MDB Group Limited

Condensed Consolidated Interim Financial Statements 30 September 2019

Company Registration Number C 34111

Interim directors' report

The directors present their interim financial statements of MDB Group Limited ("the Company") and its subsidiary that comprises MeDirect Bank (Malta) plc ("MeDirect Malta") and its principal subsidiary MeDirect Bank S.A ("MeDirect Belgium") (together referred to as the "Group" or "MDB Group") for the six month period ended 30 September 2019.

Principal Activities

The principal activities of the Group comprise lending to international corporates and the provision of banking services primarily to the mass affluent sector in Malta and Belgium, focusing primarily on saving products and wealth management, as well as local corporate banking in Malta.

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

Business Development

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

<u>New Dutch state-guaranteed mortgages business line</u>

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

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

Throughout the financial period the Group changed its intention in relation to a specific sub-portfolio of its international lending portfolio, classified as hold to collect. The reasons for this change in business model were driven by the Group's intention to set up a securitisation structure as part of a new strategy, through which part of the international lending portfolio with a total carrying amount of €296.9 million were sold by the Group to this structured entity and derecognised from the Group's statement of financial position, subsequent to which structured notes were issued by the structured entity to the Group and third party investors. A gain equivalent to €0.5 million was registered by the Group as a result of this transfer of loans to the structured entity.

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

The Group will leverage off the existing corporate credit team and infrastructure that is naturally fitted for the management of such securitisation structures. This is supplemented by the know-how of the credit team, which includes professionals with prior experience with issuing and managing such structures.

During the financial period ended 30 September 2019, the Group continued to implement its business plan with the aim of sustaining the Group's long-term profitability by building a diversified asset base and its deposit customer base in the mass affluent market both in Malta and Belgium and also with select corporates in Malta.

The Group continues to fund its portfolios through deposits and through the international wholesale financial markets. The growth of the Group's deposit base in Belgium, especially with the introduction of the regulated savings product, has strengthened and made more robust the Group's funding platform. Access to the Eurex repo platform continues to provide efficient funding for the Group. The Group's core deposit offering is a range of fixed-term and other saving products. As at 30 September 2019, the Group's deposit base reached €2.4 billion (31 March 2019: €2.2 billion). The growth of the Group's deposit base also provides cross selling opportunities for investment and wealth management products.

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

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

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

The MDB Group remains committed to operating with strong regulatory ratios and a robust liquidity position.

The Group is also considered a core domestic bank by the Central Bank of Malta and will continue to ensure that appropriate capital levels are maintained reflecting the economic environment and the challenges that the Group is faced with. The Group is under the Single Supervisory Mechanism ("SSM") and the direct supervision of the European Central Bank ("ECB"). The Group is confident that it will continue to meet the high expectations of the ECB.

Financial Performance

The Group reported a profit before tax of €10.6 million for the six months ended 30 September 2019 compared with €8.1 million for the same period last year. The Group registered gains on disposal of €5.0 million and was positively impacted by the release of the Stage 1 and Stage 2 allowances for Expected Credit Losses ("ECL") as a result of the sale of the loan portfolio in August 2019 to the securitisation structure set-up by the Group. This was slightly reduced by the restructuring costs amounting to €3.1 million included within personnel expenses that were incurred throughout this financial period as a result of changes at a senior management level as described in Note 6.

During the six-months ended 30 September 2019, the Group registered net interest income of €31.5 million (Period ended 30 September 2018: €33.7 million). Total operating income amounted to €41.7 million (Period ended 30 September 2018: €37.6 million). Total operating expenses amounted to €30.2 million (Period ended 30 September 2018: €25.1 million).

As previously mentioned throughout this financial period the Group started diversifying its asset base. As a result of the sale of portfolio to the aforementioned securitisation structure set up by the Group, the traditional lending portfolio decreased to €1.4 billion, net of expected credit losses of €23.9 million (31 March 2019: €1.8 billion net of expected credit losses of €23.9 million). As at 30 September 2019 the Group also had a Dutch mortgages portfolio amounting to €0.4 million and holdings in securitisation structures, mainly having a rating of AAA, amounting to €288.6 million.

In addition, the Group had commitments of €404.7 million under revolving credit facilities as at 30 September 2019 (31 March 2019: €448.1 million), other undrawn corporate credit facilities of €89.6 million (31 March 2019: €61.3 million) and commitments in relation to Dutch mortgages amounting to €49.4 million. As at 30 September 2019, the Group also had commitments to purchase facilities on term loans amounting to €60.7 million (31 March 2019: €60.8 million) of which €11 million were subject to a back-to-back sale agreement with a third party.

As at 30 September 2019, the Group's investment portfolio, consisting of debt securities stood at €0.9 billion (31 March 2019: €0.7 billion).

Dividends and reserves

After adjusting the Reserve for General Banking Risks in accordance with the requirements of Banking Rule ("BR") 09 - Measures addressing credit risk arising from the assessment of the quality of asset portfolios of credit institutions authorised under the Maltese Banking Act (Cap. 371), the retained earnings of the Group amounted to €140.4 million (31 March 2019: €131.3 million).

By virtue of a shareholders' resolution dated 30 May 2018 and 28 June 2019, MDB Group Limited approved the payment of a dividend equivalent to €7.23 million and €10 million respectively.

Outlook and future business developments

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

Stability in the international capital markets results in a positive effect on the Group's wealth management and investment services businesses since greater investor confidence leads to increased customer interest in the investment products offered by the Group.

