2021 Interim Results – Highlights

"MeDirect Bank continues its accelerated transformation into a leading retail WealthTech banking platform"

Powering our WealthTech strategy through innovation and digital transformation

- During 2021, the Group continued to accelerate its investment programme to build its highly customer centric app combining a broad range of investment services seamlessly integrated with daily banking functionality.
- The Group's technology platform has been undergoing an impressive transformation for over the past two years, by leveraging on a unique flexible and scalable technologies along with the objective of delivering best-in-class user experience to support our mission of making digital investment simple, inclusive and empowering for all.
- Later this year, the Group will launch exciting new functionality to our website, mobile app and other customer touch points.

Continued strong underlying business momentum

- In the first half of 2021, MeDirect Group maintained steady progress as it achieved strong growth in all those business lines targeted for new investment, resulting in an encouraging profitable performance following 2020 which was a year impacted by significant impairment provisions due to the COVID-19 pandemic.
- The Group continued to implement its balance sheet diversification by actively planning the launch of its future Belgium residential mortgage business line and by successfully launching the home loan business in Malta earlier in 2021.
- The Group continued to achieve positive growth in business volumes in jurisdictions in which it operates. Over the past 12 months:
    - Total clients in Belgium and Malta increased by 15% to 83,000, leading to a 31% increase in assets under management with an all-time high of €0.8 billion (44% increase) in Belgium and €0.6 billion (18% increase) in Malta.
    - Dutch residential mortgage origination volumes grew by €1.0 billion (168% increase).
    - Corporate lending in Malta increased by 25% to €108.4 million as the Group continued to support the local economy.

Encouraging financial performance backed by robust capital and liquidity position

- By starting to benefit from a more diversified business model and given the improving credit outlook, the Group achieved a promising performance in the first half of 2021 as profit before tax was €3.2 million compared to a significant loss last year driven by prudent provisioning to reflect the impact of COVID-19.

- The Group continued de-risking its international corporate lending portfolio such that, since the beginning of the financial year, the gross size of the portfolio has been reduced by 24% from €903.4 million to €691.1 million and by 46% over the last twelve months.

- The gross outstanding balances of the Dutch mortgage book grew by 32% throughout this financial period and as at 30 June 2021 amounted to €1.6 billion.

- Total funding increased as a result of the funding from the Dutch mortgage securitisation transactions that increased from €348.2 million to €682.6 million.

- The Group's liquidity remained robust, and capital ratios remained well above minimum requirements.

- The total capital ratio remained high at 19.3% as at 30 June 2021. The Group's liquidity reserves remained strong at €601 million as at 30 June 2021, and the Group's LCR stood at 625%.

Looking ahead with a positive outlook

- The Group's financial performance improved with lower impairment charges and better capital ratios. Although the outlook for the rest of the year remains challenging, MeDirect continues its accelerated transformation into a leading retail WealthTech banking platform and is working strongly to revert to sustainable profitability in the medium term as we remain disciplined but cautiously optimistic as the economic recovery unfolds.

medirect
Think ahead. Bank ahead.

MDB Group Limited

Condensed Consolidated Interim Financial Statements 30 June 2021

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Interim directors' report

Achieving good progress on our strategic priorities

MeDirect maintained steady progress in the first half of the financial year as we achieved strong growth in all those business lines targeted for new investment, resulting in an encouraging profitable performance, following 2020 which was a year impacted by significant impairment provisions due to the COVID-19 pandemic. The quality of our loan book remained resilient in this period, and we continued to support our customers, colleagues and communities, while safeguarding the Group's interests. We made significant strategic progress in transforming MeDirect into a leading WealthTech platform and implemented our balance sheet diversification by actively planning the launch of our future Belgium residential mortgage business line and by successfully launching our home loan business in Malta.

During 2021, MeDirect continued to accelerate its investment programme. Our goal is to build our highly customer centric app combining a broad range of investment services seamlessly integrated with daily banking functionality. In the second part of this year, we intend to apply exciting new functionality to our website, mobile app and other customer touch points. This value proposition is complemented by attractive mortgage offerings made available to our customers.

The recovery of the global economy is expected to gain momentum during the second half of 2021 as more economies reopen. Though we continue to navigate through what are still uncertain economic times, MeDirect is well placed with a strong balance sheet as our markets begin to recover and consumer confidence improves. This ongoing strategic delivery provides a clear path to long-term, improved sustainable returns.

The interim financial statements of MDB Group Limited ("the Company") and its subsidiaries (together the "Group" or "MDB Group") for the six-month period ended 30 June 2021 reflect the consolidated position of the Company and its principal subsidiaries, namely MeDirect Bank (Malta) plc ("MeDirect Malta") and MeDirect Bank SA ("MeDirect Belgium").[1]

Laying the foundations for further growth

Accelerating our digital ambition for a leading customer experience

Our technology has been undergoing an impressive transformation for the past two years, with MeDirect excelling alongside the best FinTech companies in the market. MeDirect leverages on a unique flexible and scalable technologies along with the objective of delivering best-in-class user experience to support our mission of making digital investment simple, inclusive and empowering for all.

In Belgium and Malta, our WealthTech platform has been growing at a rapid rate and our offer includes:

- **Brokerage (execution only)**: DIY investors, from novice to expert, can use our trading platform that is unique amongst our competition with attractive pricing and open architecture model for mutual funds.
- **Discretionary management**: Clients looking to fully delegate the management of their investments through a simple and personalised discretionary management offer, built with one of the largest global asset managers.
- **Advisory**: Tailored financial advice through diversified portfolios according to the customers' preference.

On the technology side, enhancements as part of this exciting roadmap include the following projects:

- Data warehouse migration to a cloud-based provider completed in July 2021.
- Real-time data streaming capturing all events from client touch points which was completed in July 2021.
- Preparation of a customer relationship management engine with advanced statistical modelling, allowing for real time personalised interactions with clients. This will be introduced across all customer-facing applications and is envisaged to be implemented by the end of this financial year.

[1] Including 1) Medifin Leasing Limited ("Medifin Leasing"), that was acquired by MeDirect Malta on 4 January 2021 from the ultimate parent company Medifin Investments Ltd. with the intention of consolidating the entity within the Group that owns the key rights and licences, including software solutions that are utilised by both MeDirect Malta and MeDirect Belgium; 2) All entities where MeDirect Malta and MeDirect Belgium retained all the underlying risks and rewards consisting of Grand Harbour I B.V., Bastion 2020-1 NHG B.V., Bastion 2021-1 NHG B.V. and Cavalier 2020 B.V., controlled special purpose entities established in the Netherlands that were set up as part of the Group's funding strategy; and 3) Medifin Estates, a property leasing partnership.

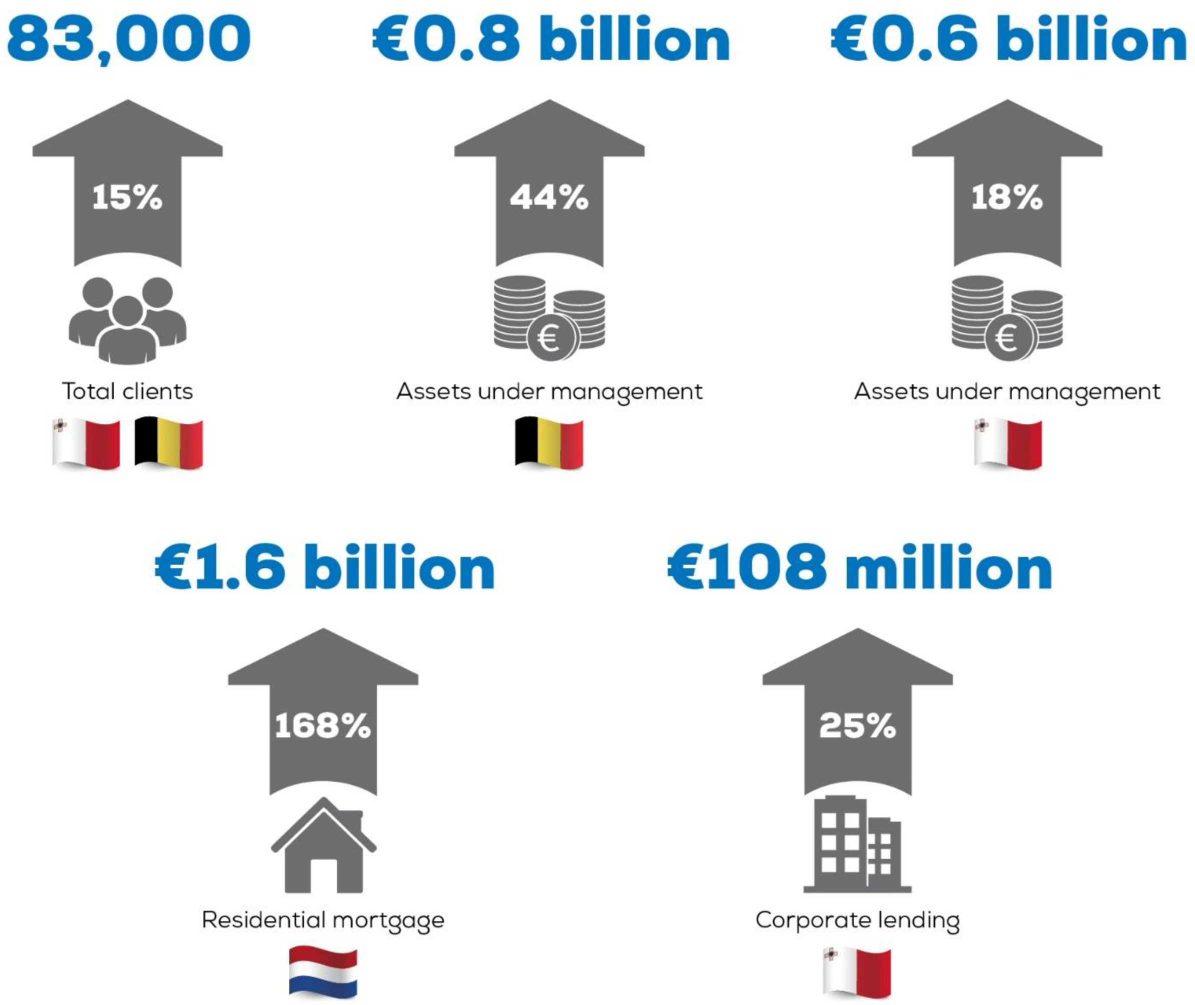
Building an exciting growth-led future

We had a promising first half of 2021, managing carefully through the pandemic and achieving a number of strategic milestones.

