MDB Group Limited

Pillar 3 disclosures report – Half-yearly report
30 June 2020

Contents

1 Introduction

These Pillar 3 disclosures (the “Disclosures”) are in respect of MDB Group Limited (the “Regulatory Parent” or “MDB Holding”), and its subsidiaries, together referred to as the “Group” or “MDB Group”. The Group is regulated under the Single Supervisory Mechanism (“SSM”). The SSM is the system of banking supervision in Europe, the main aim of which is to ensure the safety and soundness of the European banking system and to increase financial integration, stability and consistency of supervision. Under the SSM, the Group is regulated by a Joint Supervisory Team comprising the European Central Bank (“ECB”), the National Bank of Belgium and the Malta Financial Services Authority (“MFSA”). The Group is classified as an “Other Systemically Important Institution”, and MeDirect Malta is considered a core domestic bank by the Central Bank of Malta.

The JST receives information on the capital adequacy requirements and sets capital requirements for the Group. At a consolidated Group level, capital is calculated for prudential regulatory reporting purposes using the Basel III framework of the Basel Committee on Banking Supervision (‘Basel’), as implemented by the European Union (‘EU’) in the revisions to the Capital Requirements Regulation.

The Basel III framework is structured around three ‘pillars’: the Pillar 1 minimum capital requirements, Pillar 2 in relation to supervisory review process, and Pillar 3, market discipline. The aim of Pillar 3 is to produce disclosures that allow market participants to assess the scope of banks’ application of the Basel Committee’s framework. It also aims to assess their application of the rules in their jurisdiction, their capital condition, risk exposures and risk management processes, and hence their capital adequacy.

These Disclosures have been prepared in accordance with the requirements of Part Eight of the EU Regulation 575/2013 (Capital Requirements Regulation – “CRR”). Following an overall frequency assessment of all Pillar 3 disclosures, this semi-annual Pillar 3 disclosures report provides principally an update to the risk weighted asset-related Pillar 3 disclosures which have a quarterly/semi-annual 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** which requires banks to take particular attention to the possible need for disclosing some information more frequent than annually.

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 however the disclosures have been prepared on a basis consistent with information submitted to the regulator. These disclosures have been appropriately verified internally by the Group’s management, thus the Group is satisfied that internal verification procedures ensure that these Disclosures are presented fairly.

2 Credit Risk and Credit Risk Mitigation (“CRM”)

Both the treasury management policy and the corporate credit framework include a list of permitted asset classes, countries and currencies, whilst a high degree of diversification is implemented through single issuer, industry and geography concentration limits.

The global COVID-19 crisis implied that the Group had to quickly identify and respond to new risks as with a changing risk landscape comes the need for new risk assessments and a subsequent adjustment of controls to contain such new or heightened risks. Risks are constantly changing and evolving, as is our risk management framework, given that the more tailored and risk-based the Group’s approach, the swifter the Group will be able to adapt to the current changing environment.

The Group will continue to monitor the situation closely. The risk response to COVID-19 included reviewing the key objectives and priorities in the light of current information, balancing ‘business as usual’ against new demands and changing priorities, ensuring that the Group undertakes risk assessments in respect to the impact of COVID-19 on its key objectives and the preparation and implementation of response plans, stress testing various scenarios and being alert to other risks materialising.

The Group is participating in several COVID-19 relief programmes to support its customers. Group entities have supported affected customers with interest and capital moratoria, temporary overdraft facilities and changes in funding terms, amongst other measures, all in line with directives issued by the Central Bank of Malta or other regulatory authorities. Such assistance is being provided based on appropriate risk assessment. MeDirect Malta also actively participated in an open dialogue with the Malta Development Bank, which manages the financial packages scheme for the Ministry of Finance. MeDirect Malta became an accredited financial intermediary under the Malta Development Bank’s COVID-19 Guarantee Scheme (“CGS”) and launched its MeAssist product in early May 2020 in order to enhance access to bank financing for the working capital requirements of customers in Malta.

2.1 Credit quality analysis

The following tables provide a comprehensive picture of the credit quality of the Group's assets by exposure class as at 30 June 2020 in line with EBA guidelines on disclosures, by exposure class, industry and geography.

EU CR1-A: Credit quality of exposures by exposure class and instrument

	Gross carrying values[1] of				
	Defaulted exposures €000	**Non-defaulted exposures €000**	**Specific credit risk adjustments €000**	**Credit risk adjustment charges of the period €000**	**Net values[2] €000**
15 **Total IRB approach**	**-**	**-**	**-**	**-**	**-**
16 Central governments or central banks	-	304,028	-	(30)	304,028
17 Regional governments or local authorities	-	147,049	11	(9)	147,038
18 Pubic sector entities	-	106,779	11	1	106,768
19 Multilateral development banks	-	54,514	9	6	54,505
20 International organisations	-	25,982	-	(2)	25,982
21 Institution	-	261,023	-	-	261,023
22 Corporates	-	1,326,065	18,126	13,466	1,307,939
23 of which SMEs	-	-	-	-	-
24 Retail	-	110,856	1	(7)	110,855
25 of which SMEs	-	-	-	-	-
26 Secured by mortgages on immovable property	-	761,353	357	270	760,996
27 of which SMEs	-	-	-	-	-
28 Exposures in default	226,730	-	60,155	46,966	166,575
29 Items associated with particular high risk	-	63,554	227	164	63,327
30 Covered bonds	-	559,263	13	-	559,250
34 Other exposures	-	59,768	-	-	59,768
35 **Total standardised approach**	**226,730**	**3,780,234**	**78,910**	**60,825**	**3,928,054**
36 **Total**	**226,730**	**3,780,234**	**78,910**	**60,825**	**3,928,054**
37 of which: Loans and advances	202,073	1,747,760	75,729	58,758	1,874,104
38 of which: Debt securities	-	1,257,661	338	165	1,257,323
39 of which: Off-balance-sheet exposures	24,696	299,909	2,841	1,901	321,763

Note: Securitisation positions are not included in this table.

[1] ***Gross carrying values**: This represents the accounting value before any allowance/impairments but after considering write-offs and inclusive of any transitional adjusments relating to IFRS 9. Moreover, this amount does not take into account any credit risk mitigation technique in the application of Part Three, Title II, Chapter 4 of the CRR. Off-balance-sheet items are disclosed for their nominal amount gross of any credit conversion factor applicable in accordance with Article 111 and 166 of the CRR or credit risk mitigation techniques, and gross of any provision. Moreover, any accrued interest emanating from the exposure is included as part of the gross carrying value.*

[2] ***Net values** is the summation of the gross carrying values of defaulted and non-defaulted exposures, less any specific credit risk adjustments and net of any accumulated write offs.*

The following table provides an overview of forborne exposures as at 30 June 2020 as per the EBA Guidelines on disclosure of non-performing and forborne exposures.

EBA-NPL 1: Credit quality of forborne exposures

		Gross carrying amount/nominal amount of exposures with forbearance measures				**Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions**		**Collateral received and financial guarantees received on forborne exposures**	
		Performing forborne	Non-performing forborne						
				Of which defaulted	Of which impaired	On performing forborne exposures	On non-performing forborne exposures		Of which collateral and financial guarantees received or non-performing exposures with forbearance measures
		€000	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**
1	**Loans and advances**	**107,435**	**186,302**	**186,302**	**183,759**	**(2,800)**	**(52,462)**	**13,846**	**9,495**
5	*Other financial corporations*	*45,912*	*144,191*	*144,191*	*144,191*	*(1,899)*	*(41,652)*	*-*	*-*
6	*Non-financial corporations*	*61,523*	*41,835*	*41,835*	*39,292*	*(901)*	*(10,810)*	*13,570*	*9,219*
7	*Households*	*-*	*276*	*276*	*276*	*-*	*-*	*276*	*276*
9	**Loan commitments given**	**1,590**	**12,857**	**12,857**	**12,857**	**-**	**-**	**-**	
10	**Total**	**109,025**	**199,159**	**199,159**	**196,616**	**(2,800)**	**(52,462)**	**13,846**	**9,495**

2.2 Impairment loss measurement guidelines

The scope of the impairment loss measurement guidelines are to establish effective provisioning standards, internal controls, reporting requirements and approval processes that will govern the on-going monitoring of credit risk exposures inherent in the investment securities and loan and advances portfolios.