The Eurozone macroeconomic environment remains challenging, especially with the uncertainty surrounding the UK Brexit, and that any reversal of the positive trends previously described could have a negative effect on the Group's asset portfolios and businesses. Despite these ongoing challenges, the Group remains confident that its underlying strategy will continue to result in profitable growth. Furthermore, the Group will continue to explore further new opportunities in order to diversify the Group's asset classes and the relative revenue streams.

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

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

Related parties

There were no material changes in related party transactions from those detailed in the financial statements for the period ended 31 March 2019. During this period no further related party transactions materially affected the financial position or liquidity of the Group, other than the related party transactions disclosed in Note 6.

Events after the reporting date

Issue of 4% Subordinated Unsecured Bonds due 2024-2029

On 8 October 2019 MeDirect Malta announced the plan in relation to the issue and listing of €35 million 4% Subordinated Bonds denominated in Euro and Pound Sterling maturing on 5 November 2029 with a 5 November 2024 early redemption option held by MeDirect Malta. The proceeds were used:

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

Change of the accounting reference period

The Group changed its accounting reference period to 31 December 2019. Accordingly, the next Annual report and the related financial statements will cover a nine-month period from 1 April 2019 to 31 December 2019 with the comparative figures presented being the twelve-month period for the year ended 31 March 2019.

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

We confirm that to the best of our knowledge the condensed consolidated interim financial statements give a true and fair view of the financial position of the Group as at 30 September 2019, as well as of their 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 22 November 2019 and signed on its behalf by:

Michael Bussey
Chairman

Arnaud Denis
Chief Executive Officer

Condensed consolidated interim statement of financial position

	As at 30 September 2019 €000	As at 31 March 2019 €000
ASSETS		
Balances with central banks and cash	**424,715**	146,988
Derivative financial instruments	**1,245**	716
Loans and advances to financial institutions	**158,086**	118,721
Loans and advances to customers	**1,383,246**	1,842,555
Investments	**916,502**	690,581
Property and equipment	**13,328**	2,071
Intangible assets	**16,736**	6,324
Non-current assets classified as held for sale	**1,785**	1,785
Current tax assets	**2,240**	10,797
Deferred tax assets	**24,643**	24,586
Prepayments and accrued income	**18,605**	18,383
Other assets	**31,915**	24,883
Total assets	**2,993,046**	2,888,390

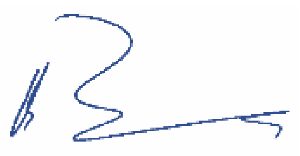
The notes on pages 10 to 26 are an integral part of these condensed consolidated interim financial statements.

Condensed consolidated interim statement of financial position - continued

	As at 30 September 2019 €000	As at 31 March 2019 €000
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	**3,081**	3,081
Other reserves	**59**	(404)
Retained earnings	**130,367**	131,290
Total equity	**339,301**	339,761
LIABILITIES		
Derivative financial instruments	**4,115**	11,327
Amounts owed to financial institutions	**142,360**	198,887
Amounts owed to customers	**2,362,114**	2,202,091
Subordinated liabilities	**66,997**	67,138
Current tax liabilities	**268**	158
Deferred tax liabilities	**492**	491
Provisions for liabilities and other charges	**2,249**	1,633
Accruals and deferred income	**41,626**	39,459
Other liabilities	**33,524**	27,445
Total liabilities	**2,653,745**	2,548,629
Total equity and liabilities	**2,993,046**	2,888,390
Memorandum items		
Commitments to purchase financial assets	**60,726**	60,843
Commitments to extend credit, guarantees and other commitments	**551,094**	523,991

The notes on pages 10 to 26 are an integral part of these condensed consolidated interim financial statements.

The condensed consolidated interim financial statements on pages 5 to 26 were approved and authorised for issue by the Board of Directors on 22 November 2019 and signed on its behalf by:



Michael Bussey
Chairman

Arnaud Denis
Chief Executive Officer

Condensed consolidated interim statement of comprehensive income

	Note	**Period from 1 April to 30 September 2019 €000**	Period from 1 April to 30 September 2018 €000
Interest income		**47,101**	47,929
Interest expense		**(15,579)**	(14,221)
Net interest income		**31,522**	33,708
Fee and commission income		**3,529**	3,222
Fee and commission expense		**(947)**	(784)
Net fee and commission income		**2,582**	2,438
Net trading income		**2,521**	1,582
Net income from other financial instruments at fair value through profit or loss		**11**	-
Other operating income			
- Realised gains on disposal of other investments		**4,757**	-
- Realised gains on disposal of loans and advances		**223**	26
- Other income		**67**	61
Total operating income		**41,683**	37,815
Personnel expenses	6	**(15,531)**	(9,836)
Depreciation and amortisation		**(2,665)**	(315)
Other administrative expenses		**(11,989)**	(14,980)
Total operating expenses		**(30,185)**	(25,131)
Net operating income before changes in expected credit losses		**11,498**	12,684
Change in expected credit losses and other credit impairment charges		**(944)**	(4,600)
Profit before tax		**10,554**	8,084
Taxation		**(1,426)**	3,975
Profit for the period		**9,128**	12,059
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		**5,546**	148
- Net gains reclassified to profit or loss upon derecognition, before tax		**(5,033)**	-
Income tax relating to other comprehensive income		**(101)**	(55)
Other comprehensive income, net of tax		**412**	93
Total comprehensive income, net of tax		**9,540**	12,152

