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COMPANY ANNOUNCEMENT

The following is a Company Announcement issued by MeDirect Bank (Malta) plc pursuant to the Listing Rules issued by the Listing Authority.

Quote

On the 17 August 2020, the Board of Directors of MeDirect Bank (Malta) plc and MDB Group Limited considered and approved the condensed Group Interim Financial Statements for the six-month financial period ended 30 June 2020.

These Interim Financial Statements are available for viewing and downloading on the Bank's website under the Investor Relations section (https://www.medirect.com.mt/about-us/investor-relations).

2020 Interim Results – Highlights

"MeDirect absorbs significant COVID-19 related losses
but remains well capitalised and on track for future growth"

Implementing the Group's strategy

- The Group continues to implement its business transformation to deliver long-term profitable growth as a pan-European retail and digital challenger bank, despite the COVID-19 pandemic and its effects on world economies and markets.

- The Group remains well capitalised and liquid and as a systemically important bank is supervised by the European Central Bank.

- The Group's client base grew by 8% in the first six months of 2020, from 66,500 to 72,100, in line with the compound annual growth rate (CAGR) of 15% during the past two years. The Group's attractive savings products and wealth solutions have continued to drive growth in client assets, which have reached €3.7 billion as at 30 June 2020, up 9% from €3.4 billion as at 31 December 2019, in line with the 13% CAGR during the past two years.

- The Group is implementing new digital solutions to provide customers with straightforward services and a seamless banking experience. The successful launch of the Group's new mobile application in Malta in early May and in Belgium in July was one of the key milestones of this transformation.

- The Group continues to diversify its balance sheet and is on track to meet its target of a €1 billion Dutch government-backed mortgage portfolio by December 2020.

- The Group continues to de-risk its historical pan-European international corporate lending business as part of the strategic transformation. This portfolio comprises working capital facilities and other loans which finance companies in the real economy that employ thousands of people across a wide range of sectors, some of which have been more exposed to the impact of COVID-19.

- MeDirect Malta's local corporate banking business in Malta, accounting for less than 10% of the Group's corporate lending, remains sound and profitable. MeDirect Malta has become an accredited financial intermediary under the Malta Development Bank's COVID-19 Guarantee Scheme and has launched its MeAssist product in early May 2020 in order to enhance access to bank financing for its clients.

- The Group was one of the first banks to implement efficiently full remote working capabilities to address the operational challenges of COVID-19.

- During the first half of 2020, and despite COVID-19, the Group continued to be very successful in attracting high calibre talent and digital experts to support its strategic transformation.

Financial performance

- The balance sheet increased by 23% to €3.8 billion during the first six months of 2020, from €3.1 billion as at 31 December 2019. This was principally driven by the €463 million increase in the Dutch government-backed mortgage portfolio.

- Total customer deposits grew by 8% to €2.6 billion as at 30 June 2020 from €2.4 billion as at 31 December 2019.

- During the peak of the COVID-19 outbreak, MeDirect Belgium was the first issuer to securitise a portfolio of Dutch residential mortgages with a third party investor through a Residential Mortgage-Backed Security ("RMBS"). As a result of the transaction, MeDirect Belgium raised €350 million of long-term lower cost funding and diversified its funding sources. The successful placement of the senior tranche of this large debut transaction in the midst of the crisis reinforced investor confidence in the Group as an issuer.

- The COVID-19 outbreak has substantially increased the uncertainty in the macroeconomic environment, which MeDirect has considered in its forward-looking provisioning approach. The Group carried out a comprehensive review of its international corporate lending portfolio and assessed borrowers on a loan-by-loan basis to identify problem exposures. The review resulted in the recognition of impairment provisions of €55.7 million for the first six months of 2020, capturing all expected credit losses.

- As a result of the effects of COVID-19, the Group reported a loss after tax of €50.1 million for the six months ended 30 June 2020, compared to a profit after tax of €6.9 million for the first six months of calendar 2019. Management estimates that if one-off COVID-related impacts were excluded, the Group would have recorded a profit after tax of approximately €1.7 million for the first six months of 2020 while continuing to invest actively in the implementation of its transformation, including the build out of its digital platform and the diversification of its balance sheet.

- MDB 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%.

- MDB Group liquidity reserves remain strong at €666.8 million as at 30 June 2020, and LCR stands at 569%, €549.7 million above regulatory requirements.

Unquote

Henry Schmeltzer
Company Secretary
17 August 2020

MeDirect Bank (Malta) plc

Condensed Consolidated
Interim Financial Statements
30 June 2020

Interim directors’ report pursuant to Listing Rules 5.74 et seq

The directors present their interim financial statements of MeDirect Bank (Malta) plc (“the Bank” or “MeDirect Malta”), and its principal subsidiary, MeDirect Bank SA (“MeDirect Belgium” or “the subsidiary”) (together referred to as the “Group” or “MeDirect Malta Group”) for the six-month period ended 30 June 2020.

In preparing these interim financial statements, the Board has considered the contents of the Public Statement issued by the European Securities and Markets Authority dated 20 May 2020 (ESMA 32-63-972) the objective of which is to provide transparency and consistent application of European requirements for information provided in the half-yearly reports under the current circumstances related to the COVID-19 outbreak.

Principal activities

The principal activities of the Group have historically comprised international lending predominantly to EU corporate borrowers, to whom the Group continues to provide working capital facilities and other loans. These loans finance companies in the real economy that employ thousands of people across a wide range of sectors. Additionally, the Group provides retail banking services primarily to individual clients in Belgium and Malta. Such retail services are offered through easy to use online and mobile digital platforms, focusing on deposit savings and wealth management products. The Group also offers corporate lending and services in Malta.

Following a series of transformational initiatives to de-risk and diversify the Group’s asset base from its historic core focus on international corporate lending, the gross carrying amount of that portfolio decreased from its peak of €1.8 billion as at 31 March 2019 to €1.3 billion as at 30 June 2020. Starting September 2019, the Group commenced significant investment in the Dutch government-backed retail mortgage market. The Group also completed its inaugural securitisation of Dutch government-backed mortgages and placed the senior tranche with a third-party investor in May 2020.

MDB Group Limited is the parent company of MeDirect Malta and this parent company together with its subsidiaries are referred to as “MDB Group”. The MDB 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 MDB 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”). MDB Group is classified as an “Other Systemically Important Institution”, and MeDirect Malta is considered a core domestic bank by the Central Bank of Malta.

Business developments

Implementation of retail digital transformation

In 2019, the Group began to implement its new business strategy as approved by the Board based on the proposals of the new management team that joined in September 2019. The new business strategy defined a plan to build a more diversified, pan-European client-centric retail digital challenger bank to serve as the basis for future growth. The new management team brings years of experience in the retail digital banking sector building retail banking platforms.

Upon joining the Group, the new management team began to reorganise the Group’s operating structure to align it better with client needs and to improve efficiency and manage operating expenses. The management team also accelerated the diversification of the Group’s balance sheet in order to improve the Group’s risk profile and is working toward further strengthening the Group’s capital position.

During the financial period ended 30 June 2020 the Group continued to implement this transformation strategy to deliver long term profitable growth as a pan-European retail-centric digital bank. The Group is implementing new digital solutions to provide customers with straightforward services and a seamless banking experience.

The Group's new business strategy is based on four main pillars:

- *Sound financial and regulatory base* - The Group operates with sound capital ratios, a diversified funding base and robust liquidity. The Group also continues to meet appropriate standards in relation to compliance and anti-money laundering matters.

- *Scaling up the digital wealth platform* – The Group continues to develop a wealth-focused value proposition by operating as an agile digital bank with fintech capabilities. The Group is building a scalable IT platform with modular banking architecture and innovative functionalities.

- *Diversified credit portfolio* – The Group is building an increasingly diversified credit portfolio with strong risk management. International corporate lending has been the Group's historical focus from a credit perspective, but the Group has recently diversified its asset portfolio by entering the Dutch government-backed mortgage market and is considering expansion into other retail mortgage products.

