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MDB Group Limited

Annual Report 2020

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Chairman's and Chief Executive Officer's REVIEW

It is fair to say that 2020 was a year like no other as it presented some extraordinary challenges for our customers, colleagues and communities, yet at the same time, it was a year where MeDirect has never transformed so fast, investing in technology and people, to improve our WealthTech offer to retail customers thus making digital investing simple for everyone.

We demonstrated that MeDirect is a strong, resilient and agile organisation able to protect the interests of all our stakeholders in such a challenging operating environment. We are proud of the way in which MeDirect responded to the COVID-19 pandemic, prioritising supporting our clients, protecting our people, preserving our capital and ensuring the future value of the business through the ongoing acceleration of the platform transformation to scale up a WealthTech with its own ecosystem.

During this trying year, we have seen our employees pull together and demonstrate their resilience. We provided our employees all the necessary equipment and tools to be in a position to work remotely, and within the space of one week the majority of our employees were moved to work from home. New hires were virtually onboarded; and the provision of day-to-day training, including conflict resolution and mental resilience training to help and support employees through this difficult period, moved completely online. MeDirect has also continued to strengthen our management team and attract high calibre talent to support our strategic objectives, with the filling of over seventy new positions of which almost two thirds were within the Technology, Digital Channels, Product and Marketing and Compliance areas, in order to accelerate the delivery of our WealthTech roadmap. Accessing our great talent pool at our high-quality service centre in Malta, including the critical input of our experienced technology team, enables us to put digital at the heart of our business and to advance customer experience. This service centre acts as the backbone of the Group, supporting the roll-out of our business strategy, and in particular its WealthTech roadmap across different retail markets: Belgium, Netherlands, Malta, and potentially other jurisdictions in Europe.

Innovation is always high up on the agenda in the banking industry, but for digitally native challenger banks like MeDirect, it is a way of life. Our core strategy revolves around the ongoing development and enhancement of our digital proposition for the underserved affluent segment in Belgium and Malta, with potential to scale up in other countries. MeDirect's dynamic workforce continues to carve out new ways of engaging consumers as it is clear that they are craving change in banking with fresh new ideas. We are bringing new approaches to customer service and fulfilling customer expectations by offering a more personalised and fully digital experience with real-time data flows. During 2020 we brought in a range of new digital enhancements, such as the launch of an innovative mobile app, a revamped online eBanking platform and a new fast and convenient client on-line onboarding process. These innovations were very well received by our clients.

We want our customers to choose MeDirect as we offer a superior value proposition that is unique amongst our competition based on attractive pricing, wide open architecture model for mutual funds and brokerage and execution-only features. Our focus is on delivering great user experience and seamless investing and banking client journeys, supported by an advanced technology platform and fast time-to-market. We are also creating very specific products and investment solutions focused on the needs of niche groups of clients such as customers interested in making sustainable investments.

MeDirect is very much aware of the significant risk that climate change poses to our environment, our economies and our communities and consequently, we are working on developing its response to address this emerging risk, by supporting the transition to a low-carbon, greener economy in line with the Paris Agreement goal of net zero emissions by 2050.

We also remain dedicated to continue working in the right direction to ensure diversity, with several EU and other country nationals working with MeDirect, and gender equality across the Group, with a 43% representation of women in our workplace in 2020.

Undoubtedly everything that can be said about our performance in 2020 must be set against the COVID-19 pandemic and the resulting health and economic crisis that led to containment measures being introduced by governments and businesses to limit the pandemic spread. Despite reporting a loss for the first time in our history, our performance in 2020 was largely a reflection of the impact that COVID-19 had on our international corporate customers and the EU economies. Our expected credit loss approach deployed in response to the impact of COVID-19 has been comprehensive, conservative and forward-looking. We remain satisfied that our prudent approach to provisioning is appropriate as the full impact of the pandemic is now clearer and markets reflect the positive impact of vaccination programmes and the consequent lifting of lockdowns.

Very good progress was made in 2020 on advancing MeDirect's strategy. We maintained strong momentum on our key priorities and accelerated a number of strategic initiatives. We continued to grow in key areas such as Dutch residential mortgages, where we managed to surpass our target of a €1.1 billion portfolio by the end of 2020, and wealth management, that experienced a further growth of 14% in assets under custody. Our balance sheet remains strong and despite the decrease in the shareholder's equity as a result of the loss for the financial year, we ensured that all other stakeholders are safeguarded at all times.

The forward looking COVID-19 related loan provisioning and a prudent view of the present value of the deferred tax asset, and their impact on capital, was in fact more than offset by the significant reduction in our international corporate leveraged loan portfolio in line with the strategy approved by the board. Furthermore, while continuing to invest in our transformational customer offering and a scalable WealthTech platform we still ended 2020 reporting a total capital ratio at 17.3% - well in excess of regulatory requirements. The liquidity position also remained very strong with a Liquidity Coverage Ratio of 563% at year end and we still met the demands of our corporate customers that in the early stages of the pandemic built cash reserves by drawing down on their revolving credit facilities. MeDirect's capital and liquidity position is expected to remain robust and resilient and continue to be in line with internal target ratios and always well above the regulatory requirements. Due to our status as a Systemically Important Institution these ratios are set by the European Central Bank as our lead regulator with whom we have continued a very constructive dialogue throughout the period.

As part of its strategic transformation, MeDirect continued to diversify and optimise its lending portfolios through the transition from its historical pan-European international corporate lending business, that has been more exposed to the impact of COVID-19, to its new business in low-risk residential mortgages provided with a Dutch national mortgage guarantee. Despite the pandemic and though being the first full year in this new market, we have seen a strong performance and steady growth in our new Dutch residential mortgage business line not just in terms of business volumes but also in building our presence in the Dutch securitisation market through the successful placement of our debut €350 million RMBS transaction during the height of the COVID-19

pandemic. This demonstrated investor confidence in MeDirect's business model and growth strategy. A second RMBS transaction, which raised €350 million at even more attractive funding cost levels, closed in early 2021.

We are now looking to expand further our Dutch residential mortgage business and are also exploring new opportunities in the attractive Belgian residential mortgage market. We also recently launched our innovative and attractive home loan offering in Malta where we aim to provide a unique customer experience through a more digitalised approach, faster turnaround timeframes and a competitive pricing strategy.

MeDirect has successfully attracted Tier 2 international investors through the issuance in February 2021 of €11 million subordinated notes. Such access to international capital markets allowed us to strengthen and diversify MeDirect's capital base that is key to support the execution of our business growth strategy.

Against the COVID-19 backdrop, we provided exceptional levels of support to our clients, colleagues and communities we serve whilst making strong progress towards the achievement of our strategic priorities. We are grateful to all our employees for the energy and dedication they have displayed in remarkably challenging times. We look forward to the post COVID-19 era with renewed optimism and focus, and we remain well positioned to take full advantage of the opportunities available to us as we continue to optimise our balance sheet and transform our customer offering at pace.

MICHAEL BUSSEY
CHAIRMAN

ARNAUD DENIS
CHIEF
EXECUTIVE OFFICER

30 MARCH 2021

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Directors' REPORT

The world has changed and so have we to drive growth

There are many dimensions to the COVID-19 pandemic and the humanitarian implications have been enormous. Besides causing a health crisis, the pandemic resulted in an economic shock of historic proportions. The containment measures imposed by many governments to stop the spread of virus led to a collapse of global activity during 2020: the crisis is affecting both the supply of goods and services through containment measures as well as demand through declining corporate and household incomes. Governments and central banks have stepped in with unprecedented intervention measures to mitigate the effects of this shock by providing significant economic support to both businesses and individuals, including direct and indirect tax relief, employment compensation support, direct liquidity and credit guarantees. Uncertainties remain about the consequences, magnitude and duration of the crisis, though we are witnessing positive signs of economic recovery.

The impact on MeDirect, our corporate clients segment, our people and our communities were immediate. The effects of the lockdowns and restrictive measures applied by various EU countries throughout the financial year, and the economic disruption that accompanied them, had a significant impact on some of our international corporate borrowers and thus on the financial results that we are reporting.

Here is the story of an exceptional and challenging year for everyone. It was a year like no other as the COVID-19 brought the daily life to a grinding halt in much of the world, but we are satisfied that despite all this we managed to continue to develop our viable WealthTech digital transformation, diversify our business and grow our Dutch mortgage business line leading to further balance sheet growth. We faced many challenges, including the overnight switch to remote working by our employees, the financing to our clients as they responded and recovered, and the support provided to the wider community. The pandemic is a defining moment for all, including MeDirect, but we believe that the true strength of MeDirect continues to be a clear purpose and an engaged workforce. Despite the 2020 financial results, MeDirect is well positioned to deliver improved and enhanced performance post COVID-19, more specifically further balance sheet diversification by further expanding our Dutch mortgage portfolio and through our WealthTech digital transformation.

We hereby present the annual report of MDB Group Limited (the "Company") and of the Company and its subsidiaries ("the Group" or "MDB Group") for the year ended 31 December 2020.[1]

Who we are and what we do

These results reflect the consolidated position of the Company and its principal subsidiaries, namely MeDirect Bank (Malta) plc ("MeDirect Malta") and MeDirect Bank SA ("MeDirect Belgium").[2]

The principal customer-related activities of MeDirect Malta and MeDirect Belgium include:

- Financing the business of European corporates through senior secured loans and revolving credit facilities.
- Taking of deposits in Malta and Belgium, denominated in euro and other major currencies, by offering attractive and innovative savings products. An example is

1 This report is prepared in terms of the Maltese Companies Act (Cap. 386) and complies with the disclosure requirements of the Sixth Schedule to the same Act.

2 Including all entities where MeDirect Malta and MeDirect Belgium retained all the underlying risks and rewards consisting of Grand Harbour I B.V., Bastion 2020-1 NHG B.V. and Cavalier 2020 B.V., controlled special purpose entities established in the Netherlands that were set up as part of the Group's funding strategy, and Medifin Estates, a property leasing partnership.

the regulated savings accounts in Belgium, such as Monthly Savings Max and Dynamic Savings, which are very popular with the Belgian households.

- Offering customers an easy-to-use wealth platform with a wide range of investment products, giving them an attractive alternative to savings for managing their wealth.
- MeDirect's suite of savings and wealth products are available to customers digitally through a best-in-class mobile app and online banking platform.
- Meeting the needs of our corporate customers through other convenient banking services such as payment services and foreign exchange.

MeDirect Malta continues to support the Maltese real economy through lending to Maltese corporates on large scale projects and to small and medium-sized enterprises through fully collateralised lending facilities and transactional banking services to established businesses, with controlled risk management discipline. Corporate lending portfolio remained stable and stood at €88.2 million as of 31 December 2020.

MeDirect Belgium provides a highly competitive online offering for the Belgian market and our people offer products and services that our client really needs. This is achieved through a simplified open architecture that allows clients to satisfy all their financial needs by recommending the financial products best suited to that client. Model portfolios are constructed with an optimised asset allocation process to help meet investor needs and preferences using simple and effective investment methods. We also connect people to the investing information and tools they need by building model portfolios comprising mutual funds selected in cooperation with a leading provider of independent investment research, Morningstar Inc. and NN Investment Partners, a leader in active investing with a sustainable focus. Our platform offering bonds, equities and exchange traded funds is very popular with our clients, enabling easy access to the trading markets through our digital platform. We also offer a low cost and transparent discretionary management service in Belgium.

Following the successful launch of its new Dutch residential mortgage business line, MeDirect Belgium is now seeking sustainable business growth by expanding its Dutch mortgage business and is exploring new opportunities in the attractive Belgian residential mortgage market.

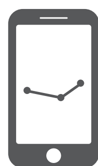
The MDB Group, being the third largest bank in Malta in terms of total assets, is one of 115 banks in Europe that are regulated under the Single Supervisory Mechanism ("SSM"). The SSM is the system of banking supervision in Europe, the main aim of which is to ensure the safety and soundness of the European banking system and to increase financial integration, stability and consistency of banking supervision. This implied that MeDirect is regulated by the European Central Bank ("ECB"), the National Bank of Belgium, the Financial Services and Markets Authority ("FSMA"), the Malta Financial Services Authority ("MFSA") and the Central Bank of Malta ("CBM").[3] Therefore MeDirect is subject to supervisory methodologies and standards of the highest quality

Creating opportunities to grow

MeDirect's business strategy is based on four main pillars:

- *Sound financial and regulatory base* – MeDirect operates with sound capital ratios, a diversified funding base and robust liquidity and we continue to meet appropriate standards in relation to compliance and security matters.

3 The 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.



- *Scaling up the digital wealth platform* – MeDirect continues to invest significantly in its technology platform with approximately €40 million of capital expenditure invested since 2015 and we continue to develop our wealth platform to introduce innovative solutions in order to operate as an agile digital bank with fintech capabilities. Our digital platform is best-in-class and offers secure online location where our customers can view all their investments in one place, available though both our mobile app and online banking website. With up-to-date valuations and a bird's-eye view of the whole portfolio, our easy-to-use online platform facilitates investment simplicity for everyone with the efficient creation and monitoring of even the most complicated investment portfolio.

- *Diversified credit portfolio* – MeDirect is building an increasingly diversified credit portfolio with strong risk management. International corporate lending has been our historical focus from a credit perspective, but through a series of transformational initiatives this portfolio value was halved from its peak of €1.8 billion as of 31 March 2019 to €0.9 billion as of 31 December 2020. Following the dynamic ramp-up of its Dutch mortgage business line, MeDirect Belgium is looking to further expand its Dutch residential mortgage business and is exploring new opportunities in the attractive Belgian residential mortgage market.

- *Efficient operational centre in Malta* – MeDirect operates a high-quality service centre in Malta consisting of technology, digital channels, operations and other support teams. These teams are the engine that drives MeDirect to make our bank simpler, better and faster for our customers and workforce. The role of these teams cover the development of software and applications to improve MeDirect's customer experience, the management of the IT systems, infrastructure and support, the management of customer operations and change across MeDirect, the implementation of major strategic transformation programmes and the provision of professional services in various areas such as finance, risk and treasury amongst others.

  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.

Becoming diversified and resilient for long-term success

MeDirect's business strategy defines a clear sense of the path ahead to build a specialised digital bank serving mass affluent and affluent clients with innovative wealth value proposition and best in class user experience and ecosystem of services driving client monetisation and a profitable mortgage factory in the Netherlands and Belgium, partly supported by RMBS[4] funding. As the banking industry witnesses a digital facelift, the innovation mindset will see MeDirect deploy the right digital strategy to meet their short-term, as well as long-term goals.

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4 Residential Mortgage-Backed Security.

The principal activities of MeDirect have historically comprised international lending, predominantly to EU corporate borrowers, to whom MeDirect 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.

Following a series of transformational initiatives to de-risk and diversify our 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 €0.9 billion as at 31 December 2020.

Starting September 2019, MeDirect Belgium has invested in the NHG segment of the Dutch retail mortgage market.[5] These mortgages are prime Dutch mortgages that benefit from a guarantee from a non-profit fund and indirectly from a Dutch national mortgage guarantee.

MeDirect Belgium has partnered with the Blauwtrust Groep, one of the leading mortgage platforms providing marketing, distribution, origination and servicing of residential mortgages in the Dutch market. The Blauwtrust Groep offers national mortgage guaranteed loans to the market under the brand-name of HollandWoont and offering investors like MeDirect Belgium the opportunity to purchase newly originated receivables. Using this model MeDirect was able to build a rapidly growing portfolio of high-quality national guaranteed mortgages.

MeDirect Belgium finances the investments via a combination of retail-deposits and wholesale funding. In view of the growing mortgages portfolio, in May 2020, MeDirect Belgium was one of the first banks to reopen the European RMBS[6] market as it successfully launched its inaugural RMBS transaction[7] raising €350 million that was successfully privately placed with a single investor at attractive for MeDirect pricing. This transaction during the height of the pandemic and in a difficult market environment was an encouraging sign of the investor confidence in and the business credibility of MeDirect's ambitious business model and growth strategy. A second RMBS transaction, which raised €350 million at even more attractive funding cost levels, closed in early 2021.

To allow for further growth of the Dutch Mortgage book MeDirect Belgium has also set up a warehouse facility with a €350 million commitment from one of the main Dutch banks.[8] This warehouse facility provided bridge financing enabling MeDirect Belgium to build up a Dutch Mortgage portfolio large enough to be securitised through further RMBS transactions. This programme allows us to draw on a facility collateralised by a portfolio of freshly purchased Dutch mortgages.

MeDirect will continue to use these efficient funding mechanisms as it allows us to benefit from long-term stable funding, a well-diversified funding base, reduced dependence on more costly retail funding and a better maturity alignment with the underlying mortgage assets.

In accordance with its plan to downsize progressively its international corporate lending portfolio, MeDirect plans to accelerate its asset diversification strategy, with the objective of making its Dutch national-guaranteed mortgage portfolio

5 The financing of mortgages covered by the Dutch National Mortgage Guarantee ('Nationale Hypotheek Garantie' or NHG) was authorized under Article 77 of 1° of the Belgian Act of 25 April 2014.

6 Residential Mortgage-Backed Security.

7 This RMBS transaction was done through Bastion 2020-1 NHG B.V. ("Bastion 2020-1"), a special purpose securitization vehicle controlled by MeDirect Belgium established in the Netherlands, in line with article 6 of the Securitisation Regulation (EU) No 2017/2402 of the European Parliament and of the Council of 12 December 2017 ("the Securitisation Regulation").

8 This transaction was done through Cavalier 2020 B.V. ("Cavalier 2020"), a special purpose vehicle controlled by MeDirect Belgium established in the Netherlands.

the largest asset class on balance sheet in 2021. In the meantime, despite the turbulent times because of COVID-19, the Group met its target of building a portfolio in excess of €1 billion by the end of 2020. MeDirect is also exploring possibilities for further expansion into other mortgage products in The Netherlands, Belgium and Malta.

Being the savings and investments bank of choice for our customers

We continued to focus on our strategy of being a simpler and efficient bank, supporting our customers through uncertain and challenging times by offering them innovative ways how to save and invest their money. The aim is to deliver improved customer experience using technology and data mining to help customers better manage their finances.

We are constantly seeking to ensure our products are suited to our customers' needs and are delivered through best-in-class digital channels. We have launched our mobile app, revamped our online banking platform in 2020 to streamline our client onboarding process and have an ambitious roadmap to roll out further features and enhancement during 2021. Our technology teams regularly implement and update digital banking solutions designed to improve financial wellbeing by helping our customers better understand how to get more value from their products – such as by showing them how to adjust their use of a particular product or identifying when there may be an alternative product better suited to their needs.

Whether our customers want to set aside a small amount every month or want to let their savings grow over the short or long term, our savings accounts are designed to help our customers with their personal needs. Throughout the year we launched attractive new products in Belgium that help people manage their money better and cement our place as a recommended and fast-growing bank in Belgium.

The monthly Max account, a solution for those who want a regular monthly savings account, was launched at the beginning of the year whilst the Dynamic savings account launched in June 2020 offers an attractive base rate and maximum flexibility for whoever wants to deposit funds for one year or less.

We constantly aspire to deliver products and services which are amongst the best in the market. During 2020 MeDirect has won several prestigious awards which demonstrate our clients' recognition of the great work that our team is doing to help them save and invest better. At the annual Bank Awards organised by Spaargids, one of the largest comparison sites for financial products in Belgium, MeDirect was assessed amongst the top five Belgian banks for the quality of its savings and investment products, mobile application and e-banking platform. We owe this to our attractive rates but above all to our customers. We also won the top monthly saver bank award by TopCompare and we were elected winners in this category as the goal of our savings account is to reward monthly savings efforts with an attractive interest rate. Topcompare highlighted that they selected savings accounts that are accessible to all, without age restriction.

BEST SAVINGS BANK

At the annual Spaargids Bank Awards, we were awarded Best Savings Bank! We owe this to our attractive rates but above all to our customers!

During 2020, MeDirect Malta has also entered into a partnership with a widely recognised deposit platforms to originate additional deposit funding capacity thus proving MeDirect's ability to avail from relatively easily accessible and flexible source of funding. The vast proportion of the deposits raised are 12-month fixed term deposits, therefore adding longer-term funding stability.

MeDirect has continued to invest in the transformation of its retail client offering into a wealth-focused value proposition. Putting sustainability at the heart of our business by building long-term value, in February 2020 we launched the Sustainable MeGreen investment plan. With this investment portfolio you invest in a diversified basket of funds that meet strict environmental, social and governance ("ESG") criteria. MeDirect developed the portfolio with the support of NN Investment Partners, which evaluates its sustainable character through their internal committees dedicated to ESG. NN Investment Partners has more than 20 years of experience in applying ESG criteria to their investment strategies. By investing in a sustainable investment portfolio, you not only strive for a financial return, but you also invest in a better society.

We are proud that, as a result of the above, customers are investing more of their money with us. Customer assets under custody held with MeDirect increased from €1,036.3 million in December 2019 to €1,189.8 million in December 2020. This also reflected the higher number of retail customers using MeDirect as these grew at a steady pace from 67 thousand as at 31 December 2019 to 76 thousand as at the end of this financial year, that represents a 13% growth rate. In particular, MeDirect Belgium grew its client base by 20% from 43 thousand to 52 thousand.

Giving power to the people

Our top priority is to improve customer experience through digital innovation as we need to ensure our customers can rely on us to provide them with secure remote access to banking products and services. Digital platforms such as mobile and internet banking make it possible for customers to serve themselves, anywhere, anytime and we are adapting the way we operate to respond to our customers' changing banking habits.

MeDirect is implementing new digital solutions to provide customers with straightforward services and a seamless investing and banking experience. The goal of MeDirect 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. In this respect, in 2020 we laid the groundwork for developing superior, state-of-the-art digital channels. To identify improvements such as the following, it is vital that we listen to our customers and respond to their needs. Our actions must be driven by their feedback so we can offer them the smoothest customer journey possible that exceeds their expectations.

Mobile App and website

The MeDirect Mobile app was launched for Maltese customers in July 2020 and September 2020 for customers in Belgium, with a strong

focus on user experience. This application achieved an average 4.5-star reviews on the App Store and Google Play and both our mobile app and our website were assessed as being amongst the top five Belgian Banks by spaargids. be independent customer survey covering the Belgian banking market.

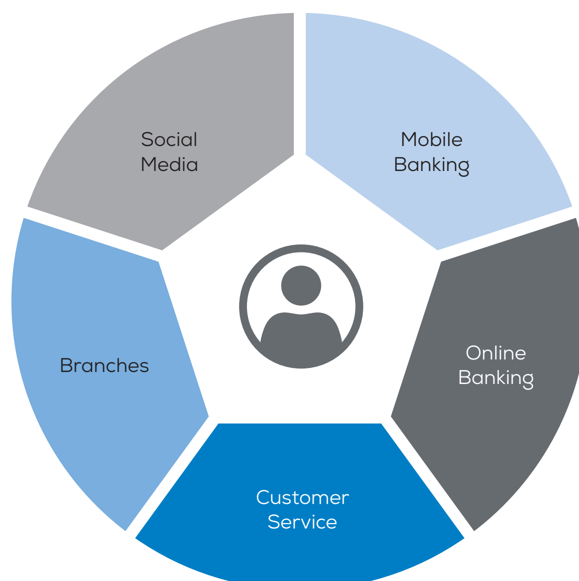
Digital onboarding

A new and simple onboarding process was introduced with the primary objective to reduce onboarding time. This introduction led to a significant improvement in the submission rates as more customers started opening bank accounts following the submission of the application. In addition to this, on Belgium we have seamlessly integrated with 3rd party providers for ID verification and compliance checks to improve the onboarding efficiency.

OUR TOP PRIORITY IS TO IMPROVE CUSTOMER EXPERIENCE THROUGH DIGITAL INNOVATION

E-banking

The online eBanking channel was revamped with a new design incorporating a more intuitive menu structure, insights on investments and savings available to the user and new design for first users of platform to be guided into opening a first account.



Omni-channel enabler

Our contact center ticketing system has also been improved to allow for the centralization of customer communications via email and secure messaging. This improvement has enabled the system to be prepared for a series of projects that will consolidate all clients' interactions including telephony, chat and social. We also implemented a quality measurement process by collecting a star rating and general feedback on every communication with the client.

Our response to COVID-19

The COVID-19 pandemic rapidly introduced an array of new and elevated risks to the safety of our people, the resilience of our operations, the strength of our balance sheet and the financial security of our customers and the community, Action has been required to address these risks particularly in the following areas.

Taking care of our people

Throughout the COVID-19 pandemic, MeDirect proactively and rapidly deployed extensive measures to ensure our premises remain as safe as possible while supporting the wellbeing of all employees. Some of these measures include:

- Increased sanitization and regular deep cleaning and distribution of hand sanitizer, personal protective equipment, wipes and cleanser.
- Prioritisation of mental health supports, including information sessions on self-care and access to counsellors.
- Support for employees transitioning to remote work arrangements, including access to expertise on remote work.
- Enabled non-branch employees to work remotely by providing VPN access for employees and by supplying monitors and keyboards to remote workers.

During 2020, despite COVID-19, MeDirect continued to be very successful in attracting high calibre talent. As a result of expansion of our operations in Belgium, the organisational structure and resourcing of MeDirect Belgium were enhanced to strengthen further its corporate governance and risk management framework. Also, through best-in-class talent acquisition, MeDirect continues to recruit digital experts to support its strategic transformation to continue 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.

Being there for our clients

Various measures were taken to ensure business continuity. All processes continued as normal without any adverse impact on our operations and services as the digital banking platform allowed customers to continue all banking, investment and wealth transactions from the safety of their homes.

MeDirect also participated in several COVID-19 relief programmes to support our customers. MeDirect 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, and it became an accredited financial intermediary under the Malta Development Bank's COVID-19 Guarantee Scheme ("CGS").

In May 2020, MeDirect Malta launched the MeAssist lending product, which is an assistance package issued in collaboration with the Malta Development Bank, aimed at supporting and enhancing access to bank financing to corporate customers in our Local Lending portfolio in Malta. Such financing, offered in the form of working capital facilities granted to assist customers with their operational requirements brought about by COVID-19 market disruptions, is up to 90% secured by guarantees provided under the Malta Development Bank COVID-19 Guarantee Scheme.

Supporting our communities

We deliberately continued to support local talent in sports, culture, and charitable institutions, causes and events as these were severely impacted by the COVID-19 pandemic. MeDirect Malta's commitment to these initiatives is established through the various sponsorships and donation agreements that support a wide variety of community organisations.

Keeping MeDirect strong

Like many other markets, global leveraged loan markets (to which MeDirect is exposed through our 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.

In the early days of COVID some of our international borrowers were concerned that they would suffer a liquidity shortfall of their most common initial reaction was that of drawing committed liquidity/working capital lines to put cash on their balance sheet "just in case". Interventions, such as wage subsidies, by various governments meant that the majority of our clients have managed to trade through the severe lockdown periods. Many of the early 'draws' have now been repaid as the situation stabilises and the negative carry from having low-interest earning cash starts to bite.

The significant increase in drawdowns of revolving credit facilities mentioned above in the early days of the COVID-19 outbreak led to €253.6 million of RCFs being drawn during the first half of 2020. The total drawn portion of our total revolving credit facility portfolio grew from 22% as at 31 December 2019 to a peak of 76% in mid-May, later decreasing to 28% as at 31 December 2020. We are proud that in such unsettling times we managed to support our customers and we fully honoured all our commitments and obligations.

Notwithstanding this, the level of non-performing loans increased as weaker segments of the market lag the broader recovery. The uncertainty in the macroeconomic environment has increased substantially since the COVID-19 outbreak. As a responsible lender, MeDirect has a well-diversified portfolio across various sectors and countries. Nevertheless, some of our borrowers operate in sectors which are more exposed to the COVID-19 impact. As a result of this, we applied heightened levels of risk monitoring across the portfolio.

We are confident that despite the challenging market conditions as a result of the COVID-19 pandemic, we will continue to diversify by reducing our exposure to the international corporate lending portfolio and utilise the regulatory capital released on exposures to uncorrelated assets.

Notwithstanding the impact of COVID-19 on the Dutch economy in general, the residential mortgage market remained buoyant. The positive impact of lower interest rates on mortgage affordability created additional demand from existing owners interested to climb the housing ladder and for entrants buying their first property. Additionally, the continuously decreasing interest rates, lead to a growing demand to refinance existing mortgages. Supported by HollandWoont, after the first full year in this new market the Group was able to invest more than €1.1 billion in a high-quality Dutch mortgage portfolio.

MeDirect Belgium has recently been nominated for the 2020 securitisation award at the annual securitisation event hosted by the Institution for International Research and the Dutch Securitisation Association. The Securitisation Award recognises outstanding achievement, a transaction, initiative or organisation that had a significant positive contribution to or impact on the Dutch securitisation market in 2020/2021. The advisory board of the Institution for International Research motivated our nomination by the fact that in 2020 MeDirect was a welcome new addition to the Dutch RMBS market, and we followed with another transaction early 2021, thus managing to build our presence in this market despite the COVID-19 market turmoil.

2020 – a year of resilience

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

These reviews evaluated the portfolio to identify problematic exposures, and impairments were booked to cover all expected future losses. These assessments were conducted based on thorough

reviews of all borrowers on a name-by-name basis, in most cases involving direct communication with the senior management of individual borrowers and, where applicable, the examination of detailed reviews performed by independent experts. These reviews were undertaken conservatively with the aim of identifying and providing for all currently expected credit losses. Throughout the year MeDirect recognised changes in expected credit losses and other credit impairment charges amounting to €65.3 million.

The COVID-related impairment levels were the primary driver for the loss before tax of €75.2 million reported by MeDirect in the financial year ended 31 December 2020, compared to a profit before tax of €7.0 million in the 9-month financial period ending 31 December 2019. The Group recognised impairments of €65 million during the 2020 financial year, of which €56 million were recognised during the first half of the year during the height of the economic fallout from the pandemic. To a lesser extent, the Group's results were also impacted by lower revenues from its lending book (with gradual replacement of international corporate lending with mortgage lending) and reflected continued significant investments in its WealthTech platform. We are comfortable that the robustness of our prudent, forward-looking provisioning process ensures that the Group has taken appropriate impairments reflecting the adverse credit effects of the pandemic. We believe we 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 year end liquidity was robust, and capital ratios remained well above the legal regulatory capital requirement represented by the Total Supervisory Review and Evaluation Process ("SREP") Capital Requirements ("TSCR")[9]. Throughout the COVID-19 crisis MeDirect accommodated unprecedented client demands for lending and other banking services.

Prudent provisioning on lending portfolios and prudent assessment of deferred tax assets

As noted above, assessments of lending portfolios were made on an ongoing basis throughout the financial year and impairments were revisited considering the changed outlook. Provisions for expected credit losses increased predominantly because of management estimates of the COVID-19 impact on its borrowers. Based on our detailed name by name portfolio analysis, provisions were taken on all borrowers who have defaulted, as well as all non-defaulted borrowers that showed potential future characteristics of unlikeliness to pay. We also amended Stage 1 and Stage 2 provisions to reflect rating migrations and updates to the macroeconomic outlook.

9 TSCR refers to the minimum total capital requirement of 8% plus P2R of 3%.

As a result of our conservative approach to impairments, we believe that we have accounted for all currently expected credit losses and expect a normalisation of expected credit losses in 2021 as a result of the expected economic recovery.

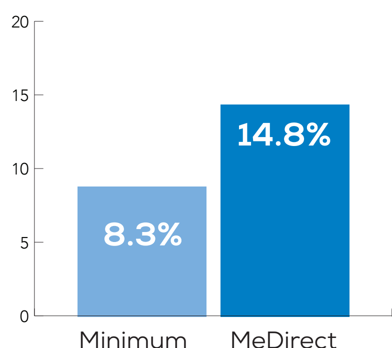
We also took the prudent decision to reduce the net deferred tax assets by approximately €7.8 million. Unutilised tax benefits do not expire in the future and the prudent release does not impact our future cash flows and the Group's ability to utilise these tax benefits in the future. The release reflects, rather, the shift in future business emphasis towards the Benelux region, as previously outlined, which may lengthen the period required for the utilisation of these tax benefits.

Solidity of the balance sheet

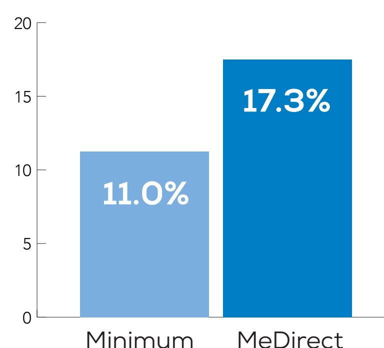
Further investment in WealthTech and improvement of balance sheet profile, with regulatory ratios remaining strong despite significant COVID-related losses.

- The balance sheet increased by 29% in 2020, from €3.1 billion to €4.0 billion. This was principally driven by the increase in the Dutch government-backed mortgage portfolio and the relevant funding.
- The gross outstanding balances of the Dutch mortgage book as at 31 December 2020 amounted to €1.1 billion compared to €0.1 billion as at 31 December 2019.
- Total customer deposits grew by 12.7% to €2.7 billion as at 31 December 2020 from €2.4 billion as at 31 December 2019.

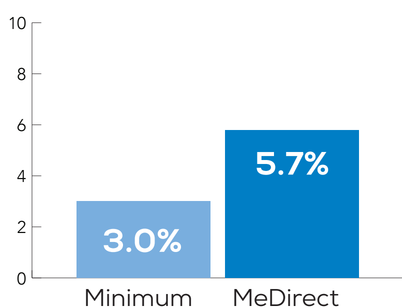
Tier 1 Capital Ratio



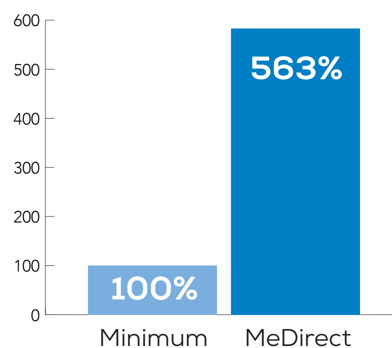
Total Capital Ratio



Leverage Ratio



Liquidity Coverage Ratio



Committed to maintain strong regulatory ratios

- Even after having absorbed COVID-19 related impairments the Group's Tier 1 capital ratio remained strong at 14.8% and its total capital ratio at 17.3% as at 31 December 2020 well above the total SREP[10] capital requirement to be made up of Tier 1 capital (8.3%) and total capital (11.0%) respectively. The Group's Tier 1 capital ratio was approximately 655 basis points above the Group's current total SREP capital requirement to be made up of Tier 1 capital and the total capital ratio was 630 basis points above the Group's total SREP capital requirement ratio.
- The Group's liquidity reserves remained strong at €685.3 million as at 31 December 2020, and the Group's LCR stands at 563%, much more than the minimum regulatory LCR requirement of 100%, representing €563.6 million above the minimum regulatory requirements.
- The Group's leverage ratio stood at 5.7% as at 31 December 2020, again much greater than the 3% minimum requirement that will become effective in 2021.

Dividends and reserves

The retained earnings of the Group amounted to €45.8 million (2019: €127.1 million) and of the Company amounted to €59.9 million (2019: €63.3 million).

The directors of the Company do not recommend the payment of a final dividend as they deem that given the ongoing pandemic, despite the strong capital and liquidity ratios the Group should conserve its capital to maximise the support to our customers in these uncertain times and to fuel further business growth and diversification.

A good start to MeDirect's 2021

The following are the key events after the reporting date:[11]

10 Supervisory Review and Evaluation Process.

11 Further details on these subsequent events are available in note 38 to the financial statements.

Dutch Residential Mortgage-Backed Security Transaction

In January 2021 MeDirect Belgium successfully executed another securitisation transaction resulting in new funding amounting to €350 million through a private placement with a single investor.[12]

Tier 2 Capital Issue

In February 2021 the Company issued €11 million fixed rate reset callable subordinated notes due on 10 February 2031. The notes bear a fixed rate of 9.75% per annum that is comparable to other similar transactions observable on such markets. The proceeds of such Tier 2 Capital issuance were immediately delivered to MeDirect Malta through a qualifying Tier 2 loan instrument for general corporate purposes, including to further reinforce and optimise our regulatory capital and to support the execution of our business strategy. Such access to the EU's capital markets continues to increase the diversification of MeDirect's capital base that is key to optimise our regulatory capital and to support the execution of our business growth strategy.

Acquisition of subsidiary

On 4 January 2021, MeDirect Malta acquired all the share capital of Medifin Leasing Ltd. from the ultimate parent company Medifin Investments Ltd., after receiving full regulatory approval, with the intention of consolidating the entity within the Group. Medifin Leasing Ltd. owns the key rights and licences, including software solutions that are utilised by both MeDirect Malta and MeDirect Belgium. This acquisition will allow MeDirect to exercise management control over the assets that are fundamental to our operations.

Management of Grand Harbour 2019-1 CLO

In January 2021, FIL Investment Management Ltd. ("Fidelity") was granted delegated authority to manage the Grand Harbour 2019-1 CLO ("GH 2019-1"), a €400 million European CLO, effective from 1

12 This transaction was done through Bastion 2021-1 NHG B.V. ("Bastion 2021"), a special purpose vehicle controlled by MeDirect Belgium established in the Netherlands.

March 2021. The transfer forms part of MeDirect's aim to downsize progressively its international corporate lending portfolio and to accelerate its asset diversification strategy.

As part of this agreement several members of MeDirect's international corporate lending team joined Fidelity, effective 1 March 2021, so this team was restructured in such a way to retain the key employees that were deemed essential taking into consideration the decrease in work volume as a result of the delegated management of GH 2019-1 to Fidelity.

There were no other events after the reporting date that would have a material effect on the financial statements.

Taking MeDirect to the next level in 2021

Meet the wealth needs and enhance client experience

Transforming the way in which we deliver services to meet our clients' needs is at the core of our strategic priorities and critical to our success. We have made good progress in 2020 and we are on track to deliver our objectives. Going forward, we remain committed to these objectives in line with the transformation of the banking industry.

By continuously enhancing our offering for clients, we have been able to grow income as we attract new clients and improve our product mix. We will continue our investment in data and analytics capabilities to generate a unique understanding of our clients and their needs, and in turn improve our offerings, deliver a personalised and enhanced client experience and increase client engagement.

A new CRM system is being introduced across all customer facing applications analysing real-time dataflows. The new CRM system will allow us to support highly personalised customer interactions, cross selling and improved customer retention.

Also there is ongoing investment to enhance our compliance process through more sophisticated technology tools along with the continued strengthening of the cyber security posture as we are committed to operate with integrity and adhere to applicable laws, regulations, standards and internal policies.