The notes on pages 10 to 26 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 April 2018	55,738	13,756	136,300	1,694	(1,630)	116,651	322,509
Total comprehensive income							
Profit for the period	-	-	-	-	-	12,059	12,059
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	-	-	-	-	93	-	93
Total comprehensive income, net of tax	-	-	-	-	93	12,059	12,152
Transfer to Reserve for general banking risks	-	-	-	162	-	(162)	-
Transactions with owners							
Dividends paid	-	-	-	-	-	(7,230)	(7,230)
Balance at 30 September 2018	**55,738**	**13,756**	**136,300**	**1,856**	**(1,537)**	**121,318**	**327,431**

	Share capital €000	Share premium €000	Shareholders' contributions €000	Reserve for general banking risks €000	Other reserves €000	Retained earnings €000	Total €000
Balance at 1 April 2019	55,738	13,756	136,300	3,081	(404)	131,290	339,761
Total comprehensive income							
Profit for the period	-	-	-	-	-	9,128	9,128
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	-	-	-	-	4,075	-	4,075
Reclassification adjustments:							
- Net gains reclassified to profit or loss upon derecognition, net of tax	-	-	-	-	(3,663)	-	(3,663)
Total other comprehensive income, net of tax	-	-	-	-	412	-	412
Total comprehensive income, net of tax	-	-	-	-	412	9,128	9,540
Transfer to Legal reserve	-	-	-	-	51	(51)	-
Transactions with owners							
Dividends paid	-	-	-	-	-	(10,000)	(10,000)
Balance at 30 September 2019	**55,738**	**13,756**	**136,300**	**3,081**	**59**	**130,367**	**339,301**

The notes on pages 10 to 26 are an integral part of these condensed consolidated interim financial statements.

Condensed consolidated interim statement of cash flows

	Period from 1 April to 30 September 2019 €000	Period from 1 April to 30 September 2018 €000
Cash flows from operating activities		
Interest and commission receipts	**51,149**	60,983
Interest and commission payments	**(11,101)**	(12,908)
Payments to employees and suppliers	**(37,087)**	(19,952)
Operating profit before changes in operating assets/liabilities	**2,961**	28,123
(Increase)/decrease in operating assets:		
- Reserve deposit with central banks	**(277,648)**	(6,562)
- Loans and advances to financial institutions and customers	**469,726**	(201,654)
Increase/(decrease) in operating liabilities:		
- Amounts owed to financial institutions and customers	**100,035**	93,142
- Other payables	**(15,484)**	(6,584)
- Derivative financial instruments	**-**	(1,460)
Tax refunded	**7,448**	-
Tax paid	**(266)**	(768)
Net cash from/(used in) operating activities	**286,772**	(95,763)
Cash flows from investing activities		
Acquisitions of property and equipment and intangible assets	**(3,378)**	(2,371)
Acquisition of investments measured at amortised cost	**(289,196)**	-
Acquisition of investments measured at FVOCI	**(242,890)**	-
Disposals and maturities of investments measured at FVOCI	**305,815**	12,025
Net cash (used in)/from investing activities	**(229,649)**	9,654
Cash flows from financing activities		
Dividends paid	**(10,000)**	(7,230)
Net movement in balances with group companies	**3,434**	529
Net cash used in financing activities	**(6,566)**	(6,701)
Net increase/(decrease) in cash and cash equivalents	**50,557**	(92,810)
Cash and cash equivalents at the beginning of the period	**69,365**	149,445
Cash and cash equivalents at the end of the period	**119,922**	56,635

The notes on pages 10 to 26 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 September 2019 comprise MeDirect Bank (Malta) plc ("MeDirect Malta") with its principal subsidiary, MeDirect Bank S.A. ("MeDirect Belgium"), together referred to as the "Group".

The financial statements of the Group as at, and for the year ended, 31 March 2019 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 activities of the Group comprise lending to international corporates and the provision of banking services primarily to the mass affluent sector in Malta and Belgium, focusing primarily on saving products and wealth management, as well as local corporate banking in Malta. Throughout the financial period, the Group diversified its business lines from its historic core competencies through its new business lines being the Dutch mortgages and the relevant management of securitisation structures.

2. Basis of preparation

These condensed consolidated interim financial statements for the six months ended 30 September 2019 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 March 2019.

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 the Company's unaudited Group management accounts for the six months ended 30 September 2019, and have been reviewed in terms of ISRE 2410 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity'. The half-yearly results are being published in terms of Chapter 5 of the Listing Rules, issued by the Listing Authority, and the Prevention of Financial Markets Abuse Act, 2005.

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 March 2019, with the exception of the accounting policy in relation to leases.

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

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

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

The Group applied IFRS 16 on its mandatory adoption date of 1 April 2019 using a modified retrospective approach with no restatement of comparative information. Under this approach, the lease liability was measured at the present value of the remaining lease payments as at 1 April 2019, which management has estimated to amount to €21.7 million, and the right-of-use assets at that date were equivalent to this lease liability (with no adjustment to equity). In general, it is not expected that the discount rate implicit in the lease is available so the lessee's incremental borrowing rate is used. This is the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset in a similar economic environment with similar terms and conditions. The weighted average rate applied is 4.25%. As at 30 September 2019 the carrying amount of right-of-use assets in property and equipment was equivalent to €11.5 million and in intangible assets was equivalent to €8.3 million. The relative lease liability as at 30 September 2019 amounted to €18.8 million.