- *Efficient operational centre in Malta* – The Group operates a high-quality IT development platform in Malta. The bulk of the Group's staff is located in Malta, including IT, operations and many of the Group's support and control functions. The service centre supports the operational efficiency of the Group as a whole.

The Group's strategic transformation is on track and continues to be implemented despite the challenges posed by the effects of the COVID-19 pandemic. During the first half of the 2020 financial year, as described in greater detail in *Financial Performance* below, the Group continued to grow its client base, deposits, assets under custody and total credit portfolio whilst continuing to build its digital platform. The Group has continued to invest in the transformation of its retail client offering into a wealth-focused value proposition. The goal of the Group is to become a retail-focused digital bank offering highly attractive products to a growing client base through an easy to use and highly accessible multi-channel platform.

Execution of the transformation programme involves the development of the Group's digital offering to improve onboarding and customer accessibility as well as optimisation of the Group's product offering through its open architecture platform. The Group also will upgrade its Customer Relationship Management ("CRM") systems and intends to improve its cross-sell capabilities in order to increase the volume and scope of its customer relationships. The Group recently launched its mobile application in both Belgium and Malta.

The Group has also continued the diversification and de-risking of its asset portfolio through focus on the Dutch government-backed mortgage market (relying on strong partners for origination and servicing) and by de-emphasising investment in international corporate lending markets. The Group is on track to meet its full year goals for investment in Dutch government-backed mortgages.

The Group's business in Malta, accounting for less than 10% of the Group's corporate lending, has also remained healthy, and MeDirect Malta has continued to support actively the local economy as outlined further down.

Information technology transformation

The digital transformation strategy is a critical piece in the execution of the Group's strategic transformation, allowing the Group to continue to develop and support fast, scalable and cost-efficient platforms. Technology is a fundamental pillar for the Group, which is investing heavily in research and development to build state of the art systems to allow the Group to operate efficiently and to provide the best customer experience to its clients.

The successful launch of the Group's new mobile application in Malta in early May and in Belgium in July were key milestones in the transformation of the Group's technology platform. The Group will continue to roll out new features for the mobile app with the goal of enabling clients to perform savings, investment and wealth transactions through their mobile phones.

The Group is also focused on improving its ability to manage and utilise effectively its data. A new CRM system is being introduced across all customer facing applications analysing real-time dataflows. The new CRM system will allow the Group to support highly personalised customer interactions, cross selling and improved customer retention.

Growth of Dutch residential mortgage portfolio

The Dutch mortgage business was successfully launched by MeDirect Belgium in September 2019 as a first step toward diversifying the Group's credit portfolio from its international lending portfolio. This new business line grew at a strong pace in 2020, in line with the Group's plans, despite the challenges and uncertainties resulting from the COVID-19 pandemic. During the first half of the year, the portfolio grew from €133.2 million as at 31 December 2019 to €595.8 million as at 30 June 2020.

This lending portfolio benefits from favourable credit risk weighting treatment. As a result of the Dutch government guarantee provided by the Dutch government-backed mortgage programme and the low credit risk of the Dutch government, the risk weighting of Dutch government-backed mortgages is approximately 7.5%. In accordance with its plan to downsize progressively its international corporate lending portfolio, the Group will accelerate its asset diversification strategy, with the objective of having the Dutch government-backed mortgage portfolio become the largest asset class on balance sheet in 2021. The Group is also exploring possibilities for further expansion into other mortgage products.

Dutch residential mortgage-backed security transaction

In May 2020 MeDirect Belgium successfully securitised part of the Dutch retail mortgage portfolio raising €350 million through a Residential Mortgage-Backed Security ("RMBS") transaction. As part of the transaction the mortgage portfolio was sold to Bastion 2020-1 NHG B.V. ("Bastion 2020-1"), a special purpose securitisation vehicle established in the Netherlands.

MeDirect's transaction is the first Dutch residential mortgages securitisation placed with a third party institutional investor during the peak of the COVID-19 outbreak. The institutional investor acquired the senior tranche of the RMBS, and MeDirect Belgium retained all junior tranches. The successful placement of the senior tranche of this large debut transaction in the midst of the crisis reinforced investor confidence in the Group as an issuer.

As a result of the successful securitisation, the Group benefits from long-term stable lower cost funding and diversified its funding sources. MeDirect retains substantially all risks and rewards of the underlying securitised Dutch government-backed mortgage portfolio. As a result, the mortgage portfolio, the senior notes of Bastion 2020-1 and related income and expenditure are reflected in the Group's financial statements.

International corporate lending

In accordance with its business plan, the Group is de-risking its international corporate lending portfolio and since the beginning of the previous financial period has reduced the size of the portfolio by 28%. The Group intends to continue to reduce the size of the portfolio through repayments and selective sales of assets. The Group as a responsible lender has a well-diversified portfolio across various sectors and countries. Nevertheless, some of the Group's borrowers operate in sectors which are more exposed to the COVID-19 impact. As a result of this, the Group has applied heightened levels of risk monitoring across the portfolio.

Operational and customer response to COVID-19

With the emergence and spread of COVID-19 in early 2020, the Group was one of the first banks to implement efficiently full remote working capabilities to address the operational challenges of COVID-19. The Group has focused on keeping its employees and customers safe and has followed all guidelines and recommendations issued by the relevant authorities. A Group-wide contingency plan was executed as circumstances evolved, and the Group successfully altered its day-to-day operations to enable all employees to work remotely. Various measures were taken to ensure business continuity and to safeguard the welfare of employees working remotely. All processes continued as normal without any adverse impact on the Group's operations and services as the digital banking platform allowed customers to continue all banking, investment and wealth transactions from the safety of their homes.

The Group commenced a phased return to the new normal working conditions, and employees are now gradually returning to work at the Group's offices in line with government requirements and safety recommendations. The Group is ensuring that its workplaces are subject to exemplary hygiene measures in line with advice from health authorities. The Group will continue to ensure risk management focus around work-related travel and customer/client interaction in consideration of the risk of exposure to COVID-19 and other infectious diseases.

The Group is also 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 and 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.

Economic effects of COVID-19 and response by regulatory authorities

Like many other markets, global leveraged loan markets (to which the Group is exposed through its international corporate lending portfolio) have faced market conditions not seen at least since the financial crisis of 2008-09. The economic fallout from the COVID-19 pandemic has led to widespread sell-offs in many asset classes and a collapse in prices, both in Europe and the United States. Pricing adjustments have been particularly severe in the secondary market. In Europe, the S&P European Leveraged Loan Index decreased by 14.78% in March, the largest decline since its inception in 2002. In the United States, the S&P/LSTA Leveraged Loan Index fell by 12.37% in March, the second steepest monthly decline in the 23-year history of the Index. By March, primary market activity for leveraged loans had come to a near-complete halt though signs of recovery were noted from April onwards. The U.S. and European leveraged loan secondary market stayed on the path to recovery in June, joining a broad rally in risk assets amid hopes for a COVID-19 vaccine and measured optimism about the gradual reopening of economic activity. For example, in the second quarter of 2020, the US S&P/LSTA Leveraged Loan Index returned 9.7%. The shape of recovery is expected to have a wide range of outcomes across industries and geographies.

As a result of the pandemic, the EU, the ECB and other bank regulatory authorities announced measures aimed at supporting the economy, in part by ensuring that banks properly utilise the capital and liquidity buffers built up in recent years to help deal with crisis situations. The following are the main relevant measures announced since the start of the COVID-19 pandemic:

- The ECB allows significant banks to temporarily operate below the level of capital defined by the Pillar 2 Guidance ("P2G") and the combined buffer requirement and below the LCR. Furthermore, banks may use Tier 2 and Additional Tier 1 capital to meet in part their Pillar 2 Required ("P2R") capital requirements.