With the agile mindset adopted by MeDirect in 2020, we will be able to efficiently operate and swiftly deliver products to market in line with other FinTech's. Through the implementation of the above projects projected for 2021, MeDirect will be in an even stronger position globally, ultimately improving on the customer experience.

Increased focus on current retail mortgage lending

The Dutch national -guaranteed 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 national-guaranteed mortgage portfolios.

In accordance with its plan to downsize progressively its international corporate lending portfolio, MeDirect will accelerate its asset diversification strategy, with the objective of having the Dutch national-guaranteed mortgage portfolio become the largest asset class on balance sheet in 2021.

Entering new mortgage markets

MeDirect Malta recently entered the mortgage market in Malta through innovative and attractive home loan products, thus widening its retail service offering. Our focus is to provide a differentiated service from the current market players, primarily a customer-centric approach with a more digitalised approach, faster turnaround timeframes and competitive pricing strategy.

In fact for Maltese first-time home buyers an "exceptional customer experience" is almost a critical to them as getting the "best rate". Reassurance, transparency, simplicity, and speed are crucial during the mortgage journey. This will be achieved through customer centric home loan advisors and fair and transparent fees but also through our unique selling proposition of this product in the Maltese mortgage market through our innovative and dynamic pricing model whereby the interest paid by borrowers will be tailored on the basis of the customers' profile and own contribution.

We are also exploring possibilities for further expansion into other mortgage products in Belgium. MeDirect Belgium envisages extending its business model and including Belgian residential mortgages as of 2021. MeDirect Belgium is currently looking at ways as to how to enter this market and reinforcing its teams, processes, organisation and systems in order to be able to robustly and efficiently develop this new business line.

A look at our key performance indicators

The evaluation of management's implementation of corporate and financial strategy is based on the use of key performance indicators ("KPIs") that are considered to be the most prominent tools to manage, monitor and steer MeDirect's operations and to enable us to adopt corrective measures. The KPIs (and associated risk appetite and risk tolerance metrics) ensure that key metrics are constantly monitored. KPIs play an essential role within MeDirect's performance management process.

We focus on quantitative KPIs that are actively monitored on a regular basis through dashboards within the monthly management reports. In addition, we engage in regular substantive discussions in which we evaluate non-financial metrics such as customer satisfaction, employee engagement and sustainability. We also developed a more granular framework for the regular evaluation and monitoring of such non-financial metrics.

The principal financial KPIs of the Group are presented in the following table:

Key performance indicators	2020	2019
Business performance management		
Annualised return on equity	**(26.9%)**	3.3%
Overall net interest margin	**1.4%**	2.1%
Capital management		
Common equity tier 1 ("CET 1") ratio	**14.8%**	15.2%
Leverage ratio	**5.7%**	8.8%
Solvency management		
Liquidity coverage ratio ("LCR")	**562.9%**	716.2%
Net stable funding ratio ("NSFR")	**120.8%**[13]	130.1%[14]
Credit management		
Non-performing loans ratio	**9.5%**[15]	6.3%[16]

13 Based on the Capital Requirements Regulation ("CRR II") framework.

14 Based on Short Term Exercise returns and calculated according to Basel Quantitative Impact Study guidelines.

15 Based on Commission Implementing Regulation No 680/2014.

16 Based on Banking Rule 09 framework.

Confirming our going concern assessment

COVID-19 has tested the sustainability and resilience of businesses in all industries and the contraction in economic activity has had an impact on loan loss provisions recorded by European banks. MeDirect was no exception but we adapted to the challenges implied by the global pandemic. While the impact of COVID-19 had a significant impact on the Group's financial results, the Group remains well positioned to achieve busines growth through diversification, and is strongly capitalised with the total capital ratio being 157% of the total SREP capital requirement, and soundly funded with access to the required levels of liquidity with the liquidity coverage ratio being almost six times the minimum requirement.

In making our going concern assessment we considered the Group's business, profitability projections, funding and capital plans under base and stress scenarios, together with a range of other factors such as the economic outlook along with ongoing developments in EU economies. These financial projections and plans confirmed that under both the base and stress scenarios MeDirect will have sufficient capital to meet not only its regulatory capital and liquidity requirements but also any internal risk buffers and any buffers recommended by our regulators.

Having concluded this assessment we believe that no material uncertainty exists that may cast significant doubt about the Group's ability to continue as a going concern and the Group will be able to sustain its operations over the next twelve months. Thus we consider the going concern assumption in the preparation of the Group's financial statements as appropriate as at the date of authorisation for issue of these financial statements. [17]

Related parties

During the year ended 31 December 2020, other than the transactions described under note 34 to the financial statements, there were no material changes in related party transactions as compared with those detailed within the financial statements for the period ended 31 December 2019 and no related party transactions materially affected the financial position or liquidity of the Group.

Furthermore, we confirm that there were no material contracts to which the Company, or anyone of its subsidiary undertakings, was party and in which anyone of the directors was directly or indirectly interested.[18]

Pillar 3 disclosures

The Group is required to publish Pillar 3 quantitative and qualitative disclosure requirements. [19] The Group publishes its full Pillar 3 disclosures on an annual basis as a separate document that is made available on MeDirect's website.

Board of Directors

In accordance with the Company's Articles of Association, during the Annual General Meeting, all the directors serving at that time offer themselves for reappointment.

The directors of the Company who held office during the year were:

Mr. Michael Bussey – Chairman –
appointed on 20 February 2017

Mr. Arnaud Denis – Chief Executive Officer -
appointed on 15 October 2019

Mr. Benjamin Hollowood –
appointed on 30 May 2013

Mr. Alex Konewko –
appointed on 16 October 2019

Mr. Radoslaw Ksiezopolski –
appointed on 10 October 2019

Mr. Dominic Wallace –
appointed on 6 October 2015

17 Statement pursuant to MFSA Listing Rule 5.62.

18 Statement pursuant to Listing Rule 5.70.1.

19 As governed by BR 07: Publication of Annual Report and Audited Financial Statements of Credit Institutions authorised under the Maltese Banking Act (Cap. 371), issued by the MFSA, which follows the disclosure requirements of Directive 2013/36/EU (CRD) and EU Regulation No 575/2013 (CRR) of the European Parliament and of the Council of 26 June 2013.

Mr. John Zarb –
appointed on 17 July 2017

Mrs. Marcia De Wachter –
appointed on 24 March 2020 and resigned on 23 September 2020 as she was appointed as Chair of the Board of Directors of MeDirect Belgium

Helping our people reach their full potential

Employees

We believe that if someone is worth talking to, they are worth listening to. Exchange meetings with human resources representatives are our way of doing that. These meetings allow people to express themselves or report concerns without interruption or rebuttal. Our goal is to create the right environment to support ethical behaviour, so all employees know, understand and play their part.

Building a more diverse and inclusive workforce is critical to developing a sustainable and successful business. We aim to increase and leverage diversity of thought to improve workforce agility, enhance risk management capability, drive innovation and grow markets. Our diversity and inclusion ambitions are focused on attracting, developing and retaining talent and deploying that talent effectively to anticipate and meet expectations.

In December 2020, the National Commission for the Promotion of Equality in Malta has awarded MeDirect Malta the Equality Mark Certification, reinforcing MeDirect's commitment towards equality at work and in the way we deal with our clients and stakeholders.

MeDirect remains committed to maintaining its preparedness for emerging and foreseeable risks in ensuring health and safety compliance.

We also offer our employees modern working conditions so they can always be successful in a changing working environment and balance their professional interest with personal interest such as family life. We exceed our legal obligations by offering solutions such as flexible working hours, reduced hours and working from home.

Culture

We are developing the culture, capabilities and behaviours we need to live our purpose and values and deliver our strategy.

Our desired culture is underpinned by our purpose, values, and Code of Conduct, as well as being focused on delivering great customer outcomes, making things simpler and always learning. Both a strong risk mindset and behaviours are embedded in our values, Code of Conduct and performance expectations, and we are committed to providing a safe environment in which all employees are empowered to 'speak up' and raise ideas or issues and concerns so that any issues may be addressed promptly, within as short a time as possible and to the most appropriate level, yet as close as possible to the point of origin. It establishes a process for employees to express and resolve concerns in relation to their employment in a fair and equitable manner, maintaining a healthy environment of dialogue and respect.

We ensure that we have the necessary talent within MeDirect to meet the growing demand in regulatory roles as we continue to apply best practice standards to further improve our quality assurance processes and compliance monitoring and ensure that we meet all ECB regulatory requirements.

As an employer, a provider of financial services and a procurer of goods and services, we have a responsibility to respect human rights across our business. We address human rights through the Group's policies.

Commitment to integrate sustainability across our business

At MeDirect, environmental awareness is the footprint that supports business efficiency and is part of our long-term contribution to society. We aim to reduce the direct environmental impact of our operations, namely our branches and offices, which use paper, water and energy. Our head office and branches are equipped with LED lamps and occupancy sensors to reduce energy consumption. Furthermore, MeDirect encourages its employees

to reduce paper printing where possible and to facilitate the recycling of all kinds of waste.

Through its wealth management business, MeDirect is also promoting mutual funds that specialise in eco-friendly investing as this sector has grown rapidly in the past few years. These environmentally friendly funds invest in companies whose products and services demonstrate a commitment to enhancing and preserving the environment; companies with clean environmental records who disclose their policies and performance on certain environmental criteria; and companies that promote a healthy environment through methods such as renewable energy.

Climate change poses a significant risk to our environment, our economies and our communities, and is a source of both risks and opportunities for MeDirect. We are committed to playing our part in limiting climate change in line with the goals of the Paris Agreement and supporting the responsible global transition to net zero emissions by 2050. To achieve the goals of the Paris Agreement, action over the next decade to 2030 is crucial while supporting the financial wellbeing of our customers, communities and economies. Our current approach to climate change is focused on establishing the governance and deep analysis required to understand climate risks and opportunities. Once this phase is complete, we will then focus on incorporating climate considerations into our strategy across all business units, and enhancing our approach to risk management.

Dealing with the changing risk horizon

We understand the importance of adopting sound risk management principles for the financial well-being of our customers, our shareholders, the communities in which we operate, and the broader economy. Our core objective for the management of risk is to protect and enable sustainable growth for the Group.

Managing risk effectively, efficiently and in a sustainable manner is an integral part of our business strategy.[20] Our risk management approach focuses on ensuring continued financial soundness and safeguarding the interests of our stakeholders, while remaining agile to seize value-creating business opportunities in a fast-changing environment. We are committed to upholding high standards of corporate governance, sound risk management principles and business practices to achieve sustainable, long-term growth.

We have a comprehensive risk management framework in place that is robust and fit-for-purpose, which outlines the steps to assess, manage and monitor all risks we face today and in the future. We continuously evolve and improve our risk management practices enabling better outcomes for all our stakeholders and to consider any changes we may face, such as for example heightened regulatory change and the changing ways our customers bank with us. At the centre of our risk management framework is a strong risk culture and we continuously increase the overall maturity of our risk culture.

The economic and social disruption caused by the COVID-19 pandemic during 2020 saw considerable impact on financial markets, our customers and how our employees undertake their day-to-day tasks. The disruption to our customers has primarily been seen in terms of the credit profile of a select number of clients without our international corporate lending market who have experienced significant impacts from the pandemic to their business models. In addition to the credit risks presented by COVID-19, the way in which we have traditionally operated has altered materially, as we adapted to the rapid and dynamic landscape by introducing new or altered operational processes to ensure the safety of our employees, our operations, and the security of our customers and the community. MeDirect has always been very aware of the importance of good business continuity planning, which has equipped our teams to mobilise remote working rapidly and adapt our processes to support employees and

20 A detailed review of MeDirect's use of financial instruments, our exposure to liquidity risk, credit risk and market risk, non-financial risk and the respective risk management framework and policies are included in Note 2 to the financial statements.

customers throughout 2020, despite the challenges arising from the COVID-19 pandemic.

Over and above the challenges faced by COVID-19, MeDirect has also taken measures to ensure the ongoing effectiveness of our risk management framework, especially to support and enable the current diversification and transformation strategy. This risk management framework has ensured that new and proposed business lines, areas of growth, changes in technology and management decisions are well governed and sustainable. Our risk management framework has been robustly delivered in 2020 despite the challenges we faced and our capital and liquidity positions continue to be at healthy levels, well above the minimum regulatory requirements.

MeDirect continues to have strong discipline in the management of both emerging and existing risks and has specialist dedicated risk teams within MeDirect to proactively manage material both Financial Risks[21] and Non-Financial Risks[22]. Such risks are overseen by regular and timely risk reporting, alongside proactive identification and management controls of all risks with the aim of reducing or avoiding undue exposure to certain specific risk types. As part of this risk management framework, risk appetite limits set the amount and type of risk that MeDirect is prepared to seek, accept or tolerate when delivering our strategy. These risk appetite limits are embedded in policies, management authorities and limits across MeDirect. Frequent and close monitoring of all risk appetite limits, combined with comprehensive reporting of all limits to management and the Board of Directors ensures appetite for risk is maintained within acceptable levels.

In addition, all critical risk appetite limits are further subjected to stress testing analysis at a risk type and portfolio level, to ensure MeDirect remains financially healthy during and after severe events. Stress testing is an important part of our risk management framework and covers a range of idiosyncratic and market-wide scenarios. The results from stress testing allows senior management to assess any potential vulnerability to exceptional but plausible adverse events. As an outcome, stress testing enables us to assess our capital adequacy, liquidity risks, and identify potentially risky segments in our business model or inherent systematic risks. This then allows us to develop the right risk controls, contingency plans, and mitigating actions before such events may occur. All of which supports our core risk objective to protect our customers and to enable sustainable long-term growth for the Group.

21 Financial risks are categorised as follows: capital adequacy, liquidity and funding risk, credit risk and market risk.

22 Non-financial risks are categorised as follows: operational risk, IT and information security risk, compliance risk, regulatory risk and reputational risk.

Standard licence conditions applicable under the Investment Services Act (Cap. 370)

We are required to include in the Directors' Report breaches of standard licence conditions applicable under the Investment Services Act (Cap. 370). [23]

As a result of the COVID-19 pandemic outbreak, given that many borrowers wanted to strengthen their balance sheets, in March 2020 MeDirect Malta experienced a significant rapid increase in drawdowns in respect of its revolving credit facilities within the International corporate lending portfolio. These were all honoured by MeDirect Malta but as a result of such unexpected rapid increase in drawdowns resulting from this unprecedented stress to the global economy, MeDirect Malta's solo standalone LCR ratio fell below the regulatory requirement of 100% for only two days though the Group's LCR ratio was still well above the minimum regulatory requirements. In fact MeDirect Malta took corrective actions immediately to ensure that the LCR reverts to levels above 100%. At all times throughout the year, the MeDirect Group's LCR ratio was significantly above 100% as overall the Group had strong liquidity levels, well above both the regulatory minimum and the risk appetite set by the Group, to withstand these liquidity challenges emanating from the COVID-19 severe downturn. The Group's LCR ratio as at 31 December 2020 stood at 562.9% significantly above the minimum regulatory requirement of 100%.

23 In accordance with SLC 7.60 of the Investment Services Rules for Investment Services providers regulated by the MFSA.

Accordingly, we confirm that no breaches of standard licence conditions and no other breach of regulatory requirements under the Investment Services Act (Cap. 370), which were subject to administrative penalty or regulatory sanction, were reported.

Statement of directors' responsibilities for the financial statements

We are required by the Maltese Companies Act (Cap. 386) to prepare financial statements that give a true and fair view of the state of affairs of the Company and the Group as at the end of each reporting year and of the profit or loss for that year.

In preparing the financial statements, we are responsible for:

- ensuring that the financial statements have been drawn up in accordance with International Financial Reporting Standards as adopted by the EU;
- selecting and applying appropriate accounting policies;
- making accounting estimates that are reasonable in the circumstances; and
- ensuring that the financial statements are prepared on the going concern basis unless it is inappropriate to presume that the Company and the Group will continue in business as a going concern.

We are also responsible for designing, implementing and maintaining internal control as we determine what is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and that comply with the Maltese Companies Act (Cap. 386). We are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The financial statements of the Company for the year ended 31 December 2020 are included in the Annual Report 2020, which is published in hard-copy printed form and will be made available on the Group's website. We are responsible for the maintenance and integrity of the Annual Report on the website in view of our responsibility for the controls over, and the security of, the website. Access to information published on the Group's website is available in other countries and jurisdictions, where legislation governing the preparation and dissemination of financial statements may differ from requirements or practice in Malta.

Statement by the directors pursuant to Listing Rule 5.68

We, the undersigned, declare that to the best of our knowledge, the financial statements were prepared in accordance with the applicable accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and its subsidiaries included in the consolidated financial statements, and that this report includes a fair review of the performance of the business and the position of the Company and its subsidiaries included in the consolidated financial statements, together with a description of the principal risks and uncertainties that it faces.

On behalf of the board

MICHAEL BUSSEY
CHAIRMAN

ARNAUD DENIS
CHIEF
EXECUTIVE OFFICER

The Centre
Tigné Point
Sliema, TPO 0001
Malta

30 MARCH 2021

medirect

Think ahead. Bank ahead.

Statement of compliance with the Principles of good corporate governance

Introduction

The Group hereby reports on the extent to which the Code of Principles of Good Corporate Governance (the "Code") has been adopted by its subsidiary MeDirect Bank (Malta) plc ("MeDirect Malta") as required by the Listing Rules of the Malta Listing Authority.

The Group acknowledges that the Code does not dictate or prescribe mandatory rules but recommends principles of good practice. However, the directors strongly believe that such practices are in the best interests of MeDirect Malta, its shareholders and other stakeholders, primarily because compliance with principles of good corporate governance is expected by investors on the Malta Stock Exchange and evidences the directors' and the Group's commitment to a high standard of corporate governance.

The directors report that since MeDirect Malta is a company that only issues debt securities and has not issued equity securities which are traded in a multilateral trading facility, it is exempt from disclosing the information prescribed in Listing Rules 5.97.1, 5.97.2, 5.97.3, 5.97.6 and 5.97.7 in this corporate governance statement. It is in the light of these factors that the directors are herein reporting on the corporate governance of MeDirect Malta.

The directors are aware that the Code highlights principles which although of general application to listed companies are adaptable by each company depending on its particular circumstances. Those circumstances are more often than not determined by two factors, namely: (i) the specific nature of the business of the company itself; and (ii) the fact that whilst certain principles in the Code are applicable to companies the equity securities of which are listed on the Stock Exchange, they are not altogether applicable, or not applicable in the same manner, to companies that fall within the definition of a listed company by virtue of having issued debt instruments which are listed on the Malta Stock Exchange. In this context, the directors believe that the Group's current organisational set up guarantees the proper and efficient functioning of MeDirect Malta and provides adequate corporate governance safeguards.

Compliance with the Code

Principles 1 and 3: Board of Directors and composition of the Board

MeDirect Malta's Board of Directors (the "Board") is composed of persons with a diverse range of skills and experience acquired in senior roles with international banks and financial organisations, professional firms and governmental entities. At 31 December 2020, the MeDirect Malta Board consisted of four non-executive members and three executive members, satisfying the rule that one third of the Directors should be Non-Executive Directors. Taking into account certain factors such as the size of MeDirect Malta, the size of the Board and the balance of skills and experience represented by its members, the MeDirect Malta directors are considered to be appropriate for the requirements of MeDirect Malta's business.

In line with MeDirect Malta's Articles of Association, the Chairman of the Board and Board directors resign and seek re-election at each Annual General Meeting of MeDirect Malta. All directors are required to be fit and proper to direct the business of MeDirect Malta.

Principle 2: Chairman and Chief Executive Officer

The positions of MeDirect Malta's Chairman and Chief Executive Officer are held by different individuals, avoiding concentration of authority and power in one individual and differentiating the leadership of the Board from that of the running of MeDirect Malta's business.

MeDirect Malta's Chairman is responsible to lead MeDirect Malta's Board and to ensure that MeDirect Malta's Board discussions on any issue put before it go into adequate depth, that the opinions of all the directors are taken into account, and that all MeDirect Malta Board decisions are supported by adequate and timely information. On the other hand, MeDirect Malta's Chief Executive Officer leads the MeDirect Malta Management Executive Committee that is responsible to execute the agreed strategy and manage the business.

Principles 4, 5 and 8: Responsibilities of the Board and Board Meetings and Committees

The MeDirect Malta Board has the first level responsibility for executing the four basic roles of corporate governance namely: accountability, monitoring, strategy formulation and policy development.

Functioning of the Board

MeDirect Malta's Board of Directors reviews and evaluates corporate strategy, major operational and financial plans, risk policy and performance objectives. The MeDirect Malta Board monitors implementation of its decisions and corporate performance, taking into account the requirements of all relevant laws, regulations and codes of best business practice. In particular, the MeDirect Malta Board:

- defines the MeDirect Malta's strategy, policies, management performance criteria and business policies, including risk appetite;
- ensures the proper functioning of MeDirect Malta's Board Committees;
- establishes a clear internal and external reporting system so that the MeDirect Malta Board has continuous access to accurate, relevant and timely information;
- assesses and monitors MeDirect Malta's present and future operations, opportunities, threats and risks in the external environment and current and future strengths and weaknesses;
- evaluates management's implementation of MeDirect Malta's corporate strategy and financial objectives using key performance indicators;
- ensures that MeDirect Malta has appropriate policies and procedures in place to enable MeDirect Malta and its staff to comply with the highest standards of corporate conduct, including compliance with applicable laws, regulations and business and ethical standards; and
- ensures that MeDirect Malta's financial statements and the annual audit of such statements are completed within the stipulated time periods.

Notices of the dates of scheduled meetings of MeDirect Malta's Board together with supporting materials are circulated to the directors well in advance of such meetings. Advance notice is also given of ad hoc meetings of MeDirect Malta's Board to allow directors sufficient time to re-arrange their commitments in order to be able to participate. After each MeDirect Malta's Board meeting and before the next meeting, minutes that faithfully record attendance, deliberations and decisions of MeDirect Malta's Board are prepared and circulated to all directors.

This section provides details of the members of MeDirect Malta's Board of Directors and the members of each of the committees of MeDirect Malta's Board.

Board of Directors

As a result of the COVID-19 pandemic more board meetings were held compared to prior years as fifty-five Board meetings were held throughout the financial year. The percentage of meetings attended by the following during their directorship being:

		Meetings attended %
Michael Bussey	Independent Chairman and Non-Executive Director	100
John Zarb	Independent Non-Executive Director	95
Dominic Wallace	Independent Non-Executive Director	98
* Marcia De Wachter	Independent Non-Executive Director	95
Benjamin Hollowood	Non-Executive Director	93
Arnaud Denis	Chief Executive Officer	98
Radoslaw Ksiezopolski	Executive Director – Chief Finance Officer	98
Alex Konewko	Executive Director – Chief Risk Officer	100

* As from 23rd September 2020, Ms Marcia De Wachter no longer served in a non-executive capacity with MDB Group Limited and MeDirect Malta and was appointed as an independent non-executive member and chair of the board of directors of MeDirect Bank SA on the same date.

Committees of the Board

Certain responsibilities of MeDirect Malta's Board of Directors are delegated to MeDirect Malta's Board committees. The Board committees play an essential role in supporting MeDirect Malta's Board in fulfilling its responsibilities and ensuring that the highest standards of corporate governance are maintained. When deemed necessary, each MeDirect Malta's Board committee reports to MeDirect Malta's Board following each of its meetings and the minutes of meetings of each MeDirect Malta's Board committee meeting are available to MeDirect Malta's full Board.

Board Committees

A. Audit Committee

The purpose of the Audit Committee is to oversee the quality and integrity of the Group's financial reports, particularly the key financial judgments made within them and reviews the accounting policies. The Audit Committee also assesses the effectiveness of the Internal Audit function of the Group. The Group's internal audit function reports independently to the Audit Committee on the effectiveness of risk management policies, regulatory compliance, procedures and internal controls.

MeDirect Malta's Audit Committee is primarily responsible for reviewing and approving specific matters relating to MeDirect Malta's audit, internal control and risk management systems. In particular, MeDirect Malta's Audit Committee:

- reviews and approves the annual internal audit plan and subsequent revisions and monitors progress against the annual audit plan;
- ensures that the scope of work performed in accordance with the audit plan was adequate and appropriate;
- reviews work performed on all internal audit engagements; and
- reviews and interacts with external auditors on the annual statutory audit to obtain feedback on the internal control framework and financial reporting of MeDirect Malta.

The members of the Audit Committee are:

John Zarb	Committee Chairman and Independent Non-Executive Director
Michael Bussey	Member and Independent Non-Executive Chairman
Dominic Wallace	Member and Independent Non-Executive Director

In terms of Listing Rules 5.117 and 5.118, John Zarb is the non-executive director whom MeDirect Malta's Board considers as competent in accounting and/or auditing. John Zarb retired from his role as partner at PwC at the end of 2014 after a career spanning over 40 years spent within the audit and advisory practices of the firm. He is a past president of the Malta Institute of Accountants and served for a number of years on the Accountancy Board and as Malta's representative on the EU Accounting Regulatory Committee. John is currently the chairman of PG plc, a board member and chairman of the audit committee of Tumas Investments plc and a director of Foster Clark Products Limited.

During the year ended 31 December 2020, seven meetings of the MeDirect Malta's Audit Committee were held. The Group Chief Internal Auditor attends the meetings as a standing invitee, unless there are exceptional circumstances. The Group Chief Executive Officer, the Group Chief Financial Officer, the Group Chief Risk Officer, the Group Head of Compliance, the Head of Commercial Strategy and Legal and a representative of the external auditors may attend the Audit Committee meetings by invitation.

B. Nomination and Remuneration Committee

MeDirect Malta's Nomination and Remuneration Committee is considered under the Remuneration Report. The disclosures in the Remuneration Report reflect the requirements of the EU Capital Requirements Regulation (575/2013) to the extent applicable to the financial year under review.

MeDirect Malta's Nomination and Remuneration Committee is composed of non-executive directors with no personal financial interest, being Michael Bussey (Chairman) and Benjamin Hollowood.

C. Board Risk Committee

The primary purpose of the Board Risk Committee is to advise and support the Group Board Directors by performing in depth and detailed oversight of the Group's risk management and compliance policies and practices, and monitoring of its actual performance against the risk appetite as approved by the Board. As from April 2020, the Compliance Function is now reporting to the Board Risk Committee.

The current members of the Risk Committee are:

Dominic Wallace	Committee Chairman and Independent Non-Executive Director
John Zarb	Member and Independent Non-Executive Director
Benjamin Hollowood	Member and Non-Executive Director

The Group Chief Executive Officer, the Group Chief Risk Officer and the Group Head of Compliance may attend the Board Risk Committee meetings by invitation. MeDirect Malta's Chairman of the Board attends the Board Risk Committee meetings as an observer.

Amongst the primary responsibilities of the Board Risk Committee are:

- to ensure that the Group's risk strategy and Risk Appetite Framework (including its Risk Appetite Statement and associated thresholds for escalation and related controls) are comprehensive and consistent with the Group's business strategy, objectives, corporate culture and values;
- to assess, and at least annually report on, the effectiveness of the Group's Risk Management Function, the Compliance Function and the Money Laundering Reporting Officer, including the adequacy of staffing levels and expertise as well as the completeness of the function's coverage; and
- to vet and approve related party transactions in accordance with Listing Rule 5.138.

The Board Risk Committee has oversight of all the Group's risk and compliance matters, even if they arise in its main subsidiary, MeDirect Bank SA, which has its own Board Risk Committee.

The Chairman of the Committee reports on all matters to MeDirect Malta's Board after each meeting and notifies MeDirect Malta's Board of any decisions made. The Committee makes whatever recommendations to the main Board that it deems necessary. The Committee meets as frequently as is required to fulfil its responsibilities but shall at a minimum hold four meetings each year. In fact, throughout this financial year the Board Risk Committee met seven times. All attendees and invitees receive copies of the minutes.

Principal Management Committees

A. Group Steering Committee ("Group Steerco")

The Group Steerco provides a forum for the three executive directors of the Group and the three executive directors of MeDirect Belgium to discuss key strategic issues and initiatives affecting the Group as a whole. It draws on a wide range of experience to ensure that the strategic objectives of the Group are delivered in accordance with the Group's Strategic Business Plans, as approved by the Boards of Directors of the Group and MeDirect Belgium. The main purpose of Group Steerco is to foster unified culture and promote a holistic approach towards discussions on strategy across the various jurisdictions in which the Group operates.

B. **Executive Management Committee ("EXCO")**

The Group Board delegates the execution of the strategy to the Group's ExCo. This committee serves as a management forum in order to enhance the execution of MeDirect Malta's business priorities and reinforce the governance of MeDirect Malta's activities. It focuses on the Group's broader growth strategies and new initiatives and monitors the Group's ability to respond to new regulatory developments. It meets on a weekly basis and is thus responsible for the formulation and implementation of Board-approved strategies and plans and for ensuring that the Group's business is operated in accordance with such strategies and plans.

The Management ExCo is chaired by the Group Chief Executive Officer and includes the Group Chief Risk Officer, the Group Chief Investment Officer, the Group Chief Financial Officer, the Group Head of Treasury, the Group Head of Human Resources and Administration, the Group Head of Compliance, the Group Head of Commercial Strategy and Legal, the Group Head of Channels and Customer Experience, the Group Head of Technology and the MeDirect Belgium Chief Executive Officer, Chief Financial Officer and the Chief Risk Officer. The Chief Internal Audit Officer and the Group Company Secretary are standing invitees to the Management ExCo.

C. Management Credit Committee ("MCC")

The Group MCC is responsible for approving credit and investment recommendations and making other credit and investment decisions within its authority as delegated by the Board through its approval of the Group's applicable policies, including approving or rejecting investment and credit recommendations presented by the Treasury team and the Investments team; taking decisions on individual credits; reviewing and recommending credit and large exposures to the Board; overseeing the credit classification and staging processes; reviewing non-performing exposures and recommending impairments; considering credit hedging strategies, and recommending credit risk appetite limits for Board approval.

The Group MCC covers all asset classes of the Group, including all loan portfolios, all securitised transactions, and Treasury investments.

The MCC is chaired by the Group Chief Risk Officer who carries the casting vote and a right of veto in all Management Credit Committees. Members of the MCC include at least two other members, with representation from the respective credit teams or treasury team, and a member from the risk team.

The MCC meets from time to time as required for the proper fulfilment of its duties. It will meet at least quarterly to review the Group's respective Lending portfolios and to make decisions on internal credit ratings and recommendations on any impairments to be taken.

D. Management Risk Committee ("MRC")

The MRC is a sub-committee of the Group EXCO. Its purpose is to provide executive risk management oversight and steering within the Group and its subsidiaries. The MRC oversees, monitors, assesses and drives risk management activities across the Group under the oversight of Board of Directors, with a functional reporting line to the Board Risk Committee, which monitors risk appetite, approves the risk management strategy, internal controls framework and associated policies. The MRC ensures the Group and its subsidiaries remain adequately capitalised and funded while ensuring a strong risk culture is embedded across the organisation.

The main responsibilities of the MRC are to:

- Oversee risk assessments and internal controls across all legal entities within the Group and across the risk taxonomy of the Group, as defined in the Risk Management Framework;
- Monitor and oversee compliance with risk appetite limits and risk strategy;
- Maintain clear escalation channels for risk issues and act as the executive point of escalation for all portfolio and process risk related decisions;
- Manage scenario development and stress testing as a strategic tool to inform business and risk decisions and meet regulatory requirements;
- Maintain, drive development and embed the Group's recovery plan;
- Assess the impact of regulatory developments on the risk management framework and risk policies, recommending changes to the Board Risk Committee as necessary;
- Steer the development and implementation of risk frameworks, projects and strategic initiatives;
- Drive and oversee major deliverables such as ICAAP/ ILAAP and the Recovery Plan;
- Oversee risk related action plans, regulatory and audit findings; and
- Promote risk awareness and a strong risk culture within the organisation.

The membership of this committee consists of the Group Chief Risk Officer (Chair), Chief Risk Officer MeDirect Belgium (Deputy Chair), Head – Operational Risk & IT Security, Senior Manager – Risk Analytics, Senior Manager – Corporate Credit Risk and Senior Manager – Regulatory Affairs & Corporate Governance.

A standing invitation is extended for attendance as required to the Group Chief Financial Officer, Group Head – Treasury, Chief Investment Officer, Group Head – Compliance, Group Head – Channels & Customer Relationship Management, Group Head – Technology and Head – Loans & Banking Operations.

Other staff members may be invited to attend the Committee as appropriate.

E. Asset and Liability Committee ("ALCO")

The Group's ALCO ensures that the Group has in place, and operates effectively, appropriate and robust strategies and policies to manage and optimise the Group's asset-liability mix and oversee the Group's capital, liquidity, funding, interest rate risk and foreign exchange ("FX") risk position. Group ALCO cascades Group strategies down across each business line and legal entities and across risk types and products. Group ALCO oversees and, where necessary, approves Group policies and objectives for assets and liability management, capital and funding management and allocation, market risk position and hedging activity, liquidity monitoring, capital usage and efficiency, product-pricing, fund transfer pricing, dealing and trading activities according to the risk appetite statement set by the Group Board. Group ALCO's authority covers MDB Group Limited and MeDirect Bank (Malta) plc. Belgium ALCO authority's covers MeDirect Bank SA (Belgium). Group ALCO provides oversight and ensures that decisions taken at Belgium ALCO are aligned to the interests of the Group. Group ALCO is a sub-committee of the Group EXCO.

The members of ALCO include MeDirect Malta's Group Head of Treasury (Committee Chairman), Group Chief Risk Officer, Group Chief Financial Officer, the MeDirect Bank SA – Chief Financial Officer and Chief Investment Officer. ALCO convenes meetings monthly but also holds additional ad hoc meetings.

F. Operations Committee

The purpose of the Group Operations Committee is to ensure that the Group has in place, and operates effectively, appropriate and robust change management, project management, outsourcing and vendor management processes and procedures as well as an oversight of the ICT strategy implementation, monitoring if the complex ICT changes, budget spending related to change management, status of the operational and cyber security risks, arrangements related to Business Continuity and Disaster Recovery. The Group Operations Committee is a sub-committee of the Group Executive Management Committee and is the decision-making body for issues relating to change management, project management, outsourcing and vendor management, under the delegated authority from the Group's Executive Management Committee.

The Committee's terms of reference are to oversee and take any necessary decisions in the following areas:

- Feasibility of the business and regulatory change requests;
- Operational feasibility of the new products and services;
- Governance of the key third party vendors on-boarding and monitoring;
- Governance of the arrangements related to budget spending on change initiatives, business continuity and disaster recovery and data retention and archiving; and
- Awareness and oversight of the arrangements related to ICT strategy and its implementation, operational risk and cyber security and organisational design of the Group from the point of view of efficiency and change sustainability.

The members of this committee include the Group Head of Technology (Chairman), Group Head of Channels and Customer Experience, Group Chief Risk Officer, Chief Risk Officer – MeDirect Belgium, Group Chief Financial Officer, Chief Financial Officer – MeDirect Belgium, Head of Commercial Strategy and Legal and the Supply and Procurement Senior Manager.

G. Compliance and client acceptance committee ("CCAC")

The purpose of the Compliance and Client Acceptance Committee is to (i) evaluate and either accept or reject new clients proposed by business lines, (ii) review periodically existing clients, in each case from a reputational and compliance perspective (iii) accept or reject the termination of an existing relationship with Corporate Banking and Retail Clients and (iv) oversee and, if appropriate, recommend approval of compliance-related policies, action plans, risk assessments and methodologies. The CCAC operates within the authority delegated from the Board and is comprised of representatives of key departments within the Group.

The permanent voting members of this committee are Group Head – Legal (Chairman), Group Head – Compliance, a representative appointed by the Group Chief Financial Officer and Head – Operational and IT Risk or a representative.

Code Provision 4.2.7 - Succession planning

MeDirect Malta has established a list of Key Personnel Substitutes to cover instances in which executive directors or other key personnel are temporarily incapacitated or otherwise unable to complete their duties for a significant period of time.

If such directors or key personnel are permanently unable to re-assume their duties, MeDirect Malta's management, in consultation with the Board, will designate permanent successors, either from MeDirect Malta's existing management team or, if appropriate, by selecting an outside candidate.

As part of succession planning and talent management, MeDirect Malta's Board and the Chief Executive Officer ensure that MeDirect Malta implements appropriate schemes to recruit, retain and motivate high quality executive officers. They also encourage members of management to move to higher ranks, seek to maintain high morale amongst MeDirect Malta's personnel and identify high performing employees with the potential to take on more responsibilities.

The succession plan ensures that MeDirect Malta is constantly empowering and developing existing employees, guaranteeing that there is a pool of talent ready and waiting for advancement and promotion into ever more challenging roles when they arise. This requires developing employees at every level of MeDirect Malta, and not just at the top.

Principle 6: Information and professional development

In addition to the responsibilities of MeDirect Malta's Board previously listed, MeDirect Malta's Board actively participates in the appointment of senior management. Board members receive regular updates on MeDirect Malta's strategic, operational, corporate governance, compliance, risk management and financial plans and objectives.

MeDirect Malta's Board appoints the Chief Executive Officer of MeDirect Malta taking into account the view of the ultimate controlling party. The Board has engaged third party consultants to work with it to update and enhance its Board evaluation and training programmes. The training programmes have the aim of improving the Board's awareness of risk, regulation, and compliance developments in the financial services sector, with topics to be covered ranging from the new regulatory environment to managing risk.

MeDirect Malta Directors are given opportunities to update and develop their skills and knowledge, through briefings by senior executives and externally-run seminars throughout their directorship. Moreover, Directors have access to independent professional advice, at MeDirect Malta's expense.

MeDirect Malta Directors also have access to the advice and services of the Company Secretary who is responsible for adherence to MeDirect Malta's Board procedures as well as effective information flows within the Board, its Committees and with senior management.

Principle 7: Evaluation of the Board's performance

Periodically, MeDirect Malta's Board carries out an evaluation procedure whereby Board members are requested to complete a questionnaire on the Board's performance and that of its committees. The evaluation is co-ordinated by the Board's Chairman, an independent non-executive director, and all directors participate in the process. Feedback from the evaluation is presented to the Board for analysis. An external independent evaluation (which occurs every three years) took place during the financial year ended 31 December 2020.