The contractual terms and conditions of the existing agreement with Medifin Leasing Limited, a related party of the Group, in respect of leases of IT infrastructure and software contemplate a one-year term for such arrangements and does not contemplate extension options. However, the Group has resolved that for financial reporting purposes it will give more weight to the envisaged substance rather than form of the agreement, which substance will unfold once the changes to the arrangements with Medifin Leasing planned for the latter part of the current financial year are implemented. Hence the lease term in respect of these arrangements, for IFRS 16 purposes, is being considered as the remaining useful life of the respective IT infrastructure and software rather than the existing contractual term, with the consequent recognition of ROU assets and lease liabilities without application of the short-term lease exemption.

In the Group's statement of cash flows, rental payments are allocated between interest payments and a reduction in the lease liability. The interest payments are presented under operating cash flows in accordance with the Group's existing policy for interest payments, the portion of the payments relating to reduction in the lease liability are presented under financing cash flows under IFRS 16.

There are no standards that are not yet effective and that would be expected to have a material impact on the Group in the current or future reporting periods and on foreseeable future transactions.

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 March 2019, as disclosed in those financial statements.

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. These revenues 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 March 2019. 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 March 2019. The investment portfolio is spread across a large number of exposures diversified in government, financial institutions and corporates.

6. Significant developments during the interim period

<u>Change in management</u>

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

The current period's performance was negatively impacted by the restructuring costs amounting to €3.1 million included within personnel expenses that were incurred throughout this financial period as a result of the above mentioned changes at a senior management level.

<u>New Dutch state-guaranteed mortgages business line</u>

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

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

Throughout the financial period the Group changed its intention in relation to a specific sub-portfolio of its international lending portfolio, classified as hold to collect. The reasons for this change in business model were driven by the Group's intention to set up a securitisation structure as part of a new strategy, through which part of the international lending portfolio with a total carrying amount of €296.9 million were sold by the Group to this structured entity and derecognised from the Group's statement of financial position, subsequent to which structured notes were issued by the structured entity to the Group and third party investors. A gain equivalent to €0.5 million was registered by the Group as a result of this transfer of loans to the structured entity.

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

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

7. 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.

8. Financial instruments

8.1 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 allowance for ECL, as well as the fair value of financial instruments measured at fair value though other comprehensive income ("FVOCI") and the associated allowance for ECL.

	As at 30 September 2019			As at 31 March 2019		
	Gross carrying/ nominal amount	Allowance for ECL	Net carrying amount	Gross carrying/ nominal amount	Allowance for ECL	Net carrying amount
	€000	€000	€000	€000	€000	€000
Balances with central banks	**424,713**	**(1)**	**424,712**	146,986	(1)	146,985
Loans and advances to financial institutions	**158,087**	**(1)**	**158,086**	118,440	(1)	118,439
Loans and advances to customers measured at amortised cost	**1,403,148**	**(23,924)**	**1,379,224**	1,866,408	(23,853)	1,842,555
Investments measured at amortised cost	**617,450**	**(82)**	**617,368**	425,074	(65)	425,009
Accrued income	**16,319**	**(274)**	**16,045**	16,862	(62)	16,800
Loans to related parties (included in other assets)	**14,066**	**-**	**14,066**	15,305	-	15,305
Other receivables (included in other assets)	**12,193**	**-**	**12,193**	6,105	-	6,105
Total gross amount on balance sheet	**2,645,976**	**(24,282)**	**2,621,694**	2,595,180	(23,982)	2,571,198
Commitments to purchase financial assets	**60,726**	**(94)**	**60,632**	60,843	(52)	60,791
Commitments to extend credit, guarantees and other commitments (excluding operating lease commitments)	**551,094**	**(2,155)**	**548,939**	517,936	(1,581)	516,355
Total nominal amount off-balance sheet	**611,820**	**(2,249)**	**609,571**	578,779	(1,633)	577,146
Total	**3,257,796**	**(26,531)**	**3,231,265**	3,173,959	(25,615)	3,148,344

	At 30 September 2019		At 31 March 2019	
	Fair value	Allowance for ECL	Fair value	Allowance for ECL
	€000	€000	€000	€000
Investments at fair value through other comprehensive income	**294,593**	**(25)**	265,572	(23)

The following table contains an analysis of the maximum credit risk exposure from financial assets not subject to impairment (i.e. financial instruments measured at fair value through profit or loss (“FVTPL”)).

	30 September 2019	31 March 2019
	€000	€000
Derivative financial instruments designated as hedging instruments	**1,245**	716
Loans and advances to customers at fair value through profit or loss	**4,022**	-
Investments measured at fair value through profit or loss	**4,541**	-
	9,808	**716**