- The European Commission proposed changes to Capital Requirements Regulation, including: (1) extension of the current IFRS 9 transitional arrangements, and (2) favourable changes to the rules relating to software asset capital deductions.

- National authorities in several countries reduced the countercyclical buffer requirements to zero.

- The ECB requested banks to suspend shareholder distributions at least until January 2021.

Financial performance

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 review resulted in the recognition of impairment provisions of €55.7 million including:

(i) IFRS 9 stage 3 impairment provisions amounting to €48.4 million; and
(ii) IFRS 9 stage 1 and 2 provisions amounting to an additional €7.3 million.

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

As a result of the COVID-related impairment levels, the Group reported a loss after tax of €50.1 million for the six months ended 30 June 2020, compared to a profit after tax of €6.9 million for the first six months of calendar 2019. The financial results in this interim financial period deviated significantly from the budget for this financial period as the financial results were heavily affected by the outbreak of COVID-19 that considerably worsened the macroeconomic outlook and increased estimated impairment losses significantly. The Group also took certain proactive steps to mitigate the financial and regulatory impacts of the COVID-19 pandemic including a limited number of asset sales. Management estimates that if one-off COVID-related impacts were excluded, the Group would have recorded profit after tax of approximately €1.7 million for the first six months of 2020 while continuing to invest actively in the transformation, including the build out of its digital platform and the diversification of its balance sheet.

The Group's liquidity remained robust, and capital ratios remained well above Total Supervisory Review and Evaluation Process ("SREP") Capital Requirements ("TSCR")[1] throughout the COVID-19 crisis even as the Group accommodated unprecedented client demands for lending and other banking services:

- The COVID-19 outbreak gave rise to a significant increase in drawdowns of revolving credit facilities amounting to €253.6 million during the first half of 2020. The total drawn portion of the Group's total revolving credit facility portfolio grew from 22% as at 31 December 2019 to a peak of 76% in mid-May, later decreasing to 60% as at 30 June 2020. There were further repayments of RCF drawings since the end of the reporting period.

- As noted above, 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. 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 conservative approach to impairments, the Group believes that it has accounted for all currently expected credit losses in the first half of 2020 and expects a normalisation of the situation later in the year as a result of the expected economic recovery starting later in 2020.

- MDB Group's CET1 and Tier 1 capital ratios were 13.4% and its total capital ratio was 15.6%, in each case as at 30 June 2020. MDB Group's Tier 1 capital ratio was approximately 440 basis points above the Group's current Tier 1 TSCR, despite the impact of COVID-19. 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%.

- MDB Group liquidity reserves remained strong at €666.8 million as at 30 June 2020, and the Group's LCR stands at 569%, €549.7 million above regulatory requirements.

- MDB Group's leverage ratio stood at 6.8% as at 30 June 2020 compared with the minimum requirement (starting in 2021) of 3%.

[1] TSCR refers to the minimum total capital requirement of 9% (of which 6% must be Tier 1 capital) plus P2R of 3%.

Throughout the financial period there were a number of positive developments that should be highlighted:

- The Group's client base grew by 8% during the first six months of 2020, from 66,500 to 72,100 in line with the compound annual growth rate of 15% during the past two years. As a result of the Group's attractive savings products and wealth solutions, the aggregate total of client financial assets as at 30 June 2020 amounted to €3.7 billion, up 9% from €3.4 billion as at 31 December 2019, representing a compound annual growth rate of 13% during the past two years.

- The balance sheet increased by 23% during the first six months of 2020, from €3.1 billion to €3.8 billion. This was principally driven by the €463 million increase in the Dutch government- backed mortgage portfolio. The Group continues to diversify its balance sheet and is on track to meet its target of a €1 billion Dutch government-backed mortgages portfolio by December 2020.

- The Group continued to reduce interest expense as interest rates payable on customer deposits in Belgium and Malta were reduced to reflect market interest rates. In order to maintain and grow its market position, selected deposit products were priced attractively as part of the Group's client acquisition strategy.

- In 2019, the Group implemented cost reduction measures designed to be the foundation of a long-term improvement in cost efficiency. These positive trends were partially offset by exceptional one-off costs incurred by the Group that were directly or indirectly associated with COVID-19.

- As a result of expansion of the Group's operations in Belgium, the organisational structure and resourcing of MeDirect Belgium were enhanced in order to strengthen further its corporate governance and risk management framework.

- Through best-in-class talent acquisition, the Group continues to invest in its IT centre of excellence based in Malta that is designed to enhance various areas of the Group such as project management, workflow methodologies, IT governance, knowledge management and technology management.

Outlook and future business developments

The banking industry is facing unprecedented challenges as a result of the repercussions of the COVID-19 outbreak that has affected both financial markets and consumer behaviour. From the global macroeconomic perspective, the outbreak of the pandemic has had enormous negative impact on global economic growth.

To support EU citizens, businesses and countries in the recovery from the economic downturn caused by the COVID-19 pandemic, EU leaders agreed to work on a recovery plan for Europe. On 21 July 2020, EU leaders agreed on an EU recovery fund of €750 billion to respond to the COVID-19 pandemic, comprising €390 billion in grants and €360 billion in loans.

The Group will continue to follow the ongoing global economic developments and to monitor and assess the potential economic implications for the countries and sectors in which the Group has its exposures in order to identify possible mitigating actions.

As at 31 December 2019, the Group had a total capital position of €342 million that was well above the TSCR of €217 million. Despite the reported loss after tax of €50.1 million for the six months ended 30 June 2020, the Group's capital position remains well above the TSCR and has allowed for such losses to be absorbed without any detrimental impact to the Group's banking services, customers, or regulatory obligations. Through the execution of the current business plan, the Group expects to revert to sustainable profitability during the subsequent financial years, driven by franchise growth and establishment as a digital challenger bank.

Brexit also remains a major political and economic event that continues to affect market sentiment. Brexit uncertainty remains significant as the UK government has ruled out the possibility of prolonging the transition beyond the 2020 year-end deadline.

Ongoing capital ratios with an appropriate margin over minimum capital requirements and the robustness of the Group's liquidity and funding position provide a stable foundation from which to build sustainable returns. Management is focusing its efforts on the implementation of its transformational business plan and on capturing the growth opportunities that are expected to result.

In line with the Group's asset diversification strategy, the Group intends to continue to reduce the size of its international corporate lending portfolio gradually and to focus on retail mortgage lending. The Dutch government-backed mortgage business is expected to continue to increase both in terms of volume and returns. Net returns will continue to be enhanced as a result of increased use of wholesale funding generated through securitisations which reduce the cost of funding of Dutch government-backed mortgage portfolios.

The Group is also exploring the possibility of optimising and strengthening its capital structure through the issuance of additional capital instruments, including Tier 2 subordinated debt instruments.

In view of the loss being recorded during this financial period, the Group is not expected to be profitable in 2020. However, the Group is expected to revert to sustainable profitability during the subsequent financial years. Management is confident that the Group will then be able to progress rapidly toward achieving its medium-term ambitions. In management's view, the current business transformation plan is the right response to the major changes and challenges faced by the financial services industry. With the current strategy, the Group has every reason to look forward with guarded optimism. The Group has a talented and dedicated team in place with demonstrated ability to execute its business plan successfully and to deliver sustainable profits over the medium term.

There were no material adverse changes in the Group's going concern assessment from that set forth in the financial statements as at and for the period ended 31 December 2019 that were approved on 20 May 2020. The key judgments made by management, including the forward-looking information, remain materially unchanged. The directors concluded that the Group will continue its operations and consider the going concern assumption in the preparation of the Group's interim financial statements as appropriate as at the date of authorisation of the issuance of these interim financial statements. Based on this assessment, the directors are confident that the Group has in place the financial resources, technical resources and competent staff that will enable it to meet the challenges presented by the pandemic.

