MDB Group Limited

Pillar 3 disclosures report – Quarterly report
30 September 2024

Contents

1 Introduction

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

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

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

These Disclosures have been prepared in accordance with the requirements of Part Eight of the EU Regulation 876/2019 of the European Parliament and of the Council of 20 May 2019 amending regulation (EU) No 575/2013 (Capital Requirements Regulation 2 – "CRR 2"). This quarterly Pillar 3 disclosures report provides the Pillar 3 disclosures which have a quarterly frequency assigned in line with the Commission Implementing Regulation (EU) 2021/637 of 15 March 2021 laying down implementing technical standards with regard to public disclosures by institutions.

MDB Holding's subsidiary, MeDirect Malta has been authorised to waive its requirement to comply with Part Eight of the CRR on an individual basis, in terms of Article 6 (3) of the CRR. On the other hand MeDirect Belgium is exempt from full disclosure requirements laid down in Part Eight of the CRR, being a "small and non-complex" institution" it is required to publish the disclosure requirements as per Article 433b CRR on an annual basis.

Consistent with the banking regulations, these disclosures are not subject to external audit however the disclosures have been prepared on a basis consistent with information submitted to the regulator. These disclosures have been appropriately verified internally by the Group's management, thus the Group is satisfied that internal verification procedures ensure that these Disclosures are presented fairly.

2 Key metrics

In the following table EU KM1 we provide key regulatory metrics and ratios as well as related input components as defined by the amended versions of CRR and CRD. They comprise own funds, RWAs, capital ratios, additional requirements based on SREP, capital buffer requirements, leverage ratio, liquidity coverage ratio and net stable funding ratio. They serve as high level metrics and form part of our holistic risk management across individual risk types in addition to the Group's specific internal risk metrics. Based on this they are fully integrated across strategic planning, risk appetite framework and stress testing concepts and are reviewed and approved by our Management Board at least annually.

EU KM1 – Key metrics[1]

		a	b	c	d	e
	Amounts in €millions	**30-Sep-24**	**30-Jun-24**	**31-Mar-24**	**31-Dec-23**	**30-Sep-23**
	Available own funds					
1	Common Equity Tier 1 (CET1) capital	212	218	215	210	211
2	Tier 1 capital	212	218	215	210	211
3	Total capital	259	264	259	255	260
	Risk-weighted exposure amounts					
4	Total risk exposure amount	1,317	1,315	1,267	1,257	1,321
	Capital ratios (as a percentage of risk-weighted exposure amount)					
5	Common Equity Tier 1 ratio (%)	16.1%	16.6%	17.0%	16.7%	16.0%
6	Tier 1 ratio (%)	16.1%	16.6%	17.0%	16.7%	16.0%
7	Total capital ratio (%)	19.7%	20.1%	20.4%	20.3%	19.7%
	Additional own funds requirements to address risks other than the risk of excessive leverage (as a percentage of risk-weighted exposure amount)					
EU 7a	Additional own funds requirements to address risks other than the risk of excessive leverage (%)	3.2%	3.2%	3.2%	3%	3%
EU 7b	of which: to be made up of CET1 capital (percentage points)	1.8%	1.8%	1.8%	1.7%	1.7%
EU 7c	of which: to be made up of Tier 1 capital (percentage points)	2.4%	2.4%	2.4%	2.3%	2.3%
EU 7d	Total SREP own funds requirements (%)	11.2%	11.2%	11.2%	11.0%	11.0%
	Combined buffer and overall capital requirement (as a percentage of risk-weighted exposure amount)					
8	Capital conservation buffer (%)	2.5%	2.5%	2.5%	2.5%	2.5%
EU 8a	Conservation buffer due to macro-prudential or systemic risk identified at the level of a Member State (%)	0.0%	0.0%	0.0%	0.0%	0.0%
9	Institution specific countercyclical capital buffer (%)	0.99%	0.98%	0.64%	0.60%	0.69%
EU 9a	Systemic risk buffer (%)	0.04%	0.04%	0.04%	0.03%	0.02%
10	Global Systemically Important Institution buffer (%)	0.0%	0.0%	0.0%	0.0%	0.0%
EU 10a	Other Systemically Important Institution buffer (%)	0.9%	0.9%	0.9%	0.8%	0.8%
11	Combined buffer requirement (%)	4.4%	4.4%	4.1%	3.9%	4.0%
EU 11a	Overall capital requirements (%)	15.6%	15.6%	15.3%	14.9%	15.0%
12	CET1 available after meeting the total SREP own funds requirements (%)	7.7%	8.2%	8.6%	8.5%	7.8%
	Leverage ratio					
13	Total exposure measure	4,966	4,899	4,766	4,790	4,804
14	Leverage ratio (%)	4.27%	4.5%	4.5%	4.4%	4.4%
	Additional own funds requirements to address the risk of excessive leverage (as a percentage of total exposure measure)					
EU 14a	Additional own funds requirements to address the risk of excessive leverage (%)	0.00%	0.00%	0.00%	0.00%	0.00%
EU 14b	of which: to be made up of CET1 capital (percentage points)	0.00%	0.00%	0.00%	0.00%	0.00%
EU 14c	Total SREP leverage ratio requirements (%)	3.00%	3.00%	3.00%	3.00%	3.00%
	Leverage ratio buffer and overall leverage ratio requirement (as a percentage of total exposure measure)					
EU 14d	Leverage ratio buffer requirement (%)	0.00%	0.00%	0.00%	0.00%	0.00%
EU 14e	Overall leverage ratio requirement (%)	3.00%	3.00%	3.00%	3.00%	3.00%
	Liquidity Coverage Ratio					
15	Total high-quality liquid assets (HQLA) (Weighted value - average)	778	722	670	640	582
EU 16a	Cash outflows - Total weighted value	430	406	384	378	371
EU 16b	Cash inflows - Total weighted value	55	54	63	76	107
16	Total net cash outflows (adjusted value)	375	352	321	302	264
17	Liquidity coverage ratio (%)[2]	207%	206%	210%	213%	222%
	Net Stable Funding Ratio					
18	Total available stable funding	4,443	4,359	4,257	4,152	3,958
19	Total required stable funding	3,288	3,325	3,294	3,299	3,360
20	NSFR ratio (%)	135%	131%	129%	126%	118%