An exposure is “past due” when any amount of principal, interest or fee has not been paid at the date it was due. Past due but not impaired loans are those loans and advances for which contractual interest or principal payments are past due but the Group believes that impairment is not appropriate on the basis of the stage of collection of amounts owed to the Group.

In accordance with the policy, impaired investment securities and loans are either those that are more than 90 days past due, or those for which the Group establishes that it is unlikely that it will collect the full principal and/or interest due in accordance with the contractual terms of the underlying agreement(s).

However, as outlined previously where contractual interest or principal payments are past due, but the Group believes that impairment is not appropriate on the basis of the stage of collection of amounts owed to the Group, such facilities are considered as past due but not impaired loans. Related credit losses, which may arise, are partly covered by Stage 1 and Stage 2 credit loss allowances.

The uncertainty in the macroeconomic environment has increased substantially since the COVID-19 outbreak. The Group’s provisioning approach is forward looking with a view of capturing current and future difficulties of borrowers. The Group carried out an intensive and comprehensive review of the resilience of its international corporate lending portfolio under various economic scenarios, taking into consideration both direct and indirect risks.

This review evaluated the portfolio to identify problematic exposures, and impairments were booked to cover all expected future losses. This assessment was conducted based on a thorough review of all borrowers on a name-by-name basis, often involving direct communication with the senior management of individual borrowers and, where applicable, the examination of detailed reviews performed by independent experts. This review was undertaken conservatively with the aim of identifying and providing for all currently expected credit losses.

The Group will continue to monitor the evolution of COVID-19 and its impact on the macroeconomic environment and the Group’s borrowers.

The following table provides an aging analysis of performing and non-performing exposures as at 30 June 2020, as per the EBA Guidelines on disclosure of non-performing and forborne exposures. The gross carrying values indicated is before impairments and provisions but after the write-offs reported in the interim financial statements for the financial period ended 30 June 2020.

EBA-NPL 3: Credit quality of performing and non-performing exposures by past due days

		Gross carrying amount/nominal amount		
			Performing exposures	
		€000	Not past due or past due ≤ 30 days €000	Past due > 30 days ≤ 90 days €000
1	**Loans and advances**	**2,322,314**	**2,321,680**	**634**
2	*Central banks*	256,189	256,189	-
4	*Credit institutions*	207,312	207,312	-
5	*Other financial corporations*	706,829	706,829	-
6	*Non-financial corporations*	558,066	558,066	-
7	*Of which SMEs*	*61,470*	*61,470*	-
8	*Households*	593,918	593,284	634
9	**Debt securities**	**1,257,565**	**1,257,565**	**-**
11	*General governments*	234,561	234,561	-
12	*Credit institutions*	706,122	706,122	-
13	*Other financial corporations*	293,980	293,980	-
14	*Non-financial corporations*	22,902	22,902	-
15	**Off balance sheet exposures**	**508,620**		
18	*Credit Institutions*	20,299		
19	*Other financial corporations*	153,697		
20	*Non-financial corporations*	110,535		
21	*Households*	224,089		
22	**Total**	**4,088,499**	**3,579,245**	**634**

		Gross carrying amount/nominal amount								
		Non-performing exposures								
		€000	Unlikely to pay that are not past due or past due ≤ 90 days €000	Past due > 90 days ≤ 180 days €000	Past due > 180 days ≤ 1 year €000	Past due > 1 year ≤ 2 years €000	Past due > 2 years ≤ 5 years €000	Past due > 5 years ≤ 7 years €000	Past due > 7 years €000	Of which defaulted €000
1	**Loans and advances**	**202,647**	**195,616**	**245**	**-**	**10**	**156**	**6,619**	**-**	**202,647**
5	*Other financial corporations*	160,414	160,414	-	-	-	-	-	-	160,414
6	*Non-financial corporations*	41,904	35,153	2	-	6	123	6,619	-	41,904
7	*Of which SMEs*	*9,296*	*2,546*	*2*	-	*6*	*123*	*6,619*	-	*9,296*
8	*Households*	329	49	243	-	4	33	-	-	329
9	**Debt securities**	-	-	-	-	-	-	-	-	-
15	**Off balance sheet exposures**	**24,695**								**24,657**
19	*Other financial corporations*	24,657								24,657
21	*Households*	38								-
22	**Total**	**227,342**	**195,616**	**245**	**-**	**10**	**156**	**6,619**	**-**	**227,304**

The amounts in the table above represent the gross carrying amount of the non-performing exposures. As a result of the COVID-19 pandemic, assessments of lending portfolios were made on an ongoing basis throughout the second quarter of 2020, and impairments were revisited in light of the changed outlook. The review resulted in the recognition of impairment provisions of €55.7 million in the 6 months ending 30 June 2020. Provisions for expected credit losses increased predominantly as a result of management estimates of the COVID-19 impact on its borrowers.

Based on the Group's detailed name by name portfolio analysis, provisions were taken on all borrowers whom have defaulted, as well as all non-defaulted borrowers that showed potential future characteristics of unlikeliness to pay. The Group also amended Stage 1 and Stage 2 provisions to reflect rating migrations and updates to the macroeconomic outlook. As a result of its forward looking approach to impairments, the Group believes that it has accounted for all currently expected credit losses in the first half of 2020.

The whole of €7.03 million, which is past due more than 90 days as shown in EBA-NPL 3 above, is considered as credit impaired. As stated earlier, those exposures classified as past due but not impaired would be treated as such as although contractual interest or principal payments is past due, the Group believes that impairment is not appropriate on the basis of the stage of collection of amounts owed to the Group. However, related credit losses, which may arise, would be partly covered by Stage 1 and Stage 2 credit loss allowances. As of 30 June 2020, all of the exposures past due more than 90 days are covered by stage 3 credit loss allowances.

As per the Article 111 of CRR, the exposure values of assets shall be their accounting values remaining after specific credit risk adjustments while any general credit risk adjustments are treated as part of Tier 2 capital. Regulation 183/2014 defines what should be treated as general or specific credit risk adjustments, which can result from impairments, value adjustments or other provisions.

Such adjustments shall be equal to all amounts by which the Common Equity Tier 1 capital has been reduced in order to reflect losses exclusively related to credit risk according to the applicable accounting framework and recognised as such in the income statement. Losses which are a result of current or past events affecting certain exposures and losses for which historical experience (on the basis of current observable data) indicates that the loss has occurred but it is not yet known which individual exposure suffered these losses, are treated as specific credit risk adjustments.

Amounts which are freely and fully available, as regards to timing and amount, to meet credit risk losses that have not yet materialised and amounts which reflect credit risk losses for a group of exposures for which there is currently no evidence that a loss event has occurred, are treated as general credit risk adjustments.

According to these definitions, the Group's specific and general impairment allowances as calculated under IFRS 9, are classified as specific credit risk adjustments and are deducted from the accounting values to determine the exposure amounts.

There are no other amounts apart from the impairment allowances that are classified as specific or general credit risk adjustments.

The following table provides an overview on the credit quality of performing and non-performing exposures according to their staging allocation as at 30 June 2020, as per the EBA Guidelines on disclosure of non-performing and forborne exposures.

