MDB Group Limited

Pillar 3 disclosures report – Half-yearly report
30 September 2018

Contents

1 Introduction

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

Following an overall frequency assessment of all Pillar 3 disclosures, this 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*).

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

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

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

2 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.

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 September 2018 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**	**Accumulated write offs €000**	**Credit risk adjustment charges of the period €000**	**Net values[2] €000**
15 **Total IRB approach**	**-**	**-**	**-**	**-**	**-**	**-**
16 Central governments or central banks	-	85,415	-	-	-	85,415
17 Regional governments or local authorities	-	57,121	-	-	-	57,121
18 Pubic sector entities	-	109,423	-	-	-	109,423
19 Multilateral development banks	-	111,035	-	-	-	111,035
20 International organisations	-	28,476	-	-	-	28,476
21 Institution	-	124,561	-	-	-	124,561
22 Corporates	-	2,300,726	6,787	-	1,736	2,293,939
23 of which SMEs	-	*166*	-	-	-	*166*
24 Retail	-	6,803	105	-	-	6,698
25 of which SMEs	-	*2,390*	*105*	-	-	*2,285*
26 Secured by mortgages on immovable property	-	47,402	225	-	107	47,177
27 of which SMEs	-	*11,995*	*16*	-	*(1)*	*11,979*
28 Exposures in default	64,686	-	14,241	-	(1,308)	50,445
29 Items associated with particular high risk	6,681	48,059	1,818	-	4	52,922
30 Covered bonds	-	238,469	-	-	-	238,469
34 Other exposures	-	13,767	-	-	-	13,767
35 **Total standardised approach**	**71,367**	**3,171,257**	**23,176**	**-**	**539**	**3,219,448**
36 **Total**	**71,367**	**3,171,257**	**23,176**	**-**	**539**	**3,219,448**
37 of which: Loans and advances	71,367	1,829,863	23,176	-	539	1,878,053
38 of which: Debt securities	-	552,212	-			552,212
39 of which: Off-balance-sheet exposures		556,916				556,916

[1] **Gross carrying values**: This represents the accounting value before any allowance/impairments but after considering write-offs. 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.

2 Credit risk and credit risk mitigation ("CRM") - continued

2.1 Credit quality analysis - continued

EU CR1-B: Credit quality of exposures by industry

	Gross carrying values of					
	Defaulted exposures €000	**Non-defaulted exposures €000**	**Specific credit risk adjustments €000**	**Accumulated write-offs €000**	**Credit risk adjustment charges of the period €000**	**Net values €000**
3 Manufacturing	16,375	315,138	2,568	-	(106)	328,945
6 Financial and insurance activities	6,908	1,768,930	4,233	-	835	1,771,605
7 Construction	9,610	85,450	2,581	-	(103)	92,479
8 Professional, scientific and technical activities	23,609	171,314	2,405	-	(1,088)	192,518
10 Information and communication	-	263,956	1,146	-	613	262,810
12 Wholesale and retail trade	5,266	94,920	1,481	-	(22)	98,705
24 Others	9,599	471,549	8,762	-	409	472,386
25 **Total**	**71,367**	**3,171,257**	**23,176**	**-**	**538**	**3,219,448**

EU CR1-C: Credit quality of exposures by geography

	Gross carrying values of					
	Defaulted exposures €000	**Non-defaulted exposures €000**	**Specific credit risk adjustments €000**	**Accumulated write-offs €000**	**Credit risk adjustment charges of the period €000**	**Net values €000**
1 **Europe**	**71,367**	**2,872,625**	**22,313**	**-**	**(10)**	**2,921,679**
2 Malta	12,185	254,490	4,421	-	(110)	262,254
3 Belgium	-	53,686	-	-	(55)	53,686
4 Switzerland	-	76	-	-	(74)	76
5 Germany	16,375	325,007	2,548	-	86	338,834
6 Denmark	-	43,813	10	-	10	43,803
7 Spain	8,238	75,404	7,155	-	(90)	76,487
8 France	-	482,757	723	-	(116)	482,034
9 United Kingdom	29,511	747,593	4,247	-	(54)	772,857
10 Luxembourg	-	97,159	498	-	368	96,661
11 Ireland	-	13,905	21	-	(82)	13,884
12 Italy	5,058	180,961	1,723	-	(213)	184,296
13 Netherlands	-	279,477	722	-	306	278,755
14 Sweden	-	61,439	81	-	20	61,358
15 Other	-	256,858	164	-	(6)	256,694
16 **North America**	**-**	**295,286**	**863**	**-**	**583**	**294,423**
17 United States	-	288,997	863	-	583	288,134
18 Other	-	6,289	-	-	-	6,289
16 **Asia**	**-**	**-**	**-**	**-**	**(35)**	**-**
17 Hong Kong	-	-	-	-	(35)	-
18 **Other geographical areas**	**-**	**3,346**	**-**	**-**	**-**	**3,346**
19 Total	**71,367**	**3,171,257**	**23,176**	**-**	**538**	**3,219,448**

2 Credit risk and credit risk mitigation ("CRM") - continued

2.1 Credit quality analysis - continued

The following table provides an overview of non-performing and forborne exposures as at 30 September 2018 as per the Commission Implementing Regulation (EU) No 680/2014.