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

	Gross carrying/nominal amount				Allowance for ECL				ECL coverage %			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Group	€000	€000	€000	€000	€000	€000	€000	€000				
As at 30 September 2019												
On balance sheet at amortised cost:												
Balances with central banks	424,713	-	-	**424,713**	(1)	-	-	**(1)**	-	-	-	**-**
Loans and advances to financial institutions	158,087	-	-	**158,087**	(1)	-	-	**(1)**	-	-	-	**-**
Loans and advances to customers												
- International lending portfolio	1,101,585	144,656	73,995	**1,320,236**	(8,360)	(2,136)	(11,609)	**(22,105)**	0.8%	1.5%	15.7%	**1.7%**
- Local lending portfolio	67,733	4,685	10,086	**82,504**	(827)	(57)	(933)	**(1,817)**	1.2%	1.2%	9.3%	**2.2%**
- Dutch mortgages portfolio	408	-	-	**408**	(2)	-	-	**(2)**	0.5%	-	-	**0.5%**
Investments measured at amortised cost	617,450	-	-	**617,450**	(82)	-	-	**(82)**	-	-	-	**-**
Accrued income	14,692	692	935	**16,319**	(64)	(19)	(191)	**(274)**	0.4%	2.7%	20.4%	**1.7%**
Loans to related parties (included in other assets)	14,066	-	-	**14,066**	-	-	-	**-**	-	-	-	**-**
Other receivables (included in other assets)	12,193	-	-	**12,193**	-	-	-	**-**	-	-	-	**-**
Off balance sheet at nominal amount:												
Commitments to purchase financial assets	60,726	-	-	**60,726**	(94)	-	-	**(94)**	0.2%	-	-	**0.2%**
Commitments to extend credit, financial guarantees and other commitments	497,175	42,710	11,209	**551,094**	(1,167)	(298)	(690)	**(2,155)**	0.2%	0.7%	6.2%	**0.4%**
	2,968,828	**192,743**	**96,225**	**3,257,796**	**(10,598)**	**(2,510)**	**(13,423)**	**(26,531)**	**0.4%**	**1.3%**	**13.9%**	**0.8%**

	Fair value				Allowance for ECL				ECL coverage %			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Group	€000	€000	€000	€000	€000	€000	€000	€000				
As at 30 September 2019												
On balance sheet at fair value:												
Investments measured at fair value through other comprehensive income	**294,593**	**-**	**-**	**294,593**	**(25)**	**-**	**-**	**(25)**	**-**	**-**	**-**	**-**

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

	Fair value				Allowance for ECL				ECL coverage %			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Group	€000	€000	€000	€000	€000	€000	€000	€000				
As at 31 March 2019												
On balance sheet at fair value:												
Investments measured at fair value through other comprehensive income	265,572	-	-	265,572	(23)	-	-	(23)	-	-	-	-

8.3 Reconciliation of changes in gross carrying/nominal amount and allowance for ECL

The following disclosure provides a reconciliation by stage of the Group's gross carrying/nominal amounts and allowance for ECL 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 portfolio in respect of gross carrying/nominal amounts and associated allowance for ECL. "New Business" reflects amounts determined as at 30 September 2019. "Repayments and disposals" reflects amounts determined as at 31 March 2019.

The line item "Transfers of financial instruments" represents the impact of stage transfers on gross carrying/nominal amounts and associated allowance for ECL determined as at 31 March 2019. The line item "Net re-measurement and movement due to exposure and risk parameter changes" represents the increase or decrease in allowance for ECL 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.

The line item "UK economic uncertainty adjustment" represents the impact of the overlay to allowance for ECL applied by management in respect of UK exposures within the international lending portfolio to reflect uncertainties induced by Brexit.

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

	Non-credit impaired				Credit-impaired		Total	
	Stage 1		Stage 2		Stage 3			
	Gross carrying/ nominal amount €000	Allowance for ECL €000	Gross carrying/ nominal amount €000	Allowance for ECL €000	Gross carrying/ nominal amount €000	Allowance for ECL €000	Gross carrying/ nominal amount €000	Allowance for ECL €000
International corporate lending								
At 1 April 2019	**2,062,990**	**(13,932)**	**154,739**	**(2,249)**	**79,514**	**(7,995)**	**2,297,243**	**(24,176)**
New business	**59,726**	**(1,037)**	**-**	**-**	**-**	**-**	**59,726**	**(1,037)**
Repayments and disposals	**(513,071)**	**2,394**	**(58,501)**	**353**	**-**	**-**	**(571,572)**	**2,747**
Transfers of financial instruments								
- Transfers from Stage 1 to Stage 2	**(95,481)**	**641**	**95,481**	**(641)**	**-**	**-**	**-**	**-**
- Transfers to Stage 3	**-**	**-**	**(5,709)**	**363**	**5,709**	**(363)**	**-**	**-**
Net remeasurement and movement due to exposure and risk parameter changes	**-**	**1,472**	**-**	**(137)**	**-**	**(4,132)**	**-**	**(2,797)**
UK economic uncertainty adjustment	**-**	**776**	**-**	**(141)**	**-**	**-**	**-**	**635**
At 30 September 2019	**1,514,164**	**(9,686)**	**186,010**	**(2,452)**	**85,223**	**(12,490)**	**1,785,397**	**(24,628)**
ECL charge for the period								**452**
Other								**35**
Change in expected credit losses and other credit impairment charges								**487**

	As at 30 September 2019		Period ended 30 September 2019
	Gross carrying/ nominal amount €000	Allowance for ECL €000	ECL (charge)/ release €000
Group			
As per preceding table	**1,785,397**	**(24,628)**	**(487)**
Balances at central banks	**424,713**	**(1)**	**-**
Loans and advances to financial institutions	**158,087**	**(1)**	**-**
Loans and advances to customers			
- Local lending portfolio	**82,504**	**(1,817)**	**(445)**
- Local lending portfolio recoveries	**-**	**-**	**9**
- Dutch mortgages portfolio	**408**	**(2)**	**(2)**
Investments measured at amortised cost	**617,450**	**(82)**	**(17)**
Summary of financial instruments to which the impairment requirements in IFRS 9 are applied through the profit or loss	**3,068,559**	**(26,531)**	**(942)**
Investments measured at fair value through other comprehensive income	**294,593**	**(25)**	**(2)**
Total allowance for ECL/total income statement ECL charge for the period	**3,363,152**	**(26,556)**	**(944)**

Movements in expected credit losses measured in respect of exposures within the Local Lending portfolio classified as Stage 1 and Stage 2 exposures comprise an increase in related allowances for ECL from €0.2 million to €0.9 million during the period. Such movement is primarily driven by new business during the period. Movements in allowances for ECL due to changes in portfolio size (net new lending and repayments) amount to €0.6 million. Movement driven by model and risk parameter changes, and transfers of exposures across stages are negligible, amounting to approximately €0.1 million. Allowances for ECL measured in respect of exposures within the Local Lending portfolio classified as Stage 3 exposures have decreased from €1.1 million to €0.9 million during the period. This decrease was principally driven by releases in allowances for ECL due to repayments and exposure reduction (decrease of €0.2 million).