EBA-NPL 4: Performing and non-performing exposures and related provisions

		Gross carrying amount/nominal amount					
		Performing exposures			Non-performing exposures		
			Of which stage 1	Of which stage 2		Of which stage 2	Of which stage 3
		€000	€000	€000	€000	€000	€000
1	**Loans and advances**	**2,322,314**	**2,019,227**	**303,087**	**202,647**	**-**	**200,105**
2	*Central banks*	256,189	256,189	-	-	-	-
4	*Credit institutions*	207,312	207,312	-	-	-	-
5	*Other financial corporations*	706,829	528,463	178,366	160,414	-	160,414
6	*Non-financial corporations*	558,066	441,490	116,576	41,904	-	39,362
7	*Of which SMEs*	61,470	52,307	9,164	9,296	-	6,753
8	*Households*	593,918	585,773	8,145	329	-	329
9	**Debt securities**	**1,257,564**	**1,256,066**	**516**	**-**	**-**	**-**
11	*General governments*	234,561	234,561	-	-	-	-
12	*Credit institutions*	706,122	706,122	-	-	-	-
13	*Other financial corporations*	293,979	292,481	516	-	-	-
14	*Non-financial corporations*	22,902	22,902	-	-	-	-
15	**Off balance sheet exposures**	**508,620**	**489,883**	**18,737**	**24,695**	**-**	**24,695**
18	*Credit Institutions*	20,299	20,299	-	-	-	-
19	*Other financial corporations*	153,698	138,755	14,943	24,657	-	24,657
20	*Non-financial corporations*	110,535	106,887	3,648	-	-	-
21	*Households*	224,088	223,942	146	38	-	38
22	**Total**	**4,088,499**	**3,765,177**	**322,340**	**227,342**	**-**	**224,800**

		Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions						Collateral and financial guarantees received	
			Performing exposures – accumulated impairment and provisions			Non-performing exposures – accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions		On performing exposures	On non-performing exposures
			Of which stage 1	Of which stage 2		Of which stage 2	Of which stage 3		
		€000	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**
1	**Loans and advances**	**(18,078)**	**(12,262)**	**(5,816)**	**(58,173)**	**-**	**(58,165)**	**666,464**	**9,544**
2	*Central banks*	(1)	(1)	-	-	-	-	-	-
4	*Credit institutions*	(1)	(1)	-	-	-	-	-	-
5	*Other financial corporations*	(10,462)	(6,826)	(3,636)	(47,358)	-	(47,358)	6,178	-
6	*Non-financial corporations*	(7,458)	(5,346)	(2,112)	(10,812)	-	(10,804)	66,701	9,219
7	*Of which SMEs*	(389)	(285)	(104)	(10)	-	(8)	-	9,219
8	*Households*	(156)	(88)	(68)	(3)	-	(3)	593,585	325
9	**Debt securities**	**(340)**	**(289)**	**(51)**	**-**	**-**	**-**	**-**	**-**
11	*General governments*	(22)	(22)	-	-	-	-	-	-
12	*Credit institutions*	(21)	(21)	-	-	-	-	-	-
13	*Other financial corporations*	(79)	(28)	(51)	-	-	-	-	-
14	*Non-financial corporations*	(218)	(218)	-	-	-	-	-	-
15	**Off balance sheet exposures**	**(799)**	**(795)**	**(4)**	**(1,982)**	**-**	**(1,982)**	-	-
19	*Other financial corporations*	(636)	(632)	(4)	(1,982)	-	(1,982)	-	-
20	*Non-financial corporations*	(150)	(150)	-	-	-	-	-	-
21	*Households*	(13)	(13)	-	-	-	-	-	-
22	**Total**	**(19,217)**	**(13,346)**	**(5,870)**	**(60,155)**	**-**	**(60,147)**	**666,464**	**9,544**

Note: The above tables exclude non-performing exposures which are allocated to stage 1 – such exposures would be classified as non-performing but still part of stage 1 due to the non-performing exit criteria as required under EBA Final draft Implementing Technical Standards on Supervisory reporting on forbearance and non-performing exposures. The tables also exclude debt securities measured at fair value.

The following table provides an analysis the change in stock of specific credit risk adjustment for the financial period ended 30 June 2020.

EU CR2–A: Changes in the stock of specific credit risk adjustments

	Accumulated specific credit risk adjustment €000
1 Opening balance at 1 January 2020	18,091
2 Increases due to amounts set aside for estimated loan losses during the period	61,489
3 Decreases due to amounts reversed for estimated loan losses during the period	(470)
6 Impact of exchange rate differences	(201)
9 **Closing balance at 30 June 2020**	**78,909**
10 Recoveries on credit risk adjustments recorded directly to the statement of profit or loss	6
11 Specific credit risk adjustments recorded directly to the statement of profit or loss	652

The Group does not account for any general credit risk adjustments.

The Group's impaired and past due but not impaired loans and advances to customers were primarily concentrated in Europe.

There were no other adjustments including those determined by business combinations, acquisitions and disposals of subsidiaries, and transfers between credit risk adjustments.

The following tables provide an analysis of the changes in stock of defaulted loans and debt securities throughout the financial period. The gross carrying value is inclusive of accrued interest.

EU CR2–B: Changes in the stock of defaulted and impaired loans and debt securities

	Gross carrying value defaulted exposures €000
1 Opening balance at 1 January 2020	124,099
2 Loans and debt securities that have defaulted or impaired since the last reporting period	132,566
3 Returned to non-defaulted status	(26,675)
4 Amounts written off	(652)
5 Other changes	(2,569)
Closing balance at 30 June 2020	**226,769**

2.3 Credit Risk Mitigation ("CRM")

It is the Group's practice to lend on the basis of the customer's ability to meet its obligations out of its cash flow resources rather than rely on the value of security offered. In fact, the majority of Group's loans are not secured by any type of collateral, and the amount of collateral received is immaterial in terms of the total exposure of the Group.

However the Group still uses various techniques as allowed by the CRD IV in order to mitigate credit risks such as netting and set off, and in some cases use of collateral. Credit risk mitigation is recognised only when it is legally enforceable and effective, which in order to do so requires adequate monitors and valuation of collateral received.

In September 2019, the Group has commenced mortgage lending in the Netherlands under the NHG mortgage criteria under the standardised approach to credit risk.

Under the Standardised Approach, the risk-weights for exposures secured by mortgages on residential property are set by Articles 123 to 125 of the Capital Requirements Regulation (CRR). Thus the valuation of the collateral is an important component to determine the portion of the Dutch mortgage exposure that should be considered to be secured by property and the portion, if any, of the Dutch mortgage exposure that should be treated as a retail exposure under article 123 of the CRR.

As from 31 March 2020, following changes to the Dutch National Mortgage Guarantee (NHG), when applying a risk weighting to mortgage loans, the Group is taking into account the terms and conditions that govern the National Mortgage Guarantee (NHG) scheme and, hence, the credit protection it provides. In the case of residential mortgage loans that are guaranteed by the NHG, the risk-weights for such exposures are amended in accordance with the credit risk mitigation framework of Part Three, Title II, Chapter 4 of the CRR, given that the NHG guarantee now meets the conditions of, in particular, Articles 213 to 215 of the CRR.

Thus, as from 31 March 2020, with respect to NHG-mortgages the actual coverage of the guarantee is being taken into account. Thus, the amortisation of the NHG coverage value, as well as the 10% own risk factor, is now being taken into account in the establishment of the protected amount (the factor GA as laid out in Article 235 of the CRR).
In addition to the risk-weights and capital charges for NHG-mortgages under Pillar I, the Group is now taking into account under Pillar II specific risks of NHG-mortgages in its internal capital adequacy assessment process (ICAAP).

2.3.1 Capital allocation and capital buffers for credit risk

The Group adopts the standardised approach to calculate its capital requirement for credit risk. The Group's credit framework contains enough detail specifying how the Group calculates the risk weights of the exposures covered by the framework, wherever the regulatory framework permits elections or other choices to be made.

Besides allocating capital against its Pillar I risks that are based on the Group's accounting records, the Group also carries an assessment of the extra capital proportionate to Pillar II risks as part of its annual ICAAP. The ICAAP chapter on concentration risk, describes the Group's approach for allocating capital for this risk.

Since the Group is not rated, it is not required to allocate internal capital or allocate collateral in the eventuality of a downgrade in its credit rating.

2.3.2 On and off balance sheet netting and set-off

Financial assets and liabilities are offset and the net amount reported in the consolidated statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is the intention to settle on a net basis or realise the asset and settle the liability simultaneously. The level of offsetting within the Group is deemed to be minimal.

2.3.3 Collateral and other credit enhancements

Collateral received by the Group includes residential and commercial property, as well financial collateral such as debt securities and cash on deposit.

Most of the immovable property collateral received is located in Malta. In particular, in relation to the local lending portfolio, a charge over collateral is obtained and considered in determining the credit decision and pricing. In the event of a default, the Group may utilise the collateral as a source of repayment. Depending on its form, collateral can have a significant financial effect in mitigating exposure to credit risk. The Group follows Articles 124 to 126 of the CRR in order to determine whether exposures are fully and completely secured by immovable property, and which risk weight to apply in order to calculate the own funds requirement.