Principles 9 and 10: Relations with shareholders and with the market and institutional shareholders

MeDirect Malta maintains on-going communication with its shareholders and the market on its strategy and performance in order to enhance trust and confidence in MeDirect Malta. During the year under review MeDirect Malta issued various company announcements and media releases to explain ongoing corporate developments and material events and transactions which have taken place and their impact on its financial position, including announcements in relation to the impact of the outbreak of the COVID-19 pandemic. Through public announcements, MeDirect Malta's website, financial reports and interaction with the general media in Malta, MeDirect Malta provides the market with regular, timely, accurate, comprehensive and comparable information in sufficient detail to enable investors to make informed investment decisions in respect of MeDirect Malta's listed securities.

MeDirect Malta's ultimate controlling party is represented on its Board of Directors and actively monitors its investment in MeDirect Malta.

The Chairmen of MeDirect Malta's Audit, Nomination and Remuneration and Risk Committees are available to answer questions at the Annual General Meeting. The conduct of the meeting is conducive to valid discussion and appropriate decision making. In terms of MeDirect Malta's Articles of Association, the Directors shall, on the request of members of the company holding not less than one-tenth of the paid-up share capital, proceed duly to convene an Extraordinary General Meeting of MeDirect Malta.

Principle 11: Conflicts of interest

MeDirect Malta's Articles of Association provide that any director who is in any way, whether directly or indirectly, interested in a transaction or proposed transaction with MeDirect Malta must (i) declare to the other directors the nature of such interest, (ii) not participate in or be present for any discussion relative to any such transaction or proposed transaction, and (iii) not vote in respect of any such transaction or proposed transaction.

On joining the MeDirect Malta Board and regularly thereafter, directors are informed and reminded of their obligations in respect of dealing in MeDirect Malta's securities within the parameters of law and the Listing Rules.

Principle 12: Corporate social responsibility

During the financial year ended 31 December 2020, MeDirect Malta continued to support local talent in sports, culture, and charitable institutions, causes and events. MeDirect Malta's commitment to these initiatives is established through the various sponsorships and donation agreements that support a wide variety of community organisations.

MeDirect Malta has always supported local talent, including music and performing arts and will proudly continue to promote and support this scene. In fact, MeDirect Malta was the main sponsor of the second edition of X Factor Malta as an endorsement to the increasing popularity of local talent and to the importance which music plays in people's lives. Furthermore, MeDirect Malta was one of the sponsors for the first edition of Malta Got Talent, which is a platform that showcases several artistic disciplines in addition to singing.

In line with this commitment, MeDirect Malta was once again the main benefactor and official Patron of the Manoel Theatre. MeDirect Malta also continues its' support towards the Malta Philharmonic Orchestra, where with its donation, it helps support the orchestra, its events and most importantly its musicians.

MeDirect Malta's patronage of the sporting community was strengthened this year. MeDirect is an active supporter of the Otters Water Polo Club/Aquatic club. The club was founded back in 1971 and is to date the only surviving water polo club in Gozo.

MeDirect Malta believes in diversity and giving equal opportunities to everyone and therefore this year MeDirect Malta has also supported two female football players, giving them the support needed to make it professionally in the sport they love.

Amongst other organisations, that MeDirect Malta helped during its financial year, there is The National Blood Transfusion Unit to whom MeDirect donates freebees, mainly t-shirts to be handed out to blood donors. This year MeDirect also supported Children's Dreams, which is a project with the sole mission of making the Christmas wishes come true for children coming from families facing social and financial difficulty. MeDirect Malta fulfilled five if these wishes.

MeDirect Malta actively supports charity initiatives, focussing on organisations serving the Maltese community. Employees are also actively engaged in such charitable activities via donations deducted from their payroll and fund-raising efforts.

Other disclosures

There were no material contracts to which MeDirect Malta, or its subsidiary were a party, and in which any one of MeDirect Malta's Directors was directly or indirectly interested.

Management's internal controls over financial reporting

MeDirect Malta's Board is responsible for ensuring that MeDirect Malta's senior management develops and implements a sound system of internal controls and for reviewing its effectiveness. Such a system is designed to manage, rather than eliminate, the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss. MeDirect Malta operates a system of internal control that provides reasonable assurance of effective and efficient operations covering all controls, including financial and operational controls and compliance with laws and regulations. Processes are in place for identifying, evaluating and managing the significant risks facing MeDirect Malta.

The management of MeDirect Malta is responsible for instituting and preserving sufficient internal control over financial reporting. Internal control over financial reporting is a process designed under the supervision of the Group Chief Financial Officer to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external reporting purposes in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union.

Internal control over financial reporting includes policies and procedures that pertain:

- to maintaining records that, in reasonable detail, accurately and fairly reflect transactions and dispositions of assets;
- to providing reasonable assurances that transactions are recorded as necessary to permit preparation of financial statements in accordance with IFRS as adopted by the EU;
- to ensuring that receipts and expenditures are made only in accordance with authorisations of management and the respective directors; and
- to providing reasonable assurance regarding prevention or timely detection of unauthorised acquisition, use or disposition of assets that could have a material effect on the financial statements.

Michael Bussey
Chairman

Arnaud Denis
Chief Executive Officer

30 March 2021

Remuneration report

Remuneration governance

The primary purpose of the Nomination and Remuneration Committee of the Group (that also covers MeDirect Malta) and the Nomination and Remuneration Committee of MeDirect Belgium ("NRCs") is to review remuneration levels in the Group and to consider whether to approve performance-related and retention bonus awards that may be delivered in cash or share linked instruments.

The NRCs are charged with aligning the Group's remuneration policy, approved by the Group board of directors, and in particular performance-related elements of remuneration, with the Group's business strategy and risk tolerance, objectives, values and long-term interests. The key objectives of the NRCs in this regard are the following:

- annual review of the proposals put forward by management relating to the principles of the remuneration policy and verification with management that they are effectively implemented. In particular, monitoring of the budgets allocated to the fixed salary increases for the forthcoming year and the variable remuneration pools for the previous financial year; and
- annual review of the individual remuneration of senior management and staff members who are employed in control functions, as well as that of staff with total remuneration above a threshold fixed by the NRCs.

One of the NRCs primary functions is to ensure that the Group is able to attract and retain suitable employees at all levels at an acceptable cost. It may request market-related information from time to time, to verify the recommendations made by management. On an annual basis, the NRCs review the budgets allocated to the fixed salary increases for the forthcoming year and the variable remuneration pools for the previous financial year, and review the individual remuneration of senior management and staff members who are employed in control functions such as Risk and Compliance, as well as that of staff with total remuneration above a threshold fixed by the relative NRC.

Membership and meetings

The members of the Group's NRC are:

Michael Bussey	Committee Chairman/Independent Non-Executive Board Chairman
Benjamin Hollowood	Non-Executive Director

The Group's Head of Administration and Human Resources is invited as an attendee and to minute the meeting.

During the year ended 31 December 2020, the Group's NRC met on twelve occasions. These meetings were attended by all members of the Group's NRC.

Remuneration policy statement

The Remuneration Policy is owned by the Chairman of the Group's NRC and is approved by the Group's Board of Directors. The policy was developed in conjunction with the Group's principal shareholder and the NRCs. The policy is reviewed on an annual basis by the NRCs or when significant changes occur in related directives, guidance, best practice and technical standards. The policy is also reviewed on an annual basis by the Internal Audit function to ensure that it is in compliance with all applicable legal and regulatory requirements. The NRCs may also require review of this policy by external advisors to the extent it is deemed necessary or appropriate.

The purpose of the Remuneration Policy is to set out the overall principles that the Banks, whether direct or indirect, must follow when determining the remuneration and compensation of its management and staff members. This policy establishes an effective framework for determining role descriptions, performance measurement, risk adjustment of compensation and the linkages to reward. The Group's Board and the MeDirect Belgium Board are responsible for ensuring that this statement and its contents adhere to all laws, rules and regulations issued by the Malta Financial Services Authority, particularly BR 12, the National Bank of Belgium and international regulations incorporated in the Capital Requirement Directive, and to ensure that the remuneration practices are based on sound governance processes that take the Group's risk strategy and profile into account.

The Boards, directly and through the NRCs, carry out effective monitoring and evaluation of adherence to the remuneration policy and of the Group's remuneration system on an on-going basis. The NRCs and the Boards monitor the on-going performance by executive directors and senior management and determine the design and implementation of an effective remuneration system. They also ensure that the remuneration policies and practices are consistent with a prudent, forward-looking approach, aimed at maintaining a sound capital base, and that all awards of variable remuneration to Material Risk Takers are subject to malus and clawback arrangements and are otherwise consistent with the Remuneration Policy.

Remuneration consists of base salary and, where applicable, performance based or retention bonus awards. Performance-related compensation is determined both on (i) a Group wide basis, and (ii) an individual employee basis.

Compliance with the Group's rules and requirements and involvement on a continuous basis in risk management, are taken into account when determining performance-based remuneration for all employees. Other non-financial factors are considered such as skills acquired, personal development, commitment to the Group's business strategies and policies and contribution to the performance of the team. Performance is measured in relation to non-financial and financial goals and, where appropriate, failure to perform in non-financial areas of responsibility outweighs success in profit generation in determining compensation. The remuneration of staff in control functions should allow the Group to employ qualified and experience personnel in those functions and should be predominantly fixed so as to reflect the nature of their responsibilities.

The Group Risk team provides advice in respect of the definition of suitable risk-adjusted performance measures, as well as in assessing how the variable remuneration structure affects the risk profile and culture of the Group. The Risk team provides input into the process for determining bonus pools and the allocations of variable remuneration awards to ensure that all relevant factors are considered by the relevant decision-making body. The Risk team also validates and assesses risk adjustment data, and a member of the Risk Committee provides input to the NRCs on this matter.

The Group Compliance function analyses how the remuneration policy affects the Group's compliance with legislation in all jurisdictions in which the Group operates, regulations and internal policies, and conducts an annual review of the implementation of the Remuneration Policy. The Compliance function would report all identified compliance risks and issues of non-compliance, and these findings are taken into account during the approval and review procedures and oversight of the Remuneration Policy.

The Internal Audit team carries out an annual independent review of the design, implementation and effects of the Remuneration Policy on the Group's risk profiles, and the way these effects are managed.

The Group's Remuneration Policy includes malus and clawback provisions applicable to all material risk takers and key personnel in control functions, even if variable compensation is remunerated in cash. Clawback, that implies that employees would be required to pay back all or some of an amount they have already received, will apply during the period of five years from the date of award or until the end of the applicable retention period, as applicable. The malus provisions refer to the downward adjustment of incentive awards before they become payable or before they vest and may be applied in respect of deferred elements of variable remuneration at any time during the applicable deferral period.

It is possible for the Group to apply malus and clawback provisions to variable remuneration such as performance related bonuses or retention bonuses if the respective employees were responsible for circumstances that resulted in significant losses to the Group or in situations where the most appropriate standards of fitness and propriety were not met during the period for which the performance or retention bonus was awarded.

Variable remuneration, including the deferred portion, is paid or vests only if it is sustainable according to the financial and regulatory capital situation of the Group as a whole. Without prejudice to the general principles of national contract and labour law, the total variable remuneration shall generally be considerably contracted where subdued or negative financial performance of the Group occurs, taking into account both current remuneration and reductions in payouts of amounts previously earned, including through malus or clawback arrangements.

Conflicts of interests with regard to the implementation of this Remuneration Policy and the award of remuneration in accordance with the provisions of this policy are identified and appropriately mitigated.

The Group did not change this policy throughout the financial year and at present no changes are being proposed to the Remuneration Policy.

The Group's reward strategy

The quality and long term-commitment of all employees is fundamental to the Group's success. The Group therefore aims to attract, retain and motivate the very best people who are committed to maintaining a long-term career with the Group and who will perform their role in the long-term interest of the shareholders. The Group's reward package may comprise fixed remuneration and variable remuneration.

Fixed remuneration

The fixed remuneration reflects the individual's role, experience and responsibility. It comprises the base salary and in some cases a pay allowance of a fixed nature such as extra hours or public holiday allowances as detailed in their employment conditions. Base salaries are expected to comprise the majority of the Group's overall compensation cost, are benchmarked on an annual basis, and are paid by direct credit to an employee's personal account on a monthly basis. Allowances are also paid by direct credit on a monthly basis.

Fixed remuneration also includes benefits (of a fixed nature as these are pre-determined). Benefits take account of market practice and include the provision of medical insurance and life assurance to all employees across the Group. In Belgium and UK the Group provides defined contribution pension schemes whereby the Group's fixed contribution is set for each employee on the basis of the relevant salary and the payment of such contributions would stop on termination of employment by the employee.

The employees of MeDirect Malta are also entitled to the following benefits:

Staff savings account

All of the Group's Malta-based employees are entitled to make equal monthly deposits of a specified amount direct from after tax payroll into an employee savings account. At the end of the financial year, MeDirect Malta will pay a beneficial interest rate on the accumulated savings remaining in the account in December. On such date, amounts remaining in such savings accounts may be withdrawn and the terms of such accounts may be reset.

Home loan subsidy

MeDirect Malta continues to grant its employee based in Malta an annual subsidy in respect of the home loans up to a specific amount, that such employees have acquired from MeDirect Malta or from third party banks. In fact, as from this financial year, MeDirect Malta also started to offer staff home loans at very competitive rates, subject to terms and conditions in line with the Bank's risk appetite.

Variable remuneration

Variable remuneration may consist of performance bonuses and retention bonuses awarded in cash or share linked instruments and guaranteed sign on payments and severance payments awarded in cash. In accordance with Article 92(1) (q) of directive 2013/36/EU ("CRD"), variable remuneration is not paid through vehicles or methods that facilitate the non-compliance with this Directive or Regulation (EU) No 575/2013.

Performance bonuses represents additional remuneration payable to employees as a reward for achieving specific goals or hitting predetermined targets.

Retention bonus is variable remuneration awarded on the condition that staff stays at the Group or subsidiary company of the Group for a predefined period of time. Retention bonuses have been awarded by the Group in the financial year ended 31 December 2020. This is targeted to ensure best performance, by securing the retention of critical employees who are key to success of the realisation of the strategic plan of the Group.

Any consideration given to granting retention bonuses, guaranteed remuneration and/or severance payments is made in light of the applicable regulatory requirements in order to ensure that such remuneration is only awarded where to do so is compliant with the applicable regulatory requirements and any such remuneration is awarded in such form as is determined by the NRCs, taking account of applicable regulatory requirements (including in respect of deferral, payment in the form of a share-linked instruments and the application of malus and clawback).

(a) Determination of the performance bonus variable remuneration pools

A performance bonus pool is established for the Group as a whole and is calculated at Group level based on the success of the Group in meeting its business objectives. The variable remuneration pool shall not be directly or solely linked to the amount of profits or revenues generated. Assessment of performance shall be made in the context of a multi-year analysis, taking into account the business cycle and the Group's business risks. In determining the variable remuneration pool, the Group applies a prudent, forward-looking approach, consistent with maintaining a sound capital base. The Group expects that in aggregate variable remuneration shall not have a significant impact on its capital base and is immaterial in relation to its overall capital and operating income.

The performance bonus variable remuneration pool is set and is calculated on the basis of the following qualitative and quantitative factors:

- Financial results of the Group after taking into account the cost of risk, capital and liquidity, with the aim of ensuring that the total amount of variable remuneration does not undermine the Group's capacity to meet its objectives in terms of capital requirements; and
- Qualitative factors such as market practices, conditions under which activities are carried out and risk management.

The pool will be further adjusted to the extent required to ensure that all relevant identified current and future risks are reflected or in light of the Group's capital position. Such an adjustment may include the NRCs reducing pools of variable remuneration in the event of a breach (or unacceptable risk of a breach) of any key regulatory ratios and/or reducing or not paying variable remuneration to any employee (whether or not a Material Risk Taker) who the NRC determines has caused or contributed to any such breach (or risk of a breach).

The variable remuneration pool is split between entities by taking into consideration the pools allocated in the previous financial period, but also taking into consideration other factors such as change in composition of staff and senior management and market benchmarks.

The variable remuneration pool is approved by the NRC of MeDirect Malta and MeDirect Belgium.

(b) Measures of performance as basis for awarding of bonuses

All personnel are compensated out of the variable remuneration bonus pool based on their contribution to the achievement of the Group's business objectives as well as personal objectives. The allocations of individual variable remuneration awards are correlated to the staff member's formalised annual individual appraisal, that takes into consideration quantitative and qualitative objectives known to the employee, as well as risk management considerations. Individuals are compensated out of that bonus pool based on their contribution to the achievement of the Group's and/or the subsidiary's business objectives. Such individual criteria will also depend on the role of the individual in the Group. For example, portfolio managers are judged on factors such as risk management, overall continuing performance of the portfolio, contribution to development of the Group's systems, while members of the Treasury team are assessed on effectiveness in managing liquidity. The amount of variable remuneration will vary depending on the performance of the staff member, as well as of the staff member's business unit and the institution as a whole.

The appraisal process for all employees is a continuous process which involves the following stages:

- Objective setting at the beginning of the year
  Goals are set that revolve around the development of the employee allowing for progression. Objectives may be technical (related to area of expertise and day-to-day role) or behavioural (related to a desired change in personal development).

- End of year appraisal
  As above employees would do a self-review followed with a manager review together with a one-to-one meeting to discuss overall performance and rating. The employee rating is based on a 5-point rating scale.

(c) Individual allocation of the variable remuneration

i. All staff (including material risk takers)

The Group Head of Administration and Human Resources initiates the process of gathering recommendations for salary revisions, bonuses and promotions from ExCo members. A bonus pool is allocated per department based on the bonus pool of the group. A percentage of fixed salary is allocated to each performance rating scale in each jurisdiction.

All staff are eligible for performance related variable remuneration delivered in cash, though this is not contractual and depends on both individual and collective performance. It takes into account quantitative and qualitative criteria and is not directly or solely linked to the amount of profits or revenues generated. Assessment of performance is made taking into account the business cycle and the Group's business risks. The criteria used to set variable remuneration pools, as well as their allocation, takes into account all risks, both qualitative and quantitative.

The amount payable to any individual under the annual variable remuneration plan is based on the following:

- The Group's financial performance in particular the profit before tax, the cost to income ratio and maintenance of all regulatory ratios across the Group within established risk appetite levels;
- Customer satisfaction (if applicable) based on the subjective assessment of the NRC;
- Conduct risk based on the Risk Committee's recommendation to the NRC; and
- Personal performance against personal objectives.

In exceptional circumstances, the allocation of variable remuneration may differ from the pre-determined criteria set forth in the End of Year procedure, on a case-by-case basis. Furthermore, depending on the performance of the employee and the financial performance of the Group, variable remuneration can also be reduced to zero. Variable remuneration may be significantly reduced or nullified in the case of any kind of unethical or non-compliant behaviour.

The Group Head of Administration and Human Resources ensures that recommendations for salary revisions and bonuses do not exceed the allocated pool. The Group Chief Risk Officer and the Chief Risk Officer of MeDirect Belgium confirm that the bonus allocation is consistent with sound and effective risk management practices and does not impact the capital adequacy of both entities. Recommendations are then discussed with the Group Chief Executive Officer and the Chief Executive Officer of MeDirect Belgium for approval before presenting to the Nominations and Remuneration Committee of the relevant entity.

Internal control functions

Whilst the general bonus pool of the Group is based on the Group's financial results, compensation of control functions is not directly tied to the results of any business unit but should provide incentives for such staff to deliver the best performance in their role. Thus, control functions are judged on success in developing and implementing appropriate policies, developing effective risk management controls and procedures, monitoring risk and building control systems. The Group's remuneration practices shall ensure that no material conflict of interest arise in respect or remuneration for staff in the Group's control functions.

The methods used for determining the variable remuneration of control functions are designed to encourage staff not to compromise their objectivity and independence. Where control function staff receive variable remuneration, it is appraised and the variable part of remuneration determined separately from the business units they control, including the performance which results from business decisions where the control function is involved. The criteria used for assessing performance and risk is based exclusively on internal control objectives.

Other matters on variable remuneration

The ratio between the variable components of remuneration and the fixed components is limited to 100% (200% with shareholders' approval subject to certain conditions being met) for variable remuneration paid to MeDirect Malta staff and 50% for variable remuneration paid to MeDirect Belgium staff.

Where variable remuneration is more than €100,000 for MeDirect Malta employees and €75,000 for MeDirect Belgium employees, or for lower values which are more than 100% of the fixed remuneration, a minimum of 50% of the variable remuneration cannot be delivered in the form of cash. These are the only deviation for staff in Belgium compared to staff in other jurisdictions. There were no instances throughout the financial year when the 100% ratio for MeDirect Malta staff and 50% for the MeDirect Belgium Staff was exceeded.

Variable remuneration may be paid in the form of the following: 1) upfront cash; 2) an upfront share-linked instrument award and/or 3) a deferred award representing an award granted in respect of share-linked instruments subject to deferral. Upfront share linked awards and deferred awards may be allocated only to material risk takers. Such award of share-linked instruments for the purpose of Article 94 (1) (i) of CRD entitles the material risk taker to a cash payment based on the market value of a share of the Group but does not entitle the employee to shares or any interest in or right over such shares. The upfront share-linked award and the deferred share-linked award are subject to a retention period as determined by the NRCs, of not less than 12 months but not greater than 5 years. Any tranche of a deferred award which has not yet been paid will lapse if the material risk taker leaves employment before the end of the deferral period, unless the material risk taker leaves due to certain specific reasons as listed in the bonus plan rules approved by the Group's NRC. The share linked instruments awarded by the Group so far were to current and previous executive directors that fall under the management function described above.

Variable remuneration awarded in cash is normally paid out in the first quarter of the subsequent financial year as determined by the NRCs. Variable remuneration paid to Material Risk Takers is subject to malus and clawback provisions.

The clawback provisions state that the bonus may have to be repaid to the Group in certain circumstances that would have led to significant losses to the Group or in case of failure to meet appropriate standards of fitness and propriety, including cases of fraud, dishonesty or gross negligence. Clawback provisions may be applied ex post to variable remuneration paid in cash and share linked instruments.

Malus may be applied at the discretion of the relevant NRC, and examples of the circumstances in which such discretion to impose malus may be exercised are included in the Group's Remuneration Policy. Malus provisions may be applied ex ante to share linked instruments.

Subject to regulatory de minimis limits, for Material Risk Takers deferral will apply to at least 40% of annual variable remuneration (depending on the quantum of each individual's total remuneration, and being at least 60% where annual variable remuneration outcomes are significant according to the NRC, as determined in accordance with applicable regulations), including both cash and instrument payments. No discount rate is applied by the Group to variable remuneration.

As per Article 450 of the CRR we confirm that there was remuneration that was subject to deferral, that will vest over a maximum period of five years and that is subject to malus or clawback provisions.

In accordance with Article 450 of the CRR we confirm that there was one employee that received a total remuneration greater than €1 million with such remuneration being in the range €1 million - €1.5 million.

ii. Material Risk Takers

Material Risk Takers, that consist of members of staff whose actions have a material impact on the risk profile of the Group, are identified on the basis of the qualitative and quantitative criteria set out in the Regulatory Technical Standard EU 604/2014. Material Risk Takers are also identified on the basis of additional criteria developed internally.

For the purposes of remuneration, Material Risk Takers across the Group have been aggregated and split into business areas according to the European Banking Authority ("EBA") guidelines on the remuneration benchmarking exercise EBA/GL/2014/08 dated 16 July 2014.

Thus, Material Risk Takers are classified as follows:

- Supervisory function

  The supervisory function consists of non-executive directors of any board in the scope of consolidation. They are responsible for providing a monitoring role and thus their remuneration is not performance based and is not linked to the Group's results. Non-executive directors are non-employees and receive a fee for their services as directors. They are not eligible to receive a base salary, fixed pay allowance, pension or any variable pay.

  The fee levels payable reflect the time commitment and responsibilities required of a non-executive director. It is determined based on remuneration levels for directors of similar financial companies and takes into account factors such as time invested and responsibilities.

- Management function

  The management function consists of members of the board of directors who have executive functions, may be responsible for certain business units and includes all executive directors of any board in the scope of consolidation. Throughout the year members of the management function were awarded a performance bonus delivered in cash and certain members of the management function based in Malta were also awarded retention bonuses delivered in cash (deferred for 1 year) and share linked instruments. For the purposes of meeting the requirements of Appendix 5.1 of the Listing rules, senior executives represent the executive directors.

- Retail and Corporate Banking

  This category would include the following people that would benefit from a performance bonus delivered in cash.

  - Chief Officer, Heads and key personnel of retail and corporate banking material business units/business lines.
  - Staff members responsible for initiating credit proposals or structuring credit products which relate to material credit risk exposures.

- Corporate functions

  Heads and key personnel within Finance, Administration, Treasury and Human Resources are included in this category and they benefit from a performance bonus delivered in cash. This category includes all functions that have responsibilities for the whole institution at the consolidated level and for subsidiaries with such functions at the solo level.

- Independent control functions

  As described in the EBA's guidelines on internal governance, this category would consist of the Heads and key personnel active in the independent control functions such as the internal audit, compliance and risk functions of the Group and subsidiaries. They benefit from performance bonuses delivered in cash.

The above Material Risk Takers would also include:

- Staff members authorised to approve or veto the introduction of new products;
- Staff members authorised to take, approve or veto discussions on material credit risk exposures or is a member of a committee which has authority to take decisions on material credit risk exposures; and
- Staff members that have been awarded total remuneration in the previous financial year equal to or in excess of other material risk takers (excluding non-executive, support function and control function roles).

The list of Material Risk Takers is reviewed and reconsidered by the Group's NRC on at least an annual basis. The target population defined as Material Risk Takers for the purposes of this report (excluding those allocated to the Supervisory function) represents 9.5% of the average total number of employees in the Group throughout the financial year.

For the purposes of information provided hereunder 'Senior Management' means the Directors of any board in the scope of consolidation, Group Management Executive Committee members and the Chief Internal Audit Officer. Recommendations as to the fixed and variable remuneration of members of senior management and control functions are made by the Chief Executive Officers. Such recommendations are reviewed and approved or rejected by the NRCs.

The following tables include total fixed and variable remuneration and number of beneficiaries per and within each business area. Remuneration disclosed within these tables in the remuneration report represents the remuneration that was charged to the Group's statement of comprehensive income.

	Supervisory function	Management function	Retail and corporate banking	Corporate functions	Independent control functions
Financial year ended 31 December 2020					
Material risk takers	**6**	**7**	**8**	**11**	**6**
: of which senior management	6	7	5	9	3
: of which non-senior management	-	-	3	2	3
Total remuneration	**701,017**	**4,069,707**	**2,305,265**	**1,920,534**	**987,321**
: of which total fixed remuneration (€)[1]	701,017	2,872,182	2,060,287	1,465,125	906,821
: of which total variable remuneration (€)	-	2,111,725	244,978	455,409	80,500
- variable in cash	-	376,100	244,978	455,409	80,500
- variable in share-linked instruments	-	1,735,625	-	-	-
: of which performance and other post adjustments	-	(914,200)	-	-	-
Financial period ended 31 December 2019					
Material risk takers	**7**	**9**	**8**	**9**	**7**
: of which senior management	7	9	4	6	2
: of which non-senior management	-	-	4	3	5
Total remuneration	**451,696**	**6,856,557**	**2,673,364**	**1,351,258**	**549,697**
: of which total fixed remuneration (€)[1]	451,696	3,155,675	1,595,579	1,233,471	540,947
: of which total variable remuneration (€)	-	3,700,882	1,077,785	117,787	8,750
- variable in cash	-	*2,789,824*	*1,077,785*	*117,787*	*8,750*
- variable in share-linked instruments	-	*911,058*	-	-	-

[1] Total fixed remuneration comprises non-cash benefits such as life and health insurance, pension and accommodation benefits.

During the year ended 31 December 2020, there were no sign-on charges and there were two severance charges amounting to €240 thousand and €130 thousand (included within variable remuneration of the corporate function in the preceding table). Such severance charges are not included in the calculation of the variable to fixed remuneration in line with section 139 and section 153 (c) of Banking Rule 21 respectively.

Remuneration - MeDirect Malta directors

This section includes other remuneration disclosures in line with CRR 450 (2).

The remuneration of executive directors and non-executive directors of MeDirect Malta, during the year ended 31 December 2020 are reported below. Remuneration disclosed within these tables in the remuneration report represents the remuneration that was charged to the Group's statement of comprehensive income.

	Year ended 31 December 2020		Period from 1 April to 31 December 2019	
	€000	**%**	€000	%
Fixed remuneration				
- Awarded in cash	**1,933**	**57**	2,397	41
- Non-cash benefits	**16**	**1**	38	1
Variable remuneration				
- Awarded in cash	**195**	**6**	2,546	43
- Awarded in share linked instruments	**854**	**36**	911	15
	2,998	**100**	5,892	100

Non-cash benefits relate to health and life insurance premiums paid by the Group on behalf of its senior management since the Group provides a health and life insurance policy to all its employees. The provision of such insurance policies form part of the contract of employment of each staff member.

Deferred remuneration

The following is an analysis of the outstanding deferred remuneration and the deferred remuneration awarded during the financial year to the material risk takers in the management function:

	Year ended 31 December 2020		Period from 1 April to 31 December 2019	
	Vested	**Unvested**	Vested	Unvested
	€000	**€000**	€000	€000
Group				
Total outstanding deferred remuneration - share-based payments				
At beginning of year/period	**542**	**1,550**	467	1,325
Awarded throughout the year/period	**-**	**1,749**	-	300
Vested throughout the period	**-**	**-**	75	(75)
Performance and other post adjustments throughout the year	**-**	**(930)**	-	-
At end of year/period	**542**	**2,369**	542	1,550

There were no changes in deferred remuneration throughout the financial year as a result of payments.

The total expense recognised during the financial year ended 31 December 2020 amounted to €0.9 million (Period ended 31 December 2019: €0.9 million) and the resultant liability as at 31 December 2020, arising from deferred remuneration, amounted to €2.7 million (2019: €1.8 million).

Michael Bussey
Chairman

Arnaud Denis
Chief Executive Officer

30 March 2021

Independent auditor's report

To the Shareholders of MDB Group Limited

Report on the audit of the financial statements

Our opinion

In our opinion:

- The Group financial statements and parent company financial statements (the "financial statements") give a true and fair view of the Group and the Company's financial position of MDB Group Limited as at 31 December 2020, and of the Group's and the Company's financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the EU; and
- The financial statements have been prepared in accordance with the requirements of the Maltese Companies Act (Cap. 386).

Our opinion is consistent with our additional report to the Audit Committee.

What we have audited

MDB Group Limited's financial statements, set out on pages 55 to 166, comprise:

- the consolidated and parent company statements of financial position as at 31 December 2020;
- the consolidated and parent company statements of comprehensive income for the year then ended;
- the consolidated and parent company statements of changes in equity for the year then ended;
- the consolidated and parent company statements of cash flows for the year then ended; and
- the notes to the financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group and the Company in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (IESBA Code) together with the ethical requirements of the Accountancy Profession (Code of Ethics for Warrant Holders) Directive issued in terms of the Accountancy Profession Act (Cap. 281) that are relevant to our audit of the financial statements in Malta. We have fulfilled our other ethical responsibilities in accordance with these Codes.

Independent auditor's report - *continued*

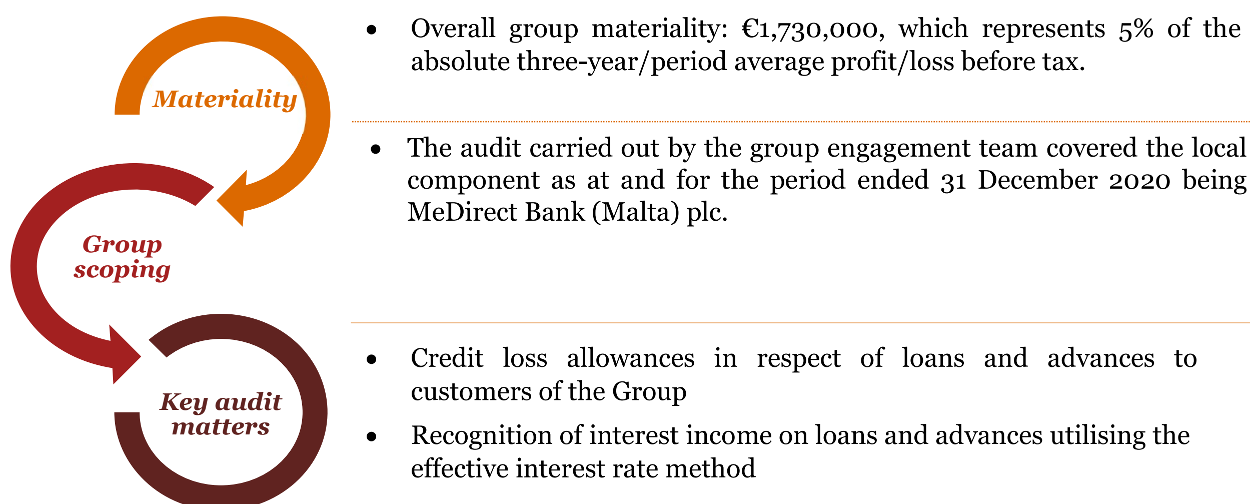
To the Shareholders of MDB Group Limited

Emphasis of matter - COVID-19

We draw attention to Note 1.2 in the financial statements, which describes the directors' assessment of the estimated impacts of COVID-19 on the Group's projected financial results and financial position. This matter is considered to be of fundamental importance to the understanding of the financial statements, due to its nature and significance. Our opinion is not modified in respect of this matter.

Our audit approach

Overview



- Overall group materiality: €1,730,000, which represents 5% of the absolute three-year/period average profit/loss before tax.

- The audit carried out by the group engagement team covered the local component as at and for the period ended 31 December 2020 being MeDirect Bank (Malta) plc.

- Credit loss allowances in respect of loans and advances to customers of the Group
- Recognition of interest income on loans and advances utilising the effective interest rate method

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated financial statements. In particular, we considered where the Directors made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall group materiality for the consolidated financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Overall group materiality	€1,730,000
How we determined it	5% of the absolute three-year/period average profit/loss before tax
Rationale for the materiality benchmark applied	We chose profit/loss before tax as the benchmark because, in our view, it is the benchmark against which the performance of the Group is most commonly measured by users and is a generally accepted benchmark. We have applied a three-year/period average to reflect the fluctuations in results in recent years. We chose 5% based on professional judgement, noting that it is also within the range of commonly accepted profit related benchmarks.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above €173,000 as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the Key audit matter
Credit loss allowances in respect of loans and advances to customers of the Group Credit loss allowances in respect of loans and advances to customers represent management's best estimate of expected credit losses ('ECLs') within the loan portfolios at the balance sheet date. The Group has three principal lending portfolios: • the international lending portfolio, comprising syndicated senior secured loans to leveraged international large corporates, with a gross carrying amount of €903.4 million and associated credit loss allowances amounting to €53.2 million at 31 December 2020; • the Dutch mortgage portfolio originated by the Group, which includes secured residential mortgages offered in the	During our audit of the financial statements for the year ended 31 December 2020, we continued to focus on the key drivers of the estimation of ECL. Apart from assessing the continued appropriateness of management assumptions, we evaluated and tested updates to key parameters and enhancements to the ECL calculation, largely driven by the outbreak of the Covid-19 pandemic. Discussions with the Audit Committee included: • the appropriateness of the staging determined in respect of exposures experiencing credit deterioration during the year as a result of the pandemic, including the stage classification in respect of restructured loans occurring during the year, following an assessment of whether the modification to the contracts was significant or otherwise; • the reasonableness of management overlays applied to quantitative staging criteria for Stage 1 and 2

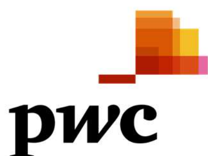
Key audit matter	How our audit addressed the Key audit matter
Netherlands, with a gross carrying amount of €1,078.6 million and associated credit loss allowances amounting to €0.1 million at 31 December 2020; and • a local lending portfolio, predominantly consisting of loans to the real estate activities sector in Malta, with a gross carrying amount of €92.7 million and associated credit loss allowances amounting to €0.5 million at 31 December 2020. The measurement of ECLs in respect of loans and advances to customers, particularly for the international lending portfolio, requires a considerable level of judgement since the determination of ECLs in respect of this portfolio is subject to a high degree of estimation uncertainty. In this respect, it is considered a key area of focus. The level of estimation uncertainty surrounding the measurement of ECLs in respect of the international lending portfolio has increased significantly during the financial year ended 31 December 2020 due to the outbreak of the Covid-19 pandemic, which has had a severe impact on a significant number of borrowers within this portfolio. This affected a number of components forming part of the ECL calculation, ranging from the determination of the stage classification in respect of individual borrowers and the modelling of expected default levels and loss severities, to the determination of forward-looking scenarios during the unprecedented economic conditions being experienced. This resulted in heightened subjectivity requiring a higher level of expert judgement. Meanwhile, credit loss allowances measured in respect of the Dutch mortgage and local lending portfolios were not considered to be significant for the purposes of our audit. All loans within the Group's international lending portfolio are considered individually significant. As a result, credit loss allowances relating to all loans and advances within the	exposures, in particular the adjustments applied to the PDs / implied ratings of exposures deemed to be more directly impacted by the pandemic, designed to avoid delays in the identification of credit deterioration and to capture the increased level of uncertainty induced by the pandemic; • the final ECL for Stage 1 and 2 exposures estimated by the vendor's model, focusing in particular on the reasonableness of forward-looking macroeconomic scenarios in the context of the uncertainty being experienced in these unprecedented economic conditions; and • impairment allowances in respect of exposures classified as Stage 3. In respect of the Group's ECL models used for estimating credit loss allowances attributable to non-defaulted exposures, the continued appropriateness of the modelling policy and methodology used was independently assessed by reference to the requirements of IFRS 9. In addition, the appropriateness of the key assumptions used in and the conceptual soundness of the adapted discounted cash flow model utilised for the estimation of credit loss allowances attributable to defaulted exposures were similarly assessed, particularly the methodology used to determine borrower-specific discount rates applied to forecasted operating cash flows. *ECL calculation for non-defaulted exposures within the International lending portfolio* We understood and critically assessed the model used by the Group to measure expected credit loss allowances on international lending portfolio exposures classified within Stages 1 and 2. In this regard, we obtained an understanding of the manner in which the elevated level of economic uncertainty induced by the pandemic was captured and reflected in the model parameters and the algorithmic processes underlying the model, including the impact of the unprecedented speed and severity of the economic recession on default levels and loss severities. Accordingly, our audit approach focused specifically on: • obtaining comfort over the accuracy and completeness of model inputs, with the updating process being largely manual; • testing the reasonableness of key parameters driving the measurement of credit loss allowances

Key audit matter	How our audit addressed the Key audit matter
international portfolio are calculated at an instrument level. A considerable level of judgement is required in the development and / or calibration of the models designed to estimate ECLs on loans measured at amortised cost in accordance with the requirements of IFRS 9, which has become more pronounced due to the unprecedented economic conditions being experienced and the additional complexities induced in the modelling aspects of the ECL calculation. In general, the Group calculates ECL by using the following key inputs: probability of default (PD), loss given default (LGD) and exposure at default (EAD). The maximum period considered when measuring ECL is the maximum period over which the Group is exposed to credit risk. In general, the EAD for exposures within the international portfolio is based on behavioural maturity, largely reflecting management expectations on the exercise of prepayment options driven mainly by the ability of borrowers to refinance their debt obligations. The determination of behavioural maturity in the aftermath of the pandemic requires a significant level of expert judgement since a borrower's refinancing risk is strongly tied to the credit standing of the borrower, which is dependent on an evaluation of the severity of the impact that the pandemic has had on the individual borrower's financial performance and financial condition. Such evaluation considers the expected recovery period by reference to the industry in which the borrower operates and the efficacy and effectiveness of government support schemes in shortening the expected duration of the impact. For non-defaulted (Stages 1 and 2) exposures, the Group uses a model developed by an external vendor in which key risk parameters, including both PDs and LGDs, are estimated using statistical models mainly by benchmarking exposure-specific characteristics against an underlying dataset. Specifically, the PDs and LGDs of the Group's international portfolio are developed on a name by name	for such exposures, including the staging logic built into the Group's ECL model, the logic for TTC to PiT conversion and the macroeconomic modelling aspect within the ECL model, especially in view of the impact of the pandemic; • challenging judgemental aspects made by management (such as staging criteria overlays to PDs / implied ratings to ensure the timeliness of the identification of credit deterioration events); and • backtesting the ECL outcome against the Group's historical experience as well as publicly available information on observed default levels in the aftermath of the pandemic and expected default levels in the short-to-medium term. The design and operating effectiveness of certain control activities relevant to the ECL calculation process, specifically in respect of stage classification, were tested. In this respect, we specifically obtained comfort around monitoring of Stage 1 exposures by both the Group's first and second lines of defence through control procedures. We determined that we could rely on such controls for the purpose of our audit. In order to obtain comfort on the credit loss allowances for Stage 1 and 2 exposures within the international lending portfolio, which is vendor model driven, we carried out the following substantive procedures: • Tested the completeness and accuracy of the model data inputs used for the purposes of the period end ECL calculation against source data. This included testing of financial statement inputs, qualitative inputs (e.g. covenant breaches), as well as instrument-specific inputs (e.g. nature of loan, exposure amount, effective interest rate, etc.). • Performed backtesting to obtain comfort on key variables / parameters such as: o Expected maturities – assessed the historical accuracy of management predictions of expected maturities compared to actual maturities and challenged the expected maturities determined by management on an individual basis in respect of Stage 2 exposures captured in our sample for the purposes of the credit file reviews, after considering the information available to us in respect of the impact of the pandemic at a borrower level.