Dividends and reserves

After adjusting the Reserve for General Banking Risks in accordance with the requirements of Banking Rule ("BR") 09 - Measures addressing credit risk arising from the assessment of the quality of asset portfolios of credit institutions authorised under the Maltese Banking Act (Cap. 371), the retained earnings of the Group amounted to €11.6 million (31 December 2019: €61.7 million).

The directors of the Company do not recommend the payment of a dividend.

Related parties

There were no material changes in related party transactions from those detailed in the financial statements for the financial period ended 31 December 2019. During this period no further related party transactions materially affected the financial position or liquidity of the Group.

Statement pursuant to Listing Rule 5.75.3 issued by the Listing Authority

We confirm that to the best of our knowledge the condensed consolidated interim financial statements give a true and fair view of the financial position of the Group as at 30 June 2020, as well as of their financial performance and cash flows for the period then ended, in accordance with International Financial Reporting Standards as adopted by the EU applicable to Interim Financial Reporting (IAS 34).

Approved by the Board on 17 August 2020 and signed on its behalf by:

Michael Bussey
Chairman

Arnaud Denis
Chief Executive Officer

Condensed consolidated interim statement of financial position

	As at 30 June 2020 €000	As at 31 December 2019 €000
ASSETS		
Balances with central banks and cash	**256,190**	241,726
Derivative financial instruments	**11,985**	2,020
Loans and advances to financial institutions	**319,569**	223,287
Loans and advances to customers	**1,883,414**	1,359,377
Investments	**1,251,259**	1,184,117
Property and equipment	**12,412**	12,443
Intangible assets	**17,260**	16,455
Non-current assets classified as held for sale	**1,785**	1,785
Current tax assets	**4,527**	3,089
Deferred tax assets	**31,814**	22,279
Prepayments and accrued income	**20,281**	15,978
Other assets	**26,844**	48,512
Total assets	**3,837,340**	3,131,068
EQUITY		
Called up issued share capital	**117,450**	117,450
Share premium	**13,464**	13,464
Shareholders' contributions	**133,196**	133,196
Reserve for general banking risks	**3,357**	3,357
Other reserves	**(156)**	(2,731)
Retained earnings	**11,564**	61,724
Total equity	**278,875**	326,460
LIABILITIES		
Derivative financial instruments	**10,465**	4,182
Amounts owed to financial institutions	**793,206**	224,012
Amounts owed to customers	**2,623,139**	2,439,126
Subordinated liabilities	**54,566**	54,820
Current tax liabilities	**320**	276
Deferred tax liabilities	**260**	199
Provisions for liabilities and other charges	**4,040**	4,528
Accruals and deferred income	**39,498**	40,906
Other liabilities	**32,971**	36,559
Total liabilities	**3,558,465**	2,804,608
Total equity and liabilities	**3,837,340**	3,131,068
Memorandum items		
Commitments to purchase financial assets	**2,500**	40,073
Commitments to extend credit, guarantees and other commitments	**515,534**	814,210

The notes on pages 13 to 27 are an integral part of these condensed consolidated interim financial statements.

The condensed consolidated interim financial statements on pages 9 to 27 were approved and authorised for issue by the Board of Directors on 17 August 2020 and signed on its behalf by:

Michael Bussey
Chairman

Arnaud Denis
Chief Executive Officer

Condensed consolidated interim statement of comprehensive income

	Period from 1 January to 30 June 2020 €000	Period from 1 January to 30 June 2019 €000
Interest income	**39,629**	49,042
Interest expense	**(13,475)**	(14,881)
Net interest income	**26,154**	34,161
Fee and commission income	**3,840**	3,998
Fee and commission expense	**(1,092)**	(726)
Net fee and commission income	**2,748**	3,272
Net trading income	**542**	2,098
Net (loss) / income from other financial instruments at fair value through profit or loss	**(288)**	645
Other operating income		
- Realised (losses) / gains on disposal of other investments	**(737)**	1,377
- Realised losses on disposal of loans and advances	**(3,945)**	(170)
- Other income	**64**	14
Total operating income	**24,538**	41,397
Personnel expenses	**(10,851)**	(13,271)
Depreciation and amortisation	**(2,966)**	(1,000)
Other administrative expenses	**(14,884)**	(14,636)
Total operating expenses	**(28,701)**	(28,907)
Net operating (loss) / income before changes in expected credit losses	**(4,163)**	12,490
Change in expected credit losses and other credit impairment charges	**(55,708)**	(4,145)
(Loss) / profit before tax	**(59,871)**	8,345
Taxation	**9,711**	(1,431)
(Loss) / profit for the period	**(50,160)**	6,914
Other comprehensive income		
Items that may be reclassified subsequently to profit or loss		
Fair valuation of financial investments measured at fair value through other comprehensive income:		
- Net change in fair value, before tax	**3,945**	3,697
- Net gains reclassified to profit or loss, before tax	**(350)**	(958)
Income tax relating to other comprehensive income	**(1,020)**	(768)
Other comprehensive income, net of tax	**2,575**	1,971
Total comprehensive income, net of tax	**(47,585)**	8,885
Earnings per share	**(41c)**	8c

The notes on pages 13 to 27 are an integral part of these condensed consolidated interim financial statements.

Condensed consolidated interim statement of changes in equity

	Share capital €000	Share premium €000	Shareholders' contributions €000	Reserve for general banking risks €000	Other reserves €000	Retained earnings €000	Total €000
Balance at 1 January 2019	117,450	13,464	143,196	1,856	(161)	53,831	329,636
Total comprehensive income							
Profit for the period	-	-	-	-	-	6,914	6,914
Other comprehensive income, net of tax:							
Fair valuation of financial investments measured at fair value through other comprehensive income:							
- Net change in fair value arising during the period, net of tax	-	-	-	-	2,680	-	2,680
- Reclassification adjustments - net amount reclassified to profit or loss, net of tax	-	-	-	-	(709)	-	(709)
Total other comprehensive income, net of tax	-	-	-	-	1,971	-	1,971
Total comprehensive income, net of tax	-	-	-	-	1,971	6,914	8,885
Transfer to Reserve for general banking risks	-	-	-	1,224	-	(1,224)	-
Transfer to Statutory legal reserve	-	-	-	-	55	(55)	-
Balance at 30 June 2019	117,450	13,464	143,196	3,080	1,865	59,466	338,521
Balance at 1 January 2020	**117,450**	**13,464**	**133,196**	**3,357**	**(2,731)**	**61,724**	**326,460**
Total comprehensive income							
Loss for the period	**-**	**-**	**-**	**-**	**-**	**(50,160)**	**(50,160)**
Other comprehensive income, net of tax:							
Fair valuation of financial investments measured at fair value through other comprehensive income:							
- Net change in fair value arising during the period, net of tax	**-**	**-**	**-**	**-**	**2,823**	**-**	**2,823**
- Reclassification adjustments, net amount reclassified to profit or loss, net of tax	**-**	**-**	**-**	**-**	**(248)**	**-**	**(248)**
Total other comprehensive income, net of tax	**-**	**-**	**-**	**-**	**2,575**	**-**	**2,575**
Total comprehensive income, net of tax	**-**	**-**	**-**	**-**	**2,575**	**(50,160)**	**(47,585)**
Balance at 30 June 2020	**117,450**	**13,464**	**133,196**	**3,357**	**(156)**	**11,564**	**278,875**

The notes on pages 13 to 27 are an integral part of these condensed consolidated interim financial statements.

