

Company Announcement – 30/03/21

The following is a company announcement issued by MeDirect Bank (Malta) plc (the “Bank”) pursuant to the Listing Authority Listing Rule 5.

Quote

At a meeting of the Board of Directors of MeDirect Bank (Malta) plc held on 30 March 2021, the Board of Directors approved the Annual Report and Audited Financial Statements of the Bank for the year ended 31 December 2020 which are attached to this company announcement. These financial statements were audited by PricewaterhouseCoopers and can also be viewed at the registered office of the Bank at The Centre, Tigné Point, Sliema TPO 0001 and on the Bank’s website at <http://www.medirect.com.mt/about-us/investor-relations>.

MDB Group 2020 Highlights

MeDirect Bank demonstrates resilience and accelerates its transformation during an extraordinarily challenging year

SUMMARY

- Throughout the COVID-19 pandemic, MeDirect delivered dynamic franchise growth and further invested in its WealthTech platform, in line with its strategic intent of scaling up as a retail-focused pan-European digital challenger bank.
- 2020 profitability was adversely affected by significant COVID-related impairments in the Group’s legacy international corporate lending portfolio
- The Group has remained resilient and operates with strong capital and liquidity ratios, well in excess of regulatory requirements

Business performance:

On track with delivery of the Group’s strategic transformation

- Despite the significant and unprecedented challenges posed by COVID-19 on its clients, employees and communities in which it operates, the Group accelerated the implementation of its business strategy of diversifying its balance sheet and delivering long-term profitable growth as a pan-European retail digital challenger bank. The Group’s goal is to make digital investing simple and convenient for everyone, offering best-in-class

user experience and an innovative wealth value proposition, with a specific focus on addressing needs of the underserved mass affluent and affluent customer segments.

- As a systemically important bank supervised by the European Central Bank, the Group continued to demonstrate resilience in the current challenging environment and remains well capitalised, with a strong funding and liquidity base, with ratios well in excess of regulatory requirements as of 31 December 2020.
- Against this extraordinary backdrop, the Group is proud of the way it responded to the COVID-19 pandemic, prioritising supporting its clients, protecting its people, preserving capital and ensuring the ongoing future value of the business by continuing to invest in the Bank's platform with a clear strategic intent. The Group demonstrated that MeDirect is a strong, resilient and agile organisation, able to protect the interests of all its stakeholders in such a challenging operating environment.

Continued development of the WealthTech platform

- The Group's WealthTech platform operates with an open architecture model for mutual funds and brokerage. MeDirect continued to implement new digital solutions to provide customers with straightforward services and seamless investing and banking experiences. During 2020, it delivered on a number of fronts such as the launch of its mobile app, a revamped online e-banking platform and a fast and convenient digital onboarding process. These innovations were very well received by clients. In particular in Belgium, which is a core market for the Group, MeDirect was assessed in independent surveys as being amongst the top five Belgian banks for the quality of its savings and investment products, mobile application and e-banking platform.

Further balance sheet and funding diversification, with capital reinforcement

- The Group is also further diversifying its lending portfolio with strong risk management. Following a series of transformational initiatives to diversify the Group's asset base from its historic core focus on international corporate lending, this portfolio value was halved from its peak of Eur1.8 billion as of 31 March 2019 to Eur0.9 billion as of 31 December 2020.
- 2020 was a year of steady growth in the Group's Dutch government- supported (NHG) mortgage business, as the Group's Belgian banking subsidiary built a portfolio of Eur1.1 billion as of 31 December 2020. Following the dynamic ramp-up of its NHG mortgage business line, MeDirect Belgium is looking to expand its Dutch residential mortgage business and is exploring new opportunities in the attractive Belgian residential mortgage market.
- In Q2 2020, during the height of the COVID-19 pandemic lockdowns, the Group successfully obtained third-party financing in the Dutch Residential Mortgage-Backed Security (RMBS) market. As a result of the transaction, MeDirect Belgium raised Eur350 million of long-term lower cost funding and diversified its funding sources. The Group's success in obtaining low-cost financing from third party investors in such a difficult market environment demonstrated investor confidence in MeDirect's business model and growth strategy. A second RMBS transaction, which raised Eur350 million at even more attractive funding cost levels, closed in early 2021. The second transaction confirmed the Group's ability to access wholesale funding even in highly challenging market environments.

- The Group successfully attracted international Tier 2 investors through the issuance in February 2021 of Eur11 million subordinated notes. Such access to institutional investors in the capital markets allowed the Group to continue the diversification of the capital base. The purpose of this issuance was to reinforce and optimise the Group's regulatory capital and to support the execution of its business growth strategy.