In order to make use of the financial collateral for credit risk mitigation purposes, the Group follows the conditions set out in Chapter 4, Title I, Part Three of CRR, in particular applying Article 222 of the said regulation. Collateral that is not eligible in terms of CRR is not taken into consideration for credit risk mitigation.

To determine the overall credit exposure limit, the Group applies a number of limits to the Local Lending portfolio both at Portfolio level and at Single Name level. These limits are decided by the Group's board and disclosed on the Risk Appetite Framework which is revised on an annual basis. A Loan-to-Value limit is applied to any credit extended to real estate related transactions or where real estate is pledged as collateral, given that underlying asset values can be subject to market volatility. This limit is calculated on the market value of the security, prior to the application of the relative haircut as described below.

The market value of the collateral is based on an assessment carried out by the Local Lending unit to determine whether the 'market value' of the collateral is the best estimate of the net realisable value of the said asset. The unit evaluates the valuation in the context of market impact of liquidation of the said collateral on liquidity, buy-sell spread and market float of the same class of assets. The Group applies haircuts in respect of the property valuation carried out by the independent valuer and is determined on a case-by-case basis taking into account particular characteristics such as valuer's expertise and experience, valuation/s of similar collateral and, locations and conditions of property. Haircuts are applied to arrive at the best prudent estimate of the realisable value of the collateral and are documented in the credit memorandum together with an explanation of the suitability of chosen haircut. The haircut is discussed and ratified at the Local Lending – Management Credit Committee.

The value of collateral that is commercial real estate is monitored at least annually, while the value of residential real estate is reviewed once every three years. The value is monitored through the local Property Price Index as well by gauging asking prices of similar properties available on the market. For individually significant loans, including but not limited to those exceeding €3 million or 5% of the Group's own funds, the value of the property securing such loans shall be reviewed by an independent valuer at least every three years. If the market is subject to significant changes in conditions and publicly available information indicates that the value of the property may have declined materially relative to general market prices, an update of the valuation of the collateral shall be required.

The guidelines on collateral haircuts are reviewed by the Group at least annually, and may from time to time, be amended to ensure that the Group's business continues to act in accordance with best practices.

The following table shows an analysis of the on-balance sheet exposure value (carrying amount net of provisions) as at 30 June 2020 that is covered by eligible collateral in line with CRR requirements highlighting the amount of the exposure value which is unsecured and secured:

EU CR3 – CRM techniques - Overview

	Exposures Total unsecured - Carrying amount[3]	**Exposures Total secured - Carrying amount[4]**	**Exposures secured by collateral[5]**	**Exposures secured by financial guarantees[6]**
	€000	**€000**	**€000**	**€000**
1 Total loans and advances	1,173,722	633,160	106,896	526,264
2 Total debt securities	1,219,075	38,248	-	38,248
3 Total exposures	**2,392,797**	**671,408**	**106,896**	**564,512**
4 of which Defaulted	133,259	8,569	8,582	77

The following statement as at 30 June 2020 is in line with the EBA Guidelines on disclosure of non-performing and forborne exposures.

EBA-NPL 9: Collateral obtained by taking possession and execution processes and EBA-NPL 10: Collateral obtained by taking possession and execution processes – vintage breakdown

No collateral was obtained by taking possession of tangible assets.

[3] ***Exposures unsecured – Carrying amount***: *The carrying amount of exposures (net of allowances/impairments) that do not benefit from a CRM technique, regardless of whether this technique is recognised under Part Three, Title II, Chapter 4 in the CRR.*
[4] ***Exposure - secured – Carrying amount***: *Carrying amount of exposures that have at least one CRM mechanism (collateral, financial guarantees, credit derivatives) associated with them.*
[5] ***Exposures secured by collateral***: *carrying amount of exposures (net of allowances/impairments) partly or totally secured by collateral.*
[6] ***Exposures secured by financial guarantees***: *Carrying amount of exposures (net of allowances/impairments) partly or totally secured by financial guarantees.*

The following table details out the types of eligible collateral held for each exposure class as at 30 June 2020:

	Exposure value post CCF and CRM[7]				
	Secured by collateral		Secured by financial guarantees		
	Secured by residential immovable property	Secured by commercial immovable property	Secured by cash on deposit	Secured by government guarantees	Unsecured exposures
	€000	€000	€000	€000	€000
Central governments or central banks	-	-	-	598,204	304,028
Regional governments or local authorities	-	-	-	-	147,038
Public sector entities	-	-	-	-	106,769
Multilateral development banks	-	-	-	-	54,505
International organisations	-	-	-	-	25,982
Institutions	-	-	-	-	222,775
Corporates	-	-	-	-	1,200,027
Retail	-	-	-	-	49,138
Secured by mortgages on immovable property	43,898	30,122	-	-	602
Exposures in default	3,246	5,336	-	-	145,664
Items associated with particular high risk	30,712	1,093	-	-	71
Covered bonds	-	-	-	-	559,250
Other exposures	-	-	256	-	56,231
Total	**77,856**	**36,551**	**256**	**598,204**	**2,872,080**

The following table shows the exposures together with the relevant credit risk mitigation undertaken for each class as at 30 June 2020:

EU CR4 – Standardised approach – Credit risk exposure and CRM effects

	Exposures before CCF and CRM[8]		Exposures post CCF and CRM		RWA and RWA density	
Exposure classes	On-Balance sheet amount €000	Off-Balance sheet amount €000	On-Balance sheet amount €000	Off-Balance sheet amount €000	RWAs €000	RWA density %
1 Central governments or central banks	304,028	-	867,184	35,048	55,367	6%
2 Regional governments or local authorities	147,038	-	147,038	-	-	0%
3 Public sector entities	106,769	-	106,769	-	4,028	4%
4 Multilateral development banks	54,505	-	54,505	-	-	0%
5 International organisations	25,982	-	25,982	-	-	0%
6 Institutions	215,064	2,000	176,816	2,000	53,550	30%
7 Corporates	1,095,430	212,334	1,095,430	104,357	1,199,787	100%
8 Retail	67,527	43,328	42,347	6,720	36,801	75%
9 Secured by mortgages on immovable property	566,312	194,685	66,508	8,064	46,799	63%
10 Exposures in default	141,918	24,657	141,918	12,329	198,244	129%
11 Items associated with particular high risk	31,876	31,450	31,805	-	47,707	150%
12 Covered bonds	559,250	-	559,250	-	56,279	10%
16 Other items	53,206	6,562	53,352	3,391	53,204	94%
17 Total	**3,368,905**	**515,016**	**3,368,904**	**171,909**	**1,751,766**	**49%**

The preceding table does not cover exposures covered by the counterparty credit risk section as at 30 June 2020 with an exposure value of €44.1 million post CCF and CRM, of which the respective RWAs amounted to €32.7 million.

[7] ***Exposure value post CCF and CRM****: This amount represents the exposure value after taking into account specific credit risk adjustments as defined in the Commission Delegated Regulation (EU) No 183/2014 and write-offs as defined in the applicable accounting framework, all credit risk mitigants and CCFs. This is the amount to which the risk weights (according to Article 113 and Part Three, Title II, Chapter 2, Section 2 of the CRR) are applied.*

[8] ***Exposures before CCF and CRM****: This represents the Group's on-balance-sheet and off-balance exposures (respectively) under the regulatory scope of consolidation (in accordance with Article 111 in the CRR), net of specific credit risk adjustments (as defined in the Commission Delegated Regulation (EU) No 183/2014) and write-offs (as defined in the applicable accounting framework), but before (i) the application of CCFs as specified in the same article and (ii) the application of CRM techniques specified in Part Three, Title II, Chapter 4 of the CRR.*

