MDB Group Limited

Pillar 3 disclosures report - Quarterly report
31 December 2018

Contents

1 Introduction

These Additional Regulatory Disclosures (the “Disclosures”) have been prepared in accordance with the requirements of Part Eight of the EU Regulation 575/2013 (Capital Requirements Regulation – “CRR”) and the Malta Financial Services Authority (“MFSA”) Banking Rule (“BR”) 07, “Publication of Annual Report and Audited Financial Statements of Credit Institutions Authorised under the Maltese Banking Act (Cap. 371)”.

Following an overall frequency assessment of all Pillar 3 disclosures, this quarterly Pillar 3 disclosures report provides principally an update to the risk weighted asset-related Pillar 3 disclosures which have a quarterly frequency assigned also in line with the recommendations provided by the European Banking Authority (“EBA”) in its “Final Report on the Guidelines on Disclosure Requirements under Part Eight of Regulation (EU) No 575/2013” (“EBA Guideline”, EBA/GL/2016/11, version 2*).

These disclosures are in respect of MDB Group Limited (the “Regulatory Parent” or “MDB Holding”), and its subsidiaries, together referred to as the “Group”, which is supervised on a fully consolidated basis by the European Central Bank (“ECB”). The subsidiaries forming part of the Group include MeDirect Bank (Malta) plc (“MeDirect Malta”), that is the parent company of MeDirect Bank SA (“MeDirect Belgium”). MeDirect Belgium carries out all of the Group’s activities in Belgium.

MDB Holding’s subsidiary, MeDirect Malta has been authorised to waive its requirement to comply with Part Eight of the CRR on an individual basis, in terms of Article 6 (3) of the CRR. On the other hand MeDirect Belgium is exempt from full disclosure requirements laid down in Part Eight of the CRR, however being a significant subsidiary of an EU parent institution, it is subject to limited disclosure requirements in terms of Article 13 of the CRR on an annual basis.

Consistent with the banking regulations, these disclosures are not subject to external audit. These disclosures have been appropriately verified internally by the Group’s management.

2 Own funds

2.1 Total available capital

The Group adopts the appropriate processes to ensure that the minimum regulatory requirements are met at all times, through the assessment of its capital resources and requirements given current financial projections. The Group has a strong track record of robust capital ratios and is confident that it will be positioned to maintain its overall capital strength.

For regulatory purposes, the Group's capital base is divided in two main categories, namely Common Equity Tier 1 ("CET1") capital and Tier 2 capital.

2.1.1 Common Equity Tier 1 capital – composition

Common Equity Tier 1 capital includes:

- ordinary share capital;
- share premium;
- shareholders' contribution;
- retained earnings;
- reserve for general banking risks;
- fair value reserve; and
- other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy purposes including deductions relating to reserve for depositor compensation scheme and the carrying amounts of investments in subsidiaries that are not included in the regulatory consolidation and certain other regulatory items.

2.1.2 Common Equity Tier 1 capital – terms and conditions

i. Ordinary share capital includes equity instruments which fall under the definition of Article 28(1) of the CRR, *Common Equity Tier 1 instruments*. The holders of 'A' ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of MDB Holding. 'B' ordinary shareholders are not entitled to vote or to receive any dividends distributed.

ii. Share premium reserve is made up of premium paid by shareholders in excess of the nominal value of the 'A' ordinary shares. This reserve can only be applied in the paying up of unissued shares to be issued to members of MDB Group as fully paid bonus shares.

iii. Shareholders' contributions ("Contributions") are amounts granted by the shareholders to MDB Group whereby MDB Group 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 has no obligation to repay the Contributions. These terms and conditions of such Contributions render this instrument equity in nature in accordance with the requirements of IAS 32: Financial Instruments – Presentation.

2 **Own funds** - continued

2.1 **Total available capital** - continued

iv. Retained earnings are the part of the distributable items as per the CRR Article (4)(1)(128) definition, which are amounts of the profits at the end of the last financial year plus any profits brought forward and reserves available for that purpose before distributions to holders of own funds instruments less any losses brought forward, profits which are non-distributable pursuant to provisions in legislation or the institution's bye-laws and sums placed to non-distributable reserves in accordance with applicable national law or the statutes of MDB Holding. The balance in this reserve is net of tax.

Subject to MDB Group’s dividend policy, the directors of MDB Group, in the annual general meeting, may from time to time recommend dividends to be paid from the retained earnings of MDB Holding. Such dividends may be in the form of capitalisation of retained earnings to ‘A’ ordinary shares.

v. Reserve for general banking risks – in accordance with BR 09, the Group has allocated from its retained earnings, to a non-distributable reserve, an amount equivalent to 2.5% of the regulatory allocation for positions on which a specific impairment provision has been attributed. Refer to Note 16 “Capital and reserves” to the MDB Group Limited financial statements for the financial period ended 30 September 2018.

vi. The fair value reserve includes the cumulative net change in the fair value of available-for-sale (“AFS”) investments, excluding impairment losses, until the investment is derecognised, net of deferred taxation. These relate to the AFS category of EU-endorsed IAS 39.