Dynamic growth in retail customer franchise

- The Group continued to build its franchise by offering attractive savings products and wealth solutions. These products have continued to drive growth in client financial assets (deposits and assets under management), which reached Eur3.9 billion as of 31 December 2020, an increase of 15% from Eur3.4 billion as of 31 December 2019. MeDirect Belgium delivered even more dynamic growth in client financial assets, with an 18% growth over the same period.
- The Group continued to grow its client base at a steady pace throughout 2020, with an increase of 13%, from 67,000 to 76,000. MeDirect Belgium grew its client base by 20%, from 43,000 to 52,000.
- In Malta, MeDirect continued to support the Maltese real economy through lending to Maltese corporates and small and medium-sized enterprises. MeDirect Malta provides fully collateralised lending facilities and transactional banking services to established businesses, with controlled risk management discipline. Corporate lending portfolio remained stable and stood at Eur88.2 million as of 31 December 2020. In response to the COVID-19 pandemic and its effect on the Maltese businesses, MeDirect Malta launched its MeAssist lending product, an assistance package issued in collaboration with the Malta Development Bank, which aims at supporting and enhancing access to bank financing for corporate customers.
- In early 2021, MeDirect has also launched its new home loans product in the Maltese market, thus widening its retail service offering. MeDirect's goal is to provide a new type of mortgage product in the Maltese market, using a more digitalised approach, faster turnaround of mortgage applications and a competitive pricing strategy.

Robust, tech-driven operating model with reinforcement of our teams

- Human resources are a key component of the Group's success. Throughout 2020, the Group strengthened its management team at Group and MeDirect Belgium levels and, despite COVID-19, continued to be very successful in attracting high calibre talent and digital experts to support its strategic objectives. In aggregate, 70 new positions were created across the Group in 2020. Almost two thirds of the new recruitment was in Technology, Digital Channels, CRM, Product and Marketing and Compliance areas, in order to accelerate the delivery of the WealthTech roadmap.

- One of the Group's competitive advantages is the efficient and high-quality service centre it operates in Malta, including Technology, Digital Channels, CRM, Operations and other support functions. This service centre acts as the backbone of the Group, supporting the roll-out of its business strategy and in particular the development of its WealthTech platform across different retail markets: Belgium, the Netherlands and Malta, as well as potentially other jurisdictions in Europe. Dedicated marketing and product teams, as well as control functions, are located in each country. This international set-up enables MeDirect to scale up efficiently while remaining flexible and close to local market requirements, in particular from a customer and regulatory standpoint.
- Historically, the Group has invested significantly in its Technology platform with approximately Eur40 million of CapEx invested since 2015, in particular to develop digital capabilities and the WealthTech platform.
- The Group was one of the first banks to implement full remote working capabilities in March 2020 to address the operational challenges posed by COVID-19. Throughout the pandemic, MeDirect proactively and rapidly deployed measures to ensure that its premises remain as safe as possible while supporting the wellbeing of all employees and customers.

Financial performance:

Further investment in WealthTech and diversification of the balance sheet, while regulatory ratios remained strong despite significant COVID-related losses

- The balance sheet increased by 29% in 2020, from Eur3.1 billion to Eur4.0 billion. This was principally driven by the increase in the NHG portfolio.
- The NHG portfolio as of 31 December 2020 amounted to Eur1.1 billion, compared to Eur0.1 billion as of 31 December 2019.
- Total customer deposits grew by 12.7% to Eur2.7 billion as of 31 December 2020 from Eur2.4 billion as of 31 December 2019.
- As a result of prudent COVID-related impairments, the Group reported a loss before tax of Eur75.2 million in the financial year ended 31 December 2020, compared to a profit before tax of Eur7.1 million in previous period. The primary driver for the loss were the impairments of Eur65.2 million, of which Eur55.7 million were recognised during the first half of the year during the height of the economic fallout from the pandemic. Additionally, the Group took the prudent decision of reversing deferred tax assets which decreased by Eur7.8 million as compared with 31 December 2019. Unutilised tax benefits do not expire, and the reversal does not affect future cash flows or the Group's ability to use such tax benefits in the future.
- The Group's financial performance also reflected the effects of execution of its transformation plan; including lower revenues from its lending book (with a gradual replacement of international corporate lending with mortgage lending) and continued significant investments in its WealthTech platform.

- Even after having absorbed COVID-related impairments, the Group's capital ratios remained strong, with the Tier 1 capital ratio at 14.8% and the total capital ratio at 17.3%, well above its regulatory capital requirements.
- The Group is comfortable that the robustness of its prudent, forward-looking provisioning process ensures that it has taken appropriate impairments reflecting the adverse credit effects of the pandemic. The Group believes that it has provisioned strongly as soon as the pandemic manifested itself, as is evidenced also in the reduced impairment losses experienced in the second half of the financial year.
- The Group's liquidity reserves remained strong, with a liquidity buffer of Eur685 million as of 31 December 2020. The Group's Liquidity Coverage Ratio was more than five times the regulatory requirement (LCR at 563% compared with a regulatory requirement of 100%).
- The Group's leverage ratio stood at 5.7% as of 31 December 2020, also well above the 3% regulatory requirement.
- Against the backdrop of COVID-19, the Group provided exceptional levels of support to the clients, colleagues and the communities it serves whilst making strong progress toward the achievement of its strategic priorities. The Group is grateful to all its employees for the energy and dedication they have displayed in remarkably challenging times.
- The Group enters 2021 with renewed confidence that its transformation plan, high-calibre staff and cutting-edge innovation will enable it to continue to build a digital challenger bank with a promising future.

Unquote

Henry Schmeltzer
Company Secretary
30 March 2021