c.
- MeDirect Bank (Malta) plc
- Merkanti Bank Limited
- NBG Bank Malta Limited
- Novum Bank Limited
- Sparkasse Bank Malta Public Limited Company
- Yapi Kredi Bank Malta Ltd

Akbank T.A.S. and Garanti Bankasi A.S., being branches of Turkish banks operating in Malta, have been excluded from the analysis. Credit Europe Bank NV Malta, a Dutch branch operating in Malta has also been excluded from the analysis. Satabank plc has been excluded from this year's publication in view of the fact that the latest financial statements available are those for year ended December 2016.

In the assessments of AgriBank plc, Commbank Europe Ltd, and MeDirect Bank (Malta) plc we used the financial statements for the year ended 2019, given that their financial year ends during the current calendar year.

In the case of Bank of Valletta plc, HSBC Bank Malta plc, and MeDirect Bank (Malta) plc, being the Significant Institutions in Malta, we also used the latest interim financial statements to support our analysis.

Furthermore, Lombard Bank Malta plc's assessment does not include the results of Redbox Limited.

All the data related to the analysis of the Bank's financial statements has been obtained solely from publicly available sources. This analysis has, in most cases and as much as possible, utilised comparable data to provide meaningful results.

In undertaking our analysis, in certain cases we were required to calculate certain regulatory or financial ratios from the public information available. The ratios which were calculated in-house have been clearly identified in the respective analysis. The formulas utilised in the ratio calculations were as follows, unless otherwise stated in analysis:

ROE = Profit before tax/ Shareholder's equity

ROA = Profit before tax/Total Assets

Cost-to-income = Operating Costs/ Operating Expenses

NPL ratio = Gross Non-performing Loans and Advances/Gross Loans and Advances

NI to Total Income = NI Income/ Total Net Income

Contents

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Glossary

AEOI	Automatic Exchange of Information
AML	Anti-Money Laundering
AMLD	Anti-Money Laundering Directive
AUD	Australian Dollar
BBRD	Banking Recovery and Resolution Directive
BCBS	Basel Committee on Banking Supervision
BRRD 2	Bank Recovery and Resolution Directive II
BS	Balance Sheet
CAR	Capital Adequacy Ratio
CEO	Chief Executive Officer
CET1	Common Equity Tier 1
CFO	Chief Financial Officer
CFT	Combatting the Financing of Terrorism
CMO	Chief Marketing Officer
CMU	Capital Markets Union
CRD	Capital Requirements Directive
CRR	Capital Requirements Regulation
CRS	Common Reporting Standard
DLT	Distributed Ledger Technology
EBA	European Banking Authority
ECB	European Central Bank
EDIS	European Deposit Insurance Scheme
EEC	European Economic Community
EMIR	European Market Infrastructure Regulation
ENISA	European Union Agency for Cybersecurity
ESG	Environmental, Social and Corporate Governance
EU	European Union
EUCLID	European centralised infrastructure for supervisory data
EUR	Euro
FATCA	Foreign Account Tax Compliance Act
FinTech	Financial Technology
FSB	Financial Stability Board
FTT	Financial Transaction Tax
FVTPL	Fair Value through Profit and Loss
GBP	Great British Pound
HMRC	Her Majesty's Revenue and Customs
Hons	Honours
IA	Internal Audit
IBM	International Business Machines Corporation
IFD	Investment Firms Directive

Licences

Credit Institution Licence

Tied Insurance Intermediaries Licence

Investment Services Licence

IFR	Investment Firms Regulation
IFRS	International Financial Reporting Standards
IRRBB	Interest Rate Risk in the Banking Book
IT	Information Technology
ITS	Implementing Technical Standards
KFFL	KPMG's Family for Literacy
L&A	Loans and Advances
LCR	Liquidity Coverage Ratio
MAD2	Market Abuse Directive 2
MAR	Market Abuse Regulation
MBA	Master's in Business Administration
MFSA	Malta Financial Services Authority
MiFID2	Markets in Financial Instruments Directive 2
MiFIR	Markets in Financial Instruments Regulation
MREL	Minimum Requirement for own funds and Eligible Liabilities
N/A	Not Available
NCA	National Competent Authority
NI	Net Interest
NII	Net Interest Income
NPL	Non-Performing Loans
OECD	Organisation for Economic Co-Operation and Development
P&L	Profit and Loss
PBT	Profit Before Tax
PLC	Public Limited Company
PSD	Payment Services Directive
R&D	Research and Development
ROA	Return on Assets
ROE	Return on Equity
RPA	Robotic Process Automation
RRM	Risk Reduction Measures
SMEs	Small and Medium Enterprises
SRMR	Single Resolution Mechanism Regulation
TIN	Tax Identifications Number
TLAC	Total Loss-Absorbing Capacity
UK	United Kingdom
US	United States
USD	United States Dollar


Investment Manager Licence


Alternative Investment Fund Manager Licence


Companies authorised to act as a Trustee or Co-Trustee to provide Fiduciary Services in terms of the Trusts and Trustees Act

Regulatory Outlook 2020

Top Regulatory Challenges

Geo-political and macro-economic risk

- Macro-economic policy perspectives
- 2020 global growth forecasts revised downward
- Trade issues
- Low interest rate environment impacts
- Consumer protection drivers
- Financial stability concerns

Regulatory body change

- Evolving Financial Stability Board (FSB) agenda
- Increased powers for European Supervisory
- Authorities
- Monitoring and reviews of post-crisis regulation

Social Services

- Regulation expected to support social objectives, such as on climate change and financial inclusion
- Potential tensions with financial stability and consumer protection objectives

Governance, accountability & conduct

- Focus on accountability and risk-taking
- Increasing expectations on culture and conduct
- Diversity moves onto some supervisors' agendas

System Risk

- Non-Performing Loans
- Asset volatility
- Non-bank finance
- Climate change
- Political instability

Operational Resilience

- Enterprise ability to prevent, respond to and recover and learn from operational disruptions
- Cyber-security, data protection, fraud/money-laundering/terrorist financing prevention
- Systemic inter-connectedness, risk concentration and stress testing
- Outsourcing practices and over-sight

Technological change

- Technological change re-defines business and operational models
- Rapidly-evolving technologies challenge existing governance structures
- Regulators encourage innovation, but are concerned about heightened risks and consumer protection
- Artificial intelligence challenges current decision-making structures
- Piecemeal rule proposals on e.g. crypto-assets, rob-advice, AI
- Do conduct rules accommodate the digital age?

Digitilasation & Cyber Deterrence

- Increasingly digitalised environments
- Data protection breaches reveal weaknesses
- Increasing scale and sophistication of cyber technologies pose new challenges
- Cyber attacks to global infrastructure are systemic threats

Source: FS EMA Risk and Regulatory Insight Centre

Regulatory Proposals and Reviews

Evolving regulatory initiatives – includes new proposals, proposals adopted but not yet implemented, and legislative reviews within the next year.*

- Markets in Financial Instruments Directive 2 (MiFID 2)/Markets in Financial Instruments Regulation (MiFIR) review
- European Market Infrastructure Regulation (EMIR) review
- Crowdfunding regulation
- Loan origination by funds

- European Union Agency for Cybersecurity (ENISA) framework
- Market Abuse Directive 2 (MAD2) / Market Abuse Regulation (MAR) review
- Outsourcing to the cloud

- Payment Services Directive 2 (PSD2) review
- Financial Transaction Tax (FTT)

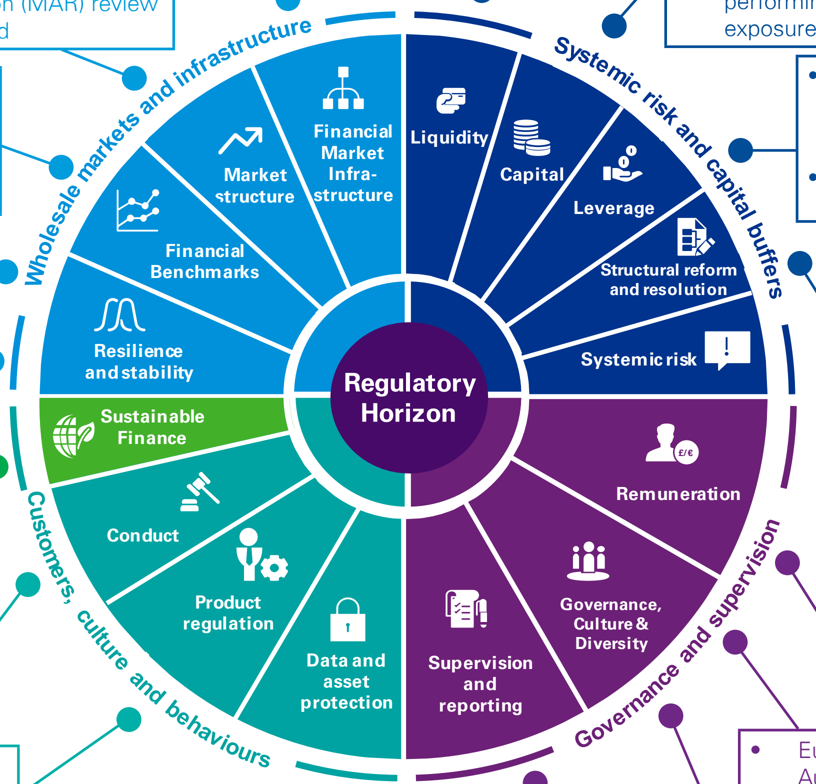
- EU Financial Benchmarks Regulation review

- Capital Markets Union (CMU)
- Banking Union

- ESG (environmental, social or governance) Regulation**

- MiFID 2 review
- Anti-Money Laundering Directive 5 (AMLD 5) review

- Data trusts
- Ethical use of Artificial Intelligence
- European Deposit Insurance Scheme (EDIS)



- Interest Rate Risk in the Banking Book (IRRBB)
- Basel Committee on Banking Supervision (BCBS) stress testing principles
- Supervisory Reporting Implementing Technical Standards (ITS)
- Macro-prudential oversight

- Basel 4 Framework
- Basel 4: Market risk framework
- Basel 4: Non-performing exposures
- Basel 4: Risk Weights for sovereign exposures
- Basel 4: Large exposures

- Capital Requirements Regulation 2 (CRR 2)
- EU Stress tests
- Capital Requirements Directive 5 (CRD 5)

- Minimum Requirement for own funds and Eligible Liabilities (MREL)
- Bank Recovery and Resolution Directive II (BRRD 2)
- Total Loss-Absorbing Capacity (TLAC)
- Single Resolution Mechanism Regulation II (SRMR 2)

- BCBS: Corporate governance principles for banks
- Financial Stability Board (FSB) principles for an effective risk appetite
- FSB guidance on assessing risk culture

- European Banking Authority (EBA) guidelines on internal governance

- BCBS: Pillar 3 disclosures phase 3

- EBA regulatory reporting framework
- MiFIR transaction reporting review
- European Market Infrastructure Regulation (EMIR) derivatives reporting review

Source: FS EMA Risk and Regulatory Insight Centre

** Data as at Q42019.*
*** The Sustainable Finance segment will expand to cover growing regulatory developments*
This diagram is non-exhaustive and represents a summary of key regulations affecting the financial services market. It does not cover every regulation and is intended to provide an overview and unique insight into the raft of evolving regulatory change across Europe and globally.

European Banking Authority

The EBA's wide-ranging programme sets out six strategic areas for 2020, underpinned by 37 activities. The programme includes objectives for 2020, expected results and main outputs. Challenges include its new AML/CFT role and, in particular, delivering the European Council's AML/CFT action plan set out in December 2018.

Work Programme 2020

Six strategic areas for 2020

1. **Support the development of the risk reduction package (RRM) and the implementation of the global standards in the EU:** implementation of RRM (which includes amendments to capital requirements and to the recovery and resolution framework), IFD/IFR, the Covered Bonds Directive, and more risk sensitive requirements for market risk, following the Basel work on the fundamental review of the trading book; finalisation of the roadmap for calculating minimum capital requirements for credit risk

2. **Providing efficient methodologies and tools for supervisory convergence and stress testing:** reconsideration of Pillar 2 policies to enhance convergence in supervision; monitoring own funds and liquidity provisions, and the use of discretions; a further EU-wide stress test

3. **Moving towards an integrated EU data hub and a streamlined reporting framework**: complete the last phase of the EUCLID project; a feasibility study on an integrated EU reporting framework

4. **Making AML a real priority for the EU:** policy development and supervisory implementation and convergence; collection, analysis and dissemination of information; investigation requests to national regulators and prohibitions for individual firms; peer reviews; liaison with third country equivalents

5. **Contributing to the sound development of financial innovation and sustainability:** building ESG considerations into general work; discussion paper on the incorporation of ESG into risk management and supervision; preparatory work on the classification and prudential treatment of assets from a sustainability perspective; monitoring financial innovation, ensuring that regulation remains technologically neutral, and assessing the impact on business models and the regulatory perimeter

6. **Promoting an operational framework for resolution:** expediting the BBRD mandates that are essential to the operationalisation of the resolution framework, such as on the MREL; focus on some practical aspects that stem from on-the-ground implementation experience and appear necessary for the execution of resolution decisions, with a particular focus on bail-in

There are also two horizontal priorities: ensuring effective cooperation with **third countries**; and improving a culture of **good governance** in financial institutions.

Single Supervisory Mechanism (SSM) 2020 Risk Map

Source: ECB and NCAs.

Notes:
**The execution risk attached to banks' strategies for non-performing loans (NPLs) applies only to banks with high levels of NPLs.*
***Climate change-related risks are more relevant over the longer-term horizon (i.e. of more than three years).*

Source: Horizons, November 2019, EMA Financial Services, Risk and Regulatory Insight Centre

European Central Bank

The ECB's banking supervision department has completed its annual risk identification and assessment for 2020 for banks within the SSM.

The ECB has identified eleven risk drivers. Prominent are economic, political and debt sustainability challenges, business model sustainability and cybercrime and IT deficiencies. Repricing in financial markets, increased scrutiny around misconduct, money laundering and terrorist financing, and execution risk around non-performing loan exit strategies also feature heavily.

These challenges will be addressed through three broad areas of supervisory focus:

1. Ongoing balance sheet repair
2. Strengthening future resilience
3. Other priorities (e.g. Brexit)

The main post-crisis regulatory initiatives have been finalised, but some, such as Basel III completion, are still to be incorporated into EU or national law. Although there is now greater clarity around the scope of the regulation, banks need to adapt fully to the new environment and teething troubles are to be expected.

The ECB notes that full implementation of the Basel framework as part of the CRR III/CRD VI package will lead to an increase in minimum capital requirements and therefore to an aggregated capital shortfall across EU banks, driven mainly by large, globally-active banks. Together with MREL, total loss-absorbing capacity (TLAC) and other implemented regulation – such as International Financial Reporting Standard 9, MiFID II and the revised Payments Services Directive – further regulatory developments will likely influence banks' strategic decisions and investment behaviours.

Business model sustainability is a hot topic, with decreasing margins, low profitability and low returns on equity persisting. Intense competition in an increasingly digital marketplace, for example from unregulated technology firms, is compounding the pressures facing banks across the Eurozone.

Source: Horizons, November 2019, EMA Financial Services, Risk and Regulatory Insight Centre

KPMG at a Glance

People

95% state that they are proud to work for KPMG	95% believes that their job provides them with a sense of personal accomplishment
90% would recommend KPMG as a great place to work	95% states that KPMG supports inclusion and diversity in the workplace

779
Total full-time employees

Nationalities
32

Analyst recognition and alliances

A leader in information security consulting services*

A leader in business transformation consulting**

A leader in digital transformation consulting & systems integration services***

Top-tier provider of digital technology Strategy and consulting services****

70+ alliances with market leaders like IBM, Microsoft and Oracle

*The Forrester Wave™: Information Security Consulting Services, Q3, 2017
**The Forrester Wave™: Business Transformation Consultancies, Q3, 2017
***IDC MarketScape: Worldwide Digital Transformation Consulting and Systems Integration Services 2017 Vendor Assessment (doc#US41523517, June 2017)
****HfS Blueprint Report on Digital Technology Strategy and Consulting Services 2017

Corporate Social Responsibility

2,406
Hours volunteered

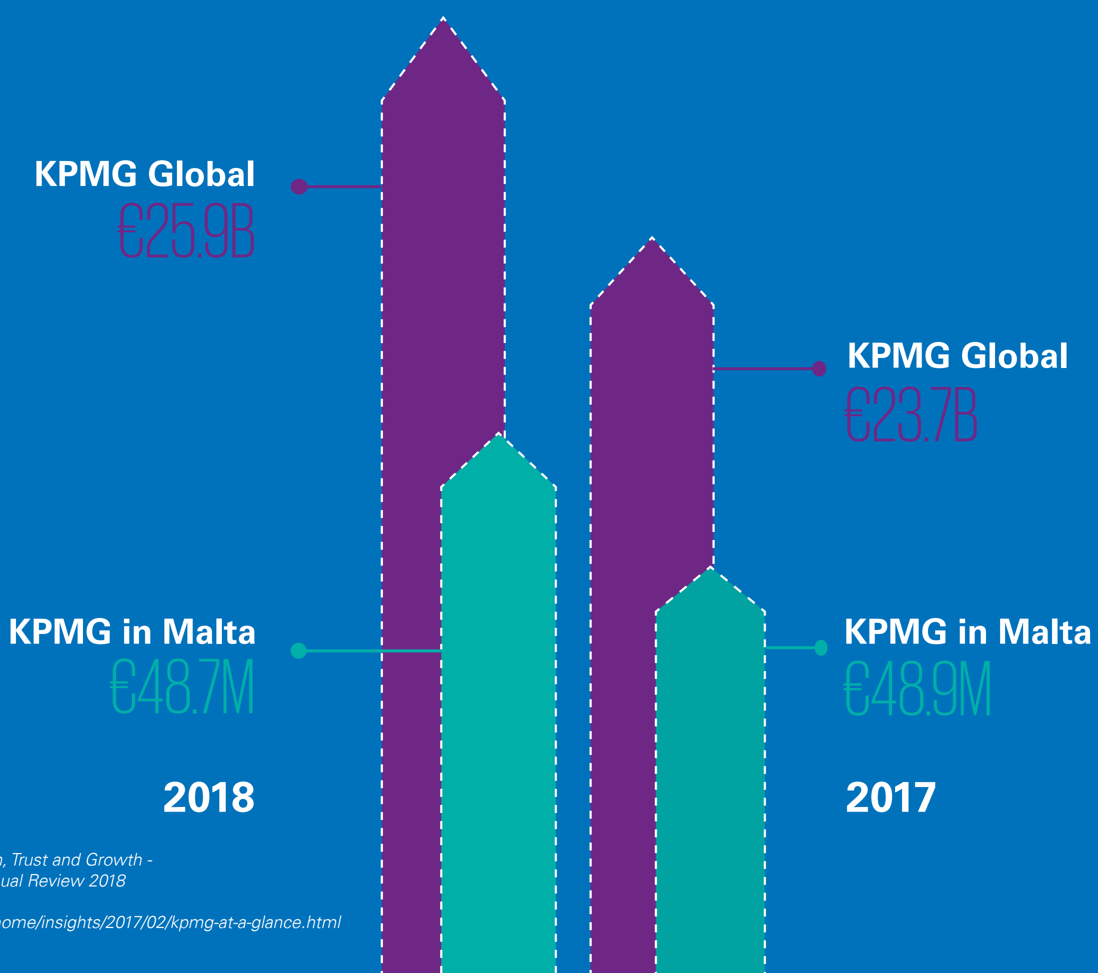
€48.2K
Total donations

€37.8K
Sponsorships to non-profit organisations

3 million books distributed in 20 countries through KPMG's Family for Literacy (KFFL) since inception

Proud supporter of programs to expand learning opportunities, like Enactus, Junior Achievement and One Young World

Revenue



Source: Momentum, Trust and Growth - KPMG in Malta Annual Review 2018
KPMG at a glance - home.kpmg/xx/en/home/insights/2017/02/kpmg-at-a-glance.html

Key Figures

		Total Assets		Amounts Owed to Customers		Loans & Advances to Customers		Net Interest Income / (Expense)		Net fee and commission income/ (expense)	
		€ million		€ million		€ million		€ million		€ million	
		2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
	Core Domestic Banks										
1	APS Bank p.l.c.	1,891	1,496	1,650	1,226	1,254	998	38	33	6	4
2	Bank of Valletta p.l.c.	12,147	11,821	10,415	10,101	4,363	4,162	157	183*	81	86*
3	BNF Bank plc	767	568	677	514	521	382	16	11	3	2
4	HSBC Bank Malta p.l.c.	6,311	6,798	4,887	4,766	3,110	3,129	109	121	23	23
5	Lombard Bank Malta p.l.c.***	919	860	790	737	511	429	17	15	4	3
6	MeDirect Bank (Malta) plc**	2,883	2,548	2,202	1,979	1,843	1,702	68	63	6	4
	Non-Core Domestic Banks										
7	FCM Bank Limited	57	70	45	61	2	0	-1	-1	0	0
8	FIMBank p.l.c.****	1632	1370	894	706	573	472	26	22	15	16
9	IIG Bank (Malta) Ltd****	156	160	127	133	83	68	5	5	1	0
10	Izola Bank p.l.c.	237	207	177	146	74	66	5	5	0	0
11	Sparkasse Bank Malta Public Limited Company	719	520	679	482	13	10	2	1	6	6
	International Banks										
12	AgriBank plc**/****	37	35	29	25	6	8	1	1	0	0
13	CommBank Europe Limited**/****	418	660	0	0	331	529	14	15	-2	0
14	Credorax Bank Limited	110	136	5	5	1	2	1	0	21	12
15	ECCM Bank plc	595	445	220	181	484	352	13	10	3	2
16	Ferratum Bank p.l.c.	282	261	181	171	143	123	106	87	-5	-5
17	Merkanti Bank Limited	17	15	4	2	3	2	0	0	2	2
18	NBG Bank Malta Limited	524	645	201	237	271	367	10	10	0	0
19	Novum Bank Limited	57	89	22	62	23	13	10	2	28	19
20	Yapi Kredi Bank Malta Ltd	185	158	0	0	101	135	2	3	0	0

For ease of perusal, all figures in the above table exceeding €0.5million were rounded up to the nearest € million.

** These figures represent amounts for a period of 15 months to December 2017, due to a change in financial year end which occurred in 2017.*

***The figures for MeDirect Bank (Malta) plc, AgriBank plc, and CommBank Europe Limited are for the financial year ended 2018/2019.*

****The figures for Lombard Bank Malta p.l.c. were based on a solo basis.*

***** For these banks, the above figures have been converted to Euro using the applicable ECB AUD/GBP/USD to EUR financial year end exchange rates (for Balance Sheet items) and average currency exchange rates (for Income Statement Items).*

	Core Domestic Banks	Profit Before Tax		CET1 Ratio		CAR		Own Funds	
		€ million		%		%		€ million	
		2018	2017	2018	2017	2018	2017	2018	2017
1	APS Bank p.l.c.	19	18	14	16	14	17	131	126
2	Bank of Valletta p.l.c.	71	175*	18	16	21	19	986	931
3	BNF Bank plc	4	2	15	12	17	14	73	42
4	HSBC Bank Malta p.l.c.	39	50	15	14	17	14	439	366
5	Lombard Bank Malta p.l.c.***	13	7	15	14	15	14	99	89
6	MeDirect Bank (Malta) plc**	21	14	13	14	15	17	358	357
	Non-Core Domestic Banks								
7	FCM Bank Limited	-4	-1	287	243	287	243	10	7
8	FIMBank p.l.c.****	11	10	18	11	18	16	234	157
9	IIG Bank (Malta) Ltd****	-4	2	13	14	13	14	19	22
10	Izola Bank p.l.c.	2	4	N/A	N/A	24	26	30	27
11	Sparkasse Bank Malta Public Limited Company	6	5	28	25	28	25	25	23
	International Banks								
12	AgriBank plc**/****	-1	0	20	19	27	25	6	7
13	CommBank Europe Limited**/****	7	-4	43	44	43	44	181	310
14	Credorax Bank Limited	15	3	32	18	32	18	24	23
15	ECCM Bank plc	17	10	34	41	102	95	374	262
16	Ferratum Bank p.l.c.	14	11	18	17	18	17	53	40
17	Merkanti Bank Limited	1	1	110	83	110	83	13	12
18	NBG Bank Malta Limited	9	7	63	48	63	48	225	223
19	Novum Bank Limited	9	2	N/A	N/A	35	26	18	12
20	Yapi Kredi Bank Malta Ltd	1	1	36	41	36	41	61	61

For ease of perusal, all figures in the above table exceeding €0.5million were rounded up to the nearest € million.

** These figures represent amounts for a period of 15 months to December 2017, due to a change in financial year end which occurred in 2017.*

***The figures for MeDirect Bank (Malta) plc, AgriBank plc, and CommBank Europe Limited are for the financial year ended 2018/2019.*

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Core Domestic Banks

- APS Bank p.l.c.
- Bank of Valletta p.l.c.
- BNF Bank plc
- HSBC Bank Malta p.l.c.
- Lombard Bank Malta p.l.c.
- MeDirect Bank (Malta) p.l.c.

APS Bank p.l.c.

Financial Year ended 31st December 2018

1 **Licences**

Category 2

3 **Regulatory Ratios**

CAR

	CAR
2016	17%
2017	16.5%
2018	13.9%

CET 1 Ratio

	CET 1 Ratio
2016	15.6%
2017	16.1%
2018	13.9%

Leverage Ratio

	Leverage Ratio
2016	7.5%
2017	7.5%
2018	6.9%

Liquidy Coverage Ratio

	Liquidy Coverage Ratio
2016	244%
2017	146%
2018	173.9%

Non-Performing Loans Ratio

	Non-Performing Loans Ratio
2016	6.5%
2017	4.2%
2018	3.8%

4 **Core Financial Ratios**

ROA

	ROA
2016	1.2%
2017	1.2%
2018	1%

ROE**

	ROE**
2016	10.1%
2017	10.9%
2018	9.7%

Cost-to-Income

	Cost-to-Income
2016	54.4%
2017	52.3%
2018	55%

Net Interest Income to Total Net Income*

	Net Interest Income to Total Net Income*
2016	80.2%
2017	76.7%
2018	84.6%

*The Net Interest Income to Total Income ratios was calculated in accordance with the stated formulas in the Approach section.
**The Bank calculates Return on Equity using Profit After Tax and Equity excluding the Revaluation Reserve.

Profitability

2

Profit Before Tax

1.5%

Profits before tax increased by €0.27 million to €18.63 million in 2018. The Group attributed this result to a retained momentum in business growth and substantial investment in people, technology, network transformation, functional and process reorganisation activities. During 2018, one can also note an increased business diversification towards commercial real estate lending and a growing book of overseas syndicated loan participations.

15.3%

Net Interest Income

The Group reported a €5.01 million increase in Net Interest Income which was a result of a satisfactory increase in Interest Receivable on Loans and Advances to Banks and Loans and Advances to Customers of €9.09 million (or 28.5%) in 2018. This is a direct reflection of increases in lending activity to both Banks and Customers as outlined in further detail in the section pertaining to Assets below. This positive result was however slightly impacted by a decrease in Interest Receivable on Debt Securities of €1.52 million (or 14.4%) and an increase of €2.56 million (or 26.7%) in Interest Payable for 2018. The latter was due to increased Balances held with the Central Bank of Malta which attracted a negative interest throughout the year under review.

31.2%

Net Fee and Commission Income

A €1.37 million growth reflects an increase in Fees and Commission Income of €1.22 million (or 24.7%) and a decrease in Fees and Commission Expense of 26.9% (or €0.15 million) in 2018, with the former being an obvious effect pertaining directly to the growth in the lending book. These movements arose mainly from households and other home finance products which remained the largest source of credit activity for the Group. However during the year under review there was more diversification towards commercial real estate and overseas syndicated loan participations as seen in the Concentration of Loans and Advances to Customers chart.