2.1.3 Tier 2 capital

Tier 2 capital consists of subordinated liabilities in issue, which rank after the claims of all depositors (including financial institutions) and all other creditors. As at 31 December 2018, subordinated liabilities included within Tier 2 capital comprised the following debt securities issued which are unsecured and in the event of the winding-up of the issuer, these are subordinated to the claims of depositors and all other creditors of the issuer:

- debt securities, bearing interest payable at 7.5%, repayable on 14 December 2019.
- debt securities, bearing interest payable at 6%, repayable on 28 November 2024, with a 28 November 2019 early redemption option held by the Group.
- debt securities, bearing interest payable at 5%, repayable on 13 October 2027, with a 13 October 2022 early redemption option held by the Group.

2.2 **Own funds – other disclosures**

The Group does not have items included in the ‘Total capital’ which have values differing from those reported within IFRS compliant Statement of Financial Position, with the exception of Subordinated liabilities included as part of Tier 2 capital, since these are amortised in line with Article 64 of the CRR.

Retained earnings form part of Own funds only if those profits have been verified by persons independent of the Group that are responsible for the auditing of the Group’s financial statements and the Group has demonstrated to the satisfaction of the competent authority that any foreseeable charge or dividend has been deducted from the amount of those profits.

2 Own funds - continued

2.2 Own funds – other disclosures - continued

2.2.1 Composition of Own Funds

MDB Group Limited is the primary provider of equity capital to its subsidiaries. These investments are substantially funded through the issuance of equity, shareholder's contribution and by profit retention. As part of its capital management process, MDB Group Limited seeks to maintain a balance between the composition of its capital and its investment in subsidiaries. In line with the requirement of Article 436 of the CRR in accordance with directive 2013/36/EU, there is no current or foreseen impediment to MDB Group Limited's ability to provide funding for such investments. The ability of subsidiaries to pay dividends or advance monies to MDB Group Limited depends on, among other things, their respective local regulatory capital and banking requirements, exchange controls, statutory reserves, and financial and operating performance.

In December 2013 the European Commission published regulation (EU) No 1423/2013 being the 'Implementing Technical Standards with regard to Disclosure for Own Funds Requirements for institutions according to Regulation (EU) 575/2013 (CRR)'. In order to increase transparency regarding the regulatory capital of European institutions the regulation provided a set of templates which will help to facilitate cross-jurisdictional comparisons.

The table below shows the composition of the own funds of the Group in accordance with the CRR.

At 31 December 2018	**€000**
Common Equity Tier 1 (CET1) capital	
Common Equity Tier 1 (CET1) capital: instruments and reserves	
Capital instruments and the related share premium accounts	69,495
Retained earnings	121,320
Accumulated other comprehensive income (and other reserves)	129,854
Funds for general banking risk	1,856
Common Equity Tier 1 (CET1) capital before regulatory adjustments	322,525
Common Equity Tier 1 (CET1) capital: regulatory adjustments	
Intangible assets (net of related tax liability)	(5,262)
Deferred tax assets that rely on future profitability	(12,270)
Other regulatory adjustments – IFRS 9 transitional arrangement	7,700
Total regulatory adjustments to Common Equity Tier 1 (CET1)	(9,832)
Common Equity Tier 1 (CET1) capital	**312,693**
Tier 1 capital	**312,693**
Tier 2 (T2) capital: instruments and provisions	
Capital instruments and the related share premium accounts (Subordinated loans)	48,868
Tier 2 capital	**48,868**
Total capital	**361,561**
Total risk weighted assets	**2,228,742**

2 Own funds - continued

2.2 Own funds – other disclosures - continued

2.2.1 Composition of Own Funds - continued

Capital ratios and buffers	**At 31 December 2018 %**
Common Equity Tier 1 ratio	14.03
Tier 1 ratio	14.03
Total capital ratio	16.22
Institution specific buffer requirement	7.05
of which: Capital conservation buffer requirement	1.88
of which: Countercyclical buffer requirement	0.30
of which: Other Systemically Important Institution (O-SII) buffer	0.38
Common Equity Tier 1 available to meet buffers in excess of the CRR 4.5% minimum requirement	9.53

Amounts below the thresholds for deduction (before risk weighting)	**€000**
Deferred tax assets arising from temporary differences (amount below 10% threshold, net of related tax liability where the conditions of Article 38(3) are met)	8,296

Note: CET1 capital, Tier 1 capital and Total capital disclosed in the table above includes the regulatory adjustment in relation to the transitional arrangements for the introduction of IFRS 9 on own funds. Refer to template IFRS 9-FL for a comparison of the Group's own funds and capital and leverage ratios with and without the application of transitional arrangements for IFRS 9.

As shown above, there were no other items requiring deduction that were not deducted from the own funds in accordance with Section 3, Chapter 2, Title I, Part Two of CRR. In particular, in terms of article 48 of CRR, the Group's deferred tax assets dependent on future profitability and arising from temporary differences did not exceed the 10% threshold and therefore were not required to be deducted from own funds. The Group does not have any systemic risk buffer as at 31 December 2018.

In line with Article 2 in the Commission Implementing Regulation (EU) No 1423/2013 and Part Eight Article 437 (1) of the CRR, the following is a full reconciliation of the Group's Own Funds items to the financial information as at 31 December 2018.