We continued the de-risking of our international corporate lending portfolio such that, since the beginning of the financial year, the gross size of the portfolio has been reduced by 24% from €903.4 million to €691.1 million and by 46% over the last twelve months. The total drawn portion of our total gross revolving credit facility portfolio decreased to 23% as at 30 June 2021. We intend to continue reducing the size of the portfolio through repayments and selective sales of assets.

The results in the first half of the financial year were encouraging with a profitable outcome given the improving credit outlook. We continued to achieve positive growth in business volumes in all jurisdictions in which we operate. Over the past 12 months:

- As a result of MeDirect's attractive savings products and wealth solutions, our total clients in Belgium and Malta increased by 15% to 83,000, leading to a 31% increase in assets under management with an all-time high of €0.8 billion (44% increase) in Belgium and €0.6 billion (18% increase) in Malta.
- We also saw good levels of interest in our sustainability products, and customer satisfaction remained high with a 29% increase in the net wealth management fee income compared to the six-month period ending 30 June 2020.
- Dutch residential mortgage origination volumes grew by €1.0 billion (168% increase).
- Corporate lending in Malta increased by 25% to €108 million as we continued to support the local economy through financing provided under the Malta Development Bank scheme, as well as by sanctioning a number of repayment moratoria on existing exposures.



Following the successful €350 million RMBS[2] transaction in May 2020[3] during the peak of the COVID-19 outbreak, in January 2021 MeDirect Belgium closed another Dutch RMBS transaction[4] backed by a portfolio of Dutch mortgage loans in a transaction arranged by ABN AMRO alongside joint lead manager Rabobank. €350 million of the Class A notes were preplaced in the institutional market at an attractive discount margin and are rated AAA (DBRS) and Aaa (Moody's).

MeDirect was assigned the 2021 Dutch Securitisation Award[5] that recognises outstanding achievement and a transaction that had a significant positive contribution to the Dutch securitisation market in 2020/2021.

Improving efficiency and making processes smoother

There is ongoing investment to enhance our regulatory reporting process through the implementation of a high-quality integrated regulatory reporting solution suite that will consolidate the regulatory capital calculations we use to populate a wide range of regulatory reports.

We continue to take a forward-looking approach to investment in technology in compliance and in fact there has been considerable investment in the compliance area through the implementation of more sophisticated technology tools related to customer risk assessment, know your customer as well as customer screening and transaction monitoring, alongside the continued strengthening of our cyber security posture.

Encouraging performance despite continued impact from Covid-19, with improving trends

MeDirect remains well-positioned to support our customers and deliver value to our shareholders. We started to benefit from a more diversified business model with a promising performance in the first half of the financial year as profit before tax was €3.2 million compared to a loss before tax of €59.8 million in the same period last year.

- The balance sheet total remained relatively stable at €4.1 billion.
- The gross outstanding balances of the Dutch mortgage book grew by 32% throughout this financial period and as at 30 June 2021 amounted to €1.6 billion.
- Total funding increased as a result of the funding from RMBS that increased from €348.2 million to €682.6 million.

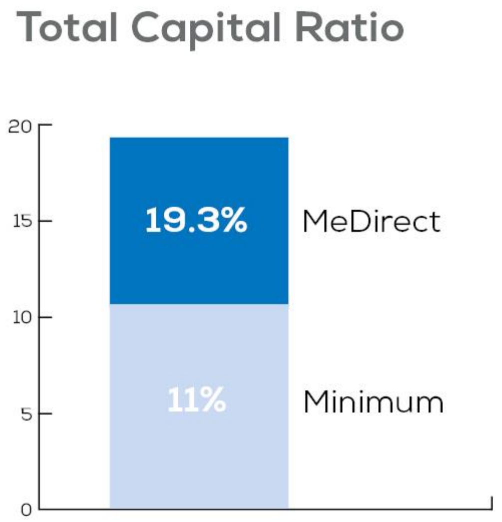
We deployed a comprehensive, conservative and forward-looking expected credit loss approach in response to the impact of COVID-19. We are satisfied that such a prudent approach to provisioning was appropriate to cover all expected future losses. The full impact of the pandemic is now clearer and markets are now reflecting the positive impact of vaccination programmes and the consequent lifting of restrictions. This led to a release in the cost of risk of €4.3 million in the first half of this financial year, mainly as a result of the release of the IFRS 9 Stage 1 and 2 provisions in view of the decrease in the international corporate lending portfolio and an improved macroeconomic outlook.

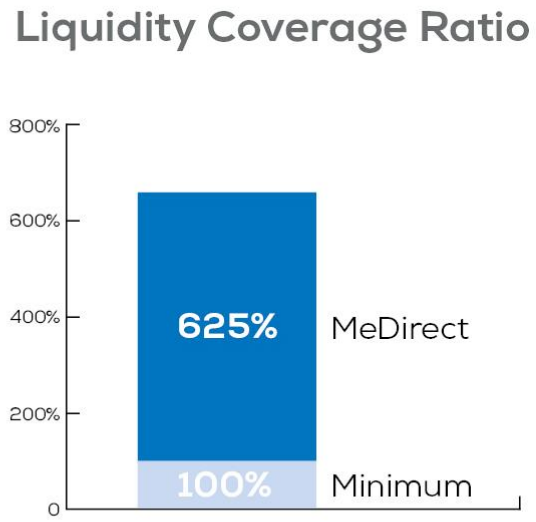
Our Non-Performing Loans ("NPL") ratio has decreased from a level of 9.5% as at 31 December 2020 to 5.6% as at 30 June 2021. We actively managed to reduce this ratio via individual borrower strategies to maximise recoveries and reduce the NPL quantum through debt sales, curing-to-exit and write-off strategies following effective debt restructuring.

[2] Residential Mortgage-Backed Security
[3] This transaction was done through Bastion 2020-1 NHG B.V. ("Bastion 2020"), a special purpose vehicle controlled by MeDirect established in the Netherlands.
[4] This transaction was done through Bastion 2021-1 NHG B.V. ("Bastion 2021"), a special purpose vehicle controlled by MeDirect established in the Netherlands.
[5] Award at the annual securitisation event hosted by the Institution for International Research and the Dutch Securitisation Association.

The Group's liquidity remained robust, and capital ratios remained well above minimum requirements:

- The Group's Tier 1 capital ratio remained high at 16.1% and its total capital ratio was 19.3% as at 30 June 2021 well above the TSCR[6] to be made up of Tier 1 capital (8.3%) and total capital (11.0%) respectively.
- In February 2021 MeDirect issued €11 million fixed rate reset callable subordinated notes due in 2031. The proceeds of such Tier 2 Capital issuance were used to further optimise our regulatory capital and to support the execution of our business strategy. Such access to European capital markets continues to increase the diversification of our capital base.
- The Group's liquidity reserves remained strong at €601 million as at 30 June 2021, and the Group's LCR stood at 625% (minimum requirement of 100%).
- The Group's NSFR ratio as at 30 June 2021 was equivalent to 134% (minimum requirement of 100%).
- The Group's leverage ratio stood at 5.6% as at 30 June 2021 (minimum requirement of 3%).





Gaining momentum in delivering our Environmental, Social and Governance (ESG) ambitions

We are implementing an action plan with a number of initiatives aimed at embedding social-environment values and principles while improving our disclosure and further developing our targets. We remain committed to instil an organisational culture that is more aware of risks such as climate change. MeDirect remains committed to incorporate social-environmental values and proper standards of good corporate governance and similar to other SSM banks, we will participate in the ECB's economy-wide climate stress test that is planned to happen in 2022.

MeDirect aims to be an employer of choice in the jurisdictions in which we operate. We take pride in supporting equality and diversity, with the current employee base hailing from over 23 countries and 57% of the total workforce being female. MeDirect obtained the NCPE Equality Mark Certificate which is awarded to organisations that demonstrate commitment towards best practices especially in the area of gender equality.

[6] TSCR refers to the minimum Total Supervisory Review and Evaluation Process ("SREP") Capital Requirements: 8% (of which 6% must be Tier 1 capital) plus P2R of 3%.

Looking forward with confidence

The Group's financial performance improved with lower impairment charges and better capital ratios. Although the outlook for the rest of the year remains challenging, MeDirect continues its accelerated transformation into a leading retail WealthTech banking platform and is working strongly to revert to sustainable profitability in the medium term as we remain disciplined but cautiously optimistic as the economic recovery unfolds.

MeDirect intends to further reduce the size of its international corporate lending portfolio and to continue to focus on retail mortgage lending, in line with our asset diversification strategy. We aim to increase our residential mortgage business both in terms of volume and returns.

The strength of our balance sheet and capital position enable us to support the implementation of our transformational business plan and on capturing the growth opportunities that are expected to result. In order to further support the accelerated development of our digital WealthTech banking platform and as part of our ongoing capital management, we are considering the issuance of equity capital instruments in the international capital markets. In this respect MeDirect is working together with its ultimate shareholder, AnaCap Financial Partners II L.P.

Our direction is clear: to be a leading innovative WealthTech banking platform that achieves sustainable and long term-value creation for all our stakeholders.