37%

Net Impairment Losses

Although there was an increased Impairment Charge recognised for the year under review, there were also higher write-downs being reversed. In fact the €2.03 million (or 44.8%) increase in Impairment Charge for the Year was offset by a €2.94 million (or 143.2%) decrease in Write-Down Reversals resulting in the net decrease of Net Impairment Losses of €0.92 million (or 37%).

120.1%

Net (Losses)/Gains on Financial Instrument

Whilst in 2017 there was a gain on financial instruments of €3.35 million, 2018 saw a loss of €0.67 million on this type of instruments. The main reason for this was that in 2017 the Group recorded an extraordinary realised gain in excess of €2 million in connection with the setup of the APS Diversified Bond Fund. Furthermore, in 2018, the Group reported an Unrealised Net Fair Value loss on Financial Assets classified as FVTPL of €0.96 million, reflecting an increase of €0.89million from the previous year.

21.4%

Personnel Expenses

The increase in Personnel Expenses is the main contributing factor to the overall increase in the Group's Operating Expenses. This increase is a reflection of the increased number of employees employed by the Group. In fact, there was an average increase in employees of 49 individuals during the year under review; 22 of which being in key managerial positions and reflecting a 95% (or €1.24 million) increase over the previous year.

Cash and Balances with Central Bank of Malta

⬆ 95.9%

A €85.87 million increase was the result of increased Balances with Central Bank of Malta (including reserve deposit) of €88.57 million (or 115.9%) over 2017. This increase was minimally impacted by a decrease in Cash in Hand of 20.6% (or €2.7 million).

Loans and Advances to Banks

⬆ 51.5%

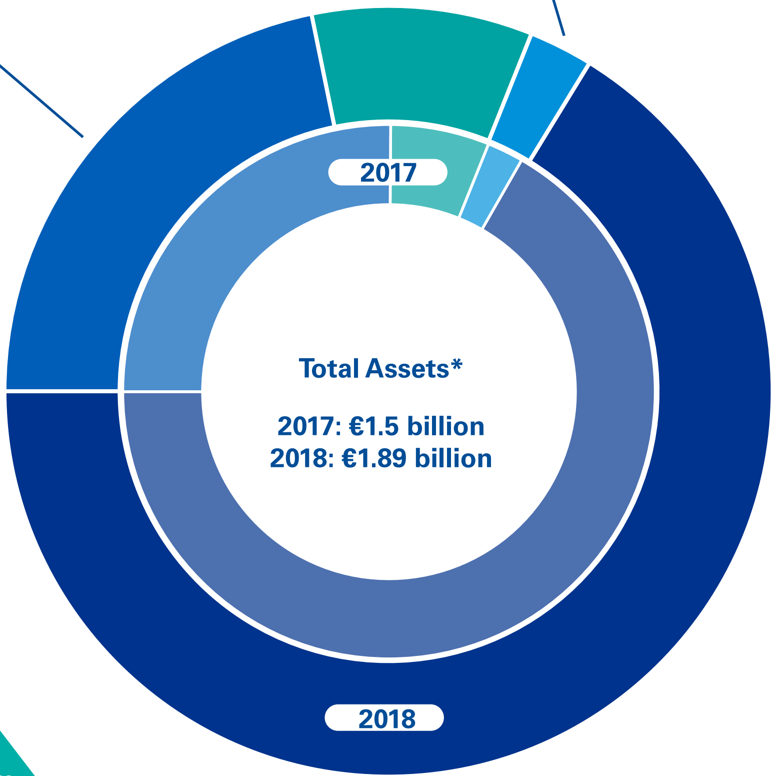
The Group registered an increase of €17.14 million in L&A to Banks which reflects an increase in funds held with Banks classified as Repayable on Call and at Short Notice which have a repayable maturity of 3 months. These highly liquid assets help the liquidity position of the Group although these continued to attract negative interest throughout the year under review.

All Other Assets

Syndicated Loans

⬆ 135%

A satisfactory increase in Syndicated Lending, of €35.4 million reflects part of the Group's diversification strategy. Syndicated loan participations were of medium term duration, originated by quality international names, and are spread over different sectors. The sector which reported the most growth during the year under review was the manufacturing category, which reported a 172.1% (or €15.84 million) increase over 2017.



Equity: Total Equity increased by €5.84 million (or 4.3%) during the year under review. The Group's Issued Share Capital remained unchanged when compared to the previous year, with movements registered in the Group's Retained Earnings and Revaluation Reserves. Retained Earnings reserve increased by €8.45 million (or 14.1%) as a result of all the Group's financial performance during the year, as explained in the Profitability section above. This increase in Retained Earnings was however partially offset by a decrease in the Revaluation Reserve of €3.5 million (or 22%) due to fair value movements in financial instruments recognised directly in Other Comprehensive Income.

Loans and Advances to Customers

⬆ 25.6%

A recorded €255.51 million increase in Loans and Advances to Customers is mainly attributable to the Group's increased Term Loans and Advances of €264.24 million (or 28.5%). This positive result was slightly impacted by a 9.5% (or €8.33 million) decrease in lending classified as Repayable On Call and at Short Notice amounts and a €0.41 million (or 2.5%) increase in Allowance for Impairment Losses. The growth in the Group's lending portfolio resulted in an increase in market share.

*The information presented in the above chart reflect that portion of assets as a percentage of the total assets for the respective year.

6 Liabilities

Amounts Owed to Banks

⬇ 33%

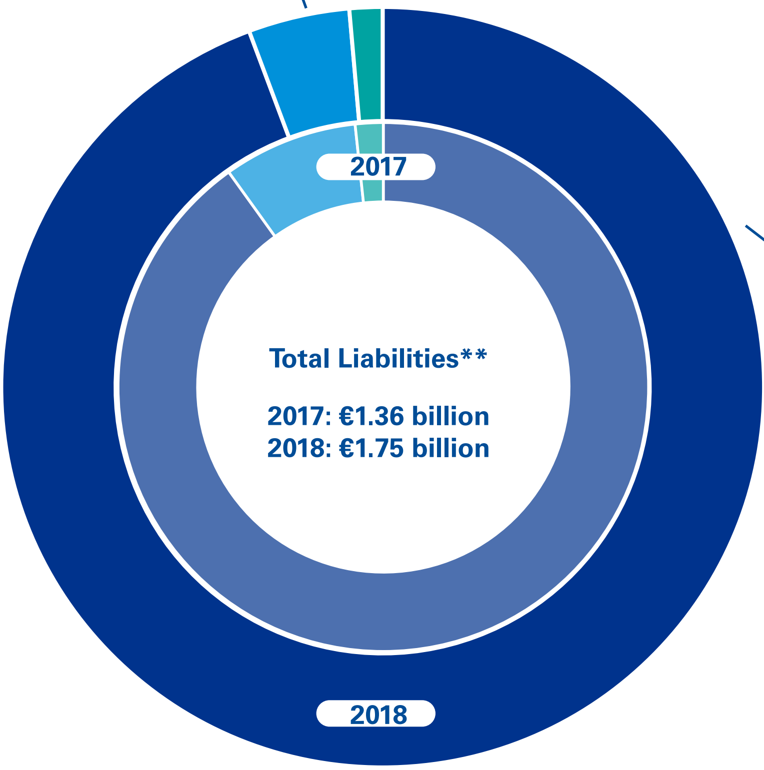
The Group registered a €36.66 million decrease in Amounts owed to Banks, mainly the result of a reduction of €36.22 million (or 98.9%) in amounts with a maturity date of three months or less. Amounts with maturity date of over three months but less than one year decreased slightly by €0.44 million (or 5.9%) whilst amounts with maturity date of over 1 year remained unchanged.

Derivative Financial Instruments

⬇

Both Derivative Financial Assets and Derivative Financial Liabilities decreased by 72.7% or (€2.19 million). The derivatives reported here are equity/commodity-index warrants which are not designated as hedges, with the majority of these derivatives maturing between one and five years, and are rated between A+ to A.

All Other Liabilities



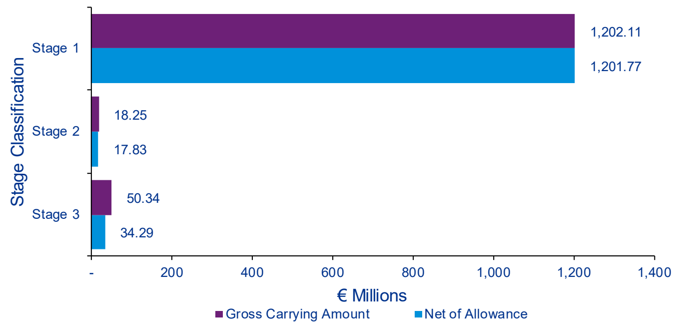
Amounts Owed to Customers

⬆ 34.7%

The Group saw an increase in both Term Deposits as well as Repayable on Demand deposits by 44.1% (or €240.26 million) and 27.1% (or €184.48 million) respectively. The €424.73 million increase in deposits was both a result of increased balances with existing customers as well as an increase in the customer base. This Increase in customer base was also a contributing factor to the Group's increase in market share during the financial year 2018.

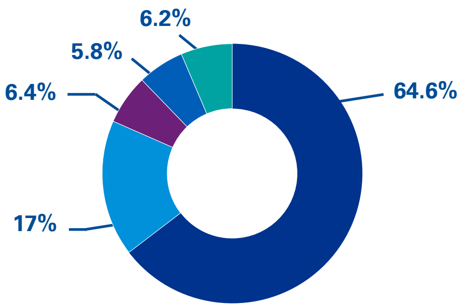
**The information presented in the above chart reflect that portion of liabilities as a percentage of the total assets for the respective year.

Credit Quality



*Credit Quality is calculated using the gross carrying amount excluding Credit Loss Allowance

7 Additional Analysis



Concentration of Loans and Advances to Customers

- Households and Individuals
- Construction
- Financial Intermediation
- Real Estate, Renting and Business
- Other Sectors

Bank of Valletta p.l.c.

Financial Year ended 31st December 2018

1 Licences

Category 3 and 4A

3 Regulatory Ratios

CAR

2016	2017	2018
16.8%	19.4%	21.1%

CET 1 Ratio

2016	2017	2018
12.8%	16.1%	18.3%

Leverage Ratio

2016	2017	2018
5.3%	6.4%	6.9%

Liquidy Coverage Ratio**

2016	2017	2018
131%	149%	297%

Non-Performing Loans Ratio

2016	2017	2018
7.1%	6.5%	5.3%

4 Core Financial Ratios

ROA*

2016	2017	2018
1.1%	1.5%	1.2%

ROE

2016	2017	2018
16.9%	16.5%	14.9%

Cost-to-Income

2016	2017	2018
44.3%	47.3%	49.1%

Net Interest Income to Total Net Income*

2016	2017	2018
60.7%	60.9%	53.5%

*The Net Interest Income to Total Income ratio and Return on Assets ratio were calculated in accordance with the stated formula in the Approach section. For the purposes of understanding the underlying business performance, kindly note that the Profit Before Tax was adjusted for the Litigation Provision.

**The Liquidity Coverage Ratio is calculated on a solo basis.

Profitability***

Profit Before Tax

49.1%

The decrease in PBT of €68.59 million, when compared to the annualised profit for 2017 of €139.79 million (2018: €71.20 million), is particularly due to a one-off Litigation Provision recorded by the Bank totalling €75 million. If adjusted for the one-off Litigation Provision, profits for 2018 would have increased by 4.58% (or by €6.41 million) over the annualised profit for 2017.

7%

Net Interest Income

This was mainly due to a decrease in interest expense of €3.65 million (or 6%) in 2018 given that Amounts Owed to Banks decreased by 24% (or €46.18 million) in 2018. Conversely, an increase in Loans and Advances resulted in an increase in Interest Income of 3.8% (or €5.98 million) over the annualised 2017 amounts. The reason for this increase was the sustained demand for credit especially in relation to home loans.

17.5%

Net Fee and Commission Income

This was a result of an increase of €13.34 million (or 16.9%) in Fee and Commission Income for 2018 when compared to the 2017 annualised figures. This boost in Fee and Commission Income was driven by strong performances in deposit products, credit card services and payment services. This positive result was slightly offset by an increase in Fee and Commission Expense of €1.23 million (or 12.3%) over 2017.

117.1%

Net Impairment Reversals

Net Impairment Reversals increased to €10.82 million in 2018 over 2017's annualised amount of €4.98 million, as a result of the Group's continued focus on improving the credit quality of its asset portfolio. In this regard, the Group has also registered a significant improvement in the Bank's Non-Performing Loans portfolio as represented in the NPL Ratio for 2018 when compared to the previous two financial years.

30.2%

Dividend Income

(or €0.47 million) when compared to 2017 annualised figures.

82.39%

Net Gain on Investments and Hedging Instruments

This decrease was mainly a result of the following factors; (i) a decrease in Net Gain on Derivative Financial Instruments Held For Hedging of €3.67 million over the annualised 2017 figures; (ii) the implementation of IFRS 9 where Available-For-Sale equity instruments had been reclassified as Fair Value through Other Comprehensive Income resulting in gains on disposals of equity instruments being transferred to Retained Earnings instead of through Profit or Loss, with only gains on debt instruments being shown in P&L; and (iii) the net revaluation loss, on Available-for-Sale Investments and Investments classified at Fair Value through Other Comprehensive Income, which decreased by €4.18 million in 2018.

8%

Operating Expenses

The main contributing factors were the increases in (i) Employee Compensation and Benefits; and (ii) General Administrative Expenses of €1.9 million (or 3%) and €7.03 million (or 14.8%) respectively, over the 2017 annualised figures. This increase in Operating Expenses was brought about by the Bank's investments in its Core Banking System, increases in IT related costs, and engagement of professional services during the year in relation to the Bank's de-risking programme.

46.8%

Share of Results of Equity-Accounted Investees

During the year under review, the Group's insurance and life assurance interests were under pressure mainly due to continuing low yields and adverse movements on investment market prices. This has had a negative effect on the Group's income generated from such investments which resulted in a decrease of €7.22 million (or 46.8%) when compared to 2017's annualised amount of €15.43 million (2018: €8.21 million).

*** In 2017 the Group changed their financial year-end and reported on a 15-month basis. For comparison purposes annualised figures for 2017 were utilised in this analysis. These were calculated as a 12-month average.

Loans and Advances to Banks

⬆ 6.2%

The main contribution to this €213.55 million increase was an increase of €288.19 million (or 9.4%) in Term Placements with the Central Bank of Malta and other Banks. Pertinent to note that the Group registered a decrease of €83.18 million (or 24.1%) in Loans and Advances to Banks which are repayable on call and at short notice. Assets held with the Central Bank of Malta, although subject to negative interest rates, represent the Group's excess short-term liquidity strength.

Balances with Central Bank of Malta, Treasury Bills and Cash

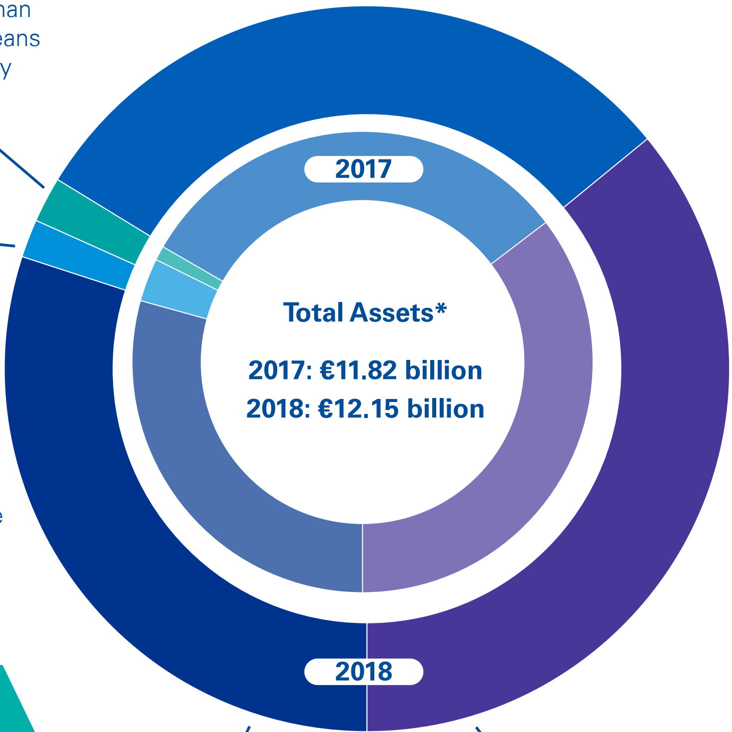
⬆ 54.2%

This €86.62 million was mainly arising from an increase of €81.73 million in Malta Government Treasury Bills. These Treasury Bills have original maturity of less than 3 months and are held as a means of managing the Bank's liquidity position.

Financial Assets at Fair Value Through Profit or Loss

⬇ 36.8%

The €120.09 million decrease in 2018 arose from a reduction in acquisitions of such assets and due to reclassifications brought about by the implementation of IFRS 9.



Equity: During the year under review, the Group's Equity base increased by 3.3% (or €32.05 million). The Share Premium increase by 8.48% (or €3.85 million) in 2018, as a result of a scrip dividend programme which resulted in an increase of 0.667c per share. This scrip dividend programme also resulted in an increase of €5.77 million (or 1.1%) in Ordinary Share Capital. There was also an increase in the Revaluation Reserve of 50.7% (or €16.84 million) in 2018 arising mainly from an increase in Property Revaluation over 2017 and also from adjustments undertaken by the Group on available-for-sale investments due to the initial application of IFRS 9.

All Other Assets

Net Loans and Advances to Customers

⬆ 4.8%

The €200.95 million increase was driven predominantly by a 4.6% (or €174.79 million) increase in Term Loans and Advances. Additionally, a decrease in impairment losses by €59.14 million (or 35.6%) also impacted the Group's Loans and Advances to Customers during the year under review. Conversely, Loans and Advances to Customers classified as repayable on call and at short notice decreased by 6.3% (or €32.98 million) when compared to the year ended 2017.

This increase in Loans and Advances to Customers also includes an amount of €15.2 million representing Prepayments and Accrued Income which had been reclassified from Prepayments and Accrued Income to Loans and Advances to Customers during the year under review. In fact, Prepayments and Accrued Income decreased by 73.8% (or €29.07 million) in 2018.

*The information presented in the above chart reflect that portion of assets as a percentage of the total assets for the respective year.

Liabilities

Amounts Owed to Customers

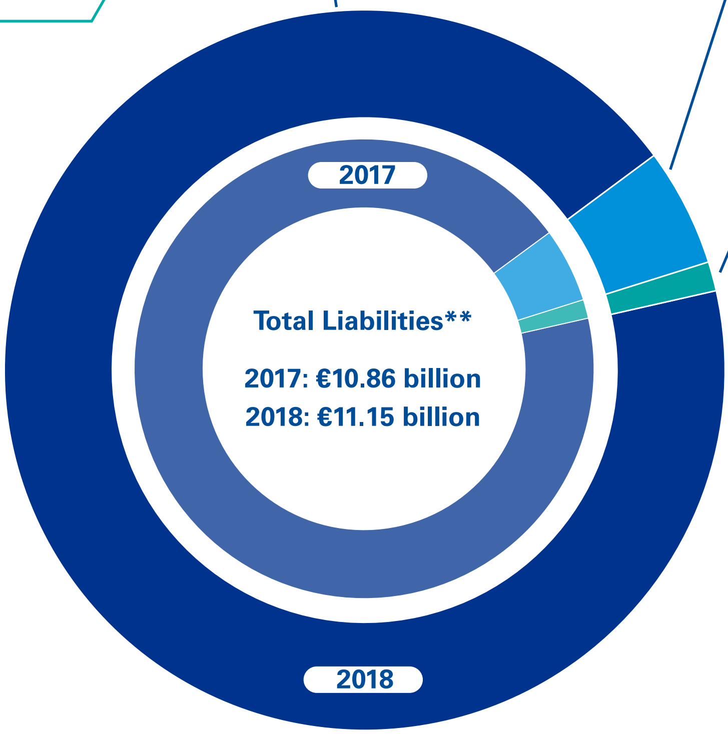
⬆ **3.1%**

The €314.28 million growth in 2018 which has also driven the increase in the Group's Balances with Central Bank of Malta. The main contributing factor to this increase relates to deposits repayable on demand. This increase also incorporates an amount of accrued interest payable of €7.6 million which had been reclassified from Accruals and Deferred Income during the year under review.

Amounts Owed to Banks

⬇ **24%**

This €46.18 million reduction was due to a decrease in term deposits during the year ended 2018. Moreover, during the year under review, an amount of €0.2 million, representing accrued interest payable in relation to Amount Owed to Banks, had been reclassified from Accruals and Deferred Income to Amounts Owed to Banks.



All Other Liabilities

Financial Liabilities at Fair Value through Profit or Loss

⬇ **€3.15 million (or 26.3%)**

when compared to 2017.

Debt Securities in Issue

⬇ **57.9% (or €55.2 million)**

due to the maturity of the 4.8% Euro unsubordinated bonds during the year under review.

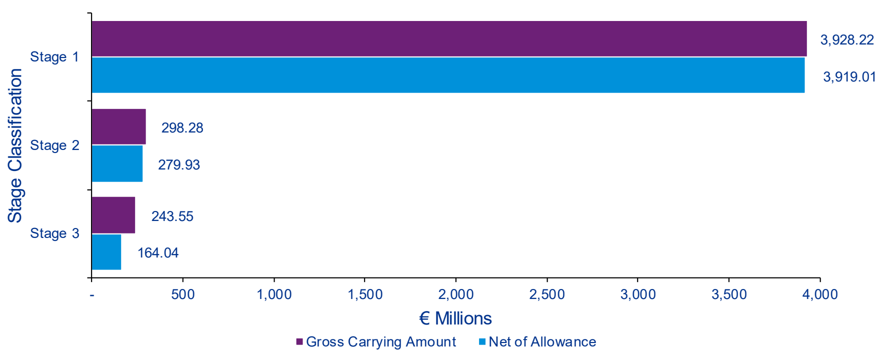
Provisions

⬆ **€93.77 million**

over the €2 million reported in the previous year. There were two main contributing factors to this increase, these being: (i) Litigation Provisions; and (ii) adjustment in provisions on initial application of IFRS 9.

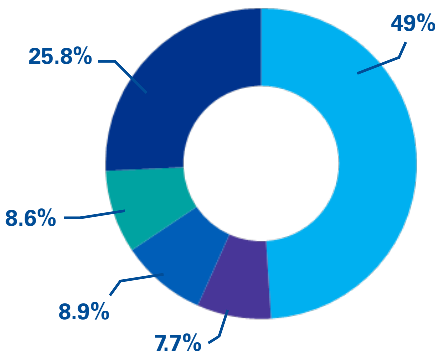
**The information presented in the above chart reflect that portion of liabilities as a percentage of the total assets for the respective year.

Credit Quality



**Credit Quality is calculated using the gross carrying amount excluding Credit Loss Allowance*

7 Additional Analysis



Concentration of Loans and Advances to Customers

- Households and Individuals
- Wholesale and Retail Trade
- Financial and Insurance Activities
- Real Estate Activities
- Other Sectors

8

Interim Financial Statements

(P&L compared to June 2018 and BS compared to December 2018)

PBT	Jun -18	€13.46m	Jun -19	€54.30m
CET 1 Ratio	Jun -18	16.8%	Jun -19	19.1%
Total Assets	Dec -18	€12,146.99m	Jun -19	€12,359.04m
Cost to Income Ratio	Jun -18	50%	Jun -19	64.7%
Net Impaired (Charge/Reversal)	Jun -18	€20.16m	Jun -19	-€0.94m
ROE	Jun -18	18.7%*	Jun -19	10.7%
Net Interest Income	Jun -18	€78.97m	Jun -19	€77.59m
L&A to Banks	Dec -18	€490.64m	Jun -19**	€393.97m
L&A to Customerss	Dec -18	€4,362.98m	Jun -19	€4,489.13m

*Annualised ROE is before litigation provision for the period ended June 2018. Annualised ROE post litigation at 2.8%

** Difference arises due to reclassification of funds. During the current financial reporting period, balances with Central Bank of Malta of €3.2 billion have been reclassified from 'Loans and advances to banks' to 'Balances with Central Bank of Malta, treasury bills and cash'. Prior year figures have been restated to conform with the presentation for the current period.

BNF Bank plc

Financial Year ended 31st December 2018

1

Licences

3

Regulatory Ratios

CAR

2016	2017	2018
10.7%	14.1%	17.2%

CET 1 Ratio

2016	2017	2018
8.1%	12.2%	15.4%

Leverage Ratio

2016	2017	2018
4.4%	6.9%	9%

Liquidy Coverage Ratio

2016	2017	2018
280.3%	126.0%	337.3%

Non-Performing Loans Ratio

2016	2017	2018
9.0%	6.5%	4.1%

4

Core Financial Ratios*

ROA

2016	2017	2018
0.4%	0.3%	0.5%

ROE

2016	2017	2018
7.2%	3.5%	4.7%

Cost-to-Income

2016	2017	2018
73.4%	85.5%	73.1%

Net Interest Income to Total Net Income**

2016	2017	2018
62.7%	74.4%	81.4%

* The Annual report informs that the comparative figures presented in the Bank's Income Statement and in the Statement of Changes in Equity have been restated to conform to the current year's presentation format for the purpose of fairer presentation. This has reflected a slight change in ratios as reported in the 2018 edition of this publication. Figures shown are the Bank's latest issued financial information.

** The Net Interest Income to Total Income was calculated in accordance with the stated formula in the Approach section.

Profitability

2

121.2%

Profit Before Tax

The €1.61 million profit recorded during financial year ended 2017 increased by more than double to €3.56 million in 2018, reflecting an improved performance in the Bank's core operations. This increase is attributed primarily to growth in the Bank's core assets, being the retail and corporate lending books.

42.5%

Net Interest Income

For the financial year ended 31st December 2018 the Bank registered a satisfactory increase of €4.63 million in NII, which are a result of of increases in Interest Receivable and Similar Income of €3.6 million (or 23.1%) coupled with a synergetic decrease in Interest Payable and Similar Expense of €1.04 million (or 22.1%) over 2017. Despite the fact that Amounts Owed to Customers increased in 2018, Interest Payable on these amounts registered a decrease due to the low interest rate environment across the Eurozone. Loans and Advances to Customers increased by 36.2% (or €138.43 million) with the increase in Interest Income on these amounts registering an increase of 20.8% (or €3.22 million), year-on-year.

16.5%

Net Fees and Commission Income

The Bank generated an additional €0.38 million in Net Fees and Commission over 2017, which arose mainly from fees pertaining to credit processing and related legal services, as well as fees for payments, cards and other banking services. Although Fees and Commission Income increased by €0.64 million (or 21.6%), there was an increase in Fees and Commission Expenses of €0.26 million (or 39.9%) which partially offset the positive result.

32.6%

Net Trading Income

A minimal increase of €0.18 million was registered when compared to the previous financial year, consisted mainly of gains on financial assets and foreign exchange income, particularly from derivatives, on which no income was reported in 2017.

7.3%

Employee Compensation and Benefits

The increase was due to increases in remuneration expenditure. Although Directors and Executive Officers' Remuneration decreased by €0.12 million (or 12.3%), wages for Managerial, Supervisory and Clerical staff increased by €0.6 million (or 10.3%) in 2018. In 2018 this expense remained the largest operating expense for the Bank.

21.9%

Other Administrative Expenses

The reason for the above-mentioned increase (€1.04 million increase) was mainly due to increases in Business Development Costs of €0.66 million (or 252.9%) and in Information Systems and Communications costs of €0.39 million (or 32.2%) in 2018. This follows the rationale that the Bank intends to focus its strategy on human capital where it will seek to recruit roles specifically in relation to its strategy, and in connection with a technology transformation process, the latter of which was initiated in 2018.