Capital Base	**At 31 December 2018 €000**
Shareholders' equity according to the Group's statement of financial position	333,958
Interim profits not eligible for inclusion as CET1 capital	(6,474)
Market value of assets pledged in favour of Depositor Compensation Scheme	(4,631)
Deferred tax assets that are dependent on future profitability and do not arise from temporary differences (transitional definition)	(12,270)
Intangible assets	(5,262)
Other adjustments:	
IFRS 9 transitional arrangements	7,700
Other adjustments	(328)
Common Equity Tier 1 capital / Tier 1 capital	**312,693**
Tier 2 instruments: subordinated loans	66,841
Amortisation of tier 2 instruments	(17,973)
Tier 2 capital	**48,868**
Total capital	**361,561**

2 Own funds - continued

2.2 Own funds – other disclosures - continued

2.2.1 Composition of Own Funds - continued

In line with Section 2 of the EBA "Guidelines on uniform disclosures under Article 473a of Regulation (EU) No 575/2013 as regards transitional arrangements for mitigating the impact of the introduction of IFRS 9 on own funds", the following table is a comparison of the institutions' own funds, Common Equity Tier 1 capital, Tier 1 capital, risk-weighted assets, Common Equity Tier 1 capital ratio, Tier 1 capital ratio, total capital ratio and leverage ratio with and without the application of transitional arrangements for IFRS 9 or analogous ECLs.

IFRS 9-FL: Comparison of institutions' own funds and capital and leverage ratios with and without the application of transitional arrangements for IFRS 9 or analogous ECLs

		31 December 2018	30 September 2018	30 June 2018
	Available capital (amounts in €000)			
1	Common Equity Tier 1 (CET1) capital	312,693	296,502	304,919
2	Common Equity Tier 1 (CET1) capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	304,993	290,660	299,441
3	Tier 1 capital	312,693	296,502	304,919
4	Tier 1 capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	304,993	290,660	299,441
5	Total capital	361,561	346,508	356,058
6	Total capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	353,861	340,066	350,580
	Risk-weighted assets (amounts in €000)			
7	Total risk-weighted assets	2,228,742	2,348,057	2,155,388
8	Total risk weighted assets as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	2,231,927	2,336,740	2,157,934
	Capital ratios			
9	Common Equity Tier 1 (as a percentage of risk exposure amount)	14.03%	12.63%	14.15%
10	Common Equity Tier 1 (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	13.67%	12.44%	13.88%
11	Tier 1 (as a percentage of risk exposure amount)	14.03%	12.63%	14.15%
12	Tier 1 (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	13.67%	12.44%	13.88%
13	Total capital (as a percentage of risk exposure amount)	16.22%	14.76%	16.52%
14	Total capital (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	15.85%	14.58%	16.25%
	Leverage ratio			
15	Leverage ratio total exposure measure (€000)	3,082,655	3,136,842	2,971,448
16	Leverage ratio	10.14%	9.45%	10.26%
17	Leverage ratio as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	9.91%	9.33%	10.08%

2 Own funds - continued

2.2 Own funds – other disclosures - continued

2.2.1 Composition of Own Funds - continued

As laid down in Regulation (EU) 2017/2395, the Group has opted to apply the transitional arrangements laid down in the same regulation to mitigate the impact of the introduction of IFRS 9 on own funds. Thus, during the transitional period ending 31 March 2023, the Group will be adding back a proportion of:

- the Day 1 impact as a result of the introduction of IFRS 9, being the difference between IFRS 9 expected credit losses ("ECLs") on 1 April 2018 and IAS 39 provisions determined at 31 March 2018; and
- on difference in the IFRS 9 ECLs determined at reporting date and the ECLs determined on 'day 1' of the introduction of IFRS 9 (being 1 April 2018 for the Group) for Stage 1 (12-months ECLs) and Stage 2 (lifetime ECLs) assets.

The factors used to adjust the above ECLs will decline across the transitional period, starting at 95% during the financial year ended 31 March 2019 to 25% in the final transitional financial year ended 31 March 2023. The above treatment is in accordance with the requirements laid down in paragraph 2 and paragraph 4 of Regulation (EU) 2017/2395.

As noted in template IFRS 9-FL, the impact of the transitional arrangement on the Group's capital ratio as at 31 December 2018 amounted to 35 bps at the reporting period under review. This was a result of an add-back in capital of €7.7 million and an increase of €0.3 million in risk-weighted assets. Similarly, the Group's leverage ratio is 'overstated' by 23 bps in view of the transitional arrangement applied.

2 **Own funds** - continued

2.2 **Own funds – other disclosures** - continued

2.2.1 Composition of Own Funds - continued

In line with Part Eight Article 437 of the CRR the following table discloses the main features and the terms and conditions of Tier 1 and Tier 2 instruments.