EU CR1-E: Non-performing and forborne exposures

	Gross carrying values of performing and non-performing exposures						
		Of which performing but past due >30 days and <=90days	Of which performing forborne		Of which non-performing		
					Of which defaulted	Of which impaired	Of which forborne
	€000	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**
1 Debt securities	**552,212**	-	-	-	-	-	-
2 Loans and advances	**1,901,229**	-	68,106	71,367	71,367	71,367	61,889
3 Off-balance sheet exposures	**556,916**	-	-	-	-	-	-

	Accumulated impairment and provisions and negative fair value adjustment due to credit risk				**Collaterals and financial guarantees received**	
	On performing exposures		On non-performing exposures		On non-performing exposures	Of which forborne exposures
		Of which forborne		Of which forborne		
	€000	**€000**	**€000**	**€000**	**€000**	**€000**
1 Debt securities	-	-	-	-	-	-
2 Loans and advances	7,364	438	15,812	8,078	20,991	17,856
3 Off-balance sheet exposures	-	-	-	-	-	-

The table above is presented based on the EBA definitions of 'non-performing' and 'forborne' exposures.

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 loans 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.

2 Credit risk and credit risk mitigation ("CRM") - continued

2.2 Impairment loss measurement guidelines - continued

The following table provides an aging analysis of accounting on-balance sheet past due exposures as at 30 September 2018 regardless of their impairment status. The gross carrying values indicated is before impairments and provisions but after the write-offs reported in financial statements.

EU CR1-D: Ageing of past due exposures

	Gross carrying values					
	≤ 30 days €000	> 30 days ≤ 60 days €000	> 60 days ≤ 90 days €000	> 90 days ≤ 180 days €000	> 180 days ≤ 1 year €000	> 1 year €000
1 Loans	1,184	-	-	16	104	19,929
3 Total exposures	**1,184**	**-**	**-**	**16**	**104**	**19,929**

All debt securities have no days past due as at end of the financial period 30 September 2018.

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 IAS 39, 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.

2 Credit risk and credit risk mitigation ("CRM") - continued

2.2 Impairment loss measurement guidelines - continued

The following table provides an analysis the change in stock of specific credit risk adjustment for the financial period ended 30 September 2018.

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

	Accumulated specific credit risk adjustments €000
1 Opening balance at 1 April 2018	22,638
2 Increases due to amounts set aside for estimated loan losses during the period	11,166
3 Decreases due to amounts reversed for estimated loan losses during the period	(10,973)
6 Impact of exchange rate differences	345
9 **Closing balance at 30 September 2018**	**23,176**
10 Recoveries on credit risk adjustments recorded directly to the statement of profit or loss	-
11 Specific credit risk adjustments recorded directly to the statement of profit or loss	7,760

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 table provides an analysis of the changes in stock of defaulted loans and debt securities throughout the financial period ended 30 September 2018. 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 April 2018	66,107
2 Loans and debt securities that have defaulted or impaired since the last reporting period	16
3 Returned to non-defaulted status	(182)
4 Amounts written off	(7,759)
5 Other changes	13,185
6 **Closing balance at 30 September 2018**	**71,367**

2 Credit risk and credit risk mitigation ("CRM") - continued

2.3 Credit risk mitigation

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.

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.

2 Credit risk and credit risk mitigation ("CRM") - continued

2.3 Credit risk mitigation - continued

2.3.3 Collateral and other credit enhancements - continued

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.

The following table shows an analysis of the on-balance sheet exposure value (carrying amount net of provisions) as at 30 September 2018 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] €000	Exposures Total secured - Carrying amount[4] €000	Exposures secured by collateral[5] €000	Exposures secured by financial guarantees[6] €000
1 Total loans and advances	1,805,365	72,688	71,972	716
2 Total debt securities	552,212	-	-	-
3 Total exposures	**2,357,577**	**72,688**	**71,972**	**716**
4 of which Defaulted	47,419	8,136	8,136	-

[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.