EU CR5 – Standardised approach Exposure Value

	Exposure value post CCF and CRM									
	0% €000	**10% €000**	**20% €000**	**35% €000**	**50% €000**	**75% €000**	**100% €000**	**150% €000**	**250% €000**	**Total €000**
1 Central governments or central banks	880,085	-	-	-	-	-	-	-	22,147	**902,232**
2 Regional governments or local authorities	147,038	-	-	-	-	-	-	-	-	**147,038**
3 Public sector entities	86,631	-	20,138	-	-	-	-	-	-	**106,769**
4 Multilateral development banks	54,505	-	-	-	-	-	-	-	-	**54,505**
5 International organisations	25,982	-	-	-	-	-	-	-	-	**25,982**
6 Institutions	-	-	133,630	-	59,510	-	29,635	-	-	**222,775**
7 Corporates	-	-	-	-	-	-	1,199,963	-	-	**1,199,963**
8 Retail	-	-	-	-	-	49,068	-	-	-	**49,068**
9 Secured by mortgages on immovable property	-	-	-	33,070	12,555	-	28,947	-	-	**74,572**
10 Exposures in default	-	-	-	-	-	-	66,253	87,994	-	**154,247**
11 Items associated with particular high risk	-	-	-	-	-	-	-	31,805	-	**31,805**
12 Covered bonds	-	555,715	3,535	-	-	-	-	-	-	**559,250**
16 Other items	3,539	-	-	-	-	-	53,204	-	-	**56,743**
17 Total	**1,197,780**	**555,715**	**157,303**	**33,070**	**72,065**	**49,068**	**1,378,002**	**119,799**	**22,147**	**3,584,948**

2.4 Credit Valuation Adjustment (“CVA”)

The CRR requires financial institutions to calculate own funds requirements for CVA risk, in accordance with Article 382, which is a capital charge to reflect potential mark-to-market losses due to counterparty migration risk on bilateral OTC derivative contracts.

Using the regulatory formula, capital required in respect of CVA risk as at 30 June 2020, is calculated to be €256 thousand on a total exposure of €16.3 million.

EU CCR2 – CVA Capital Charge

	Exposure value €000	**RWAs €000**
4 All portfolios subject to the standardised method	**16,321,695**	**3,203,754**

2.5 Measures applied in response to the COVID-19 crisis

In light of the COVID-19 pandemic the Group has undertaken a number of measures in order to support the business community, including the Malta Development Bank Guarantee Scheme and the granting of moratoria in line with CBM Directive 18.

As required by the EBA Guidelines on reporting and disclosure of exposures subject to measures applied in response to the COVID-19 crisis (EBA/GL/2020/07) and MFSA Banking Rule BR/23, the below tables disclose information on exposures to which such measures are applied.

Template 1: Information on loans and advances subject to legislative and non-legislative moratoria

		Gross Carrying Amount			
		Total exposures	Performing		
				Of which: exposures with forbearance measures	Of which: Instruments with significant increase in credit risk since initial recognition but not credit-impaired (Stage 2)
1	Loans and advances subject to moratorium	**7,486**	7,486	2,673	229
2	of which: Households	**291**	291	-	-
3	*of which: Collateralised by residential immovable property*	**288**	288	-	-
4	of which: Non-financial corporations	**6,096**	6,096	2,673	229
5	*of which: Small and Medium-sized Enterprises*	**6,096**	6,096	2,673	229
6	*of which: Collateralised by commercial immovable property*	**1,150**	1,150	1,101	49

		Accumulated impairment, accumulated negative changes in fair value due to credit risk			
		Total	Performing		
				Of which: exposures with forbearance measures	Of which: Instruments with significant increase in credit risk since initial recognition but not credit-impaired (Stage 2)
1	Loans and advances subject to moratorium	**(52)**	(52)	(34)	-
2	of which: Households	**-**	-	-	-
3	*of which: Collateralised by residential immovable property*	**-**	-	-	-
4	of which: Non-financial corporations	**(52)**	(52)	(34)	-
5	*of which: Small and Medium-sized Enterprises*	**(52)**	(52)	(34)	-
6	*of which: Collateralised by commercial immovable property*	**-**	-	-	-

The moratoria granted are in the form of postponement of principal and/or interest for a predefined limited period of time and were mainly granted to borrowers in real estate and construction industries. No economic losses due to COVID-19 forbearance were realised during the period. None of the exposures were non-performing as at 30 June 2020.

Template 2: Breakdown of loans and advances subject to legislative and non-legislative moratoria by residual maturity of moratoria

		Gross Carrying Amount								
		Number of obligors	Total	Of which: legislative moratoria	Of which: expired	Residual maturity of moratoria				
						<= 3 months	> 3 months <= 6 months	> 6 months <= 9 months	> 9 months <= 12 months	> 1 year
1	Loans and advances for which moratorium was offered	**15**	**7,486**	7,486						
2	Loans and advances subject to moratorium (granted)	**15**	**7,486**	7,486	-	2,857	4,629	-	-	-
3	of which: Households		**291**	291	-	-	291	-	-	-
4	*of which: Collateralised by residential immovable property*		**288**	288	-	-	288	-	-	-
5	of which: Non-financial corporations		**6,096**	6,096	-	2,857	3,239	-	-	-
6	*of which: Small and Medium-sized Enterprises*		**6,096**	6,096	-	2,857	3,239	-	-	-
7	*of which: Collateralised by commercial immovable property*		**1,150**	1,150	-	-	1,150	-	-	-

Most moratoria where granted for a period of 3-6 months basis. Some of the moratoria which erred towards the 3 month period where granted an extension falling within the 3-6 month bracket, depending on the industry performance and financial standing of the borrower post COVID-19.

Template 3: Information on newly originated loans and advances provided under newly applicable public guarantee schemes introduced in response to COVID-19 crisis

A facility amounting to €500 thousand which is guaranteed by the Malta Development Bank, was granted to a borrower acting as a holding company in the retail industry. The facility was fully undrawn as at 30 June 2020.

3 Counterparty Credit Risk (“CCR”)

Counterparty credit risk (“CCR”) refers to the risk that the counterparty to a transaction could default before the final settlement of the transaction’s cash flows. The Group is primarily exposed to counterparty credit risk through derivative exposures, which have largely been limited to interest rate and currency hedges of the Group’s investment portfolio, and to other derivatives exposures that can be priced on a real time basis.

The Group was not involved in any credit derivative transactions during the period, and the derivative transactions falling under intermediation activities were immaterial in relation to the total derivative transactions undertaken by the Group. Due to this, the Group does not allocate a capital add-on for counterparty concentration. A description of the methodology used by the Group to allocate internal capital for concentration risk is given in section 3 ‘Credit Risk and Credit Risk mitigation’.

Counterparty credit risk in respect of currency swaps and forwards, interest rate swaps, options, swaptions and any other derivative instruments that entail credit exposures shall only be entered into with counterparties approved by ALCO. Entry into any derivative exposure will be subject to prior implementation of appropriate settlement and risk management infrastructure pursuant to a signed ISDA/CSA Agreement. The Group’s RAS clearly states that the Group has no appetite to enter into currency swaps and forwards, interest rate swaps, options and other derivative instruments which create credit exposures with counterparties which are not approved by ALCO. This list of approved derivative counterparties and associated limits is included in the Group’s FX Risk Policy and Group Risk Appetite Statement. Entering into bilateral secured financing transactions bearing any counterparty risk which cannot be executed under a signed GMRA or ISDA agreement is also outside the Group’s risk appetite.

The Group’s Treasury Function ensures that margin calls arising from the Group’s repo and derivatives obligations are monitored on a daily basis. Exposure to derivative counterparties and the related credit risk is mitigated through the use of netting and collateralisation agreements.

As the Group is not an externally rated entity, the Group does not carry any exposure to counterparty credit risk impact given a downgrade in its credit rating.

In order to determine the potential future credit exposure, the notional amounts or underlying values, as applicable, are multiplied by the percentages stipulated in the CRR, Table 1 of Article 274(2)(c). These are based on contract type and residual maturities.