Dividends and reserves

The directors of the Company, in line with the ECB recommendation to banks to refrain from declaring dividends until September 2021, do not recommend the payment of a dividend as they deem that, given the ongoing pandemic, despite the strong capital and liquidity ratios, the Group should conserve its capital to fuel further business growth and diversification. The retained earnings of the Group amounted to €45.3 million (31 December 2020: €45.6 million).

The Board confirms that to the best of its knowledge, the condensed consolidated interim financial statements give a true and fair view of the financial position of the Group as at 30 June 2021, as well as of its financial performance and cash flows for the period then ended, in accordance with International Financial Reporting Standards as adopted by the EU applicable to Interim Financial Reporting (IAS 34).

Approved by the Board on 10 August 2021 and signed on its behalf by:

Michael Bussey
Chairman

Arnaud Denis
Chief Executive Officer

Condensed consolidated interim statement of financial position

	As at 30 June 2021 €000	As at 31 December 2020 €000
ASSETS		
Balances with central banks and cash	**190,893**	490,680
Derivative financial instruments	**21,700**	1,841
Loans and advances to financial institutions	**252,429**	263,775
Loans and advances to customers	**2,343,944**	2,020,760
Investments		
- Treasury portfolio	**784,090**	857,719
- Securitisation portfolio	**416,979**	293,206
Property and equipment	**10,025**	11,711
Intangible assets	**13,982**	15,842
Non-current assets classified as held for sale	**1,785**	1,785
Current tax assets	**1,198**	1,582
Deferred tax assets	**18,710**	18,550
Prepayments and accrued income	**17,941**	16,524
Other assets	**23,086**	47,575
Total assets	**4,096,762**	4,041,550
EQUITY		
Called up issued share capital	**55,738**	55,738
Share premium	**13,756**	13,756
Shareholders' contributions	**136,300**	136,300
Reserve for general banking risks	**3,357**	3,357
Other reserves	**604**	(13)
Retained earnings	**45,284**	45,580
Total equity	**255,039**	254,718
LIABILITIES		
Derivative financial instruments	**2,513**	14,344
Amounts owed to financial institutions	**252,627**	352,067
Amounts owed to customers	**2,792,791**	2,749,929
Debt securities in issue	**682,616**	553,849
Subordinated liabilities	**64,921**	54,650
Current tax liabilities	**72**	89
Deferred tax liabilities	**843**	881
Provisions for liabilities and other charges	**2,294**	3,916
Accruals and deferred income	**26,317**	32,940
Other liabilities	**16,729**	24,167
Total liabilities	**3,841,723**	3,786,832
Total equity and liabilities	**4,096,762**	4,041,550
Memorandum items		
Commitments to purchase financial assets	**7,780**	22,000
Commitments to extend credit, guarantees and other commitments	**428,745**	743,929

The notes on pages 10 to 27 are an integral part of these condensed consolidated interim financial statements.

The condensed consolidated interim financial statements on pages 6 to 27 were approved and authorised for issue by the Board of Directors on 10 August 2021 and signed on its behalf by:

Michael Bussey
Chairman

Arnaud Denis
Chief Executive Officer

Condensed consolidated interim statement of comprehensive income

	Period from 1 January to 30 June 2021 €000	Period from 1 January to 30 June 2020 €000
Interest income	**38,935**	39,629
Interest expense	**(13,179)**	(13,475)
Net interest income	**25,756**	26,154
Fee and commission income	**4,124**	3,840
Fee and commission expense	**(1,272)**	(1,093)
Net fee and commission income	**2,852**	2,747
Net trading income	**1,138**	542
Net loss from other financial instruments at fair value through profit or loss	**-**	(288)
Other operating income		
- Realised losses on disposal of other investments	**-**	(737)
- Realised losses on disposal of loans and advances	**(58)**	(3,945)
- Other income	**71**	118
Total operating income	**29,759**	24,591
Personnel expenses	**(10,871)**	(10,851)
Depreciation and amortisation	**(3,232)**	(2,978)
Other administrative expenses	**(16,720)**	(14,893)
Total operating expenses	**(30,823)**	(28,722)
Net operating loss before changes in expected credit losses	**(1,064)**	(4,131)
Change in expected credit losses and other credit impairment charges	**4,303**	(55,708)
Profit/(loss) before tax	**3,239**	(59,839)
Taxation	**(240)**	9,711
Profit/(loss) for the period	**2,999**	(50,128)
Other comprehensive income		
Items that may be reclassified subsequently to profit or loss		
Fair valuation of financial investments measured at fair value through other comprehensive income:		
- Net change in fair value, before tax	**79**	**3,945**
- Net gains reclassified to profit or loss, before tax	**21**	**(350)**
Income tax relating to other comprehensive income	**517**	**(1,020)**
Other comprehensive income, net of tax	**617**	**2,575**
Total comprehensive income, net of tax	**3,616**	**(47,553)**

The notes on pages 10 to 27 are an integral part of these condensed consolidated interim financial statements.

Condensed consolidated interim statement of changes in equity

	Share capital €000	Share premium €000	Shareholders' contributions €000	Reserve for general banking risks €000	Other reserves €000	Retained earnings €000	Total €000
Balance at 1 January 2020	55,738	13,756	136,300	3,357	(4,005)	127,113	332,259
Total comprehensive income							
Loss for the period	-	-	-	-	-	(50,128)	(50,128)
Other comprehensive income, net of tax:							
Fair valuation of financial investments measured at fair value through other comprehensive income:							
- Net change in fair value arising during the period, net of tax	-	-	-	-	2,823	-	2,823
- Reclassification adjustments, net amount reclassified to profit or loss, net of tax	-	-	-	-	(248)	-	(248)
Total other comprehensive income, net of tax	-	-	-	-	2,575	-	2,575
Total comprehensive income, net of tax	-	-	-	-	2,575	(50,128)	(47,553)
Balance at 30 June 2020	55,738	13,756	136,300	3,357	(1,430)	76,985	284,706
Balance at 1 January 2021	**55,738**	**13,756**	**136,300**	**3,357**	**(13)**	**45,580**	**254,718**
Total comprehensive income							
Profit for the period	**-**	**-**	**-**	**-**	**-**	**2,999**	**2,999**
Other comprehensive income, net of tax:							
Fair valuation of financial investments measured at fair value through other comprehensive income:							
- Net change in fair value arising during the period, net of tax	**-**	**-**	**-**	**-**	**601**	**-**	**601**
- Reclassification adjustments, net amount reclassified to profit or loss, net of tax	**-**	**-**	**-**	**-**	**16**	**-**	**16**
Total other comprehensive income, net of tax	**-**	**-**	**-**	**-**	**617**	**-**	**617**
Total comprehensive income, net of tax	**-**	**-**	**-**	**-**	**617**	**2,999**	**3,616**
Transactions with owners							
Acquisition of subsidiary (Note 1)	**-**	**-**	**-**	**-**	**-**	**(3,295)**	**(3,295)**
Balance at 30 June 2021	**55,738**	**13,756**	**136,300**	**3,357**	**604**	**45,284**	**255,039**

The notes on pages 10 to 27 are an integral part of these condensed consolidated interim financial statements.

Condensed consolidated interim statement of cash flows

	Period from 1 January to 30 June 2021 €000	Period from 1 January to 30 June 2020 €000
Cash flows from operating activities		
Interest and commission receipts	**4,797**	51,780
Interest and commission payments	**(12,908)**	(12,695)
Payments to employees and suppliers	**(28,877)**	(28,591)
Operating cash flows before changes in operating assets/liabilities	**(36,988)**	10,494
Decrease/(increase) in operating assets:		
- Reserve deposit with central banks	**365,534**	(14,369)
- Loans and advances to financial institutions and customers	**(328,074)**	(711,487)
Increase/(decrease) in operating liabilities:		
- Amounts owed to financial institutions and customers	**27,168**	545,806
- Other payables	**992**	(5,631)
Net tax refunded/(paid)	**145**	(196)
Net cash from/(used in) operating activities	**28,777**	(175,383)
Cash flows from investing activities		
Acquisitions of property and equipment and acquisition and development of intangible assets	**(1,415)**	(928)
Acquisition of investments measured at amortised cost	**-**	(49,987)
Acquisition of investments measured at fair value through other comprehensive income	**(224,715)**	(251,483)
Disposals/redemption of investments measured at fair value through other comprehensive income	**174,172**	159,085
Disposals/redemption of investments measured at amortised cost	**-**	73,000
Net cash used in investing activities	**(51,958)**	(70,313)
Cash flows from financing activities		
Debt securities issued	**364,292**	-
Debt securities redeemed	**(225,937)**	-
Principal element of lease payments	**(1,009)**	(1,464)
Net advances to group companies	**(1,095)**	(3,465)
Net cash from/(used in) financing activities	**136,251**	(4,929)
Net increase/(decrease) in cash and cash equivalents	**113,070**	(250,625)
Cash and cash equivalents at the beginning of the period	**(106,674)**	(53,972)
Cash and cash equivalents at the end of the period	**6,396**	(304,597)

The notes on pages 10 to 27 are an integral part of these condensed consolidated interim financial statements.

Notes to the condensed consolidated interim financial statements

1. Reporting entity

MDB Group Limited ("the Company") is domiciled and incorporated in Malta. These condensed consolidated interim financial statements ("interim financial statements") as at and for the six months ended, 30 June 2021 comprise MeDirect Bank (Malta) plc ("MeDirect Malta") with its principal subsidiaries, MeDirect Bank SA ("MeDirect Belgium") and Medifin Leasing Limited ("Medifin Leasing"), together referred to as the "Group".

On 4 January 2021, MeDirect Malta acquired substantially all the share capital of Medifin Leasing from the ultimate parent company Medifin Investments Limited, after receiving full regulatory approval, with the intention of consolidating the entity within the Group. Medifin Leasing Limited was set up with the object of acquiring immovable or movable property and rights and licences, including in particular software solutions and hardware, which such entity leases to MeDirect Malta and MeDirect Belgium. MeDirect Malta paid a cash consideration of €0.5 million for this acquisition. An adjustment of €3.3 million arising on acquisition of Medifin Leasing was reflected in the statement of changes in equity mainly as a result of accounting for the assets that were transferred into the Group as a result of this acquisition which were previously accounted for by the Group in accordance with IFRS 16.