2 Credit risk and credit risk mitigation (“CRM”) - continued

2.3 Credit risk mitigation - continued

2.3.3 Collateral and other credit enhancements - continued

The following table details out the types of eligible collateral held for each exposure class as at 30 September 2018:

	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 debt securities	Secured by cash on deposit	Other types of secured exposures	Unsecured exposures
	€000	€000	€000	€000	€000	€000
Central governments or central banks	-	-	3,492	-	-	81,923
Regional governments or local authorities	-	-	-	-	-	57,121
Public sector entities	-	-	-	-	-	109,423
Multilateral development banks	-	-	-	-	-	111,035
International organisations	-	-	-	-	-	28,476
Institutions	-	-	-	-	-	124,561
Corporates	-	1,214	-	-	-	2,012,236
Retail	2,001	1,444	-	-	-	977
Secured by mortgages on immovable property	16,752	19,062	-	-	-	533
Exposures in default	1,243	1,783	-	-	-	47,419
Items associated with particular high risk	18,382	10,090	-	-	-	1
Covered bonds	-	-	-	-	-	238,469
Other exposures	-	-	-	276	-	11,350
Total	**38,378**	**33,593**	**3,492**	**276**	**-**	**2,823,524**

[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.

2 Credit risk and credit risk mitigation ("CRM") - continued

2.3 Credit risk mitigation - continued

2.3.3 Collateral and other credit enhancements - continued

The following table shows the exposures together with the relevant credit risk mitigation undertaken for each class as at 30 September 2018:

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	81,924	-	85,415	-	23,494	27.5
2 Regional governments or local authorities	57,121	-	57,121	-	-	0.0
3 Public sector entities	112,829	-	109,423	-	348	0.3
4 Multilateral development banks	111,035	-	111,035	-	-	0.0
5 International organisations	28,476	-	28,476	-	-	0.0
6 Institutions	120,143	-	120,143	-	24,030	20.0
7 Corporates	1,778,822	514,699	1,778,822	234,210	2,013,032	100.0
8 Retail	4,677	2,276	4,422	-	3,317	75.0
9 Secured by mortgages on immovable property	36,017	11,211	35,967	380	23,058	63.4
10 Exposures in default	50,445	-	50,445	-	72,083	142.9
11 Items associated with particular high risk	28,485	24,449	28,473	-	42,709	150.0
12 Covered bonds	238,469	-	238,469	-	23,847	10.0
16 Other items	9,254	4,281	9,486	2,140	9,228	79.4
17 Total	**2,657,697**	**556,916**	**2,657,697**	**236,730**	**2,235,146**	**77.2**

The table above does not cover derivative instruments exposures as at 30 September 2018 with an exposure value of €4.84 million post CCF and CRM, of which the respective RWAs amounted to €1.32 million.

[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.

2 Credit risk and credit risk mitigation ("CRM") - continued

2.3 Credit risk mitigation - continued

2.3.3 Collateral and other credit enhancements - continued

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	76,018	-	-	-	-	-	-	-	9,397	85,415
2 Regional governments or local authorities	57,121	-	-	-	-	-	-	-	-	57,121
3 Public sector entities	108,727	-	-	-	696	-	-	-	-	109,423
4 Multilateral development banks	111,035	-	-	-	-	-	-	-	-	111,035
5 International organisations	28,476	-	-	-	-	-	-	-	-	28,476
6 Institutions	-	-	124,540	-	-	-	21	-	-	124,561
7 Corporates	-	-	-	-	-	-	2,013,450	-	-	2,013,450
8 Retail	-	-	-	-	-	4,422	-	-	-	4,422
9 Secured by mortgages on immovable property	-	-	-	11,023	12,248	-	13,076	-	-	36,347
10 Exposures in default	-	-	-	-	-	-	7,167	43,278	-	50,445
11 Items associated with particular high risk	-	-	-	-	-	-	-	28,473	-	28,473
12 Covered bonds	-	238,469	-	-	-	-	-	-	-	238,469
16 Other items	2,398	-	-	-	-	-	9,228	-	-	11,626
17 Total	**383,775**	**238,469**	**124,540**	**11,023**	**12,944**	**4,422**	**2,042,942**	**71,751**	**9,397**	**2,899,263**

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 September 2018, is calculated to be €831,266 on a total exposure of €4,374,400.

EU CCR2 – CVA Capital Charge

	Exposure value €000	**RWAs €000**
4 All portfolios subject to the standardised method	**4,374**	**831**

3 Counterparty credit risk

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 year, 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 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 as appendix 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 team 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.