Condensed consolidated interim statement of cash flows

	Period from 1 January to 30 June 2020 €000	Period from 1 January to 30 June 2019 €000
Cash flows from operating activities		
Interest and commission receipts	**43,804**	68,027
Interest and commission payments	**(12,695)**	(12,194)
Payments to employees and suppliers	**(28,573)**	(29,577)
Operating cash flows before changes in operating assets/liabilities	**2,536**	26,256
Increase in operating assets:		
- Reserve deposit with central banks	**(14,369)**	(245,836)
- Loans and advances to financial institutions and customers	**(711,487)**	30,537
Increase in operating liabilities:		
- Amounts owed to financial institutions and customers	**545,806**	296,931
- Other payables	**(5,647)**	(4,286)
- Derivative financial instruments	**7,976**	-
Tax paid	**(196)**	(427)
Net cash (used in)/from operating activities	**(175,381)**	103,175
Cash flows from investing activities		
Acquisitions of property and equipment and intangible assets	**(928)**	(4,208)
Acquisition of investments measured at amortised cost	**(49,987)**	(32,012)
Acquisition of investments measured at fair value through other comprehensive income	**(251,483)**	(288,219)
Disposals and maturities of investments measured at fair value through other comprehensive income	**159,085**	159,865
Disposals and maturities of investments measured at fair value through profit or loss	**73,000**	-
Net cash used in investing activities	**(70,313)**	(164,574)
Cash flows from financing activities		
Principal element of lease payments	**(1,464)**	(637)
Net advances from immediate parent	**57**	-
Net advances to group companies	**(3,445)**	(6,455)
Net cash used in financing activities	**(4,852)**	(7,092)
Net decrease in cash and cash equivalents	**(250,546)**	(68,491)
Cash and cash equivalents at the beginning of the period	**(54,190)**	(52,334)
Cash and cash equivalents at the end of the period	**(304,736)**	(120,825)

The notes on pages 13 to 27 are an integral part of these condensed consolidated interim financial statements.

Notes to the condensed consolidated interim financial statements

1. Reporting entity

MeDirect Bank (Malta) plc ("the Bank" or "MeDirect Malta") is domiciled and incorporated in Malta. These condensed consolidated interim financial statements ("interim financial statements") as at and for the six months ended 30 June 2020 comprise MeDirect Malta and its principal subsidiary, MeDirect Bank SA ("MeDirect Belgium") (together referred to as the "Group").

The financial statements of the Group as at and for the periods ended 30 June 2020 and 31 December 2019 are available upon request from MeDirect Malta's registered office, being The Centre, Tigné Point, Sliema TPO 0001, Malta, and are available for viewing on its website at www.medirect.com.mt.

The principal activities of the Group comprise international lending to predominantly EU corporates and the provision of retail banking services primarily to individual clients in Belgium and Malta via easy to use online digital platforms, focusing primarily on deposit saving products and wealth management, as well as local corporate banking and lending in Malta. The Group started diversifying its business lines from its historic core competencies through its new business line, being the Dutch mortgages, that was launched in the previous financial period and as from May 2020 through the relevant management of securitisation structures.

By virtue of a board resolution dated 25 September 2019, the Company changed its accounting reference date from 31 March to 31 December. Accordingly, as required by IAS 34 *Interim Financial Reporting*, these condensed financial statements include the comparative statement of financial position information as of 31 December 2019, and the comparative statements of profit or loss and other comprehensive income, statements of changes in equity and statements of cash flows information for the period ended 30 June 2019.

In preparing these interim financial statements, the Board has considered the contents of the Public Statement issued by the European Securities and Markets Authority dated 20 May 2020 (ESMA 32-63-972) the objective of which is to provide transparency and consistent application of European requirements for information provided in the half-yearly reports under the current circumstances related to the COVID-19 outbreak.

2. Basis of preparation

These condensed consolidated interim financial statements for the six months ended 30 June 2020 have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU applicable to interim financial reporting (IAS 34 'Interim Financial Reporting'). They do not include all information required for a complete set of financial statements prepared in accordance with International Financial Reporting Standards as adopted by the EU. However, selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in the Group's financial position and performance since the last annual financial statements as at and for the year ended 31 December 2019.

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

The condensed consolidated interim financial statements have been extracted from MeDirect Malta's unaudited Group management accounts for the six months ended 30 June 2020. The half-yearly results are being published in terms of Chapter 5 of the Listing Rules, issued by the Listing Authority, and the Prevention of Financial Markets Abuse Act, 2005.

3. Significant accounting policies

The accounting policies applied by the Group in these interim financial statements are consistent with those applied in the financial statements for the year ended 31 December 2019.

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

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

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

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

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

The significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty impacting the preparation of these interim financial statements are the same as those that applied to the preparation of the financial statements as at and for the year ended 31 December 2019, as disclosed in those financial statements.

As a result of the unprecedented nature of the effects of COVID-19, models are now operating outside the boundaries to which they were built and calibrated. The level of estimation uncertainty in modelling (i) forecasted economic scenarios, (ii) the effects of these scenarios on ECL, and (iii) identification of assets experiencing significant increase in credit risk has increased since 31 December 2019. Consequently, modelled outputs are subject to a high degree of uncertainty, and actual outcomes may differ from projections.

As part of the Group's review process of collective modelling for IFRS 9 expected credit losses, management approved the application of model adjustments to exposures within the corporate lending portfolios in order to ensure an appropriate level of ECL is recognised at reporting date. As mentioned in "7.4 Current Conditions and Forward-looking information incorporated in the ECL model", in order to minimize overlapping effects between the Group's IFRS 9 models for estimating credit risk parameters, Expected Data Frequency data was used for modelling point-in-time, forward-looking parameters, and these were conditioned with forecasted macroeconomic variable data starting from 30 June 2020 onwards. To prevent potential underestimation in modelled ECL, adjustments (downgrades) were applied to internal risk ratings (and indirectly to the underlying PDs) on exposures identified as having a higher and medium risk in relation to the negative economic effects of COVID-19 using latest available and supportable information and expert judgment. Given the increased level of model uncertainty, an important part of the internal governance and review process involved reviewing modelled outputs against credit spread trends, outputs using economic data from the Global Financial Crisis of 2008-2009, and other default studies to act as benchmarks and thereby inform any model adjustments.

Due to the exceptional challenge in modelling reliable implied ratings to determine stage allocation, the primary approach for identification of significant increase in credit risk or credit impairment was through individual assessments of exposures within the corporate portfolios. The criteria for determining stage included assessment of quantitative and qualitative metrics and information to distinguish between temporary financial difficulties due to COVID-19, or a significant increase in credit risk that would be enduring over the expected lifetime of the exposure, in line with guidance and recommendations issued by the ECB.

The economic environment remains uncertain and future expected credit losses may be subject to further volatility depending on the longevity of the COVID-19 pandemic and related containment measures, as well as the effectiveness of government and central bank support measures. Depending on the resulting effects on key model inputs (market signal data and change in forecasts of macroeconomic variables), collectively modelled ECL may require further adjustments during the second half of 2020.

5. Operating segments

The Group has a single reportable segment represented by its lending portfolio consisting of international corporate lending, corporate lending in Malta and Dutch mortgages lending together with the investment in high credit quality collateralised instruments such as covered bonds, guaranteed senior bank debt, sovereign related debt and investment in AAA tranches of securitisation special purpose entities. Revenues secured through the above-mentioned assets are complemented by the revenues generated by the Group on its wealth management business. The Group's products and services and geographical areas are comparable to those as at 31 December 2019. Information about financial risks, credit concentration by sector and location, together with revenues from the single reportable segment can be obtained from the financial statements for the year ended 31 December 2019. The investment portfolio is spread across a large number of exposures diversified in government, financial institutions and corporates.