The financial statements also include Medifin Estates, a property leasing partnership in Malta and all entities where MeDirect Malta and MeDirect Belgium retained all the underlying risks and rewards consisting of Grand Harbour I B.V., Bastion 2020-1 NHG B.V., Bastion 2021-1 NHG B.V. and Cavalier 2020 B.V., controlled special purpose entities established in the Netherlands that were set up as part of the Group's funding strategy.

The financial statements of the Group as at and for the periods ended 30 June 2021 and 31 December 2020 are available upon request from MeDirect Malta's registered office, being The Centre, Tigné Point, Sliema TPO 0001, Malta, and are available for viewing on its website at www.medirect.com.mt.

The principal customer-related activities of MeDirect Malta and MeDirect Belgium include:

- An easy-to-use wealth platform with access to circa eighty fund houses and over one thousand mutual funds.
- Suite of wealth products available digitally through digital channels.
- Attractive and innovative savings products in Malta and Belgium.
- Senior secured loans and revolving credit facilities to finance the business of European corporates.

MeDirect Belgium invests in Dutch residential mortgages via an established third-party mortgage originator in the Netherlands. Also as from March 2021, MeDirect Malta started offering innovative and attractive home loan products in a client-oriented process.

MeDirect Malta continues to support the Maltese real economy through convenient banking services such as payment services and foreign exchange and through lending to Maltese corporates on large scale projects and to small and medium-sized enterprises through fully collateralised lending facilities.

2. Basis of preparation

These condensed consolidated interim financial statements for the six months ended 30 June 2021 have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU applicable to interim financial reporting (IAS 34 'Interim Financial Reporting'). They do not include all information required for a complete set of financial statements prepared in accordance with International Financial Reporting Standards as adopted by the EU. However, selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in the Group's financial position and performance since the last annual financial statements as at and for the year ended 31 December 2020.

As required by IAS 34 'Interim Financial Reporting', adopted by the EU, these interim financial statements include a comparative statement of financial position presenting information as at the previous financial year end, and comparative statements of comprehensive income presenting information for the comparable interim periods of the immediately preceding financial year.

The condensed consolidated interim financial statements have been extracted from MDB Group Limited's unaudited Group management accounts for the six months ended 30 June 2021.

3. Significant accounting policies

The accounting policies applied by the Group in these interim financial statements are consistent with those applied in the financial statements for the year ended 31 December 2020.

The following amendments to standards were effective from 1 January 2021 but did not have a material effect on the Group's financial statements.

- Amendments to IFRS 9, IAS 39 and IFRS 7; and
- Interest Rate Benchmark Reform Phase 2.

Interest Rate Benchmark Reform

A structural reform of major interest rate benchmarks is taking place globally to replace or reform IBOR with alternative risk-free rates (referred to as 'IBOR reform'). In order to assess and manage the impact of Benchmark Rate Regulation ("BMR") on the Group, a working group with participation of senior management and other colleagues across the Group, was established. The overall impact is limited and will not require any significant changes to the operational and accounting processes.

The Group has limited exposure to GBP and USD LIBOR rates, primarily through its Leveraged Loan portfolio. During the course of 2021, the agent banks in leveraged loan deals have informed the Group that the GBP and USD LIBOR rates will be transitioning to alternative reference rates. As soon as the new alternative reference and related margin rates are agreed by all lenders, within the relevant Syndicate deals, the Group will be notified by the agent banks. The Group's GBP LIBOR referenced leveraged loans will be replaced by alternative risk-free rates before Q4 2021. This is in line with the announcement made by the UK Financial Conduct Authority, in March 2021, which confirmed that GBP LIBOR will no longer be published immediately after December 2021.

Regarding the EONIA-€STR transition, the precise terms were determined by the ECB working group on risk-free rates for the euro. EONIA will disappear on the last day of its publication on 3 January 2022. The Group has assessed the impact of EONIA-€STR transition on the interest rate derivative instruments, which are primarily used to hedge the interest rate risk in the mortgage book. The resulting change in valuation of derivative instruments is minimal and will be directly recognised in the profit and loss.

The EURIBOR administrator has used its prerogatives to reinforce EURIBOR governance and the calculation methodology to comply with the requirements of the BMR. This benchmark can therefore continue to be used with no time limit unless it ceases to be published and is replaced by an alternative or is no longer representative. To this effect, the Group's working group will continue to review and monitor the regulatory landscape, as like any benchmark, in time, EURIBOR could transition to an alternative rate.

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

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

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

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

The significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty impacting the preparation of these interim financial statements are the same as those that applied to the preparation of the financial statements as at and for the year ended 31 December 2020, as disclosed in those financial statements.

As part of the Group's review process of collective modelling for IFRS 9 expected credit losses, management approved the application of model adjustments to exposures within the corporate lending portfolios in order to ensure an appropriate level of ECL is recognised at reporting date. As mentioned in "7.4 Current Conditions and Forward-looking information incorporated in the ECL model", the Group's IFRS 9 models for estimating credit risk parameters, Expected Default Frequency data was used for modelling point-in-time, forward-looking parameters, and these were conditioned with forecasted macroeconomic variable data starting from 30 June 2021 onwards. Adjustments (downgrades) were applied to internal risk ratings (and indirectly to the underlying PDs) on exposures identified as having experienced an increased in credit risk identified through qualitative factors not yet captured by internal rating models using latest available and supportable information and expert judgment.

Significant judgement is also required in the modelling of macroeconomic forecasts, including the selection of macroeconomic variables, as well as calibration of the severities and respective probability weights of macroeconomic scenarios. This is particularly true in view of the heightened level of uncertainty triggered by the unprecedented economic and socio-political conditions being currently experienced across countries and industries. In this respect, a number of modelling assumptions are required, based on expert judgement, in order to form a view on the expected time horizon for the global economy to return to pre-COVID-19 levels; the impact of the pandemic in specific countries and industries; the impact of possible further waves of infections and the mutation of the virus into different strains; the efficacy of vaccine distribution plans at national level; and the effectiveness of government support schemes and regulatory relief measures. The development of multiple forward-looking macroeconomic scenarios taking into consideration all these variables represent a key element of estimation uncertainty in the measurement of credit loss allowances as at 30 June 2021.

Given the increased level of model uncertainty, an important part of the internal governance and review process involved reviewing modelled outputs against market data, credit spread trends, outputs using challenger default risk models to act as benchmarks and thereby inform any model adjustments. Management also applies judgement in the determination and modelling of any management overlays or model adjustments. In this regard, a significant level of judgement is required in order to first evaluate the appropriateness of the model output, which is based on the application of a number of macroeconomic scenarios. The application of management overlays and model adjustments in the context of the current economic conditions is described in detail in Note 7.4 of the financial statements.

The underlying models and their calibration, including how they react to forward-looking macroeconomic conditions, remain subject to review and refinement. Depending on the resulting effects on key model inputs (market signal data and change in forecasts of macroeconomic variables), collectively modelled ECL may require further adjustments during the second half of 2021.

5. Operating segments

The Group has a single reportable segment represented by its lending portfolio consisting of international corporate lending, corporate lending in Malta and Dutch mortgages lending together with the investment in high credit quality collateralised instruments such as covered bonds, guaranteed senior bank debt, sovereign related debt and investment in AAA tranches of securitisation special purpose entities. Revenues secured through the above-mentioned assets are complemented by the revenues generated by the Group on its wealth management business. The Group's products and services and geographical areas are comparable to those as at 31 December 2020. Information about financial risks, credit concentration by sector and location, together with revenues from the single reportable segment can be obtained from the financial statements for the year ended 31 December 2020. The investment portfolio is spread across a large number of exposures diversified in government, financial institutions and corporates.

6. Taxation

Income tax expense is recognised based on management's best estimate of the weighted average annual income tax rate expected for the financial year applied to the pre-tax income of the interim period.

7. Financial instruments

The risks to which the Group is exposed principally relate to the Group's banking activities and are managed by MeDirect Malta's Board of Directors. As a result, this note presents information about the financial risk management of the MeDirect Malta Group, which comprises MeDirect Malta and MeDirect Belgium.

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

The following disclosures present the gross carrying/nominal amount of financial instruments measured at amortised cost to which the impairment requirements in IFRS 9 are applied and the associated credit loss allowance, as well as the fair value of financial instruments within the Treasury portfolio measured at fair value though other comprehensive income ("FVOCI") and the associated credit loss allowance.