3 **Counterparty credit risk** - continued

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 September 2018	**Replacement cost/current market value €000**	**Potential future credit exposure €000**	**EAD post CRM €000**	**RWAs €000**
1 Mark to market	806	4,034	4,840	1,318
11 **Total**	**806**	**4,034**	**4,840**	**1,318**

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					19	100%	19
Interest rate swaps	Over one year, not exceeding five years	111,000					
Interest rate swaps	Over five years	12,000					
Foreign currency contracts	One year or less	396,545	1.00%	438	3,965	20%	880
Contracts concerning equities	Over five years	498	10.00%	368	50	100%	418

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

	Exposure value €000	**Risk weighted assets €000**
Institutions	4,422	900
of which exposure to a qualifying central counterparty	*19*	*19*
Corporates	418	418
	4,840	**1,318**

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

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.

4 Own funds - continued

4.1 Total available capital - continued

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

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

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

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 2018, subordinated liabilities included within Tier 2 capital comprised the following debt securities issued which are unsecured and in the event of the winding-up of the issuer, these are subordinated to the claims of depositors and all other creditors of the issuer:

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

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 Own funds - continued

4.2 Own funds – other disclosures - continued

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

At 30 September 2018	**€000**
Common Equity Tier 1 (CET1) capital	
Common Equity Tier 1 (CET1) capital: instruments and reserves	
Capital instruments and the related share premium accounts	69,495
Retained earnings	109,284
Accumulated other comprehensive income (and other reserves)	129,060
Funds for general banking risk	1,856
Common Equity Tier 1 (CET1) capital before regulatory adjustments	309,695
Common Equity Tier 1 (CET1) capital: regulatory adjustments	
Intangible assets (net of related tax liability)	(4,633)
Deferred tax assets that rely on future profitability	(14,402)
Other regulatory adjustments – IFRS 9 transitional arrangement	5,842
Total regulatory adjustments to Common Equity Tier 1 (CET1)	(13,193)
Common Equity Tier 1 (CET1) capital	**296,502**
Tier 1 capital	**296,502**
Tier 2 (T2) capital: instruments and provisions	
Capital instruments and the related share premium accounts (Subordinated loans)	50,006
Tier 2 capital	**50,006**
Total capital	**346,508**
Total risk weighted assets	**2,348,057**

4 Own funds - continued

4.2 Own funds – other disclosures - continued

4.2.1 Composition of Own Funds - continued

Capital ratios and buffers	**At 30 September 2018 %**
Common Equity Tier 1 ratio	12.63
Tier 1 ratio	12.63
Total capital ratio	14.76
Institution specific buffer requirement	6.93
of which: Capital conservation buffer requirement	1.88
of which: Countercyclical buffer requirement	0.18
of which: Other Systemically Important Institution (O-SII) buffer	0.38
Common Equity Tier 1 available to meet buffers in excess of the CRR 4.5% minimum requirement	8.13
Amounts below the thresholds for deduction (before risk weighting)	**€000**
Deferred tax assets arising from temporary differences (amount below 10% threshold, net of related tax liability where the conditions of Article 38(3) are met)	9,397

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

As shown above, there were no other items requiring deduction that were not deducted from the own funds in accordance with Section 3, Chapter 2, Title I, Part Two of CRR. In particular, in terms of article 48 of CRR, the Group's deferred tax assets dependent on future profitability and arising from temporary differences did not exceed the 10% threshold and therefore were not required to be deducted from own funds. The Group does not have any systemic risk buffer as at 30 September 2018.

In line with Article 2 in the Commission Implementing Regulation (EU) No 1423/2013 and Part Eight Article 437 (1) of the CRR, the following is a full reconciliation of the Group's Own Funds items to the management accounts as at 30 September 2018.

Capital Base	**At 30 September 2018 €000**
Shareholders' equity according to the Group's balance sheet	327,452
Interim profits not eligible for inclusion as CET1 capital	(12,060)
Market value of assets pledged in favour of Depositor Compensation Scheme	(5,369)
Deferred tax assets that are dependent on future profitability and do not arise from temporary differences (transitional definition)	(14,402)
Intangible assets	(4,633)
Other adjustments:	
IFRS 9 transitional arrangements	5,842
Other adjustments	(328)
Common Equity Tier 1 capital / Tier 1 capital	**296,502**
Tier 2 instruments: subordinated loans	66,876
Amortisation of tier 2 instruments	(16,870)
Tier 2 capital	**50,006**
Total capital	**346,508**