EU CCR1 – Analysis of CCR exposure by approach

At 30 June 2020	**Replacement cost/current market value €000**	**Potential future credit exposure €000**	**EAD post CRM €000**	**RWAs €000**
1 Mark to market	11,975	32,158	44,133	32,741
11 **Total**	**11,975**	**32,158**	**44,133**	**32,741**

Analysed as follows:	**Residual maturity**	**Notional amount (€000)**	**Applicable percentage[9]**	**Replacement cost (€000)**	**Potential future exposure (€000)**	**Risk-weight**	**Risk-weighted assets (€000)**
Interest rate swaps and other exposures to a Central Clearing Counterparty					27,635	100%	27,365
Interest rate swaps	Over one year, not exceeding five years	237,306					
Interest rate swaps	Over five years	365,590					
Foreign currency contracts	One year or less	299,250	1.00%	7,776	2,993	20%	2,154
Foreign currency contracts	One year or less	151,390	1.00%	4,039	1,514	50%	2,777
Contracts concerning equities	Over five years	160	10.00%	160	16	100%	176

[9] *Applicable percentages per Table 1 of Article 274(2)(c)*

The below table shows the counterparty credit risk exposure split by exposure class:

	Exposure value €000	**Risk weighted assets €000**
Institutions	43,957	32,566
of which exposure to a qualifying central counterparty	*27,635*	*27,635*
Corporates	176	176
	44,133	**32,742**

4 Own Funds

4.1 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.

4.1.1 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.

4.1.2 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.

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 annual financial statements.

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.

4.1.3 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 30 June 2020, 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 5%, repayable on 13 October 2027, with a 13 October 2022 early redemption option held by the Group.
- debt securities, bearing interest payable at 4%, repayable on 5 November 2029, with a 5 November 2024 early redemption option held by the Group.

4.2 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.

4.2.1 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 following table shows the composition of the own funds of the Group in accordance with the CRR.

	At 30 June 2020	**€000**
	Common Equity Tier 1 (CET1) capital	
	Common Equity Tier 1 (CET1) capital: instruments and reserves	
1	Capital instruments and the related share premium accounts	69,495
2	Retained earnings	76,990
3	Accumulated other comprehensive income (and other reserves)	130,636
3a	Funds for general banking risk	3,357
6	Common Equity Tier 1 (CET1) capital before regulatory adjustments	280,478
	Common Equity Tier 1 (CET1) capital: regulatory adjustments	
7	Additional value adjustments	(698)
8	Intangible assets (net of related tax liability)	(17,722)
9a	Other regulatory adjustments – IFRS 9 transitional arrangement	10,354
10	Deferred tax assets that rely on future profitability	(7,761)
28	Total regulatory adjustments to Common Equity Tier 1 (CET1)	(15,827)
29	**Common Equity Tier 1 (CET1) capital**	**264,651**
45	**Tier 1 capital**	**264,651**
	Tier 2 (T2) capital: instruments and provisions	
46	Capital instruments and the related share premium accounts (Subordinated loans)	45,937
58	**Tier 2 capital**	**45,937**
59	**Total capital (TC = T1 + T2)**	**310,588**
60	**Total risk weighted assets**	**1,980,964**
	Capital ratios and buffers	**%**
61	Common Equity Tier 1 ratio	13.36%
62	Tier 1 ratio	13.36%
63	Total capital ratio	15.68%
64	Institution specific buffer requirement	7.51%
65	of which: Capital conservation buffer requirement	2.50%
66	of which: Countercyclical buffer requirement	0.01%
67a	of which: Other Systemically Important Institution (O-SII) buffer	0.50%
68	Common Equity Tier 1 available to meet buffers in excess of the CRR 4.5% minimum requirement	8.86%
	Amounts below the thresholds for deduction (before risk weighting)	**€000**
75	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)	22,147

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*

The Group's CET1 and Tier 1 capital ratios were 13.4% and its total capital ratio was 15.7% as at 30 June 2020. Despite the reported loss coming from the COVID-19 impact the Group's Tier 1 capital ratio remains well above the Total SREP Capital Requirements, with Tier 1 capital surplus of ca. 440 basis points above this requirement. Preliminary indications for the end of July 2020 showed further improvement in the Group's capital position with Tier 1 capital ratio at 13.8% and total capital ratio at 16.1%.

Furthermore as shown in the table 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 and 473a (7) 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 30 June 2020.

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 30 June 2020.

Capital Base	**At 30 June 2020 €000**
Shareholders' equity according to the Group's balance sheet	284,706
Interim profits not eligible for inclusion as CET1 capital	-
Market value of assets pledged in favour of Depositor Compensation Scheme	(4,228)
Deferred tax assets that are dependent on future profitability and do not arise from temporary differences (transitional definition)	(7,761)
Intangible assets	(17,722)
Other adjustments:	
IFRS 9 transitional arrangements	10,354
Additional valuation adjustments	(698)
Other adjustments	-
Common Equity Tier 1 capital / Tier 1 capital	**264,651**
Tier 2 instruments: subordinated loans	54,566
Amortisation of Tier 2 instruments	(8,629)
Tier 2 capital	**45,937**
Total capital	**310,588**

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

		30 June 2020	31 March 2020	31 December 2019	30 September 2019	30 June 2019
	Available capital (amounts in €000)					
1	Common Equity Tier 1 (CET1) capital	264,651	296,579	299,575	300,897	309,629
2	Common Equity Tier 1 (CET1) capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	254,297	291,048	296,038	294,764	303,496
3	Tier 1 capital	264,651	296,579	299,575	300,897	309,629
4	Tier 1 capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	254,297	291,048	296,038	294,764	303,496
5	Total capital	310,587	338,566	342,031	338,924	356,373
6	Total capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	300,234	333,036	338,495	332,792	350,240
	Risk-weighted assets (amounts in €000)					
7	Total risk-weighted assets	1,980,964	1,980,014	1,972,756	2,069,072	2,264,106
8	Total risk weighted assets as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	1,983,291	1,977,785	1,965,029	2,063,744	2,262,740
	Capital ratios					
9	Common Equity Tier 1 (as a percentage of risk exposure amount)	13.36%	14.98%	15.19%	14.54%	13.68%
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	12.82%	14.72%	15.07%	14.28%	13.41%
11	Tier 1 (as a percentage of risk exposure amount)	13.36%	14.98%	15.19%	14.54%	13.68%
12	Tier 1 (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	12.82%	14.72%	15.07%	14.28%	13.41%
13	Total capital (as a percentage of risk exposure amount)	15.68%	17.10%	17.34%	16.38%	15.74%
14	Total capital (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	15.14%	16.84%	17.23%	16.13%	15.48%
	Leverage ratio					
15	Leverage ratio total exposure measure (€000)	3,897,639	296,578,6	3,417,687	3,274,566	3,282,030
16	Leverage ratio	6.79%	8.24%	8.77%	9.19%	9.43%
17	Leverage ratio as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	6.54%	8.10%	8.67%	9.04%	9.28%

As laid down in Regulation (EU) 2017/2395 and amended by Regulation (EU) 2020/873, 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 December 2024, the Group will be adding back a proportion of:

(a) 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

(b) the difference in the IFRS 9 ECLs determined as at 31 December 2019 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; and

(c) the difference in the IFRS 9 ECLs determined at reporting date and the ECLs determined as at 1 January 2020 for Stage 1 (12-months ECLs) and Stage 2 (lifetime ECLs) assets.

Two sets of factors are used to adjust the above ECLs which will decline across the transitional period. The first set of factors, applicable to (a) and (b) above, started at 95% during the financial year ended 31 March 2019 and will fall to 25% in the final transitional year ending 31 December 2023. The second set of factors, applicable to (c) above, start at 100% during the financial years ended 31 December 2020 and 31 December 2021 and will fall down to 25% during the final transitional year ending 31 December 2024.

The above treatment is in accordance with the requirements laid down in paragraphs 6 and 6a of Regulation (EU) 2017/2395, as amended by Regulation (EU) 2020/873.

The Group has also chosen to apply the calculation referred to paragraph 7a of Regulation (EU) 2017/2395, as amended by Regulation (EU) 2020/873, whereby instead of reducing the specific credit risk adjustments by an accordingly calculated factor, the Group will instead risk weight the relevant amount at 100% and add it the total risk weighted exposure amount.

As noted in template IFRS 9-FL above, the impact of the transitional arrangement on the Group's capital ratio as at 30 June 2020 amounted to 54 bps at the reporting period under review. This was a result of an add-back in capital of €10.3 million and a reduction of €2.3 million in risk-weighted assets. Similarly, the Group's leverage ratio is 'overstated' by 25 bps in view of the transitional arrangement applied.

Further to the amending Regulation (EU) 2020/873, and as required to be disclosed by EBA Guidelines (EBA/GL/2020/12), the Group chose not to apply the temporary treatment relating to unrealised gains and losses measured at fair value through other comprehensive income, as per Article 468.