	At 30 June 2021		At 31 December 2020	
	Gross carrying/ nominal amount	**Credit loss allowance**	Gross carrying/ nominal amount	Credit loss allowance
	€000	**€000**	€000	€000
Financial assets measured at amortised cost				
Balances with central banks	**190,894**	**(2)**	490,681	(2)
Loans and advances to financial institutions	**252,333**	**(1)**	263,130	(1)
Loans and advances to customers	**2,359,023**	**(15,079)**	2,074,611	(53,851)
- International Lending portfolio	**691,142**	**(14,632)**	903,354	(53,163)
- Dutch Mortgage portfolio	**1,575,493**	**(149)**	1,068,012	(147)
- IFRS basis adjustment: Dutch Mortgage portfolio	**(20,835)**	**-**	10,542	-
- Local Lending portfolio	**113,223**	**(298)**	92,703	(541)
Investments measured at amortised cost	**422,598**	**(240)**	490,506	(394)
- Treasury portfolio	**130,377**	**(89)**	198,292	(243)
- Securitisation portfolio	**292,221**	**(151)**	292,214	(151)
Accrued income	**12,523**	**(101)**	15,119	(441)
Loans to related parties (included in other assets)	**170**	**-**	11,629	-
Other receivables (included in other assets)	**1,115**	**-**	34,966	-
	3,238,656	**(15,423)**	3,380,642	(54,689)
Commitments to purchase financial assets	**7,780**	**-**	22,000	-
Commitments to extend credit, guarantees and other commitments	**428,745**	**(2,206)**	743,929	(3,783)
	436,525	**(2,206)**	765,929	(3,783)
Total	**3,675,181**	**(17,629)**	4,146,571	(58,472)

	Fair value	**Credit loss allowance**	Fair value	Credit loss allowance
	€000	**€000**	€000	€000
Instruments measured at fair value through other comprehensive income				
- Investments - Treasury portfolio	**653,802**	**(49)**	652,958	(183)
- Investments - Securitisation portfolio	**123,687**	**(12)**	-	-

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

	At 30 June 2021	At 31 December 2020
	€000	€000
Investments measured at fair value through other comprehensive income		
- Investments - Treasury portfolio	**-**	6,712
Instruments mandatorily measured at fair value through profit or loss		
- Held for trading derivative financial instruments	**21,700**	1,841
- Investments - Securitisation portfolio	**1,222**	1,143
	22,922	9,696

7.2 Summary of credit risk (excluding derivative financial instruments and debt instruments measured at FVTPL) by stage distribution and ECL coverage

	Gross carrying/nominal amount				Credit loss allowance				ECL coverage %			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
	€000	€000	€000	€000	€000	€000	€000	€000	%	%	%	%
As at 30 June 2021												
On balance sheet at amortised cost:												
Balances with central banks	**190,894**	**-**	**-**	**190,894**	**(2)**	**-**	**-**	**(2)**	**-**	**-**	**-**	**-**
Loans and advances to financial institutions	**252,333**	**-**	**-**	**252,333**	**(1)**	**-**	**-**	**(1)**	**-**	**-**	**-**	**-**
Loans and advances to customers												
- International Lending portfolio	**355,479**	**247,931**	**87,733**	**691,142**	**(1,861)**	**(5,138)**	**(7,633)**	**(14,632)**	**0.5**	**2.1**	**8.7**	**2.1**
- Dutch Mortgage portfolio	**1,573,030**	**2,104**	**359**	**1,575,493**	**(77)**	**(53)**	**(19)**	**(149)**	**-**	**2.5**	**5.3**	**-**
- IFRS basis adjustment: Dutch Mortgage portfolio	**(20,835)**	**-**	**-**	**(20,835)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
- Local Lending portfolio	**90,981**	**12,194**	**10,047**	**113,223**	**(186)**	**(26)**	**(86)**	**(298)**	**0.2**	**0.2**	**0.9**	**0.3**
Investments												
- Treasury portfolio	**130,377**	**-**	**-**	**130,377**	**(89)**	**-**	**-**	**(89)**	**-**	**-**	**-**	**-**
- Securitisation portfolio	**291,708**	**513**	**-**	**292,221**	**(30)**	**(121)**	**-**	**(151)**	**-**	**23.6**	**-**	**0.1**
Accrued income	**9,026**	**2,137**	**1,360**	**12,523**	**(14)**	**(59)**	**(28)**	**(101)**	**0.2**	**2.8**	**2.1**	**0.8**
Loans to related parties (included in other assets)	**170**	**-**	**-**	**170**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Other receivables (included in other assets)	**1,115**	**-**	**-**	**1,115**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Off balance sheet at nominal amount:												
Commitments to purchase financial assets	**7,780**	**-**	**-**	**7,780**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Commitments to extend credit, guarantees and other commitments	**369,838**	**45,907**	**13,000**	**428,745**	**(312)**	**(359)**	**(1,535)**	**(2,206)**	**0.1**	**0.8**	**11.8**	**0.5**
	3,251,896	**310,786**	**112,499**	**3,675,181**	**(2,572)**	**(5,756)**	**(9,301)**	**(17,629)**	**0.1**	**1.9**	**8.3**	**0.5**

	Fair value				Credit loss allowance				ECL coverage %			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
	€000	€000	€000	€000	€000	€000	€000	€000	%	%	%	%
As at 30 June 2021												
Investments at fair value through other comprehensive income												
- Treasury portfolio	**653,802**	**-**	**-**	**653,802**	**(49)**	**-**	**-**	**(49)**	**-**	**-**	**-**	**-**
- Securitisation portfolio	**123,687**	**-**	**-**	**123,687**	**(12)**	**-**	**-**	**(12)**	**-**	**-**	**-**	**-**

	Gross carrying/nominal amount				Credit loss allowance				ECL coverage %			
	Stage 1 €000	Stage 2 €000	Stage 3 €000	Total €000	Stage 1 €000	Stage 2 €000	Stage 3 €000	Total €000	Stage 1 %	Stage 2 %	Stage 3 %	Total %
As at 31 December 2020												
On balance sheet at amortised cost\												
Balances with central banks	490,681	-	-	490,681	(2)	-	-	(2)	-	-	-	
Loans and advances to financial institutions	263,130	-	-	263,130	(1)	-	-	(1)	-	-	-	
Loans and advances to customers												
- International Lending portfolio	548,118	192,459	162,777	903,354	(7,187)	(4,682)	(41,294)	(53,163)	1.3	2.4	25.4	5.9
- Dutch Mortgage portfolio	1,064,584	3,183	245	1,068,012	(97)	(32)	(18)	(147)	-	1.0	7.3	-
- IFRS basis adjustment: Dutch Mortgage portfolio	10,542	-	-	10,542	-	-	-	-	-	-	-	-
- Local Lending portfolio	68,674	16,823	7,206	92,703	(405)	(129)	(7)	(541)	0.6	0.8	0.1	0.6
Investments												
- Treasury portfolio	198,292	-	-	198,292	(243)	-	-	(243)	0.1	-	-	0.1
- Securitisation portfolio	291,704	510	-	292,214	(30)	(121)	-	(151)	-	23.7	-	0.1
Accrued income	9,113	3,078	2,928	15,119	(58)	(38)	(345)	(441)	0.6	1.2	11.8	2.9
Loans to related parties (included in other assets)	11,629	-	-	11,629	-	-	-	-	-	-	-	-
Other receivables (included in other assets)	34,966	-	-	34,966	-	-	-	-	-	-	-	-
Off balance sheet at nominal amount:												
Commitments to purchase financial assets	22,000	-	-	22,000	-	-	-	-	-	-	-	-
Commitments to extend credit, financial guarantees and other commitments	679,839	51,490	12,600	743,929	(1,728)	(567)	(1,488)	(3,783)	0.3	1.1	11.8	0.5
	3,693,272	267,543	185,756	4,146,571	(9,751)	(5,569)	(43,152)	(58,472)	0.3	2.1	23.2	1.4

	Fair value				Credit loss allowance				ECL coverage %			
	Stage 1 €000	Stage 2 €000	Stage 3 €000	Total €000	Stage 1 €000	Stage 2 €000	Stage 3 €000	Total €000	Stage 1 %	Stage 2 %	Stage 3 %	Total %
As at 31 December 2020												
Investments at fair value through other comprehensive income												
- Treasury portfolio	652,958	-	-	652,958	(183)			(183)	-	-	-	-

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

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

Within the following tables, the line items "New business" and "Repayments and disposals" represent movements within the Group's International Lending portfolio in respect of gross carrying/nominal amounts and associated credit loss allowances. "New business" represents new lending sanctioned during the financial reporting period ended 30 June 2021. Meanwhile, "Repayments and disposals" reflect loan repayments and disposals that occurred during the financial reporting period ended 30 June 2021, which however, would only have existed on the Group's balance sheet as at 31 December 2020. Accordingly, repayments and disposals relating to loans sanctioned during the financial reporting period are netted off against new lending included within "New business". Please also refer to Note 9 on contingent liabilities and commitments that are included in the Gross Carrying / Nominal Amounts.

The line item "Transfers of financial instruments" represents the impact of stage transfers on gross carrying/nominal amounts and associated credit loss allowances determined as at 30 June 2021. The line item "Net re-measurement and movement due to exposure and risk parameter changes" represents the increase or decrease in credit loss allowances due to modified measurement basis from 12-month to lifetime in relation to stage transfers. It also includes the effects of changes in other expected credit loss measurement factors and model parameters such as, but not limited to, change in time to maturity of assets; changes in underlying credit ratings; changes in measurement of loss given default and changes in respect of multiple economic scenarios.

As described in previous sections, the Group's International Lending portfolio has been particularly impacted by the impact of the COVID-19 pandemic, principally due to the size and debt structure of the borrowers within the portfolio, which leads to greater exposure to systemic risk and adverse macroeconomic movements, mainly since the inherent level of risk of these highly geared borrowers has been amplified as a result of the unprecedented economic conditions being experienced.