The table also includes the allowances for ECL on the Dutch mortgages portfolio business that commenced in September 2019 and the allowances for ECL on the collateralised loan obligation (CLO) tranches that are included within "Investments measured at amortised cost" and "Investments measured at fair value through other comprehensive income".

As explained in note 6, MeDirect Malta acquired a 5% vertical slice in each of the Grand Harbour Clo 2019 -1 Designated Activity Company "GH1 2019" structured note tranches for risk retention purposes, for the amount of €20.3 million. With the exception of the equity tranche amounting to €1.6 million and measured at FVTPL, MeDirect Malta's investment in the remaining tranches amounting to €18.4 million is measured at amortised cost.

In turn, MeDirect Belgium acquired a 35% share of the tranche with the highest credit rating for an amount of €87 million, which investment is held in a 'hold to collect and sell' business model and measured at FVOCI.

In addition, MeDirect Malta also acquired portions in CLO transactions managed by third party entities corresponding to tranches with the highest credit rating in such CLO structures. These positions, amounting to €178 million in total, are held in a 'hold to collect' business model and measured at amortised cost.

All of the above are therefore subject to impairment considerations in line with IFRS 9 requirements.

Such allowances for ECL were not material as at 30 September 2019 and thus no further disclosures were deemed necessary.

The movement over the period in the gross carrying amount and associated expected credit losses for the investments was not considered significant taking cognisance of the absolute level of expected allowances for ECL.

8.4 Forward-looking information incorporated in the ECL model

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

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

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

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

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

Economic Scenarios MEVs: (5-year average Q4 2019 – Q4 2023)

Economic Scenarios MEVs (5yr average Sep19-Sep24)	Severe Upside	Upside	Baseline	Downside	Severe Downside
	"Exceptionally Strong Growth"	"Stronger Near-Term Growth"	"Consensus Scenario"	"Moderate to Deep Recession"	"Protracted Slump"
Real Gross Domestic Product - Annualised Growth %					
Austria	2.08%	1.80%	1.39%	0.53%	0.41%
Belgium	2.43%	1.86%	1.36%	0.80%	0.48%
Denmark	1.65%	1.51%	0.90%	0.08%	-0.54%
Finland	2.32%	1.83%	1.51%	0.46%	-0.60%
France	2.13%	1.81%	1.47%	0.77%	0.31%
Germany	2.21%	1.64%	1.13%	0.49%	-0.31%
Italy	1.42%	1.32%	1.07%	0.50%	-0.06%
Luxembourg	3.82%	3.43%	2.79%	1.88%	1.17%
Malta	4.82%	4.07%	3.13%	1.34%	0.10%
Netherlands	2.85%	2.46%	1.71%	0.83%	-0.06%
Spain	2.28%	1.90%	1.61%	0.28%	-0.24%
Sweden	2.37%	2.10%	1.78%	1.15%	0.67%
Switzerland	2.19%	1.81%	1.32%	0.81%	0.21%
United Kingdom	1.98%	1.68%	1.09%	0.37%	-0.16%
United States	3.45%	2.79%	2.19%	1.63%	1.06%
Euro Zone	2.29%	1.88%	1.42%	0.56%	-0.08%
Stock Market Index - Annualised Growth %					
Austria	6.79%	5.71%	5.21%	5.23%	2.97%
Belgium	3.77%	2.79%	2.44%	2.45%	0.13%
Denmark	3.38%	2.13%	1.57%	0.25%	-2.02%
Finland	1.43%	0.44%	0.27%	-0.83%	-2.06%
France	5.57%	4.81%	3.81%	1.36%	-1.79%
Germany	7.21%	5.45%	4.32%	3.18%	-1.43%
Italy	6.00%	4.84%	3.66%	2.37%	-2.60%
Luxembourg	5.93%	3.58%	1.12%	-2.99%	-9.01%
Malta	8.31%	7.04%	6.15%	5.27%	4.62%
Netherlands	7.97%	6.18%	5.08%	4.01%	-2.57%
Spain	3.49%	2.67%	2.45%	2.15%	1.08%
Sweden	0.98%	0.64%	0.48%	-0.61%	-1.34%
Switzerland	2.50%	1.88%	1.44%	1.40%	-1.74%
United Kingdom	5.02%	4.42%	3.25%	2.26%	0.38%
United States	6.40%	5.00%	3.35%	0.83%	-4.06%
Euro Zone	6.14%	4.87%	3.88%	2.49%	-1.41%
Unemployment Rate - Annualised Growth %					
Austria	-0.49%	-0.28%	0.56%	2.56%	3.94%
Belgium	-0.73%	1.23%	3.50%	7.70%	10.16%
Denmark	-0.68%	-0.56%	-0.26%	2.02%	3.97%
Finland	2.66%	3.39%	4.09%	6.36%	10.91%
France	-1.39%	-1.09%	-0.62%	1.24%	2.52%
Germany	2.72%	2.97%	3.52%	6.33%	9.17%
Italy	-0.14%	0.11%	0.43%	4.54%	7.42%
Luxembourg	0.37%	0.82%	1.55%	3.78%	5.39%
Malta	-6.48%	-3.80%	-2.45%	2.93%	6.22%
Netherlands	2.10%	3.98%	5.73%	10.85%	13.51%
Spain	-3.61%	-2.24%	-1.51%	0.63%	3.19%
Sweden	-1.02%	-1.17%	-1.26%	2.49%	6.49%
Switzerland	-3.45%	-2.76%	-1.46%	-0.66%	0.45%
United Kingdom	-1.98%	0.62%	4.71%	11.01%	14.51%
United States	0.09%	2.52%	4.21%	9.10%	13.77%
Euro Zone	-1.28%	-0.55%	0.28%	3.43%	6.00%