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 5% Subordinated Unsecured Bonds EUR 2027	MeDirect Bank (Malta) plc 5% Subordinated Unsecured Bonds GBP 2027
1	Issuer	MDB Group Limited	MDB Group Limited	MeDirect Bank (Malta) plc	MeDirect Bank (Malta) plc
2	Unique identifier	N/A	N/A	MT0000551284	MT0000551292
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	EU15.7 million	EUR1.1 million
9	Nominal amount of instrument	EUR55.7 million	EUR13.8 million	EUR18.7 million	EUR1.2 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	27 October 2017 (Note 1)	27 October 2017 (Note 1)
12	Perpetual or dated	Perpetual	Perpetual	Dated	Dated
13	Original maturity date	N/A	N/A	13 October 2027	13 October 2027
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	5% per annum	5% per annum
19	Existence of a dividend stopper	No	No	No	No
20 a	Fully discretionary, partially discretionary or mandatory - in terms of timing	Fully discretionary	N/A	Mandatory	Mandatory
20 b	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 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 30 June 2020 the subordinated bonds listed above had a remaining maturity of more than 5 years and had all been fully paid up. These securities are included in the Group's Own Funds figure following a haircut in accordance with article 87 under CRR (575/2013) equivalent to €3.1 million.

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 JST, have the option to redeem the subordinated loan capital in full prior to the scheduled redemption date.

Capital instruments' main features

	Instruments	MeDirect Bank (Malta) plc 4% Subordinated Unsecured Bonds EUR 2029	MeDirect Bank (Malta) plc 4% Subordinated Unsecured Bonds GBP 2029
1	Issuer	MeDirect Bank (Malta) plc	MeDirect Bank (Malta) plc
2	Unique identifier	MT0000551300	MT0000551318
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	EUR27.0 million	EUR2.2 million
9	Nominal amount of instrument	EUR32.2 million	EUR2.8 million
9a	Issue price	EUR1,000 per EUR Bond	GBP1,000 per GBP Bond
9b	Redemption price	EUR1,000 per EUR Bond	GBP1,000 per GBP Bond
10	Accounting classification	Liability - amortised cost	Liability - amortised cost
11	Original date of issuance	5 November 2019 (Note 1)	5 November 2019 (Note 1)
12	Perpetual or dated	Dated	Dated
13	Original maturity date	5 November 2029	5 November 2029
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	4% per annum	4% 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 30 June 2020 the subordinated bonds listed above had a remaining maturity of more than 5 years and had all been fully paid up. These securities are included in the Group's Own Funds figure following a haircut in accordance with article 87 under CRR (575/2013) equivalent to €5.5 million.

Note (2): Redemption of the subordinated loan capital shall take place on 5 November 2029, 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 JST, have the option to redeem the subordinated loan capital in full prior to the scheduled redemption date.

5 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. The group also applies Article 310 of the CRR in terms of its various exposures to a qualifying central counterparty.

- 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.

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

		30 June 2020	31 March 2020	**30 June 2020**
	Exposure Class	**Risk weighted assets €000**	Risk weighted assets €000	**Minimum Capital Requirements €000**
1	**Credit risk (excluding CCR)**	**1,751,766**	1,775,242	**140,141**
2	*Of which: the standardised approach*	*1,751,766*	*1,775,242*	*140,141*
	Central governments or central banks	55,367	35,033	4,429
	Public sector entities	4,028	4,023	322
	Institutions	53,550	31,656	4,284
	Corporates	1,199,787	1,366,211	95,983
	Retail	36,801	26,127	2,944
	Secured by mortgages on immovable property	46,799	46,176	3,744
	Exposures in default	198,244	149,691	15,860
	Items associated with particular high risk	47,707	47,004	3,817
	Covered bonds	56,279	47,904	4,502
	Other items	53,204	21,417	4,256
6	**Counterparty credit risk (CCR)**	**35,946**	9,671	**2,875**
7	*Of which: mark to market*	*32,742*	*7,645*	*2,619*
12	*Of which: credit valuation adjustment (CVA)*	*3,204*	*2,026*	*256*
14	**Securitisation exposures in the banking book (after the cap)**	**61,215**	63,063	**4,897**
18	*Of which: the standardised approach*	*61,215*	*63,063*	*4,897*
23	**Operational risk**	**132,038**	132,038	**10,563**
24	*Of which: the basic indicator approach*	*132,038*	*132,038*	*10,563*
27	*Amounts below the thresholds for deduction (subject to 250% risk weight)*	*55,367*	*35,033*	*4,429*
29	**Total**	**1,980,965**	1,980,014	**158,476**

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

	€000
Own funds	
Common Equity Tier 1 capital / Tier 1 capital	264,651
Tier 2 capital	45,937
Total own funds	**310,588**
Total capital ratio	**15.68%**

6 Securitisation

The CRR defines a securitisation as a transaction or scheme where the credit risk of an exposure or pool of exposures is tranched, where the payments arising from the transaction or scheme are dependent upon the performance of the underlying exposure(s) and where the subordination of tranches determines the distribution of losses during the ongoing life of the transaction or scheme.

During the financial period ended 31 December 2019, 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, 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, Grand Harbour CLO 2019-1 Designated Activity Company ("GH1-2019"), 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.

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, which was subsequently sold during the financial period ended 31 December 2019.

In view of the Group's projected exposure to the total variability of the structured entity's returns, taking into account 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 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. During the year the Group also effected investments in CLO transactions managed by third-party entities which together with the structured notes referred to above constitute the Group's Securitisation Investments portfolio.

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, which was subsequently sold during the financial period ended 31 December 2019.

During the year the Group also effected investments in CLO transactions managed by third-party entities which together with the structured notes referred to above constitute the Group's Securitisation Investments portfolio.

From a regulatory point of view the investment in securitisations is risk weighted by looking through to the underlying assets of the securitisation structure. As per standardised approach the Bank uses ratings from three External Credit Assessment Institutions, Moody's, Standard & Poor's and Fitch.

A new securitisation framework has been introduced through amendments to the CRR and the introduction of a new Securitisation Regulation. The new framework has been used for the calculation of risk-weighted exposures for these positions that were originated during 2019.

Investment in tranches within a Collateralised Loan Obligation Structured Entity ("CLO SE") originated and managed by the Group

The Group assesses the staging of the tranche rather than the facilities within the underlying portfolio of financial assets. The Group determines an Implied Rating (as a proxy measure of credit risk) for each tranche at different points in time. Expected losses and average life are used to assign an Implied Rating to each tranche based on an external vendor's methodology and observed defaults in the industry. The Implied Rating at reporting date is benchmarked to the Implied Rating at origination date of the tranche in order to determine whether a SICR has occurred since initial recognition.

In line with the Group's approach for the identification of SICR events and the determination of staging for the International Corporate Credit and Treasury portfolio, a quantitative ratings-based approach is utilised in order to assess the movement in credit risk since initial recognition of the Group's investment in the tranches of the CLO.

In respect of tranches of CLOs to which an investment-grade Implied Rating is assigned, the Group makes use of the low credit risk exemption. As a result, the Group assumes that no SICR has occurred since initial recognition as long as the tranche retains an investment-grade Implied Rating. Hence, the Group assumes that the credit risk attributable to tranches to which the low credit risk exemption is applied has not increased significantly since initial recognition, and therefore does not perform an SICR assessment for such tranches unless their Implied Rating falls to sub-investment grade.

Investment in tranches within a publicly rated CLO SE originated and managed by a third party, with a public investment grade rating assigned by reputable agency

Similar to the Treasury Portfolio criteria, investment grade rating is an example of a financial instrument that may be considered as having low credit risk; therefore the Group only needs to measure 12-month ECL for publicly rated investment grade tranches of CLOs.

The following tables provide an analysis of the securitisation exposures by looking through to the underlying exposures.