6. Taxation

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

7. Financial instruments

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

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

	At 30 June 2020		At 31 December 2019	
	Gross carrying/ nominal amount	**Credit loss allowance**	Gross carrying/ nominal amount	Credit loss allowance
	€000	**€000**	€000	€000
Financial assets measured at amortised cost				
Balances with central banks	**256,189**	**(1)**	241,724	(1)
Loans and advances to financial institutions	**319,570**	**(1)**	223,288	(1)
Loans and advances to customers	**1,959,140**	**(75,726)**	1,381,596	(22,219)
- International Lending portfolio	**1,276,280**	**(75,114)**	1,159,131	(21,858)
- Local Lending portfolio	**87,094**	**(456)**	89,315	(353)
- Dutch Mortgage portfolio	**588,662**	**(156)**	133,519	(8)
- IFRS basis adjustment: Dutch Mortgage portfolio	**7,104**	**-**	(369)	-
Investments measured at amortised cost	**585,842**	**(340)**	682,646	(268)
- Treasury portfolio	**293,637**	**(261)**	430,448	(249)
- Securitisation portfolio	**292,205**	**(79)**	252,198	(19)
Accrued income	**17,098**	**(522)**	14,517	(136)
Loans to related parties (included in other assets)	**13,910**	**-**	13,044	-
Other receivables (included in other assets)	**1,789**	**-**	34,336	-
	3,153,538	**(76,590)**	2,591,151	(22,625)
Commitments to purchase financial assets	**2,500**	**-**	40,073	-
Commitments to extend credit, guarantees and other commitments	**515,534**	**(2,782)**	814,210	(2,112)
	518,034	**(2,782)**	854,283	(2,112)
Total	**3,671,572**	**(79,372)**	3,445,434	(24,737)

	Fair value	**Credit loss allowance**	Fair value	Credit loss allowance
	€000	**€000**	€000	€000
Investments measured at FVOCI				
- Treasury portfolio	**664,775**	**(123)**	500,292	(144)

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

	At 30 June 2020	At 31 December 2019
	€000	€000
Held for trading derivative financial instruments	**11,985**	2,020
Investments - Securitisation portfolio	**982**	1,447

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

	Gross carrying/nominal amount				Credit loss allowance				ECL coverage %			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
	€000	€000	€000	€000	€000	€000	€000	€000	%	%	%	%
As at 30 June 2020												
On balance sheet at amortised cost:												
Balances with central banks	256,189	-	-	256,189	(1)	-	-	(1)	-	-	-	-
Loans and advances to financial institutions	319,570	-	-	319,570	(1)	-	-	(1)	-	-	-	-
Loans and advances to customers												
- International Lending portfolio	801,740	282,864	191,676	1,276,280	(11,780)	(5,585)	(57,749)	(75,114)	1.5	2.0	30.1	5.9
- Local Lending portfolio	71,310	9,090	6,694	87,094	(348)	(102)	(6)	(456)	0.5	1.1	0.1	0.5
- Dutch Mortgage portfolio	580,517	8,145	-	588,662	(88)	(68)	-	(156)	-	0.8	-	-
- IFRS basis adjustment: Dutch Mortgage portfolio	7,006	98	-	7,104	-	-	-	-	-	-	-	-
Investments												
- Treasury portfolio	293,637	-	-	293,637	(261)	-	-	(261)	0.1	-	-	0.1
- Securitisation portfolio	292,205	-	-	292,205	(79)	-	-	(79)	-	-	-	-
Accrued income	12,858	2,887	1,353	17,098	(51)	(59)	(412)	(522)	0.4	2.1	30.4	3.1
Loans to related parties (included in other assets)	13,910	-	-	13,910	-	-	-	-	-	-	-	-
Other receivables (included in other assets)	1,789	-	-	1,789	-	-	-	-	-	-	-	-
Off balance sheet at nominal amount:												
Commitments to purchase financial assets	2,500	-	-	2,500	-	-	-	-	-	-	-	-
Commitments to extend credit, guarantees and other commitments	474,940	15,899	24,695	515,534	(795)	(6)	(1,981)	(2,782)	0.2	-	8.0	0.5
	3,128,171	318,983	224,418	3,671,572	(13,404)	(5,820)	(60,148)	(79,372)	0.4	1.8	26.8	2.2

	Fair value				Credit loss allowance				ECL coverage %			
	Stage 1 €000	Stage 2 €000	Stage 3 €000	Total €000	Stage 1 €000	Stage 2 €000	Stage 3 €000	Total €000	Stage 1 %	Stage 2 %	Stage 3 %	Total %
As at 30 June 2020												
Investments at FVOCI												
- Treasury portfolio	664,775	-	-	664,775	(123)	-	-	(123)	-	-	-	-

	Gross carrying/nominal amount				Credit loss allowance				ECL coverage %			
	Stage 1	**Stage 2**	**Stage 3**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
	€000	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**%**	**%**	**%**	**%**
As at 31 December 2019												
On balance sheet at amortised cost:												
Balances with central banks	241,724	-	-	241,724	(1)	-	-	(1)	- -	-	-	-
Loans and advances to financial institutions	223,288	-	-	223,288	(1)	-	-	(1)	-	-	-	-
Loans and advances to customers												
- International Lending portfolio	963,655	123,167	72,309	1,159,131	(7,447)	(1,956)	(12,455)	(21,858)	0.8	1.6	17.2	1.9
- Local Lending portfolio	77,188	4,468	7,659	89,315	(279)	(73)	(1)	(353)	0.4	1.6	-	0.4
- Dutch Mortgage portfolio	133,519	-	-	133,519	(8)	-	-	(8)	-	-	-	-
- IFRS basis adjustment: Dutch Mortgage portfolio	(369)			(369)	-	-	-	-	-	-	-	-
Investments												
- Treasury portfolio	430,448	-	-	430,448	(249)	-	-	(249)	0.1	-	-	0.1
- Securitisation portfolio	252,198	-	-	252,198	(19)	-	-	(19)		-	-	-
Accrued income	13,513	457	547	14,517	(61)	(19)	(56)	(136)	0.5	4.2	10.2	0.9
Loans to related parties (included in other assets)	13,044	-	-	13,044	-	-	-	-	-	-	-	-
Other receivables (included in other assets)	34,336	-	-	34,336	-	-	-	-	-	-	-	-
Off balance sheet at nominal amount:												
Commitments to purchase financial assets	40,073	-	-	40,073	-	-	-	-	-	-	-	-
Commitments to extend credit, financial guarantees and other commitments	750,229	55,759	8,222	814,210	(1,487)	(346)	(279)	(2,112)	0.2	0.6	3.4	0.3
	3,172,846	183,851	88,737	3,445,434	(9,552)	(2,394)	(12,791)	(24,737)	0.3	1.3	14.4	0.7

	Fair value				Credit loss allowance				ECL coverage %			
	Stage 1 €000	**Stage 2 €000**	**Stage 3 €000**	**Total €000**	**Stage 1 €000**	**Stage 2 €000**	**Stage 3 €000**	**Total €000**	**Stage 1 %**	**Stage 2 %**	**Stage 3 %**	**Total %**
As at 31 December 2019												
Investments at FVOCI												
- Treasury portfolio	500,292	-	-	500,292	(144)	-	-	(144)	-	-	-	-

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

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

Within the following tables, the line items “New business” and “Repayments and disposals” represent movements within the Group’s International Lending portfolio in respect of gross carrying/nominal amounts and associated credit loss allowances. “New business” represents new lending sanctioned during the financial reporting period ended 30 June 2020. Meanwhile, “Repayments and disposals” reflect loan repayments and disposals that occurred during the financial reporting period ended 30 June 2020, which however, would only have existed on the Group’s balance sheet as at 31 December 2019. Accordingly, repayments and disposals relating to loans sanctioned during the financial reporting period are netted off against new lending included within “New business”. Please also refer to Note 9 on contingent liabilities and commitments that are included in the Gross Carrying / Nominal Amounts.

The line item "Transfers of financial instruments" represents the impact of stage transfers on gross carrying/nominal amounts and associated credit loss allowances determined as at 30 June 2020. The line item "Net re-measurement and movement due to exposure and risk parameter changes" represents the increase or decrease in credit loss allowances due to modified measurement basis from 12-month to lifetime in relation to stage transfers. It also includes the effects of changes in other expected credit loss measurement factors and model parameters such as, but not limited to, change in time to maturity of assets; changes in underlying credit ratings; changes in measurement of loss given default and changes in respect of multiple economic scenarios.