Capital instruments' main features

	Instruments	**MDB Group Limited Ordinary shares**	**MDB Group Limited Share premium**	**MeDirect Bank (Malta) plc 7.5% Subordinated Bonds EUR 2019**	**MeDirect Bank (Malta) plc 7.5% Subordinated Bonds GBP 2019**
1	Issuer	MDB Group Limited	MDB Group Limited	MeDirect Bank (Malta) plc	MeDirect Bank (Malta) plc
2	Unique identifier	N/A	N/A	MT0000551227	MT0000551235
3	Governing law(s) of the instrument	Maltese Law	Maltese Law	Maltese Law	Maltese Law
	Regulatory treatment				
4	Transitional CRR rules	Tier 1	Tier 1	Tier 2	Tier 2
5	Post-transitional CRR rules	Tier 1	Tier 1	Tier 2	Tier 2
6	Eligible at solo/(sub-) consolidated/solo & (sub-) consolidated	Solo & (Sub) Consolidated	Solo & (Sub) Consolidated	Solo & (Sub) Consolidated	Solo & (Sub) Consolidated
7	Instrument type	Tier 1 as published in Regulation (EU) No 575/2013 articles 26 and 28	Tier 1 as published in Regulation (EU) No 575/2013 articles 26 and 28	Tier 2 as published in Regulation (EU) No 575/2013 article 63	Tier 2 as published in Regulation (EU) No 575/2013 article 63
8	Amount recognised in regulatory capital	EUR55.7 million	EUR13.8 million	EUR3.6 million	EUR0.6 million
9	Nominal amount of instrument	EUR55.7 million	EUR13.8 million	EUR18.7 million	EUR4.1 million
9a	Issue price	EUR1 per share	EUR0.335 per share	EUR100 per EUR bond	GBP100 per GBP bond
9b	Redemption price	N/A	N/A	EUR100 per EUR bond	GBP100 per GBP bond
10	Accounting classification	Share capital	Share premium	Liability - amortised cost	Liability - amortised cost
11	Original date of issuance	10 June 2004	10 June 2004	21 November 2012 (Note 1)	21 November 2012 (Note 1)
12	Perpetual or dated	Perpetual	Perpetual	Dated	Dated
13	Original maturity date	N/A	N/A	14 December 2019	14 December 2019
14	Issuer call subject to prior supervisory approval	No	No	N/A (Note 2)	N/A (Note 2)
15	Optional call date, contingent call dates, and redemption amount	No	No	N/A (Note 2)	N/A (Note 2)
16	Subsequent call dates, if applicable	No	No	N/A (Note 2)	N/A (Note 2)
	Coupons/dividends				
17	Fixed or floating dividend/coupon	Floating	N/A	Fixed	Fixed
18	Coupon rate and any related index	N/A	N/A	7.5% per annum	7.5% per annum
19	Existence of a dividend stopper	No	No	No	No
20a	Fully discretionary, partially discretionary or mandatory - in terms of timing	Fully discretionary	N/A	Mandatory	Mandatory
20b	Fully discretionary, partially discretionary or mandatory - in terms of amount	Fully discretionary	N/A	Mandatory	Mandatory
21	Existence of step up or other incentive to redeem	N/A	N/A	No	No
22	Noncumulative or cumulative	Non-cumulative	Non-cumulative	Cumulative	Cumulative
23	Convertible or non-convertible	Non-convertible	Non-convertible	Non-convertible	Non-convertible
30	Write-down features	No	No	No	No
35	Position in subordination hierarchy in liquidation	Subordinated to MeDirect Bank Malta plc subordinated bonds	Subordinated to MeDirect Bank Malta plc subordinated bonds	Subordinated to senior creditors and depositors	Subordinated to senior creditors and depositors
	Non-compliant transitioned features	No	No	No	No

Note (1): The subordinated loan capital in Tier 2 capital represents the subordinated unsecured bonds and are included as part of Tier II Capital as they fully qualify for the provisions listed under CRR (575/2013) Part Two, Title 1, Chapter 4, Article 63. Specifically they rank after the claim of all other creditors and are not to be repaid until all other debts outstanding at the time have been settled. As at 31 December 2018 the subordinated bonds listed above had a remaining maturity of less than 5 years and had all been fully paid up.

Note (2): Redemption of the subordinated loan capital shall take place on 14 December 2019, provided that in the event that a Regulatory Change Event occurs, the Group shall at its sole discretion but subject to the prior approval of the MFSA, have the option to redeem the subordinated loan capital in full prior to the scheduled redemption date.

2 **Own funds** - continued

2.2 **Own funds – other disclosures** - continued

2.2.1 Composition of Own Funds - continued

Capital instruments' main features

	Instruments	**MeDirect Bank (Malta) plc 6% Subordinated Unsecured Bonds EUR 2019 - 2024**	**MeDirect Bank (Malta) plc 6% Subordinated Unsecured Bonds GBP 2019 – 2024**
1	Issuer	MeDirect Bank (Malta) plc	MeDirect Bank (Malta) plc
2	Unique identifier	MT0000551268	MT0000551276
3	Governing law(s) of the instrument	Maltese Law	Maltese Law
	Regulatory treatment		
4	Transitional CRR rules	Tier 2	Tier 2
5	Post-transitional CRR rules	Tier 2	Tier 2
6	Eligible at solo/(sub-)consolidated/solo & (sub-)consolidated	Solo & (Sub) Consolidated	Solo & (Sub) Consolidated
7	Instrument type	Tier 2 as published in Regulation (EU) No 575/2013 article 63	Tier 2 as published in Regulation (EU) No 575/2013 article 63
8	Amount recognised in regulatory capital	EUR23.0 million	EUR1.9 million
9	Nominal amount of instrument	EUR23.0 million	EUR1.9 million
9a	Issue price	EUR100 per EUR Bond	GBP100 per GBP Bond
9b	Redemption price	EUR100 per EUR Bond	GBP100 per GBP Bond
10	Accounting classification	Liability - amortised cost	Liability - amortised cost
11	Original date of issuance	28 November 2014 (Note 1)	28 November 2014 (Note 1)
12	Perpetual or dated	Dated	Dated
13	Original maturity date	28 November 2024	28 November 2024
14	Issuer call subject to prior supervisory approval	N/A (Note 2)	N/A (Note 2)
15	Optional call date, contingent call dates, and redemption amount	N/A (Note 2)	N/A (Note 2)
16	Subsequent call dates, if applicable	N/A (Note 2)	N/A (Note 2)
	Coupons / dividends		
17	Fixed or floating dividend/coupon	Fixed	Fixed
18	Coupon rate and any related index	6% per annum	6% per annum
19	Existence of a dividend stopper	No	No
20 a	Fully discretionary, partially discretionary or mandatory - in terms of timing	Mandatory	Mandatory
20 b	Fully discretionary, partially discretionary or mandatory - in terms of amount	Mandatory	Mandatory
21	Existence of step up or other incentive to redeem	No	No
22	Noncumulative or cumulative	Cumulative	Cumulative
23	Convertible or non-convertible	Non-convertible	Non-convertible
30	Write-down features	No	No
35	Position in subordination hierarchy in liquidation	Subordinated to senior creditors and depositors	Subordinated to senior creditors and depositors
	Non-compliant transitioned features	No	No