Management Overlay

Other forward-looking considerations not otherwise incorporated within the calculated ECL are considered by senior management. Senior management exercises judgement, reviews additional analysis, and recommends overlays as deemed necessary. Since implementation of IFRS 9 management has invoked this additional step due to the specific uncertainties facing the UK economy, resulting in the recognition of additional ECL, 'a management overlay' for Brexit uncertainty. The overlay to ECL has been applied to reflect the risks pertaining to the UK market given Brexit uncertainty.

Brexit is one of the most significant economic events impacting the UK economy and its effects are subject to unprecedented levels of uncertainty of outcomes, with the full range of possible effects unknown. A management overlay is in the ECL measurement for the Group to address the high degree of uncertainty in estimating the ECL for UK exposures.

The overlay applied to the 30 September 2019 and 31 March 2019 modelled ECL was a 1-notch rating downgrade to the Through the Cycle (TTC) implied ratings (and indirectly to the underlying PDs) for all UK obligors in the International Corporate Lending portfolio. This led to a management overlay for the Group at 30 September 2019 and 31 March 2019 of €1.4 million and €1.9 million respectively (a reduction in management overlay of €0.6 million).

8.5 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 takes 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.

8.5.1 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.

8.5.2 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 on the instrument;
- selecting an appropriate discount rate for the instrument; and
- judgement to determine what model to use to calculate fair value in areas where the choice of valuation model is particularly subjective.

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

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

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

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

Fair 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.

8.5.3 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.

	Level 1	Level 2	Level 3	Total
	€000	€000	€000	€000
As at 30 September 2019				
Assets				
Investments				
- mandatorily measured at fair value through profit or loss	-	2,986	1,555	4,541
- measured at fair value through other comprehensive income	206,986	-	87,607	294,593
Loans and advances to customers				
- mandatorily measured at fair value through profit or loss	-	4,022	-	4,022
Derivative financial instruments	-	1,245	-	1,245
Total financial assets	206,986	8,253	89,162	304,401
Liabilities				
Derivative financial instruments	-	4,115	-	4,115

	Level 1	Level 2	Level 3	Total
	€000	€000	€000	€000
As at 31 March 2019				
Assets				
Investments				
- measured at fair value through other comprehensive income	265,572	-	-	265,572
Derivative financial instruments	-	716	-	716
Total financial assets	265,572	716	-	266,288
Liabilities				
Derivative financial instruments	-	11,327	-	11,327

As at 30 September 2019 and at 31 March 2019 the investment portfolio measured at fair value though other comprehensive income and classified as Level 1 represents the closing bid price quoted in an active market.

Level 2 instruments 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.

As at 30 September 2019, Level 2 assets also include loans and advances to customers measured at fair value through profit or loss, with fair value disclosure being based on price quotations in respect of internationally traded loans and advances, and investments measured at fair value through profit or loss in respect of which a market price is observable on an active market even if not quoted on a stock exchange.

Level 3 assets consist of the investments in tranches in securitisation structures rated AAA, 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. These assets were recognised towards the end of the reporting period and no material changes in fair value of the assets up to 30 September 2019 have been registered since recognition.

8.5.4 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 Level 1 and Level 2 of the fair value hierarchy during the period from 1 April 2019 to 30 September 2019 and during the financial year ended 31 March 2019.

8.6 Financial instruments not measured at fair value

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

MDB Group	**Level 1**	**Level 2**	**Level 3**	**Total fair values**	**Total carrying amount**
	€000	**€000**	**€000**	**€000**	**€000**
As at 30 September 2019					
Assets					
Loans and advances to customers	**-**	**260,589**	**546,489**	**807,078**	**843,716**
Investments	**420,181**	**-**	**18,552**	**438,733**	**439,387**
Total financial assets	**420,181**	**260,589**	**565,041**	**1,245,811**	**1,283,103**
Liabilities					
Subordinated liabilities	**68,381**	**-**	**-**	**68,381**	**66,997**
As at 31 March 2019					
Assets					
Loans and advances to customers	-	805,014	451,645	1,256,659	1,305,771
Investments	423,187	-	-	423,187	425,009
Total financial assets	423,187	805,014	451,645	1,679,846	1,730,780
Liabilities					
Subordinated liabilities	68,595	-	-	68,595	67,138

The Level 1 fair values reflected in the preceding tables consist of quoted market prices of debt securities issued which are traded in active markets.

The Level 2 and Level 3 fair value disclosures mainly comprise price quotations in respect of internationally traded loans and advances, consisting of the Group's international loan book with foreign corporates. The Level 3 assets also include the Group's investments in tranches of securitisation structures mainly rated AAA, 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.