4 Own funds - continued

4.2 Own funds – other disclosures - continued

4.2.1 Composition of Own Funds - continued

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

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

		30 September 2018	30 June 2018
	Available capital (amounts in €000)		
1	Common Equity Tier 1 (CET1) capital	296,502	304,919
2	Common Equity Tier 1 (CET1) capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	290,660	299,441
3	Tier 1 capital	296,502	304,919
4	Tier 1 capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	290,660	299,441
5	Total capital	346,508	356,058
6	Total capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	340,666	350,580
	Risk-weighted assets (amounts in €000)		
7	Total risk-weighted assets	2,348,057	2,155,388
8	Total risk weighted assets as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	2,336,740	2,157,934
	Capital ratios		
9	Common Equity Tier 1 (as a percentage of risk exposure amount)	12.63%	14.15%
10	Common Equity Tier 1 (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	12.44%	13.88%
11	Tier 1 (as a percentage of risk exposure amount)	12.63%	14.15%
12	Tier 1 (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	12.44%	13.88%
13	Total capital (as a percentage of risk exposure amount)	14.76%	16.52%
14	Total capital (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	14.58%	16.25%
	Leverage ratio		
15	Leverage ratio total exposure measure (€000)	3,136,842	2,971,448
16	Leverage ratio	9.45%	10.26%
17	Leverage ratio as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	9.33%	10.08%

4 **Own funds** - continued

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

4.2.1 Composition of Own Funds - continued

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

- the Day 1 impact as a result of the introduction of IFRS 9, being the difference between IFRS 9 expected credit losses ("ECLs") on 1 April 2018 and IAS 39 provisions determined at 31 March 2018; and

- on difference in the IFRS 9 ECLs determined at reporting date and the ECLs determined on 'day 1' of the introduction of IFRS 9 (being 1 April 2018 for the Group) for Stage 1 (12-months ECLs) and Stage 2 (lifetime ECLs) assets.

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

As noted in template IFRS 9-FL above, the impact of the transitional arrangement on the Group's capital ratio as at 30 September 2019 amounted to 19 bps at the reporting period under review. This was a result of an add-back in capital of €5.8 million and a reduction of €11.3 million in risk-weighted assets. Similarly, the Group's leverage ratio is 'overstated' by 12 bps in view of the transitional arrangement applied.

4 **Own funds** - continued

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

4.2.1 Composition of Own Funds - continued

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

Capital instruments' main features

	Instruments	**MDB Group Limited Ordinary shares**	**MDB Group Limited Share premium**	**MeDirect Bank (Malta) plc 7.5% Subordinated Bonds EUR 2019**	**MeDirect Bank (Malta) plc 7.5% Subordinated Bonds GBP 2019**
1	Issuer	MDB Group Limited	MDB Group Limited	MeDirect Bank (Malta) plc	MeDirect Bank (Malta) plc
2	Unique identifier	N/A	N/A	MT0000551227	MT0000551235
3	Governing law(s) of the instrument	Maltese Law	Maltese Law	Maltese Law	Maltese Law
	Regulatory treatment				
4	Transitional CRR rules	Tier 1	Tier 1	Tier 2	Tier 2
5	Post-transitional CRR rules	Tier 1	Tier 1	Tier 2	Tier 2
6	Eligible at solo/(sub-) consolidated/solo & (sub-) consolidated	Solo & (Sub) Consolidated	Solo & (Sub) Consolidated	Solo & (Sub) Consolidated	Solo & (Sub) Consolidated
7	Instrument type	Tier 1 as published in Regulation (EU) No 575/2013 articles 26 and 28	Tier 1 as published in Regulation (EU) No 575/2013 articles 26 and 28	Tier 2 as published in Regulation (EU) No 575/2013 article 63	Tier 2 as published in Regulation (EU) No 575/2013 article 63
8	Amount recognised in regulatory capital	EUR55.7 million	EUR13.8 million	EUR4.4 million	EUR1.0 million
9	Nominal amount of instrument	EUR55.7 million	EUR13.8 million	EUR18.7 million	EUR4.1 million
9a	Issue price	EUR1 per share	EUR0.335 per share	EUR100 per EUR bond	GBP100 per GBP bond
9b	Redemption price	N/A	N/A	EUR100 per EUR bond	GBP100 per GBP bond
10	Accounting classification	Share capital	Share premium	Liability - amortised cost	Liability - amortised cost
11	Original date of issuance	10 June 2004	10 June 2004	21 November 2012 (Note 1)	21 November 2012 (Note 1)
12	Perpetual or dated	Perpetual	Perpetual	Dated	Dated
13	Original maturity date	N/A	N/A	14 December 2019	14 December 2019
14	Issuer call subject to prior supervisory approval	No	No	N/A (Note 2)	N/A (Note 2)
15	Optional call date, contingent call dates, and redemption amount	No	No	N/A (Note 2)	N/A (Note 2)
16	Subsequent call dates, if applicable	No	No	N/A (Note 2)	N/A (Note 2)
	Coupons/dividends				
17	Fixed or floating dividend/coupon	Floating	N/A	Fixed	Fixed
18	Coupon rate and any related index	N/A	N/A	7.5% per annum	7.5% per annum
19	Existence of a dividend stopper	No	No	No	No
20a	Fully discretionary, partially discretionary or mandatory - in terms of timing	Fully discretionary	N/A	Mandatory	Mandatory
20b	Fully discretionary, partially discretionary or mandatory - in terms of amount	Fully discretionary	N/A	Mandatory	Mandatory
21	Existence of step up or other incentive to redeem	N/A	N/A	No	No
22	Noncumulative or cumulative	Non-cumulative	Non-cumulative	Cumulative	Cumulative
23	Convertible or non-convertible	Non-convertible	Non-convertible	Non-convertible	Non-convertible
30	Write-down features	No	No	No	No
35	Position in subordination hierarchy in liquidation	Subordinated to MeDirect Bank Malta plc subordinated bonds	Subordinated to MeDirect Bank Malta plc subordinated bonds	Subordinated to senior creditors and depositors	Subordinated to senior creditors and depositors
	Non-compliant transitioned features	No	No	No	No