Note (1): The subordinated loan capital in Tier 2 capital represents the subordinated unsecured bonds of MDB Group Limited. They are included as part of Tier II Capital as they fully qualify for the provisions listed under CRR (575/2013) Part Two, Title 1, Chapter 4, Article 63. Specifically they rank after the claim of all other creditors and are not to be repaid until all other debts outstanding at the time have been settled. As at 31 December 2018 the subordinated bonds listed above had a remaining maturity of more than 5 years and had all been fully paid up. The full value of these securities are included in the Group's Own Funds figure.

Note (2): Redemption of the subordinated loan capital shall take place on 28 November 2024, provided that in the event that a Regulatory Change Event occurs, the Group shall at its sole discretion but subject to the prior approval of the MFSA, have the option to redeem the subordinated loan capital in full prior to the scheduled redemption date.

2 Own funds - continued

2.2 Own funds – other disclosures - continued

2.2.1 Composition of Own Funds - continued

Capital instruments' main features

	Instruments	**MeDirect Bank (Malta) plc 5% Subordinated Unsecured Bonds EUR 2027**	**MeDirect Bank (Malta) plc 5% Subordinated Unsecured Bonds GBP 2027**
1	Issuer	MeDirect Bank (Malta) plc	MeDirect Bank (Malta) plc
2	Unique identifier	MT0000551284	MT0000551292
3	Governing law(s) of the instrument	Maltese Law	Maltese Law
	Regulatory treatment		
4	Transitional CRR rules	Tier 2	Tier 2
5	Post-transitional CRR rules	Tier 2	Tier 2
6	Eligible at solo/(sub-)consolidated/solo & (sub-)consolidated	Solo & (Sub) Consolidated	Solo & (Sub) Consolidated
7	Instrument type	Tier 2 as published in Regulation (EU) No 575/2013 article 63	Tier 2 as published in Regulation (EU) No 575/2013 article 63
8	Amount recognised in regulatory capital	EUR18.7 million	EUR1.2 million
9	Nominal amount of instrument	EUR18.7 million	EUR1.2 million
9a	Issue price	EUR100 per EUR Bond	GBP100 per GBP Bond
9b	Redemption price	EUR100 per EUR Bond	GBP100 per GBP Bond
10	Accounting classification	Liability - amortised cost	Liability - amortised cost
11	Original date of issuance	27 October 2017 (Note 1)	27 October 2017 (Note 1)
12	Perpetual or dated	Dated	Dated
13	Original maturity date	13 October 2027	13 October 2027
14	Issuer call subject to prior supervisory approval	N/A (Note 2)	N/A (Note 2)
15	Optional call date, contingent call dates, and redemption amount	N/A (Note 2)	N/A (Note 2)
16	Subsequent call dates, if applicable	N/A (Note 2)	N/A (Note 2)
	Coupons / dividends		
17	Fixed or floating dividend/coupon	Fixed	Fixed
18	Coupon rate and any related index	5% per annum	5% per annum
19	Existence of a dividend stopper	No	No
20a	Fully discretionary, partially discretionary or mandatory - in terms of timing	Mandatory	Mandatory
20b	Fully discretionary, partially discretionary or mandatory - in terms of amount	Mandatory	Mandatory
21	Existence of step up or other incentive to redeem	No	No
22	Noncumulative or cumulative	Cumulative	Cumulative
23	Convertible or non-convertible	Non-convertible	Non-convertible
30	Write-down features	No	No
35	Position in subordination hierarchy in liquidation	Subordinated to senior creditors and depositors	Subordinated to senior creditors and depositors
	Non-compliant transitioned features	No	No

Note (1): The subordinated loan capital in Tier 2 capital represents the subordinated unsecured bonds of MDB Group Limited. They are included as part of Tier II Capital as they fully qualify for the provisions listed under CRR (575/2013) Part Two, Title 1, Chapter 4, Article 63. Specifically they rank after the claim of all other creditors and are not to be repaid until all other debts outstanding at the time have been settled. As at 31 December 2018 the subordinated bonds listed above had a remaining maturity of more than 5 years and had all been fully paid up. The full value of these securities are included in the Group's Own Funds figure.

Note (2): Redemption of the subordinated loan capital shall take place on 13 October 2027, provided that in the event that a Regulatory Change Event occurs, the Group shall at its sole discretion but subject to the prior approval of the MFSA, have the option to redeem the subordinated loan capital in full prior to the scheduled redemption date.

3 Capital requirements

Capital requirements represent the amount of capital resources that a bank must hold as required by the regulator. In line with CRR, the Group continuously monitors its Common Equity Tier 1 capital.