204.1%

Credit Impairment Losses

The Bank registered an increase in credit impairment losses, which came about due to increases in write-offs of €1.63 million (or 65.7%) in 2018. However reversals saw an increase of 29.2% (or €0.57 million) over 2017.

Additionally, upon the adoption of IFRS 9 an initial remeasurement loss of €1.3m was recognised. The opening remeasurement loss related to expected credit loss allowances, the majority of which pertained to loans and advances to customers. During 2018, total impairment provisioning increased by €1.5m. The largest contributor to impairment provisioning recognised through profit or loss in 2018 was Stage 1 provisioning, due to growth in the loans and advances to customers portfolio.

Balances with Central Bank of Malta and Cash

⬆ 272.9% (or €73.08 million)

This increase in funds placed with the Central Bank of Malta of €73.26 million (or 322.3%) in 2018 is driven by the growth in customer liabilities experienced during the financial year under review. Out of this amount, €4.73 million were held as a reserve deposit with the Central Bank, with the remaining amount having a maturity of 3 months or less. Cash held during 2018 decreased by 4% (or €0.16 million) when compared to 2017.

Loans and Advances to Banks

⬇ 17.7%

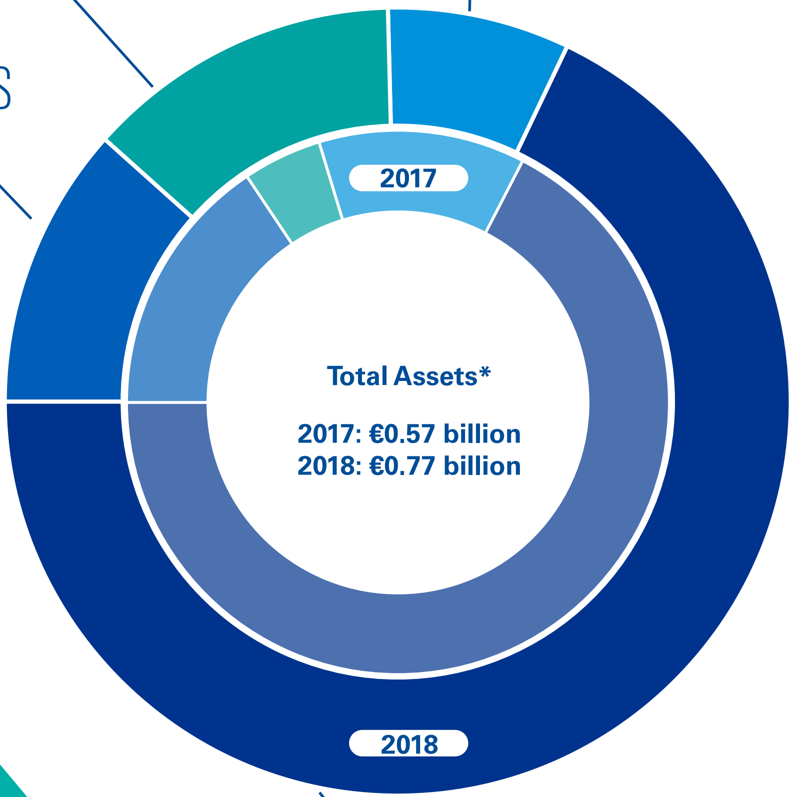
The €12.4 million decrease arose mainly as a result of lessened activities pertaining to Term Placements by the Bank in 2018 of €22.18 million (or 47.5%), when compared to 2017. Conversely, Repayable on Call and at Short Notice amounts saw an increase of €9.82 million (or 42.3%) increase in 2018. Additionally, due to the implementation of IFRS 9 Credit Impairment Losses of €0.04 million were also deducted from the net amount, whereas no impairment provision was taken in 2017.

All Other Assets

Cheques in Course of Collection

⬇ 70%

The Bank registered a €1.58 million decrease in the year under review when compared to 2017.



Equity: During the year under review the Bank increased its issued share capital by €27.5 million (or 69.5%) These Share Capital injections took place as part of the Bank's capital plan, typically in anticipation of a growing asset base. Equity base for the Bank was €76.5 million as at 31st December 2018, up by 66.7% year-on-year.

Loans and Advances to Customers

⬆ 36.2%

This €138.43 million increase is attributed to growth which the Bank experienced in both retail and corporate lending books. In fact, Term Loans and Advances increased by €159.98 million (or 49.3%) in 2018 whilst Repayable on Call and at Short Notice amounts decreased by 28.7% (or €19.18 million) during the same period. Expected Credit Loss Allowance also saw an increase of €2.36 million (or 26%) in the year under review.

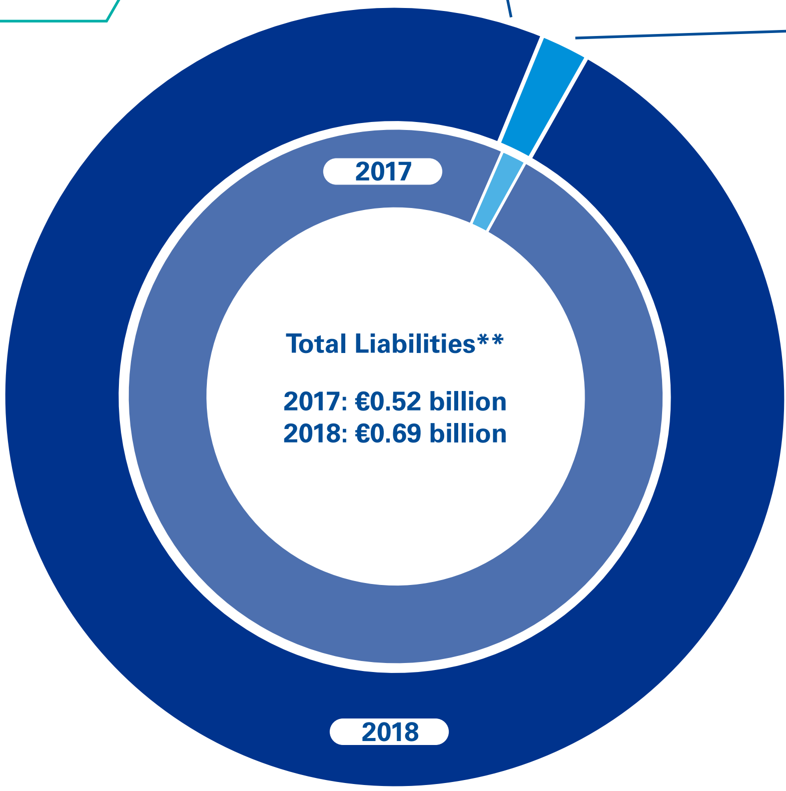
*The information presented in the above chart reflect that portion of assets as a percentage of the total assets for the respective year.

6 Liabilities

Amounts Owed to Customers

⬆ 31.8% (or €163.42 million)

Customer deposits remain the Bank's key source of funding, and this growth is attributable to increases in both Term and repayable on demand types of deposits. In fact Term Deposits increased by 54.7% (or €122.13 million) and Repayable on Demand deposits increased by 14.2% (or €41.29 million) in 2018. Despite customer deposits increasing in volumes, the Interest Expense in relation to these deposits has decreased in the year under review leading to a cheaper cost of funding for the Bank when compared to 2017.



All Other Liabilities

Amounts Owed to Banks

⬇ 69% (or €0.2 million)

Whilst Term Loans and Advances increased by €0.021 million (or 87.5%) during the year under review, Repayable on Demand deposits decreased by €0.22 million (or 83.1%). However, the interest expense of these deposits increased by 57.1% (or €0.02 million) in 2018, suggesting a more expensive funding mechanism. Additionally, all amounts have maturity date of within 3 months from the reporting date.

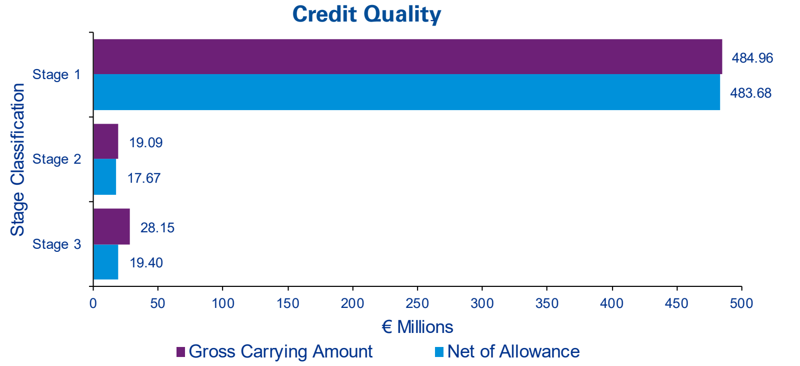
Other Liabilities

⬆ 99.8% (or €4.34 million)

This growth was made up of increases in Bills Payable, Accounts Payable and Sundry Expenses, and Obligations Under Guarantees and Other Documentary Credits which increased by €1.44 million (or 55.6%), €0.45 million (or 109.3%), and €2.03 million (or 151.3%) respectively. Additionally, previously unrecognised Expected Credit Losses Arising on Off-Balance Sheet Items of €0.42 million were recognised in 2018.

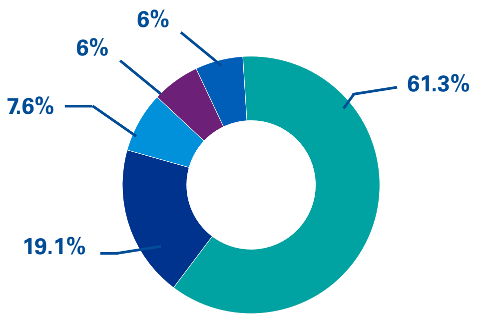
**The information presented in the above chart reflect that portion of liabilities as a percentage of the total assets for the respective year.

Credit Quality



Credit Quality is calculated using the gross carrying amount excluding Credit Loss Allowance

7 Additional Analysis

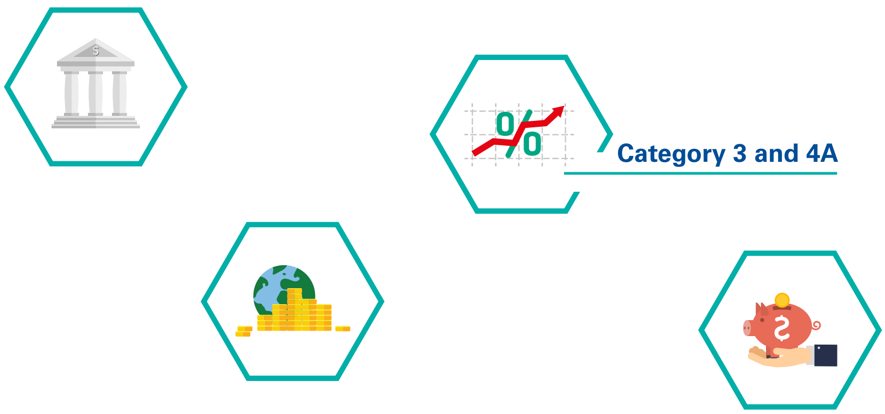


Concentration of Loans and Advances to Customers

- Property and Construction
- Financial Institutions
- Personal, Professional and Home Loans
- Trade
- Other Sectors

HSBC Bank Malta p.l.c.

Financial Year ended 31st December 2018



1

3

14.2% 2016
14.4% 2017
17% 2018

CAR

13.2% 2016
13.9% 2017
14.6% 2018

CET 1 Ratio

6% 2016
6.3% 2017
6.5% 2018

Leverage Ratio

479% 2016
456% 2017
503.6% 2018

Liquidy Coverage Ratio

2016 6.4%
2017 5.3%
2018 4.3%

Non-Performing Loans Ratio

4

0.9% 2016
0.7% 2017
0.6% 2018

ROA

13.1% 2016
10.4% 2017
8.4% 2018

ROE

60% 2016
70.9% 2017
73% 2018

Cost-to-Income

2016 51.6%
2017 51.3%
2018 63%

Net Interest Income to Total Net Income*

*The Net Interest Income to Total Income ratio was calculated in accordance with the stated formula in the Approach section.

Profitability

2

22.6%

Profit Before Tax

The Group registered a decrease in profit before tax of €11.27 million (or 22.6%) in 2018, when compared to the €49.82 million profit before tax reported in 2017. The performance of the Bank was impacted by various factors, including but not limited to the impact of IFRS9, increases in mortgages sanctioned over the year, a slight reduction in fees generated by commercial banking, decreases in operating expenses and contributions by subsidiaries

0.2%

Net Fee Income

Net Fee Income for the financial year ended 2018 was broadly in line with that recorded in 2017 - registering a slight increase of €0.04 million in 2018. The Group registered increase in commissions in Retail Banking and Wealth Management, driven especially as a result of increases in sanctioned mortgages, which were offset by reductions in fees from Commercial Banking.

557.4%

Other Operating Income

The Group registered a €4.03 million increase in 2018, which was a result of increases in Other Income and positive Fair Value Changes in respect to Investment Property. Furthermore, the €0.42 million Loss on Disposal of Properties of 2017, was not repeated in 2018.

67.5%

Net Insurance Claims, Benefits Paid and Movement in Liabilities to Policyholders

A €50.19 million decrease is the result of an increase in Claims, Benefits and Surrenders Paid of €17.52 million offset by a favourable Movement in Liabilities of €51.24 million over 2017.

5.0%

Operating Expenses

The Group registered a 5% or €5.67 reduction, year-on-year due to the fact that in 2017 the Group registered a provision charge of €7.6 million relating to the collective agreement regulating redundancies, early retirement, resignation or termination of employment of employees. Adjusted Operating Expenses, which exclude this collective agreement provision, increased by €1.9m driven by continued investments in regulatory programmes, financial crime compliance and business growth.

Reversal in Provision for Brokerage Remediation Costs

In 2016, the Group raised a provision totalling €8 million in relation to a remediation of a legacy operational failure in the Group's brokerage business. During 2017, the remediation programme was largely completed and it was assessed that a partial reversal of the conservatively estimated provision was warranted. There was a further reversal in 2018.

10%

Net Interest Income

Overall Interest Income decreased by €13.91 million (or 10.5%) in 2018, resultant from a reduction in the corporate loan book and a contraction in the bonds portfolio. This decrease was partially offset by a reduction in Interest Expense of €1.87 million (or 15.3%) in Interest Payable.

231.1%

Net Income from Financial Instruments of Insurance Operations

The Group registered a decrease from €15.48 million to (€20.29 million) in 2018. As outlined in the Group's Annual Report, this comprises of all gains and losses from changes in the fair value of financial instruments measured at fair value through profit or loss, as well as all gains and losses from changes in the fair values of derivatives which are managed in conjunction with these, and interest income and expense and dividend income in respect of said financial instruments. It was noted that during 2018 as part of the portfolio transfer, investments with a carrying amount of €1.99 million were transferred out.

20.4%

Net Insurance Premium Income

A €15 million decrease was recorded, as a result of a decrease in Non-Linked Life Insurance of €16.36 million when compared to 2017.

€3.49 million

Expected Credit Losses and Other Credit Impairment Charges

This increase is due to the implementation of IFRS 9 where additional allowances have been recognised.

All Other Assets

⬇ 3%

Items in the Course of Collection from Other Banks

⬇ 70.2% or €12.75 million

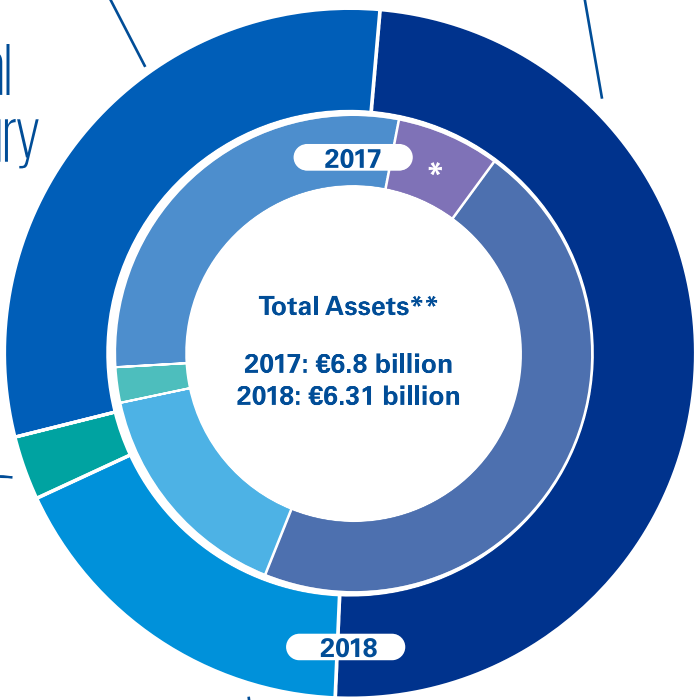
Financial Investments

⬇ 4.6% or €33.19 million

Loans and Advances to Customers

⬇ 0.6%

This slight decline of €18.42 million was driven by a contraction in the corporate loan book as a result of the Bank's de-risking programme and a reduction in non-performing loans. The retail loan book grew by 2% in 2018, partially offsetting the reduction in corporate lending. The Group continued to improve the asset quality by managing down non-performing exposures by over 19% versus 31st December 2017.



Balances with Central Bank of Malta, Treasury Bills and Cash

⬆ 16.3%

This €26.71 million increase was driven by an increase in Malta Government Treasury Bills of €29.84 million. These assets have a maximum maturity of 1 year and reflect excess liquidity held by the Bank during 2018.

Equity: The Group's Total Equity decreased by €20.26 million (or 4.2%) from €479.04 million to €458.78 million in 2018. Retained Earnings decreased by €18.1 million (or 4.5%) as a result of an €8.05 million negative impact of IFRS 9 recognised immediately at the beginning of the year and dividends paid of €38.41 million during the year under review. Called up Share Capital remained unchanged during 2018. Despite the 4.2% reduction in total equity base, CAR and CET1 ratio for the year under review continued to improve.

Loans and Advances to Banks

⬆ 3.6%

This increase was a result of a €95.63 million increase in Term Loans and Advances combined with a €57.22 million decrease in Loans and Advances which are Repayable on Call and Short Notice.

*Assets Attributable to Disposal Group Held For Sale

⬇ 100%

**The information presented in the above chart reflect that portion of assets as a percentage of the total assets for the respective year.

6 Liabilities

Liabilities Under Investment and Insurance Contracts

⬇ **8.7%**

A decrease in Liabilities under Investment Contracts of €36.79 million in 2018 is mainly due to the favourable Changes in Unit Prices and Other Movements when compared to 2017. With regards to Liabilities under Insurance Contracts the main contributing factor to the €38.01 million decrease, year-on-year, is a decline in Provisions for Policyholders.

All Other Liabilities

⬆ **7.7%**

Subordinated Liabilities

⬆ **111.8%**

arising from a maturity of the existing loan stock of €29.27 million and an issue of Subordinated Unsecured Loan Stock of €62 million in 2018.

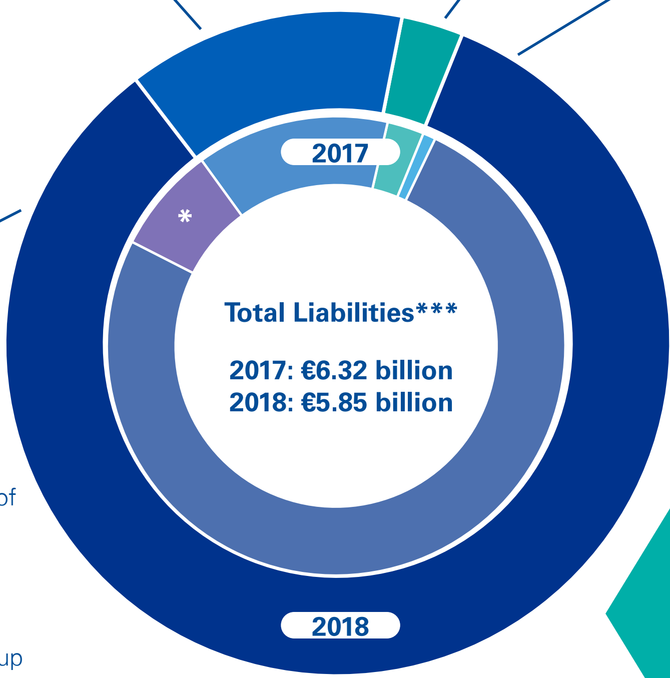
Deposits by Banks

⬇ **95.4%**

The Group registered a decrease of €52.16 million in deposits, over the €54.70 million recorded in 2017, reflecting the removal of all term deposits, held by Banks, in 2018.

*Liabilities Attributable to Disposal Group Held For Sale

⬇ **100%**



Customer Accounts

⬆ **2.5%**

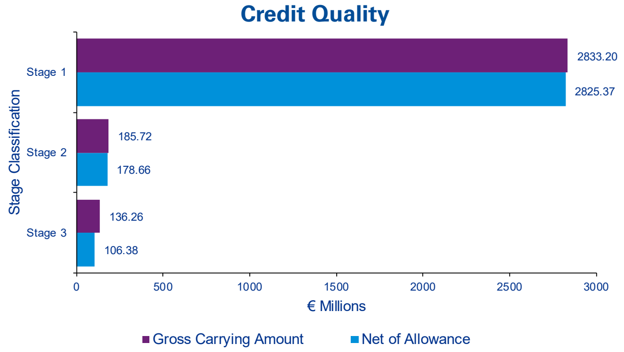
This €121.48 million increase is composed of a 4% increase in retail deposits, which was comparatively offset by a 3% decrease in commercial deposit taking activity. The Group maintained a healthy advances to deposits ratio of 64% and its liquidity ratios were well in excess of regulatory requirements.

***Assets and Liabilities Attributable to Disposal Group Held For Sale**

During 2017, HSBC Life Assurance (Malta) Limited entered into a Portfolio transfer agreement with Lombard International Assurance S.A for the sale of the policies of insurance governed by the Wealth Insurance Italy portfolio. In 2018 the remaining portfolio, valued at €473.80 million was transferred out.

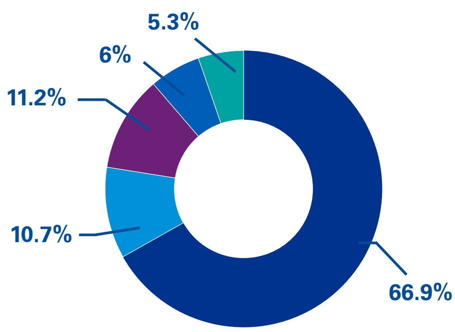
***The information presented in the above chart reflect that portion of liabilities as a percentage of the total assets for the respective year.

Credit Quality



*Credit Quality is calculated using the gross carrying amount excluding Credit Loss Allowance

7 Additional Analysis



Concentration of Loans and Advances to Customers

- Households and Individuals
- Construction and Real Estate Activities
- Wholesale and Retail Trade and Repairs
- Services
- Other Sectors

Interim Financial Statements

(P&L compared to June 2018 and BS compared to December 2018)

PBT	Jun -18 €16.16m	Jun -19 €20.94m
CET 1 Ratio	Jun -18 14%	Jun -19 16.2%
Total Assets	Dec -18 €6,310.99m	Jun -19 €6,353.76m
Cost to Income Ratio	Jun -18 74%	Jun -19 73%
Change in expected Credit Losses & other Impairment Charges	Jun -18 -€3.35m	Jun -19 €1.04m
ROE	Jun -18 6.1%	Jun -19 5.8%
Net Interest Income	Jun -18 €54.11m	Jun -19 €53.60m
L&A to Banks	Dec -18 €1,097.71m	Jun -19 €728m
L&A to Customerss	Dec -18 €3,110.41m	Jun -19 €3,183.47m


Summary by Month
Monthly Totals
Visits
Pages
Files
Hits

Lombard Bank Malta p.l.c.

Financial Year ended 31st December 2018

1 Licences

Category 2

3 Regulatory Ratios

CAR

2016	2017	2018
16.8%	14.3%	14.7%

CET 1 Ratio

2016	2017	2018
16.2%	14.1%	14.7%

Leverage Ratio

2016	2017	2018
9.6%	9.8%	10.4%

Liquidy Coverage Ratio

2016	2017	2018
476.6%	302.1%	385.6%

Non-Performing Loans Ratio*

2016	2017	2018
23.3%	16.2%	11.2%

4 Core Financial Ratios

ROA

2016	2017	2018
0.6%	0.6%	0.9%

ROE

2016	2017	2018
5.2%	5.4%	8.3%

Cost-to-Income

2016	2017	2018
46.8%	51.4%	47.4%

Net Interest Income to Total Net Income*

2016	2017	2018
67%	71.9%	70.7%

*The Net Interest Income to Total Income and Non-Performing Loans ratios were calculated in accordance with the stated formula in the Approach section.

Profitability

2

68.9%

Profit Before Tax

The Bank registered a €5.15 million increase in profit over the €7.48 million recorded in 2017, which is particularly driven through the retained stance of applying a low-risk approach to its business model. This approach has benefited the Bank in that the Bank's income-generating activities were not eaten away by provisions emanating from the introduction of IFRS 9, which standard impacted most Banks with higher levels of provisioning.

13.5%

Net Interest Income

A €2.06 million increase in Net Interest Income was mainly a result of a €1 million (or 5.3 %) increase in Interest Income on Loans and Advances to Customers. This boost in Interest Income was a result of the growth in the Bank's loan book, especially in relation to home loans. The positive result in Net Interest Income was also an outcome of a decrease in Interest Expense of 5.3% (or €0.32 million) over 2017. The decrease arose mainly as a result of reduced Interest Expense On Amounts Owed to Customers. Despite there being an increase in Amounts Owed to Customers, the Interest Expense on these amounts did not follow the same trend as a result of low interest rates.

16.2%

Net Fee and Commission Income

Fee and Commission Income for the year under review stood at €3.89 million representing a 15.8% (or €0.53 million) increase when compared to the previous financial year. This increase was a result of increased granting of credit facilities, wealth management services and transaction banking activities. This positive result was slightly offset by an increase in Fee and Commission Expense of 12.4% (or €0.04 million) in 2018 as a result of higher Interbank Transaction Fees.

90.9%

Credit Impairment Losses

This meant a €2.57 million decrease in net write-downs in 2018. Calculations following the new methodology under IFRS 9 did not reveal any significant divergences in the required level of provisioning from previous estimates. According to the Bank, this was a reflection of the Bank's high-quality financial assets as well as the collateral held against such facilities. Furthermore, this decrease in Credit Impairment Losses is a result of significant improvement in the repayment patterns of customers who are now more sensitive to the need of abiding by the agree terms and conditions of their borrowings, which was reflected in lower impairment allowances.

1.6%

Employee Compensation and Benefits

Employee Compensation and Benefits were the Bank's major cost item for 2018 with a €0.1 million increase over the previous financial year, even though the average size of the staff complement remained broadly unchanged. The reason behind this was the recruitment of more specialised expertise and also to retain existing staff in a tight labour market which is characterised by wage inflation.

14.4%

Other Operating Costs

During the year under review the Bank's Operating costs stood at €4.63million, representing an increase of €0.58 million (or 14.4%) over 2017. This increase was a result of investment in information technology (both hardware and software), staff training programmes as well as the hiring of legal and other professional services.