Note (1): The subordinated loan capital in Tier 2 capital represents the subordinated unsecured bonds and are included as part of Tier II Capital as they fully qualify for the provisions listed under CRR (575/2013) Part Two, Title 1, Chapter 4, Article 63. Specifically they rank after the claim of all other creditors and are not to be repaid until all other debts outstanding at the time have been settled. As at 30 September 2018 the subordinated bonds listed above had a remaining maturity of less than 5 years and had all been fully paid up.

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

4 Own funds - continued

4.2 Own funds – other disclosures - continued

4.2.1 Composition of Own Funds - continued

Capital instruments' main features

	Instruments	MeDirect Bank (Malta) plc 6% Subordinated Unsecured Bonds EUR 2019 - 2024	MeDirect Bank (Malta) plc 6% Subordinated Unsecured Bonds GBP 2019 – 2024
1	Issuer	MeDirect Bank (Malta) plc	MeDirect Bank (Malta) plc
2	Unique identifier	MT0000551268	MT0000551276
3	Governing law(s) of the instrument	Maltese Law	Maltese Law
	Regulatory treatment		
4	Transitional CRR rules	Tier 2	Tier 2
5	Post-transitional CRR rules	Tier 2	Tier 2
6	Eligible at solo/(sub-)consolidated/solo & (sub-)consolidated	Solo & (Sub) Consolidated	Solo & (Sub) Consolidated
7	Instrument type	Tier 2 as published in Regulation (EU) No 575/2013 article 63	Tier 2 as published in Regulation (EU) No 575/2013 article 63
8	Amount recognised in regulatory capital	EUR23.0 million	EUR1.9 million
9	Nominal amount of instrument	EUR23.0 million	EUR1.9 million
9a	Issue price	EUR100 per EUR Bond	Only GBP100 per GBP Bond
9b	Redemption price	EUR100 per EUR Bond	Only GBP100 per GBP Bond
10	Accounting classification	Liability - amortised cost	Liability - amortised cost
11	Original date of issuance	28 November 2014 (Note 1)	28 November 2014 (Note 1)
12	Perpetual or dated	Dated	Dated
13	Original maturity date	28 November 2024	28 November 2024
14	Issuer call subject to prior supervisory approval	N/A (Note 2)	N/A (Note 2)
15	Optional call date, contingent call dates, and redemption amount	N/A (Note 2)	N/A (Note 2)
16	Subsequent call dates, if applicable	N/A (Note 2)	N/A (Note 2)
	Coupons / dividends		
17	Fixed or floating dividend/coupon	Fixed	Fixed
18	Coupon rate and any related index	6% per annum	6% per annum
19	Existence of a dividend stopper	No	No
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 September 2018 the subordinated bonds listed above had a remaining maturity of more than 5 years and had all been fully paid up. The full value of these securities are included in the Group's Own Funds figure.

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

Own funds - continued

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

4.2.1 Composition of Own Funds - continued

Capital instruments' main features

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

Note (1): The subordinated loan capital in Tier 2 capital represents the subordinated unsecured bonds of MDB Group Limited. They are included as part of Tier II Capital as they fully qualify for the provisions listed under CRR (575/2013) Part Two, Title 1, Chapter 4, Article 63. Specifically they rank after the claim of all other creditors and are not to be repaid until all other debts outstanding at the time have been settled. As at 30 September 2018 the subordinated bonds listed above had a remaining maturity of more than 5 years and had all been fully paid up. The full value of these securities are included in the Group's Own Funds figure.

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

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.

- 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.