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

	Non credit-impaired				Credit-impaired		Total	
	Stage 1		Stage 2		Stage 3			
	Gross carrying/ nominal amount €000	Credit loss allowance €000	Gross carrying/ nominal amount €000	Credit loss allowance €000	Gross carrying/ nominal amount €000	Credit loss allowance €000	Gross carrying/ nominal amount €000	Credit loss allowance €000
International Lending portfolio								
Period ended 30 June 2021								
At beginning of period	857,774	(8,958)	239,061	(5,285)	176,859	(43,125)	1,273,694	(57,368)
New business	17,153	(84)	-	-	-	-	17,153	(84)
Repayments and disposals	(222,008)	2,516	(2,911)	146	(50,469)	13,853	(275,388)	16,515
Transfers of financial instruments								
- Transfers from Stage 1 to Stage 2	(72,737)	1,481	72,737	(1,481)	-	-	-	-
- Transfers from Stage 2 to Stage 1	-	-	(13,006)	696	13,006	(696)	-	-
Net remeasurement of ECL arising from stage transfers and changes in risk parameters	-	3,540	-	2,366	-	(16,526)	-	(10,620)
Post-model adjustment	-	(681)	-	(1,997)	-	-	-	(2,678)
Realisation of ECL through restructuring and disposals	-	-	-	-	(37,298)	37,298	(37,298)	37,298
At end of period	580,182	(2,186)	295,881	(5,555)	102,098	(9,196)	978,161	(16,937)
ECL released for the period								40,433
Effect of foreign exchange differences								475
Assets written off								(37,298)
Change in expected credit losses and other credit impairment charges for the period								3,612

	As at 30 June 2021		Period ended 30 June 2021
	Gross carrying/ nominal amount €000	Credit loss allowance €000	ECL release/ (charge) €000
As per preceding table	978,161	(16,937)	3,612
Balances at central banks	190,894	(2)	-
Loans and advances to financial institutions	252,333	(1)	-
Loans and advances to customers			
- Dutch Mortgage portfolio: drawn exposures	1,575,493	(149)	(2)
- Dutch Mortgage portfolio: undrawn commitments	107,387	(3)	14
- International Corporate Lending portfolio: recoveries	-	-	194
- Local Lending portfolio: drawn exposures	113,226	(297)	243
- Local Lending portfolio undrawn commitments	26,816	(1)	(1)
Investments measured at amortised cost			
- Treasury portfolio	130,377	(90)	217
- Securitisation portfolio	292,221	(151)	-
Other accrued income	5,962	-	-
Summary of financial instruments to which the impairment requirements in IFRS 9 are applied through the profit or loss	3,542,493	(17,631)	4,277
Investments measured at FVOCI			
- Treasury portfolio	653,802	(49)	38
- Securitisation portfolio	123,687	(12)	(12)
Total allowances for ECL/total income statement ECL release for the period		(17,692)	4,303

The table below provides a reconciliation of movements in gross carrying/nominal amounts and credit loss allowances by stage for the International Lending portfolio for the financial period ended 30 June 2020:

	Non credit-impaired				Credit-impaired		Total	
	Stage 1		Stage 2		Stage 3			
	Gross carrying/ nominal amount €000	Credit loss allowance €000	Gross carrying/ nominal amount €000	Credit loss allowance €000	Gross carrying/ nominal amount €000	Credit loss allowance €000	Gross carrying/ nominal amount €000	Credit loss allowance €000
International Lending portfolio								
Period ended 30 June 2020								
At beginning of period	1,420,082	(8,982)	177,070	(2,321)	81,037	(12,790)	1,678,189	(24,093)
New business	62,912	(691)	-	-	-	-	62,912	(691)
Repayments and disposals	(109,385)	603	(18,745)	24	(10,799)	-	(138,929)	627
Transfers of financial instruments								
- Transfers from Stage 1 to Stage 2	(201,010)	1,647	201,010	(1,647)	-	-	-	-
- Transfers from Stage 2 to Stage 1	14,890	(310)	(14,890)	310	-	-	-	-
- Transfers to Stage 3	(88,761)	1,142	(51,253)	673	140,014	(1,815)	-	-
Net remeasurement of ECL arising from stage transfers and changes in risk parameters	-	(6,021)	-	(2,687)	-	(45,537)	-	(54,245)
At end of period	1,098,728	(12,612)	293,192	(5,648)	210,252	(60,142)	1,602,172	(78,402)
ECL charged for the period								(54,309)
Effect of foreign exchange differences								(448)
Change in expected credit losses and other credit impairment charges for the period								(54,757)

	As at 30 June 2020		Period ended 30 June 2020
	Gross carrying/ nominal amount €000	Credit loss allowance €000	ECL (charge)/ release €000
As per preceding table	1,602,172	(78,402)	(54,757)
Balances at central banks	256,189	(1)	-
Loans and advances to financial institutions	319,570	(1)	-
Loans and advances to customers			
- Dutch Mortgage portfolio: drawn exposures	595,766	(156)	(148)
- Dutch Mortgage portfolio: undrawn commitments	22,570	(12)	(1)
- International Corporate Lending portfolio: write-offs	-	-	(652)
- Local Lending portfolio: drawn exposures	87,094	(456)	(103)
- Local Lending portfolio undrawn commitments	49,932	(2)	(2)
- Local Lending portfolio: recoveries	-	-	6
Investments measured at amortised cost			
- Treasury portfolio	293,637	(261)	(12)
- Securitisation portfolio	292,205	(79)	(60)
Other accrued income	8,829	(2)	-
Summary of financial instruments to which the impairment requirements in IFRS 9 are applied through the profit or loss	3,527,964	(79,372)	(55,729)
Investments measured at FVOCI			
- Treasury portfolio	664,775	(123)	21
Total allowances for ECL/total income statement ECL charge for the period		(79,495)	(55,708)

Movements in expected credit losses measured in respect of exposures within the Local Lending portfolio classified as Stage 1 and Stage 2 exposures, resulted in a decrease in related credit loss allowances from €0.5 million to €0.3 million in the period ending 30 June 2021 and an increase from €0.4 million to €0.5 million in the period ending 30 June 2020. Malta has been less affected by COVID-19 than other European countries, there was a robust support package by the Maltese government and the construction sector continued to operate during lockdown. Such movements in expected credit losses were primarily driven by model and risk parameter changes from the impact of COVID-19. Net movement due to transfers of exposures across stages during the period are negligible. There is no material increase in credit loss allowances measured in respect of exposures classified as Stage 3 exposures within the Local Lending portfolio.

The tables also include the credit loss allowances attributable to the Dutch Mortgage portfolio backed by the national mortgage guarantee scheme, credit loss allowances attributable to the Securitisation Investment portfolio, which comprises the Group's investments in CLOs (5% vertical slice in each of the Grand Harbour CLO 2019-1 Designated Activity Company "GH1 – 2019" structured note tranches, and acquired portions in CLO transactions managed by third party entities), included within "Investments measured at amortised cost" and "Investments measured at FVOCI", as well as credit loss allowances attributable to the Treasury Investment portfolio measured at FVOCI. The ECL charge for the Group in respect of these portfolios is not considered significant in absolute terms and, as a result, no further disclosures were deemed necessary.

7.4 Current conditions and forward-looking information incorporated in the ECL model

Point-in-time, forward-looking PD modelling

The Group modelling approach for ECL for the Corporate and Treasury portfolios includes an external vendor developed model that leverages updates in market signal data (Expected Default Frequency credit metrics) to convert internal ratings into a point-in-time, forward-looking measure of default risk. The structural model uses a firm's market capitalization as a key input. If a firm's stock price should fall rapidly, this risk metric can increase rapidly. Therefore, equity markets performance is a key variable in the IFRS 9 ECL modelling process.

The Group's IFRS 9 modelling approach also includes an external vendor developed model that conditions the point-in-time, forward looking PDs and term structure from the abovementioned model with quarter-on-quarter change expected in future forecasts of macroeconomic data such as GDP, unemployment etc.

In order to minimise any overlapping effects between the two above mentioned models that may be amplified due to the abnormal behaviour of markets and other economic indicator shocks due to COVID-19, the quarterly change in macroeconomic forecast data starts from reporting date onwards, i.e. quarterly change in economic indicator data from 30 June 2021 onwards.

Future forecasts of economic conditions

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

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

The following tables presents the 5-year annualised growth rates for key macroeconomic variables ("MEVs") used in the baseline and alternative scenarios for the measurement of ECL for all portfolios as at 30 June 2021. For the International Corporate Lending Portfolio, MEVs are determined for each country, however we present below the MEV data for our major markets. Eurozone MEVs are in some cases used rather than the country-level MEVs as they are deemed to have a higher correlation to the country specific portfolio assets.

As mentioned above, ECL modelling incorporates the quarterly change in macroeconomic forecast data starting from reporting date onwards, i.e. from 30 June 2021 onwards.

Economic scenarios MEVs used for the measurement of ECL as at 30 June 2021: (5-year annualized growth 2021 – 2025)

Economic Scenarios MEVs (5Yr Average 2021-2025*)	Severe Upside	Upside	Baseline	Downside	Severe Downside
	"Exceptionally Strong Growth"	"Stronger Near-Term Growth"	"Baseline Scenario"	"Moderate to Deep Recession"	"Protracted Slump"
International Lending and Treasury Investment Portfolios Key MEVs					
Real Gross Domestic Product - 5Yr Annualised Growth % *					
United Kingdom	3.9%	3.6%	3.2%	2.8%	2.4%
US	4.3%	3.9%	3.7%	2.7%	2.2%
France	3.2%	2.9%	2.4%	1.7%	1.5%
Italy	3.2%	2.9%	2.5%	1.9%	1.4%
Eurozone	3.2%	2.9%	2.5%	1.8%	1.3%
Stock Market Index - 5Yr Annualised Growth % *					
United Kingdom	4.1%	3.7%	3.3%	2.8%	0.9%
US	7.2%	6.1%	3.5%	1.1%	-2.6%
France	7.9%	7.1%	6.1%	4.6%	2.8%
Italy	7.7%	7.0%	6.0%	5.3%	3.3%
Eurozone	6.5%	5.7%	4.9%	3.9%	2.2%
Unemployment Rate - 5Yr Annualised Growth % *					
United Kingdom	-7.2%	-2.9%	-0.5%	5.7%	8.1%
US	-9.9%	-10.2%	-9.1%	-3.8%	2.3%
France	-0.5%	-0.5%	-0.5%	0.9%	2.7%
Italy	-2.4%	-2.3%	-1.9%	0.8%	2.4%
Eurozone	-3.0%	-2.5%	-2.0%	1.2%	3.8%
Local Lending Portfolio Key MEVs - 5Yr Annualised Growth % *					
Malta Real GDP	4.7%	4.4%	4.0%	3.3%	2.9%
Malta Stock Market Index	11.8%	10.5%	9.6%	8.3%	8.0%
Malta Unemployment Rate	-0.8%	-0.7%	0.1%	5.6%	8.6%
Dutch Mortgage Portfolio Key MEVs - 5Yr Annualised Growth % *					
Netherlands HPI	1.4%	0.6%	0.3%	-1.8%	-3.6%
Netherlands 10Yr Treasury (Average Rate %)	-0.4%	-0.4%	-0.4%	-0.4%	-0.4%
Netherlands Unemployment Rate	-2.7%	-1.8%	-0.6%	1.4%	5.4%
Securitisation Investment Portfolio Key MEVs - 5Yr Average Rate %**					
Euribor 3M % p.a	0.9%	0.5%	-0.5%	-0.5%	-0.5%

Scenarios	Severe Upside	Upside	Baseline	Downside	Severe Downside
Probability Weight	7%	23%	40%	23%	7%

** 5-year annualised growth rates calculated using quarter-on-quarter rates of growth throughout the forecast period*
****** In addition to the MEVs shown above, the *Securitisation Investment portfolio uses similar MEVs to the International Lending Portfolio since the pool of underlying assets are similar*

In line with the guidance issued by the ECB, mean reversion to long-term growth rates is assumed to occur beyond the next three years, with varying assumptions across the multiple scenarios.