The scope of permissible CRR approaches and those adopted by the Group are described below.

- Credit risk – The Group calculates its risk weighted credit risk exposure in accordance with the Standardised Approach, described in Chapter 2 of Title II of Part Three of the CRR. To calculate the risk-weighted exposure amounts, risk weights are applied based on the exposure class and the related credit quality. Credit quality may be determined by reference to the credit assessments of ECAIs that have been determined as eligible by the EBA. In the Group's calculations, senior secured loans and other corporate credit exposures are assigned risk weights corresponding to unrated positions and for the remainder of its securities investment portfolio the Group has nominated well-known risk rating agencies such as Fitch, Standard and Poor's and Moody's. Accordingly, the Group complies with the standard association of the external ratings of ECAIs with the credit quality steps prescribed in CRR.

- Operational risk – The Group calculates its capital requirement using the Basic Indicator Approach, in terms of Article 315 of the CRR. The own funds requirement amounts to 15% of the average three years of the relevant indicator, as defined in Article 316 of the CRR. Elements within the relevant indicator include interest receivable and similar income, interest payable and similar charges, income from shares and other variable/fixed-yield securities, commissions and fees receivable/payable, net profit or net loss on financial operations and other operating income, adjusted for, amongst others stipulated in the CRR, profits on sale of non-trading book items and extraordinary or irregular items.

- Counterparty credit risk – The Group adopted the mark-to-market method in order to determine the potential future credit exposure, in line with Article 274 of the CRR, primarily on its derivative exposures.

- Foreign exchange risk – The Group has adopted the basic method to determine its foreign exchange risk requirement in accordance with Article 351 of the CRR. In terms of this Article, the Group does not calculate the capital requirement for foreign exchange risk as its net foreign exchange position is less than 2% of its own funds.

- Credit valuation adjustment risk – The Group uses the standardised approach, as per Article 384 of the CRR.

3 Capital requirements - continued

The following table provides an overview of the total RWA and the capital requirement for credit risk split by the different exposure classes as well as capital for operational risk, foreign exchange risk and credit valuation adjustment risk. No capital is allocated for market risk as the Group does not operate a trading book. The Group has no exposure in items representing securitisation positions. Moreover, the capital allocated to settlement risk and commodities risk is nought. The exposure value is equal to the total on-balance sheet and off-balance sheet net of value adjustments and provisions and post CCF.

	EU OV1 – Overview of RWAs	31 December 2018	30 September 2018	31 December 2018
	Exposure Class	**Risk weighted assets €000**	**Risk weighted assets €000**	**Minimum Capital Requirements €000**
1	**Credit risk (excluding CCR)**	**2,113,686**	**2,029,526**	**169,093**
2	of which the standardised approach	2,113,686	2,029,526	169,093
	Central governments or central banks	20,739	25,454	1,659
	Public sector entities	254	481	20
	Institutions	16,554	20,074	1,324
	Corporates	1,911,216	1,789,585	152,897
	Retail	3,366	3,011	269
	Secured by mortgages on immovable property	19,817	34,473	1,585
	Exposures in default	58,585	74,370	4,687
	Items associated with particular high risk	47,774	50,113	3,822
	Covered bonds	23,678	24,039	1,894
	Equity	2,723	-	218
	Other items	8,980	7,926	718
6	**CCR**	**4,293**	**2,514**	**343**
7	of which mark to market	2,942	1,759	235
12	of which CVA	1,351	755	108
23	**Operational risk**	**110,763**	**110,763**	**8,861**
24	of which the basic indicator approach	110,763	110,763	8,861
27	*Amounts below the thresholds for deduction (subject to 250% risk weight)*	*20,739*	*25,454*	*1,659*
29	**Total**	**2,228,742**	**2,142,803**	**178,297**

The Group's total capital ratio computation is as follows:

	€000
Own funds	
Common Equity Tier 1 capital / Tier 1 capital	312,693
Tier 2 capital	48,868
Total own funds	**361,561**
Total capital ratio	**16.22%**

4 Liquidity

In accordance with paragraph 16 of the EBA *'Guidelines on LCR disclosure to complement the disclosure of liquidity risk management under Article 435 of Regulation (EU) No 575/2013'*, the Group is required to disclose information on other items termed as 'prone to rapid changes, which guidelines identifies the following:

- total adjusted value of the Liquidity Buffer, as set out in row 21 of the LCR template in Annex II;
- total adjusted value of Total Net Cash Outflows, as set out in row 22 of the LCR template in Annex II;
- total adjusted value of the Liquidity Coverage Ratio (%), as set out in row 23 of the LCR template in Annex II.

These items have been disclosed in the table below.

€000		**Total weighted value (average)**			
Quarter ending on:		Jan – Mar 2018	Apr – June 2018	Jul – Sept 2018	Oct – Dec 2018
Number of data points used in the calculation of averages		12	12	12	12
21	Liquidity buffer	356,854	389,163	401,645	388,398
22	Total net cash outflows	52,517	57,744	76,264	79,932
23	Liquidity coverage ratio (%)	686%	694%	603%	551%

5 Asset encumbrance

The disclosure on asset encumbrance is a requirement introduced in BR 07 transposing the provisions of the EBA guidelines on disclosure of encumbered and unencumbered assets (EBA/GL/2014/03).