5 Capital requirements - continued

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

	EU OV1 – Overview of RWAs	**30 September 2018**	**31 March 2018**	**30 September 2018**
	Exposure Class	**Risk weighted assets €000**	**Risk weighted assets €000**	**Minimum Capital Requirements €000**
1	**Credit risk (excluding CCR)**	**2,235,146**	**2,029,526**	**178,812**
2	of which the standardised approach	2,235,146	2,029,526	178,812
	Central governments or central banks	23,494	25,454	1,879
	Public sector entities	348	481	28
	Institutions	24,030	20,074	1,922
	Corporates	2,013,032	1,789,585	161,043
	Retail	3,317	3,011	265
	Secured by mortgages on immovable property	23,058	34,473	1,845
	Exposures in default	72,083	74,370	5,767
	Items associated with particular high risk	42,709	50,113	3,417
	Covered bonds	23,847	24,039	1,908
	Other items	9,228	7,926	738
6	**CCR**	**2,148**	**2,514**	**172**
7	of which mark to market	1,317	1,759	105
12	of which CVA	831	755	67
23	**Operational risk**	**110,763**	**110,763**	**8,861**
24	of which the basic indicator approach	110,763	110,763	8,861
27	*Amounts below the thresholds for deduction (subject to 250% risk weight)*	*23,494*	*25,454*	*1,879*
29	**Total**	**2,348,057**	**2,142,803**	**187,845**

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

	€000
Own funds	
Common Equity Tier 1 capital / Tier 1 capital	296,502
Tier 2 capital	50,006
Total own funds	**346,508**
Total capital ratio	**14.76%**

6 Liquidity

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

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

These items have been disclosed in the table below.

€000	**Total weighted value (average)**			
Quarter ending on:	Oct – Dec 2017	Jan – Mar 2018	Apr – June 2018	Jul – Sept 2018
Number of data points used in the calculation of averages	12	12	12	12
21 Liquidity buffer	351,011	356,854	389,163	401,645
22 Total net cash outflows	51,546	52,517	57,744	76,264
23 Liquidity coverage ratio (%)	687%	686%	694%	603%

7 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.

7 Asset encumbrance - continued

Encumbered and unencumbered assets

		Carrying amount of encumbered assets 2018 €000	Fair value of encumbered assets 2018 €000	Carrying amount of unencumbered assets 2018 €000	Fair value of unencumbered assets 2018 €000
010	Assets of the reporting institution[10]	209,057		2,365,536	
040	Debt securities	152,608	152,608	418,936	418,936
050	*of which: covered bonds*	*146,922*	*146,922*	*111,164*	*111,164*
060	*of which: issued by general governments*	*9,209*	*9,209*	*188,976*	*188,976*
080	*of which: issued by financial corporations*	*146,922*	*146,922*	*225,082*	*225,082*
090	*of which: issued by non-financial corporations*	-	-	*27*	*27*
120	Other assets	51,786		1,921,377	

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

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

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

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

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

	Matching liabilities, contingent liabilities or securities lent 2018 €000	Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered 2018 €000
010 Carrying amount of selected financial liabilities	145,052	175,391

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

8 Leverage

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

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

The initial implementation of the current leverage ratio regime is to be effected as a Pillar II measure. In 2016, the European Banking Authority published its report on the impact assessment and calibration of the leverage ratio, recommending the introduction of a leverage ratio minimum requirement in the EU to mitigate the risk of excessive leverage. The analysis suggests that the potential impact of introducing a Pillar I leverage ratio requirement of 3% on the provision of financing by credit institutions would be relatively moderate, while, overall, it should lead to more stable credit institutions. It is expected that the leverage ratio should be introduced as a binding measure as of 2018. The Group currently complies with the minimum 3% Tier 1 leverage ratio based on fully-transitioned Basel III standards.

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

LRCom: Leverage ratio common disclosure

	As at 30 September 2018	**€000**
	On-balance sheet exposures (excluding derivatives and SFTs)	
1	On-balance sheet items (excluding derivatives and SFTs)	2,679,083
2	Asset amounts deducted in determining Tier 1 capital	(13,192)
3	**Total on-balance sheet exposures (excluding derivatives and SFTs)**	**2,665,891**
	Derivative exposures	
4	Replacement cost associated with all derivatives transactions	806
5	Add-on amounts for PFE associated with all derivatives transactions	4,010
11	**Total derivative exposures**	**4,816**
	Other off-balance sheet exposures	
17	Off-balance sheet exposures at gross notional amount	556,916
18	Adjustments for conversion to credit equivalent amounts	(90,780)
19	**Other off-balance sheet exposures**	**466,135**
	Capital and total exposure measure	
20	**Tier 1 capital**	**296,502**
21	**Leverage ratio total exposure measure (sum of lines 3,11 and 19)**	**3,136,842**
	Leverage ratio	
22	**Leverage ratio**	**9.45%**

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.