Loans and Advances to Customers

⬆ 19.3%

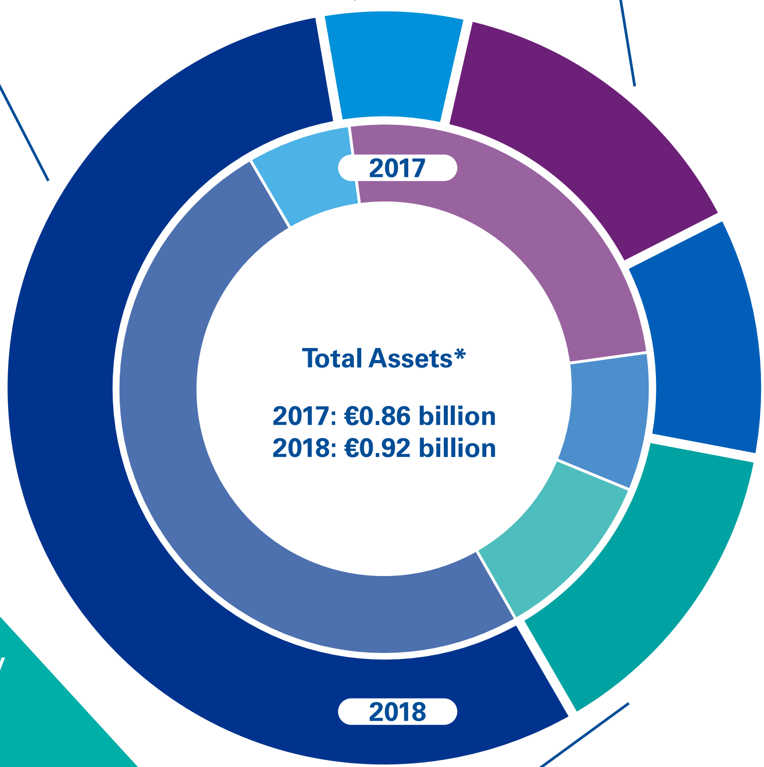
Gross Loans and Advances increased by €83.08 million (or 18.4%) while Impairment Allowances on such loans increased slightly, by €0.57 million (or 2.5%) in 2018. Loans classified as Repayable on Call and at Short Notice and Term Loans and Advances increased by 29.3% (or €22.59 million) and 16.2% (or €60.49 million) respectively. This was a result of the Bank's continual investment in its relationships with commercial clients, while also ensuring to broaden the growth in its retail loan book.

Balances with Central Bank of Malta, Treasury Bills and Cash

⬇ 40.3% (or €86.4 million)

The most significant decrease was in Balances with Central Bank of Malta which decreased by 76.9% (or €100.15 million) in 2018, while both Malta Government Treasury Bills and Cash in Hand increased by 16.9% (or €13.54 million) and 6% (or €0.25 million) respectively.

All Other Assets



Equity: The Bank registered positive movements in equity reserves which resulted in an increase in Total Equity of €10.08 million (or 10.7%) during the year under review. The Retained Earnings reserve increased by €7.21 million (or 13.9%) as a result of the Bank's financial performance for the year, as outlined in the Profitability section above. Moreover, the Property Revaluation and Investment Revaluation reserves registered value increases year-on-year, resultant from positive fair value movements in land and buildings, property, plant, equipment and financial assets measured at Fair Value through Other Comprehensive Income.

Loans and Advances to Banks

⬆ 39.4% (or €35.56 million)

The main increase was a result of increased Repayable on Call and at Short Notice amounts of €40.56 million (or 52.5%) which consisted primarily of term placements maturing within one month. This boost was a result of the Bank's placements with other banks, which was a treasury management initiative designed to lessen the impact of negative interest rates on euro-denominated deposits. Conversely, Term Loans and Advances saw a decrease of €5 million (or 38.5%) in 2018.

Investments

⬆ 33.2%

This increase €23.96 million was mainly due to additional Acquisitions of Financial Instruments amounting to €27.35 million, predominantly those Financial Instruments issued by the Local Government. This increase was slightly offset by an increase in redemptions/ disposals of Financial Instruments amounting to €1.27million over 2017. Furthermore, there was a favourable fair value movement of €1.26 million for 2018 when compared to the negative fair value movement of €1.46 which was recorded by the Bank during 2017.

*The information presented in the above chart reflect that portion of assets as a percentage of the total assets for the respective year.

6 Liabilities

Amounts Owed to Customers

⬇ 7.2%

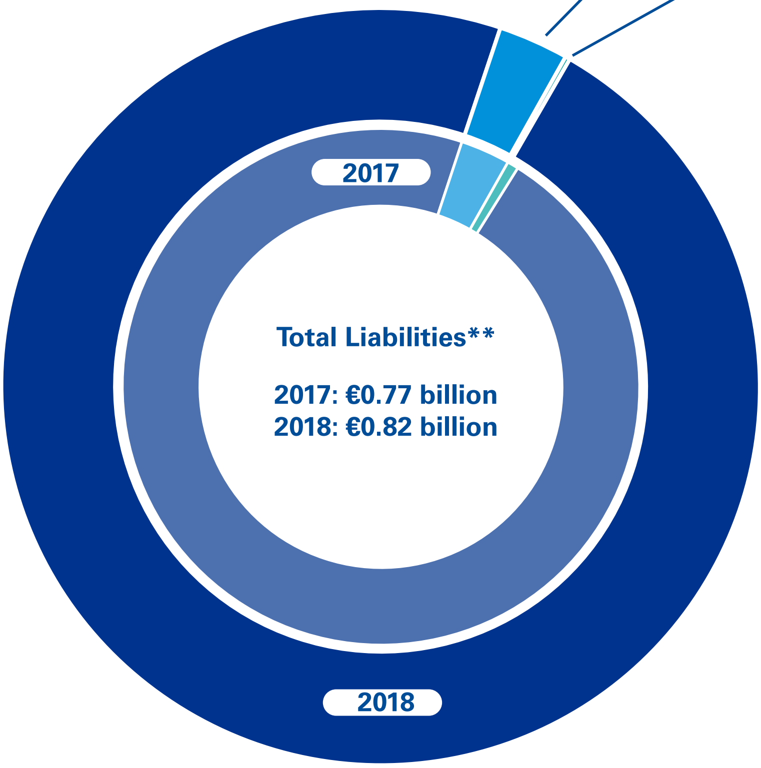
This €53.38 million increase was the net result of an increase in Repayable on Demand deposits of €57.26 million (or 12.2%) and a decrease in Term Deposits of €3.88 million (or 1.4%). This shift also contributed to the reduced level of interest expense registered by the Bank during the financial year under review.

All Other Liabilities

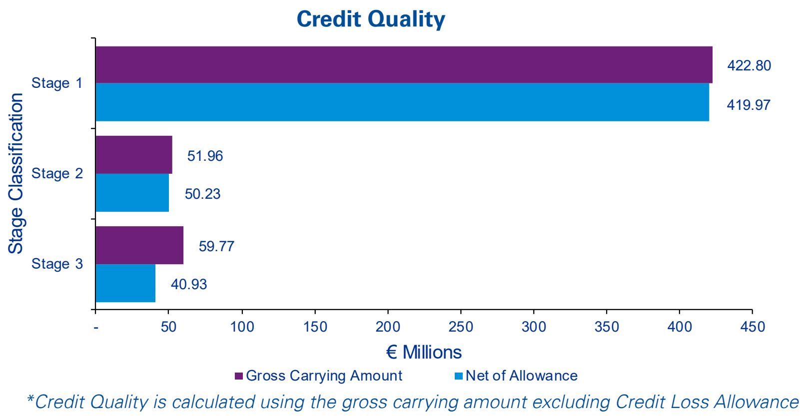
Amounts Owed to Banks

⬇ 84.1% (or €4.51 million)

Term Deposits and Deposits Repayable on Demand saw a decrease of 89.6% (or €0.2 million) and 83.8% (or €4.31 million) respectively. 58.9% were interest-bearing with a maturity of less than 3 months, whilst the rest were non-interest bearing.

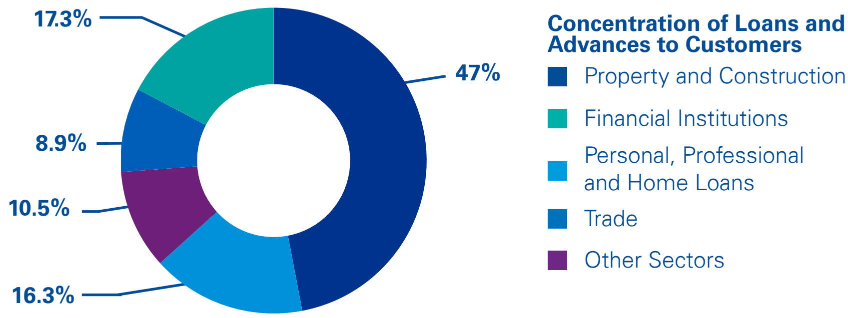


**The information presented in the above chart reflect that portion of liabilities as a percentage of the total assets for the respective year.



*Credit Quality is calculated using the gross carrying amount excluding Credit Loss Allowance

7 Additional Analysis



MeDirect Bank (Malta) p.l.c.

Financial Year ended 31st March 2019

1

Licences

Category 2 and 4A

3

Regulatory Ratios***

CAR

2017	2018	2019
13.7%	16.6%	15.2%

CET 1 Ratio

2017	2018	2019
11.7%	14.2%	13.2%

Leverage Ratio

2017	2018	2019
7.3%	10.3%	10%

Liquidy Coverage Ratio

2017	2018	2019
576.7%	636%	465.1%

Non-Performing Loans Ratio

2017	2018	2019
4.4%	4.4%	5.2%

4

Core Financial Ratios

ROA

2017	2018	2019
0.7%	0.6%	0.8%

ROE**

2017	2018	2019
7.1%	7.3%	7%

Cost-to-Income

2017	2018	2019
63.9%	68.1%	66%

Net Interest Income to Total Net Income*

2017	2018	2019
89.6%	89.6%	84.2%

*The Net Interest Income to Total Income ratio was calculated in accordance with the stated formula in the Approach section.
**The Return on Equity ratio is calculated as Profit after tax to equity.
***Regulatory ratios are representative of MDB Group Ltd. MDB Group Ltd. is the immediate parent company of MeDirect Bank (Malta) plc and this parent company together with its subsidiaries are covered by the regulatory supervision.

Profitability

52.3%

Profit Before Tax

The Group (that is, MeDirect Bank (Malta) plc and its subsidiaries) registered a satisfactory €7.38 million (or 52.3%) increase in year-end profit in 2019 to €21.47 million profit over the reported €14.1 million profit recognised in the previous financial year. The Group's profitability has been mainly driven by an increase in regulatory 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 efficient cost management.

7.4%

Net Interest Income

The Group registered a €4.67 million increase in Net Interest income in 2019, driven predominantly by an increase in the lending portfolio and changes to interest rates on customer deposits throughout the year. An increase in Interest Expense of €0.43 million (or 1.5%) over 2018 was also registered, mainly due to an increase in interest on Amounts owed to Financial Institutions.

31.6%

Net Fee and Commission Income

The €1.33 million increase was made up of increased Fee and Commission Income pertaining to Corporate Lending and Other amounts by €0.51 million (or 363.1%) and €0.77 million (or 13.7%) respectively. Conversely, Fee and Commission Expense decreased by €0.14 million (or 58.2%) on Corporate Lending whilst increasing by €0.09 million (or 7.1%) on Other amounts.

130.8%

Other Operating Income

The main contributing factors to this increase in Other Operating Income (€4.03 million growth), were increases in Net Income from Other Financial Instruments at Fair Value Through Profit or Loss and Realised Gains on Disposal of Loans and Advances of €3.32 million (or 2,593.8%) and €1.44 million (or 140.1%) respectively.

30.2%

Impairment Charges/Excepted Credit Losses

The Group registered a €2.52 million decrease in impairment charges, driven principally by changes in credit loss allowances measured in respect of exposures within the Local Lending portfolio classified as Stage 3 exposures. These reduced by €2.8 million (or by 70%) during the year and was due to decreases in credit loss allowances due to write-offs of €1.6 million, repayments of €0.6 million, as well as reversals of credit loss allowances in respect of defaulted exposures as at 1 April 2018 of €0.8 million. This reduction was partially impacted by an increase in credit loss allowances due to newly classified Stage 3 exposures transferred from Stage 2 during the year, of €0.2 million.

10.8%

Operating Expenses

The main contributing factor to the increase in Operating Expenses of €5.17 million was predominantly related to Personnel Expenses, which increased by €3.82 million (or 21.7%) and which is directly correlated to an increase in the staff complement.

74.3%

Income Tax Credit

A significant decrease in tax credit 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.

Balances with Central Banks and Cash

⬆ **39.6%**

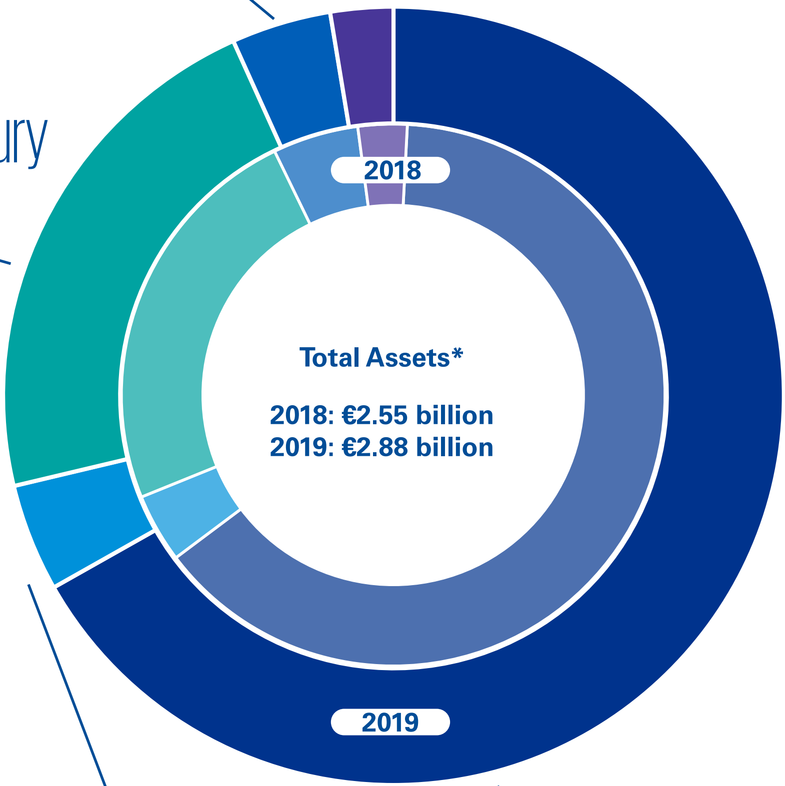
This amounted to a €41.69 million increase in these balances. During the year there were shifts between overnight deposits to reserve accounts. In fact, there was a €108.3 million (or 707.8%) increase in Balances held with central banks which include reserve deposits over 2018, whilst overnight deposits held with central banks decreased by €64.3 million (or 73.4%).

All Other Assets

Investments - Treasury

⬆ **23.3%**

This €130.34 million increase in the Group's portfolio of investments is a result of increased additions of €170.1 million (or 661.4%) when compared to 2018, and a decrease in disposals or redemptions during the year of €95.57 million (or 61.9%).



Equity: Total Equity increased by €13.49 million (or 4.2% or) in the period under review. Called Up Issued Share Capital and Share Premium remained unchanged during the year under review given that the Group did not issue any form of Share Capital. The overall increase came about from increases in Retained Earnings, Other Reserves, and the Reserve for General Banking Risks of €13.66 million (or 32.2%), €2.6 million (or 150.2%), and €1.39 million (or 81.9%) respectively. Additionally the Group received €3.1 million and repaid €7.2 million worth of Shareholder's Contributions in 2018.

Loans and Advances to Financial Institutions

⬆ **4%**

In 2019 these balances increased by €4.5 million over 2018. Both Repayable on Call and at Short Notice and Term Loans and Advances increased during the year under review, by €2.93 million (or 3.2%) and €1.58 (or 6.9%) respectively.

Loans and Advances to Customers

⬆ **8.3%**

The Group's Lending Portfolio largely consist of senior secured loans and revolving credit facilities to corporate borrowers domiciled in Western Europe. A €140.84 million increase in 2019 was a result of a boost in corporate lending. In fact Term Loans and Advances to corporate customers increased by €141.91 million (or 8.3%) in the year under review. This increase was slight impacted by a decrease in Loans and Advances to retail customers of €1.98 million (or 22.4%).

*The information presented in the above chart reflect that portion of assets as a percentage of the total assets for the respective year.

All Other Liabilities

Provisions for Liabilities and Other Changes

⬆ 100%

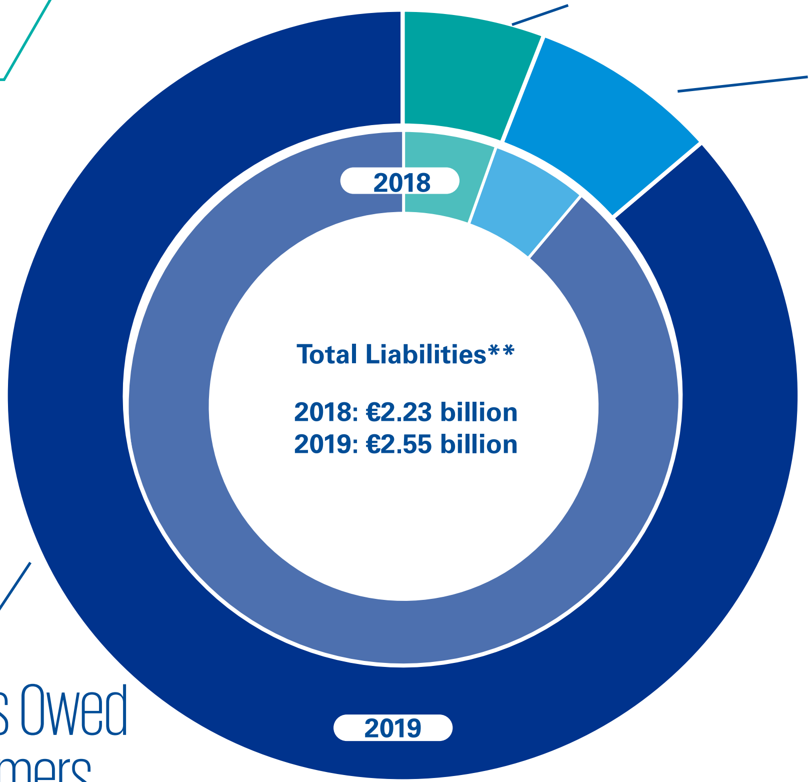
The Group registered a €1.63 million provision, which was introduced during this financial year as a result of the implementation of IFRS 9. This provision consists of credit loss allowances in respect of loan commitments and financial guarantee contracts.

Derivative Financial Instruments

⬆ 216.3%

A €7.75 million increase in Derivative Financial Liabilities mainly due to a €7.69 million (or 245.5%) increase in Foreign Exchange Swaps, which are held for trading. Interest Rate Swaps which are designated as hedging instruments in fair value hedges also increased, although not as significantly, by €0.06 million (or 12.5%).

6 Liabilities



Amounts Owed to Financial Institutions

⬆ 57.3%

The Group registered a €72.5 million increase in liabilities of with other financial institutions, which were a a result of a €90 million (or 85.7%) boost in Term Deposits, slightly offset by a decrease in amounts which are Repayable on Call and at Short Notice of 17.54 million (or 81.9%) over the previous financial year.

Amounts Owed to Customers

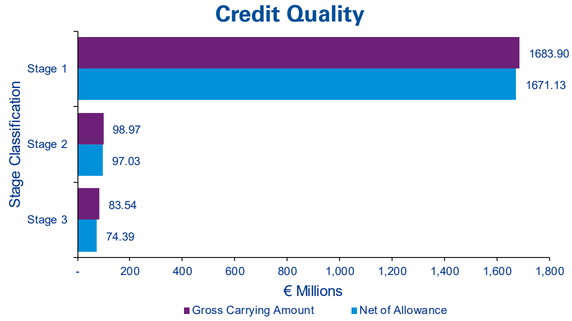
⬆ 11.3%

The Group funds its portfolios through deposits and the international wholesale financial markets. A €222.93 million growth in the Group's deposit base is a result of the introduction of the regulated savings product in Belgium which has strengthened the Group's funding platform. Repayable on Call and at Short Notice Amounts have increase by 53.7% (or €256.63 million) while Term Deposits have decreased by 2.2% (or €33.7 million) over the previous financial year.

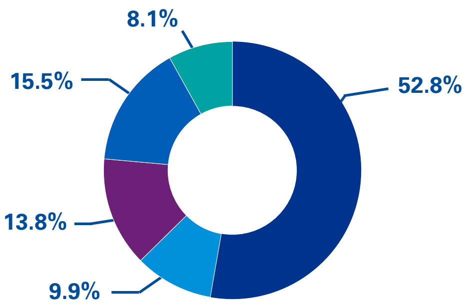
**The information presented in the above chart reflect that portion of liabilities as a percentage of the total assets for the respective year.

7 Additional Analysis

Credit Quality



**Credit Quality is calculated using the gross carrying amount excluding Credit Loss Allowance.*



Concentration of Loans and Advances to Customers

- Manufacturing
- Information and Communication
- Financial and Insurance Activities
- Professional, Scientific and Technical Activities
- Other Sectors

Interim Financial Statements

(P&L compared to September 2018 and BS compared to March 2019)

PBT	**Sep -18**	€8.06m	**Sep -19**	€10.52m
Total Assets	**Mar -19**	€2,882.79m	**Sep -19**	€2,987.72m
Change in expected Credit Losses & other Impairment Charges	**Sep -18**	-€4.6m	**Sep -19**	-€0.94m
Net Interest Income	**Sep -18**	€33.7m	**Sep -19**	€31.52m
L&A to Financial Institutions	**Mar -19**	€118.44m	**Sep -19**	€158.02m
L&A to Customers	**Mar -19**	€1,842.56m	**Sep -19**	€1,383.25m
Amount Owed to Customers	**Mar -19**	€2,202.1m	**Sep -19**	€2,362.11m
Amount Owed to Financial Institutions	**Mar -19**	€198.89m	**Sep -19**	€142.36m

Non-Core Domestic Banks

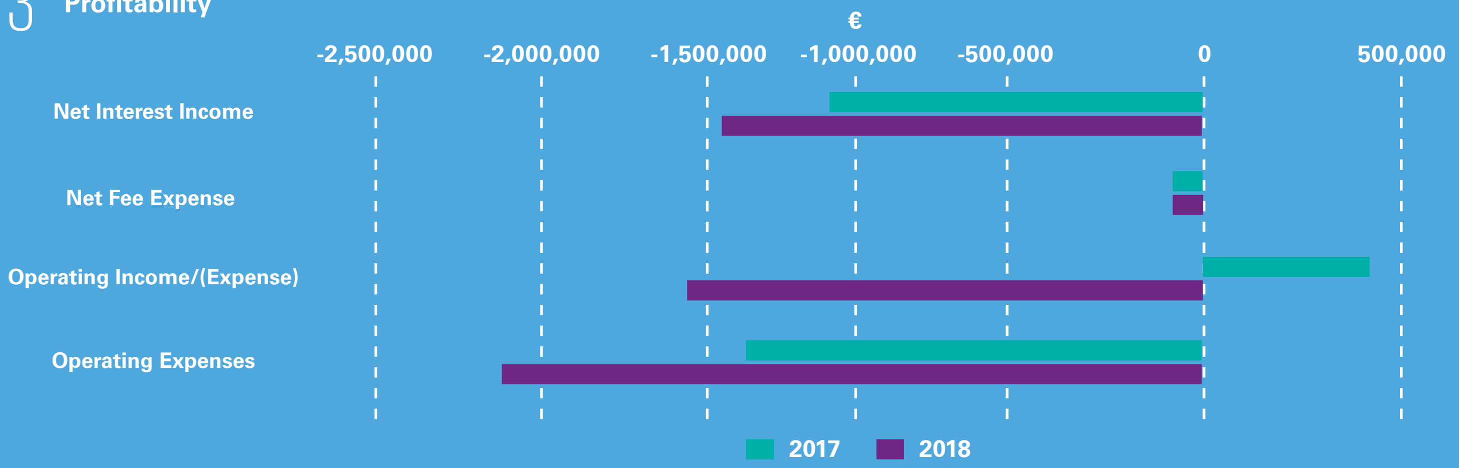
- **FCM Bank Limited**
- **FIMBank p.l.c.**
- **IIG Bank (Malta) Ltd**
- **Izola Bank p.l.c.**
- **Sparkasse Bank Malta Public Limited Company**

FCM Bank Limited

for year ended 31st December 2018

1 Core Financial Ratios

3 Profitability



4 Assets and Liabilities

Financial year ended 2018 reflects a contraction of the Bank's Asset base by €12.43 million (or 17.8%). The main contributor to this decrease was a € 4.76 million decrease in Loans and Advance to Banks, which consist of Loans and Advances Repayable on Call and at Short Notice. Moreover, Cash and Balances with the Central Bank of Malta, which mainly relate to deposits by the Bank in connection with the Minimum Reserve Requirement, decreased by €14.1 million (or 24.7%). Partially setting off this decrease in Assets, was a substantial increase (of €4.5 million or 198%) in Financial Investments, mainly governmental debt securities. The majority (i.e. 96%) of these debt securities are issued by the local government, with the remaining asset reflecting securities issued by other European Governments. It is worthy to note that during November and December 2018 the Bank sanctioned €5 million worth of credit facilities which reflects the initial execution of the Bank's new core business line. These new loans remained undrawn as at year-end and where therefore not reported in the Balance sheet as at end of 2018. The Bank however reported an amount of €1.76 million as Loans and Advances to Customers, representing a loan to its ultimate parent company during financial year ended 2018.

The Bank's Liabilities also decreased during 2018, by 25.3% (or €15.65 million) resulting in a total liability base of €46.08 million as at 2018. The main reason for this reduction in liabilities was a €15.5 million (or 25.4%) decrease in Amounts Owed to Customers. In line with the Director's report as at 2018, this decrease in deposits was a managed process to reduce the Bank's excess liquidity, where several deposits were purposely allowed to mature and transition out naturally.

The Banks' Issued Share capital was increased by €7 million, in two tranches during 2018, resulting in a total issued Share Capital of €20.25 million. The capital injection, which was subscribed to in full by the existent shareholder, serves the purpose of providing the Bank with an improved level of regulatory capital for the Bank to continue with developing its planned business objectives in 2019.

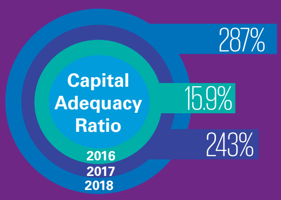
Main Activities

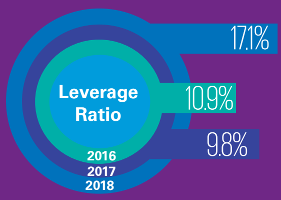
- The Bank specialises in the provision of corporate financial solutions;
- Foreign exchange services; and
- Individual and corporate deposit products.

Licences

- Credit Institution

2 Regulatory Ratios





*This analysis includes the financial performance of 2016 which was the results registered prior to the acquisition of the Bank by SAB Finance AS. Moreover, this analysis excludes the Bank's Cost-to-Income ratio calculation given the Bank reported an Operating Loss during financial year ended 2018.

**The ROE was calculated in accordance with the stated formula in the Approach section'

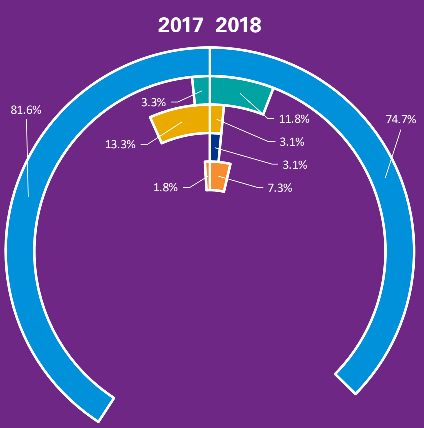
Financial year 2018 was a transitional year for the Bank in view of the fact that it marked a strategic change in the history of the Bank. Specifically, during the year under review the Bank embarked on a change in its business model wherein, as outlined in Directors' report forming part of the Audited Annual Financial Statement for year ended 2018, the focus was on investing into the future growth and profitability of the Bank through corporate banking solutions whilst managing a loss-making period. 2018 was characterised by investments in the infrastructure functions including growth of its employee base and IT systems and processes, required to support the new products and services it planned to launch. Following the soft-launch to an initial counterparty in August 2018, the Bank launched its corporate lending business in November 2018. This fully-blown strategic change has naturally impacted the Bank's financial performance during the year under review.