[1] Capital ratios and risk-weighted exposure amounts have been prepared on an IFRS 9 transitional basis.

[2] The liquidity coverage ratio (LCR) uses the simple average of the preceding 12 monthly periods ending on the quarterly reporting date as specified in the table. The Actual LCR reported in September 2024 was 225%.

As laid down in Regulation (EU) 2017/2395 and amended by Regulation (EU) 2020/873, the Group has opted to apply the transitional arrangements laid down in the same regulation to mitigate the impact of the introduction of IFRS 9 on own funds. Thus, during the transitional period ending 31 December 2024, the Group will be adding back a proportion of:

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

(b) the difference in the IFRS 9 ECLs determined as at 31 December 2019 and the ECLs determined on 'day 1' of the introduction of IFRS 9 (being 1 April 2018 for the Group) for Stage 1 (12-months ECLs) and Stage 2 (lifetime ECLs) assets; and

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

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

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

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

As at 30 September 2024 there was no capital add-back on the CET 1, Tier 1 and Total Capital as well as RWAs and leverage exposure. Therefore template 'IFRS 9-FL: Comparison of institutions' own funds and capital and leverage ratios with and without the application of transitional arrangements for IFRS 9 or analogous ECLs" is not disclosed.

3 Capital requirements

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

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

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

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

- Counterparty credit risk – As at 30 September 2024 the Group reported the CCR calculations using the Simplified SA – CCR method (as defined in CRR II Article 218).

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

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

The following table provides an overview of the total RWA and the capital requirement for credit risk, derived from the RWA by an 8% capital ratio, split by the different exposure classes as well as capital for operational risk, foreign exchange risk and credit valuation adjustment risk. No capital is allocated for market risk as the Group does not operate a trading book. The Group has no exposure in items representing securitisation positions. Moreover, the capital allocated to settlement risk and commodities risk is nought. The exposure value is equal to the total on-balance sheet and off-balance sheet net of value adjustments and provisions and post CCF.

EU OV1 – Overview of total risk exposure amounts

Amounts in €millions		**Total risk exposure amounts (TREA)**		**Total own funds requirements**
		a	b	c
		30 September 2024	**30 June 2024**	**30 September 2024**
1	Credit risk (excluding CCR)	1,052	1,058	84
2	Of which the standardised approach	1,052	1,058	84
3	Of which the Foundation IRB (F-IRB) approach	-	-	-
4	Of which slotting approach	-	-	-
EU 4a	Of which equities under the simple risk weighted approach	-	-	-
5	Of which the Advanced IRB (A-IRB) approach	-	-	-
6	Counterparty credit risk – CCR	13	14	1
7	Of which the standardised approach	-	-	-
8	Of which internal model method (IMM)	-	-	-
EU 8a	Of which exposures to a CCP	13	14	1
EU 8b	Of which credit valuation adjustment – CVA	-	-	-
9	Of which other CCR	-	-	-
15	Settlement risk	-	-	-
16	Securitisation exposures in the non-trading book (after the cap)	119	111	10
17	Of which SEC-IRBA approach	-	-	-
18	Of which SEC-ERBA (including IAA)	-	-	-
19	Of which SEC-SA approach	119	111	10
EU 19a	Of which 1250% / deduction	-	-	-
20	Position, foreign exchange and commodities risks (Market risk)	-	-	-
21	Of which the standardised approach	-	-	-
22	Of which IMA	-	-	-
EU 22a	Large exposures	-	-	-
23	Operational risk	132	132	11
EU 23a	Of which basic indicator approach	132	132	11
EU 23b	Of which standardised approach	-	-	-
EU 23c	Of which advanced measurement approach	-	-	-
24	Amounts below the thresholds for deduction (subject to 250% risk weight)	7	18	1
29	**Total**	**1,317**	**1,315**	**105**