The objective of this disclosure is to facilitate an understanding of available and unrestricted assets that could be used to support potential future funding and collateral needs. An asset is defined as encumbered if it has been pledged as collateral against an existing liability, and as a result is no longer available to the group to secure funding, satisfy collateral needs or be sold to reduce the funding requirement.

The disclosure is not designed to identify assets which would be available to meet the claims of creditors or to predict assets that would be available to creditors in the event of a resolution or bankruptcy.

As stated in paragraph 24 of the EBA *'Guidelines on materiality, proprietary and confidentiality and on disclosure frequency under Articles 432(1), 432(2) and 433 of Regulation (EU) No 575/2013'*, "institutions should provide additional interim information to those listed in paragraph 23 when the result of their assessment for the need to provide disclosures in Part Eight of Regulation (EU) No 575/2013 more frequently than annually shows that this additional information is necessary to convey their comprehensive risk profile to market participants".

In this respect, the Group believes that an analysis of asset encumbrance is critical to assess the ability of the Group to handle funding stress, and its ability to switch from unsecured to secured funding under stressed conditions. Thus, the following disclosures on asset encumbrance below have been prepared as part of this Pillar 3 quarterly report.

5 Asset encumbrance - continued

Encumbered and unencumbered assets

		Carrying amount of encumbered assets 2018 €000	Fair value of encumbered assets 2018 €000	Carrying amount of unencumbered assets 2018 €000	Fair value of unencumbere d assets 2018 €000
010	Assets of the reporting institution[1]	203,594		2,374,827	
040	Debt securities	147,467	147,467	403,093	403,093
050	*of which: covered bonds*	*142,210*	*142,210*	*96,375*	*96,375*
060	*of which: issued by general governments*	*9,057*	*9,057*	*189,271*	*189,271*
080	*of which: issued by financial corporations*	*142,210*	*142,210*	*208,726*	*208,726*
120	Other assets	51,770		1,970,373	

The amounts disclosed in the above table represent the median values, being the rolling quarterly medians over the previous twelve months, determined by interpolation, in accordance with the Draft Regulatory Technical Standards on disclosure of encumbered and unencumbered assets under Article 443 of the CRR issued in March 2017.

The encumbered assets consist of investments used for repo funding and pledged securities. There are no encumbered assets held between entities of the Group and no over-collateralisation. Repoed transactions are covered by a Global Repurchase Master Agreement and involve the sale of financial assets with a simultaneous agreement to repurchase at a pre-determined price at a future date. The pledged securities transactions are pledged in favour of the ECB for the purposes of existing and potential long term re-financing operations and also in favour of the depositor compensation scheme.

The unencumbered assets disclosed in the preceding table under item 'Other assets' include Loans and advances, cash and short term funds, property, plant and equipment, tax assets and other assets.

The Group continues to recognise encumbered assets since all the risks and rewards of the assets will be substantially retained in a manner that does not result in the encumbered assets being derecognised for accounting purposes.

The Group does not encumber any of the collateral received or any of its own debt securities issued

At 31 December 2018	Matching liabilities, contingent liabilities or securities lent €000	Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered €000
010 Carrying amount of selected financial liabilities	139,971	190,679

[1] The terminology "reporting institution" is referring to MDB Group Limited.

6 Leverage

The CRR requires financial institutions to calculate a non-risk based leverage ratio, to supplement risk-based capital requirements. The leverage ratio measures the relationship between the capital resources of the organisation and its total assets. The leverage ratio is a regulatory supervisory tool for the Regulator, to constrain the build-up of excessive leverage – one of the drivers of the banking crisis – previously not captured within Basel II.

The leverage ratio is calculated by taking capital as a proportion of total exposures at the end of each quarter. Capital is defined as Tier 1 capital in line with Article 25 of the CRR, whilst total exposure relates to the total on and off-balance sheet exposures, less deductions applied to Tier 1 capital.

The initial implementation of the current leverage ratio regime is to be effected as a Pillar II measure. In 2016, the European Banking Authority published its report on the impact assessment and calibration of the leverage ratio, recommending the introduction of a leverage ratio minimum requirement in the EU to mitigate the risk of excessive leverage. The analysis suggests that the potential impact of introducing a Pillar I leverage ratio requirement of 3% on the provision of financing by credit institutions would be relatively moderate, while, overall, it should lead to more stable credit institutions. It is expected that the leverage ratio should be introduced as a binding measure as of 2018. The current proposed CRD V package will introduce a binding 3% leverage ratio and in fact the EBA is assessing the impact of the leverage ratio as a binding measure at 3%.

The following table provides a summary of the Group’s leverage ratio calculation as at 30 September 2018, determined in accordance with the requirements stipulated by Implementing Regulation (EU) 2016/200.

LRCom: Leverage ratio common disclosure

	As at 31 December 2018	**€000**
	On-balance sheet exposures (excluding derivatives and SFTs)	
1	On-balance sheet items (excluding derivatives and SFTs)	2,600,064
2	Asset amounts deducted in determining Tier 1 capital	(9,832)
3	**Total on-balance sheet exposures (excluding derivatives and SFTs)**	**2,590,232**
	Derivative exposures	
4	Replacement cost associated with all derivatives transactions	4,338
5	Add-on amounts for PFE associated with all derivatives transactions	4,030
11	**Total derivative exposures**	**8,368**
	Other off-balance sheet exposures	
17	Off-balance sheet exposures at gross notional amount	598,831
18	Adjustments for conversion to credit equivalent amounts	(114,776)
19	**Other off-balance sheet exposures**	**484,055**
	Capital and total exposure measure	
20	**Tier 1 capital**	**312,693**
21	**Leverage ratio total exposure measure (sum of lines 3,11 and 19)**	**3,082,655**
	Leverage ratio	
22	**Leverage ratio**	**10.14%**

The disclosed leverage ratio was calculated using the transitional definition (i.e. including IFRS 9 adjustments to Tier 1 capital and risk-weighted assets) and represents the end-of-quarter leverage ratio.