The Bank registered a Loss for the financial year ended 2018 of €3.64 million, reflecting an increase of €2.66 million over that reported in 2017. This Loss is driven by the decrease (of €0.64 million or 82.9%) in Interest Income which mainly reflects a decrease (of €0.69 million or 91%) in Interest Income generated on Financial Investments, In parallel, the Bank also managed to reduce its Interest Expense by 11.4% (or €0.21 million), when compared to the previous year, reflecting a reduced level of customer liabilities held as outlined further below. The Bank registered €3.03 thousand in fee income generated entirely from fees levied in connection with the new lending activity launched in the second half of calendar year 2018. Conversely, the Net Fee Expenses increased by 2.7% (or €1.92 thousand) mainly due to a substantial increase of €0.02million (or 50.3%) in Bank Charges.

Furthermore, during the year under review, the Bank did not report any Dividend Income or Realised Gains on Disposal of Financial Investments, which where two substantial income streams in 2017. Additionally, Change in Excepted Credit Losses, Employee Compensation and Benefits, and Administrative Expenses increased by €0.08 million (or 100%), €0.33 million (or 72.2%), and €0.33 million (or 37.1%) respectively. The increases in the latter two expenditure classifications were a result of the transitional period the Bank was subjected to. The increase in Expected Credit Losses was a result of the implementation of IFRS9.

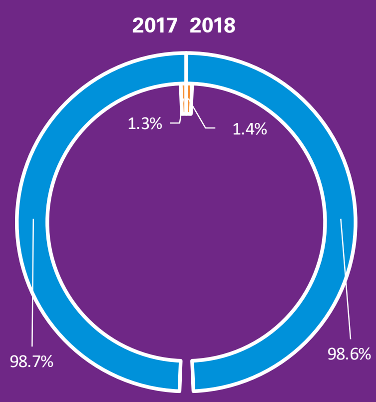
Total Assets*

- Balances with the Central Bank of Malta, Treasury Bills and Cash
- Financial Investments
- Loans and Advances to Banks
- Loans and Advances to Customers
- All Other Assets



Total Liabilities**

- Amounts Owed to Banks
- All Other Liabilities

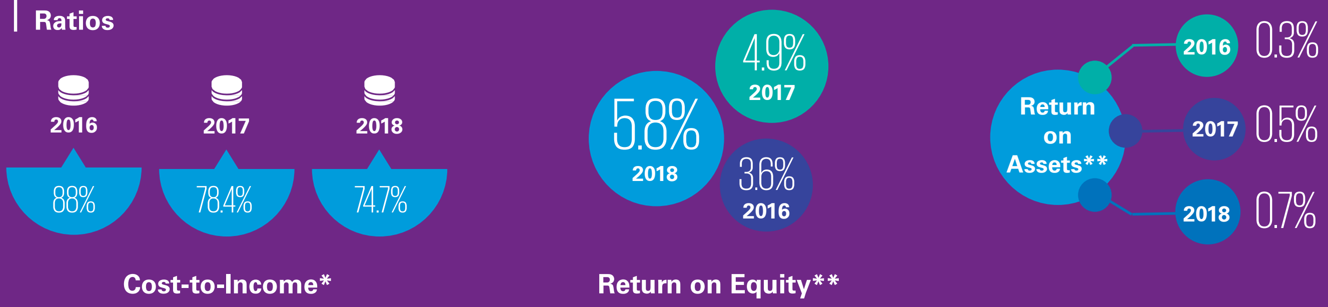


*The information presented in the above chart reflect that portion of assets as a percentage of the total assets for the respective year.
** The information presented in the above chart reflect that portion of liabilities as a percentage of the total liabilities for the respective year.

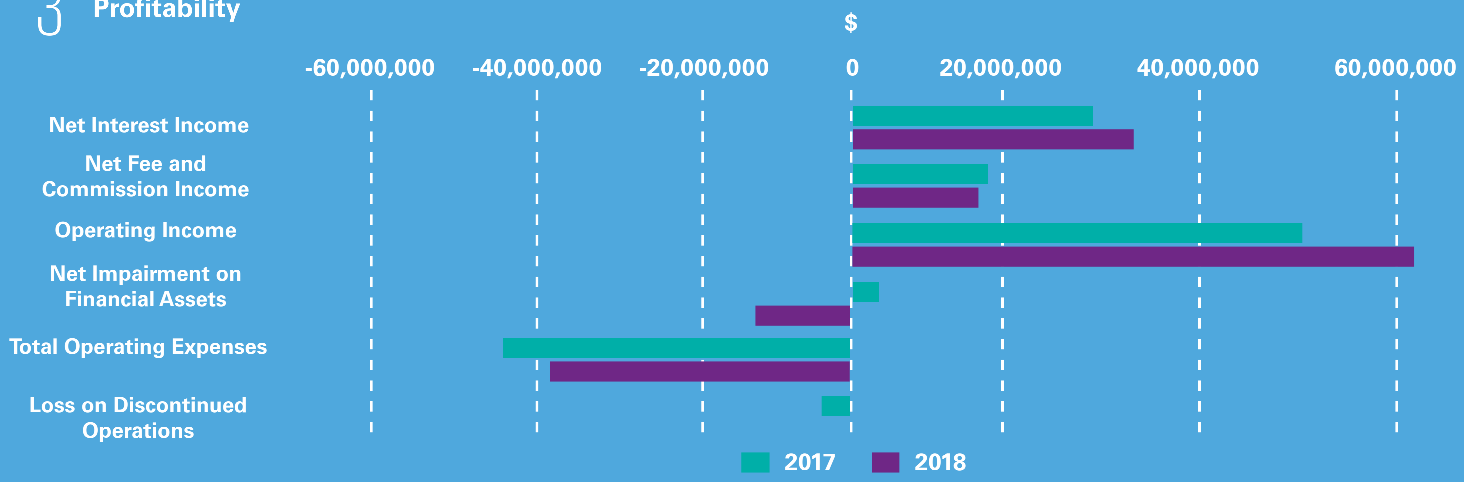
FIMBank p.l.c.

for year ended 31st December 2018

1 Core Financial Ratios



3 Profitability



4 Assets and Liabilities

The Group's asset base increased by $225.16 million (or 13.7%) in 2018 with Total Assets amounting to $1.87 billion as at 31 December 2018. The Group reported significant increases in both Loans and Advances to Banks and Loans and Advances to Customers of $99.01 million (or 43.8%) and $89.23 million (15.8%) over 2017, respectively. Trading Assets also increased considerably by $94.78 million (or 37.5%) in 2018. Conversely, it was noted that Balances with the Central Bank of Malta, Treasury Bills and Cash decreased by $56.26 million (or 27%) when compared to 2017, possibly denoting better liquidity management by the Group.

The Group's liability base stood at $1.59 billion as at 31 December 2018, which amounts to an increase of 8.1% (or $119.36 million) over 2017. The driver was an increase in Amounts Owed to Customers by $176.77 million (or 20.9%) over 2017, arising from an increase in deposits by corporate and retail clients. Furthermore, Debt Securities in Issue increased by 59.3% (or $32.43 million) to $87.08 million – these comprise of promissory notes which have a tenor of up to one year. Derivative Liabilities held for risk management also increased by $2.21 million (or 305.2%) in 2018. Conversely, as part of the Rights Issue which took place in 2018, Subordinated Liabilities of $50 million were set-off against the subscription proceeds due by the respective Shareholder. Additionally, Amounts Owed to Banks also decreased by $40.14 million (or 8.1%) to $453.06 million when compared to 2017, as longer term funding was replaced by the equity injection undertaken by the Group.

In 2018 Total Equity for the Group increased substantially by 60.5% (or $105.7 million). The main contributing factor was the Rights Issue mentioned above which increased Share Capital by 60.7% (or $95.45 million) from $157.27 million to $252.72 million in 2018. A notable increase in Share Premium of $9.1 million was also reported in 2018 resulting from a number of capital raising initiatives undertaken by the Bank during the year.

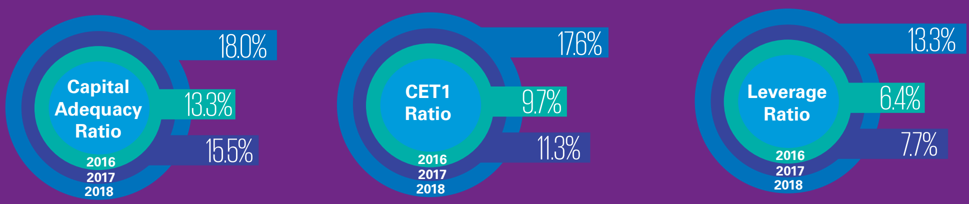
Main Activities

- Short-term international trade finance to corporates
- Intermediary to other financial institutions for international settlements, forfaiting and loan syndications

Licences

- Credit Institution

2 Regulatory Ratios



*The Cost-to-Income ratio was calculated in accordance with the stated formula in the Approach section.

**The Return on Equity and Return on Assets ratios are calculated through utilising Profit After Tax, Average Equity and Average Assets.

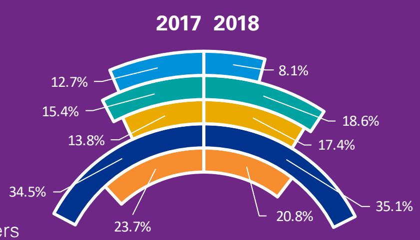
The Group registered a Profit before Tax for the year of $12.99 million, or an increase of 11.2% (or $1.31 million) over the reported profit for 2017. The main contributing factors to this positive performance were an increase in Net Interest Income and Dividend Income by $6.27 million (or 25.2%) and $1.66 million (or 27.7%) respectively. Additionally, Net Trading Results increased by $9.1 million in 2018 (from a loss of $1.81m to a gain of $7.3m).

This positive result is mainly arising from the full recovery of a significant legacy non-performing asset in the Group's trading portfolio, on which credit losses were accounted for in prior years in accordance with the Group's accounting policies. Furthermore, Total Operating Expenses reduced by $4.7 million (or 11.1%) in 2018, which were driven by operational efficiencies generated by the Group and cost-management programmes which were introduced in 2017. In addition, measures contributing to a greater focus on enhancing profitability were retained including a continued focus in the analysis of unit and customer-level profitability reports, which lead to a greater focus on leading to better business focus and reduced revenue leakage. In 2018, the Group recorded a net impairment charge of $13.28 million, which reflects a substantial increase of $15.58 million when compared to a net reversal in the prior period of $2.30m. The new impairment requirements emanating from IFRS 9, which came into force in the beginning of the financial year, not only had an impact on the opening reserves at 1 January 2018, but also redefined the manner in which impairment losses were measured. As a consequence to this, during the year, the Group recognised additional IFRS 9 Stage 3 impairments of $17.4 million, largely on a number of non-performing exposures in FIMBank plc and Subsidiary India Factoring India Factoring and Finance Solutions (Private) Limited. This was the key driver to the notable increase the Group recorded in net impairment charges.

A decrease in Net Fee and Commission Income of $0.87 million (or 4.7%) and Fair Value Gains on Investment Property settled at a lower level in 2018, by $2.46 million (or 71.4%) was registered during the financial year under review. Additionally, a one-off loss relating to the disposal of an equity-accounted investee, Latam Factors (Chile) S.A. of $2.06 million was reported in 2018.

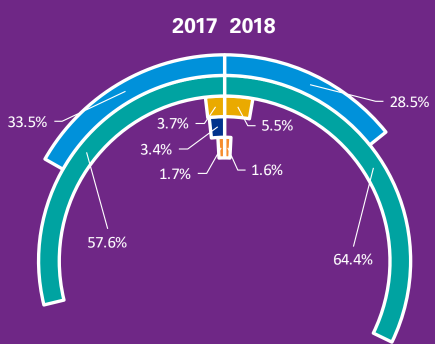
Total Assets*

- Balances with the Central Bank of Malta, Treasury Bills and Cash
- Trading Assets
- Loans and Advances to Banks
- Loans and Advances to Customers
- All Other Assets



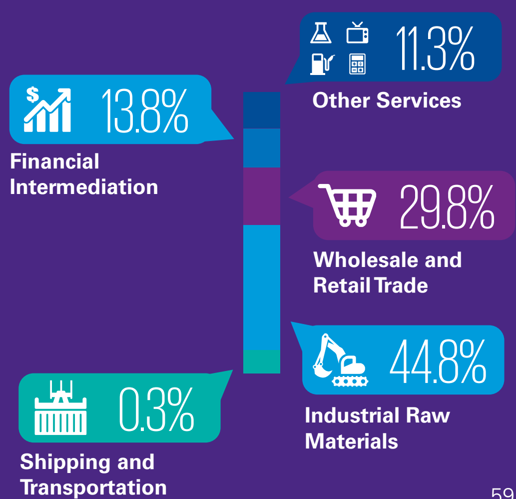
Total Liabilities*

- Amounts Owed to Banks
- Amounts Owed to Customers
- Debt Securities in Issue
- Subordinated Liabilities
- All Other Liabilities



* The information presented in the above chart reflects that portion of assets as a percentage of the total assets for the respective year.
** The information presented in the above chart reflects that portion of liabilities as a percentage of the total liabilities for the respective year.

5 Concentration of Loans and Advances to Customers



IIG Bank (Malta) Ltd

for year ended 31st December 2018

1 Core Financial Ratios

Cost-to-Income

2016	2017	2018
64%	62%	161%

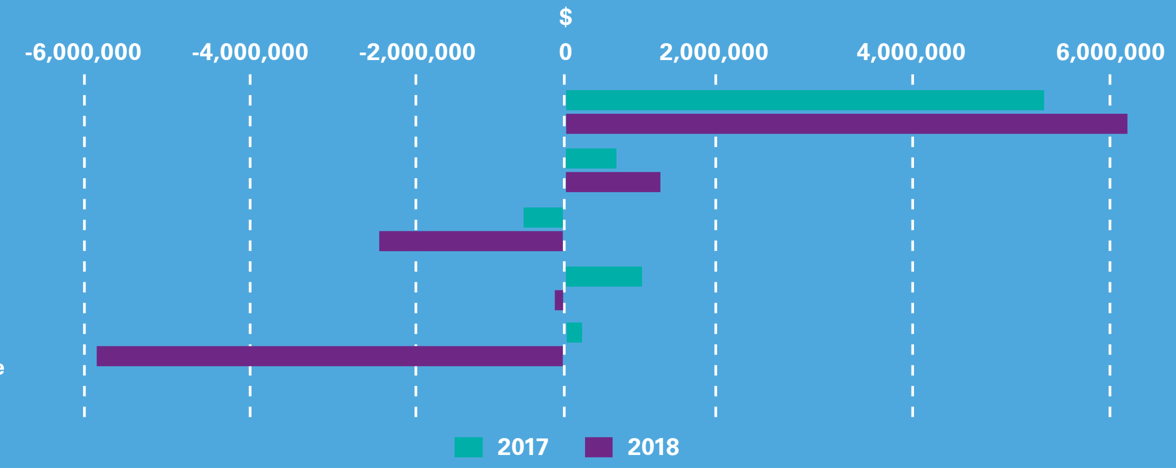
Return on Equity

2016	2017	2018
11%	6.4%	-17.4%

Return on Assets

2016	2017	2018
1.6%	1%	-1.8%

3 Profitability



4 Assets and Liabilities

During 2018 the Bank's Total Assets and Liabilities decreased by 6.9% (or $13.28 million) and 5.7% (or $9.31 million) respectively. The main contributors to the decrease in Total Assets were Loans and Advances to Banks and Investment Securities which decreased by 46.3% (or $24.32 million) and 24.8% (or $13.02 million) respectively. These decreases were partially offset by increases in other Asset categories including Cash and Balances with Central Bank of Malta which increased by $7.99 million in 2018.

Moreover, Gross Loans and Advances to Customers increased by 23.4% (or $19.18 million), although the Bank registered $6.36 million in Allowances for Expected Credit Losses during 2018, which resulted in a Net Term Loans and Advances to Customers of $94.91 million. This remains however a positive result with the Bank managing to grow its Net Loans and Advances to customers book by $13.68 million, or 16.8%, year-on-year.

In terms of movements in Total Liabilities during the financial year 2018, Amounts Owed to Banks, which are made up in their entirety of Term Loans and Advances and are subject to fixed interest rates, saw an increase of $5.33 million in 2018, up from $0.67 million recorded in 2017. Conversely, Amounts Owed to Customers decreased by 8.8% (or $14.14 million), mainly as a result of a $22.38 million (or 18%) decrease in Term Deposits. The Bank has however managed to grow its call deposit liabilities base by $8.23 million (or 23%) which, as also noted in the Directors' report forming part of the Bank's Annual Report has also reflected positively on the Bank's cost of funding. Furthermore, the Bank reported an amount of $0.05 million as Derivative Financial Instruments. These relate to currency swaps utilised as a hedging instrument against the foreign currency exposure arising out of the Amounts Owed to Customers.

The Bank's Equity Base registered a decrease of 13.9% (or $3.97 million) mainly due to the loss reported during 2018 which impacted the Bank's Retained Earnings negatively, effectively resulting in accumulated losses of $2.07 million as at 31st December 2018.

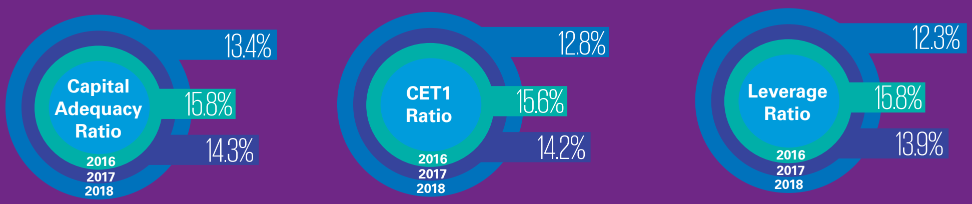
Main Activities

- The Bank's primary activity consists of the provision of international trade finance.

Licences

- Credit Institution

2 Regulatory Ratios

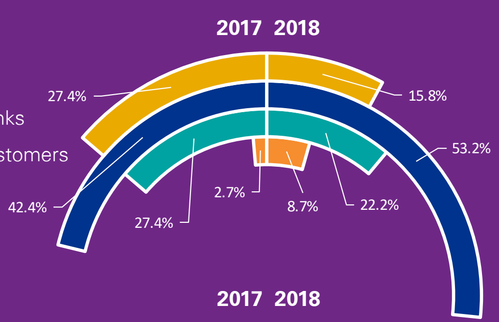


The Bank reported a Loss Before Tax of $5.07 million in 2018, reflecting a negative movement of $7.73 million year-on-year. Despite the Bank's performance in terms of increased fee generation, as reflected by the increased levels of Net Interest Income and Net Fee and Commission Income of 10.6% (or $0.59 million) and 157.8% (or $0.76 million) respectively recorded during 2018, the Bank registered Net Trading Losses of $2.56 million which reflect an increase of $1.86 million year-on-year. This was mainly a result of the Net Fair Value Losses on Foreign Exchange Derivative Contracts and Net Losses on Financial Assets Mandatorily Measured at Fair Value through Profit or Loss of $0.88 million and $1.35 million respectively reported during the financial year under review. The aforementioned provided for a reduced level of Operating Income year-on-year by $1.56 million to $4.8 million.

During the year under review, the Bank was further impacted through the recognition of potential unrecoverable debt in the Bank's loan book and the recognition of Expected Credit Losses pertaining to the adoption of IFRS 9. This resulted in Expected Credit Losses and Other Credit Impairment Charge for the year of $5.95 million, as opposed to the Net Reversal of Loan Impairment Charges of $0.08 million reported in the previous financial year.

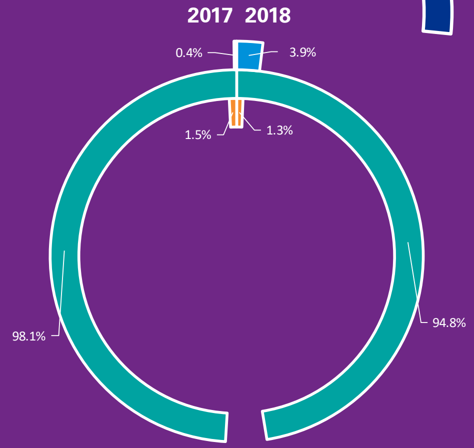
Total Assets*

- Loans and Advances to Banks
- Loans and Advances to Customers
- Investment Securities
- All Other Assets



Total Liabilities**

- Amounts Owed to Banks
- Amounts Owed to Customers
- All Other Liabilities



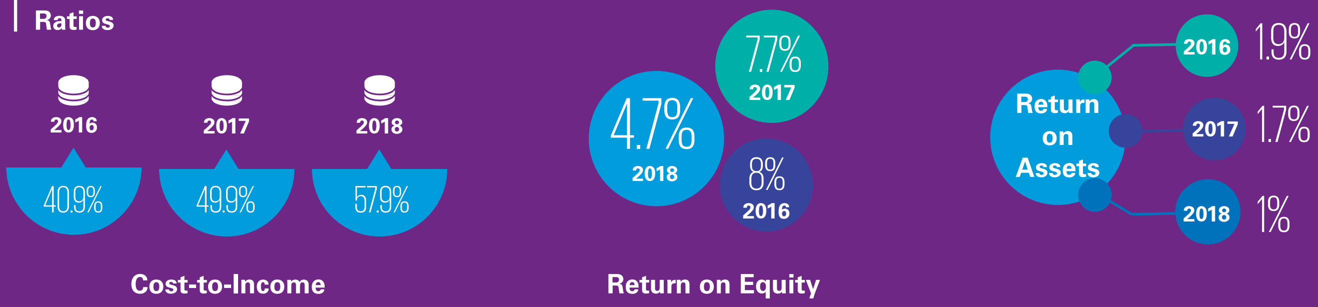
* The information presented in the above chart reflects that portion of assets as a percentage of the total assets for the respective year.
** The information presented in the above chart reflects that portion of liabilities as a percentage of the total liabilities for the respective year.

5 Concentration of Loans and Advances to Customers

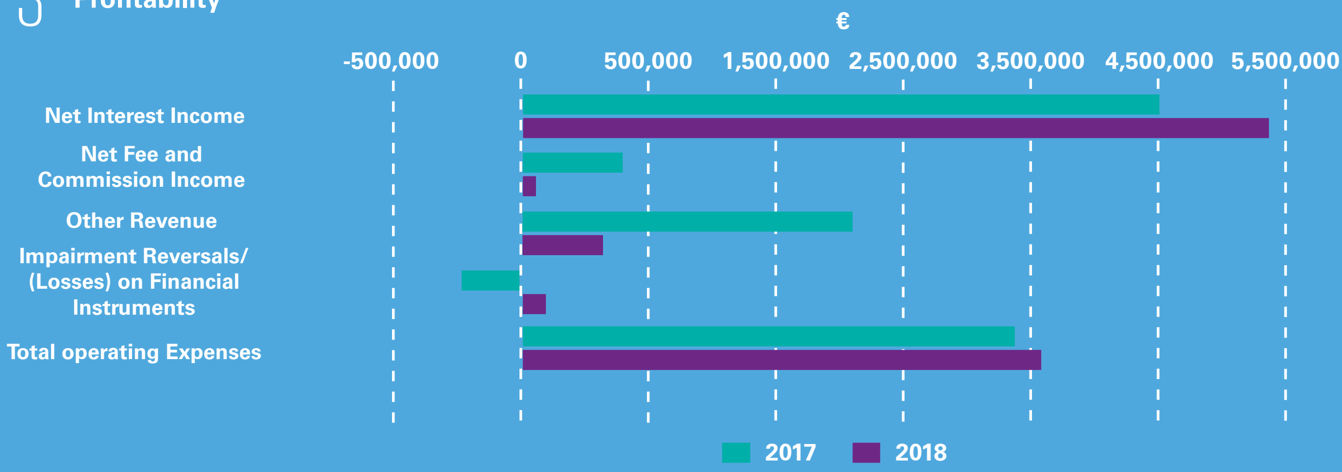
Izola Bank p.l.c.

for year ended 31st December 2018

1 Core Financial Ratios



3 Profitability



4 Assets and Liabilities

Total Assets increased by 14.8% (or €30.52 million) in 2018. The main contributing factor to this increase was a growth in Factored Receivables of €37.68 million (or 77.5%). Balances with Central Bank of Malta and Loans and Advances to Customers (other than Factored Receivables) also increased by €0.56 million (or 29%) and €8.76 million (or 13.4%) respectively. Conversely, the Bank saw significant decreases (of €15.1 million or 26.4%) in holdings of Investment Securities mainly through a result of reduced acquisitions and an increased level of disposals when compared to Financial Year 2017. Loans and Advances to Banks also decreased by 6.4% (or €1.29 million) in 2018.

During the financial year under review, the Bank registered an increase in Total Liabilities by €27.91 million (or 15.8%). This increase was a result of several changes in line items reported on the Liabilities side of the Bank's Balance Sheet. Firstly, there was an increase in Deposits from Customers of €31.39 million (or 21.5%). This increase was a result of an increase amounting to €32.39 million (or 41.6%) in Term Deposits which was slightly offset by a decrease of €1million (or 1.5%) in Current Deposits. In contrast, the Bank registered a decrease in other Balances Owed to Central Bank of Malta, which were reduced by €3.3 million (or 20.2%), when compared to 2017. As at the financial year ending 2018, the Balance Owed to the Central Bank of Malta represents a pledged amount of MGSs to cover the Bank's participation in the Euro-system financial operations.

Total Equity increased by 8.9% (or €2.61 million) in 2018. Although the Bank's Share Capital remained at €10m, Capital Contributions increased by €3.5 million (or 27.9%), year-on-year, further strengthening the quality capital of the Bank. These represent irrevocable, unconditional and interest fee shareholders' contributions to the Bank, which were classified as distributable reserves in the equity portion of the Balance Sheet as at 31st December 2018.

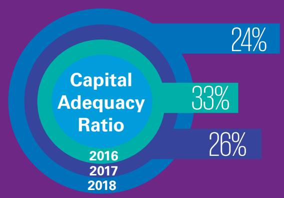
Main Activities

- Corporate banking and factoring services to resident and non-resident customers, and related parties.

Licences

- Credit Institution

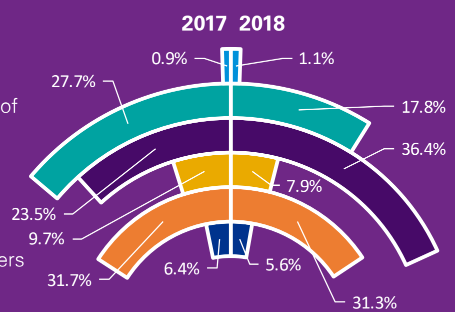
2 Regulatory Ratios



During the financial year under review the Bank's Profit Before Tax decreased by €1.11 million (or 31.3%), from the €3.56 million recorded in 2017 to €2.44 million reported in 2018. Although Net Interest Income increased significantly (by €0.93 million or 20.6%) in 2018, mainly due to satisfactory growth in factoring activities during the year under review, other sources of income did not follow suit. Net Fee and Commission Income and Other Revenue decreased by €0.4 million (or 92.2%) and €1.83 million (or 85.2%) respectively in 2018. Other Revenue was mainly composed of investment gains totalling €0.32 million in 2018. Increases in Personnel Expenses of 15.3% (€0.18 million) reflected the largest increase in the Banks operational cost base whilst, the Bank reported an Impairment Reversal on Financial Instruments of €0.13 million. This reversal signifies an improved position by the Bank in the credit quality of its factoring and lending book €0.48 million.