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

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

	As at 30 June 2020		Period ended 30 June 2020
	Gross carrying/ nominal amount €000	Credit loss allowance €000	ECL (charge)/ release €000
As per preceding table	1,602,172	(78,402)	(54,757)
Balances at central banks	256,189	(1)	-
Loans and advances to financial institutions	319,570	(1)	-
Loans and advances to customers			
- Local Lending portfolio: drawn exposures	87,094	(456)	(103)
- Local Lending portfolio undrawn commitments	49,932	(2)	(2)
- Local Lending portfolio: recoveries	-	-	6
- International Corporate Lending portfolio: write-offs	-	-	(652)
- Dutch Mortgage portfolio: drawn exposures	595,766	(156)	(148)
- Dutch Mortgage portfolio: undrawn commitments	22,570	(12)	(1)
Investments measured at amortised cost			
- Treasury portfolio	293,637	(261)	(12)
- Securitisation portfolio	292,205	(79)	(60)
Other accrued income	8,829	(2)	-
Summary of financial instruments to which the impairment requirements in IFRS 9 are applied through the profit or loss	3,527,964	(79,372)	(55,729)
Investments measured at FVOCI			
- Treasury portfolio	664,775	(123)	21
Total allowances for ECL/total income statement ECL charge for the period	4,192,739	(79,495)	(55,708)

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

The table also includes the credit loss allowances on the Dutch Mortgage portfolio, which business commenced in September 2019, credit loss allowances on the Securitisation Investment tranches that were acquired by the Group, included within "Investments measured at amortised cost" as well as credit loss allowances attributable to the Treasury Investment portfolio measured at FVOCI. The ECL charge for the Group in respect of these portfolios is not considered significant in absolute terms and, as a result, no further disclosures were deemed necessary.

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

In addition, MeDirect Malta also acquired portions in CLO transactions managed by third party entities corresponding to tranches with the highest credit rating in such CLO structures. These positions, amounting to €148 million in total, are held in a 'hold to collect' business model and measured at amortised cost. MeDirect Belgium also acquired portions in CLO transactions managed by third party entities corresponding to tranches with the highest credit rating in such CLO structures. These positions, amounting to €126 million in total, are held in a 'hold to collect' business model and measured at amortised cost.

Allowances relating to investments in CLOs (5% vertical slice in each of the Grand Harbour CLO 2019-1 Designated Activity Company "GH1 – 2019" structured note tranches, and acquired portions in CLO transactions managed by third party entities) which are subject to impairment considerations in line with IFRS 9 requirements were not material as at 30 June 2020 and thus no further disclosures were deemed necessary.

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

7.4 Current Conditions and Forward-looking information incorporated in the ECL model

Point-in-time, forward-looking PD modelling

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

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

In order to minimize any overlapping effects between the two above mentioned models that may be amplified due to the abnormal behaviour of markets and other economic indicator shocks due to COVID-19, the quarterly change in macroeconomic forecast data starts from reporting date onwards, i.e. quarterly change in economic indicator data from 30 June 2020 onwards.

Future Forecasts of Economic Conditions

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

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

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

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

The following tables presents the 5-year annualised growth rates for key macroeconomic variables ("MEVs") used in the baseline and alternative scenarios for the measurement of ECL for all portfolios as at 30 June 2020. For the International Corporate Lending Portfolio, MEVs are determined for each country, however we present below the MEV data for our major markets. Eurozone MEVs are in some cases used rather than the country-level MEVs as they are deemed to have a higher correlation to the country specific portfolio assets.

As mentioned above, ECL modelling incorporates the quarterly change in macroeconomic forecast data starting from reporting date onwards, i.e. from 30 June 2020 onwards.

Economic Scenarios MEVs used for the measurement of ECL as at 30 June 2020: (5-year annualized growth 2020 – 2024)

Economic Scenarios MEVs (5yr average 2020 – 2024)	Severe Upside	Upside	Baseline	Downside	Severe Downside
	"Exceptionally Strong Growth"	"Stronger Near-Term Growth"	"Consensus Scenario"	"Moderate to Deep Recession"	"Protracted Slump"
International Lending and Treasury Investment Portfolios Key MEVs					
Real Gross Domestic Product - 5YR Annualised Growth %					
United Kingdom	2.2%	2.1%	1.5%	1.0%	0.8%
US	3.1%	2.6%	2.0%	1.4%	0.7%
Eurozone	2.1%	1.8%	1.4%	0.8%	0.3%
Stock Market Index - 5YR Annualised Growth %					
United Kingdom	1.1%	0.8%	0.4%	0.1%	-1.5%
US	5.3%	4.4%	2.9%	0.3%	-4.6%
Eurozone	3.3%	2.7%	2.1%	2.0%	0.3%
Unemployment Rate - 5YR Annualised Growth %					
United Kingdom	10.9%	12.7%	16.2%	21.7%	24.6%
US	36.1%	35.4%	38.0%	41.5%	47.6%
Eurozone	0.7%	1.2%	1.7%	4.0%	6.0%
Local Lending Portfolio Key MEVs - 5YR Annualised Growth %					
Malta Real GDP	4.1%	3.8%	3.3%	2.7%	2.1%
Malta Stock Market Index	6.5%	5.7%	5.1%	4.7%	4.8%
Malta Unemployment Rate	7.8%	8.0%	8.7%	13.8%	16.9%
Dutch Mortgage Portfolio Key MEVs - 5YR Annualised Growth %					
Netherlands HPI	0.6%	0.2%	0.0%	-1.4%	-2.3%
Netherlands 10Yr Treasury	2.1%	1.7%	0.6%	-0.3%	-0.5%
Netherlands Unemployment Rate	4.1%	6.1%	8.0%	13.8%	17.0%
Securitisation Investment Portfolio Key MEVs - 5YR Annualised Growth %					
Euribor 3M	1.3%	1.0%	0.4%	0.1%	0.1%
Libor GBR 3M	1.4%	0.8%	-0.2%	-0.4%	-0.4%

7.5 Fair value measurement

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

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

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

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

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

7.5.1 Fair value hierarchy

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

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

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

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

7.5.2 Use of valuation techniques

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

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

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

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

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

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

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

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

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

7.5.3 Financial instruments measured at fair value

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

	As at 30 June 2020				As at 31 December 2019			
	Level 1	**Level 2**	**Level 3**	**Total**	Level 1	Level 2	Level 3	Total
	€000	**€000**	**€000**	**€000**	€000	€000	€000	€000
Assets								
Investments measured at FVOCI								
- Treasury portfolio	**664,775**	**-**	**-**	**664,775**	500,292	-	-	500,292
Investments mandatorily measured at fair value through profit or loss								
- Securitisation portfolio	**-**	**-**	**982**	**982**	-	-	1,447	1,447
Derivative financial instruments	**-**	**11,985**	**-**	**11,985**	-	2,020	-	2,020
Total financial assets	**664,775**	**11,985**	**982**	**677,742**	500,292	2,020	1,447	503,759
Liabilities								
Derivative financial instruments	**-**	**10,465**	**-**	**10,465**	-	4,182	-	4,182

As at 30 June 2020 and 31 December 2019, the fair value of debt securities within the Treasury Investment portfolio represents the closing bid price quoted in an active market, and such instruments are therefore categorised as Level 1 assets.

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

Level 3 assets consist of the Group's investment in the equity tranche of GH1 - 2019, for which a fair value is determined using third party valuation models to estimate the net present value of a series of expected cash flows, taking into consideration instrument-specific contractual terms (discounted cash flow approach). Amongst other things, these models take into consideration the characteristics of the underlying portfolio of assets (including quality of underlying assets), historical portfolio performance, and the liability structure of the CLO transaction. These models also make use of independently sourced market parameters including, for example, interest rate yield curves.

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

7.5.4 Transfers between levels

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

There were no transfers between levels of the fair value hierarchy during the period from 1 January 2020 to 30 June 2020 and during the financial period ended 31 December 2019.