Key audit matter	How our audit addressed the Key audit matter
basis by reference to the default and loss history of comparable borrowers with similar characteristics in terms of size, industry and country of operations. The Group's ECL model estimates Through-The-Cycle (TTC) PDs at a borrower level based on quantitative (financial statement information) and qualitative (borrower characteristics such as management's ability to create realistic budgets through a comparison of actual to budgeted performance) model inputs, benchmarking these model inputs against those of peers with similar credit risk characteristics and operating in the same industry. TTC PDs are then adjusted using a macroeconomic modelling tool to first reflect current macroeconomic conditions (unconditional Point-in-Time or PiT PD) and then simulate the PD under multiple macroeconomic forecasts developed by the external vendor (conditional PiT PD). On the other hand, the LGD is estimated at a facility level to reflect the effect of relative seniority of facilities on expected losses. Similar to PDs, the Group's ECL model estimates the LGD by benchmarking facility-specific model inputs against observed losses for facilities which are similar in nature. In this respect, the model takes into consideration both quantitative and qualitative aspects when developing LGDs. The quantitative aspect is principally driven by the nature of the exposure (term vs. revolver), the relative ranking of the facility in the borrower's capital structure, the country and industry in which the borrower operates, together with the borrower-specific PD. The qualitative aspect, in turn, differentiates between exposures in terms of the borrower's covenant violation history as well as the relative creditor friendliness across legal jurisdictions. The same macroeconomic modelling elements used to transform TTC PDs to PiT PDs are then used to convert the TTC LGDs to conditional PiT LGDs. In this regard, macroeconomic conditioning is applied to the LGD term	○ PDs – assessed the reasonableness of PDs through a comparison of predicted default rates with a) actual defaults observed during the financial year ended 31 December 2020, and b) expected default rate forecasts estimated by an external vendor in the aftermath of the pandemic; and assessed observed trends in movements in PiT PDs across countries; and ○ LGDs – benchmarked the LGDs estimated by the model with the Group's own history of losses on defaulted exposures. • Evaluated the continuing appropriateness of the model calibration of TTC PDs produced by the model. • Assessed the appropriateness of the Group's SICR criteria used for downgrading exposures to Stage 2, including quantitative SICR staging criteria used in the model. We performed procedures to obtain comfort on the manual model overrides effected by management and most notably in respect of management overlays applied through the model to capture the delayed identification of credit deterioration resulting from the impact of the pandemic. The reasonableness and appropriateness of manual model overrides was assessed through examination of related factual information and circumstances attributable to a risk-based sample of exposures. • Assessed the reasonableness of the movements in credit loss allowances for Stage 1 and 2 exposures during the year to ensure that these were in line with expectations. • Tested the multiple macroeconomic scenarios and variables to assess their reasonableness. Specifically, we challenged the reasonableness of the severity of the multiple forward-looking macroeconomic scenarios used in the ECL calculation in light of the impact of the pandemic across economies, as well as the appropriateness of the assigned probability weightings. We also assessed the economic scenarios being used against publicly available macroeconomic information to obtain comfort on the general direction of forecasted macroeconomic variables.

Key audit matter	How our audit addressed the Key audit matter
structure through a modelled correlation between PD and LGD term structures. Since the outbreak of the pandemic, uncertainty has manifested itself mostly through the level of subjectivity and expert judgement required to develop macroeconomic forecasts to capture the potential movement in default levels and loss severities under multiple forward-looking scenarios. In this respect, the unprecedented economic and socio-political conditions currently being experienced induce additional elements of complexity in determining the severity and likelihood of macroeconomic forecasts used in the Group's ECL calculation across different countries and the extent to which these potential scenarios will impact PiT PD and LGD parameters. This is mainly driven by the fact that current conditions fall outside the range of historical experience used for modelling purposes. For example, significant judgement is required to assess the likelihood of new waves of infections (or new variants), the efficacy and effectiveness of vaccine roll-outs at national level, and the effectiveness of national government support schemes and regulatory relief measures in dampening the severity of the economic recession and speeding up the economic recovery. Staging is determined based on a combination of quantitative and qualitative criteria. Quantitative criteria are based on a comparison of model-calculated PDs/implied ratings as at reporting date with the calculated PDs/implied ratings on origination. In light of the significant economic uncertainties induced by the pandemic, the use of quantitative staging criteria has displayed limitations due to the fact that the PDs / implied ratings are primarily reliant on historical financial information which is typically lagging in nature, and hence not necessarily reflective of the possible credit deterioration resulting from the pandemic. In this respect, overlays were applied by the Group in order to address such modelling limitations through the use of adjustments in respect of borrowers deemed to be most impacted by the pandemic, thereby ensuring	Based on the evidence obtained, we found the model assumptions, data used within the model, the model staging overrides and the ECL calculation logic to be reasonable. In respect of staging classification of exposures within the international lending portfolio, principally in relation to Stage 2 and Stage 3 categorisation, we reviewed the internal processes for identifying Unlikeliness-to-Pay (UTP) trigger events used to classify exposures into Stage 3 and also performed a comprehensive credit file review for a comprehensive sample of Stage 2 exposures to ensure that these are appropriately classified as non-defaulted exposures. In particular, we obtained a detailed understanding of the potential impact that the pandemic may have on borrowers' financial performance and financial condition, including the impact on the industry and country in which these borrowers operate, and formed our views as to whether financial difficulties are likely to be temporary or permanent. Similarly, a credit file review was also performed in respect of a risk-based sample of exposures classified as Stage 1 exposures to form an independent view as to whether a SICR since initial recognition has been experienced, thereby ensuring that these are appropriately classified as Stage 1 exposures. In this regard, our audit procedures provided us with sufficient comfort on the appropriateness of the Group's exposure staging classification. *ECL calculation for defaulted exposures within the International lending portfolio* For Stage 3 exposures within the international lending portfolio, the appropriateness of provisioning methodologies and policies was independently assessed. A substantive testing approach has been adopted in this respect. For Stage 3 loans, we performed tests of detail to review and challenge the Group's estimate of credit loss allowances, in light of the latest developments at the level of the borrower, together with the appropriateness of key parameters used. We also considered whether key judgements were appropriate given the borrowers' circumstances. An independent view was formed on the level of credit loss

Key audit matter	How our audit addressed the Key audit matter
that the modelled PDs / implied ratings adequately capture the risks currently being experienced following the outbreak of the pandemic. Meanwhile, qualitative criteria are based on aspects such as the regular monitoring of the financial performance of borrowers against forecasts, compliance with covenants, as well as strategic developments affecting the borrowers' future repayment abilities. In this regard, the Group applies a set of Significant Increase in Credit Risk (SICR) and Unlikeliness-to-Pay (UTP) criteria in order to determine staging on a qualitative basis, which requires a significant element of judgement. During 2020, the qualitative assessments performed in respect of each borrower also comprised an evaluation of: • the severity of the impact of the pandemic on borrowers' financial condition on the basis of revised forecasts in view of the pandemic; • information in respect of how Covid-19 has impacted the industry and country in which the borrowers operate; and • the effectiveness of government support schemes and regulatory relief measures to avoid a permanent deterioration in the borrowers' financial condition. For those loans which are classified as Stage 3 (defaulted) exposures, judgement is required to estimate the expected future cash flows related to that loan. In this regard, the ECL calculation for defaulted exposures is manually driven, based on an internally developed discounted cash flow methodology. The measurement of ECLs for Stage 3 exposures is therefore dependent on parameters and assumptions including the estimation of borrowers' operating cash flows under multiple scenarios, the determination of borrower-specific discount rates, and the probability weighting assigned to each scenario. Depending on particular circumstances of the borrower in question, the Group typically develops scenarios to reflect the borrower's financial performance under different	allowances recorded based on the detailed loan and customer information available. In particular, we formed our view on key inputs to the ECL calculation including: • the expected operating cash flows under multiple scenarios, taking into consideration the developments resulting from the outbreak of the pandemic in respect of borrower-specific financial performance, and the potential impact that it may have on these borrowers' financial condition and on the industry and country in which the borrowers operate over the short-to-medium term; and • the discount rate used to determine the present value of discounted cash flows. We engaged our valuation experts to review and critique the discount rates applied by management. In fact, our valuation experts performed work to provide comfort about the reasonableness and appropriateness of discount rates used by the Group to estimate the respective borrower's enterprise value. During the financial year ended 31 December 2020, a number of debt restructuring transactions were negotiated in respect of borrowers experiencing financial difficulties, mostly triggered by the outbreak of the pandemic. In this regard, we: • reviewed the renegotiated contractual agreements in order to understand the underlying facts and circumstances of the debt restructuring; • performed an assessment in order to determine whether substantial modifications were made to contractual terms as a result of the debt restructuring, which would require the derecognition of the old financial instrument(s) and the recognition of the new financial instrument(s); • performed a credit file review in respect of each borrower subject to restructuring at that point, in order to determine the appropriateness of the staging classification where derecognition criteria were met (either Stage 1 or Purchased or Originated Credit Impaired (POCI)); and • assessed the appropriateness of measured credit loss allowances in respect of debt restructuring where derecognition criteria were not met, thereby retaining Stage 3 classification. Based on the evidence obtained, we formed a different view from that of management on the level of credit loss



Key audit matter	How our audit addressed the Key audit matter
economic conditions and / or growth assumptions by adjusting forecasted operating cash flows. The outbreak of the pandemic has exacerbated the estimation risk involved in this respect, owing to the uncertainties in respect of how Covid-19 has impacted the industry and country in which the borrowers operate, the effectiveness of government support schemes in speeding up economic recovery, and as a result on determining the severity of the impact of the pandemic on borrowers' forecasts. In view of the above, the risk of misstatement in the estimation of ECLs in respect of the international lending portfolio, which is subjective in nature and inherently judgemental in respect of both timing of recognition of impairment and the estimation of the size of any such impairment, has been amplified as a result of the pandemic. Hence, the Group's application of the IFRS 9 impairment requirements in respect of this portfolio is deemed to be an area of focus. Accordingly, summarising the key areas relevant to the Group's measurement of ECLs, especially in view of the pandemic would include: • Allocation of international corporate loans to stage 1, 2, or 3 using criteria in accordance with IFRS 9; • Accounting interpretations and modelling assumptions used to build the models that calculate the ECL; • Completeness and accuracy of data used to calculate the ECL; • Inputs and assumptions used to estimate the impact of multiple macroeconomic scenarios; • Measurements of individually assessed provisions including the assessment of multiple scenarios; and • The appropriateness of overlays. Relevant references in the Annual Report and Financial Statements: • Accounting policy: Note 1.5; • Credit risk: Note 2.2;	allowances recorded by management in respect of a limited number of exposures, but in our view the differences were within a reasonable range of outcomes.

Key audit matter	How our audit addressed the Key audit matter
• Accounting estimates and judgements: Note 3.3; • Note on Loans and advances to customers: Note 7; and • Note on Change in expected credit losses and other credit impairment charges: Note 29.	
Recognition of interest income on loans and advances utilising the effective interest rate method Interest income on loans and advances to customers is recognised using the effective interest rate method. Measuring interest income on loans and advances to customers under the effective interest rate method requires management to apply judgement, particularly in the case of the Group's senior secured loans to international borrowers, constituting the international lending portfolio. A model is utilised by the Group to compute the impact of application of the effective interest rate method on an individual loan basis, by discounting estimated future cash flows through the expected life of the instrument to the net carrying amount, including all fees paid or received that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts. A key judgement in respect of the application of the effective interest rate method to the international lending portfolio is the assumed expected life for the loans, effectively determining the period over which interest income is recognised utilising the effective interest rate method, and accordingly determining the pattern of recognition of income throughout different accounting periods. The determination as to which fees are considered an integral part of the effective interest rate and hence included within the effective interest rate calculations is also judgemental for the international lending portfolio. Management determines an assumed expected life for each individual loan within its international lending portfolio. The sensitivity	Our audit procedures in respect of the application of the effective interest rate method to loans and advances within the international lending portfolio, in particular relating to the assumptions on loan expected lives and to the determination of which fees are considered to form an integral part of the effective interest rate, included the following: • We assessed the historical accuracy of management predictions of expected maturities by comparing with actual maturities. • We challenged the appropriateness of changes to assumed expected lives in relation to specific loans by reference to the available emerging information in relation to such borrowers. • We challenged the expected maturities determined by management in respect of Stage 2 exposures, captured within our sample for the purposes of the credit file reviews, taking into consideration all available information in relation to the impact of the pandemic on the borrowers' financial condition and the resulting effect on the borrowers' repayment capacity. • We assessed the accuracy of the model used for the recognition of interest income and for the measurement of loans and receivables at amortised cost using the effective interest rate method by re-performing a sample of effective interest rate calculations at individual loan level. Our audit procedures comprised performing tests of detail on the selected sample of lending arrangements by agreeing transaction details within the respective model to loan agreements and other supporting documentation.

Key audit matter	How our audit addressed the Key audit matter
to a change in assumed expected life can vary significantly between different loans, depending on the characteristics, terms and conditions of the underlying lending transaction and parameters included within the respective effective interest rate calculation such as fee income and discounts or premiums identified at inception. The Group has historical experience in respect of the international lending portfolio, for the purposes of supporting the expected life assumption applied to each loan. Consequently, the Group determines loan expected life assumptions on the basis of its forecasting process, which takes into account historical data but also the Group's expertise and experience in this specialised lending sector. Any changes in the expected loan life assumptions are based on management's assessment of emerging market trends (for instance changes in market interest rates and the ability of the borrower to re-finance in the circumstances) and borrower specific information that indicates changes to repayment profiles and the extent of such changes. In this respect, the outbreak of the Covid-19 pandemic elevated the estimation uncertainty surrounding the determination of expected maturities, requiring an assessment of the borrowers' repayment capacity by reference to: • the severity of the impact of the pandemic on the borrower's financial performance and financial condition; • the general economic impact of the pandemic on the industry in which the borrower operates; and • the efficacy and effectiveness of government support schemes and regulatory relief measures in shortening the expected duration of the recovery period. Relevant references in the Annual Report and Financial Statements:	• For a selected sample, we also assessed whether all the appropriate fees had been reflected within the effective interest rate calculations based on the requirements within the relevant accounting pronouncements. • We ensured that the changes to expected maturity are appropriately reflected within the amortisation computation applied to loans by performing tests of detail on a selected sample of lending arrangements with revised expected maturity. We inspected the assessment and approval of the modification and ensured that the loan accounting system was updated accordingly. • We assessed the accuracy of the modification gain or loss recognised in profit or loss which resulted from the changes in assumed expected lives by re-performing a sample of modification gain or loss recomputations. Our audit procedures comprised of recalculating the present value of the modified cash flows, discounted at the loan's original effective interest rate, and comparing the recomputed carrying amount with the actual carrying amount as at modification date. Based on the results of our audit procedures we concluded that the assumptions used by management were reasonable and that the model gives rise to accurate calculations.

Key audit matter	How our audit addressed the Key audit matter
• Accounting policy: Note 1.5; and • Accounting estimates and judgements: Note 3.2.	

How we tailored our group audit scope

The Group is composed of two components: MDB Group Limited (the parent company), and its subsidiary MeDirect Bank (Malta) plc, which is determined to be a financially significant entity.

We tailored the scope of our audit in order to perform sufficient work on all components to enable us to provide an opinion on the financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates, and local statutory requirements.

The audit team of the Group performed all the work implied in a full scope audit on the parent company. In relation to MeDirect Bank SA, a subsidiary of MeDirect Bank (Malta) plc based in Belgium, we reported to PwC Brussels office on specific control procedures and specific substantive procedures on a substantial part of the financial statement line items, in view of the fact that a significant element of the subsidiary's operational, accounting and financial reporting procedures are outsourced to MeDirect Bank (Malta) plc. We received reporting from PwC Brussels office on limited scope procedures in respect of specific balances and transactions that are managed directly in Belgium, including specific balances and transactions of Bastion 2020-1 NHG B.V. ("Bastion 2020-1") and Cavalier 2020 B.V. ("Cavalier 2020"), two controlled special purpose entities also established to raise funding to cover identified assets. MeDirect Bank SA has retained substantially all risks and rewards pertaining to the activities of Bastion 2020-1 and Cavalier 2020 and hence pertaining to assets, liabilities, income and expenditure attributable to these two controlled special purpose entities, and as such, all assets, liabilities and related income and expenditure have been reflected within the MeDirect Bank SA's stand-alone financial statements.

Other information

The directors are responsible for the other information. The other information comprises all of the information in the Annual Report (but does not include the financial statements and our auditor's report thereon).

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon except as explicitly stated within the *Report on other legal and regulatory requirements*.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Independent auditor's report - continued

To the Shareholders of MDB Group Limited

Responsibilities of the Directors and those charged with governance for the financial statements

The Directors are responsible for the preparation of financial statements that give a true and fair view in accordance with IFRSs as adopted by the EU and the requirements of the Maltese Companies Act (Cap. 386), and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Group's and the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or the Company or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.
- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's or the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's or the Company's ability to continue as a going concern. In particular, it is difficult to evaluate all of the potential implications that COVID-19 will have on the Group's and the Company's operations, assets and liabilities, and the disruption to its business and the overall economy.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

The *Annual Report and Financial Statements 2020* contains other areas required by legislation or regulation on which we are required to report. The Directors are responsible for these other areas.

The table below sets out these areas presented within the Annual Report, our related responsibilities and reporting, in addition to our responsibilities and reporting reflected in the *Other information* section of our report. Except as outlined in the table, we have not provided an audit opinion or any form of assurance.

Independent auditor's report - continued

To the Shareholders of MDB Group Limited

Area of the *Annual Report and Financial Statements 2020* and the related Directors' responsibilities	Our responsibilities	Our reporting
Directors' report (on pages 4 to 22) The Maltese Companies Act (Cap. 386) requires the directors to prepare a Directors' report, which includes the contents required by Article 177 of the Act and the Sixth Schedule to the Act.	We are required to consider whether the information given in the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements. We are also required to express an opinion as to whether the Directors' report has been prepared in accordance with the applicable legal requirements. In addition, we are required to state whether, in the light of the knowledge and understanding of the Company and its environment obtained in the course of our audit, we have identified any material misstatements in the Directors' report, and if so to give an indication of the nature of any such misstatements.	In our opinion: • the information given in the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and • the Directors' report has been prepared in accordance with the Maltese Companies Act (Cap. 386). We have nothing to report to you in respect of the other responsibilities, as explicitly stated within the *Other information* section.
	Other matters on which we are required to report by exception We also have responsibilities under the Maltese Companies Act (Cap. 386) to report to you if, in our opinion: • adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us. • the financial statements are not in agreement with the accounting records and returns. • we have not received all the information and explanations which, to the best of our knowledge and belief, we require for our audit.	We have nothing to report to you in respect of these responsibilities.

Independent auditor's report - continued

To the Shareholders of MDB Group Limited

Other matter – use of this report

Our report, including the opinions, has been prepared for and only for the parent company's shareholders as a body in accordance with Article 179 of the Maltese Companies Act (Cap. 386) and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior written consent.

PricewaterhouseCoopers
78, Mill Street
Zone 5, Central Business District
Qormi
Malta

Fabio Axisa
Partner

30 March 2021

Statements of financial position

	Notes	Group 2020 €000	Group 2019 €000	Company 2020 €000	Company 2019 €000
ASSETS					
Balances with central banks and cash	4	**490,680**	241,726	**-**	-
Derivative financial instruments	5	**1,841**	2,020	**-**	-
Loans and advances to financial institutions	6	**263,775**	223,505	**646**	218
Loans and advances to customers	7	**2,020,760**	1,359,377	**-**	-
Investments					
- Treasury portfolio	8	**857,719**	930,491	**-**	-
- Securitisation portfolio	8	**293,206**	253,626	**-**	-
- Subsidiary	9	**-**	-	**264,110**	264,110
Property and equipment	10	**11,711**	12,443	**-**	-
Intangible assets	11	**15,842**	16,928	**-**	-
Non-current assets classified as held for sale	12	**1,785**	1,785	**-**	-
Current tax assets		**1,582**	3,091	**6**	2
Deferred tax assets	13	**18,550**	25,705	**-**	3,426
Prepayments and accrued income	14	**16,524**	15,979	**-**	-
Other assets	15	**47,575**	50,200	**1,608**	1,611
Total assets		**4,041,550**	3,136,876	**266,370**	269,367
EQUITY					
Called up issued share capital	16	**55,738**	55,738	**55,738**	55,738
Share premium	16	**13,756**	13,756	**13,756**	13,756
Shareholders' contributions	16	**136,300**	136,300	**136,300**	136,300
Reserve for general banking risks	16	**3,357**	3,357	**-**	-
Other reserves	16	**(13)**	(4,005)	**-**	-
Retained earnings	16	**45,580**	127,113	**59,922**	63,365
Total equity		**254,718**	332,259	**265,716**	269,159
LIABILITIES					
Derivative financial instruments	5	**14,344**	4,182	**-**	-
Amounts owed to financial institutions	17	**352,067**	224,012	**-**	-
Amounts owed to customers	18	**2,749,929**	2,439,126	**-**	-
Debt securities in issue	19	**553,849**	-	**-**	-
Subordinated liabilities	20	**54,650**	54,820	**-**	-
Current tax liabilities		**89**	276	**-**	-
Deferred tax liabilities	13	**881**	199	**-**	-
Provisions for liabilities and other charges	21	**3,916**	4,528	**-**	-
Accruals and deferred income	22	**32,940**	40,926	**9**	9
Other liabilities	23	**24,167**	36,548	**645**	199
Total liabilities		**3,786,832**	2,804,617	**654**	208
Total equity and liabilities		**4,041,550**	3,136,876	**266,370**	269,367
Memorandum items					
Commitments to purchase financial assets	7	**22,000**	40,073	**-**	-
Commitments to extend credit, guarantees and other commitments	32 - 33	**743,929**	814,210	**-**	-

The notes on pages 60 to 166 are an integral part of these financial statements. The financial statements on pages 55 to 166 were approved and authorised for issue by the Board of Directors on 30 March 2021 and signed on its behalf by:

Michael Bussey
Chairman

Arnaud Denis
Director

medirect
Think ahead. Bank ahead.

Statements of comprehensive income

		Group		Company	
	Notes	**Year ended 31 December 2020 €000**	Period ended from 1 April to 31 December 2019 €000	**Year ended 31 December 2020 €000**	Period ended from 1 April to 31 December 2019 €000
Interest income		**77,849**	67,924	**-**	-
Interest expense		**(28,797)**	(23,897)	**-**	-
Net interest income	24	**49,052**	44,027	**-**	-
Fee and commission income		**7,973**	5,593	**-**	-
Fee and commission expense		**(2,472)**	(1,375)	**-**	-
Net fee and commission income	25	**5,501**	4,218	**-**	-
Net trading income	26.1	**1,703**	3,001	**-**	-
Net (loss)/income from other financial instruments at fair value through profit or loss		**(288)**	187	**-**	-
Other operating income					
- Realised (losses)/gains on disposal of other investments	26.2	**(737)**	5,092	**-**	-
- Realised losses on disposal of loans and advances		**(4,156)**	(1,647)	**-**	-
- Other income		**339**	148	**-**	15
Total operating income		**51,414**	55,026	**-**	15
Personnel expenses	27	**(23,318)**	(22,824)	**-**	-
Depreciation and amortisation	10-11	**(7,295)**	(3,853)	**-**	-
Other administrative expenses	28	**(30,761)**	(21,115)	**(17)**	(12)
Total operating expenses		**(61,374)**	(47,792)	**(17)**	(12)
Net operating (loss)/income before changes in expected credit losses		**(9,960)**	7,234	**(17)**	3
Change in expected credit losses and other credit impairment charges	29	**(65,253)**	(136)	**-**	-
(Loss)/profit before tax		**(75,213)**	7,098	**(17)**	3
Tax expense	30	**(6,320)**	(853)	**(3,426)**	176
(Loss)/profit for the period		**(81,533)**	6,245	**(3,443)**	179
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		**6,186**	(28)	**-**	-
- Net amount reclassified to profit or loss, before tax		**(368)**	(5,098)	**-**	-
Income tax relating to other comprehensive income		**(1,826)**	1,379	**-**	-
Other comprehensive income, net of tax		**3,992**	(3,747)	**-**	-
Total comprehensive income, net of tax		**(77,541)**	2,498	**(3,443)**	179

The notes on pages 60 to 166 are an integral part of these financial statements.

Statements of changes in equity

Group	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 April 2019	55,738	13,756	136,300	3,081	(404)	131,290	339,761
Total comprehensive income							
Profit for the period	-	-	-	-	-	6,245	6,245
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	-	-	-	-	(20)	-	(20)
- Reclassification adjustments: net amount reclassified to profit or loss, net of tax	-	-	-	-	(3,727)	-	(3,727)
Total comprehensive income, net of tax	-	-	-	-	(3,747)	6,245	2,498
Transfer to legal reserve	-	-	-	-	146	(146)	-
Transfer to reserve for general banking risks	-	-	-	276	-	(276)	-
Transactions with owners							
Dividends paid	-	-	-	-	-	(10,000)	(10,000)
Balance at 31 December 2019	55,738	13,756	136,300	3,357	(4,005)	127,113	332,259
Balance at 1 January 2020	**55,738**	**13,756**	**136,300**	**3,357**	**(4,005)**	**127,113**	**332,259**
Total comprehensive income							
Loss for the year	**-**	**-**	**-**	**-**	**-**	**(81,533)**	**(81,533)**
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 year, net of tax	**-**	**-**	**-**	**-**	**4,252**	**-**	**4,252**
- Reclassification adjustments: net amount reclassified to profit or loss, net of tax	**-**	**-**	**-**	**-**	**(260)**	**-**	**(260)**
Total comprehensive income, net of tax	**-**	**-**	**-**	**-**	**3,992**	**(81,533)**	**(77,541)**
Balance at 31 December 2020	**55,738**	**13,756**	**136,300**	**3,357**	**(13)**	**45,580**	**254,718**

The notes on pages 60 to 166 are an integral part of these financial statements.

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	Share capital €000	Share premium €000	Shareholders' contributions €000	Retained earnings €000	Total €000
Balance at 1 April 2019	55,738	13,756	136,300	73,186	278,980
Total comprehensive income					
Profit for the period	-	-	-	179	179
Transactions with owners					
Dividends paid	-	-	-	(10,000)	(10,000)
Balance at 31 December 2019	55,738	13,756	136,300	63,365	269,159
Balance at 1 January 2020	**55,738**	**13,756**	**136,300**	**63,365**	**269,159**
Total comprehensive income					
Loss for the year	**-**	**-**	**-**	**(3,443)**	**(3,443)**
Balance at 31 December 2020	**55,738**	**13,756**	**136,300**	**59,922**	**265,716**

The notes on pages 60 to 166 are an integral part of these financial statements.

Statements of cash flows

	Note	Group		Company	
		Year ended 31 December 2020 €000	Period from 1 April to 31 December 2019 €000	**Year ended 31 December 2020 €000**	Period from 1 April to 31 December 2019 €000
Cash flows from operating activities					
Interest and commission receipts		**95,304**	78,617	**-**	-
Interest and commission payments		**(28,102)**	(22,724)	**-**	-
Payments to employees and suppliers		**(58,557)**	(33,468)	**-**	-
Operating cash flows before changes in operating assets/liabilities		**8,645**	22,425	**-**	-
(Increase)/decrease in operating assets:					
- Reserve deposit with central banks		**(248,604)**	(117,930)	**-**	-
- Loans and advances to financial institutions and customers		**(702,779)**	472,552	**-**	-
Increase/(decrease) in operating liabilities:					
- Amounts owed to financial institutions and customers		**326,448**	33,616	**-**	-
- Other payables		**(14,237)**	(14,645)	**(536)**	176
Tax refunded/(paid)		**986**	6,937	**(4)**	(4)
Net cash (used in)/from operating activities		**(629,541)**	402,955	**(540)**	172
Cash flows from investing activities					
Acquisition of property and equipment		**(490)**	(325)	**-**	-
Acquisition and development of intangible assets		**(1,688)**	(3,419)	**-**	-
Acquisition of investments measured at amortised cost		**(49,991)**	(264,593)	**-**	-
Acquisition of investments measured at fair value through other comprehensive income		**(365,554)**	(654,640)	**-**	-
Acquisition of investments measured at fair value through profit or loss		**-**	(1,750)	**-**	-
Disposal/redemption of investments measured at amortised cost		**236,606**	-	**-**	-
Disposal/redemption of investments measured at fair value through other comprehensive income		**206,237**	417,842	**-**	-
Net cash from/(used in) investing activities		**25,120**	(506,885)	**-**	-
Cash flows from financing activities					
Decrease in shareholder's contribution to subsidiary		**-**	-	**-**	10,000
Dividends paid		**-**	(10,000)	**-**	(10,000)
Issuance of debt securities		**558,295**	-	**-**	-
Redemption of debt securities		**(5,003)**	-	**-**	-
Issuance of subordinated liabilities		**-**	35,044	**-**	-
Redemption of subordinated liabilities		**-**	(47,229)	**-**	-
Principal element of lease payments		**(3,543)**	(1,892)	**-**	-
Net advances from immediate parent company		**1,683**	2,378	**-**	-
Net advances from ultimate parent company		**3,116**	-	**-**	-
Net advances (to)/from other group companies		**(2,829)**	2,292	**968**	(236)
Net cash from/(used in) financing activities		**551,719**	(19,407)	**968**	(236)
Net (decrease)/increase in cash and cash equivalents		**(52,702)**	(123,337)	**428**	(64)
Cash and cash equivalents at beginning of year/period		**(53,972)**	69,365	**218**	282
Cash and cash equivalents at end of year/period	31	**(106,674)**	(53,972)	**646**	218

The notes on pages 60 to 166 are an integral part of these financial statements.

Notes to the financial statements

1. Summary of significant accounting policies

1.1 Reporting entity

MDB Group Limited (the "Company") is a limited liability company domiciled and incorporated in Malta.

By virtue of a board resolution dated 25 September 2019, the Company changed its accounting reference date from 31 March to 31 December. Accordingly, the comparative financial information covers the period from 1 April 2019 to 31 December 2019, presenting the statement of financial position as at 31 December 2019 and the statements of comprehensive income, changes in equity and cash flows for the nine-month period ended 31 December 2019.

The consolidated financial statements of the Company as at and for the financial year ended 31 December 2020 comprise the financial statements of the Company and its subsidiaries, together referred to as "the Group". Therefore, these financial statements report the consolidated financial results of MDB Group Limited for the financial year ended 31 December 2020, including the financial results of MeDirect Bank (Malta) plc ("MeDirect Malta"); its principal subsidiary, namely MeDirect Bank SA ("MeDirect Belgium"); Grand Harbour I B.V. ("GH I"), a controlled special purpose entity utilised as part of the Group's funding strategy in respect of the International Lending Portfolio; Bastion 2020-1 NHG B.V. ("Bastion 2020-1") and Cavalier 2020 B.V. ("Cavalier 2020"), two controlled special purpose entities utilised as part of the Group's funding strategy in respect of the Dutch Mortgage business; and Medifin Estates, a property leasing partnership.

The Group has retained substantially all risks and rewards pertaining to the activities of GH I, Bastion 2020-1 and Cavalier 2020 and hence to assets, liabilities and related income and expenditure attributable to these entities, and as such, all assets, liabilities and related income and expenditure have been reflected within the Group's consolidated financial statements.

MeDirect Belgium is a credit institution licensed in Belgium and is carrying out all of the Group's activities in Belgium.

GH I, is a Dutch special purpose vehicle which is bankruptcy remote and is utilised as part of the Group's funding strategy. Grand Harbour I holds euro and sterling-denominated corporate loans, and is financed through a senior loan provided by MeDirect Belgium and a junior loan provided by MeDirect Malta. As at 31 December 2020, MeDirect Belgium and MeDirect Malta invested in GH I on a 56% - 44% basis (2019: 70% – 30% basis) respectively, with the tranche bought by MeDirect Belgium (the "Senior Loan") amounting to €327.2 million (2019: €737.6 million) having a senior ranking vis-à-vis the tranche acquired by MeDirect Malta (the "Junior Loan") amounting to €176.3 million (2019: €314.1 million).

In 2020, the Group implemented an extensive restructuring of such intragroup funding arrangements between MeDirect Malta and MeDirect Belgium, primarily associated with the Group's GH I funding vehicle. These amendments have been implemented in order to stabilise the Group's capital and liquidity adequacy, to maximise recoveries from collateral, enhance the loss protection and preserve the rights of the senior lender, whilst preserving the funding stability of the junior lender. The amendments were subject to an Article 77 approval, in respect of 1° of the Belgian Act of 25 April 2014, from the National Bank of Belgium ("NBB") and the European Central Bank ("ECB"). As a result of such restructuring, the Group has agreed that no new assets will be purchased by GH I and that repayments of principal on the collateral pool will be applied first to the repayment of the senior loan provided by MeDirect Belgium and second to the repayment of the junior loan provided by MeDirect Malta.

In May 2020, the Group successfully securitised part of its Dutch Mortgage portfolio raising €350 million through a Residential Mortgage-Backed Security ("RMBS"). As part of the transaction, a sub-portfolio of the Dutch Mortgage portfolio amounting to €375.5 million was sold to Bastion 2020-1, a special purpose securitisation vehicle established in the Netherlands, which is controlled by MeDirect Belgium

In September 2020, MeDirect Belgium established a €350 million warehouse funding facility provided by a major Dutch bank through Cavalier 2020, a special purpose vehicle established in the Netherlands, which is controlled by MeDirect Belgium. The warehouse facility provides bridge financing enabling MeDirect Belgium to build up a Dutch Mortgage portfolio large enough to be securitised through a RMBS transaction.

Medifin Estates, a property leasing partnership, was set up to lease property which is then leased back to the Group. Medifin Estates is also included within the consolidated financial statements.

1.2 Basis of preparation

The Company's consolidated financial statements have been prepared in accordance with the requirements of International Financial Reporting Standards as adopted by the European Union.

These financial statements have also been drawn up in accordance with the provisions of the Maltese Banking Act (Cap. 371) and the Maltese Companies Act (Cap. 386).

These financial statements have been prepared on the basis of the historical cost convention, except for:

- financial investments measured at fair value through other comprehensive income and at fair value through profit or loss;
- derivative financial instruments which are measured at fair value; and
- recognised financial assets designated as hedged items in qualifying fair value hedge relationships which are measured at amortised cost adjusted for changes in fair value attributable to the risk being hedged.

The principal accounting policies adopted in the preparation of these financial statements are set out below. Unless otherwise stated, these policies have been consistently applied to all the years / periods presented.

The preparation of financial statements in conformity with IFRSs as adopted by the EU requires the use of certain accounting estimates. It also requires the Directors to exercise their judgment in the process of applying the Group's accounting policies (see Note 3.1 – Critical accounting estimates and judgments in applying the Group's accounting policies).

Appropriateness of going concern assumption in the preparation of the financial statements

COVID-19 has tested the sustainability and resilience of businesses in all industries and the contraction in economic activity has had an impact on loan loss provisions recorded by European banks. While the impact of Covid-19 had a significant impact on the Group's financial results, the Group remains well positioned to achieve business growth through diversification, and is strongly capitalised, soundly funded and has access to the required levels of liquidity.

The Group's and Bank's financial results for the current year are heavily impacted by a significant increase in expected credit losses attributable to the effects of COVID-19 on customers within the International Lending Portfolio. Financial projections have been developed in a prudent manner, taking into account the evolving business model and envisaged restructuring, to forecast financial results over an explicit period. The projected financial results for the year ending 31 December 2021 and the projected financial position as at that date, reflecting a conservative view on the continued impacts of COVID-19, indicate that even under pessimistic conditions, the Group and Bank are likely to be able to operate under the sufficient capital and liquidity levels as amplified below, notwithstanding the estimated COVID-19 effects.