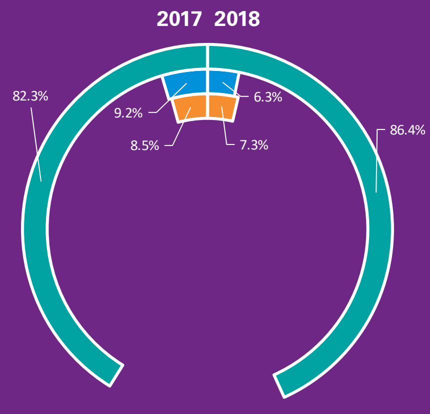
Total Assets*

- Balances with the Central Bank of Malta, Treasury Bills and Cash
- Investment Securities
- Factored Receivables
- Loans and Advances to Banks
- Loans and Advances to Customers
- All Other Assets



Total Liabilities**

- Amounts Owed to Customers
- Balance Owed to Central Bank
- All Other Liabilities



* The information presented in the above chart reflects that portion of assets as a percentage of the total assets for the respective year.
** The information presented in the above chart reflects that portion of liabilities as a percentage of the total liabilities for the respective year.

5 Concentration of Loans and Advances to Customers

Sparkasse Bank Malta Public Limited Company

for year ended 31st December 2018

1 Core Financial Ratios

Cost-to-Income*

2016	2017	2018
48.6%	46.6%	50%

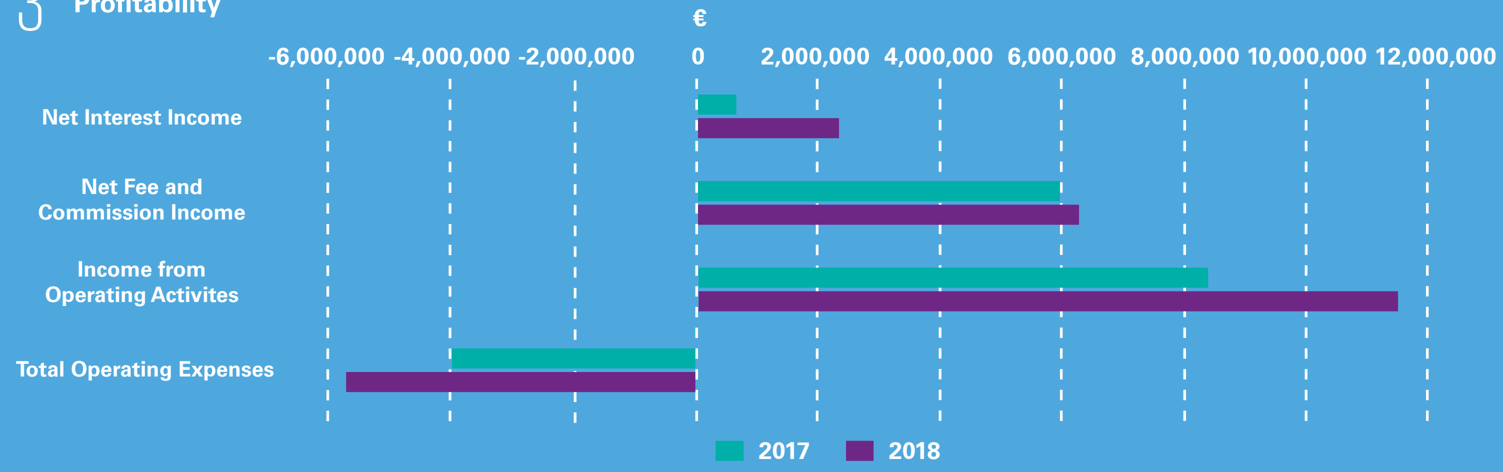
Return on Equity**

2016	2017	2018
18%	18.2%	20.9%

Return on Assets*

2016	2017	2018
0.8%	0.9%	0.8%

3 Profitability



4 Assets and Liabilities

The Bank's Asset base grew by €199.06 million (or 38.3%) in 2018. The main contributing factors to this growth were increases in Cash and Balances held with Central Bank of Malta and Loans and Advances to Customers by €157 million (or 127.8%) and €2.75 million (or 26.9%) respectively. This reflects the Bank's prudent strategy of retaining a significant part of its liquidity directly with the Central Bank of Malta. Financial Assets increased by €115.39 million (or 68.5%). Conversely, Loans and Advances to Banks contracted by €76.69 million (or 36.6%) in 2018, the decrease mainly arising in amounts held as Repayable at Call or at Short Notice.

During the period under review, the Bank registered a substantial increase in its liabilities base from €494.90 million to €691.72 million, predominantly driven by Amounts Owed to Customers, which increased by €196.53 million (or 40.8%), year-on-year. The Bank continued to also strengthen its equity base, and thus regulatory capital base, through the increase of its issued share capital by €2 million, bringing the Bank's Total Equity to be €27.34 million at end of year. Finally, it is also worth noting that in late 2018, the Bank was granted a license by the Central Bank of Ireland to provide Depositary Services to funds established in Ireland.

Although the Bank did manage to increase its customer database, the Directors reported that overall increase was limited as the Bank continued with its policy to undertake periodic reviews of existing customer relationships and aligning its database and new mandates with the Bank's prevailing risk appetite and customer acceptance policies.

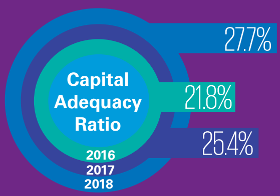
Main Activities

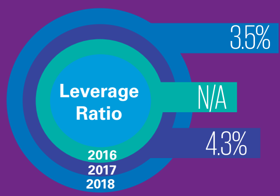
- Banking Services, Investment Services, and Custody and Depositary Services
- Depositary Services to funds established in Ireland

Licences

- Credit Institution
- Investment Services – Category 2 & 4A

2 Regulatory Ratios





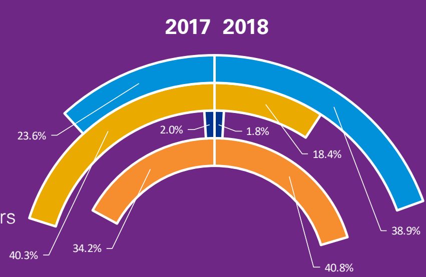
* The Cost-to-Income for 2016 and 2017 were calculated in accordance with the stated formula in the Approach section.

**The Return on Equity and Return on Assets were calculated in accordance with the stated formula in the Approach section.

During financial year ended 2018, the Bank recorded a satisfactory increase in Profit Before Tax of €1.14 million (or 24.8%) when compared to 2017. Net Interest Income increased by €1.45 million year-on-year as a result of the Bank undertaking more active liquidity management and an increased investment allocation in High Quality Financial Assets, mainly in foreign denominated Treasury Bills and other High Quality Sovereign debt. Additionally, the Bank registered increased profitability of €1.27 million in connection with Foreign Exchange Activities over financial year ended 2017, and registered a slight increase in Net Fee and Commission Income of €0.38 million (or 6.4%) over the previous year ended 2017. These increases were mainly due to the Bank generating increased levels of business activity, generated from existing and new-to-Bank customers in all areas of its banking activities – payment services, foreign exchange, investment and custody services. In line with business growth, the Bank also experienced an increase in operational expenditure. Staff Costs and Other Operating Costs increased by €1.09 million (or 55.4%) and €0.61 million (44%) respectively during the year under review, driven predominantly by a continued investment in the Bank's IT capabilities; in terms of both infrastructure and human resources.

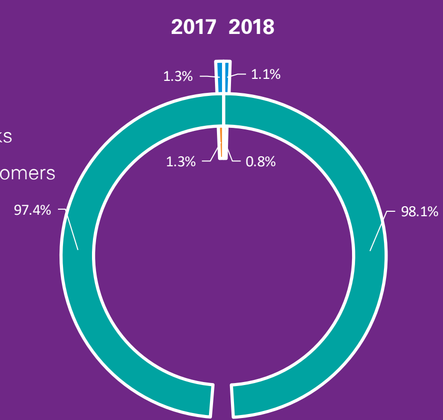
Total Assets*

- Balances with the Central Bank of Malta, Treasury Bills and Cash
- Loans and Advances to Banks
- Loans and Advances to Customers
- All Other Assets



Total Liabilities**

- Amounts Owed to Banks
- Amounts Owed to Customers
- All Other Liabilities



*The information presented in the above chart reflect that portion of assets as a percentage of the total assets for the respective year.
** The information presented in the above chart reflect that portion of liabilities as a percentage of the total liabilities for the respective year.

International Banks

- AgriBank plc
- CommBank Europe Limited
- Credorax Bank Limited
- ECCM Bank plc
- Ferratum Bank p.l.c.
- Merkanti Bank Limited
- NBG Bank Malta Limited
- Novum Bank Limited
- Yapi Kredi Bank Malta Ltd

AgriBank plc

Finacial year ended 30th June 2019

Main Activities

AgriBank Plc was set up in 2012

The Bank is engaged in lending to the UK agricultural sector in the UK and providing corporate banking services in Malta.

Profitability Ratios

ROA*
-1.8% 2019
-0.7% 2018
-0.9% 2017

ROE
-5.5% 2019
-4.2% 2018
-1.8% 2017

Cost-to -Income*
169.9% 2019
120.5% 2018
109% 2017

*RoA and Cost-to-Income were calculated in accordance with the stated formula in the Approach section

Regulatory Ratios

CAR
27.1% 2019
25% 2018
24.4% 2017

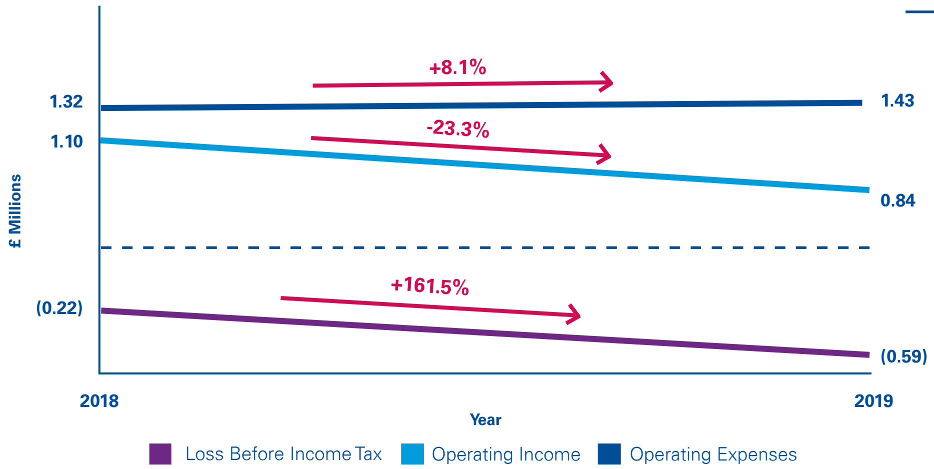
CET 1 Ratio
20.3% 2019
18.5% 2018
23.5% 2017

Profitability

Operating Income

The Bank registered a decrease in Net Interest Income of £0.5 million (or 40.3%), driven predominantly by lower interest generated on finance leases. Conversely the Bank reported increased Net Fee and Commission Income of £0.13 million (or 627.1%) during the year under review, which was driven by corporate banking related activity.

23.3% ↓



Operating Expenses

The main reason for this movement is increased Employee Compensation and Benefits of £0.25 million (or 41.3%) which was partially offset by a decrease in General Administrative Expenses of £0.16 million (or 23.7%) for 2018.

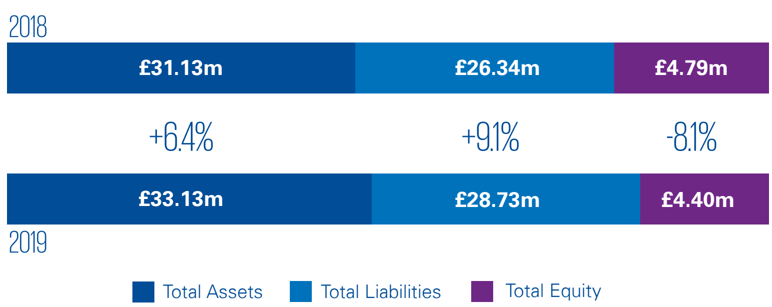
8.1% ↑

Assets, Liabilities and Equity

Assets

The main contributing factors to this growth were increases to Balance with Central Bank of Malta, and Cash and Cash Equivalents by £5.02 million (or 47.7%) and in Fair Value Through Other Comprehensive Income Investments by £1 million (or 100%). Conversely, Finance Lease Receivable and Loans to Customers decreased by £1.95 million (or 16.5%) and £1.92 million (or 25.5) respectively during the year under review.

6.4% ↑



Liabilities

This growth is mainly due to an increase in amounts Owed to Customers by £3.22 million (or 14.2%) in the year under review. Conversely, Amounts Owed to Banks decreased by £0.53 million during the year resulting in a nil balance held as at year end.

9.1% ↑

CommBank Europe Limited

Finacial year ended 30th June 2019

Main Activities

Commbank Europe Limited was set up in

2003

the entity obtained its Credit Institution licence in 2005

The Bank provides infrastructure and utilities solutions, corporate lending and asset finance solutions to clients throughout Europe.

Profitability Ratios

ROA
1.4% 2019
-0.2% 2018
1.9% 2017

ROE*
4% 2019
-1.2% 2018
3.9% 2017

Cost-to -Income*
37.9% 2019
125.3% 2018
15.4% 2017

* RoE and Cost-to-Income were calculated in accordance with the stated formula in the Approach section.

Regulatory Ratios

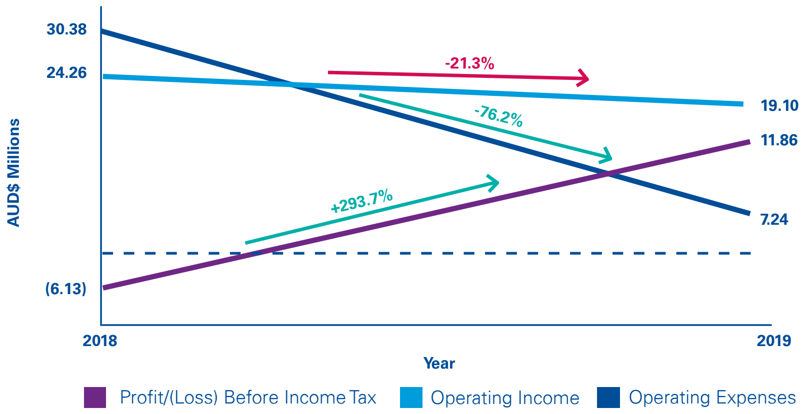
CAR & CET1 Ratio
43.4% 2019
43.6% 2018
50.9% 2017

Profitability

Operating Income

The Bank registered a decrease in total operating income predominantly due to a AUD$ 4.26 million (or 580.8%) decrease in Net Fee and Commission Income for the year under review. Additionally, Net Interest Income and Net Trading Gains also decreased by AUD$0.4 million (or 1.75%) and AUD$0.53 million (or 106.9%) respectively.

21.3%



Operating Expenses

This decrease was a result of the Bank reporting Loan Impairment Charges of AUD$27.35 million during the previous financial period, which did not impact the Bank in the year under review.

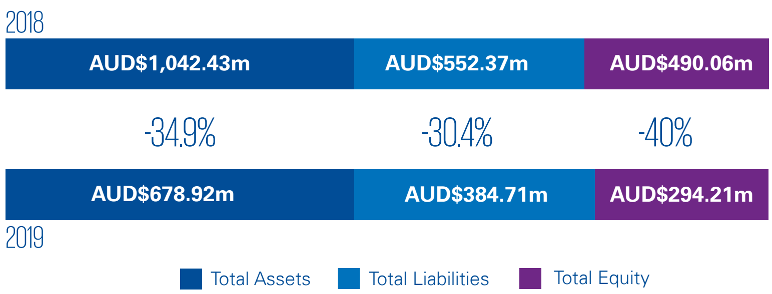
76.2%

Assets, Liabilities and Equity

Assets

The main contributing factors to this decrease in Asset base were decreases in Loans and Advances to Customers, Balances with the Central Bank of Malta, and Loans and Advances to Banks of AUD$298.03 million (or 35.7%), AUD$32.86 million (or 34.2%), and AUD$30.43 million (or 29%) in the year under review.

34.9%



Liabilities and Equity

This decrease came about due to a reduction in Amounts Owed to Banks of AUD$165.91 million (or 30.3%) during the year under review.

30.4%

Additionally, Share Capital was reduced by AUD$195.95 million (or 40.7%) due to a capital repatriation in June 2019.

Credorax Bank Limited

Finacial year ended 31st December 2018

Main Activities

Credorax Bank Limited was set up in

2009

the entity obtained its Credit Institution licence in 2015

Credorax Bank's principal activity is the provision of integrated acquiring and payment processing services to merchants within the EU and two other EEC States, and is also a principal level member with Visa (Europe), MasterCard and Union Pay.

Profitability Ratios

ROA
- 2018: 8.6%
- 2017: 2.5%
- 2016: -0.04%

ROE*
- 2018: 45.1%
- 2017: 12.2%
- 2016: 68.7%

Cost-to-Income*
- 2018: 48.6%
- 2017: 79.3%
- 2016: 37.4%

*RoE and Cost-to-Income was calculated in accordance with the stated formula in the Approach section

Regulatory Ratios

CAR
- 2018: 32.4%
- 2017: 17.9%
- 2016: 27.7%

Leverage Ratio
- 2018: 22.1%
- 2017: 17.7%
- 2016: 25.3%

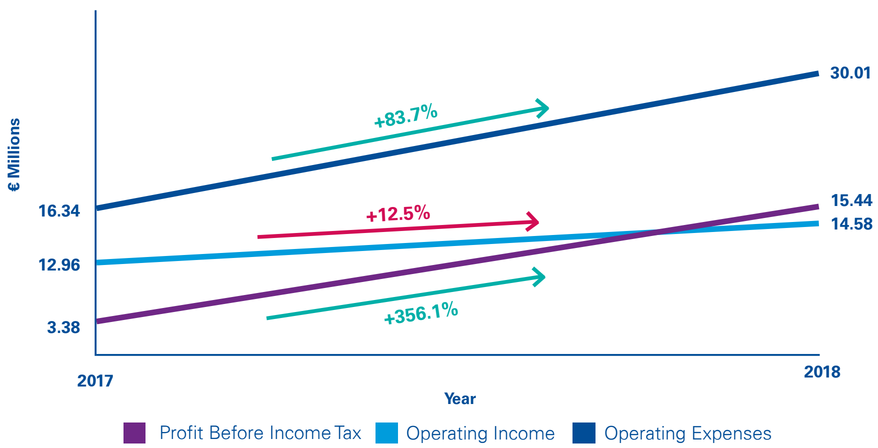
CET1 Ratio
- 2018: 32.4%
- 2017: 17.9%
- 2016: 25.4%

Profitability

Operating Income

This growth was mainly due to increases in Net Fee and Commission Income by €8.7 million (or 73%) and Net Trading Income by €4.15 million (or 101.9%) reflective of continued growth of business activity by the Bank.

83.7% ↑



Operating Expenses

The main contributing factor to this increase were higher recorded General and Administration Expenses of €2.3 million (or 45.8%).

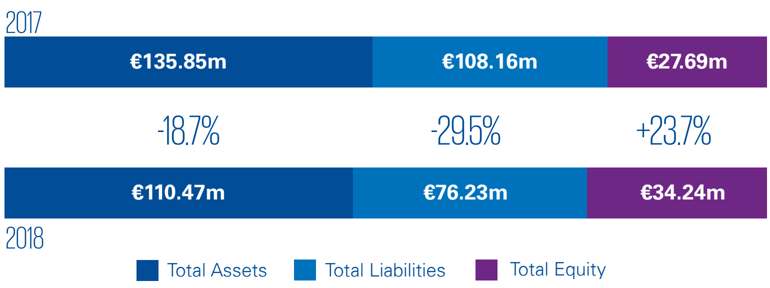
12.5% ↑

Assets, Liabilities and Equity

Assets

The main reason for this decrease is the fact that during 2018, the Bank changed the terms and conditions of its merchants' agreements, and as a result these receivables are no longer recognised in the Bank's Balance Sheet as they meet the requirements of a pass-through arrangement under IFRS 9. The effect on the asset side from this decision was a decrease €57.08 million (or 100%) in Funds Receivable from Card Schemes.

18.7% ↓



Liabilities

The main contributing factor to this decrease was a €35.39 million (or 35.4%) decrease in Settlement Processing Obligations as a result of the change in conditions mentioned in the Assets section, wherein related payables to the receivables from card schemes are no longer recognised on the Bank's Balance Sheet.

29.5% ↓

ECCM Bank plc

Finacial year ended 30th September 2018

Main Activities

ECCM Bank plc was set up in

2014

ECCM Bank plc provides banking services to international corporate clients. Such banking services include short term and long term lending, the taking of deposits, payment services and safekeeping and administration of securities.

Profitability Ratios

ROA
2.8% 2018
2.3% 2017
1.9% 2016

ROE
5.1% 2018
4.8% 2017
3.2% 2016

These ratios were calculated in accordance with the stated formula in the Approach section.

Cost-to -Income
12.3% 2018
13.5% 2017
21.2% 2016

Regulatory Ratios

CAR
102.1% 2018
95.2% 2017
90.5% 2016

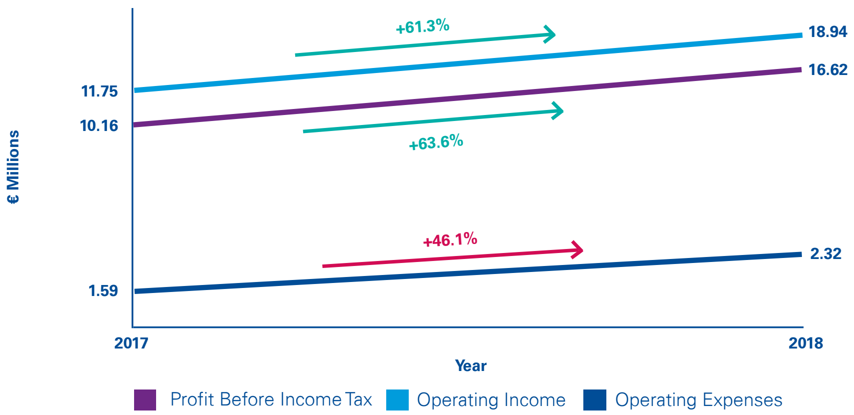
CET 1 Ratio
33.8% 2018
40.7% 2017
37.7% 2016

Profitability

Operating Income

The main contributing factors to this increase were increases in Interest Income of €7.4 million (or 50.2%) and Fee and Commission Income of €1.1 million (or 53.2%).

61.3% ↑



Operating Expenses

This increase in highly attributable to increases in Impairment Loss on Financial Assets; and Administration and Other Expenses which increased by 111.4% (€0.28 million) and 52.4% (€0.3 million) respectively.

46.1% ↑

Assets, Liabilities and Equity

Assets

This growth is mainly due to the increase in Loans and Advances to Customers of €132.7 million (or by 37.73 % over 2017.

33.8% ↑

	Total Assets	Total Liabilities	Total Equity
2017	€444.79m	€232.53m	€212.26
	+33.8%	+16.6%	+52.7%
2018	€595.13m	€271.10m	€324.04m

Liabilities and Equity

This increase is mainly resulting from an increase in Amounts Owed to Customers of €39 million, or 21.56% increase over 2017.

16.6% ↑

In 2018 there was a new issue of Non-Cumulative Additional Tier 1 Notes, which was the main contributor to the 52.7% increase in Equity.

Ferratum Bank p.l.c.

Finacial year ended 31[st] December 2018

Main Activities

Ferratum Bank plc was set up in

2012

The Bank provides unsecured consumer loans and other consumer and business orientated financial products, distributed through a mobile platform, as well as over the internet. The Bank also offers deposit products.

Profitability Ratios

ROA

4.8% 2018

4.9% 2017

2.8% 2016

ROE*

28% 2018

30.2% 2017

15% 2016

Cost-to -Income**

78.3% 2018

78% 2017

89.5% 2016

*ROE was calculated using Profit After Tax and Average Equity

**Cost-to-Income has been calculated through netting Impairment Losses from Operating Income.

Regulatory Ratios

CAR & CET1 Ratio

17.6% 2018

17.3% 2017

16.1% 2016

Leverage Ratio*

18.4% 2018

15.1% 2017

14.6% 2016

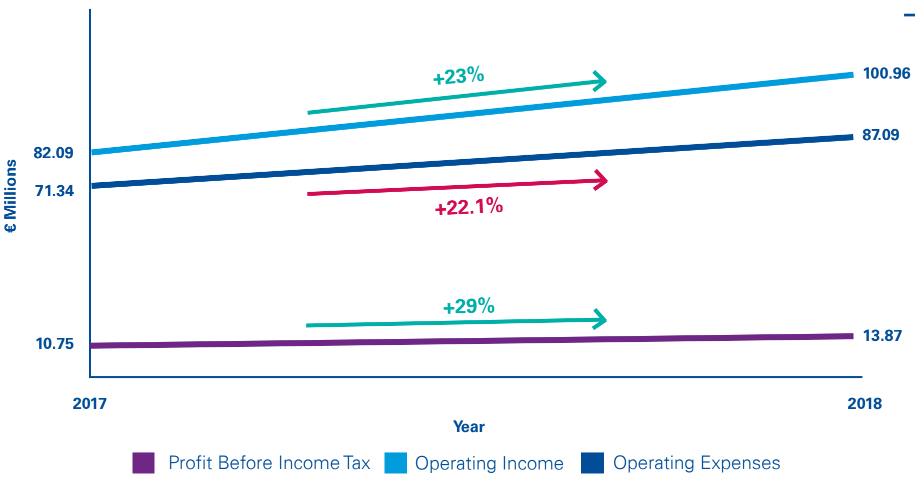
* Leverage Ratio is as if IFRS 9 or analogous ECLs transitional arrangements have been applied.

Profitability

Operating Income

The main driver behind this satisfactory increase in operating income was an increase in Net Interest Income of €19.05 million which amounted to a 22% increase over 2017, which in turn was driven by growth in lending activity.

23% ⬆



Operating Expenses

The rise in operating expenses was the result of increases in Other Operating Costs of €11.61 million (or 39.8%), resulting from substantial increases in Information Technology Costs, Marketing and Representation Costs, and Credit Management Expenses.

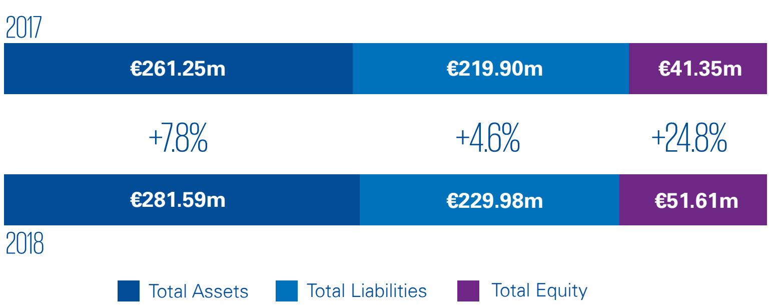
22.1% ⬆

Assets, Liabilities and Equity

Assets

The increase in assets is a result of increases in Loans and Advances to Customers and Group Companies of €20.37 million (or 16.6%) and €3.25 million (or 72.7%) respectively. This substantial increase was partially offset by a decrease in Loans and Advances to Banks of €16.16 million (or 45.9%).

7.8% ⬆



Liabilities and Equity

This boost in liabilities is mainly attributable to an increase in Amounts Owed to Customers of €9.77 million (or 5.7%) over 2017.

4.6% ⬆

Equity: During the year under review the Bank received a Capital Contribution of €5 million from its ultimate parent company.

Merkanti Bank Limited

Finacial year ended 31st December 2018

Main Activities

Merkanti Bank Ltd was set up in

2016

The Bank's business is focused on providing trade and structured financing solutions.