4 Liquidity

The Liquidity Coverage Ratio (LCR) requires credit institutions to promote short-term resilience to potential liquidity disruptions thereby eliminating, or significantly reducing, structural mismatches between assets and liabilities. In terms of LCR requirements, credit institutions must hold sufficient unencumbered high quality liquid assets (HQLA) to withstand the excess of severe liquidity outflows over inflows that could be expected to accumulate over a 30-day stressed period. During such a period, a credit institution should be able to quickly convert its liquid assets into cash without recourse to central bank liquidity or public funds. The Bank calculates and monitors the LCR on a daily basis.

The Group has in place a number of quantitative risk appetite metrics to be able to monitor liquidity risk including the LCR and the NSFR. At all times, the Group ensures that it is compliant with these regulatory requirements. The following table provides an analysis of the data points used in the calculation of the liquidity coverage ratio.

As at 30 September 2024, the Group's LCR was well above both the regulatory minimum and the risk appetite set by the Group

EU LIQ1: Quantitative information of LCR

		a	b	c	d	e	f	g	h
	Amounts in €millions	Total unweighted value (average)				Total weighted value (average)			
EU 1a	Quarter ending on:	30 September 2024	30 June 2024	31 March 2024	31 December 2023	30 September 2024	30 June 2024	31 March 2024	31 December 2023
EU 1b	Number of data points used in the calculation of averages	12	12	12	12	12	12	12	12
1	Total high-quality liquid assets (HQLA)					778	722	670	640
CASH – OUTFLOWS									
2	Retail deposits and deposits from small business customers, of which:	3,165	2,987	2,814	2,654	263	244	224	205
3	*Stable deposits*	7	6	6	5	-	-	-	-
4	*Less stable deposits*	2,549	2,404	2,223	2,036	256	242	224	205
5	Unsecured wholesale funding	133	130	132	133	62	57	54	52
6	*Operational deposits (all counterparties) and deposits in networks of cooperative banks*	-	-	-	-	-	-	-	-
7	*Non-operational deposits (all counterparties)*	133	130	132	133	*62*	*57*	*54*	*52*
8	*Unsecured debt*	-	-	-	-	-	-	-	-
9	*Secured wholesale funding*					9	11	15	27
10	Additional requirements	197	191	198	226	74	71	69	74
11	*Outflows related to derivative exposures and other collateral requirements*	*44*	*44*	*45*	*45*	*44*	*44*	*45*	*45*
12	*Outflows related to loss of funding on debt products*	-	-	-	-	-	-	-.	-
13	*Credit and liquidity facilities*	*153*	*146*	*154*	*181*	*30*	*27*	*25*	*29*
14	Other contractual funding obligations	28	28	29	26	22	22	22	20
15	Other contingent funding obligations	-	-	-	-	-	-	-	-
16	TOTAL CASH OUTFLOWS					430	406	384	378
CASH – INFLOWS									
17	Secured lending (e.g. reverse repos)	1	4	8	15	1	4	8	15
18	Inflows from fully performing exposures	51	51	46	51	48	47	44	47
19	Other cash inflows	8	4	13	16	6	2	11	14
EU-19a	(Difference between total weighted inflows and total weighted outflows arising from transactions in third countries where there are transfer restrictions or which are denominated in non-convertible currencies)					-	-	-	-
EU-19b	(Excess inflows from a related specialised credit institution)					-	-	-	-
20	TOTAL CASH INFLOWS	60	59	68	83	55	54	63	76
EU-20a	*Fully exempt inflows*	-	-	-	-	-	-	-	-
EU-20b	*Inflows subject to 90% cap*	-	-	-	-	-	-	-	-
EU-20c	*Inflows subject to 75% cap*	*60*	*59*	*68*	*83*	*55*	*54*	*63*	*767*
TOTAL ADJUSTED BUFFER									
EU-21	LIQUIDITY BUFFER					778	722	670	640
22	TOTAL NET CASH OUTFLOWS					375	352	321	302
23	LIQUIDITY COVERAGE RATIO					207%	207%	210%	213%