In the aftermath of the outbreak of the COVID-19 pandemic, more rigorous monitoring of macroeconomic forecasts developed by an external vendor was performed by the Group in order to challenge the adequacy and reasonableness of the developed scenarios. In this respect, the macroeconomic scenarios were reviewed on a quarterly basis in full consideration of the guidance issued by the ECB to Significant Institutions on 1 April 2020 ("IFRS 9 in the context of the coronavirus (COVID-19) pandemic"). The macroeconomic scenarios used in the Group's modelling of credit loss allowances reflect possible macroeconomic paths taking into consideration a range of potential economic impacts driven by epidemiological assumptions in respect of the pandemic, the effects of lockdowns, social distancing and other restrictions imposed at national level by various governments, as well as government support schemes and regulatory relief measures.

Such scenarios have been regularly benchmarked and assessed against the macroeconomic forecasts for the Euro area published by the ECB, in line with ECB guidance referred to above, with the latest publication available being the one published on 10 June 2021. In this respect, the Group's forward-looking macroeconomic scenarios were adjusted to anchor to the ECB's macroeconomic forecasts for the Euro area. Please also refer to the following note on model adjustments and management overlays.

Economic Scenarios MEVs (5Yr Average 2021-2025*)	"Upside" (30% assigned weighting)	"Baseline Scenario" (40% assigned weighting)	"Downside" (30% assigned weighting)
International Lending and Treasury Investment Portfolios Key MEVs			
Real Gross Domestic Product - 5Yr Annualised Growth % *			
United Kingdom	3.9%	3.2%	3.0%
US	4.3%	3.7%	3.2%
France	3.2%	2.4%	2.3%
Italy	3.2%	2.5%	2.4%
Eurozone	3.2%	2.5%	2.2%
Stock Market Index - 5Yr Annualised Growth % *			
United Kingdom	4.1%	3.3%	2.9%
US	7.2%	3.5%	2.7%
France	7.9%	6.1%	5.0%
Italy	7.7%	6.0%	5.2%
Eurozone	6.5%	4.9%	4.0%
Unemployment Rate - 5Yr Annualised Growth % *			
United Kingdom	-7.2%	-0.5%	2.4%
US	-9.9%	-9.1%	-8.9%
France	-0.5%	-0.5%	0.0%
Italy	-2.4%	-1.9%	-1.2%
Eurozone	-3.0%	-2.0%	-1.1%

Scenarios	Upside	Baseline	Downside
Probability Weight	30%	40%	30%

** 5-year annualised growth rates calculated using quarter-on-quarter rates of growth throughout the forecast period*
****** In addition to the MEVs shown above, the *Securitisation Investment portfolio uses similar MEVs to the International Lending Portfolio since the pool of underlying assets are similar*

Model adjustments and management overlays

ECB guidance states that subjective model inputs and post-core model adjustments (overlays) may be used given the current level of uncertainties. These need to be directionally consistent with objective and verifiable evidence such as observable macroeconomic variables and forward-looking forecasts. Overlays should be supported by adequately documented processes and subject to strict governance oversight.

In line with the ongoing monitoring and review as part of the Group's internal model governance processes, senior management and the Board discussed, reviewed and approved the implementation of model adjustments to exposures within the International Lending portfolio to ensure that the level of credit loss allowances recognised at reporting date remains appropriate.

To ensure that the Group is adequately capturing the level of credit risk in its International Lending portfolio, an assessment was performed and adjustments to implied internal ratings (and indirectly to underlying PDs) were applied in the form of notch downgrades, designed to capture potential increases in credit risk which would possibly not have been captured by the bank's models using expert judgement. Adjustments to internal ratings were reviewed by the Credit Risk team prior to review through the normal IFRS 9 governance process.

Due to the modelling challenges being experienced from the exceptional circumstances brought about by the pandemic, the primary approach used to determine staging for exposures within the International Lending portfolio as at 30 June 2021 is based on the individual borrower-level assessments performed by the Corporate Credit team, reviewed by the Risk team and ratified by the Management Credit Committee. Such assessments take into account both quantitative and qualitative performance indicators designed to distinguish between cases where the financial difficulties being experienced due to COVID-19 are only temporary as opposed to cases where the impact of the pandemic on a borrower's credit risk has increased significantly and is reasonably expected to endure over the expected lifetime of the exposure, in line with guidance and recommendations issued by the ECB.

Given the increased level of model uncertainty, an exercise was also performed by management as part of the internal model governance process whereby modelled outputs were reviewed and benchmarked against credit spread trends, and other default studies published by reputable credit rating agencies to inform any required model adjustments or overlays. Assessment of IFRS 9 model parameters and ECL outputs were reviewed by management and it was deemed necessary and prudent to make model adjustments on models that have high sensitivity to equity market data in order to address overly optimistic reduction in probability of default parameters. Additionally, despite forecasts from the external vendor including reasonable epidemiological, economic, and geopolitical risk assumptions at the time of publication, management concluded that despite the uncertainty that still exists in the accuracy of economic forecasts, adjustments were required to align the forecasts to those published by the ECB Staff Projections published on 10 June 2021.

In this respect, an overlay amounting to €2.7 million was applied to credit loss allowances in respect of Stage 1 and Stage 2 exposures classified within the International Lending portfolio, calculated as the difference between the modelled ECL without adjustments, and modelled ECL post adjustments made for unwarranted volatility in credit risk parameters and to align more closely to ECB published macroeconomic forecasts.

7.5 Fair value measurement

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

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

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

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

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

7.5.1 Fair value hierarchy

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

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

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

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

7.5.2 Use of valuation techniques

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

- the likelihood and expected timing of future cash flows from the instrument;
- selecting an appropriate discount rate for the instrument; and
- judgement to determine what model to use to calculate fair value in areas where the choice of valuation model is particularly subjective.

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

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

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

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

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

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

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

7.5.3 Financial instruments measured at fair value

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

	As at 30 June 2021				As at 31 December 2020			
	Level 1	**Level 2**	**Level 3**	**Total**	Level 1	Level 2	Level 3	Total
	€000	**€000**	**€000**	**€000**	€000	€000	€000	€000
Assets								
Instruments measured at fair value through other comprehensive income								
- Treasury investment portfolio								
- Debt and other fixed income securities	**653,802**	**-**	**-**	**653,802**	652,958	-	-	652,958
- Equity instruments	**-**	**-**	**-**	**-**	6,712	-	-	6,712
- Securitisation investment portfolio	**-**	**-**	**123,687**	**123,687**	-	-	-	-
Instruments mandatorily measured at fair value through profit or loss								
- Securitisation investment portfolio	**-**	**-**	**1,222**	**1,222**	-	-	1,143	1,143
- Derivative financial instruments	**-**	**21,700**	**-**	**21,700**	-	1,841	-	1,841
Total financial assets	**653,802**	**21,700**	**124,909**	**800,411**	659,670	1,841	1,143	662,654
Liabilities								
Derivative financial instruments	**-**	**2,513**	**-**	**2,513**	-	14,344	-	14,344

As at 30 June 2021 and 31 December 2020, the fair value of debt securities and equity securities within the Treasury Investment portfolio represents the closing bid price quoted in an active market, and such instruments are therefore categorised as Level 1 assets.

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

Level 3 assets include the following:

- The Group's investments in tranches of securitisation structures with a carrying amount of €123.7 million (31 December 2020: nil) are mainly rated AAA, and their fair value is determined using third party valuation models to estimate the net present value of a series of expected cash flows, taking into consideration instrument-specific contractual terms (discounted cash flow approach). Amongst other things, these models take into consideration the characteristics of the underlying portfolio of assets (including quality of underlying assets), historical portfolio performance, and the liability structure of the CLO transaction. These models also make use of independently sourced market parameters including, for example, interest rate yield curves.

- The Group's investment in the equity tranche of GH1 – 2019 with a carrying amount of €1.2 million (31 December 2020: €1.1 million), for which a fair value is determined using third party valuation models to estimate the net present value of a series of expected cash flows, taking into consideration instrument-specific contractual terms (discounted cash flow approach). Amongst other things, these models take into consideration the characteristics of the underlying portfolio of assets (including quality of underlying assets), historical portfolio performance, and the liability structure of the CLO transaction. These models also make use of independently sourced market parameters including, for example, interest rate yield curves.

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

7.5.4 Transfers between levels

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

There were no transfers between levels of the fair value hierarchy during the period from 1 January 2021 to 30 June 2021 and during the financial year ended 31 December 2020.