Profitability Ratios

ROA
- 3.9% 2018
- 2.9% 2017
- 2% 2016

ROE
- 4.8% 2018
- 6.1% 2017
- 2.2% 2016

Cost-to-Income
- 75.3% 2018
- 66.4% 2017
- 62.8% 2016

Regulatory Ratios

CAR & CET1 Ratio
- 110.4% 2018
- 83% 2017
- 88.7% 2016

Liquidity Coverage Ratio
- 1,374% 2018
- 1,707% 2017
- 4,717% 2016

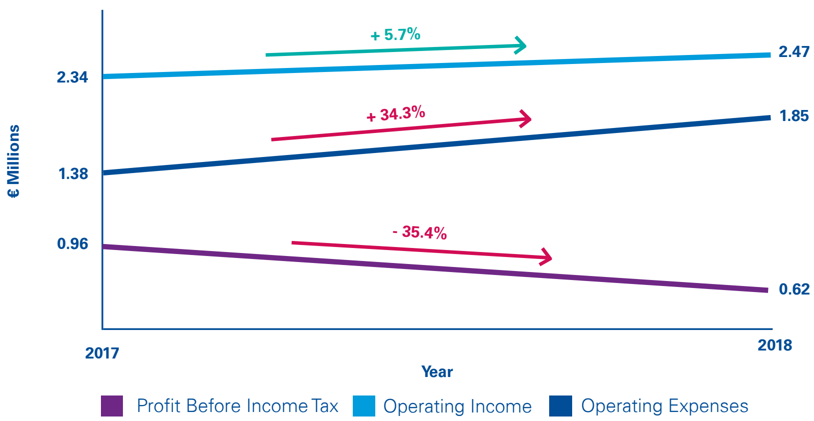
Leverage Ratio
- 71.7% 2018
- 75.6% 2017
- 93.6% 2016

Profitability

Operating Income

This increase is driven by a boost in Net Fee and Commission Income of €0.22 million (or 10.8%) and a decrease in Net Trading Losses of 71.4% (or €0.02 million).

5.7% ↑



Operating Expenses

The main contributing factor to this increase is Administration Expenses which increased by €0.31 million due to new staff recruitment and investment in new operational and risk management systems.

34.3% ↑

Assets, Liabilities and Equity

Assets

This growth arises from increases in Loans and Advances to Customers and Financial Assets of €0.71 million (or 36.7%) and €1.33 million (or 39.2%) respectively.

17.5% ↑

	Total Assets	Total Liabilities	Total Equity
2017	€14.78m	€1.73m	€13.05m
	+17.5%	+117.1%	+4.3%
2018	€17.36m	€3.75m	€13.61m

Liabilities

This notable increase is mainly due to the increase of €2.08 million (or 132.6%) in Amounts Owed to Customers.

117.1% ↑

NBG Bank Malta Limited

Finacial year ended 31st December 2018

Main Activities

NBG Bank Malta Limited was set up in

2005

The Bank services small and medium enterprises, large corporate clients and high net worth individuals, by offering term deposit accounts, cash loans, treasury sales, and wealth management services.

Profitability Ratios

ROA: 1.3% 2018, 0.8% 2017, 1.4% 2016

ROE: 4.5% 2018, 2.2% 2017, 2.7% 2016

Cost-to-Income: 22.8% 2018, 35.8% 2017, 54.2% 2016

Regulatory Ratios

CAR: 63.3% 2018, 48.1% 2017, 47.9% 2016

LCR: 116% 2018, 92.2% 2017, 86% 2016

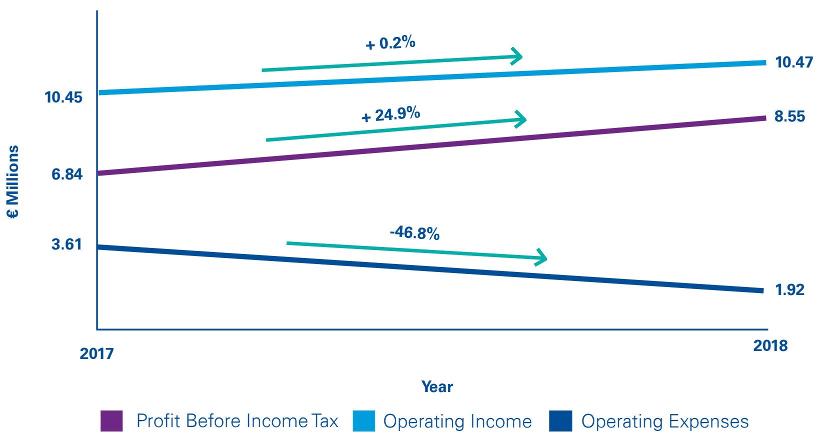
CET1 Ratio: 63.3% 2018, 47.8% 2017, N/A 2016

Profitability

Operating Income

The slight increase was a result of improved Net Trading Income of €0.3 million (or 1,042.3%) over 2017, and Realised Gain on Disposal of Loans and Advances or €0.13 million, which was nil for 2017. Net Interest Income decreased by 4.2% (or €0.43 million) during 2018.

0.2% ↑



Operating Expenses

The main contributing factor to this decrease was the release of the allocated provisions reported in 2018, with a positive Change in Expected Credit Losses of €0.85 million being recorded for the period under review, when compared to the €1.22 million Net Loan Impairment Charges recorded in 2017. This change was due to increased repayment of forborne loan repayments during 2018.

46.8% ↓

Assets, Liabilities and Equity

Assets

The main contributing factors to this shrinkage in Asset base for 2018 were decreases in Loans and Advances to Customers and Loans and Advances to Banks of €95.93 million (or 26.1%) and €18.57 million (or 11.3%) respectively.

18.8% ↓

	Total Assets	Total Liabilities	Total Equity
2017	€645.10m	€417.84m	€227.6m
	-18.8%	-28.7%	-0.6%
2018	€523.93m	€297.95m	€225.98m

Liabilities

This decrease in the Bank's Liabilities was mainly due to decreases in Amounts Owed to Banks of €68.46 million (or 41.5%) and Amounts Owed to Customers of €36.63 million (or 15.4%) in the period under review.

28.7% ↓

Novum Bank Limited

Finacial year ended 31st December 2018

Main Activities

Novum Bank Limited Limited was set up in

2009

The Bank focuses on providing credit products to individuals and corporates in specific niche market segments. The Bank has two lines of products, card/store value and micro-lending.

Profitability Ratios

ROA
- 15.1% 2018
- 1.9% 2017
- -1.8% 2016

ROE
- 40.5% 2018
- 10.8% 2017
- -7.3% 2016

Cost-to -Income
- 77.8% 2018
- 92% 2017
- 107.5% 2016

These were calculated in accordance with the stated formula in the Approach section.

Regulatory Ratios

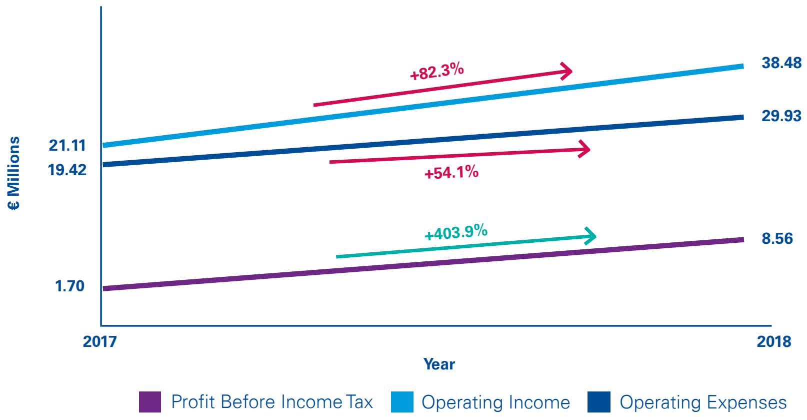
CAR
- 35% 2018
- 26% 2017
- 26% 2016

Profitability

Operating Income

The main contributing factors to this increase were improved results recorded in 2018 for Net Interest Income and Net Fee and Commission Income amounting in a positive difference of €8.08 million (or 421.9%) and €9.29 million (or 48.4%) respectively, reflective of a growth in the Bank's lending activities.

82.3% ↑



Operating Expenses

Operating expenses more than doubled, predominantly due to increased Net Impairment Losses of €8.81 million (or 78.5%) and Other Operating Expenses of €1.31 million (or 24.6%).

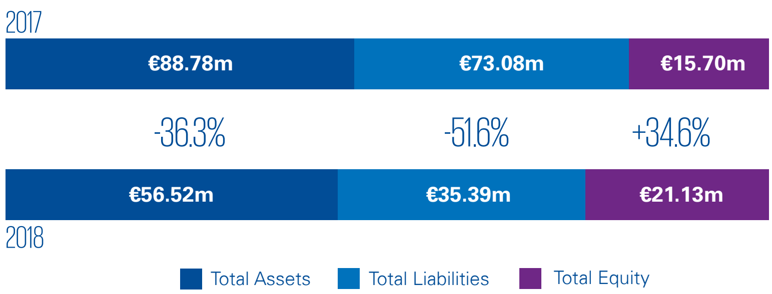
54.1% ↑

Assets, Liabilities and Equity

Assets

The main contributing factor to this decrease in the Bank's Asset base was a €39.44 million (or 67%) decrease in Amounts due from Banks. The Bank registered a satisfactory performance in activity related to Loans to Customers with an increase of €9.95 million (or 78%) during the year under review.

36.3% ↓



Liabilities

This shrinkage in the Bank's Liabilities was a result of a decrease in Amounts due to Customers of €39.71 million (or 64.2%) over 2017.

51.6% ↓

Yapi Kredi Bank Malta Ltd

Finacial year ended 31st December 2018

Main Activities

Yapi Kredi Bank Malta Limited was set up in

2014

Provision of retail, corporate and commercial banking services.

Profitability Ratios

ROA

- 0.4% 2018
- 0.6% 2017
- 0.4% 2016

ROE

- 1.2% 2018
- 1.7% 2017
- 1% 2016

Cost-to -Income

- 82% 2018
- 72% 2017
- 81% 2016

Regulatory Ratios

CAR

- 36.3% 2018
- 40.8% 2017
- 39.8% 2016

CET1 Ratio

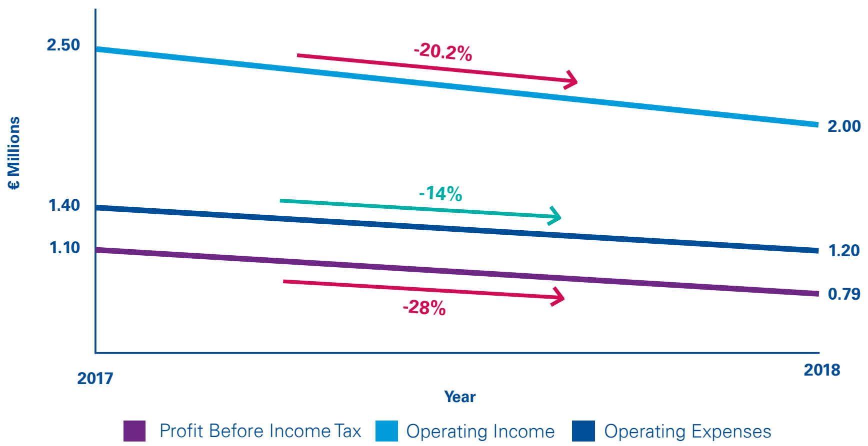
- 36.3% 2018
- 40.8% 2017
- 39.7% 2016

Profitability

Operating Income

During the year under review Net Interest Income and Net Fee and Commission Income, decreased by €0.56 million (or 21.9%) and €0.05 million (or 62.4%) respectively, driven predominantly by lower lending activity year-on-year and thus directly impacting the level of revenue generated in by the Bank in 2018.

20.2% ↓



Operating Expenses

The main contributing factor to this decrease pertains to Net Impairment Reversals of €0.19 million registered by the Bank in 2018. All other operating expenses were retained at similar levels, year-on-year.

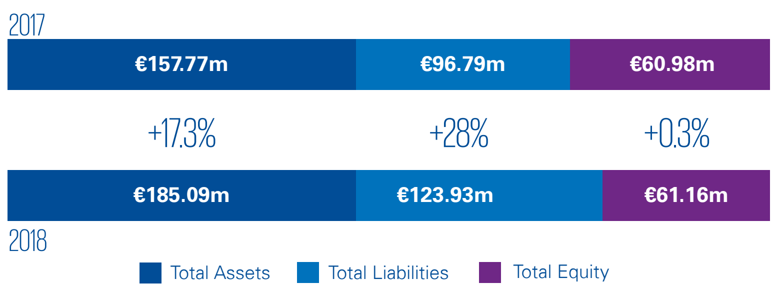
14% ↓

Assets, Liabilities and Equity

Assets

The major movements that occurred during the year under review in terms of the Bank's Assets were increases in Loans and Advances to Banks of €58.23 million and decreases in Loans and advances to Customers of €33.44 million (or 24.8%).

17.3% ↑



Liabilities

This increase was a result of increases in Deposits from Banks and Derivative Liabilities held for Risk Management Purposes of €26.94 million (or 27.9%) and €0.22 million (or 100%) respectively.

28% ↑

Thought Leadership

- **Executive Coaching: Leading in times of constant change and ambiguity**
- **Are you ready for an Audit? Time for Action**
- **Digital Solutions - The oxygen which allows your bussness to breathe**
- **The banking universe…where to compete on the value chain spectrum!**
- **The Future of Internal Auditing**
- **Reshaping the Banking and Payment Services Experience - Digital First**
- **Do you talk the talk, or walk the walk?**
- **KPMG's 2019 Global CEO Outlook – A Synopsis**

Executive Coaching: Leading in times of constant change and ambiguity

In today's environment of emerging technologies, constant disruption, globalisation and connectivity, organisations are altering dramatically, new businesses are emerging, and success relies on being able to adapt quickly. This places new demands on leaders across all industry sectors.

The implications on finance leaders encompass a need to manage their teams more effectively, establish a new vision for the organisation, and consistently set a new course to refocus and realign the organisation to this vision. An executive coach can be a beneficial partner in this journey.

Leading the way we did when environments and organisations were more stable, where we could distinguish between change and 'business as usual', simply won't work anymore[1]. This statement directly impacts the way finance leaders navigate their context, embrace change and make decisions.

Finance leaders are constantly facing volatility and ambiguity. As they continually adapt strategies, pivot their product or service offerings, grow or shrink their workforces, adapt to new regulation and technology or quickly react to shifts in customer demands – they need to adjust the way that they lead.

Leaders need to think about their role as one of creating organisations that are adaptive, agile, and can deal with emergent issues[2]. Not surprisingly, leaders sometimes struggle to develop the psychological, cognitive and behavioural skills needed to deal with fast organisational change whilst remaining focused on reaching their work-related goals[3]. Indeed, the ability to build effective teams, promote high performing cultures and deliver on organisational goals during periods of disruptive change is rated as one of the most important attributes of effective leaders[4], although the requisite skills come naturally to only a few[5]. Such changed behaviours and expectations are a business necessity for financial leaders. Executive coaching can enable the leader to explore changes in assumptions, expectations and perspectives, leading to deep behaviour change. Many finance leaders who do not have a coaching support system may feel discouraged when faced with the demands of addressing such complexity and business change. As a result, they may not be able to bring the best of themselves, to have the focus, flexibility, and agility required to recover business profitability or change the organisation's culture and reputation.

Changing Leadership Approach

We see that leaders within the finance businesses we work with, are becoming more open to new ways of leading, as well as becoming comfortable that complexity is now a constant state of play. We understand that complexity requires people to look at problems from multiple perspectives to come to an answer. *Relying on hierarchy or believing we can achieve outcomes within organisational 'silos' no longer serves Leaders well. Listening, engaging others and helping people to see meaning in their work helps achieve good outcomes*[6].

This requires self-awareness, strong people skills and the ability to analyse context and make choices about the right approach. This is what we call "*conscious leadership*"[7].

Conscious leadership requires deeper questions about what leadership means and what is required in a given situation. Leaders need to be aware of when they are exercising positional authority versus leadership. Or when they need to be the expert as against facilitating the input of others. Finance industry leaders who were interviewed for this article spoke about the heightened need to lead through others, a stronger requirement at inspiring, engaging and taking people with them and 'becoming more agile and open to change'. These growing demands for finance leaders have brought with it heightened requirement for executive coaching to support both individual and leadership team development requirements. They described that today's climate of consistent change has added a new level of complexity to the role of finance leader. They spoke about utilizing coaching to understand and get their head around emerging themes and challenges, to 'pause' and to reflect on what ripples are out there and which of those ripples will impact on their businesses. What they said was:

"Executive Coaching has taken my leadership abilities to the next level, and has acted as a catalyst to deeper self-awareness and ultimately changes in behaviours, approach and outcomes.

"Executive coaching has enabled me to shape and implement a set of personal objectives that have materially improved my performance as a leader. It has empowered me to clearly identify the areas on which to focus in order to bring the greatest benefit to myself and the organisation.

[1] Dr Jane Gunn, Partner People & Change and Australian Talent Management Lead, KPMG
[2] Kathy Hilyard, Partner in People & Change Australia at KPMG
[3] Fugate, M. E. L., Kinicki, A. J., & Prussia, G. E. (2008). Employee coping with organizational change: an examination of alternative theoretical perspectives and models. Personnel Psychology, 61(1), 1–36.
[4] Gilley, A., McMillan, H. S., & Gilley, J. W. (2009). Organizational change and characteristics of leadership effectiveness. Journal of Leadership & Organizational Studies, 16(1), 38–47.
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Support for a new approach

Individual change in leadership style is an important part for ensuring that Banks and Financial Institutions are focused on a growth agenda, rather than just operating in survival mode. Cultivating a new leadership style takes courage and conscious effort on the part of the organisation as a whole, the leaders, and the people they are leading.

Looking at company culture and employee engagement through diagnostic tools, provides leaders with the foundation for identifying the main leadership strengths and development needs within organisations.

Leaders can't simply 'keep up'- rather they can be supported on the how to steer their teams and the organisation into the unknown by preparing for today and equipping themselves for tomorrow.

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Are you ready for an Audit? Time for Action

As the evolution of global fiscal transparency measures strengthens following the introduction of the US Foreign Account Tax Compliance Act (FATCA) and the Common Reporting Standard (CRS).

As the evolution of global fiscal transparency measures strengthens following the introduction of the US Foreign Account Tax Compliance Act (FATCA) and the Common Reporting Standard (CRS), the focus is on governments to demonstrate that they have compliance enforcement measures in place to test the effectiveness of such tax reporting systems. Inevitably, financial institutions, including banks, will be put to the test.

Whilst the first phase of FATCA and CRS implementation served primarily to deter potential tax abuse by tax payers, tax authorities are now expected to embark on Automatic Exchange of Information (AEoI) compliance programs to verify the compliance of financial institutions located within their jurisdictions and test and analyse the reported data. In the second edition of the Standard of Automatic Exchange of Financial Information in Tax Matters – Implementation Handbook, the Organisation for Economic Co-operation and Development (OECD) requires tax administrators to introduce a framework to enforce compliance with CRS obligations, including audit programs. As expected, tax authorities around the world are in fact investing in resource and data analytics to work through the huge amount of data collected as a result of AEoI.

During 2019, many tax authorities have announced the introduction of FATCA and CRS compliance audits. The Irish Revenue announced the commencement of their compliance program during the beginning of 2019 with the issuance of initial compliance letters and compliance reviews conducted through on-site visits and assurance checks. The intention is for such review to become wider in scope going forward with a focus on quality of data reported, review of procedures and records, timeliness of filing of returns and any questions received from other jurisdictions in relation to those filings. The Swiss Federal Tax Administration also announced the commencement of a first pilot audit of a bank, with audits of other Swiss banks and financial institutions likely to following in the course of 2019 and the coming years. HMRC has also launched enquiries into some returns and published a list of "5 common AEOI compliance failures". The expectation is that tax authorities in other jurisdictions will follow suit. As the initial phase-in of the regimes has passed, the expectation is for tax authorities to shift their focus on data quality of submitted returns, rather than merely focusing on the timely submission of the returns. Whilst no public announcement has been made by the Maltese Revenue Authorities, this year we have witnessed an increased number of compliance letters being issued to Maltese financial institutions, especially where returns submitted failed to include Tax Identifications Numbers (TINs). Since Malta's global reputation hinges on, amongst other factors, its effective adherence to tax transparency regulation, we expect the local tax authorities to intensify its AEoI compliance review going forward.

Although FATCA and CRS regimes have entered their fifth and third reporting years respectively, we believe that financial institutions have primarily focused their efforts in the project phase to meet the initial reporting deadlines without a proper integration into business-as-usual functions with appropriate controls and governance. The initial legislation is also evolving in many jurisdictions making it challenging to stay aware and in control of these changing requirements without a robust governance and control mechanism. This challenge is heightened by the need to strike the balance between overburdening the client for more information and being compliant.

> "The KPMG AEoI Healthcheck will give you the assurance that all implementations are correct and complete.

The financial risk of non-compliance can be significant. Omissions, such as failure to report US TINs on new reportable accounts, could potentially lead to a finding of significant non-compliance, which if not rectified within 18 months, would result in the classification of the financial institution as a Non-Participating Financial Institution, with ensuing sanctions and imposition of 30% withholding tax on certain income. Furthermore, failure to meet reporting deadlines and demonstrate a robust compliance program may result in local penalties. Besides the financial risk, non-compliance may also raise reputational concerns in the current environment dominated by tax transparency, as taxpayers and counterparties may fear doing business with non-compliant financial institutions to their financial detriment.

In this context, we believe that an AEoI health check, which is an assessment of the end-to-end AEoI process and procedure, is the most efficient way to ensure there are no deficiencies or weaknesses, or, where these are detected, to establish and implement a remediation plan. We recommend that such an exercise be carried out as soon as possible in order to remediate possible implementation issues, before a formal AEoI audit takes place by local tax authorities.

From our experience, areas of AEoI implementation in which financial institutions continue to face challenges include:

- **The need to have written policies and procedures in place for AEoI purposes to document the Bank's approach to AEoI;**
- **The requirement to ensure that proper controls are in place to manage AEoI risks, and that such controls are properly documented and monitored;**
- **The requirement to perform a reasonableness check of self-certifications received from clients, and implementing respective control mechanisms;**
- **The correct treatment of those accounts for which no self-certification can be obtained; and**
- **The need for ongoing monitoring, including new reportable jurisdictions, related client communications, changes in circumstances and other aspects of AEoI compliance.**

The KPMG AEoI Healthcheck is a tailor-made exercise depending on the type of entity, concerns and needs of our clients. During this exercise, we would typically review the adequacy and effectiveness of the implementation of the AEoI regimes, or individual project results (e.g. identification of existing clients), in particular the procedures and approach to entity classifications, due diligence procedures for the identification of account holders and sample testing and reporting. Where deficiencies are noted, we will provide recommendations as to the required remedial actions and assist with their implementation, if needed. Such an exercise will give you the assurance that all implementations are correct and complete.

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HMRC International Exchange of Information Manual
Standard of Automatic Exchange of Financial Information in Tax Matters – Implementation Handbook; second edition; the Organisation for Economic Co-operation and Development (OECD)
AEOI - implementing an effective risk framework; Rohini Sanghani
First AEoI audits by Swiss Federal Tax Administration; Grégoire Winckler

Digital Solutions - The oxygen which allows your business to breathe

To compete more effectively and reduce costs, banks need to organise themselves and be more customer centric. Navigating a path through the challenges involved differs from one financial institution to another. Invariably data plays a key role.

OPERATOR CLASSES
print("please select exactly two objects
bl_idname = "object.mirror_mirror_x"
bl_label = "Mirror X"
@classmethod
def poll(cls, context):
return context.active_object is not None
mirror_mod = modifier_ob.modifiers
# set mirror object to mirror_ob
mirror_mod.mirror_object = mirror_ob
if _operation == "MIRROR_X":
mirror_mod.use_x = True
mirror_mod.use_y = False
mirror_mod.use_z = False

It is evident that financial and regulatory reporting requirements are an ever-growing overload on banks and financial institutions.

The burden being placed by compliance on the operations of these businesses is apparent from the plethora of forms, checks, and never-ending back-and-forth customers are being subjected to for the simplest of requests. A result of this is that the customer is increasingly feeling the strain of the current shift towards a greater compliance focus.

However, the need to create a level playing field for industry players , which safeguards the interests of their customers and ensures lawful conduct is a societal imperative. The discerning eye would note that banks and financial institutions are overwhelmed by the very workloads they must take on in order to ensure they operate in a compliant manner. The myriad of regulations – and guidance notes – make this a daunting task.

Financial and regulatory reporting is all about compiling data into structured frameworks, based on defined rules. When data is processed, organised, structured or presented in a given context so as to make it useful, it becomes information. It is this information that regulatory bodies and company leadership require in order to govern the organisations for which they are responsible.

The use of technological solutions is mandatory in managing data and organising it into information. KPMG in Malta has identified two types of problems banks and financial institutions encounter in this respect.

Larger Financial Services players find themselves contending with the integration of a complex ecosystem of legacy applications and processes, each with their unique data dictionaries and terminologies, which need to be consolidated into a single version of the truth. This problem is compounded by the overlaps, gaps, duplications and inconsistencies present within the various reporting frameworks which Banks need to comply with, like for example the CRDIV framework and the MAR.

The latter issue is currently being tackled at the European level through the Financial Data Standardisation initiative. The former problem requires a profound digital transformation from monolith applications to applications built using a micro-services architecture. This means that rather than building applications to carry out a large amount of tasks, the underlying functionality should be understood and split into smaller applications (micro-services), capable of being consumed by multiple workflows, as required.

“

The use of **technological solutions** is mandatory in managing data and organising it into information.

On the other hand, smaller financial institutions sometimes struggle to justify investment in the technologies necessary to support their data collection and reporting requirements. They find it hard to draw a return on investment from the implementation of such systems, resorting instead to the use of multiple excel sheets that are manually maintained.

Here, absent is the business' ability to profoundly understand their most basic data needs, and how this data can be efficiently transformed into the necessary information. KPMG in Malta often encounters clients holding large amounts of unnecessary data points, while missing key features in their data sets. This leads to poor scoping of system requirements, often diverting investment towards unnecessary or sub-optimal functionality, while overlooking key requirements.

In order to return back to an era where the industry is able refocus its efforts from the middle office to the front office, so that the customer is at the core of the business' mission, leadership needs to scrutinise the data needs of their organisations and ensure that the technology they choose to handle it is in line with the requirements of the business. Only this way can work be diverted from support functions back into customer facing functions.

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The banking universe… where to compete on the value chain spectrum!

Disruptions in banking are pushing banks to take more explicit strategy decisions. Many banks have recognized that they need a truly differentiated strategy as the industry's economics have come under pressure from new technology and entrants with disruptive business models. Instead of trying to play catch-up, banks need to identify ways of creating new value and firmly protect any newly acquired market space.

One key choice, with implications for the business model, involves where to compete on the value chain spectrum. Banks may focus their energies on creating products or they can be inclined to concentrate on their distribution framework. Credit institutions pursuing a manufacturing-intensive strategy aim to build world-class solutions for specific product needs and client segments, including other Credit Institutions. Succeeding through this model hinges on attaining large-scale product leadership and technological expertise. Distribution-focused banks tend to offer a full product suite, tailored to particular industries or customer profiles with a combination of non-bank, white-label solutions and partnerships with other supporting stakeholders such as emerging technology firms and big data experts. Success with the distribution model hinges on customer analytics, strong customer relationships, channels that are simple and easy to use and economies of scope achieved by gaining a larger share of the customer's wallet. Most banks however tend to choose a hybrid of the two, based on their relative strength in individual products, customer segments, and their ability to take advantage of a robo-advisory approach. Worth mentioning is the fact that Robotic Process Automation (RPA) is evident in the local banking scene, with big players enjoying a good ROI within months of implementation.