As stated within the directors' report, the financial statements are prepared on a going concern basis, and the Directors are satisfied that on the basis of information available as at the date of approval of financial statements, no material uncertainty exists that may cast significant doubt about the Group's ability to continue as a going concern and that may require disclosure in terms of IAS 1.

The going concern assessment considered the Group's business, profitability projections, funding and capital plans under base and stress scenarios, together with a range of other factors such as the economic outlook along with ongoing developments in EU economies. These financial projections and plans confirmed that under both the base and stress scenarios the Group will have sufficient capital to meet not only the regulatory capital requirements but also any internal risk buffers and any buffers recommended by the regulators throughout the forthcoming financial period. The projections confirmed that the Group will have a healthy level of funding and liquidity that will allow that the relevant minimum regulatory requirements are comfortably satisfied.

Having concluded this assessment the Directors expect that the Group will be able to sustain its operations over the next twelve months and consider the going concern assumption in the preparation of the Group's financial statements as appropriate as at the date of authorisation for issue of these financial statements.

Standards, interpretations and amendments to published standards effective in 2020

During the financial year ended 31 December 2020, the Group adopted amendments to existing standards that are mandatory for the Group's accounting period beginning on 1 January 2020. The adoption of these revisions to the requirements of IFRSs as adopted by the EU did not result in significant changes to the Group's accounting policies impacting the Group's financial performance and position.

Standards, interpretations and amendments to published standards that are not yet effective

Certain new accounting standards and interpretations have been published, which are not mandatory for 31 December 2020 reporting periods and have not been early adopted by the Group. These standards are not expected to have a material impact on the Group in the current or future reporting periods and on foreseeable future transactions.

1.3 Consolidation

Subsidiaries are all entities over which the Group has control. The Group controls an entity where the group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The Group uses the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair value of the assets transferred, the liabilities incurred, and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If this aggregate is less than the fair value of the identifiable net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in profit or loss.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Consistent accounting policies are applied throughout the Group for the purposes of consolidation.

Accounting for investments in subsidiaries in the parent company's stand-alone financial statements

In the Company's separate financial statements, investments in subsidiaries are accounted for by the cost method of accounting i.e. at historical cost less impairment. Provisions are recorded where, in the opinion of the Directors, there is an impairment in value. Where there has been an impairment in the value of an investment in a subsidiary, it is recognised as an expense in the period in which the diminution is identified. The results of subsidiaries are reflected in the Company's separate financial statements only to the extent of dividends receivable. On disposal of an investment, the difference between the net disposal proceeds and the carrying amount is charged or credited to profit or loss.

1.4 Foreign currency transactions and balances

a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The functional currency of all Group entities is the euro. The financial statements are presented in euro, which is also the Group's presentation currency.

b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

1.5 Financial assets

Initial recognition and derecognition

The Group recognises a financial asset in its statement of financial position when it becomes a party to the contractual provisions of the instrument.

The Group initially recognises loans and advances to customers at the date of transfer of beneficial ownership or when cash is advanced to borrowers. Investments and transactions in all other financial instruments consisting of regular way purchases and sales are recognised on settlement date.

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership or the Group has not retained control of the asset.

When assets are sold to a third party with a concurrent total return swap on the transferred assets, the transaction is accounted for as a secured financing transaction, retaining the asset on the statement of financial position because the Group retains all or substantially all the risks and rewards of ownership of such assets.

Similarly, when assets are sold to a structure through which the Group is deemed to have retained all, or substantially all, risks and rewards, the transferred assets are not derecognised.

In transactions in which the Group neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset and it retains control over the asset, the Group continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

In certain transactions the Group retains the obligation to service the transferred financial asset for a fee. The transferred asset is derecognised if it meets the derecognition criteria. An asset or liability is recognised for the servicing contract if the servicing fee is more than adequate (asset) or is less than adequate (liability) for the performance of the servicing.

Modification of terms

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognised. If the cash flows of the renegotiated asset are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised, and the new financial asset is recognised at fair value.

When a loan is restructured as part of forbearance strategy and the restructuring results in derecognition of the existing loan, the new loan is disclosed as forborne.

The accounting treatment in respect of the modification of terms of financial assets, including considerations made to determine whether the terms of the renegotiated asset are substantially different, is described in more detail in the 'Modified financial assets' sub-section.

Classification and measurement

The classification and measurement criteria under IFRS 9 are driven by the entity's business model for managing the financial instruments and the contractual cash flow characteristics of the financial instruments.

In line with the provisions of IFRS 9, the Group classifies and measures all financial assets under any one of the following three categories:

- Amortised cost;
- Fair value through other comprehensive income (FVOCI); or
- Fair value through profit or loss (FVTPL).

The Group determines the classification and measurement basis for financial assets based on an assessment of both the business model within which the financial assets are held and a review of the contractual terms of each financial asset to determine if cash flows are solely payments of principal and interest (SPPI).

For financial assets where the intention of the business model is to hold the financial assets to collect the contractual cash flows or to hold to collect and to sell, the Group assesses whether the contractual cash flow characteristics of these assets meet the SPPI requirements of IFRS 9. In this respect, the contractual cash flow characteristics are deemed to be SPPI if the terms are consistent with a basic lending arrangement.

The contractual cash flows are assessed based on conditions at the date of initial recognition of the instrument. However, if a loan modification occurs resulting in the existing loan being derecognised and a new loan recognised, the modified asset is considered as a new loan under IFRS 9 and as such is considered for the SPPI assessment. In such a case, the date of the modification is treated as the date of initial recognition of the new financial asset. If, however, the existing loan was renegotiated or modified but was not derecognised, then the contractual cash flows of the modified loan are not considered for the SPPI assessment.

The 'principal' of a financial asset refers to the fair value of the financial instrument at initial recognition rather than the amount that is due under the contractual terms of the instrument. On the other hand, 'interest' is the compensation for time value of money and credit risk, may include consideration for other basic lending risks (e.g. liquidity risk), costs associated with holding the financial assets for a particular period of time (e.g. administrative costs) and/or a profit margin.

In performing the SPPI assessment, the Group considers the following contractual terms to determine whether these introduce variability in contractual cash flows that is inconsistent with a basic lending arrangement, amongst others:

(i) variable interest rates, which typically consider the time value of money, credit risk and other basic lending risks and costs;

(ii) leverage, which is a contractual cash flow characteristic that results in increased variability in contractual cash flows;

(iii) modifications of the time value of money; and

(iv) contractual features that could alter the timing or amount of contractual cash flows of a financial asset, such as contingent events, prepayment and extension options.

A business model refers to the manner in which financial assets are managed in order to achieve a particular business objective, whether by collecting contractual cash flows only, selling financial instruments, or both. The Group's business model is determined by 'key management personnel' (as defined in Note 34 of this set of financial statements) and the assessment is based on matters of fact, reflecting the strategic purpose and intention for the portfolio and how the performance of the portfolio is assessed.

The business model is determined at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. Therefore, if the business model is set at a portfolio level, the classification assessment for this criterion is assessed at that level. Accordingly, it is not an instrument-by-instrument analysis but is determined at a higher level of aggregation.

The Group's business model for managing financial assets is observable through the activities that are undertaken by management to achieve the objective of the business model. The following aspects are considered in determining the IFRS 9 accounting classification:

(i) the stated policies and objectives for the portfolio and the operation of those policies in practice;

(ii) how the performance of the business model and the financial assets held within it are evaluated and reported to key management personnel;

(iii) consideration of risks affecting performance and how they are managed; and

(iv) how managers are compensated for business performance (e.g. whether the compensation is based on the fair value of the assets managed or the contractual cash flows collected).

This means that the Group is not required to hold all financial instruments in a 'Hold to Collect' portfolio until maturity. On the contrary, the business model can be to hold financial assets to collect contractual cash flows even where sales of financial assets occur or are expected to occur in the future.

In this regard, the Group performs an assessment to determine whether the sale of financial instruments from a portfolio implies that the classification of the exposures to the 'Hold to Collect' business model is inappropriate. This assessment is based on information about past sales and expectations about future sales, and in the determination of the business model, the Group takes into consideration the following:

(i) The historical frequency, timing and value of sales;

(ii) The reason for the sales (such as credit deterioration); and

(iii) Expectations about future sales activity.

A key distinction between business models relates to whether the 'sale' of financial instruments is integral to the achievement of the desired business objectives. In order for a sale of financial instruments to steer the classification of the entire portfolio away from a 'Hold to Collect' business model towards a 'Hold to Collect and Sell' business model, sales need to be integral to the objective of the business model, rather than incidental to it.

In this regard, subsequent to initial recognition, financial instruments are measured at:

(i) amortised cost if the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows ('Hold to Collect') and the contractual terms of the financial asset give rise to cash flows that are SPPI;

(ii) FVOCI if the financial asset is held within a business model whose objective is achieved by both holding financial assets in order to collect contractual cash flows and selling financial assets ('Hold to Collect and Sell') and the contractual terms of the financial asset give rise to cash flows that are SPPI; or

(iii) FVTPL if the financial asset does not pass the business model assessment referred to above and SPPI criteria.

The Group has identified five separate portfolios which require separate business model assessments due to the fact that these are managed separately and by different business units / management teams, namely (i) the International Lending portfolio; (ii) the Dutch Mortgage portfolio; (iii) the Local Lending portfolio; (iv) the Treasury Investment portfolio; and (v) the Securitisation Investment portfolio.

Financial assets measured at amortised cost

Financial assets that are held to collect the contractual cash flows and which contain contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest are measured at amortised cost. These financial assets are initially measured at fair value, which is generally the cash consideration to originate or purchase the asset including any direct and incremental transaction costs, upon recognition. The Group's financial assets measured at amortised cost comprise primarily loans and advances to banks, loans and advances to customers, comprising the International Lending, Dutch Mortgage and Local Lending portfolios, and a portfolio of debt securities classified under the Treasury Investment portfolio.

In addition, financial assets measured at amortised cost comprise the Group's investments in the Grand Harbour CLO 2019-1 Designated Activity Company ("GH1-2019") structured note tranches, with the exception of the equity tranche which is measured at fair value through profit or loss ("FVTPL"), as well as the Group's investments in CLO transactions managed by third-party entities. Both investments are classified under the Securitisation Investment portfolio.

The amortised cost is the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount and the maturity amount (refer to Note 1.16) and adjusted for any credit loss allowance.

Financial assets measured at fair value through other comprehensive income

Financial assets held for a business model that is achieved by both collecting contractual cash flows and selling and which contain contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest are measured at fair value through other comprehensive income ("FVOCI"). Equity instruments which are not held for trading are also measured at FVOCI if, on initial recognition, management makes an irrevocable election, on an instrument-by-instrument basis, to present changes in fair value in Other Comprehensive Income ("OCI") rather than profit or loss. These financial assets are initially measured at fair value, which is generally the cash consideration to originate or purchase the asset including any direct and incremental transaction costs, upon recognition.

The Group's financial assets measured at FVOCI comprise primarily a portfolio of debt securities, held for liquidity purposes and classified under the Treasury Investment portfolio, as well as equity instruments acquired as part of debt restructuring arrangements entered into with borrowers experiencing financial difficulties classified within the International Lending portfolio.

Debt investments measured at FVOCI are subsequently remeasured at fair value and changes therein (except for those relating to impairment, interest income and foreign currency exchange gains and losses) are recognised in other comprehensive income until the assets are sold. Upon disposal, the cumulative gains or losses in other comprehensive income on these investments are recognised in profit or loss. Such investments measured at FVOCI are included in the expected credit loss calculations set out below and expected credit losses are recognised in profit or loss.

Equity instruments measured at FVOCI are subsequently measured at fair value. Amounts presented in OCI are not subsequently transferred to profit or loss upon derecognition of the instrument. Dividends from such instruments are recognised in profit or loss as "Other income" on the date when the Group's right to receive payments is established. No impairment losses (and reversal of impairment losses) are recognised in profit or loss in respect of equity instruments measured at FVOCI – any changes in fair value are recognised in OCI.

Financial instruments mandatorily measured at fair value through profit or loss

Once the contractual cash flows of a financial instrument fail the SPPI criterion, the instrument is automatically classified and measured at FVTPL, irrespective of the result of the business model assessment.

Financial assets held for trading are held principally for the purpose of selling in the near term or are part of a portfolio of financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit taking. These financial instruments are initially recognised at fair value and subsequent changes in fair value are recognised in profit or loss.

The Group's financial assets mandatorily measured at FVTPL comprise primarily the Group's investment in GH1-2019's equity tranche.

Financial instruments designated at fair value through profit or loss

Financial instruments, other than those held for trading, are classified in this category if they meet one or more of the criteria set out below and are so designated irrevocably at inception:

- the use of the designation removes or significantly reduces an accounting mismatch;
- a group of financial assets and liabilities or a group of financial liabilities is managed, and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; and
- the financial liability contains one or more non-closely related embedded derivatives.

These financial instruments are initially recognised at fair value and subsequent changes in fair value are recognised in profit or loss.

Assets acquired in exchange for loans

When non-financial assets acquired in exchange for loans as part of an orderly realisation are held for sale, these assets are recorded as 'Assets held for sale' and reported in 'Non-current assets classified as held for sale'.

Impairment of amortised cost and FVOCI financial assets

IFRS 9 requires the measurement of credit loss allowances on financial instruments using the expected credit loss ("ECL") impairment model using a forward-looking approach that emphasises shifts in the credit risk attached to a financial instrument, and consequently the probability of future credit losses, even if no loss events have yet occurred.

Since movements in the fair value of financial instruments measured at FVTPL are recognised directly in profit or loss, no credit loss allowances are deemed necessary for these financial instruments.

In contrast, financial assets measured at amortised cost or FVOCI, with the exception of equity instruments measured at FVOCI, are subject to impairment requirements using the general impairment model stipulated by IFRS 9. This is due to the fact that, since an integral aspect of both business models is to collect contractual cash flows, the effects of changes in credit risk are more relevant to a user's understanding than the effects of other changes, such as changes in market interest rates.

IFRS 9 impairment requirements are also applicable to loan commitments that are not measured at FVTPL (if the terms and conditions of the arrangement give rise to an enforceable contract to extend credit), financial guarantee contracts and recognised lease receivables to which IFRS 16 Leases applies. None of these are within the scope of IFRS 9 but are still subject to impairment requirements in accordance with IFRS 9.

Expected credit losses may be recognised for loans and advances to banks and customers, other financial assets measured at amortised cost, debt instruments measured at amortised cost and at FVOCI, and certain loan commitments and financial guarantee contracts. The Group may commit to underwrite loans on fixed contractual terms for specified periods of time. When the Group intends to hold the loan, the loan commitment is included in the impairment calculations set out below.

Three stage expected credit loss approach

IFRS 9 outlines a 'three-stage' model for impairment based on changes in credit quality since initial recognition. The key driver of the measurement of ECLs therefore relates to the level of credit risk for each exposure and, as a result, an assessment of the change in credit risk over the expected life of an asset is a core element in determining the staging criteria under IFRS 9. The three stages under IFRS 9 are as follows:

- Stage 1 - Financial instruments that have not had a significant increase in credit risk (SICR) since initial recognition, or that have "low credit risk" at the reporting date are classified in Stage 1. 12-month ECLs are recorded to measure the expected losses that result from default events that are possible within 12 months after the reporting date;
- Stage 2 - Financial instruments that have experienced a SICR since initial recognition are classified in Stage 2. Lifetime ECLs are recorded to measure the expected losses that result from all possible default events over the expected life of the financial instrument; and
- Stage 3 - Financial instruments that demonstrate objective evidence of impairment, and which are considered to be in default or credit-impaired, are classified in Stage 3, also requiring the measurement of lifetime ECLs.

Non credit-impaired and without significant increase in credit risk (Stage 1)

ECL resulting from default events that are possible within the next 12 months (12-month ECL) are recognised for financial instruments that remain in Stage 1.

Financial instruments are all classified within Stage 1 upon initial recognition, unless a financial instrument is purchased or originated credit-impaired (POCI) in which case the exposure is classified as POCI upon initial recognition and will remain classified as such until derecognition. Therefore, the Group calculates a credit loss allowance based on 12-month ECL. Subsequent changes in credit risk will be reflected in the staging of the exposure, with a transfer of the exposure to Stage 2 or 3 conditional upon the identification of a SICR or impairment respectively.

The provisions of IFRS 9 include a practical expedient to measure credit loss allowances using 12-month ECL for financial instruments having low credit risk as at the reporting date. In practical terms, this means that, in those cases where a financial instrument is deemed to have low credit risk, management is not required to perform an assessment to determine whether a SICR has occurred. The Group considers “low credit risk” to exist in case of selected financial instruments, for example listed bonds with an investment-grade credit rating by at least one major rating agency.

For all Stage 1 and 2 financial assets, interest income is recognised by applying the effective interest rate to the gross carrying amount, prior to deduction of credit loss allowances.

Significant increase in credit risk (SICR) or Stage 2

The concept of default risk is central to IFRS 9. Therefore, a key risk parameter used by the Group in its credit risk management activities is the probability that the obligor defaults, either within the next 12-month period (in case of Stage 1 exposures) or over the lifetime of the exposure (in case of Stage 2 exposures).

An assessment of whether credit risk has increased significantly since initial recognition is performed at least at each reporting date by considering the change in the risk of default occurring over the remaining life of the financial instrument. The assessment explicitly or implicitly compares the risk of default occurring at the reporting date compared with that at initial recognition, taking into account reasonable and supportable information, including information about past events, current conditions and future economic conditions.

To assess a SICR event, the Group considers both actual and forward-looking information relating to external market indicators, internal factors and borrower-specific information. The assessment is unbiased and to the extent relevant, uses forward-looking information consistent with that used in the measurement of ECL. The analysis of credit risk is based on multiple factors, and their relevance is driven by product type, characteristics of the financial instrument and the obligor. Therefore, it is not possible to provide a single set of criteria that will determine what is considered to be a significant increase in credit risk, and these criteria will differ for different types of lending. The internal credit risk management framework comprises the use of both qualitative and quantitative SICR triggers.

An overview of the Group’s qualitative SICR assessment is provided below. However, the quantitative assessment performed by the Group to identify a SICR varies across each of the Group’s portfolios of financial instruments and is disclosed in the relevant sub-sections below.

It is possible for multiple instruments to the same customer to be classified under different stages. This may occur when the Group holds exposures originated at differing points in time thereby potentially giving rise to differing default risk at initial recognition, causing a variation in the relative increase in credit risk since origination between the different instruments.

The Group does not expect to observe a single qualitative SICR trigger to signal a SICR event in normal circumstances, unless where the event is material. Therefore, the Group has defined likely SICR triggers that are deemed most relevant in the Group Credit Risk policy. However, triggers are not treated as exhaustive and are subject to robust credit risk management assessments. Qualitative SICR trigger assessments are undertaken at least quarterly for each instrument and any identified SICR trigger events are presented to the appropriate Management Credit Committee.

The following table lists the qualitative triggers which are taken into consideration by the Group in the quarterly SICR trigger assessments:

Qualitative SICR themes
Evidence of past due information
General business performance
Loss of major contract or tenant
Project delays or overruns
Macroeconomic conditions
Pricing of debt and equity (relative to market)
Forbearance
Major threat to business model
Sector, industry or territory concerns
Sponsor support
Covenant waivers or forecast breach of covenant
SICR observed on related financial instruments

- *International Lending portfolio:*

Financial instruments within the Group’s International Lending portfolio are managed on an individual basis for credit purposes, whereby the Group’s credit analysts have access to the obligors and their financial information, the latter comprising both historical and forecasted financial information. The Group’s credit risk rating processes are designed to highlight exposures which require closer management attention because of their greater probability of default and potential loss.

The five credit quality classifications below describe the credit quality of the Group's key financial assets. Further detail on internal credit risk management is outlined in Section 2 (Financial Risk Management, Credit Risk). An internal risk grade is assigned to each obligor by the Corporate Credit Team which is reviewed by the Credit Risk Team. The Management Credit Committee then reviews the proposed risk grade. The following are the internal risk grades:

- Regular - No material credit concerns.
- Focus - No immediate prospect that a credit loss will ultimately be suffered, but worthy of closer credit oversight.
- Under Surveillance - Significant increase in credit risk with identified concerns and some prospect that a credit loss may ultimately be suffered.
- Doubtful - Likely that the contractual terms of the debt will not be met and that a credit loss will be suffered (Impaired).
- Write-off - Full or partial write-down of exposures with little prospect of recovery.

The SICR assessment for the International Lending portfolio comprises the following:

- Use of qualitative SICR triggers - as previously described
- Use of quantitative SICR assessment based on a ratings-based approach using lifetime 'Point in Time' (PiT) Probabilities of Default (PDs) (i.e. PD in current economic conditions)
- Hard trigger (Internal credit classification) - financial asset that has a credit quality classification of "Under surveillance" is Stage 2, classification of "Impaired" is Stage 3

For the purposes of the quantitative SICR assessment, the Group has adopted a ratings-based approach (i.e. based on notch deterioration) for its SICR assessment.

Due to the lack of internal history of defaults, the Group uses a credit risk modelling solution developed by an external vendor to estimate unconditional PiT PDs by: (i) benchmarking the obligor's financial statements with those of the underlying model dataset; and (ii) applying a qualitative scorecard to adjust the quantitative unconditional PiT PDs to better reflect obligor-specific peculiarities.

A forward-looking, probability weighted PiT PD estimated by the model is mapped to an implied default rating, which adopts Moody's public ratings agency scale terminology from C up to Aaa. When performing the SICR assessment, the Group compares the implied rating at origination to the implied rating at the reporting date and determines the difference in notches between them. The Group's staging criteria is therefore deemed to be based on a ratings/notch deterioration approach.

The quantitative SICR staging decision uses both a relative and an absolute threshold approach. The relative threshold approach involves calculating the magnitude of the difference between the reporting date rating and the origination date rating based on the deterioration in the number of notches between the two ratings. The appropriate stage is determined based on the magnitude of this difference. The absolute threshold determines the stage based on the reporting date rating of the instrument. The following table presents the relative and absolute thresholds applied by the Group in the quantitative assessment of SICR.

Implied Rating	Relative threshold (SICR Deterioration Trigger)	Absolute threshold (SICR Trigger Floor)
Aaa	-10 notches	-
Aa1	-8 notches	-
Aa2	-7 notches	-
Aa3	-6 notches	-
A1	-5 notches	-
A2	-5 notches	-
A3	-5 notches	-
Baa1	-5 notches	-
Baa2	-5 notches	-
Baa3	-4 notches	-
Ba1	-4 notches	-
Ba2	-4 notches	-
Ba3	-4 notches	-
B1	-3 notches	-
B2	-3 notches	-
B3	-2 notches	-
Caa1	-1 notches	-
Caa2	-0 notches	Stage 2 SICR Trigger Floor
Caa3	-0 notches	Stage 2 SICR Trigger Floor
Ca	-0 notches	Stage 2 SICR Trigger Floor
C	-0 notches	Stage 3 SICR Trigger Floor

Although the Group has adopted a ratings-based approach (i.e. based on notch deterioration) for its SICR assessment, each implied rating is represented by an underlying PD.

Lifetime PDs are determined by estimating the marginal PD for each year over the life of the financial instrument. For example, for a five-year loan, PDs are calculated for each of the five years. The year-1 PD is calculated as the probability of the loan defaulting within the first year of it being issued, whereas the year-2 PD is calculated as the probability of the loan surviving the first year but defaulting in the second year. The same principle of survival applies to the PDs for the remaining years. The summation of marginal PDs results in the derivation of the cumulative lifetime PD term structure. Cumulative lifetime PDs increase at a diminishing rate as the residual life of the loan shortens.

"Unconditional" PDs refer to the PD term structure based on historical information and prior to the application of forward-looking macroeconomic scenarios. Multiple forward-looking macroeconomic scenarios are applied to the unconditional PiT PD term structure in order to estimate a forward-looking probability-weighted "conditional" PiT PD at an obligor level.

PDs are determined upon origination date and at each subsequent reporting date at an obligor level rather than at a facility level. Therefore, at any given date, multiple facilities attributable to the same obligor are assigned the same PD, reflecting the borrower's financial condition as at the date of the assessment. In this regard, different facilities with the same obligor originated at the same time are expected to have an identical PD both at origination date as well as subsequent reporting dates. However, facilities with the same obligor originated at different time intervals can have different PDs upon origination, reflecting the borrower's financial condition and credit risk at each respective origination date, whereas identical PDs are determined at each subsequent reporting date in respect of all such facilities.

In this regard, a simple or absolute comparison of PDs at initial recognition and at the reporting date is not appropriate to determine the stage of an exposure. All other things kept constant, the PD of a financial instrument is expected to reduce with the passage of time. Thus, in order to take this into consideration, the Group estimates the annualised PD over the remaining life of the financial asset as at the origination date and the annualised PD over the remaining life of the financial asset as at the reporting date. The annualised PD measure is the cumulative PD for a given period, stated on a per-year basis. These are then mapped to implied ratings which are used to determine potential SICR events and consequently the credit stage of a financial instrument through a combination of relative and absolute thresholds using the implied credit ratings.

Hard Trigger based on Internal Risk Classifications

The quantitative assessment through the Group's implied credit rating staging criteria is considered alongside qualitative SICR triggers and forms part of the overall SICR trigger assessment. In this regard, where qualitative SICR triggers are observed by credit analysts, the Group applies a hard trigger based on the internal credit classification (Stage 2 for all borrowers classified as "Under surveillance", and Stage 3 for all borrowers classified as "Impaired).

- *Dutch Mortgage portfolio*

In respect of the Dutch national-guaranteed residential mortgage assets (for which losses are capped at 10% of expected losses through the 'Nationale Hypotheek Garantie' or NHG) classified within the Group's Dutch Mortgage portfolio, primary determinant of SICR is a quantitative rule based on the change in PD between origination and reporting date, and based on absolute PD thresholds. SICR is determined at "loan part" level – i.e. each loan part is assessed for SICR.

The quantitative SICR trigger compares residual lifetime PD at reporting date versus residual lifetime PD at origination. To identify whether an account experienced a SICR since initial recognition, a lifetime PD threshold is used.

Additional SICR triggers and backstops are applied:

- Change in Probability of Default: lifetime PD of the exposure on the reporting date exceeds its lifetime PD at initial recognition by more than 200%;
- Absolute PD level: 12-month PD of the exposure on the reporting date exceeds 20%;
- Forbearance; and
- Delinquency (days past due, DPD): payments on the exposure are 30 DPD.

As this portfolio includes exposures of low credit risk, the quantitative SICR criteria consider mortgages / loan parts with PD of 0.03% or below at reporting date as qualifying for the low credit risk exemption (Stage 1 without further staging assessment).

- *Local Lending portfolio*

For Local Lending assets, the Group is unable to use external credit ratings as all exposures are unrated, nor rely on external risk-modelling providers for benchmarking the portfolio as no robust database or provider exists for the asset class. The Group therefore uses the evidence of past-due information as the primary quantitative driver of SICR triggers, alongside a qualitative forward-looking SICR assessment.

For the purposes of quantitative SICR trigger analysis, any instrument that is more than 30-days past due is considered as evidencing a SICR trigger.

Similar to the approach taken for the International Lending portfolio, the Group categorises exposures in the Local Lending portfolio within one of the five internal risk classification grades. This determination is based on a review by respective relationship managers which takes into consideration evidence of past-due information as well as the qualitative SICR triggers.

Exposures within the Local Lending portfolio are therefore managed at an individual exposure level for credit purposes, through relationship managers who have access to the customers and their financial information. An internal risk grade is assigned to each borrower and reviewed at least annually.

Although assigned at an obligor level rather than at facility level, internal risk grades can still be used to assess and identify SICR since initial recognition. In this regard, the Group's internal risk grades are aligned to the three stages contemplated by IFRS 9.

Financial instruments that:

(i) have not deteriorated significantly in credit quality since initial recognition must be recognised as either "1-Regular" or "2-Focus" within the Group's internal risk grading system;

(ii) incurred a SICR are classified as "3-Under Surveillance", in which case the Group recognises lifetime ECLs; and

(iii) demonstrate objective evidence of default are classified as "4-Doubtful" and assessed individually for provisioning purposes.

- *Treasury Investment portfolio*

In order to monitor SICR in relation to its Treasury Investment portfolio, the Group refers to external credit ratings from at least one of the following rating agencies: Moody's, Fitch or Standard & Poor's. In this regard, an exposure is deemed to have low credit risk if it is assigned an investment-grade status by one of these three external credit rating agencies.

Should the credit rating of a financial instrument fall below the investment-grade threshold, i.e. BBB (or equivalent) the financial instrument is deemed to have suffered a SICR. As a result, the financial instrument will be re-classified as a Stage 2 exposure, which will impact the measurement of the ECL charges, moving from a 12-month ECL calculation to a lifetime ECL calculation.

- *Securitisation Investment portfolio*

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

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

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

Investment in tranches within a publicly rated CLO SE originated and managed by a third party, with a public investment-grade rating assigned by reputable agency: Similar to the Treasury Investment portfolio criteria, investment-grade rating is an example of a financial instrument that may be considered as having low credit risk. Therefore, the Group measures 12-month ECL for publicly rated investment-grade tranches of CLOs.

Credit impaired (Stage 3)

The Group defines a financial asset as credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

In order to assess whether there has been an increase in credit risk of a financial instrument since initial recognition, changes in default risk are considered over the remaining life of the financial instrument. The definition of default is therefore critical to the application of IFRS 9 requirements. However, IFRS 9 does not specifically define default, but requires the Group to apply a definition that is consistent with the definition used for internal credit risk management purposes, requiring consideration of qualitative indicators, where appropriate.

IFRS 9 introduces a rebuttable presumption that default does not occur later than when a contractual repayment relating to a financial asset is 91 days past due, unless reasonable and supportable information is available to demonstrate that a more lagging criterion is more appropriate. This presumption has not been rebutted by the Group for its lending portfolios, meaning that default is deemed not to have occurred later than when a financial asset is 91 days past due. Although this presumption is applicable to all lending portfolios managed by the Group, it is much more relevant for identifying defaulted exposures within the Local Lending portfolio and the Dutch Mortgage portfolio.

The definition of default is addressed in more detail by guidelines issued by the European Banking Authority (EBA) and the Basel Committee on Banking Supervision (BCBS). These guidelines provide detailed definitions of what should be considered in the determination of defaulted exposures for regulatory purposes. As a result, the Group has decided to align the IFRS 9 definition of default, used for accounting purposes, to the definitions provided in the EBA and BCBS guidelines, thereby ensuring that a single consistent view of credit risk is applied for internal risk management, regulatory capital and the measurement of ECLs.

In this regard, defaulted exposures are those that satisfy either or both of the following criteria:

(i) material exposures which are past due by more than 90 days;

(ii) the debtor is assessed as unlikely to pay its credit obligations in full without realisation of collateral, regardless of the existence of any past-due amount or of the number of days past due.

Therefore, since the criteria for credit-impaired under IFRS 9 can be interpreted consistently with the definition of default for regulatory purposes, all defaults in terms of regulation are deemed to be credit-impaired, and vice versa. Defaulted exposures are therefore classified under Stage 3 for IFRS 9 purposes.

In order to define which events trigger "unlikeliness to pay", the Group takes into account the situations and events listed in the Capital Requirements Regulation ("CRR") definition of default and in the IFRS definition of impairment requirements.

IFRS 9 provides a list of events that may indicate that a financial asset is credit-impaired. The criteria that the Group uses to determine that there is objective evidence of an impairment loss include:

- Significant financial difficulty of the issuer or borrower;
- A breach of contract, such as default or past due event;
- The lender(s) of the borrower having granted a concession(s) to the borrower for economic or contractual reasons relating to the borrower's financial difficulty (this would not have otherwise been considered);
- It is becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
- The disappearance of an active market for that financial asset because of financial difficulties; or
- The purchase or recognition of a financial asset at a deep discount that reflects the incurred credit losses.

Further, in respect of exposures within the International Lending and Local Lending portfolios, the Group has determined triggers that should lead to the recognition of a non-performing or defaulted exposure, or a thorough assessment of whether an unlikely-to-pay event has occurred. Unlikely to pay events and triggers are listed below but this is not used as an exhaustive list:

Unlikely to pay events	Indicative triggers
1) The Group considers that the obligor is unlikely to pay its debt obligations to the Group without recourse by the Group to actions such as realising security.	▪ Loan is accelerated or called ▪ Group has called any collateral including a guarantee ▪ Lawsuit, execution or enforced execution in order to collect debt ▪ The borrower is a co-debtor when the main debtor is in default ▪ It is expected that a bullet loan cannot be refinanced at standard market conditions with less than a 6-month contractual maturity
2) Group puts the credit obligation on non-accrued status	▪ Group stops charging of interest (also partially or conditionally) ▪ Any direct write-off
3) Group recognises a specific credit adjustment resulting from a significant perceived decline in credit quality subsequent to the institution taking on the exposure.	▪ Any specific loan loss provisions booked ▪ Any write-off against provisions
4) Group sells the credit obligation at a material credit-related economic loss.	▪ An asset is sold or partially sold with material loss (>15% loss on book value) due to credit-related concerns (i.e. not as a result of market risk)
5) Group consents to a distressed restructuring of the credit obligation where this is likely to result in a diminished financial obligation caused by the material forgiveness or postponement of principal, interest, or fees.	▪ Restructuring with a material part which is forgiven giving rise to net present value (NPV) loss ▪ Restructuring where the institution also considers the obligor is unlikely to pay its debt obligations without recourse to actions such as realising security
6) The Group filed for the obligor's bankruptcy or a similar order in respect of an obligor's credit obligation to the institution.	▪ It is becoming probable that the borrower will enter bankruptcy or other financial reorganisation ▪ Credit institution or leader of consortium starts bankruptcy/insolvency proceedings ▪ International Swaps and Derivatives Association ("ISDA") credit event declared ▪ Out-of-court negotiations for settlement or repayment (e.g. stand-still agreements)
7) Obligor has sought or has been placed in bankruptcy or similar protection, where this would avoid or delay repayment of a credit obligation to the Group.	▪ Obligor has filed for bankruptcy or insolvency ▪ Third party has started bankruptcy or insolvency proceedings

In certain instances, it might not be possible to identify a single discrete event which leads to the classification of an exposure as credit-impaired. However, the Group takes a holistic view of the performance of the exposure, where the combined effect of several events may be deemed to have caused financial assets to become credit-impaired. Generally, the Group expects that a SICR be identified before a financial asset becomes credit-impaired or an actual default occurs. Therefore, exposures that are treated as credit-impaired in most cases are transferred from Stage 2 to Stage 3.

In respect of the Dutch Mortgage portfolio, the key indicator of credit-impairment arises when exposures are past due by more than 90 days, with other unlikeliness to pay indicators, such as the extension of forbearance measures, also being taken into consideration.

For the Securitisation Investment portfolio, the 90 DPD presumption has been rebutted by the Group for the purposes of the investment in tranches in CLO SE measured at amortised cost. All tranches in the Group's securitisation investments are deemed to have defaulted in the event that the CLO is unable to partially or fully repay the Senior Notes, and / or the interest thereon. This might be driven by a significant level of defaults occurring in the underlying portfolio, which might lead to an insufficient level of cash flows to honour the payment commitments linked with each tranche within the funding structure. Similarly, the 90 DPD presumption has also been rebutted by the Group with respect to exposures within the Treasury Investment portfolio. In this regard, an exposure is deemed to be defaulted in the event that the obligor is unable to partially or fully repay any amount due.

For all Stage 3 financial assets, interest income is recognised by applying the effective interest rate to the amortised cost amount, i.e. gross carrying amount less credit loss allowances.

Write-offs

Financial assets and the associated credit loss allowances are normally written off, either partially or in full, when there is no realistic prospect of recovery. Where loans are secured, this is generally after receipt of any proceeds from the realisation of security. In circumstances where the net realisable value of any collateral has been determined and there is no reasonable expectation of further recovery, write-off may be earlier (see Note 2.2.6).

Modified financial assets

In accordance with IFRS 9, the modification of contractual cash flows of a financial instrument could result in one of two possible outcomes:

(i) If the modification is not considered to be significant, the modified cash flows are considered to pertain to the original financial asset; or

(ii) If the modification is considered to be significant, the original asset is considered to be extinguished and accordingly the original asset is derecognised and replaced by a new financial asset.

The assessment of whether a modification is considered to be significant is therefore critical in determining the accounting implications of modifications to an asset's contractual cash flows. The Group applies judgement in assessing whether a change in contractual terms (such as a change in interest rates, currency or the remaining term of the loan) is substantial enough to represent an expiry of the original instrument.

In this regard, when considering a change in the contractual terms, the Group evaluates how the cash flows under the revised terms compare with the cash flows under the original terms of the loan and also takes into consideration qualitative factors. Qualitative considerations include extension of terms, insertion of credit enhancements, changes in interest rates, etc. If the modification is deemed substantial, derecognition of the financial instrument is warranted.

When the modification is not substantial enough to result in the derecognition of that financial asset, the Group recalculates the gross carrying amount of the financial asset as the present value of the modified contractual cash flows discounted at the original effective interest rate (or credit-adjusted effective interest rate for POCI financial assets). The difference is recognised as a modification gain or loss in profit or loss.

When there is a substantial modification to the terms of a financial asset resulting in the derecognition of the existing financial asset and the subsequent recognition of the modified financial asset, the modified asset is considered a 'new' financial asset. Any new financial assets that arise following derecognition events as a result of substantial modification to the terms of the instrument are classified as Stage 1 assets, unless the new financial asset is credit-impaired on initial recognition, in which case it will be classified as a POCI financial asset. A loss is booked in profit or loss (normally as a write-off) since the new instrument is recognised at fair value.

When the modification is not substantial enough to result in the derecognition of the financial asset, renegotiated loans are considered credit-impaired and accordingly classified as Stage 3 assets unless no unlikeliness-to-pay events are deemed to have occurred. Assets that are credit-impaired at the time of renegotiation remain in Stage 3 post renegotiation. These can be cured out of credit-impaired status subsequently as described below. When evidence suggests that the renegotiated loan is no longer credit-impaired, the asset is transferred out of Stage 3. This is assessed on the basis of historical and forward-looking information and an assessment of the credit risk over the expected life of the asset, including information about the circumstances that led to the renegotiation. A full assessment from the appropriate Management Credit Committee is required for approval that the exposure is no longer considered as credit-impaired.