7.6 Financial instruments not measured at fair value

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

	As at 30 June 2021				
	Level 1	Level 2	Level 3	Total fair values	Total carrying amount
	€000	€000	€000	€000	€000
Assets					
Loans and advances to customers	**-**	**121,262**	**1,738,813**	**1,860,075**	**1,829,757**
- International Lending portfolio	**-**	**121,262**	**126,246**	**247,508**	**254,413**
- Dutch Mortgage portfolio (excluding IFRS basis adjustment)	**-**	**-**	**1,612,567**	**1,612,567**	**1,575,344**
Investments	**117,452**	**-**	**292,511**	**409,963**	**409,991**
- Treasury portfolio	**117,452**	**-**	**-**	**117,452**	**117,921**
- Securitisation portfolio	**-**	**-**	**292,511**	**292,511**	**292,070**
Total financial assets	**117,452**	**121,262**	**2,031,324**	**2,270,038**	**2,239,748**
Liabilities					
Debt securities in issue	**-**	**-**	**691,863**	**691,863**	**682,616**
Subordinated liabilities	**55,246**	**-**	**-**	**55,246**	**54,873**
Total financial liabilities	**55,246**	**-**	**691,863**	**691,863**	**737,489**

	As at 31 December 2020				
	Level 1	Level 2	Level 3	Total fair values	Total carrying amount
	€000	€000	€000	€000	€000
Assets					
Loans and advances to customers	-	92,136	1,398,311	1,490,447	1,482,687
- International Lending portfolio	-	92,136	305,516	397,652	414,822
- Dutch Mortgage portfolio (excluding IFRS basis adjustment)			1,092,795	1,092,795	1,067,865
Investments	185,379	-	292,082	477,461	477,806
- Treasury portfolio	185,379	-	-	185,379	185,743
- Securitisation portfolio	-	-	292,082	292,082	292,063
Total financial assets	185,379	92,136	1,690,393	1,967,908	1,960,493
Liabilities					
Debt securities in issue	-	-	558,888	558,888	553,849
Subordinated liabilities	56,576	-	-	56,576	54,650
Total financial liabilities	56,576	-	558,888	615,464	608,499

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

The Level 2 and Level 3 fair value disclosures of the International Lending portfolio include price quotations sourced from an online platform in respect of internationally traded loans and advances, consisting of the Group's international loan book with foreign corporates. Loans and advances to customers forming part of the International Lending portfolio amounting to €422.0 million (31 December 2020: €435.4 million), net of expected credit losses, and a corporate debt security within the Treasury Investment portfolio, with a carrying amount of €12.4 million (31 December 2020: €12.3 million), have not been reflected within the preceding table given that there were no observable market prices or any public information available but the contractual terms of these instruments, that mainly re-price within three months, and the nature of the borrowers, are similar to those of the instruments in the preceding table and thus their fair valuation characteristics would not differ significantly from those of the instruments included in the preceding table.

The Level 3 assets also include the following:

- The Group's investments in tranches of securitisation structures with a carrying amount of €292.1 million (31 December 2020: €292.1 million) are mainly rated AAA, and their fair value is determined using third party valuation models to estimate the net present value of a series of expected cash flows, taking into consideration instrument-specific contractual terms (discounted cash flow approach). Amongst other things, these models take into consideration the characteristics of the underlying portfolio of assets (including quality of underlying assets), historical portfolio performance, and the liability structure of the CLO transaction. These models also make use of independently sourced market parameters including, for example, interest rate yield curves.

- Dutch mortgages with a carrying amount (including IFRS basis adjustment) of €1,554.5 million (31 December 2020: €1,078.4 million) included in Loans and advances to customers. In order to derive their fair value as at 30 June 2021, the Group bootstraps the average of the top three interest rate quotes offered by Dutch government-backed mortgage loan lenders in the Netherlands for every mortgage fixed rate tenor to create zero coupon discount curve and applies this curve to discount the projected future cashflows. In addition, to estimate the future cashflows, the Group considers both instrument-specific contractual terms and estimated conditional prepayment rates.

As at 30 June 2021, the carrying amount for loans and advances to customers classified under the Local Lending portfolio amounting to €113.0 million (31 December 2020: €92.2 million) approximates their fair value because these loans are repriceable at the Group's discretion.

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

All exposures classified under loans and advances to financial institutions amounting to €252.3 million (31 December 2020: €263.1 million), and balances with central banks amounting to €190.9 million as at 30 June 2021 (31 December 2020: €490.7 million), reprice or mature in less than one year. Hence their fair value is not deemed to differ materially from their carrying amount at the reporting date.

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

The majority of the 'Amounts owed to financial institutions' of the Group as at 30 June 2021 amounting to €252.6 million (31 December 2020: €352.1 million). 'Amounts owed to customers' of the Group amounting to €2.6 billion (31 December 2020: €2.4 billion), sourced from the Maltese and Belgian markets, re-price or mature in less than one year; hence their fair value is not deemed to differ materially from their carrying amount at the reporting date. Fair values of these liabilities are estimated using discounted cash flows, applying current rates offered for deposits of similar remaining maturities. These are considered Level 3 fair value estimates. The fair value of a demand deposit is not less than the amount payable on demand, discounted from the first date on which the amount payable is required to be paid.

8. Capital and reserves

Share capital

	30 June 2021 No.	31 December 2020 No.
Authorised:		
Ordinary 'A' shares of €1 each	**99,999,999**	99,999,999
Ordinary 'B' shares of €1 each	**1**	1
	100,000,000	100,000,000
Issued and fully paid up:		
Ordinary 'A' shares of €1 each	**56,406,546**	56,406,546
Ordinary 'B' shares of €1 each	**1**	1
	56,406,547	56,406,547

Issued share capital is stated net of share issue expenses amounting to €0.7 million (31 December 2020: €0.7 million).

Rights and entitlements attached to ordinary shares

The holders of Ordinary 'A' shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at general meetings of the Company. Ordinary 'B' shareholders are not entitled to vote and do not carry any dividend entitlement. The holders of the Ordinary 'A' shares and the holders of the Ordinary 'B' shares shall be equally entitled to receive notice of general meetings of the Company.

Share premium

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

Issue date	Number of shares	Premium per share €	Share premium 30 June 2021 €000	Share premium 31 December 2020 €000
5 August 2009	39,520,969	0.3407	**13,464**	13,464
31 March 2010	1,214,991*	0.2400	**292**	292
			13,756	13,756

**Converted to one share on 27 June 2014*

Shareholders' contributions

The terms and conditions of the contributions granted render these instruments equity in nature in accordance with the requirements of IAS 32: Financial Instruments - Presentation:

- The Company has no obligation to bear any servicing cost or transfer any economic benefits of any kind to the Contributor or any other person in return; and

- The Company has no obligation to repay the contributions.

The contributions are also eligible as own funds in terms of the Capital Requirements Regulation.

Reserve for general banking risks

Banking Rule ("BR") 09 issued by the MFSA requires banks in Malta to hold additional reserves for general banking risks in respect of non-performing loans. This reserve is required to be funded from retained earnings. As at 30 June 2021, the reserve for general banking risks of the Group was equivalent to €3.4 million (31 December 2020: €3.4 million). This reserve, which is distributable subject to the formal consent of the Banking Regulator, represents 100% of the regulatory allocation by virtue of paragraph 38 of the Banking Rule.

Other reserves

a) Fair value reserve

The fair value reserve is attributable to the cumulative net change in the fair value of investments measured at fair value through other comprehensive income, until the investment is derecognised, net of deferred taxation.

b) Legal reserve

As at 30 June 2021 and 31 December 2020, other reserve of the Group also consists of legal reserves amounting to €0.2 million that is required to be maintained by MeDirect Belgium in line with Article 616 of the Belgian Companies Code which requires MeDirect Belgium to assign at least 5% of MeDirect Belgium's net profits to the legal reserve until such legal reserve amounts to 10% of MeDirect Belgium share capital.

c) Other reserve

On 6 May 2015, the Group entered into an agreement to acquire the remaining 35% shareholding of Charts Investment Management Service Ltd for a cash consideration of €1.7 million. The subsidiary was principally engaged in providing stockbroking and corporate finance services and other authorised investment services under a Category 3 licence. As a result of the acquisition of the non-controlling interest, during the financial year ended 31 March 2016, the carrying amount of the non-controlling interest of €0.4 million has been derecognised. The difference between proceeds and the carrying amount of the non-controlling interest has been reflected as an adjustment to equity.

All reserves at the reporting date, except for the Company's retained earnings and the shareholders' contribution, are non-distributable.

9. Contingent liabilities and commitments

Guarantee obligations

As at 30 June 2021, the Group had cash secured guarantee obligations amounting to €6.4 million (31 December 2020: €8.0 million).

Commitments to lend

Commitments to lend represent undrawn formal standby facilities, credit facilities and other similar commitments to lend. As at 30 June 2021, the Group had undrawn commitments of €273.0 million (31 December 2020: €341.4 million) under revolving credit facilities. In addition, lending commitments in relation to the Group's Dutch Mortgage portfolio amounted to €107.4 million (31 December 2020: €335.7 million). As at 30 June 2021, undrawn facilities on term loans of the Group amounted to €41.7 million (31 December 2020: €58.9 million).

Commitments to purchase

As at 30 June 2021, the Group had commitments to purchase facilities on term loans amounting to €7.8 million (31 December 2020: €22.0 million) that were subject to back-to-back sale agreements with Grand Harbour CLO 2019-1, that was previously managed by MeDirect Malta.

10. Related party transactions

There were no material changes in related party transactions from those detailed in the financial statements for the financial year ended 31 December 2020, except for the following:

- *Issue of subordinated notes*: Issue of €1 million fixed rate reset callable subordinated notes to AnaCap Financial Partners II L.P.
- *Acquisition of Medifin Leasing*: Acquisition of Medifin Leasing Ltd from Medifin Investments Ltd for a consideration of €0.5 million.

No further related party transactions materially affected the financial position or liquidity of the Group.

11. MDB Group Regulatory information

Key regulatory ratios	**30 June 2021**	31 December 2020
Capital management		
Tier 1 capital ratio	**16.1%**	14.8%
Total capital ratio	**19.3%**	17.3%
Leverage ratio	**5.6%**	5.7%
Liquidity management		
Liquidity coverage ratio ("LCR")	**624.6%**	562.9%
Net stable funding ratio ("NSFR")	**134%**	120.8%

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