7.6 Financial instruments not measured at fair value

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

	As at 30 June 2020				
	Level 1	Level 2	Level 3	Total fair values	Total carrying amount
	€000	€000	€000	€000	€000
Assets					
Loans and advances to customers	**-**	**273,906**	**797,608**	**1,071,514**	**1,121,569**
– International Lending portfolio	**-**	**273,906**	**205,402**	**479,308**	**532,907**
– Dutch mortgage portfolio (excluding IFRS basis adjustment)			**592,206**	**592,206**	**588,662**
Investments	**280,395**	**-**	**288,242**	**568,637**	**574,259**
- Treasury portfolio	**280,395**	**-**	**-**	**280,395**	**281,151**
- Securitisation portfolio	**-**	**-**	**288,242**	**288,242**	**293,108**
Total financial assets	**280,395**	**273,906**	**1,085,850**	**1,640,151**	**1,695,828**
Liabilities					
Subordinated liabilities	**55,770**	**-**	**-**	**55,770**	**54,566**

	As at 31 December 2019				
	Level 1	Level 2	Level 3	Total fair values	Total carrying amount
	€000	€000	€000	€000	€000
Assets					
Loans and advances to customers – International Lending portfolio	-	301,211	428,298	729,509	764,033
Investments	417,193	-	252,449	669,642	670,176
- Treasury portfolio	417,193	-	-	417,193	417,997
- Securitisation portfolio	-	-	252,449	252,449	252,179
Total financial assets	417,193	301,211	680,747	1,399,151	1,434,209
Liabilities					
Subordinated liabilities	56,756	-	-	56,756	54,820

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

The Level 2 and Level 3 fair value disclosures of the International Lending portfolio include price quotations sourced from an online platform in respect of internationally traded loans and advances, consisting of the Group's international loan book with foreign corporates. Loans and advances to customers forming part of the International Lending portfolio amounting to €668.2 million (31 December 2019: €373 million), net of expected credit losses, and a corporate debt security within the Treasury Investment portfolio, with a carrying amount of €12.2 million (31 December 2019: €12.2 million), have not been reflected within the preceding table given that there were no observable market prices or any public information available but the contractual terms of these instruments, that mainly re-price within three months, and the nature of the borrowers, are similar to those of the instruments in the preceding table and thus their fair valuation characteristics would not differ significantly from those of the instruments included in the preceding table.

The Level 3 assets also include the following:

- The Group's investments in tranches of securitisation structures amounting to €288.2 million (31 December 2019: €253.6 million) which are mainly rated AAA, and for which a fair value is determined using third party valuation models to estimate the net present value of a series of expected cash flows, taking into consideration instrument-specific contractual terms (discounted cash flow approach). Amongst other things, these models take into consideration the characteristics of the underlying portfolio of assets (including quality of underlying assets), historical portfolio performance, and the liability structure of the CLO transaction. These models also make use of independently sourced market parameters including, for example, interest rate yield curves.

- Dutch mortgages amounting to €589 million (31 December 2019: €133 million) included in Loans and advances to customers. In order to derive their fair value as at 30 June 2020, the Group bootstraps the average of the top three interest rate quotes offered by Dutch government-backed mortgage loan lenders in the Netherlands for every mortgage fixed rate tenor to create zero coupon discount curve and applies this curve to discount the projected future cashflows. In addition, to estimate the future cashflows, the Group considers both instrument-specific contractual terms and estimated conditional prepayment rates.

As at 30 June 2020, the carrying amount for loans and advances to customers classified under the Local Lending portfolio amounting to €86.6 million (31 December 2019: €89.0 million) approximates their fair value because these loans are repriceable at the Group's discretion.

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

All exposures classified under loans and advances to financial institutions amounting to €319.6 million (31 December 2019: €223.3 million), and balances with central banks amounting to €256.2 million as at 30 June 2020 (31 December 2019: €241.7 million), reprice or mature in less than one year. Hence their fair value is not deemed to differ materially from their carrying amount at the reporting date.

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

The majority of the 'Amounts owed to financial institutions' of the Group as at 30 June 2020 amounting to €793.2 million (31 December 2019: €224.0 million) and 'Amounts owed to customers' of the Group amounting to €2.6 billion (31 December 2019: €1.7 billion), sourced from the Maltese and Belgian markets, re-price or mature in less than one year; hence their fair value is not deemed to differ materially from their carrying amount at the reporting date. Fair values of these liabilities are estimated using discounted cash flows, applying current rates offered for deposits of similar remaining maturities. These are considered Level 3 fair value estimates. The fair value of a demand deposit is not less than the amount payable on demand, discounted from the first date on which the amount payable is required to be paid.

8. Capital and reserves

Share capital

	30 June 2020 No.	31 December 2019 No.
Issued and fully paid up:		
Ordinary ‘A’ shares of €1 each	**117,450,106**	117,450,106
Ordinary ‘B’ shares of €1 each	**1**	1
	117,450,107	117,450,107

As at 30 June 2020 and 31 December 2019, the authorised share capital consisted of 299,999,999 Ordinary ‘A’ shares of €1 each and 1 Ordinary ‘B’ share of €1 each.

Rights and entitlements attached to ordinary shares

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

Share premium

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

			Share premium	
Issue date	**Number of shares**	**Premium per share €**	**30 June 2020 €000**	31 December 2019 €000
10 August 2010	10,000,000	0.9155	**9,155**	9,155
29 September 2010	19,119,470	0.2254	**4,309**	4,309
			13,464	13,464

Shareholders’ contributions

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

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

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

Reserve for general banking risks

Banking Rule (“BR”) 09 issued by the MFSA requires banks in Malta to hold additional reserves for general banking risks in respect of non-performing loans. This reserve is required to be funded from retained earnings. As at 30 June 2020, the reserve for general banking risks of the Group was equivalent to €3.4 million (31 December 2019: €3.4 million). This reserve, which is distributable subject to the formal consent of the Banking Regulator, represents 100% of the regulatory allocation by virtue of paragraph 38 of the Banking Rule.

Other reserves

a) Fair value reserve

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

b) Legal reserve

According to Article 616 of the Companies Code in Belgium, at least 5% of the retained earnings of MeDirect Belgium should be set aside as a statutory legal reserve until this legal reserve is equivalent to 10% of the share capital of MeDirect Belgium. This statutory legal reserve was equivalent to €0.2 million as at 30 June 2020 and 31 December 2019.

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

9. Contingent liabilities and commitments

Guarantee obligations

As at 30 June 2020, the Group had guarantee obligations secured by cash and other security amounting to €10.8 million (31 December 2019: €6.9 million).

Commitments to lend

Commitments to lend represent undrawn formal standby facilities, credit facilities and other similar commitments to lend. As at 30 June 2020, the Group had commitments of €232.2 million (31 December 2019: €473.4 million) under revolving credit facilities. In addition, undrawn facilities on term loans of the Group amounted to €49.9 million (31 December 2019: €50.2 million) and lending commitments in relation to the Group's Dutch Mortgage portfolio amounted to €222.5 million (31 December 2019: €283.8 million).

Commitments to purchase

As at 30 June 2020, the Group had commitments to purchase facilities on term loans amounting to €2.5 million (31 December 2019: €40.1 million) that were subject to back-to-back sale agreements with a third party (31 December 2019: €29.0 million).

10. Related party transactions

There were no significant transactions with related parties during the six-month period ended 30 June 2020 which would significantly alter the balances with related parties from those disclosed in the annual report for the year ended 31 December 2019.

11. MDB Group Regulatory information

Key regulatory ratios	**30 June 2020**	31 December 2019
Capital management		
Common equity tier 1 ("CET 1") ratio	**13.4%**	15.2%
Total capital ratio	**15.7%**	17.3%
Leverage ratio	**6.8%**	8.8%
Liquidity management		
Liquidity coverage ratio ("LCR")	**569.4%**	716.2%