Other than originated credit-impaired loans, all other modified loans could be transferred out of Stage 3 if they no longer exhibit any evidence of being credit-impaired and, in the case of renegotiated loans, there is sufficient evidence to demonstrate a significant reduction in the risk of non-payment of future cash flows over the minimum observation period, and there are no other indicators of impairment. These loans could be transferred to Stage 1 or 2 based on the mechanism as described below by comparing the risk of a default occurring at the reporting date (based on the modified contractual terms) and the risk of a default occurring at initial recognition (based on the original, unmodified, contractual terms). Any amount written off as a result of the modification of contractual terms would not be reversed.

Purchased or originated credit-impaired

Originated credit-impaired financial assets are those assets that are credit-impaired on initial recognition. The Group does not expect to originate or purchase any financial assets that are credit-impaired. However, there might be rare instances where the Group originates new assets following a renegotiation or restructure for reasons relating to a borrower's distressed financial circumstances that otherwise would not have been considered, and which may result in the new assets to be deemed POCI. The amount of change in lifetime ECL is recognised in profit or loss until the POCI is derecognised, even if the lifetime ECL are less than the amount of ECL included in the estimated cash flows on initial recognition.

Movement between stages

Financial instruments are transferred out of Stage 2 if their credit risk is no longer considered to be "significantly increased" since initial recognition. Stage classification under IFRS 9 is distinct from regulatory requirements for performing status classification. That is, it should not be assumed that a regulatory "probation" period and EBA pre-requisites must be used as the criteria needed to move from Stage 2 to Stage 1 for IFRS 9 purposes.

For IFRS 9 purposes, the Group has determined the below guideline approach to determine whether movement from Stage 2 to Stage 1 is appropriate:

- Where qualitative triggers were used to determine SICR: Stage transfer from Stage 2 to Stage 1 is subjective. Where implied rating SICR triggers were not a determinant for reclassification in the first instance, it is expected that any qualitative SICR triggers that were observed that derived the SICR event must be fully resolved and evidenced for a 90-day period prior to any reclassification.
- Where quantitative triggers were used to determine SICR:
  - Rating and PD SICR triggers: Asset must evidence an improvement and return to the external or implied default risk rating at the point of inception (instrument should evidence an implied default rating in line or better than the original inception rating in order to trigger a reclassification from Stage 2 to Stage 1).
  - Days past-due criteria: Any instrument that is no longer 30-days past due can only be reclassified to Stage 1 when: (i) all contractual arrears have been remediated (Nil days past due); and (ii) no further non-payment has been observed for a minimum of 90 days. This is subject to regulatory materiality thresholds defined in the Group Credit Risk policy.

Curing of Stage 2 exposures is governed by the Management Credit Committee Quarterly Portfolio Review process where supportive evidence of improved performance and thereby stage transfer is reviewed and approved by the committee.

For movement of Stage 3 assets to either Stage 2 or Stage 1, a full assessment from the appropriate Management Credit Committee is required for approval that unlikeliness to pay criteria are no longer present, the exposure is no longer considered as impaired and there is no past due amount on the exposure. For loans that are assessed for impairment on a portfolio basis, the evidence to support the stage transfer assessment typically comprises a history of payment performance against the original or revised terms, as appropriate to the circumstances. For loans that are assessed for impairment on an individual basis, all evidence is determined on a case-by-case basis.

Movement between stages is aligned with the Group Credit Risk policy, and any exceptions are governed by the Management Credit Committee.

Measurement of expected credit losses

The Group first determines whether objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, and then measures credit loss allowances using different models for non credit-impaired and credit-impaired financial assets, as follows:

- If no evidence of impairment exists (Stage 1 and Stage 2 assets), the Group uses statistical models developed by an external vendor to measure ECLs for exposures within the International Lending portfolio and Local Lending portfolio at facility level.
- For credit-impaired exposures (Stage 3 assets), the Group generally models ECLs based on an internally developed methodology to estimate expected cash flows by reference to borrowers' enterprise values and forecasted operating cash flows for exposures within the International Lending portfolio and the individual valuation of the underlying asset / collateral for exposures within the Local Lending portfolio.

With respect to the Dutch Mortgage, Securitisation Investment and Treasury Investment portfolios, the ECLs on all assets (irrespective of staging) are modelled using statistical models developed by an external vendor.

ECLs are defined as the probability-weighted estimate of credit losses over the expected life of a financial instrument. Credit losses are in turn defined as the present value of all expected cash shortfalls between contractual and expected cash flows, discounted using the original effective interest rate (EIR).

Lifetime ECLs refer to the ECLs that result from all possible default events over the expected life of a financial instrument, whilst 12-month ECLs are a portion of lifetime ECLs and represent the lifetime cash shortfalls that result if a default occurs in the 12 months after the reporting date, weighted by the probability of the default occurring.

For each portfolio, the Group calculates ECLs on its financial instruments based on three key inputs, namely: probability of default ("PD"), loss given default ("LGD") and exposure at default ("EAD"). The 12-month ECL is calculated by multiplying the 12-month PD, LGD and EAD. Lifetime ECL is calculated on a similar basis for the entire residual life of the exposure.

Non credit-impaired financial assets (Stage 1 & 2)

This section provides a detailed description of the methodology used by the Group to measure credit loss allowances in respect of exposures classified as Stage 1 and Stage 2 assets using statistical models developed by an external vendor.

Probability of Default

As outlined previously, the concept of default risk is central to IFRS 9 – therefore, one of the key risk parameters used by the Group in its ECL calculation is the probability that the obligor defaults either within the next 12-month period (in case of Stage 1 exposures) or over the lifetime of the exposure (in case of Stage 2 / 3 exposures).

The 12-month and lifetime PDs therefore represent the probability of default occurring over the next 12 months and the residual life of the instrument, respectively. Since the PD is a probability measure used to capture the likelihood that a customer will default over a defined period of time, this is estimated at a customer level.

PDs for the Group's portfolios are estimated based on statistical models developed by external vendors. In particular, the models used for the International Lending, Local Lending, Securitisation Investment and Treasury Investment portfolios use rating scale to PD matrices calibrated based on historical default data observed in the market and compiled by the external vendor. In respect of the International Lending portfolio, PDs and implied ratings are modelled by benchmarking borrower-specific characteristics, including financial performance and qualitative characteristics captured through a scorecard, with the underlying dataset. In respect of the Local Lending portfolio, PDs are estimated through rating scale to PD matrices by mapping internal risk grades to public ratings. In respect of exposures within the Treasury Investment and Securitisation Investment portfolios, PDs are generally estimated using public ratings through rating scale to PD matrices. With regard to the Dutch Mortgage portfolio, PDs are generated using historical default rates observed in the Netherlands for similar assets.

Loss Given Default

The second key risk parameter used by the Group relates to the estimation of the recovery rate expected to be observed in the event that a 'default' occurs. In this regard, the Group uses the LGD to capture this element within the ECL calculation.

The LGD of an exposure measures the size of the estimated loss (as a proportion of the total EAD) that is expected to materialise in the event of default. It is based on the difference between the contractual cash flows due and the cash flows that the Group expects to receive, whether from cash flows or from any collateral. It takes into account the mitigating effect of collateral value at the time it is expected to be realised and the time value of money. LGD for ECL measurement includes the expected impact of future economic conditions and discounting back from estimated time of default to reporting date using the original EIR.

In contrast with PDs, LGDs are estimated at a facility level. Whilst linked to the general credit risk of the obligor, recovery rates are also impacted by the relative ranking of a particular facility within the obligor's debt structure.

For assets within the Group's International Lending portfolio, estimated recovery rates are measured using statistical models developed by external vendors by benchmarking exposure-specific characteristics with the underlying dataset.

The Group's Treasury Investment portfolio consists of covered bonds, bonds issued by supranational organisations, sovereign bonds and corporate bonds. For its supranational exposures and sovereign exposures, the Group uses the LGD values obtained from the statistical model developed by an external vendor while for covered bonds the LGD is aligned with regulatory standards. The LGD for corporate bonds is modelled using the same methodology as for the International Lending portfolio.

The LGD used for the Local Lending portfolio is driven by the loan-to-value ratio of the individual facilities, whilst also taking into consideration other factors such as costs to sell, valuation haircuts and the time value of money.

The LGD for the Dutch Mortgage portfolio is modelled using the loan-to-value ratio of individual loan parts. Expected recoveries are used to determine the expected loss and are modelled by reference to assumptions in relation to valuations of different property types, haircut to sale proceeds and the time value of money. The LGD is then estimated at 10% of expected losses, since the NHG absorbs 90% of losses, adjusted for assumptions on expected NHG pay-outs and claim rejection rates.

For the Securitisation Investment portfolio, as for PDs, the LGDs are obtained through statistical models developed by an external vendor using estimated recovery rates.

Exposure at Default

The EAD is used to estimate the Group's expected exposure at the time of default of an obligor, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, and any expected drawdowns on committed facilities.

The maximum period over which ECLs are measured is the maximum contractual period over which the Group is exposed to credit risk.

- *International Lending portfolio*

For the Group's International Lending portfolio, the Group makes use of behavioural rather than contractual maturity, thereby reflecting expectations on the exercise of prepayment or extension options. In this regard, for Revolving Credit Facilities and Term Loans containing a prepayment option which is expected to be exercised by the obligor, the Group adjusts the contractual maturity date to reflect the expected maturity date, thereby reflecting the expected payment profile. Expected maturities are assessed quarterly, on a case by case basis, in order to determine any change to the expected maturity.

To measure the EAD of off-balance sheet exposures, including loan commitments, the Group aligns the expected drawdown on committed facilities with the credit conversion factors (CCFs) as set out in the Standardised Approach to Credit Risk under the CRR.

- *Dutch Mortgage portfolio*

The EAD for the Dutch Mortgage portfolio is based on amortisation per the contractual payment profiles, taking into account modelled prepayments. The maturity date is deemed to be equal to the contractual maturity of the mortgage. To measure the EAD of off-balance sheet assets, the Group applies a 75% CCF.

- *Local Lending portfolio*

For the Local Lending portfolio, the maturity date is deemed to be equal to the contractual maturity of the exposure with the exception of assets assigned an internal risk classification of “Doubtful” that have gone beyond their contractual maturity, where a one-year maturity is assumed.

To measure the EAD of Revolving Credit Facilities the Group applies a 100% CCF, whereas the EAD for Term Loans is assumed to be equivalent to the drawn amounts as at reporting date.

- *Treasury Investment portfolio*

For the Group’s Treasury Investment portfolio, the maturity date is deemed to be equal to the contractual maturity of the exposure, and the EAD assumed to be the full committed exposure.

- *Securitisation Investment portfolio*

For the Group’s Securitisation Investment portfolio, the external vendor analyses underlying assets in the CLO, capturing the inherent risk of each tranche (based on relative seniority and contractual terms), simulating the losses that would be incurred by each tranche under multiple scenarios and calculates the average life of the tranche. The average life of the tranche is equivalent to the expected lifetime.

Credit-Impaired financial assets (Stage 3)

For Stage 3 assets in the International Lending and Local Lending portfolios, the Group estimates ECL on an individual basis. When assessing impairment for these assets, the Group applies a true and fair view to the estimation of both the future cash flows and the collateral valuations. The estimated recoverable amount corresponds to the present value of estimated future cash flows (excluding future losses not incurred) discounted at the financial asset’s original effective interest rate. In addition, the estimation of the recoverable amount of a collateralised exposure typically reflects the cash flows that may result from the liquidation of the collateral.

For exposures in the International Lending portfolio, the Group deems these assets as very rarely secured by assets whose value is easily observable. Therefore, recoverable amounts are usually calculated by projecting expected cash flows using a discounted cash flow (“DCF”) approach to determine the Enterprise Value (“EV”) under multiple scenarios. The recoverable amount under each scenario is estimated as the EV, plus available cash, less exit fees, discounted using the estimated weighted average cost of capital (“WACC”) at a borrower level. The latter is determined using multiple assumptions in respect of the cost of debt and cost of equity. The recoverable amount is then compared to the EAD in order to determine any expected shortfalls / credit losses.

Hence for Stage 3 exposures the individual impairment allowance is measured as the difference between the asset’s outstanding exposure, which is measured as the sum of the carrying amount and the expected future drawdown on off-balance sheet commitments estimated by reference to CCFs, and the recoverable amount. The recoverable amount is the weighted average of the base case and the downside case, with recoveries capped at 100%. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor’s credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in profit or loss.

For exposures in the Local Lending portfolio, these are typically secured by real estate assets, cash collateral or tradeable equities whose value is more easily observable. In this respect, the recoverable amount is usually calculated on the basis of the present value of the estimated future cash flows of a collateralised financial asset, reflecting the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the Treasury Investment portfolio, recoverable amounts are assessed on a mark-to-market basis, using observable market prices for the instruments held.

For the Dutch Mortgage and the Securitisation Investment portfolios, the ECL on Stage 3 exposures is modelled through statistical models developed by external vendors in a similar manner as the methodology used for the estimation of ECL for Stage 1 and Stage 2 assets, as explained in the section titled “Measurement of Expected credit losses”.

Forward looking information

The recognition and measurement of ECL requires the incorporation of forward-looking information into the ECL estimates to meet the measurement objective of IFRS 9. A particularly complex aspect is the need to consider a range of possible forward-looking economic scenarios when calculating ECL, given the potential effect of non-linearities on ECL. Based on the principle of non-linearity, the modelled increase in credit losses if conditions are expected to deteriorate exceeds the decrease in credit losses if conditions improve. The Group takes into consideration reasonable and supportable information relating to forecasts of future macroeconomic conditions in order to determine the expected level of and movement in credit risk for specific obligors.

The Group first identifies macroeconomic variables (MEVs) which have the highest correlation to systemic credit risk factors for its obligors using statistical methods developed by external vendors. These macroeconomic variables include country-level variables that are deemed to have the highest correlation to the Group's portfolios. The MEVs applied for ECL calculations for each portfolio may differ. The MEVs that exhibit the highest level of correlation for exposures classified within the International Lending, Local Lending and Treasury Investment portfolios principally comprise country-specific Gross Domestic Product ("GDP"), unemployment levels and the performance of stock market indices. In addition, the House Price Index and unemployment rate in the Netherlands are key for exposures within the Dutch Mortgage portfolio, whereas interest rates are used for calculating ECLs for exposures within the Securitisation Investment portfolio.

IFRS 9 does not require every possible scenario to be identified. However, it requires the Group to estimate ECLs by taking into consideration multiple forward-looking macroeconomic scenarios, since the use of a single 'most likely' scenario is not deemed sufficient. As a result, the measurement of ECLs in line with IFRS 9 involves the use of significant judgement in developing alternative macroeconomic scenarios and/or management adjustments. In this regard, the Group uses an external vendor solution to determine multiple forecasts of macroeconomic conditions (reflecting future paths of the selected key macroeconomic variables). The Group then estimates an unbiased, forward-looking, probability-weighted ECL by assigning probability weights to expected losses under each of the macroeconomic scenarios.

IFRS 9 does not require forecasts of future conditions to extend over the entire expected life of the financial instrument in question. The Group uses macroeconomic forecasts from the external vendor for up to 20 quarters to estimate a forward-looking ECL. For maturities that go beyond this 5-year period, the Group extrapolates projections from available data.

Multiple forward-looking scenarios for Stage 3 Credit-impaired exposures

With regards to Stage 3 exposures within the Group's International Lending portfolio, ECLs are based on a DCF analysis aimed at assessing the level of credit risk in detail and estimating the recoverable amount for the instrument. In line with IFRS 9 requirements, such exposures still require a consideration of multiple forward-looking scenarios. The scenarios are designed specifically for each obligor in question by considering the different cash flows that may accrue to the Group under the contractual agreement including those resulting from potential restructuring, which may include derivative features including pay-outs if certain targets or objectives are met at a future date. Such scenarios are designed by reference to estimated unlevered operating cash flows, typically over a three-year forecasted period, together with a terminal value estimated using assumed stable cash flows under each scenario.

With regards to Stage 3 exposures within the Group's Local Lending portfolio, different work-out options available to the Group in respect of each impaired exposure, such as the initiation of court proceedings to enforce foreclosure of collateral or reaching an amicable out-of-court agreement with the obligor to sell the collateral in the market and repay the exposure from the sales proceeds, are taken into consideration.

In line with the requirements of IFRS 9, the Group assigns a probability weight, based on management judgement, to each of the scenarios considered in the estimation of ECLs. Due to the high level of subjectivity involved, decisions relating to the selection of scenarios, probabilities and assumed forecasted cash flows are subject to scrutiny through the Group's governance structure around credit risk.

In respect of exposures within the Dutch Mortgage and Investment portfolios, the ECL on Stage 3 exposures is modelled based on an identical methodology as that used for Stage 1 and Stage 2 exposures.

Presentation of ECL in the Statement of financial position

Credit loss allowances are presented in the statement of financial position as follows:

- Financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets;
- Loan commitments and financial guarantee contracts: as a provision;
- Where a financial instrument includes both a drawn and undrawn component, and the Group cannot identify the ECL on the loan commitment component separately from those on the drawn component: the Group presents a combined credit loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the credit loss allowance over the gross amount of the drawn component is presented as a provision; and
- Debt instruments measured at FVOCI: no credit loss allowance is recognised in the statement of financial position because the carrying amount of these assets is their fair value. However, the credit loss allowance is presented and recognised in the fair value reserve.

1.6 Offsetting financial instruments

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

1.7 Intangible assets

1.7.1 Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the identifiable net assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in 'intangible assets'.

Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose, identified according to operating segment. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired, by comparing the carrying amount of the unit, including the goodwill, with the recoverable amount of the unit. The recoverable amount is the higher of fair value less costs to sell and value in use.

1.7.2 Computer software

Intangible assets with finite useful lives, such as purchased and internally developed computer software, are amortised, on a straight-line basis, over their estimated useful lives. Estimated useful life is generally the lower of legal duration, where applicable, and expected useful life. The estimated useful life of purchased software and developed computer software ranges between 3 to 5 years. Costs incurred in the ongoing maintenance of software are expensed immediately as incurred.

Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Group are recognised as intangible assets when the following criteria are met:

- it is technically feasible to complete the software product so that it will be available for use;
- management intends to complete the software product and use it;
- there is an ability to use the software product;
- it can be demonstrated how the software product will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use the software product are available; and
- the expenditure attributable to the software product during its development can be reliably measured.

Directly attributable costs that are capitalised as part of the software product include the software development employee costs and an appropriate portion of relevant overheads.

Capitalised development costs are amortised from the point at which the asset is ready for use. Other development expenditure that does not meet these criteria is recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

1.8 Property, plant and equipment

All property, plant and equipment used by the Group is initially recorded at historical cost, including transaction costs and borrowing costs. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

All property, plant and equipment is subsequently stated at historical cost less accumulated depreciation and impairment losses.

Borrowing costs which are incurred for the purpose of acquiring or constructing a qualifying asset are capitalised as part of its cost. Borrowing costs are capitalised while acquisition or construction is actively underway. Capitalisation of borrowing costs is ceased once the asset is substantially complete and is suspended if the development of the asset is suspended.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of any part accounted for separately is derecognised when replaced. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

Depreciation on assets, recognised in profit or loss, is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

-	improvements to premises	4 - 10 years
-	computer equipment	3 - 5 years
-	other equipment	4 years
-	fixtures and fittings	10 years
-	motor vehicles	5 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in profit or loss.

1.9 Impairment of non-financial assets

Assets that have an indefinite useful life, for example goodwill or certain intangible assets, are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows (cash-generating units). The impairment test also can be performed on a single asset when the fair value less costs to sell or the value in use can be determined reliably. Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

1.10 Non-current assets classified as held for sale

Non-current assets are classified as held for sale when their carrying amounts will be recovered principally through a sale transaction rather than through continuing use, they are available for sale in their present condition and their sale is highly probable. Immediately before the initial classification as held for sale, the carrying amount of the assets is measured in accordance with the Group's accounting policies. Non-current assets classified as held for sale are generally measured at the lower of their carrying amount and fair value less costs to sell. Impairment losses for any initial or subsequent write-down of an asset to fair value less costs to sell are recognised in profit or loss. Gains for any subsequent increase in fair value less costs to sell of an asset are recognised only up to the extent of the cumulative impairment loss recognised and are reflected within profit or loss.

1.11 Current and deferred income tax

The tax expense or credit for the year comprises current and deferred tax. Tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In the latter case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period.

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill; deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

1.12 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new ordinary shares are shown in equity as a deduction, net of tax, from the proceeds.

1.13 Financial liabilities

The Group recognises a financial liability on its statement of financial position when it becomes a party to the contractual provisions of the instrument. The Group's financial liabilities, other than derivative financial liabilities (refer to Note 1.14), are classified as financial liabilities measured at amortised cost.

Financial liabilities measured at amortised cost, i.e. not at fair value through profit or loss are recognised initially at fair value, being the fair value of consideration received, net of transaction costs that are directly attributable to the acquisition or the issue of the financial liability. These liabilities are subsequently measured at amortised cost using the effective interest method to amortise the difference between proceeds received, net of directly attributable transaction costs incurred, and the redemption amount over the expected life of the instrument.

The Group derecognises a financial liability from its statement of financial position when it is extinguished, that is the obligation specified in the contract or arrangement is discharged, is cancelled or expires. Financial liabilities measured at amortised cost comprise principally amounts owed to financial institutions, amounts owed to customers, other payables and other liabilities.

1.14 Derivative financial instruments

Derivative financial instruments, including currency forwards and swaps, interest rate swaps, total return swaps and other derivative contracts, are classified as held for trading derivatives unless designated as hedging instruments, and are initially recognised at fair value on the date on which a derivative contract is entered into, and are subsequently remeasured at their fair value. Fair values are obtained from valuation techniques for over-the-counter derivatives, including discounted cash flow models. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative. Fair values for currency forwards and swaps are determined using forward exchange market rates at the end of the reporting period. Discounting techniques, reflecting the fact that the respective exchange or settlement will not occur until a future date, are used when the time value of money has a significant effect on the fair valuation of these instruments.

Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognised immediately in profit or loss. If a derivative is not designated in a qualifying hedge relationship, then all changes in its fair value are recognised immediately in profit or loss as a component of net trading income.

The Group designates certain derivatives as hedging instruments in qualifying hedging relationships. On initial designation of the hedge, the Group formally documents the relationship between the hedging instrument/s and hedged item/s, including the risk management objective and strategy in undertaking the hedge, together with the method that will be used to assess the effectiveness of the hedging relationship. The Group makes an assessment, both at the inception of the hedge relationship as well as on an ongoing basis, as to whether the hedging instrument/s is/are expected to be 'highly effective' in offsetting the changes in the fair value of the respective hedged item/s during the period for which the hedge is designated, and whether the actual results of each hedge are within a range of 80-125 percent.

1.14.1 Fair value hedges

When a derivative is designated as a hedging instrument in a hedge of the change in fair value of a recognised asset or liability or a firm commitment that could affect profit or loss, changes in the fair value of the derivative are recognised immediately in profit or loss together with changes in the fair value of the hedged item that are attributable to the hedged risk.

If the hedging derivative expires or is sold, terminated, or exercised, or the hedge no longer meets the criteria for fair value hedge accounting, or the hedge designation is revoked, then hedge accounting is discontinued prospectively.

Any adjustment up to that point of discontinuation to a hedged item for which the effective interest method is used, is amortised to profit or loss as part of the recalculated effective interest rate of the item over its remaining life.

The Group applies fair value hedge accounting to portfolio hedges of interest rate risk (macro hedging) under the EU carve-out version of IAS 39. The EU carve-out macro hedging rules enable a group of derivatives (or proportions) to be viewed in combination and jointly designated as the hedging instrument in the Group's macro fair value hedging model, and remove some of the limitations in fair value hedge accounting relating to hedging core deposits and under-hedging strategies. Under the EU carve-out, hedge accounting may be applied to core deposits and ineffectiveness only arises when the revised estimate of the amount of cash flows in scheduled time buckets falls below the designated amount of that bucket. The Group applies fair value hedge accounting for portfolio hedges of interest rate risk (macro hedging) under the EU carve-out in respect of its retail operations, with the net exposures of retail funding (savings and current accounts) and retail lending (mortgages) being hedged. The hedging activities are designated as a portfolio fair value hedge in respect of the mortgage book. Changes in the fair value of the derivatives are recognised in the statement of profit or loss, together with the basis adjustment in relation to the mortgages (hedged items) insofar as attributable to interest rate risk (the hedged risk).

The Group applies micro fair value hedging to hedge separate hedged positions on an individual asset basis, generally fixed interest securities, by utilising interest rate swaps as hedging instruments.

1.15 Provisions

Provisions for legal and other claims are recognised when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

1.16 Interest income and expense

Interest income and expense for all interest-bearing financial instruments are recognised within 'interest income' and 'interest expense' in profit or loss using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating interest income or interest expense over the relevant period.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Interest income and expense presented in the profit or loss include:

- interest on financial assets and financial liabilities measured at amortised cost calculated using the effective interest method;
- interest on investments measured at fair value through other comprehensive income calculated using the effective interest method; and
- the effective portion of fair value changes attributable to qualifying hedging derivatives designated in fair value hedges of interest rate risk, together with changes in fair value of the hedged items attributable to interest rate risk.

Fair value changes attributable to other derivatives in hedging relationships which are discontinued are presented in 'net trading income' with effect from the last date on which the hedge was demonstrated to be effective.

Interest on credit-impaired financial assets is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the credit loss allowance.

1.17 Fees and commissions

Fee and commission income and expenses that are an integral part of the effective interest rate on a financial asset or liability are included in the calculation of the effective interest rate and treated as part of interest income or interest expense.

Other fee and commission income, comprising account servicing fees, underwriting fees, investment management fees, foreign exchange fees, guarantee fees, placement fees and syndication fees, are recognised in profit or loss as the related services are performed.

Loan commitment fees for loans that are likely to be drawn down are deferred (together with related direct costs) and recognised as an adjustment to the effective interest rate on the loan.

When a loan commitment is not expected to result in the drawdown of a loan, the related loan commitment fees are recognised in profit or loss on a straight-line basis over the commitment period.

Fee and commission expense, relating mainly to transaction and service fees, is expensed as the services are received.

Consideration payable to customers, comprising incremental costs in the form of cash amounts that the Group pays to wealth management customers, are incurred in acquiring new customer contracts. These costs are deferred within "Other assets" and subsequently amortised over the life of the contract, recognised as an offset within income, as follows:

- For customer contracts with a contractual fixed period, these costs are amortised over the contractual life.
- For customer contracts with no contractual fixed period, these costs are amortised over the estimated life of the contract, which is reviewed periodically with reference to the Group's experience with surrenders by wealth management customers.

1.18 Net trading income

Net trading income comprises all realised and unrealised foreign exchange differences and all fair value changes arising on derivatives held for trading, including derivatives that are not designated as hedging instruments and derivatives that no longer meet the criteria for hedge accounting.

1.19 Net income from other financial instruments carried at fair value through profit or loss

Net income from other financial instruments carried at fair value through profit or loss comprises all realised and unrealised fair value changes, interest income, dividends and foreign exchange differences attributable to financial assets carried at fair value through profit or loss.

1.20 Leases

Leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the future lease payments. Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Group, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are measured at cost, generally comprising the amount of the initial measurement of the lease liability and are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated).

1.21 Share-based compensation

The Group operates a deferred bonus plan in the form of a share-based compensation plan whereby selected officers or employees are awarded performance bonuses, upon meeting specific performance conditions, or retention bonuses. Bonuses may comprise upfront cash amounts, upfront share-linked awards and deferred share-linked awards. Share-linked awards consist of share-linked instruments in the form of a number of notional ordinary shares of MDB Group Limited computed by dividing the related portion of the bonus amount by the market value of these ordinary shares at award date. Share-linked award bonuses are eventually settled in cash on the settlement date (the expiry of the retention or delay period) on the basis of the market value of the ordinary shares of MDB Group Limited determined on the settlement date, multiplied by the number of notional shares computed on the date of award. Deferred share-linked awards are subject to a deferral or vesting period during which period the specific officer or employee must remain in employment for vesting to occur. Both upfront and deferred share-linked awards are subject to a retention or delay period, for settlement purposes, post vesting. These share-based payment transactions are considered as cash-settled as the Group pays cash amounts based on the fair value of equity instruments of a group entity.

Share-based compensation is recognised as an employee benefit expense from grant date over the relative vesting period, which is the period over which all of the specified vesting conditions are to be satisfied, through graded vesting. The total amount to be expensed from grant date over the vesting period is determined by reference to the fair value of the awards at the grant date, reflecting the fair valuation of MDB Group Limited's ordinary shares on award date. Accordingly, the Group amortises on a straight-line basis the compensation cost arising on the grant of such awards over the nominal vesting period for employees based on the graded vesting of the plan. The resultant liability is re-measured at the end of each reporting period and at the date of settlement, with changes in fair value recognised in profit or loss.

1.22 Financial guarantee contracts and loan commitments

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Such financial guarantees are given to banks, financial institutions and other bodies on behalf of customers.

In the ordinary course of business, the Group gives financial guarantees, consisting of guarantees and acceptances.

Financial guarantee contracts are initially measured at fair value and subsequently measured at higher of:

- The amount of the credit loss allowance (calculated as described in Note 1.5); and
- The premium received on initial recognition less income recognised in accordance with the principles of IFRS 15.

Loan commitments are the Group's commitments to provide credit under pre-specified terms and conditions and are measured at the amount of the credit loss allowance (calculated as described in Note 1.5).

For loan commitments and financial guarantee contracts, the credit loss allowance is recognised as a provision. However, for contracts that include both a loan and an undrawn commitment and the Group cannot separately identify the expected credit losses on the undrawn commitment component from those on the loan component, the expected credit losses on the undrawn commitment are recognised together with the credit loss allowance for the loan. To the extent that the combined expected credit losses exceed the gross carrying amount of the loan, the expected credit losses are recognised as a provision.

1.23 Cash and cash equivalents

Cash and cash equivalents are carried in the statement of financial position at face value less expected credit losses. Cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition, including cash in hand, unrestricted balances held with central banks, deposits held at call with financial institutions and other short-term highly liquid investments with original maturities of three months or less. 'Amounts owed to financial institutions' that are repayable on demand or have a contractual maturity of three months or less and which form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

1.24 Customer assets

Customer assets are held with the Group in a fiduciary capacity and are segregated from the assets of the Group in accordance with the applicable rules and regulations on protection of customer assets, except when such customer assets are held by the Group to cover a required margin or when they are used to secure an obligation towards the Group.

Customer assets are not presented within the Group's statement of financial position.

1.25 Dividend distribution

Dividend distribution to the Group's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Group's shareholders.

2. Financial risk management

2.1 Introduction and overview

The Group's core business activities include:

- deposit taking;
- the provision of wealth management and investment services;
- the granting of loans to international and Maltese corporates; and
- the granting of residential mortgage loans in the Dutch market and the relative securitisation of sub-portfolios of such loans through RMBS transactions.

The Group also provides basic retail services such as money transfer and spot currency exchange. Currency swaps, foreign exchange forwards and interest rate swaps are also entered into for risk management purposes.

In respect of funding, the Group continues to access the international wholesale funding markets through bilateral repo lines and the Eurex repo platform.

The major components within the Group's asset base are: the International Lending portfolio, comprising loans to international corporates; the Dutch Mortgage portfolio, comprising residential mortgage lending to Dutch customers, which business line was established during the financial period ended 31 December 2019; the Local Lending portfolio, comprising loans to Maltese customers, mainly corporates; the Treasury Investment portfolio principally comprising investment-grade debt securities; and the Securitisation Investment portfolio, comprising investments in Collateralised Loan Obligation ("CLO") transactions managed by the Group (representing a 5% vertical slice in each structured note tranche of the Grand Harbour CLO 2019-1 Designated Activity Company ("GH1-2019")), as well as acquired positions in CLO transactions managed by third party entities.

The Group continued the diversification and de-risking of its asset portfolio through increased focus on the Dutch national-guaranteed mortgage market (relying on strong partners for origination and servicing) and by de-emphasising investment in international corporate lending markets. The former lending activity represents prime Dutch mortgages that benefit from a guarantee from a private non-profit fund and indirectly from a government guarantee (the "Nationale Hypotheek Garantie" or "NHG"). Despite the challenges and uncertainties resulting from the COVID-19 pandemic, the Dutch Mortgage business launched by MeDirect Belgium in September 2019 grew at a strong pace during the financial year ended 31 December 2020, growing from a total gross exposure amounting to €133.2 million as at 31 December 2019 to €1,078.4 million as at 31 December 2020.

Another key development during the financial year ended 31 December 2020 included the securitisation of a sub-portfolio of the Dutch Mortgage portfolio, which was sold to Bastion 2020-1, a special purpose securitisation vehicle established in the Netherlands, raising €350 million in funding through a RMBS in May 2020.

In September 2020, MeDirect Belgium established a €350 million warehouse funding facility provided by a major Dutch bank through Cavalier 2020, a special purpose vehicle established in the Netherlands. The warehouse facility provides bridge financing enabling MeDirect Belgium to build up a Dutch Mortgage portfolio large enough to be securitised through a RMBS transaction.

In addition, the Group implemented an extensive restructuring of intragroup funding arrangements between MeDirect Malta and MeDirect Belgium, primarily associated with the Group's GH I funding vehicle. These amendments have been implemented in order to stabilise the Group's capital and liquidity adequacy, to maximise recoveries from collateral, enhance the loss protection and preserve the rights of the senior lender, whilst preserving the funding stability of the junior lender. The amendments were subject to the approval of the National Bank of Belgium ("NBB") and the European Central Bank ("ECB") in respect of 1° of Article 77 of the Belgian Act of 25 April 2014 on the legal status and supervision of credit institutions (the "Belgian Banking Act").

MeDirect Malta has also engaged with widely used deposit platforms to originate additional deposit funding capacity during 2020. The vast proportion of the deposits raised are 12-month fixed term deposits, therefore adding longer-term funding stability to both the Group and MeDirect Malta.

In May 2020, MeDirect Malta launched the MeAssist lending product, which is an assistance package issued in collaboration with the Malta Development Bank ("MDB"), aimed at supporting and enhancing access to bank financing to corporate customers in the Group's Local Lending portfolio in Malta. Such financing, offered in the form of working capital facilities granted to assist customers with their operational requirements in view of the market disruptions brought about by the outbreak of the COVID-19 pandemic, is up to 90% secured by guarantees provided under the MDB COVID-19 Guarantee Scheme ("CGS").

The main risks assumed by the Group are: (a) counterparty credit risk arising primarily from loans and advances to customers, but also from other financial instruments; (b) liquidity risk arising from maturity mismatches and committed but undrawn revolving credit facilities; (c) market risk, including the interest rate risk in the banking book; and (d) operational risk.

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing these risks and the Group's management of capital.

These risks principally relate to the Group's banking activities and are managed by MeDirect Malta's Board of Directors. As a result, this note presents information about the financial risk management of the Group, which comprises MeDirect Malta and MeDirect Belgium ("MeDirect Malta Group"), thus excluding MDB Group Limited that is just a holding company.

2.1.1 Risk management framework

The Group recognises the need to have an effective and efficient Risk Management Function and has therefore adopted a comprehensive risk management process that provides a balance between growth and maximising profitability while managing the associated risks. The Risk Management Function is actively involved in all material risk management decisions and is adequately structured to deliver a holistic view of the whole range of risks faced by the Group in its strategic decision-making.

The Risk Management Framework ("RMF") aims to outline and define the Group's risk management processes to enable informed risk-based decision-making. This framework outlines the process of how the Group identifies, manages and monitors material risks. It refers to the risk management processes that include policies, procedures, risk limits and risk controls ensuring adequate, timely and continuous identification, measurement or assessment, monitoring, management, mitigation and reporting of the risks at the business line, institution and consolidated or sub-consolidated levels.

The Group's objective is to deploy an integrated risk management approach that ensures an awareness of, and accountability for, the risks taken throughout the Group and also to develop the tools needed to address those risks.

Strong risk management and internal controls are core elements of the Group's strategy. The Group has adopted a risk management and internal control structure, referred to as the Three Lines of Defence (Figure 1), to ensure it achieves its strategic objectives while meeting regulatory and legal requirements and fulfilling its responsibilities to shareholders, customers and staff.

Figure 1: Three Lines of Defence Model

In the three lines of defence model, business line management is the first line of defence (including those functions that are responsible for day-to-day operations and the Treasury function), the various risk control and compliance oversight functions established by management represent the second line of defence, and internal audit is the third.

Each of these three "lines" play a distinct role within the Group's wider governance framework. Although the Group adopts a "three lines of defence" model, it is worth mentioning the additional interaction between the Group and its external auditors and regulatory bodies adds further "lines of defence", albeit they are not depended upon internally by the Group to act in such capacities.

2.2 Credit risk

Credit risk is the risk of loss to the Group's business or of adverse change in its financial position, resulting from fluctuations in the credit standing of issuers of securities, customers, counterparties and any debtors in the form of default or other significant credit loss event (e.g. downgrade or spread widening).

2.2.1 Management of credit risk

The Group has in place standards, policies and procedures for the control and monitoring of credit risk. The purpose of the Group's Credit Policy is to establish the credit standards, internal controls, reporting requirements and approval processes that govern the selection and ongoing management of the investment assets of the Group.

The Group's Board of Directors has established risk appetite limits for exposures to individual credits based on the Capital Requirements Regulation ("CRR") regulatory requirements governing large exposures of credit institutions as well as prudential requirements. Exposure limits are monitored on an ongoing basis by the Risk, Corporate Credit and Treasury teams. Amongst other things, the Credit Policy outlines the following specific exposure and trading limits:

- Concentration limits;
- Country limits;
- Portfolio limits; and
- Minimum credit quality within each asset class.

Limits on counterparty exposure are established by the Group's Risk Management Committee ("RMC") in line with the Credit Framework. Such limits relate to net exposure, after application of cash (and cash equivalent) collateral, as provided in industry-standard documentation, and are established to manage credit risk to banks and other financial institutions in connection with the Group's over-the-counter ("OTC") derivative and repurchase agreement transactions. Settlement and delivery risk are mitigated through the use of industry-standard documentation such as the Loan Management Association ("LMA") and International Swaps and Derivative Association ("ISDA") agreements, alongside associated Credit Support Annex ("CSA") legal documents. Any bilateral secured financing transaction is executed under a signed Global Master Repurchase Agreement ("GMRA") or an ISDA agreement.

The Group's objective is to maximise its returns while maintaining a sound and prudent credit risk profile. To facilitate achieving this target, the Group invests in a diversified portfolio of financial assets, including both high quality securities with strong ratings stability and a diversified portfolio of loans to/securities issued by corporates, whose higher returns are viewed as justifying a greater level of risk. In accordance with its business strategy, the Group is de-risking its asset portfolio by reducing its exposure to the International Lending portfolio, with the portfolio size having been reduced by 22% since the beginning of the previous financial period. In addition, the Group is further diversifying its portfolio through growth in the Dutch Mortgage portfolio, which portfolio benefits from favourable credit risk weighting treatment as a result of the NHG provided under the Dutch national-guaranteed mortgage programme; a Maltese corporate lending business which actively supports the local economy; and investments in AAA-rated CLO notes.