8 Leverage - continued

The following table provides a reconciliation of accounting assets and leverage ratio exposures as at 30 September 2018.

LRSum: Summary reconciliation of accounting assets and leverage ratio exposures

	As at 30 September 2018	**€000**
1	Total assets as per published financial statements	2,665,580
4	Adjustments for derivative instruments	4,010
6	Adjustment for off-balance sheet items	466,136
7	Other adjustments:	
	Deduction on deferred tax assets	*(14,402)*
	Deduction for intangible assets	*(4,633)*
	Other adjustments	*20,151*
8	**Leverage ratio exposure**	**3,136,842**

The following table provides a split-up of the on-balance sheet exposures as at 30 September 2018 in relation to the calculation of the leverage ratio.

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

	As at 30 September 2018	**€000**
EU-1	**Total on-balance sheet exposures (excluding derivatives, SFTs and exempted exposures)**	**2,665,891**
EU-2	Trading book exposures	-
EU-3	Banking book exposures, of which:	2,665,891
EU-4	*Covered bonds*	*238,469*
EU-5	*Exposures treated as sovereign*	*391,471*
EU-7	*Institutions*	*122,495*
EU-8	*Secured by mortgages of immovable properties*	*35,967*
EU-9	*Retail exposures*	*4,422*
EU-10	*Corporate*	*1,778,822*
EU-11	*Exposures in default*	*50,445*
EU-12	*Other exposures*	*43,800*

LRQua: Leverage ratio disclosure of qualitative items

The leverage multiple has decreased by circa 81 bps from June 2018. This decrease is attributable to the increase in the Group's balance sheet growth, as Tier 1 capital decreased by approximately €8 million, the latter due to the increase in the deferred tax assets deduction to capital.

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

9 Disclosure references

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

High-level reference	Compliance reference
a) Information on own funds as referred to in paragraph 25(a), with a quarterly frequency; being: information on own funds and relevant ratios as required by Article 437 and Article 492, as applicable, of the CRR, especially the following information (as defined in the appropriate rows of Annexes IV and V of the Commission Implementing Regulation (EU) No 1423/2013 of 20 December 2013): i. Total amount of Common Equity Tier 1 capital, as in rows 6 and 29; ii. Total amount of Additional Tier 1, as in rows 36 and 44; iii. Total amount of Tier 1 capital, as in row 45; iv. Total amount of Tier 2 capital, as in rows 51 and 58; v. Total amount of capital, as in row 59; vi. Total regulatory adjustments to each capital aggregate, as in rows 28, 43 and 57; vii. Common Equity Tier 1 ratio, as in row 61; viii. Tier 1 ratio, as in row 62; ix. Total capital ratio, as in row 63.	Refer to Section 4 - Own funds
b) Information on leverage ratio as referred to in paragraph 25(c), with a quarterly frequency; being: Information on the leverage ratio as required by Article 451 of the CRR, especially the following information (as defined in the appropriate rows of Annex I of the Commission Implementing Regulation (EU) No 2016/200): i. Amount of Tier 1 capital used as a numerator as in row 20, with the specification required in row EU-23; ii. Amount of total exposure used as a denominator as in row 21; iii. Resulting leverage ratio as in rows 22.	Refer to Section 8 - Leverage
c) The full set of information required by the Commission Implementing Regulation (EU) No 1423/2013 and the Commission Implementing Regulation (EU) No 2016/200, on a semi-annual basis;	Refer to Section 4 - Own funds
d) Other information listed in the guidance in the EBA Guidelines 2016/11, with the applicable frequency, and particularly: i. Information in Article 438 points (c) to (f), as specified in templates EU OV1, EU CR8, EU CCR7, and EU MR2-B; ii. Information on risk exposures, as specified in templates EU CR5, EU CR6 and EU MR2-A.	Only EU OV1 and EU CR 5 are applicable to the Group. • EU OV1 - Refer to Section 5 - Capital requirements • EU CR5 – Refer to Section 2.3.3 – Collateral and other credit enhancements
e) Information on other items prone to rapid changes.	Refer to Section 6 – Liquidity

Other relevant disclosures: i. Credit risk and credit risk mitigation disclosures required on a semi-annual basis; ii. Counterparty credit risk required on a semi-annual basis; and iii. Other disclosures deemed relevant to the Group's business.	i. Refer to Section 2 – Credit risk and credit risk mitigation ("CRM") ii. Refer to Section 3 – Counterparty credit risk iii. Refer to Section 7 – Asset encumbrance