Whether opting for a manufacturing-intensive strategy, a distribution-focused model or a hybrid of both, requires banks to place an onus on the following strategic drivers, when reviewing their business model:

"Robotic Process Automation (RPA) is evident in the local banking scene, with big players enjoying a **good ROI within months of implementation.**

1. Embrace the Digital Customer Experience

Digital banking penetration is at an all-time high, consumers are increasingly using banking services offered by non-banking companies and *fintech* firms. However, that does not mean banks have lost their relevance in the community they serve. The entrance of these new competitors only serves to light a fire under banking pioneers that innovation has now become a necessity to remaining competitive. Digital transformation is definitely at an inflection point. International stats are showing that as much as 80% of financial transactions are digital, 40% of which are being channelled from mobile devices. Successful strategies need to be based on a clear understanding of how digital creates value and careful prioritization by top management to choose among a myriad of potential digital investments. Banks and Financial Institutions need to be forward thinking in order to accommodate the every growing customer expectations. Stats, already, show that 50% of bank customers expect relevant information to be available at their fingertips[1].

2. Redesigning the operational model for the new age

Just as banks have been relearning the art of strategy to build competitive advantage, they also must develop operating models uniquely suited to their strategy which can flex as new priorities emerge, rather than models based on generic industry benchmarks. Banks will have to rethink the role, structure and processes of critical functions such as IT, risk and compliance and finance to build an adaptive operating model that will sustain growth and profitability. They must literally reimagine, the structural operational procedures to optimize change[2]. With the right capacity planning, banks can distribute their resources optimally, ensuring that they are near and long term ready, driving new forms of competitive advantage and value.

3. Transforming big data into actionable insights

Across all industries, analytically driven companies realize financial growth three times higher than their less analytical competitors[3]. Digital draws on big data and advanced analytics to extend and refine decision making. Such analytics are being deployed by the most innovative banks in many areas, including sales, product design, pricing and underwriting, and the design of truly amazing customer experiences. As banks empower their operations with big data analytics and infuse it into the existing banking sector workflows, they power their organisation's business models - According to Oracle, the ability to offer users what they need can bring you up to an 18% higher annual revenue[4]. Big Data serves as a strong catalysts in facilitating this insight.

[1] https://www.globalbankingandfinance.com/embracing-digital-transformation-the-future-of-banking/
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[3] Fernandez Naveira C., Jacob I., Rifai K., Simon P., Windhagen E., McKinsey & Company, https://www.mckinsey.com/industries/financial-services/our-insights/smarter-analytics-for-banks, September 2018
[4] https://easternpeak.com/blog/big-data-in-the-banking-industry-the-main-challenges-and-use-cases/

4. Reshaping bank workforces

Banks need leaders who understand the kinds of transformation that are possible and can manage change effectively. As the workforce changes and new skills become increasingly important, bank leaders are equally being forced to think differently about how talent fits into their strategy from the top down. With the rise of emerging technologies in this sector, the workforce must be adept and knowledgeable about this development. There needs to be a paradigm shift in the way individuals seeking a career in this sector are brought up to speed on the skills base required to be fluent with change. Banks need employees with the skills to understand how these technologies can be effectively applied, and they need agile and adaptive workforces to navigate these changes.

For CEOs, the good news is that there's a new kind of promise in the banking industry…transformation technologies are more readily accessible, powerful, and economical than ever before. However, developing an explicit banking strategy and driving a value driven centered transformation may be a laborious task. It requires an unusually high level of coordination of cross-bank initiatives spanning prioritisation, resource allocation, and collaboration in execution. Banks need to rapidly acquire or imitate high-value initiatives and move to embracing an agile model aimed at addressing the multiple strategic challenges posed by digital advances and new entrants. Doing so could position them to compete effectively and capture an emerging, long-term growth.

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One key choice, with implications for the business model, involves **where to compete on the value chain spectrum.**

The Future of Internal Auditing

Change is a simple and undeniable fact of the business environment.

Due to a number of factors, the pace of change is faster than what we were accustomed to before. And in the midst of this environment, we are feeling the need of a stronger, even more effective, governance and control framework. Internal and external stakeholders expect that banks retain a robust defence mechanism whilst still ensuring that the institution is agile enough to capture the opportunities. We believe that the internal audit function can be a key for your bank to achieve this.

Let us consider, first, the key agents of change for the industry. Top of the agenda is certainly the technological revolution. Technology is changing the product offering requirement of banks. Firstly, technology is changing the way businesses and consumers come together and transact business. As this happens, it is requiring banks to provide new services for their customers or else face a serious threat from other market players – other banks, financial institutions and other emerging service providers. Naturally, technology is not only driving innovation in the client-facing sphere, but also internally – leading to important drives towards efficiency and effectiveness.

A third factor to be considered is the workforce. The challenges emanating from change itself require a more flexible workforce, equipped with the right skills in a fluid environment. In a context of low unemployment levels, the talent gap is more present. Furthermore, it is recognised that newer generations of workers are engaged at work through newer practices: valuing work/life balance, dynamism and social responsibility (to name but a few) more than their older colleagues.

All this leads to different risk considerations that the IA function must keep within its sights. Starting with the technologically-driven changes, institutions must ensure that the governance, risk management and controls are well-embedded within the transformation life cycle. Equally importantly, banks must put in place a robust IT strategy to ensure that the IT-related developments are well-managed, are rendering the required return on investment and are in line with the business requirements. The IA function will remain a key agent in ensuring regulatory compliance. Audit Committees will still consider that a key responsibility of the IA department is to ensure that the right controls are in place within the Compliance Function and that the work of both functions is driven by an updated risk assessment to identify the key priorities within the regulatory sphere. Identifying and retaining talent affects the IA function in two ways. The IA function must ensure that the institution has the processes in place to attract and retain the right talent. Secondly, it must embark on an ongoing programme to ensure that IA professionals have the right skills in this environment where so much more is being asked from the internal auditor.

In the face of this change, the successful IA function of the future will be defined by a number of elements. We believe that key amongst the elements are: flexibility, the role of the function and quality.

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flexibility, the role of the function and quality.

The IA function will need to be flexible and respond to this changing landscape. For instance, the setting up of annual plans (let alone 3-year plans) will become outdated. The use of data and analytics as well as more use of tech-based tools in auditing are expected to become indispensable.

Going even further, a new form of internal auditing, coined as 'agile auditing', is taking shape. The key is continuous collaboration with management and a more iterative approach to auditing to ensure that projects adjust to deliver in line with expectations.

The role of the internal auditor will become ever more strategic in nature. Institutions will require the internal auditor to provide value-adding business insight beyond the internal audit report. It is thus expected that practical business knowledge will be the key how the IA function will be able to deliver real value. As such, the profile of the team within the function needs to step up and include professionals with business acumen more than ever before.

IA quality will remain key. At its most basic, this relates to the extent of coverage the level of work supporting our work. However, it needs to be more than that. The IA needs to consider the bigger picture around the robustness of risk management, providing a holistic view of the areas which should be given priority by management.

At KPMG, we believe that to achieve the above, decisive action needs to be taken. We believe that such a transformation can only be achieved if a strategic vision, aligned with that of the institution, is put in place. Moreover, the stature of the IA function needs to be aligned with the expectations of Senior Management. In short, the Internal Auditor must show deep business understanding and deliver greater value to, in turn, be regarded as a critical player within the organisation. Finally, the professionals within the team must have the requisite skills to provide meaningful recommendations to the bank.

Our vision of the future of the IA function, and how to get there, are embedded in our service offering. The IA Services team at KPMG is built on a mix of core internal auditors and subject matter professionals bringing the necessary width and depth of experience to the table. We invest in our relationships with Management specifically because we know that this provides us with the requisite insight into the business that makes our work as out-sourced or co-sourced internal auditors relevant to the institution. And finally, our external quality assessments of IA functions set out both the baseline requirements and the 'leading practice' views, providing insight to management as to whether that function will be the right partner to assist you in navigating the upcoming challenges and leveraging the approaching opportunities.

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Reshaping the Banking and Payment Services Experience - Digital First

In the decade to 2030, the pace of transformation in the financial services industry is set to accelerate. We don't need a crystal ball to predict that the world is moving towards an unprecedented era where consumers want products and services that are personalised, automated, rapid in delivery and reek of customisation.

Non-traditional players continue to enter the market, from technology giants to consumer goods companies, bringing new industries into payments. Globally, banks and financial services providers have realised that the opportunity for them is to now get personal. The future will be dominated by service providers who go beyond the "skin deep" personalisation, but rather, to embed themselves into the daily lives of customers.

New technologies and tools are enabling unprecedented customisation. Automation and digital technologies are dishing up personal experiences which are driven on artificial intelligence mechanisms identifying preferences and running transactions at the speed of light – so to say. Some underlying plumbing we are seeing come through are distributed ledger tools, which offer a completely different way to organise and manage payment systems, providing a route to real-time, cross-border payments worldwide. Change elsewhere in financial services, such as open banking, provides an opportunity to create new value for customers. Over the coming few years, we expect to see a rapid uptake of open banking approaches and models service providers become more aware of the benefits it could bring consumers and businesses, including the ability to quickly understand their financial position, explore alternatives and make better financial decisions.

Such developments have not gone unnoticed. Regulators are considering how supervision will need to adapt in the face of these changes. Locally the MFSA has launched a number of consultation documents, proposed supervisory approaches and a fully-fledged fintech strategy, which aims at ensuring it is well equipped to be a critical stakeholder in reshaping the banking and payment services experience for consumers.

We expect to see rapid changes in business models transformed by technology in the next few years. New models will necessarily emerge in the years ahead putting a halt to the band-aid approach to Bank's and financial services legacy systems. Banks will look to new architecture that is digital to the core, and, more will choose to build and migrate to new systems.

Over the past five years, many financial services players have invested millions in innovation programs focused on enhancing their technological capabilities, as well as trying to become more agile. The approaches they've taken to make these changes have varied based on their existing strengths, business strategy, and identified gaps. A number of traditional banks have also purchased digital banks as a way to make rapid changes. Purchasing an existing digital bank gives the incumbent the flexibility to change or retain the purchased brand name. They can also either migrate existing customers over or grow the offering's existing customer base organically and through cross promotion.

"

New technologies and tools are enabling **unprecedented customisation.**

www.kpmg.com/uk/futureofpayments
Issue 61 – KPMG Frontiers in finance
KPMG Getting personal
KPMG Open banking opens opportunities for greater customer value

Banks that elect to migrate customers, however, run the risk of incurring significant expenses as a result of a need to write off aging legacy systems more quickly than they might have otherwise. A number of traditional banks have also established their own digital banks, presumably to protect market share and grow in line with consumer demands. Redesigning the banking experience may however mean that the digital approach is not necessarily the only significant ingredient.

Perhaps most importantly, banks and financial services providers will need to think much more holistically about what role they plan on playing in the lives of their customers. How can they use their insight, capabilities and knowledge to help customers live their best lives? Can they predict which products and services customers will need through their journey? And do they know enough about their customers to properly understand their unique life events? A handful of the world's leading banks are starting to shift their focus towards understanding customer 'life events' or 'life stages'. In some cases, these may be the purchase of a new car or house, the birth of a new baby or the start of a new job. In other cases, they may simply be life stages — entry into retirement, for example.

The underlying point is that financial services underpin everything we aspire for as individuals. Each life event or life stage brings different challenges, opportunities and financial needs. Those banks that are able to predict these life events and then deliver solutions that demonstrate a deep understanding of the individual customer will be the most successful in the future.

Reorganizing the bank or payment services activity around the customer will take leadership. It will require a dramatic shift in organizational culture and structure. It will redesign and reshape ones experience and really drive the personal agenda.

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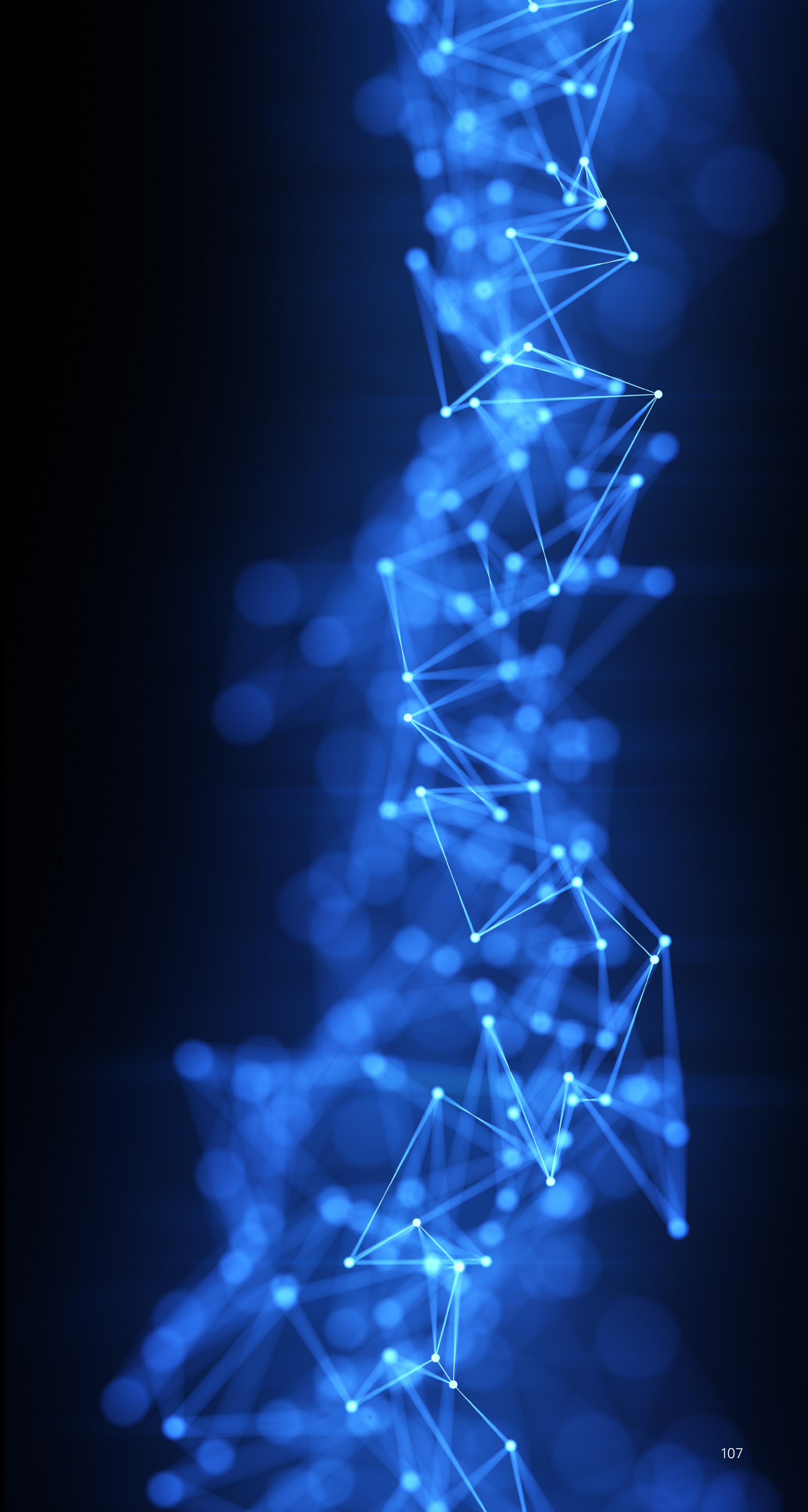
Do you talk the talk, or walk the walk?

Another publication; another article on blockchain – but if we want to progress, as a country, and transition from on-paper to action, we need to roll up our sleeves and act. The regulatory framework is there – what is left is the final push from the business community. Only then can we say that we walk the walk – and hopefully run.



Parallels with the dawn of the internet

It's 1995, and a floppy haired nerd is sitting awkwardly on the hot-seat of a popular TV show. He is trying to convince an orthodox and old-fashioned David Letterman why the internet is the big new thing. Letterman, with a cynic glint in his eye, hypes it up to a crescendo calling it a big breakthrough announcement - "You could listen to a baseball game on your computer!", Letterman exclaims, to which he rhetorically mumbles to himself, sarcastically, "…does radio ring a bell?" amid a flurry of giggles and laughter from the audience.

It's easy to criticize something when you know so little about it. Even geniuses at the forefront of such breakthroughs (yes, that bi-spectacled nerd was Bill Gates) sometimes struggle to convey how technology can change our lives. Bill Gates himself was clutching at straws when trying to describe the benefits of the internet to Letterman – "perhaps you wanna learn about the latest cigars, or auto-racing statistics…".

Of course, the rest is history, and ironically, you can watch this interesting exchange between Gates and Letterman on Youtube (link below)[1].

So how does this relate to Blockchain?

What if it just hyperbole?

A decision for Malta to invest in developing a Blockchain industry is, as with any other investment decision, a [well – researched and thought out] gamble. Blockchain is still a relatively new technology, which has yet to acquire much mainstream use. Sceptics may put this down to the technology being overhyped, while others may claim that it's simply still in the nascent stages, and will really take off once a true killer app has been developed.

Investing in developing such an industry at this stage will undoubtedly put Malta at the forefront, should Blockchain emerge as the next major technological revolution - having an established regulatory regime and an experienced workforce will make Malta a clear choice for other industry operators.

However, what if it is all just hype? In such a situation, one could argue that Malta wins anyway. At its core, a Blockchain industry requires a labour force which is highly skilled in the fields of IT, mathematics, and finance. Efforts expended in developing and attracting these skill sets would not go to waste should a Blockchain industry fail to mushroom, rather they could continue to add value to other established industries such as iGaming, financial services, and software development.

> A decision for Malta to invest in developing a Blockchain industry is, as with any other investment decision, a [well –researched and thought out] gamble.

[1] https://www.youtube.com/watch?v=gipL_CEw-fk

Additionally, supporting a fledgling industry may see Malta gain in areas where it is presently lacking. Specifically, support for innovative technologies and R&D, as well as perhaps new avenues for raising capital. The emergence of new opportunities for funding for SMEs in innovative industries would not only benefit a Blockchain industry but all other SMEs and entrepreneurs with little more than a good idea and a dream.

It is important to realise that Blockchain is a technology, not a product. Nobody will set up shop selling 'Blockchains'. Rather, economic benefits will stem from the ability to find ways of using the technology to solve old and new problems in more efficient ways. This could be through relatively simple means such as streamlining public administration thereby reducing costs and freeing up funds for other projects. Alternatively, we may see a Malta-based company use Blockchain to revolutionise some aspect of the financial services market.

Just like the internet in 1995, we may be on the cusp of a new technological frontier. The future is still unclear, but opportunities for success exist. It is now time to see if we can really, as a country, walk the walk. Much has been written in articles and on websites; much has been discussed on panels and fancy stages. It is now time to roll up our sleeves and do something about it if we really mean business. It is then that we can truly say that we are taking tangible steps towards unshackling the Maltese economy from its traditional roots, and welcoming a future full of new possibilities.

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KPMG's 2019 Global CEO Outlook - A Synopsis

In 2019 KPMG International surveyed 1,300 CEOs in 11 of the world's largest economies: Australia, China, France, Germany, India, Italy, Japan, the Netherlands, Spain, the UK and the US. The CEOs operate in 11 key industries: asset management, automotive, banking, consumer and retail, energy, infrastructure, insurance, life sciences, manufacturing, technology, and telecommunications.

One of the most compelling findings in this year's Global CEO Outlook is that over two-thirds of chief executive officers believe that agility is the new currency of business. If they fail to adapt to a constantly changing world, their business will become irrelevant. This years' Survey identified multiple interesting views, which have been classified as follows:

Unchartered Waters

In previous surveys we found chief executives to be optimistic about the future and their own organisation's growth prospects, although there was a clear, growing anxiety about existential threats, from geopolitical volatility to cyber security. In 2019, the survey provides for a growing anxiety that has coalesced into significant concern about the uncertainty and volatility of today's business environment. Today, CEOs are increasingly focused on building the organisational resilience needed to master disruption and maintain momentum.

While 94 percent are confident in their own business's growth prospects, only 62 percent feel the same way about the global economy.

Dynamic resilience is needed to master the significant challenges being faced today. Organisations, and their CEOs, face a range of big-ticket risks — climate change, disruptive technology and economic nationalism. Whilst most CEOs are very confident in relation to their own businesses, confidence in the global economy is markedly weaker. While 94 percent are confident in their own business's growth prospects, only 62 percent feel the same way about the global economy. Additionally, business models that have lasted for decades are now under increasing threat as a result of digital disruption, and CEOs must disrupt the traditional business models that are entrenched in their organisations, driving new digital revenue streams.

In 2019, environmental and climate change tops the risk agenda, climbing from its fourth-placed position in 2018. This is closely followed by disruptive technology risk and the threats posed by a return to territorialism.

Threats to Growth

2019	2018
Environmental/climate change risk	Return to territorialism
Emerging/disruptive technology risk	Cyber security risk
Return to territorialism	Emerging/disruptive technology risk
Cyber security risk	Environmental/climate change risk
Operational risk	Operational risk

Interestingly, results of the survey report a significant increase in CEOs saying that their company is actively disrupting their sector, rather than waiting to be disrupted. In 2018, 54% said they were on the disruptive front foot, but in 2019, this had increased to 63%. Established technology companies are having to make bold moves in response to significant advances in IT architecture, from mobility to cognitive computing, to ensure they stay ahead of fast-moving competition.

> “over two-thirds of chief executive officers believe that agility is the new currency of business

Leading in Uncertain Times

Organisations must have a culture that nurtures innovation and creativity to thrive in an age of unpredictable, high-impact change. Without this, they will struggle to adapt quickly to technological disruption, changing customer demands and shifting internal perspectives on how the organisation creates value.

However, survey results indicates a significant disconnect in terms of innovation. While 84% of CEOs said they want their employees to feel empowered to innovate without worrying about the possibility of negative consequences, only 56% said their organisation currently has a culture where 'failing fast' innovation is celebrated.

Large, established organisations — which are built to drive an advantage from scale — are finding that smaller, more agile players have a competitive edge. As the financial services industry has seen, disruptors are targeting key elements of the value chain, such as fintechs' moves into the payments industry. At the same time, customer needs are changing fast and advanced technologies continue to evolve. To respond, organisations need to fundamentally change how they work. This means being more customer-centric, increasing the speed of innovation and collaborating across organisational boundaries.

C-level roles have already changed significantly over recent years as CEOs respond to new demands. The established direct reports of the CEO — such as the CFO and CMO — have been joined by new C-suite capabilities, from Chief Analytics Officers to Chief Digital Officers. However, while CEOs have added more firepower to their leadership teams, they are not stopping there. The survey provides for an 84% percent of CEOs stating that they are actively transforming their leadership team to build resilience. In order to be resilient, a company has to have the right leadership and one with the right mindset. To tackle today's connected and complex enterprise issues, CEOs need leaders who are able to collaborate across the organisation, rather than being limited to their narrow areas of responsibility and expertise. They also seek different skill sets and profiles, such as experience in digital transformation.

To drive this C-suite reboot, CEOs need to define their cross-enterprise priorities, from business model innovation to operating model redesign. With a clear picture of their priorities, they can assess whether the current set of functional leaders have the right profiles and capabilities to deliver. This will also mean re-assessing how they measure the performance of C-suite reports and defining effective career development for the next generation of executive talent.

Changing from within

To master resilience, CEOs need to drive an organisation-wide digital reinvention. This means building cyber resilience so that concerns over security threats do not derail digital innovation.

The ability to integrate digital innovation is key to unlocking long-term growth. However, concerns over cyber security can impede those ambitions. Organisations need to ensure that these threats do not undermine digital's growth potential. 68% of CEOs say their organisation is prepared for a future cyber attack (51% in 2018).

With cyber resilience key to unlocking growth, CEOs are clear that effective cyber security is much more than a defensive or mitigating capability. Results find 71% of CEOs stating their organisation sees information security as a strategic function and a source of competitive advantage.

Technology is today driving an organisation's workforce. Disruptive technologies, from artificial intelligence to virtual reality, have the potential to transform the world of work. Many roles and skills are becoming outdated or evolving in our machine age. This is affecting many blue-collar jobs, but all jobs could be affected, and even highly skilled roles are not immune.

71 percent of CEOs say that their organisation sees information security as a strategic function and a source of competitive advantage.

For companies and their leaders, it means that the skills that companies need, and the ways employees learn and progress in their careers, are being transformed. CEOs are having to embrace a new way of thinking about talent, workforce strategy, and the need for upskilling. CEOs recognize that this trend is accelerating and requires them to focus. Four in ten CEOs are intending to upskill more than half of their current workforce in new digital capabilities over the next 3 years.

AI-based technologies and their applications, from intelligent automation to voice recognition, offer an opportunity to transform organisational performance. They can be used to unearth insights from huge repositories of structured and unstructured data, improving the speed and quality of decision-making. Or they execute processes and tasks that used to be undertaken by employees — something they can do with significant speed and accuracy, leaving humans free to tackle higher-value tasks. However, the results of the survey shows that most organisations have still not applied artificial intelligence in the automation of their processes. Only 16% of CEOs said that they have already implemented artificial intelligence to automate their processes, with close to a third still at pilot stage and around half undertaking limited implementation.

The evolution of the CEO

To drive innovation and change, CEOs need to be prepared to take their organisations in entirely new directions. This will require a leadership mindset where CEOs are prepared to question long-held assumptions and beliefs — challenging the status quo if this is holding back progress. The survey suggests three qualities that will be critical for generating new ideas and driving radical change: maintaining close customer connections, balancing data-driven insight with intuition and experience to anticipate customers' needs, and building emotional resilience. First, leaders need to be closely connected to their customers, maintaining a dialogue and understanding their changing values and needs. Second, they need to balance data-driven insight into customer needs and requirements with their own expertise and intuition. Third, they need to create an environment where the willingness to change is recognized as a strength, not a weakness.

In summary, CEOs are confronting an era of unprecedented change and economic uncertainty. With uncharted waters ahead, they are determined to build the resilience required to ensure their organisations emerge even stronger in the future. In the face of an unpredictable business environment, they are injecting a new urgency into the evolution of their mown organisations, challenging accepted practice and outdated attitudes, all in the name of growth.

Key Findings

Uncharted Waters

Condience in the global economy is falling - a disruption is mounting

Dynamic risk landscape
Climate change rises up the risk agenda, from fourth in 2018 to the number one risk this year

Conflicting global outlook
In four major economies — Australia, the UK, France and China — less than half of CEOs are confident in growth prospects for the global economy

New competitive age
Today, 63 percent of CEOs say that rather than waiting to be disrupted, their organization is actively disrupting its sector, up from 54 percent in 2018

Changing from within

To master resilience, CEOs need to drive an organization-wide digital reinvention

Cyber resilience
In 2019, 69 percent of CEOs say that a strong cyber strategy is critical to building trust with key stakeholders, up from 55 percent in 2018

Workforce 4.0
44 percent of CEOs plan to upskill more than half of their entire workforce, but less than a third (32 percent) prioritize workforce investments over technology investments

Technology 4.0
Only 16 percent of organizations have already implemented AI in the automation of some of their processes

Source: 2019 Global CEO Outlook, KPMG International

Leading in uncertain times

To be resilient, CEOs must apply constant pressure to change and adapt

Agile or irrelevant
67 percent of CEOs say that acting with agility is the new currency of business and being too slow risks bankruptcy; up from 59 percent in 2018

The innovation disconnect
84 percent of CEOs say they want a culture where it is accepted that errors and mistakes are part of the innovation process, but only 56 percent say that culture is in place

C-suite reboot
84 percent are actively transforming their leadership team to build resilience

The evolution of the CEO

Resilient CEOs need to be agile, adaptive and willing to challenge the status quo

A new playbook
67 percent say that the need to act with agility has increased as the average tenure of a CEO is decreasing

Evolving mindsets
74 percent say they had a significant misstep early in their careers that they were able to overcome

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