The Group's financial assets are managed on a portfolio basis, taking into account correlations between asset classes. The Group diversifies its exposures to avoid excessive concentration in particular countries, industries or types of financial institutions. The Group also considers the impacts of lending to corporate borrowers within the Group's portfolio on its risk assessment.

Accordingly the Group's credit risk taking activities comprise principally lending to international and local corporate clients, classified under the International Lending and Local Lending portfolios respectively; residential mortgage lending classified under the Dutch Mortgage portfolio; investments in debt securities classified under the Treasury Investment portfolio; and investments in CLO structures classified under the Securitisation Investment portfolio, which activities are described below.

All exposures classified under the International Lending and Securitisation Investment portfolios undergo a thorough analysis process, not only from an internal credit perspective but also from a legal, financial and credit ratings perspective.

The Group's Corporate Credit and Risk teams, which manage the credit analysis and research process, are composed of highly-trained individuals with specialised skill sets and years of experience in the Securities and Corporate Syndicated Loans markets. The credit analysis and research process subjects potential investments to scenario analysis to determine whether they can withstand significant adverse credit, idiosyncratic and market events. Additionally, the portfolio is subject to a continual, thorough monitoring and oversight process in order to identify any financial instruments which require increased monitoring of performance. Further details on the credit approval and monitoring processes are provided within the Group's Pillar III Disclosures.

In respect of the Local Lending portfolio, the Group's Corporate Credit team is responsible for performing the primary credit analysis on proposed credits as well as performing regular borrower reviews to monitor the performance of underlying exposures, recommending appropriate courses of action and co-ordinating the decision-making process. The Risk team is responsible for reviewing the primary credit analysis performed by the Corporate Credit team, challenging key views and assumptions adopted by the first line of defence, including engaging in discussion during a formal decision-making forum (such as the Management Credit Committee), and providing recommendations on the appropriate course of action. Portfolio reviews are performed regularly to monitor the performance of the underlying exposures and to evaluate the level of credit risk within the portfolio, including the performance of market sectors and concentrations therein, with the objective to build and maintain risk assets of high quality.

As described in section 2.1, the Group established a new Dutch national-guaranteed mortgage business line during the financial period ended 31 December 2019, where the credit risk is deemed to be low on the basis that these prime Dutch mortgages benefit from a guarantee from a private non-profit fund and indirectly from a government guarantee. The residual credit risk arising therefrom is managed by MeDirect Belgium's Corporate Credit and Risk teams.

With respect to its Treasury Investment portfolio, managed by the Group's Treasury and Risk teams, the Group focuses on acquiring debt securities meeting the criteria of high-quality liquid assets ("HQLA"). Permitted assets in this portfolio include covered bonds issued by governments (including regional governments), agencies and supranational institutions, as well as securities issued by financial institutions (some of which may carry a government guarantee).

The outbreak of the COVID-19 pandemic during the financial year ended 31 December 2020 has induced a significant level of economic uncertainty automatically increasing the level of credit risk across global markets.

This has had an unprecedented impact on the Group's International Lending portfolio which comprises exposures particularly susceptible to overall deterioration in global economic conditions, primarily due to the nature and size of the borrowers categorised within this portfolio. In particular, the leveraged funding structure as well as the scale of operations, typically across different countries, characterising such loans increase the level of exposure of such borrowers' financial performance to systemic risk. As a result, the observed impact of the pandemic on the business models, income levels and cash flow generation abilities of customers classified within the International Lending portfolio has been more pronounced compared to the Group's other portfolios.

In view of the above, the Group adapted its credit risk management processes for the purposes of identifying deterioration in credit risk within the International Lending portfolio as early as possible and for measuring credit loss allowances using all information available to the Group, which involved significant judgement. Specifically, in response to the outbreak of the pandemic, the Group performed an ad hoc comprehensive credit risk assessment in respect of all the exposures classified within the International Lending portfolio. As a result, the Group segmented the portfolio into four distinct “COVID-19 classifications” reflecting the perceived severity of the impact of the pandemic on each borrower’s financial performance and going concern, driven primarily through a review of borrower-specific financial information available to the Group, including an assessment of the industry and country in which each borrower operates, thereby facilitating a more holistic assessment of the expected impact of the pandemic on borrower performance going forward. In this respect, this assessment was utilised by the Group in order to inform the staging assessment, the basis for determining the required frequency and depth of monitoring activities in respect of exposures classified within each “COVID-19 classification”, as well as the ECL for Stage 3 exposures. As explained in more detail in Note 2.2.2 of the financial statements, this assessment was also utilised in order to identify those borrowers which are deemed to be more susceptible to the impact of the pandemic and apply adjustments to their modelled PDs / Implied Ratings to reflect possible credit deterioration which might not have been captured through the model, which principally relies on lagging information. In addition, following the outbreak of the pandemic, the Group largely paused its origination programme in respect of this portfolio.

A similar approach was adopted by management in respect of exposures classified within the Local Lending portfolio, which principally comprises financing of local borrowers operating within the “construction” and “real estate activities” sectors. Credit risk mitigation techniques applied in respect of such exposures typically include an adequate level of collateralisation through fixed charges on real estate properties. The risk-based segmentation of exposures classified within the Local Lending portfolio across different “COVID-19 classifications” also took into consideration the granting of moratoria, requests for additional emergency funding, as well as the application of relief measures announced by the Maltese Government in order to determine whether the financial difficulties being experienced due to the outbreak of the pandemic are likely to be temporary or permanent, with the latter being subjected to more frequent monitoring.

With the exception of the monitoring of macroeconomic forecasts mentioned below, which influences the PD and LGD parameters used to calculate ECL, no material changes were made to credit risk management activities in respect of exposures within the Dutch Mortgage portfolio, primarily due to the fact that 90% of expected losses attributable to such exposures are absorbed by the NHG, as well as exposures within the Treasury Investment and Securitisation Investment portfolios, since exposures within the latter portfolios typically comprise publicly rated investment-grade securities.

In addition to the above, the Group increased its monitoring and rigour in respect of its evaluation of the reasonableness and plausibility of the macroeconomic scenarios used within the Group’s ECL calculation, which are developed by an external vendor. This has been driven by the fact that the outbreak of the pandemic has translated into a significant level of estimation uncertainty in respect of the determination of multiple forward-looking macroeconomic scenarios utilised in the measurement of credit loss allowances in respect of the Group’s lending portfolios, particularly since expectations in respect of the economic outlook across all countries remain highly volatile in view of the possibility of further waves of infections (or the proliferation of new variants), the efficiency of vaccine roll-outs at national levels, as well as the effectiveness and efficacy of government support schemes and regulatory relief measures in dampening the severity of the economic impact of the pandemic and in speeding the economic recovery. Further information in respect of macroeconomic forecasts reflected within the ECL calculations is provided in Note 2.2.8 - ‘Current Conditions and Forward-looking information incorporated in the ECL model’.

During the financial year under review, the Group also made changes to the methodology used to estimate ECLs in respect of Stage 3 exposures classified within the International Lending portfolio. Until the financial period ended 31 December 2019, the Group applied an internally developed methodology which uses an Enterprise Value ("EV") multiple approach to determine the value of such borrowers and accordingly the recoverable amounts attributable to the Group’s exposures to those borrowers. As part of this model, a borrower's EV is estimated by reference to observable EV multiples attributable to peer companies which are deemed to be comparable in terms of the country and industry in which they operate, as well as in size. The average peer-based EV multiple, flexed to reflect different exit scenarios, is then applied to a stable earnings figure which is also flexed to reflect a longer term view on the borrower's earning capacity under multiple scenarios.

In the aftermath of the outbreak of the pandemic, the use of a methodology based on the determination of a stable earnings figure became less reliable due to the significant economic impact that the pandemic has had on the financial performance and financial condition of the Group's borrowers. In addition, the Group determined that an elevated level of uncertainty existed in respect of the peer-group EV multiples, making them potentially less comparable over the short-to-medium term. In this respect, in order to address such shortcomings, during the financial year ended 31 December 2020, the Group migrated to a discounted cash flow (“DCF”) approach, whereby the EV of borrowers is determined by reference to expected future cash flows under multiple scenarios, which is based on recent management information for each borrower as well as expert judgement in respect of the outlook of each borrower and the country and industry they operate in. This methodology therefore enables the Group to determine expected cash flows on an annual basis over the short-to-medium term under multiple scenarios, capturing the expected severity and duration of the impact of the pandemic on the financial performance of the borrower, after which point a terminal value is estimated. The recoverable amount under each scenario is therefore estimated by reference to the EV, plus available cash, less exit fees, discounted using the borrowers’ individually estimated weighted average cost of capital (“WACC”), which is determined using multiple assumptions in respect of both the cost of debt and cost of equity.

The following table presents the maximum exposure to credit risk from on-balance sheet and off-balance sheet financial instruments, before taking account of any collateral held or other credit enhancements. For financial assets recognised on balance sheet, the maximum exposure to credit risk equals their carrying amount. For financial guarantees granted, it is the maximum amount that the Group would have to pay if the guarantees were called upon. For loan commitments and other credit-related commitments, it is generally the full amount of the committed facilities.

For the purposes of Note 2.2 – Credit risk, amounts related to “Investments measured at amortised cost” are inclusive of basis adjustments attributable to the hedged risk.

	MeDirect Malta Group	
	2020	2019
	€000	€000
Net exposure:		
Financial assets measured at amortised cost		
Balances with central banks	**490,679**	241,723
Loans and advances to financial institutions	**263,129**	223,287
Loans and advances to customers	**2,020,760**	1,359,377
- International Lending portfolio	**850,191**	1,137,273
- Dutch Mortgage portfolio	**1,067,865**	133,511
- IFRS basis adjustment: Dutch Mortgage portfolio	**10,542**	(369)
- Local Lending portfolio	**92,162**	88,962
Investments measured at amortised cost	**490,112**	682,378
- Treasury portfolio	**198,049**	430,199
- Securitisation portfolio	**292,063**	252,179
Accrued income	**14,678**	14,381
Loans to related parties (included in other assets)	**11,629**	13,044
Other receivables (included in other assets)	**34,966**	34,336
	3,325,953	2,568,526
Instruments measured at fair value through other comprehensive income		
- Investments - Treasury portfolio	**659,670**	500,292
Instruments mandatorily measured at fair value through profit or loss	**2,984**	3,467
- Held for trading derivative financial instruments	**1,841**	2,020
- Investments - Securitisation portfolio	**1,143**	1,447
	3,988,607	3,072,285
Commitments to purchase financial assets	**22,000**	40,073
Commitments to extend credit, guarantees and other commitments	**743,929**	814,210

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 allowances, as well as the fair value of financial instruments measured at FVOCI and the associated credit loss allowances.

MeDirect Malta Group	2020		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	**490,681**	**(2)**	241,724	(1)
Loans and advances to financial institutions	**263,130**	**(1)**	223,288	(1)
Loans and advances to customers	**2,074,611**	**(53,851)**	1,381,596	(22,219)
- International Lending portfolio	**903,354**	**(53,163)**	1,159,131	(21,858)
- Dutch Mortgage portfolio	**1,068,012**	**(147)**	133,519	(8)
- IFRS basis adjustment: Dutch Mortgage portfolio	**10,542**	**-**	(369)	-
- Local Lending portfolio	**92,703**	**(541)**	89,315	(353)
Investments measured at amortised cost	**490,506**	**(394)**	682,646	(268)
- Treasury portfolio	**198,292**	**(243)**	430,448	(249)
- Securitisation portfolio	**292,214**	**(151)**	252,198	(19)
Accrued income	**15,119**	**(441)**	14,517	(136)
Loans to related parties (included in other assets)	**11,629**	**-**	13,044	-
Other receivables (included in other assets)	**34,966**	**-**	34,336	-
	3,380,642	**(54,689)**	2,591,151	(22,625)
Commitments to purchase financial assets	**22,000**	**-**	40,073	-
Commitments to extend credit, guarantees and other commitments	**743,929**	**(3,783)**	814,210	(2,112)
	765,929	**(3,783)**	854,283	(2,112)
Total	**4,146,571**	**(58,472)**	3,445,434	(24,737)
	Fair value	**Credit loss allowance**	Fair value	Credit loss allowance
	€000	**€000**	€000	€000
Instruments measured at fair value through other comprehensive income				
- Investments - Treasury portfolio	**652,958**	**(183)**	500,292	(144)

The following table contains an analysis of the maximum credit risk exposure from financial assets not subject to impairment.

	MeDirect Malta Group	
	2020	2019
	€000	€000
Investments measured at fair value through other comprehensive income		
- Investments - Treasury portfolio	**6,712**	-
Instruments mandatorily measured at fair value through profit or loss		
- Held for trading derivative financial instruments	**1,841**	2,020
- Investments - Securitisation portfolio	**1,143**	1,447
	9,696	3,467

2.2.2 Summary of credit quality of financial assets to which impairment requirements in IFRS 9 are applied

The Group's credit risk rating processes are designed to highlight exposures which require closer management attention because of their greater probability of default and potential loss.

As previously explained in the accounting policy (refer to Note 1.5), the Group adopts a five-point internal credit classification rating scale in order to assess the relative credit quality of exposures within its portfolios of financial instruments. Throughout MeDirect Malta Group's Management Credit Committee meetings, the members of the Management Credit Committee review the grading proposed by MeDirect Malta Group's Corporate Credit team and reviewed by MeDirect Malta Group's Risk team. Each of the five internal credit classification ratings within the scale is aligned to the Group's approach for determining the relative staging of financial assets in line with the requirements emanating from IFRS 9 as follows:

Stage 1 (Performing)

1. Regular - no material credit concerns.
2. Focus - no immediate prospect that a credit loss will ultimately be suffered, but worthy of close credit oversight.

Stage 2 (Underperforming)

3. Under Surveillance - significant increase in credit risk with identified concerns and some prospect that a credit loss may ultimately be suffered.

Stage 3 (Non-performing)

4. Doubtful - it is likely that the contractual terms of the debt will not be met and that a credit loss will be suffered.
5. Write-off - full or partial write-down of exposures with little prospect of recovery.

The financial assets recorded in each stage have the following characteristics:

- Stage 1: Non credit-impaired and without significant increase in credit risk on which a 12-month ECL is recognised (Regular and Focus internal classifications).
- Stage 2: A significant increase in credit risk has been experienced since initial recognition on which a lifetime ECL is recognised (Under Surveillance internal classification).
- Stage 3: Objective evidence of impairment and are therefore considered to be in default or otherwise credit-impaired on which a lifetime specific ECL is recognised (Doubtful and Write-off internal classifications).

Deteriorating Credits

The Group determines that a financial instrument is credit-impaired and in Stage 3 by considering relevant objective evidence, primarily whether:

- contractual payments of either principal or interest are past due by more than 90 days;
- there are other indications that the borrower is unlikely to pay, such as when a concession has been granted to the borrower for economic or legal reasons relating to the borrower's financial condition; and
- the loan is otherwise considered to be in default.

If unlikeliness to pay is not identified at an earlier stage, it is deemed to occur when an exposure is more than 90 days past due. Therefore, the definitions of credit-impaired and default are aligned as far as possible so that Stage 3 represents all loans that are considered defaulted or otherwise credit-impaired.

Credit-impaired loans and advances are those that are classified as "Doubtful" or "Write-off". These grades are assigned when the Group considers that either the customer is unlikely to pay its credit obligations in full, without recourse to security, or when the customer is more than 90 days past due on any material credit obligation to the Group.

The Group is required to identify non-performing exposures ("NPEs") and to assess the recoverability of the recognised exposures.

The principal guidance on the definition of NPEs, as referred to in Commission Implementing Regulation (EU) No 680/2014 (referred to as the "EBA International Technical Standard on supervisory reporting"), seeks to ensure the consistent implementation of the key drivers of the NPE definition, namely the "past-due" and the "unlikely-to-pay" criteria.

According to the EBA International Technical Standards on supervisory reporting, "non-performing exposures" are those that satisfy either or both of the following criteria:

a) material exposures which are more than 90 days past due; and
b) the debtor is assessed as unlikely to pay its credit obligations in full without realisation of collateral, regardless of the existence of any past-due amount or of the number of days past due.

Assessment is made at an obligor (rather than facility) level. This implies that in those cases where a particular debtor has multiple facilities with the Group, the Group considers whether there are indications of unlikeliness to pay at the level of the debtor, irrespective of the different levels of losses that can be incurred in respect of the different facilities resulting from different levels of seniority.

For further clarity, exposures in respect of which a "default" is considered to have occurred, and exposures that have been found "credit-impaired" in accordance with IFRS as adopted by the EU, shall always be considered as "non-performing exposures".

During the financial year ended 31 December 2020, the outbreak of the COVID-19 pandemic has led to an elevated level of economic uncertainty, which has in turn resulted in additional complexity in the identification of significant increase in credit risk ("SICR") or unlikeliness-to-pay ("UTP") events. In this regard, a heightened level of expert judgement was required in view of the subjectivity in assessing and evaluating the impact of the pandemic on the short to medium term financial condition and financial performance of borrowers within the Group's lending portfolios.

This was especially relevant in the determination of staging in respect of exposures classified within the International Lending portfolio which, as described previously, are particularly exposed to the increase in systemic risk resulting from the unprecedented economic conditions being experienced in the aftermath of the outbreak of the COVID-19 pandemic due to their size, nature, the countries in which they operate and their typically leveraged debt structure.

In this respect, exposures were segmented into distinct "COVID-19 classifications" on the basis of a borrower-level credit risk assessment, with the segments reflecting the varying degrees to which the pandemic has impacted the financial performance and financial condition of the borrower. The segmental analysis was then considered as part of the staging assessment. As described in more detail in section 1.5 of the financial statements, the Group's staging assessment in respect of exposures classified within the International Lending portfolio takes into consideration both qualitative and quantitative criteria. In response to the outbreak of the pandemic, the Group's qualitative assessment was enhanced to include an evaluation of:

- the severity of the impact of the pandemic on borrowers' financial condition on the basis of borrower information obtained during the year, including by reference to revised forecasts reflecting the impact of the pandemic on expected income levels and operating cash flows;
- information in respect of the impact of the pandemic on the industry and country in which the borrower operates; and
- the effectiveness of government support schemes and regulatory relief measures in avoiding a permanent deterioration in the borrower's financial condition.

During the financial year ended 31 December 2020, greater reliance was made by the Group on its qualitative staging criteria, when compared to its quantitative staging criteria, since the former was deemed to be more effective in capturing the impact of the significant economic uncertainties induced by the pandemic. In the context of the speed at which the pandemic has impacted borrowers, the effectiveness of the quantitative staging criteria displayed signs of limitations. This was mainly attributable to the fact that quantitative staging is driven by changes in PDs / implied ratings, which are primarily determined by reference to historical information, typically, borrower-specific audited financial information and to forwarding looking macroeconomic scenarios specific to the industry and country in which borrowers operate. Borrowers' audited financial statements are received annually and during 2020 would have been mostly reflective of the performance of the borrower during periods preceding the outbreak of the pandemic. As a result, PDs / implied ratings at reporting date used during 2020 would not have been fully representative of the observations in the current economic conditions. Accordingly, adjustments were applied to PDs / implied ratings in respect of borrowers deemed to be most impacted by the pandemic, predominantly in the form of notch downgrades, thereby ensuring that risks arising as a result of the unprecedented economic conditions being experienced are reflected in a timely manner. Adjustments to these ratings at borrower-level, were determined by the Corporate Credit team, reviewed by the Credit Risk team and ratified by the Management Credit Committee.

Credit information in respect of exposures classified within the Local Lending portfolio is typically more limited when compared to that in the International Lending portfolio. As a result, the Group prioritised the performance of credit risk assessments in respect of exposures requesting general public moratoria in line with the conditions established within Directive No. 18 On Moratoria on Credit Facilities in Exceptional Circumstances ('Directive No. 18') issued by the Central Bank of Malta or current customers requesting financial relief in the form of guaranteed financial assistance packages (e.g. MeAssist), which are guaranteed under the MDB CGS. In such cases, there is the risk that relief measures designed to alleviate liquidity shortfalls in the aftermath of the outbreak of the pandemic might conceal a long-term deterioration in financial condition, thereby delaying the identification of SICR or UTP events. In this respect, exposures benefiting from such relief measures are being monitored on a more frequent basis and, where possible, by reference to revised cash flow forecasts and updated management information sought from such borrowers, in order to assess whether the short-term economic shock as a result of the pandemic may transform into long-term borrower financial difficulties, thereby potentially impacting the borrower's repayment capacity. In this regard, exposures benefiting from relief measures in connection with the pandemic and deemed to be experiencing temporary financial difficulties are classified as "Focus", whereas exposures deemed to be experiencing longer term financial difficulties are downgraded to "Under Surveillance" or "Doubtful" according to the severity of such financial difficulties.

As described in more detail in section 1.5 of the financial statements, the staging criteria applied in respect of exposures classified within the Dutch Mortgage portfolio is based on credit deterioration indicators such as delinquency levels, forbearance activity and changes in PDs modelled by an external vendor on the basis of forecasted macro-economic scenarios which have been revised during the financial year ended 31 December 2020 to reflect the elevated level of economic uncertainty driven by the outbreak of the pandemic, as explained in more detail in Note 2.2.8 - 'Current Conditions and Forward-looking information incorporated in the ECL model'. In this regard, the staging criteria are still deemed to be appropriate, with the impact of the pandemic on the credit risk profile of the Dutch Mortgage portfolio being captured in the modelling of PDs. By comparison to the Local Lending portfolio, the Dutch Mortgage portfolio was not subject to COVID-19 relief measures in the form of the moratoria referred to above.

Exposures within the Treasury Investment and Securitisation Investment portfolios are typically rated, with the exception of the Group's investment in the GH1-2019 equity tranche measured at FVTPL. Publicly rated exposures predominantly meet the definition of investment-grade rating and, in this respect, are considered to have low credit risk. A SICR assessment is only performed in respect of exposures to which a sub-investment-grade rating has been attributed.

The following table presents information about the credit quality of financial assets held by the MeDirect Malta Group to which the impairment requirements in IFRS 9 are applied:

MeDirect Malta Group As at 31 December 2020	Performing Regular €000	 Focus €000	Under performing Under surveillance €000	Non-performing Doubtful €000	 Total €000
On balance sheet at amortised cost:					
Balances with central banks	490,679	-	-	-	490,679
Gross	*490,681*	-	-	-	*490,681*
Credit loss allowances	*(2)*	-	-	-	*(2)*
Loans and advances to financial institutions	263,129	-	-	-	263,129
Gross	*263,130*	-	-	-	*263,130*
Credit loss allowances	*(1)*	-	-	-	*(1)*
Loans and advances to customers	1,286,655	397,574	207,622	128,909	2,020,760
- International Lending portfolio	*165,240*	*375,691*	*187,777*	*121,483*	*850,191*
Gross	*166,612*	*381,506*	*192,459*	*162,777*	*903,354*
Credit loss allowances	*(1,372)*	*(5,815)*	*(4,682)*	*(41,294)*	*(53,163)*
- Dutch Mortgage portfolio	*1,074,542*	*487*	*3,151*	*227*	*1,078,407*
Gross	*1,064,097*	*487*	*3,183*	*245*	*1,068,012*
Credit loss allowances	*(97)*	-	*(32)*	*(18)*	*(147)*
- IFRS basis adjustment: Dutch Mortgage portfolio	*10,542*	-	-	-	*10,542*
- Local Lending portfolio	*46,873*	*21,396*	*16,694*	*7,199*	*92,162*
Gross	*47,117*	*21,557*	*16,823*	*7,206*	*92,703*
Credit loss allowances	*(244)*	*(161)*	*(129)*	*(7)*	*(541)*
Investments measured at amortised cost	489,723	-	389	-	490,112
- Treasury portfolio	*198,049*	-	-	-	*198,049*
Gross	*198,292*	-	-	-	*198,292*
Credit loss allowances	*(243)*	-	-	-	*(243)*
- Securitisation portfolio	*291,674*	-	*389*	-	*292,063*
Gross	*291,704*	-	*510*	-	*292,214*
Credit loss allowances	*(30)*	-	*(121)*	-	*(151)*
Accrued income	6,373	2,682	3,040	2,583	14,678
Gross	*6,383*	*2,730*	*3,078*	*2,928*	*15,119*
Credit loss allowances	*(10)*	*(48)*	*(38)*	*(345)*	*(441)*
Loans to related parties (included in other assets)	11,629	-	-	-	11,629
Other receivables (included in other assets)	34,966	-	-	-	34,966
	2,583,154	400,256	211,051	131,492	3,325,953
Off balance sheet at nominal amount:					
Commitments to purchase financial assets					
Nominal amount	22,000	-	-	-	22,000
Credit loss allowances	-	-	-	-	-
Commitments to extend credit, guarantees and other commitments					
Nominal amount	478,876	200,963	51,490	12,600	743,929
Credit loss allowances	(645)	(1,083)	(567)	(1,488)	(3,783)
	500,231	199,880	50,923	11,112	762,146
Instruments measured at fair value through other comprehensive income					
- Investments - Treasury portfolio					
Fair value	652,958	-	-	-	652,958
Credit loss allowances	(183)	-	-	-	(183)

	Performing		Under performing	Non-performing	
	Regular	Focus	Under surveillance	Doubtful	Total
MeDirect Malta Group	**€000**	**€000**	**€000**	**€000**	**€000**
As at 31 December 2019					
On balance sheet at amortised cost:					
Balances with central banks	241,723	-	-	-	241,723
Gross	241,724	-	-	-	241,724
Credit loss allowances	(1)	-	-	-	(1)
Loans and advances to financial institutions	223,287	-	-	-	223,287
Gross	223,288	-	-	-	223,288
Credit loss allowances	(1)	-	-	-	(1)
Loans and advances to customers	810,034	356,225	125,606	67,512	1,359,377
- International Lending portfolio	*605,001*	*351,207*	*121,211*	*59,854*	*1,137,273*
Gross	*608,614*	*355,041*	*123,167*	*72,309*	*1,159,131*
Credit loss allowances	*(3,613)*	*(3,834)*	*(1,956)*	*(12,455)*	*(21,858)*
- Dutch Mortgage portfolio	*133,142*	-	-	-	*133,142*
Gross	*133,519*	-	-	-	*133,519*
Credit loss allowances	*(8)*	-	-	-	*(8)*
- IFRS basis adjustment: Dutch Mortgage portfolio	*(369)*				*(369)*
- Local Lending portfolio	*71,891*	*5,018*	*4,395*	*7,658*	*88,962*
Gross	*72,137*	*5,051*	*4,468*	*7,659*	*89,315*
Credit loss allowances	*(246)*	*(33)*	*(73)*	*(1)*	*(353)*
Investments measured at amortised cost	682,378	-	-	-	682,378
- Treasury portfolio	*430,199*	-	-	-	*430,199*
Gross	*430,448*	-	-	-	*430,448*
Credit loss allowances	*(249)*	-	-	-	*(249)*
- Securitisation portfolio	*252,179*	-	-	-	*252,179*
Gross	*252,198*	-	-	-	*252,198*
Credit loss allowances	*(19)*	-	-	-	*(19)*
Accrued income	11,681	1,771	438	491	14,381
Gross	11,704	1,809	457	547	14,517
Credit loss allowances	(23)	(38)	(19)	(56)	(136)
Loans to related parties (included in other assets)	13,044	-	-	-	13,044
Other receivables (included in other assets)	34,336	-	-	-	34,336
	2,016,483	357,996	126,044	68,003	2,568,526
Off balance sheet at nominal amount:					
Commitments to purchase financial assets					
Nominal amount	40,073	-	-	-	40,073
Credit loss allowances	-	-	-	-	-
Commitments to extend credit, guarantees and other commitments					
Nominal amount	687,632	62,597	55,759	8,222	814,210
Credit loss allowances	(1,239)	(248)	(346)	(279)	(2,112)
	726,466	62,349	55,413	7,943	852,171
Investments measured at fair value through other comprehensive income					
- Treasury portfolio					
Fair value	500,292	-	-	-	500,292
Credit loss allowances	(144)	-	-	-	(144)

For securities within both the Treasury Investment and Securitisation Investment portfolios, the Group's credit quality classifications encompass a range of more granular external rating grades attributed by external agencies to debt securities. The following table illustrates this information:

	MeDirect Malta Group			
	Measured at amortised cost		Measured at fair value through other comprehensive income	
	2020	2019	**2020**	2019
	€000	€000	**€000**	€000
Treasury Investment portfolio				
National and regional government securities, supranationals and agencies				
AAA	**30,620**	82,742	**36,651**	31,215
AA+ to AA-	**66,166**	142,169	**206,455**	120,096
A- to BBB-	**-**	-	**22,818**	23,493
Other securities				
AAA	**77,472**	181,571	**280,489**	181,484
AA+ to AA-	**11,485**	11,515	**103,043**	140,464
A- to BBB-	**-**	-	**3,502**	3,540
Not rated	**12,306**	12,202	**-**	-
Equity instruments				
Not rated	**-**	-	**6,712**	-
	198,049	430,199	**659,670**	500,292
Securitisation Investment portfolio				
AAA	**287,522**	247,530	**-**	-
AA+ to AA-	**1,650**	1,650	**-**	-
A- to BBB-	**1,399**	1,400	**-**	-
BB+ to B-	**1,492**	1,599		
Other	**-**	-	**-**	-
	292,063	252,179	**-**	-
Total	**490,112**	682,378	**659,670**	500,292

These portfolios are also categorised under the five credit quality classifications used by the Group (i.e. regular, focus, under surveillance, doubtful and write-off) and these ratings are determined by MeDirect Malta's Management Credit Committee.

All the investments in the Treasury Investment portfolio and the Securitisation Investment portfolio are classified as regular, with the exception of the Group's investment in the most junior GH1-2019 tranche measured at amortised cost, which is deemed to have experienced a SICR since initial recognition and is therefore classified as "Under Surveillance". Staging in respect of the Group's investment in the GH1-2019 structured note tranches is determined by reference to Implied Ratings determined in accordance with the methodology described in Note 1.5 of the financial statements, whereby a SICR assessment is only performed when Implied Ratings fall below investment-grade.

2.2.3 Past due but not credit-impaired financial assets

An exposure is “past due” when any amount of principal, interest or fee has not been paid on the date it was due. Past due but not credit-impaired loans are those loans and advances for which contractual interest or principal payments are past due but do not meet the Group’s criteria for “credit-impaired” as outlined in the Three stage expected credit loss (ECL) approach. The criteria to assess whether an asset is credit-impaired aligns with the definition of default for regulatory purposes.

MeDirect Malta and MeDirect Belgium do not have any exposures forming part of the International Lending, Treasury Investment and Securitisation Investment portfolios which are past due but not credit-impaired. Past due but not credit-impaired facilities form part of the Local Lending portfolio, representing exposures to counterparties domiciled in Malta and concentrated within the real estate and construction sector, and the Dutch Mortgage portfolio, representing residential mortgage exposures to households and individuals domiciled in the Netherlands.

The past due but not credit-impaired ageing analysis of the Group’s loans and advances to customers within the Local Lending and the Dutch Mortgage portfolios is shown in section 2.2.4.

2.2.4 Detailed information on credit quality of financial assets

The following table provides an overview of the Group’s credit risk by stage and business segment, and the associated ECL coverage.

Summary of credit risk (excluding financial instruments not subject to impairment requirements) 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
MeDirect Malta Group	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**%**	**%**	**%**	**%**
As at 31 December 2020												
On balance sheet at amortised cost:												
Balances with central banks	490,681	-	-	490,681	(2)	-	-	(2)	-	-	-	-
Loans and advances to financial institutions	263,130	-	-	263,130	(1)	-	-	(1)	-	-	-	-
Loans and advances to customers												
- International Lending portfolio	548,118	192,459	162,777	903,354	(7,187)	(4,682)	(41,294)	(53,163)	1.3	2.4	25.4	5.9
- Dutch Mortgage portfolio	1,064,584	3,183	245	1,068,012	(97)	(32)	(18)	(147)	-	1.0	7.3	-
- IFRS basis adjustment: Dutch Mortgage portfolio	10,542	-	-	10,542	-	-	-	-	-	-	-	-
- Local Lending portfolio	68,674	16,823	7,206	92,703	(405)	(129)	(7)	(541)	0.6	0.8	0.1	0.6
Investments												
- Treasury portfolio	198,292	-	-	198,292	(243)	-	-	(243)	0.1	-	-	0.1
- Securitisation portfolio	291,704	510	-	292,214	(30)	(121)	-	(151)	-	23.7	-	0.1
Accrued income	9,113	3,078	2,928	15,119	(58)	(38)	(345)	(441)	0.6	1.2	11.8	2.9
Loans to related parties (included in other assets)	11,629	-	-	11,629	-	-	-	-	-	-	-	-
Other receivables (included in other assets)	34,966	-	-	34,966	-	-	-	-	-	-	-	-
Off balance sheet at nominal amount:												
Commitments to purchase financial assets	22,000	-	-	22,000	-	-	-	-	-	-	-	-
Commitments to extend credit, financial guarantees and other commitments	679,839	51,490	12,600	743,929	(1,728)	(567)	(1,488)	(3,783)	0.3	1.1	11.8	0.5
	3,693,272	267,543	185,756	4,146,571	(9,751)	(5,569)	(43,152)	(58,472)	0.3	2.1	23.2	1.4

	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 2020												
Investments at fair value through other comprehensive income												
- Treasury portfolio	652,958	-	-	652,958	(183)	-	-	(183)	-	-	-	-

	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
MeDirect Malta Group	€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
- Dutch Mortgage portfolio	133,519	-	-	133,519	(8)	-	-	(8)	-	-	-	-
- IFRS basis adjustment: Dutch Mortgage portfolio	(369)	-	-	(369)	-	-	-	-	-	-	-	-
- Local Lending portfolio	77,188	4,468	7,659	89,315	(279)	(73)	(1)	(353)	0.4	1.6	-	0.4
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	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												
Investments at fair value through other comprehensive income												
- Treasury portfolio	500,292	-	-	500,292	(144)	-	-	(144)	-	-	-	-

Unless identified at an earlier stage, all financial assets are deemed to have experienced a significant increase in credit risk when they are more than 30 days past due. As at 31 December 2020 and 2019, no exposures within the Treasury Investment and Securitisation Investment portfolios were classified as Stage 2, with the exception of the Group's investment in the most junior GHI-2019 tranche measured at amortised cost, which was not past due but classified as "Under Surveillance" as at 31 December 2020. None of the Stage 2 exposures within the International Lending portfolio were past due as at 31 December 2020 and 2019.

In this regard, the following disclosure only presents the ageing of Stage 2 financial assets in the Local Lending and Dutch Mortgage portfolios. It distinguishes between those assets that are classified as Stage 2 when they are either not past due or up to 30 days past due from those that are classified as Stage 2 due to ageing and are more than 30 DPD (>30 DPD). Past due financial instruments are those loans where customers have failed to make payments in accordance with the contractual terms of their facilities. As at 31 December 2020, Stage 1 exposures with a gross carrying amount of €247 thousand (2019: Nil) and €487 thousand (2019: Nil) classified within the Local Lending and Dutch Mortgage portfolios respectively, were classified as past due but not credit-impaired.