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

'Loans and advances to financial institutions' amounting to €158.0 million (31 March 2019: €118.4 million) which represent 100% of all loans and advances to financial institutions, re-price or mature in less than one year; hence their fair value is not deemed to differ significantly from their carrying amount at the reporting date.

Loans and advances to customers forming part of the international lending portfolio amounting to €454 million (31 March 2019: €451 million) and investments in tranches of securitisation structures amounting to €178 million, net of expected credit losses, have not been reflected within the preceding table given that there were no observable market prices or any public information available but similarly to the instruments included in the preceding table these instruments mainly re-price within three months and thus their fair valuation characteristics would not differ significantly from those of the instruments included in the preceding table.

Furthermore, Dutch mortgages amounting to €0.4 million (31 March 2019: nil) included in Loans and advances to customers were not included in the preceding table since the fair value is not deemed to differ significantly from their carrying amount at the reporting date given that these mortgages have been originated at the end of September.

The carrying amount for local loans and advances to customers amounting to €80.7 million (31 March 2019: €85.8 million) approximates their fair value because these loans are re-priceable at the Group's discretion.

Fair values reflected above are estimated using discounted cash flows, applying market rates. These estimates are considered Level 2 fair value estimates.

The majority of the 'Amounts owed to financial institutions' of the Group amounting to €142.4 million (31 March 2019: €198.9 million) and 'Amounts owed to customers' of the Group amounting to €2.1 billion (31 March 2019: €1.7 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 2 fair value estimates. The fair value of a demand deposit is not less than the amount payable on demand, discounted from the first date on which the amount payable is required to be paid.

9. Capital and reserves

Share capital

	30 September 2019 No.	31 March 2019 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 March 2019: €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 September 2019 €000	Share premium 31 March 2019 €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 by Medifin Finance Limited 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 September 2019, the reserve for general banking risks of the Group was equivalent to €3.1 million (31 March 2019: €3.1 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

According to Article 319 of the Company Code in Belgium, at least 5% of the retained earnings of MeDirect Belgium should be set aside as a statutory legal reserve until this reserve is equivalent to 10% of the capital of MeDirect Belgium. This statutory legal reserve was equivalent to €133 thousand as at 30 September 2019.

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, of which €0.2 million was contingent upon the achievement of certain predefined targets. The contingent consideration has been deemed to have materialised in 2018 and was paid in May 2018. 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.

10. Contingent liabilities and commitments

Guarantee obligations

As at 30 September 2019, the Group held cash secured guarantee obligations amounting to €7.3 million (31 March 2019: €8.5 million).

Non-cancellable operating lease commitments

As at 31 March 2019, the future minimum lease payments under non-cancellable operating lease agreements amounted to €6.1 million. As highlighted in Note 3 - Significant accounting policies, from 1 April 2019, the Group has adopted the requirements of IFRS 16 "Leases" and therefore the lease commitments are accounted as lease liability.

Commitments to lend

Commitments to lend represent undrawn formal standby facilities, credit facilities and other similar commitments to lend. As at 30 September 2019, undrawn facilities on term loans amounted to €89.6 million (31 March 2019: €61.3 million). In addition, the Group had commitments amounting to €404.7 million (31 March 2019: €448.1 million) under revolving credit facilities and commitments in relation to Dutch mortgages amounting to €49.4 million (31 March 2019: nil).

Commitments to purchase

As at 30 September 2019, the Group also had commitments to purchase facilities on term loans amounting to €60.7 million (31 March 2019: €60.8 million) of which €11 million were subjected to back-to-back sale agreements with third parties.

11. Related party transactions

There were no significant transactions with related parties during the six month period ended 30 September 2019 which would significantly alter the balances with related parties from those disclosed in the annual report for the year ended 31 March 2019, other than the related party transactions disclosed in Note 6.

12. Events after the reporting date

<u>Issue of 4% Subordinated Unsecured Bonds due 2024-2029</u>

On 8 October 2019 MeDirect Malta announced the plan in relation to the issue and listing of €35 million 4% Subordinated Bonds denominated in Euro and Pound Sterling maturing on 5 November 2029 with a 5 November 2024 early redemption option held by MeDirect Malta. The proceeds were used:

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

<u>Change of the accounting reference period</u>

The Group changed its accounting reference period to 31 December 2019. Accordingly, the next annual report and the related financial statements will cover a nine-month period from 1 April 2019 to 31 December 2019 with the comparative figures presented being the twelve-month period for the year ended 31 March 2019.

Independent auditor's review report

To the Board of Directors of MDB Group Limited

Report on the review of the condensed consolidated interim financial statements

Introduction
We have reviewed the accompanying condensed consolidated interim statement of financial position of MDB Group Limited ("the Company") as of 30 September 2019, the related condensed consolidated statement of comprehensive income, changes in equity and cash flows for the six-month period then ended and notes, comprising a summary of significant accounting policies and other explanatory notes ('interim financial information'). The directors are responsible for the preparation and fair presentation of this interim financial information in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU applicable to interim financial reporting (International Accounting Standard 34 'Interim Financial Reporting'). Our responsibility is to express a conclusion on this interim financial information based on our review.

Scope of review
We conducted our review in accordance with International Standard on Review Engagements 2410, 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity'. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

This report, including the conclusion, has been prepared for and only for the Company and for no other purpose. We do not, in producing this report, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Conclusion
Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim financial information is not prepared, in all material respects, in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU applicable to interim financial reporting (International Accounting Standard 34 'Interim Financial Reporting').

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F Axisa

Fabio Axisa
Partner

22 November 2019