6 Leverage - continued

The following table provides a reconciliation of accounting assets and leverage ratio exposures as at 31 December 2018.

LRSum: Summary reconciliation of accounting assets and leverage ratio exposures

	As at 31 December 2018	**€000**
1	Total assets as per published financial statements	2,598,885
4	Adjustments for derivative instruments	4,030
6	Adjustment for off-balance sheet items	484,055
7	Other adjustments:	
	Deduction on deferred tax assets	*(12,270)*
	Deduction for intangible assets	*(5,262)*
	Other adjustments	*13,216*
8	**Leverage ratio exposure**	**3,082,654**

The following table provides a split-up of the on-balance sheet exposures as at 31 December 2018 in relation to the calculation of the leverage ratio.

LRSpl: Split-up of on balance sheet exposures (excluding derivatives, SFTs and exempted exposures)

As at 31 Decembers 2018		**€000**
EU-1	**Total on-balance sheet exposures (excluding derivatives, SFTs and exempted exposures)**	**2,590,232**
EU-2	Trading book exposures	-
EU-3	Banking book exposures, of which:	2,590,232
EU-4	*Covered bonds*	*236,776*
EU-5	*Exposures treated as sovereign*	*459,893*
EU-7	*Institutions*	*86,432*
EU-8	*Secured by mortgages of immovable properties*	*24,677*
EU-9	*Retail exposures*	*4,488*
EU-10	*Corporate*	*1,680,003*
EU-11	*Exposures in default*	*46,566*
EU-12	*Other exposures*	*51,397*

LRQua: Leverage ratio disclosure of qualitative items

The leverage multiple has increased by just under 70 bps from 30 September 2018. This increase is mainly attributable to the increase in the Group’s Tier 1 capital, following the inclusion in capital of profits for the first six months of the financial period ended 30 September 2018, which has been approved by the regulatory authority.

The Group’s leverage is managed as part of its risk appetite framework and monitored using a leverage ratio metric within the risk appetite statement set by the Group. The risk appetite statement stipulates the level and types of risk that the Group is willing to accept in its business activities. The leverage ratio is reported to the Group’s Board and ExCo on a monthly basis.

7 Disclosure references

The "Guidelines on disclosure requirements under Part Eight of Regulation (EU) No 575/2013 – EBA/GL/2016/11" state that institutions required to comply with the obligations specified in Part Eight of the CRR and identified as G-SIIs or as O-SIIs or within the scope of application of the EBA Guidelines 2016/11 should pay particular attention to the possible need to provide more frequently than annually:

High-level reference	Compliance reference
a) Information on own funds as referred to in paragraph 25(a), with a quarterly frequency; being: information on own funds and relevant ratios as required by Article 437 and Article 492, as applicable, of the CRR, especially the following information (as defined in the appropriate rows of Annexes IV and V of the Commission Implementing Regulation (EU) No 1423/2013 of 20 December 2013): i. Total amount of Common Equity Tier 1 capital, as in rows 6 and 29; ii. Total amount of Additional Tier 1, as in rows 36 and 44; iii. Total amount of Tier 1 capital, as in row 45; iv. Total amount of Tier 2 capital, as in rows 51 and 58; v. Total amount of capital, as in row 59; vi. Total regulatory adjustments to each capital aggregate, as in rows 28, 43 and 57; vii. Common Equity Tier 1 ratio, as in row 61; viii. Tier 1 ratio, as in row 62; ix. Total capital ratio, as in row 63.	Refer to Section 2 - Own funds
b) Information on leverage ratio as referred to in paragraph 25(c), with a quarterly frequency; being: Information on the leverage ratio as required by Article 451 of the CRR, especially the following information (as defined in the appropriate rows of Annex I of the Commission Implementing Regulation (EU) No 2016/200): i. Amount of Tier 1 capital used as a numerator as in row 20, with the specification required in row EU-23; ii. Amount of total exposure used as a denominator as in row 21; iii. Resulting leverage ratio as in rows 22.	Refer to Section 6 - Leverage
c) The full set of information required by the Commission Implementing Regulation (EU) No 1423/2013 and the Commission Implementing Regulation (EU) No 2016/200, on a semi-annual basis;	Not applicable – reportable on a semi-annual basis
d) Other information listed in the guidance in the EBA Guidelines 2016/11, with the applicable frequency, and particularly: i. Information in Article 438 points (c) to (f), as specified in templates EU OV1, EU CR8, EU CCR7, and EU MR2-B; ii. Information on risk exposures, as specified in templates EU CR5, EU CR6 and EU MR2-A.	Only EU OV1 and EU CR 5 are applicable to the Group. • EU OV1 - Refer to Section 3 - Capital requirements • EU CR 5 – Not applicable – reportable on a semi-annual basis
e) Information on other items prone to rapid changes.	Refer to Section 4 – Liquidity
Other relevant disclosures	Refer to Section 5 – Asset encumbrance