SEC 1: Securitisation exposures in the banking book

	As at 30 June 2020	**Bank acts as investor Traditional €000**	**Bank acts as originator Traditional €000**
6	Wholesale (total) – of which	**274,412**	**19,490**
7	Loans to corporates	274,412	19.490
	- of which:		
	securitisations under the new framework	**274,412**	**19.490**

SEC 3: Securitisation exposures in the banking book and associated capital requirements
Bank acting as originator

		Exposure values (by RW bands)				**Exposure values**	**RWA**	**Capital charge**
		≤20% RW	**>20% to 50% RW**	**>50% to 100% RW**	**>100% to <250% RW**	**Standardised approach**	**Standardised approach**	**Standardised approach**
	As at 30 June 2020	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**
1	**Total exposures**	**-**	**-**	**-**	**19,490**	**19,490**	**20,053**	**1,604**
2	Traditional securitisation	-	-	-	19,490	19,490	20,053	1,604
3	Of which securitisation	-	-	-	19,490	19,490	20,053	1,604
5	Of which wholesale	-	-	-	19,490	19,490	20,053	1,604

SEC 4: Securitisation exposures in the banking book and associated capital requirements
Bank acting as an investor

		Exposure values (by RW bands)				**Exposure values**	**RWA**	**Capital charge**
		≤20% RW	**>20% to 50% RW**	**>50% to 100% RW**	**>100% to <250% RW**	**Standardised approach**	**Standardised approach**	**Standardised approach**
	As at 30 June 2020	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**
1	**Total exposures**	**274,412**	**-**	**-**	**-**	**274,412**	**41,162**	**3,293**
2	Traditional securitisation	274,412	-	-	-	274,412	41,162	3,293
3	Of which securitisation	274,412	-	-	-	274,412	41,162	3,293
5	Of which wholesale	274,412	-	-	-	274,412	41,162	3,293

7 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.

		Total weighted value (average)			
	Quarter ending on:	**Apr – Jun 2020**	Jan – Mar 2020	Oct – Dec 2019	Jul – Sep 2019
	Number of data points used in the calculation of averages	**12**	12	12	12
		€000	€000	€000	€000
21	Liquidity buffer	**649,381**	663,751	669,949	568,137
22	Total net cash outflows	**140,026**	132,624	120,690	97,709
23	Liquidity coverage ratio (%)	**491%**	527%	589%	596%

As at 30 June 2020 and 31 December 2019, the Group's LCR was well above both the regulatory minimum and the risk appetite set by the Group. As a result of the COVID-19 pandemic outbreak, given that many borrowers wanted to strengthen their balance sheets, in March 2020 MeDirect Malta experienced a significant rapid increase in drawdowns in respect of its revolving credit facilities within the International corporate lending portfolio. These were all honoured by MeDirect Malta. As a result of such unexpected rapid increase in drawdowns resulting from this unprecedented stress to the global economy, MeDirect Malta's solo standalone LCR ratio fell below the regulatory minimum of 100% for two days. MeDirect Malta took corrective actions immediately to ensure that the LCR reverts back to levels above 100%. At all times the Group's LCR ratio was significantly above 100% as overall the Group had strong liquidity levels to withstand these liquidity challenges emanating from the COVID-19 severe downturn.

8 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 disclosures report.

Encumbered and unencumbered assets

		Carrying amount of encumbered assets €000	Fair value of encumbered assets €000	Carrying amount of unencumbered assets €000	Fair value of unencumbered assets €000
010	**Assets of the reporting institution[10]**	**434,098**		**2,608,429**	
020	**Loans on demand**	**57,409**		**322,329**	
030	**Equity instruments**	**-**	**-**	**-**	**-**
040	**Debt securities**	**357,633**	**355,230**	**552,135**	**378,398**
050	*of which: covered bonds*	305,483	302,830	62,069	61,747
060	*of which: asset-backed securities*	49,263	46,818	102,803	71,507
070	*of which: issued by general governments*	34,399	34,023	158,828	157,544
080	*of which: issued by financial corporations*	323,234	321,207	362,233	201,787
090	*of which: issued by non-financial corporations*	7	7	7,612	16
110	**Loans and advances other than loans on demand**	**245**		**1,374,547**	
120	**Other assets**	**7,477**		**122,701**	

The amounts disclosed in the above and below tables 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 ("GRMA") 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.

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

	Matching liabilities, contingent liabilities or securities lent €000	Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered €000
Carrying amount of selected financial liabilities	**184,121**	**203,979**
of which:		
Derivatives	4,148	15,271
Repurchase agreements	179,973	188,708
Debt securities issued	-	185
Other sources of encumbrance	**199,602**	**199,602**
Total sources of encumbrance	**414,241**	**434,098**

9 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. To date, the leverage ratio is a non-binding requirement (Pillar 1) measure.

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 current proposed CRD V package will introduce a binding 3% leverage ratio. CRR 2 broadly reflects the Basel leverage ratio. It sets the Tier 1 capital-based leverage ratio requirement at 3% for all EU banks as per the EBA's recommendation. The final framework confirms that firms are allowed to use any Common Equity Tier 1 (CET1) capital that they use to meet their leverage ratio requirements to also meet their Pillar 1 and Pillar 2 capital requirements.

The following table provides a summary of the Group's leverage ratio calculation as at 30 June 2020, determined in accordance with the requirements stipulated by Implementing Regulation (EU) 2016/200.

LRCom: Leverage ratio common disclosure

As at 30 June 2020		**€000**
	On-balance sheet exposures (excluding derivatives and SFTs)	
1	On-balance sheet items (excluding derivatives and SFTs)	3,687,597
2	Asset amounts deducted in determining Tier 1 capital	(15,827)
3	**Total on-balance sheet exposures (excluding derivatives and SFTs)**	**3,671,770**
	Derivative exposures	
4	Replacement cost associated with all derivatives transactions	11,976
5	Add-on amounts for PFE associated with all derivatives transactions	4,522
11	**Total derivative exposures**	**16,498**
	Other off-balance sheet exposures	
17	Off-balance sheet exposures at gross notional amount	519,538
18	Adjustments for conversion to credit equivalent amounts	(342,729)
19	**Other off-balance sheet exposures**	**176,809**
	Capital and total exposure measure	
20	**Tier 1 capital**	**264,651**
21	**Leverage ratio total exposure measure (sum of lines 3,11 and 19)**	**3,897,639**
	Leverage ratio	
22	**Leverage ratio**	**6.79%**

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.

The following table provides a reconciliation of accounting assets and leverage ratio exposures as at 30 June 2020.

LRSum: Summary reconciliation of accounting assets and leverage ratio exposures

As at 30 June 2020		**€000**
1	Total assets as per published financial statements	3,843,166
4	Adjustments for derivative instruments	4,522
5	Adjustment for securities financing transactions (SFTs)	32,561
6	Adjustment for off-balance sheet items	176,810
7	Other adjustments:	
	Deduction on deferred tax assets	*(7,761)*
	Additional value adjustments	*(698)*
	IFRS 9 transitional adjustment	*10,354*
	Deduction of intangible assets	*(17,721)*
	Central counterparty exposures	*(134,007)*
	Other valuation and netting adjustments	*(9,587)*
8	**Leverage ratio exposure**	**3,897,639**

The following table provides a split-up of the on-balance sheet exposures as at 30 June 2020 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 30 June 2020		**€000**
EU-1	**Total on-balance sheet exposures (excluding derivatives, SFTs and exempted exposures)**	**3,687,596**
EU-2	Trading book exposures	-
EU-3	Banking book exposures, of which:	3,687,596
EU-4	*Covered bonds*	*559,250*
EU-5	*Exposures treated as sovereign*	*304,028*
EU-6	*Exposures to regional governments, MDB, international organisations and PSE not treated as sovereigns*	*334,293*
EU-7	*Institutions*	*215,064*
EU-8	*Secured by mortgages of immovable properties*	*566,262*
EU-9	*Retail exposures*	*67,502*
EU-10	*Corporate*	*1,095,430*
EU-11	*Exposures in default*	*141,918*
EU-12	*Other exposures*	*403,849*

LRQua: Leverage ratio disclosure of qualitative items

The leverage multiple has decreased by circa 2% from 31 December 2019. The decrease is attributable to the increase in the Group's balance sheet relating primary to continued growth of the Dutch Mortgage book. This was coupled with a Tier 1 capital decrease of approximately €35 million, the latter due to the loss for the period.

The Group's leverage is managed as part of its RAF 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.