	Gross exposure			Credit loss allowance		
	Stage 2	Of which up to 30 DPD	Of which more than 30 DPD	Stage 2	Of which up to 30 DPD	Of which more than 30 DPD
	€000	€000	€000	€000	€000	€000
MeDirect Malta Group						
As at 31 December 2020						
Dutch Mortgage portfolio						
- Loans and advances to customers	**3,183**	**1,827**	**1,356**	**(32)**	**(13)**	**(19)**
Local Lending portfolio						
- Loans and advances to customers	**16,823**	**16,818**	**5**	**(129)**	**(129)**	**-**
- Accrued income	**30**	**30**	**-**	**-**	**-**	**-**
	20,036	**18,675**	**1,361**	**(161)**	**(142)**	**(19)**
As at 31 December 2019						
Local Lending portfolio						
- Loans and advances to customers	4,468	4,468	-	(73)	(73)	-
- Accrued income	28	28	-	-	-	-
	4,496	4,496	-	(73)	(73)	-

Distribution of financial instruments to which the impairment requirements in IFRS 9 are applied, by credit quality and stage distribution

	Gross carrying amount/nominal amount						
	Regular	Focus	Under surveillance	Doubtful	Total	Credit loss allowance	Net
	€000	€000	€000	€000	€000	€000	€000
MeDirect Malta Group							
As at 31 December 2020							
On balance sheet at amortised cost:							
Balances with central banks							
- Stage 1	490,681	-	-	-	490,681	(2)	490,679
Loans and advances to financial institutions							
- Stage 1	263,130	-	-	-	263,130	(1)	263,129
Loans and advances to customers							
- International Lending portfolio							
- Stage 1	166,612	381,506	-	-	548,118	(7,187)	540,931
- Stage 2	-	-	192,459	-	192,459	(4,682)	187,777
- Stage 3	-	-	-	162,777	162,777	(41,294)	121,483
- Dutch Mortgage portfolio							
- Stage 1	1,064,097	487	-	-	1,064,584	(97)	1,064,487
- Stage 2	-	-	3,183	-	3,183	(32)	3,151
- Stage 3	-	-	-	245	245	(18)	227
- IFRS basis adjustment: Dutch Mortgage portfolio	10,542	-	-	`-	10,542	-	10,542
- Local Lending portfolio							
- Stage 1	47,117	21,557	-	-	68,674	(405)	68,269
- Stage 2	-	-	16,823	-	16,823	(129)	16,694
- Stage 3	-	-	-	7,206	7,206	(7)	7,199
Investments measured at amortised cost							
- Treasury portfolio							
- Stage 1	198,292	-	-	-	198,292	(243)	198,049
- Securitisation portfolio							
- Stage 1	291,704	-	-	-	291,704	(30)	291,674
- Stage 2	-	-	510	-	510	(121)	389
Accrued income							
- Stage 1	6,383	2,730	-	-	9,113	(58)	9,055
- Stage 2	-	-	3,078	-	3,078	(38)	3,040
- Stage 3	-	-	-	2,928	2,928	(345)	2,583
Loans to related parties (included in other assets)							
- Stage 1	11,629	-	-	-	11,629	-	11,629
Other receivables (included in other assets)							
- Stage 1	34,966	-	-	-	34,966	-	34,966
Off balance sheet at nominal amount:							
Commitments to purchase financial assets							
- Stage 1	22,000	-	-	-	22,000	-	22,000
Commitments to extend credit, financial guarantees and other commitments							
- Stage 1	478,876	200,963	-	-	679,839	(1,728)	678,111
- Stage 2	-	-	51,490	-	51,490	(567)	50,923
- Stage 3	-	-	-	12,600	12,600	(1,488)	11,112
	3,086,029	607,243	267,543	185,756	4,146,571	(58,472)	4,088,099

	Fair value					
	Regular	Focus	Under surveillance	Doubtful	Total	Credit loss allowance
	€000	€000	€000	€000	€000	€000
MeDirect Malta Group						
As at 31 December 2020						
Investments measures at fair value through other comprehensive income						
- Treasury portfolio						
- Stage 1	652,958	-	-	-	652,958	(183)

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	Gross carrying amount/nominal amount						
	Regular €000	Focus €000	Under surveillance €000	Doubtful €000	Total €000	Credit loss allowance €000	Net €000
MeDirect Malta Group							
As at 31 December 2019							
On balance sheet at amortised cost:							
Balances with central banks							
- Stage 1	241,724	-	-	-	241,724	(1)	241,723
Loans and advances to financial institutions							
- Stage 1	223,288	-	-	-	223,288	(1)	223,287
Loans and advances to customers							
- International Lending portfolio							
- Stage 1	608,614	355,041	-	-	963,655	(7,447)	956,208
- Stage 2	-	-	123,167	-	123,167	(1,956)	121,211
- Stage 3	-	-	-	72,309	72,309	(12,455)	59,854
- Dutch Mortgage portfolio							
- Stage 1	133,519	-	-	-	133,519	(8)	133,511
- IFRS basis adjustment: Dutch Mortgage portfolio	(369)	-	-	-	(369)	-	(369)
- Local Lending portfolio							
- Stage 1	72,137	5,051	-	-	77,188	(279)	76,909
- Stage 2	-	-	4,468	-	4,468	(73)	4,395
- Stage 3	-	-	-	7,659	7,659	(1)	7,658
Investments measured at amortised cost							
- Treasury portfolio							
- Stage 1	430,448	-	-	-	430,448	(249)	430,199
- Securitisation portfolio							
- Stage 1	252,198	-	-	-	252,198	(19)	252,179
Accrued income							
- Stage 1	11,704	1,809	-	-	13,513	(61)	13,452
- Stage 2	-	-	457	-	457	(19)	438
- Stage 3	-	-	-	547	547	(56)	491
Loans to related parties (included in other assets)							
- Stage 1	13,044	-	-	-	13,044	-	13,044
Other receivables (included in other assets)							
- Stage 1	34,336	-	-	-	34,336	-	34,336
Off balance sheet at nominal amount:							
Commitments to purchase financial assets							
- Stage 1	40,073	-	-	-	40,073	-	40,073
Commitments to extend credit, financial guarantees and other commitments							
- Stage 1	687,632	62,597	-	-	750,229	(1,487)	748,742
- Stage 2	-	-	55,759	-	55,759	(346)	55,413
- Stage 3	-	-	-	8,222	8,222	(279)	7,943
	2,748,348	424,498	183,851	88,737	3,445,434	(24,737)	3,420,697

	Fair value					
	Regular €000	Focus €000	Under surveillance €000	Doubtful €000	Total €000	Credit loss allowance €000
MeDirect Malta Group						
As at 31 December 2019						
Investments measures at fair value through other comprehensive income – Treasury portfolio						
- Stage 1	500,292	-	-	-	500,292	(144)

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 tables below, 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 year ended 31 December 2020. Meanwhile, "Repayments and disposals" reflect loan repayments and disposals that occurred during the financial year ended 31 December 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".

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 31 December 2019. The line item "Net re-measurement of ECL arising from stage transfers and changes in risk parameters" 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, changes 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. Finally, this line item also comprises the increase in ECL in respect of assets written off during the period measured as the movement between 1 January 2020 and the date of write-off.

As described in previous sections, the Group's International Lending portfolio has been particularly impacted by the impact of the COVID-19 pandemic, principally due to the size and debt structure of the borrowers within the portfolio, which leads to greater exposure to systemic risk and adverse macroeconomic movements, mainly since the inherent level of risk of these highly geared borrowers has been amplified as a result of the unprecedented economic conditions being experienced.

In this respect, the severity of the economic impact of the pandemic and the ensuing elevated level of economic uncertainty has resulted in a substantial increase in credit risk levels within the International Lending portfolio, as reflected in the significant ECL charge recognised in respect of the financial year ended 31 December 2020 and shown in the table below. The increase in credit loss allowances was principally driven by the general deterioration in financial condition experienced by borrowers within the portfolio, leading to significant migrations of exposures from Stage 1 to Stage 2 or Stage 3. As per the table below, net exposures amounting to €264 million were transferred out of Stage 1 into Stages 2 or 3 during the year, with net transfers to Stage 3 amounting to €169 million. The impact of the pandemic on ECL is also reflected in the increase in PDs and LGDs driven by point-in-time economic adjustments and more pessimistic forward-looking macroeconomic scenarios being forecasted in the modelling of ECLs, as well as the application of a management overlay (referred to as "COVID-19 uncertainty adjustment" in the tables below), as described in more detail in Note 2.2.8 - 'Current Conditions and Forward-looking information incorporated in the ECL model'.

The table below 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								
MeDirect Malta Group								
Year ended 31 December 2020								
At beginning of year	1,420,082	(8,995)	177,070	(2,321)	81,037	(12,788)	1,678,189	(24,104)
New business	94,627	(1,338)	-	-	-	-	94,627	(1,338)
Repayments and disposals	(393,051)	1,620	(32,970)	202	(41,760)	5,822	(467,781)	7,644
Transfers of financial instruments								
- Transfers from Stage 1 to Stage 2	(155,688)	809	155,688	(809)	-	-	-	-
- Transfers from Stage 2 to Stage 1	14,643	(305)	(14,643)	305	-	-	-	-
- Transfers to Stage 3	(122,839)	1,985	(81,287)	829	204,126	(2,814)	-	-
- Transfers from Stage 3	-	-	35,203	(1,545)	(35,203)	1,545	-	-
Net remeasurement of ECL arising from stage transfers and changes in risk parameters	-	(1,496)	-	(1,574)	-	(66,231)	-	(69,301)
COVID-19 uncertainty adjustment	-	(1,238)	-	(372)	-	-	-	(1,610)
Realisation of ECL through restructuring and disposals	-	-	-	-	(31,341)	31,341	(31,341)	31,341
At end of year	857,774	(8,958)	239,061	(5,285)	176,859	(43,125)	1,273,694	(57,368)
ECL charge for the year								(33,264)
Effect of foreign exchange differences								(109)
Realisation of ECL through restructuring and disposals								(31,341)
Change in expected credit losses and other credit impairment charges for the year								(64,730)

	As at 31 December 2020		Year ended 31 December 2020
	Gross carrying/ nominal amount	Credit loss allowance	ECL (charge)/ release
	€000	€000	€000
MeDirect Malta Group			
As per preceding table	1,273,694	(57,368)	(64,714)
Balances at central banks	490,681	(2)	(1)
Loans and advances to financial institutions	263,130	(1)	-
Loans and advances to customers			
- Dutch Mortgage portfolio: drawn exposures	1,078,554	(147)	(139)
- Dutch Mortgage portfolio: undrawn commitments	335,652	(17)	(17)
- Local Lending portfolio: drawn exposures	92,703	(541)	(188)
- Local Lending portfolio: undrawn commitments	66,865	-	-
- Local Lending portfolio write-offs	-	-	(29)
Investments measured at amortised cost			
- Treasury portfolio	198,292	(243)	6
- Securitisation portfolio	292,214	(151)	(132)
Other accrued income	8,191	(2)	-
Summary of financial instruments to which the impairment requirements in IFRS 9 are applied through profit or loss	4,099,976	(58,472)	(65,214)
Investments measured at fair value through other comprehensive income			
- Treasury portfolio	652,958	(183)	(39)
Total credit loss allowance/total income statement ECL charge for the year		(58,655)	(65,253)

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 year. The impact of the pandemic on the Group's Local Lending portfolio has been limited since the majority of exposures within the Local Lending portfolio relate to the real estate and construction sectors, which sectors have largely managed to resume operations in the aftermath of the outbreak of the pandemic and are more dependent on the longer-term economic recovery of the country. The Group's credit risk is also mitigated through the maintenance of adequate levels of collateralisation, typically by charges on real estate properties. In this regard, movements in expected credit losses were largely driven by model and risk parameter changes, primarily due to the impact of more severe macroeconomic scenarios being modelled and used within the ECL calculation, and to a lesser extent due to transfers of exposures from Stage 1 to Stage 2 during the year amounting to €18.5 million. 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 attributable to the Dutch Mortgage portfolio backed by the NHG guarantee scheme, credit loss allowances attributable to the Securitisation Investment portfolio, which comprises the Group's 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), 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.

The table below provides a reconciliation of movements in gross carrying/nominal amounts and credit loss allowances by stage for the International Lending portfolio for the financial period ended 31 December 2019:

	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								
MeDirect Malta Group								
Period ended 31 December 2019								
At beginning of period	2,062,990	(13,932)	154,739	(2,249)	79,514	(7,995)	2,297,243	(24,176)
New business	140,513	(572)	-	-	-	-	140,513	(572)
Repayments and disposals	(687,940)	3,609	(64,923)	476	(6,704)	1,441	(759,567)	5,526
Transfers of financial instruments								
- Transfers from Stage 1 to Stage 2	(78,235)	376	78,235	(376)	-	-	-	-
- Transfers to Stage 3	(17,246)	265	(5,978)	363	23,224	(628)	-	-
- Transfers from Stage 3	-	-	14,997	(333)	(14,997)	333	-	-
Net remeasurement of ECL arising from stage transfers and changes in risk parameters	-	(573)	-	(660)	-	(5,939)	-	(7,172)
UK economic uncertainty adjustment	-	1,832	-	458	-	-	-	2,290
At end of period	1,420,082	(8,995)	177,070	(2,321)	81,037	(12,788)	1,678,189	(24,104)
ECL released for the period								72
Effect of foreign exchange differences								96
Change in expected credit losses and other credit impairment charges for the period								168

	As at 31 December 2019		Period ended 31 December 2019
	Gross carrying/ nominal amount €000	Credit loss allowance €000	ECL (charge)/ release €000
Group			
As per preceding table	1,678,189	(24,104)	168
Balances at central banks	241,724	(1)	-
Loans and advances to financial institutions	223,288	(1)	-
Loans and advances to customers			
- Dutch Mortgage portfolio: drawn exposures	133,150	(8)	(8)
- Dutch Mortgage portfolio: undrawn commitments	283,671	-	-
- Local Lending portfolio: drawn exposures	89,315	(353)	1,019
- Local Lending portfolio: undrawn commitments	57,166	-	-
- Local Lending portfolio write-offs	-	-	(1,000)
- Local Lending portfolio recoveries	-	-	11
Investments measured at amortised cost			
- Treasury portfolio	430,448	(249)	(184)
- Securitisation portfolio	252,198	(19)	(19)
Other accrued income	8,905	(2)	(2)
Summary of financial instruments to which the impairment requirements in IFRS 9 are applied through profit or loss	3,398,054	(24,737)	(15)
Investments measured at fair value through other comprehensive income			
- Treasury portfolio	500,292	(144)	(121)
Total credit loss allowance/total income statement ECL charge for the period		(24,881)	(136)

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 €0.2 million to €0.4 million during the period ended 31 December 2019. Such movements were primarily driven by new business during the period (amounting to an increase of €0.1m), and transfers from Stage 1 to Stage 2 (amounting to an increase of €0.1m), and derecognised assets (amounting to a release of €0.1m). Net movements driven by model and risk parameter changes during the period are negligible. Credit loss allowances measured in respect of exposures within the Local Lending portfolio classified as Stage 3 exposures were negligible as at 31 December 2019.

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.

Credit loss allowances attributable to loans and advances to customers

The following table shows the credit loss allowances on loans and advances to customers recognised on the Group's balance sheet as at 31 December 2020 and 2019, excluding credit loss allowances on accrued interest and other credit-related commitments, analysed by stage distribution.

	Stage 1	Stage 2	Stage 3	Total
	€000	€000	€000	€000
MeDirect Malta Group				
As at 31 December 2020				
International Lending portfolio	**7,187**	**4,682**	**41,294**	**53,163**
Dutch Mortgage portfolio	**97**	**32**	**18**	**147**
Local Lending portfolio	**405**	**129**	**7**	**541**
	7,689	**4,843**	**41,319**	**53,851**
As at 31 December 2019				
International Lending portfolio	7,447	1,956	12,455	21,858
Dutch Mortgage portfolio	8	-	-	8
Local Lending portfolio	279	73	1	353
	7,734	2,029	12,456	22,219

The movement in credit loss allowances and the ECL charge for the financial year ended 31 December 2020 and financial period ended 31 December 2019 are analysed in detail in the tables presented in the previous section.

Sectorial information in respect of changes in credit loss allowances/impairment charges relating to international loans and advances is presented in Section 2.2.9. The credit-impaired loans and advances classified within the Local Lending portfolio are mainly attributable to the real estate and construction sector, whereas credit-impaired loans and advances classified within the Dutch Mortgage portfolio represent residential mortgages backed by the NHG guarantee, and categorised as exposures to households and individuals in Section 2.2.9.

During the financial year ended 31 December 2020, interest income amounting to €7.9 million (Period ended 31 December 2019: €3.8 million) was recognised in profit or loss on credit-impaired loans.

2.2.5 Loans and advances to customers with renegotiated terms and the Group's forbearance policy

The contractual terms of a loan may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer. An existing loan whose terms have been modified would be derecognised in certain circumstances and the renegotiated loan recognised as a new loan at fair value.

Forbearance measures always aim to return the exposure to a situation of sustainable repayment capacity. Forbearance measures consist of concessions towards a debtor facing or about to face difficulties in meeting its financial commitments ("financial difficulties").

The Group renegotiates loans to customers in financial difficulties (referred to as "forbearance activities") to maximise collection opportunities and minimise the risk of default. Under the Group's forbearance policy, loan forbearance is granted on a selective basis if the debtor is currently in default on its debt or if there is a high risk of default, there is evidence that the debtor made all reasonable efforts to pay under the original contractual terms and the debtor is expected to be able to meet the revised terms.

A concession is defined in the European Banking Authority ("EBA") final draft Implementing Technical Standards (2014) and further set out in the EBA final guidance on Management of Non-performing and Forborne Exposures (2018), which refer to either of the following actions:

- a modification of the previous terms and conditions of a contract which the debtor was considered unable to comply with due to its financial difficulties ("troubled debt") to allow for sufficient debt service ability, that would not have been granted had the debtor not been in financial difficulties; or
- a total or partial refinancing of a troubled debt contract, that would not have been granted had the debtor not been in financial difficulties.

The revised terms usually applied by the Group include extending the maturity, amending the terms of loan covenants and partial write-offs where there is reasonable financial evidence to demonstrate the borrower's inability to repay the loan in full. MeDirect Malta's Management Credit Committee regularly reviews reports on forbearance activities.

For the purposes of these financial statements, "loans with renegotiated terms" are defined as loans that have been restructured due to a deterioration in the borrower's financial position, for which the Group has made concessions by agreeing to terms and conditions that are more favourable for the borrower than the Group had provided initially and that it would not otherwise consider. A loan continues to be presented as part of loans with renegotiated terms until maturity, early repayment or write-off, unless certain prescriptive conditions are met.

Typically, the Group either categorises a forborne exposure as performing; or classifies the exposure as forborne non-performing if unlikely-to-pay indicators are evidenced, as outlined in the Non-Performing and Default Exposure section of the Group's Credit Policy.

Renegotiated loans can be classified as non credit-impaired where the renegotiation has resulted from significant concern about a borrower's ability to meet their contractual payment terms but the renegotiated terms are based on current market rates and contractual cash flows are expected to be collected in full following the renegotiation.

Non credit-impaired renegotiated loans also include previously impaired renegotiated loans that have demonstrated satisfactory performance over a period of time or have been assessed based on all available evidence as having no remaining indicators of impairment.

On renegotiation, where the existing agreement is cancelled and a new agreement is made on substantially different terms, or if the terms of an existing agreement are modified, such that the renegotiated loan is substantially a different financial instrument, the loan would be derecognised and a new loan is recognised, for accounting purposes. However, newly recognised loans retain the "non-performing forborne" classification for regulatory reporting purposes.

When determining whether a loan that is restructured should be derecognised and a new loan recognised, the Group considers the extent to which the changes to the original contractual terms result in the renegotiated loan, considered as a whole, being a substantially different financial instrument.

As outlined previously, renegotiated loans that are classified as credit-impaired/Stage 3 exposures at the renegotiation date which have not had a substantial modification in terms are not derecognised and remain disclosed as credit-impaired / Stage 3 exposures until there is sufficient evidence of cure to demonstrate a significant reduction in the risk of non-payment of future cash flows observed over a one-year period and there are no other indicators of impairment. In contrast, when substantial modification has been made to the terms of the renegotiated loan, the old financial asset is derecognised and a new financial asset is recognised, the latter being classified as a Stage 1 asset unless originated credit-impaired, in which case it is classified as a POCI financial asset.

During the financial year ended 31 December 2020, the outbreak of the COVID-19 pandemic adversely impacted the financial performance and financial condition of a number of borrowers classified within the International Lending portfolio. In this respect, the Group was party to a number of loan renegotiations in response to financial difficulties experienced by these borrowers. An assessment was performed in respect of these exposures in order to determine whether the restructuring resulted in contractual terms which are substantially different from those which existed prior to the restructuring, thereby requiring derecognition of the old financial instrument(s) and the recognition of new financial instrument(s).

Based on this assessment, it was determined that substantial modifications were deemed to have occurred in respect of renegotiated loans with a pre-restructuring gross carrying amount of €55.5 million, thereby requiring derecognition in accordance with the principles emanating from IFRS 9. Balances amounting to €16.9 million were written off as at the date of renegotiation. The new financial assets attributable to these exposures were classified as Stage 1 on the basis that contractual cash flows under the renegotiated terms are expected to be recovered in full.

In contrast, no substantial modifications were deemed to have occurred in respect of renegotiated loans with a pre-restructuring gross carrying amount of €26.5 million. These exposures were classified as Stage 3 prior to the restructuring and remain classified as such as at 31 December 2020. A modification loss amounting to €0.6 million was charged to profit or loss within "Interest income" on the date of renegotiation.

In response to the outbreak of the pandemic, a number of government support schemes and regulatory relief measures were implemented during the financial year ended 31 December 2020. This is particularly relevant in the context of the Local Lending portfolio, which comprises exposures benefiting from the granting of moratoria on capital and / or interest payments aimed at providing relief to individual and corporate customers and enabling them to overcome temporary liquidity constraints. In view of this, the Group continued to support its customers classified within the Local Lending portfolio through the granting of such moratoria. In this regard, the Central Bank of Malta issued Directive No. 18 in order to provide guidance on the treatment of such instances, in line with European Banking Authority ('EBA') Guidelines on legislative and non-legislative moratoria on loan repayments applied in the light of the Covid-19 crisis (the 'EBA Guidelines'). Moratoria meeting the conditions emanating from Directive No. 18 and the EBA Guidelines are referred to as general payment moratoria.

In line with the guidelines mentioned above, borrowers availing themselves of general payment moratoria are not classified as renegotiated/forborne loans, unless such borrowers were already experiencing financial difficulties prior to the granting of the general payment moratorium, in which case the exposure would be classified as non-performing forborne / Stage 3.

Nevertheless, the regulatory relief measure afforded to exposures benefiting from a general payment moratorium does not automatically lead to a Stage 1 classification, nor does the granting of the general payment moratorium automatically trigger the assumption that credit deterioration has occurred, requiring a downgrade in classification to Stage 2. In this respect and in accordance with the requirements emanating from Directive No. 18 and the EBA Guidelines, the Group performed an assessment on the basis of available information in order to determine whether the financial difficulties being experienced by borrowers benefiting from a general payment moratorium are temporary in nature. If, notwithstanding the granting of the general payment moratorium, the impact of the pandemic was deemed to have led to a more permanent deterioration in the borrower's financial condition, the exposure was downgraded to Stage 2 or Stage 3, depending on the magnitude of the assessed impact. In case of extensions of general payment moratoria beyond the maximum period prescribed by Directive No. 18, such exposures are considered to be renegotiated / forborne.

No similar COVID-19 relief measures are applicable in respect of exposures classified within the Dutch Mortgage portfolio and, in this regard, the treatment of modifications and renegotiations of such exposures follows the regular principles established in the Group's accounting and credit policies.

As at 31 December 2020 and 31 December 2019, all exposures within the Treasury Investment and Securitisation Investment portfolios are classified as Stage 1 – neither past due nor credit-impaired, with the exception of the Group's investment in the most junior GH1-2019 tranche measured at amortised cost, which was not past due but classified as Stage 2 as at 31 December 2020. In addition, none of the exposures within these portfolios were forborne as at 31 December 2020 and 31 December 2019, reflecting the fact that both the Securitisation Investment portfolio and the Treasury Investment portfolio principally comprise of investment-grade exposures. In this regard, any amounts disclosed in this section relate to forbearance activity within the International Lending, Dutch Mortgage and Local Lending portfolios.

The following table shows the carrying amount of the Group's loans and advances to customers classified within the International Lending and Local Lending portfolios reflecting forbearance activity, by stage and by past due status. For the avoidance of doubt, exposures benefiting from a general payment moratorium meeting the conditions established within Directive No. 18 and the EBA Guidelines are classified as non-forborne exposures in the table below.

MeDirect Malta Group	**International Lending Portfolio**		**Local Lending Portfolio**		
	Non-forborne exposures €000	**Forborne exposures €000**	**Non-forborne exposures €000**	**Forborne exposures €000**	**Total €000**
As at 31 December 2020					
Stage 1					
Neither past due nor credit-impaired	**449,317**	**98,801**	**65,929**	**2,498**	**616,545**
Past due but not credit-impaired					
- by up to 30 days	**-**	**-**	**235**	**12**	**247**
Stage 2					
Neither past due nor credit-impaired	**79,687**	**112,772**	**13,390**	**3,352**	**209,201**
Past due but not credit-impaired					
by up to 30 days	**-**	**-**	**64**	**12**	**76**
by up to 60 days	**-**	**-**	**5**	**-**	**5**
Stage 3					
Credit-impaired, net of credit loss allowances	**44, 685**	**76, 798**	**356**	**6,843**	**128,682**
Loans and advances to customers, net of Stage 3 credit loss allowances	**573,689**	**288,371**	**79,979**	**12,717**	**954,756**
Stage 1 credit loss allowances	**4,902**	**2,285**	**390**	**15**	**7,592**
Stage 2 credit loss allowances	**1,063**	**3,619**	**129**	**-**	**4,811**
Stage 3 credit loss allowances	**14,795**	**26,499**	**7**	**-**	**41,301**
As at 31 December 2019					
Stage 1					
Neither past due nor credit-impaired	903,616	60,039	74,682	2,506	1,040,843
Stage 2					
Neither past due nor credit-impaired	94,644	28,523	-	-	123,167
Past due but not credit-impaired:					
- by up to 30 days	-	-	1,180	3,288	4,468
Stage 3					
Credit-impaired, net of credit loss allowances	9,302	50,552	426	7,232	67,512
Loans and advances to customers, net of Stage 3 credit loss allowances	1,007,562	139,114	76,288	13,026	1,235,990
Stage 1 credit loss allowances	5,813	1,634	251	28	7,726
Stage 2 credit loss allowances	1,573	383	-	73	2,029
Stage 3 credit loss allowances	2,650	9,805	1	-	12,456

During the financial year ended 31 December 2020, general payment moratoria meeting the criteria emanating from Directive No. 18 and the EBA Guidelines were granted to 48 borrowers in respect of gross exposures amounting to €22.4 million for both Group and Bank. Exposures classified within the Local Lending portfolio subject to general payment moratoria amounted to €22.1 million at 31 December 2020. Exposures benefitting from general payment moratoria, with a total gross carrying amount of €19.7 million are presented as part of the non-forborne exposures within the Local Lending portfolio in the tables presented on the previous page. Of these, the gross carrying amount of exposures subject to general payment moratoria and classified in Stages 1 and 2 amounted to €9.6 million and €10.1 million respectively at 31 December 2020. The credit loss allowances recognised in respect of non-forborne exposures subject to general payment moratoria and classified in Stage 1 amounted to €0.1 million as at 31 December 2020, whereas credit loss allowances recognised in respect of Stage 2 non-forborne exposures subject to general payment moratoria amounted to €0.1 million. In addition, exposures within the Local Lending portfolio benefitting from general payment moratoria but which are considered to be forborne amounted to €2.7 million as at 31 December 2020, of which exposures with a gross carrying amount of €0.2 million and €2.5 million are classified in Stage 1 and Stage 2 respectively. The credit loss allowances on these forborne exposures subject to general payment moratoria amounted to €0.01 million as at 31 December 2020.

In May 2020, MeDirect Malta launched the MeAssist lending product to enhance access to bank financing to corporate customers in the Group's Local Lending portfolio in Malta. Such financing, offered in the form of working capital facilities granted to assist customers with their operational requirements in view of the market disruptions brought about by the outbreak of the COVID-19 pandemic, is up to 90% secured by guarantees provided under the MDB CGS. In this respect, total commitments entered into with corporate customers within the Group's Local Lending portfolio meeting the criteria of the MeAssist lending product amounted to €1.5 million as at 31 December 2020, of which €1 million was drawn down and classified in Stage 1 as at the same date with an associated guarantee amounting to €0.9 million.

The following table shows the carrying amount of the Group's loans and advances to customers classified within the Dutch Mortgage portfolio reflecting forbearance activity, by stage and by past due status.

MeDirect Malta Group	**Dutch Mortgage Portfolio**		
	Non-forborne exposures	**Forborne exposures**	**Total**
	€000	**€000**	**€000**
As at 31 December 2020			
Stage 1			
Neither past due nor credit-impaired	**1,064,097**	**-**	**1,064,097**
Past due but not credit-impaired:			
- by up to 30 days	**487**	**-**	**487**
Stage 2			
Neither past due nor credit-impaired	**1,827**	**-**	**1,827**
Past due but not credit-impaired:			
- by more than 30 days and up to 90 days	**429**	**927**	**1,356**
Stage 3			
Credit-impaired, net of credit loss allowances	**227**	**-**	**227**
Loans and advances to customers, net of Stage 3 credit loss allowances	**1,067,067**	**927**	**1,067,994**
Stage 1 credit loss allowances	**97**	**-**	**97**
Stage 2 credit loss allowances	**19**	**13**	**32**
Stage 3 credit loss allowances	**18**	**-**	**18**

As at 31 December 2019, all exposures within the Dutch Mortgage portfolio were classified as Stage 1 – neither past due nor credit-impaired. In addition, none of the exposures classified therein were forborne as at 31 December 2019.

As at 31 December 2020, total gross forborne loans and advances to customers as a percentage of total gross loans and advances to customers of MeDirect Malta Group were equivalent to 15.9% (2019: 11.7%).

Interest income recognised by MeDirect Malta Group during the financial year ended 31 December 2020 in respect of forborne exposures amounted to €18.9 million (Period ended 31 December 2019: €7.3 million).

The movement in the gross carrying amount of forborne loans and advances to customers, before credit loss allowances, is analysed below:

MeDirect Malta Group	Year ended 31 December 2020 €000	Period from 1 April to 31 December 2019 €000
At beginning of financial year/period	**161,945**	113,737
Loans to which forbearance measures have been extended during the year/period without derecognition	**221,067**	83,989
Capitalised interest	**2,846**	507
Capitalised fees	**(186)**	(94)
Repayments or disposals	**(15,070)**	(34,651)
De-recognised forborne loans due to further forbearance measures	**(38,519)**	-
Newly recognised loans as a result of forbearance measures	**29,130**	-
Write-offs	**(31,370)**	(1,000)
Amortisation of premium or discount	**393**	(932)
Exchange differences	**(1,722)**	389
At end of financial year/period	**328,514**	161,945

Capitalised fees included in the table above reflect amounts disbursed by customers in relation to the origination of the exposure. Such amounts are recognised as part of the gross carrying amount of the exposure in the form of deferred income and amortised over the life of the instrument.

As at 31 December 2020, credit loss allowances on the MeDirect Malta Group's forborne loans were equivalent to €32.4 million (2019: €11.9 million). Additions to credit loss allowances on forborne loans during the year ended 31 December 2020 amounted to €24.8 million (Period ended 31 December 2019: €6.5 million). Reversals of credit loss allowances on forborne loans during the year ended 31 December 2020 amounted to €4.3 million (Period ended 31 December 2019: €3.7 million).

The following tables show the gross carrying amounts of the MeDirect Malta Group's holdings of renegotiated loans and advances to customers analysed by industry sector and stage:

	MeDirect Malta Group			
	Stage 1 €000	**Stage 2 €000**	**Stage 3 €000**	**Total €000**
As at 31 December 2020				
Accommodation and food service activities	**15,812**	**-**	**-**	**15,812**
Administrative and support services	**-**	**10,940**	**39,960**	**50,900**
Real estate and construction	**2,510**	**3,363**	**6,842**	**12,715**
Financial and insurance activities	**25,644**	**56,835**	**33,536**	**116,015**
Human health and social work activities	**-**	**14,931**	**-**	**14,931**
Information and communication	**-**	**12,664**	**13,091**	**25,755**
Manufacturing	**17,478**	**17,403**	**-**	**34,881**
Professional, scientific and technical activities	**39,867**	**-**	**-**	**39,867**
Households and individuals	**-**	**927**	**-**	**927**
Wholesale and retail trade; Repair of motor vehicles and motorcycles	**-**	**-**	**16,711**	**16,711**
	101,311	**117,063**	**110,140**	**328,514**
As at 31 December 2019				
Administrative and support services	16,889	-	-	16,889
Real estate and construction	2,506	18,155	7,232	27,893
Information and communication	13,258	-	-	13,258
Manufacturing	-	13,656	26,792	40,448
Professional, scientific and technical activities	29,892	-	17,509	47,401
Wholesale and retail trade; Repair of motor vehicles and motorcycles	-	-	16,056	16,056
	62,545	31,811	67,589	161,945

The Group's forborne loans classified within the International Lending portfolio as at 31 December 2020 consist of corporate exposures based in Europe, amounting to €301.7 million (2019: €108.9 million), and in the United States, amounting to €13.1 million (2019: €40.0 million). The forborne loans classified within the Local Lending portfolio are mainly categorised as exposures to corporate customers within the real estate and construction sector. Forbearance measures in respect of exposures classified within the Dutch Mortgage portfolio are limited to payment arrangements, allowing customers to repay the amounts in arrears in addition to the regular monthly instalment. Past due amounts are thereby regularised within an agreed number of months. The forborne loans classified within the Dutch Mortgage portfolio, are categorised as exposures to households and individuals in the tables above.

2.2.6 Write-off policy

The Group writes off financial assets when the relevant Management Credit Committee of MeDirect Malta and MeDirect Belgium determines that the balance is uncollectible. This determination is made after considering information such as the occurrence of significant changes in the borrower's/issuer's financial position such that the borrower/issuer can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure. Financial assets written off by the Group during the financial year ended 31 December 2020 amounted to €31.3 million (Period ended 31 December 2019: €1.0 million), which amounts include write-offs resulting from renegotiations of financial instruments during the financial year ended 31 December 2020 (2019: nil), as described in further detail in note 2.2.5 – "Loans and advances to customers with renegotiated terms and the Group's forbearance policy".

2.2.7 Collateral

The Group holds collateral against loans and advances to customers classified under the Local Lending and Dutch Mortgage portfolios in the form of hypothecary rights over immovable assets and registered rights over movable assets and guarantees. The assets held as collateral are assigned a fair value at the time of credit approval. The assigned value is regularly monitored to identify assets that need revaluation.

Depending on the customer's standing and the type of product, in certain circumstances facilities may be provided on an unsecured basis, although the Group has limited appetite for such agreements. In the majority of lending facilities, a charge over collateral is obtained and considered in determining the credit risk appetite and risk-return profile of all lending decisions. In the event of a default, the Group may utilise the collateral as a source of repayment. Depending on its form, collateral can have a significant financial effect in mitigating exposure to credit risk.

Collateral received by the Group includes residential and commercial property, as well as financial collateral such as debt securities and cash on deposit. The immovable property collateral received in respect of exposures within the Local Lending and Dutch Mortgage portfolios is mainly located in Malta and the Netherlands respectively. The Group follows Articles 124 to 126 of the CRR in order to determine whether exposures are fully and completely secured by immovable property, and which risk weight to apply in order to calculate the own funds requirement.

Exposures meeting the eligibility criteria of the MeAssist lending product launched by MeDirect Malta to provide assistance to Maltese corporate customers classified within the Local Lending portfolio in the aftermath of the outbreak of the pandemic benefit from unfunded credit risk protection in the form of guarantees covering up to 90% of the exposure amount and provided under the MDB CGS.

The following tables show the gross carrying amount (before credit loss allowances) of the loans and advances to customers classified under the Local Lending portfolio by level of collateral expressed through the loan-to-value ("LTV") ratio. The collateral measured for the purposes of the tables below consists of fixed first charges on real estate, and charges over cash and marketable financial instruments, as well as guarantees provided under the MDB CGS. The collateral amounts represent the expected market value on an open market basis for real estate: no adjustment has been made to the collateral for any expected costs of recovery. Cash is valued at its nominal value and marketable securities at their fair value. If an exposure is fully cash secured (100% LTV), no ECL is measured in this respect, whereas ECL is calculated on exposures which are partially cash secured and having a LTV ratio less than 100%. Guarantees provided in respect of the MeAssist lending product under the MDB CGS are shown at 90% of the guaranteed exposure amount.

MeDirect Malta Group	Non-forborne		Forborne		Total	
	Gross carrying amount €000	Credit loss allowance €000	Gross carrying amount €000	Credit loss allowance €000	Gross carrying amount €000	Credit loss allowance €000
As at 31 December 2020						
Stage 1						
a) Not collateralised	1	-	-	-	1	-
b) Fully collateralised						
- Up to 50% LTV	23,275	-	-	-	23,275	-
- 51% to 75% LTV	40,597	(367)	-	-	40,597	(367)
- 76% to 90% LTV	188	(8)	2,510	(15)	2,698	(23)
c) Partially collateralised						
- Greater than 100% LTV	2,103	(15)	-	-	2,103	(15)
	66,164	(390)	2,510	(15)	68,674	(405)
Stage 2						
a) Fully collateralised						
- Up to 50% LTV	4,071	-	3,364	-	7,435	-
- 51% to 75% LTV	9,388	(129)	-	-	9,388	(129)
	13,459	(129)	3,364	-	16,823	(129)
Stage 3						
a) Not collateralised	318	(7)	-	-	318	(7)
b) Fully collateralised						
- Up to 50% LTV	45	-	237	-	282	-
- 91% to 100% LTV	-	-	6,606	-	6,606	-
	363	(7)	6,843	-	7,206	(7)

MeDirect Malta Group	Non-forborne		Forborne		Total	
	Gross carrying amount €000	Credit loss allowance €000	Gross carrying amount €000	Credit loss allowance €000	Gross carrying amount €000	Credit loss allowance €000
As at 31 December 2019						
Stage 1						
a) Not collateralised	338	(21)	-	-	338	(21)
b) Fully collateralised						
- Up to 50% LTV	36,715	(38)	-	-	36,715	(38)
- 51% to 75% LTV	35,750	(165)	-	-	35,750	(165)
- 76% to 90% LTV	1,879	(27)	2,506	(28)	4,385	(55)
	74,682	(251)	2,506	(28)	77,188	(279)
Stage 2						
a) Fully collateralised						
- Up to 50% LTV	1,134	-	2,552	-	3,686	-
- 51% to 75% LTV	46	-	736	(73)	782	(73)
	1,180	-	3,288	(73)	4,468	(73)
Stage 3						
a) Not collateralised	73	(1)	-	-	73	(1)
b) Fully collateralised						
- Up to 50% LTV	354	-	626	-	980	-
- 91% to 100% LTV	-	-	6,606	-	6,606	-
	427	(1)	7,232	-	7,659	(1)

The following table shows the gross carrying amount (before credit loss allowances) of the loans and advances to customers classified under the Dutch Mortgage portfolio by level of collateral expressed through the LTV ratio. The collateral measured for the purposes of the table below consists of fixed first charges on real estate. Guarantees issued by the Dutch government (NHG) in respect of a loan represent additional security.

MeDirect Malta Group	Non-forborne		Forborne		Total	
	Gross carrying amount €000	Credit loss allowance €000	Gross amount €000	Credit loss allowance €000	Gross amount €000	Credit loss allowance €000
As at 31 December 2020						
Stage 1						
a) Fully collateralised						
- Up to 50% LTV	**21,092**	**(1)**	**-**	**-**	**21,092**	**(1)**
- 51% to 75% LTV	**148,074**	**(8)**	**-**	**-**	**148,074**	**(8)**
- 76% to 90% LTV	**238,122**	**(18)**	**-**	**-**	**238,122**	**(18)**
- 91% to 100% LTV	**596,364**	**(63)**	**-**	**-**	**596,364**	**(63)**
b) Partially collateralised						
- greater than 100%	**60,932**	**(7)**	**-**	**-**	**60,932**	**(7)**
	1,064,584	**(97)**	**-**	**-**	**1,064,584**	**(97)**
Stage 2						
a) Fully collateralised						
- 51% to 75% LTV	**-**	**-**	**123**	**(1)**	**123**	**(1)**
- 76% to 90% LTV	**-**	**-**	**137**	**(1)**	**137**	**(1)**
- 91% to 100% LTV	**2,256**	**(19)**	**667**	**(11)**	**2,923**	**(30)**
	2,256	**(19)**	**927**	**(13)**	**3,183**	**(32)**
Stage 3						
a) Fully collateralised						
- 51% to 75% LTV	**91**	**(11)**	**-**	**-**	**91**	**(11)**
- 76% to 90% LTV	**154**	**(7)**	**-**	**-**	**154**	**(7)**
	245	**(18)**	**-**	**-**	**245**	**(18)**

New business in the Group's Dutch Mortgage portfolio commenced during September 2019. In this regard, all exposures within the Dutch Mortgage portfolio as at 31 December 2019 were non-forborne and classified as Stage 1 exposures. There were no forborne exposures as at 31 December 2019.

	Non-forborne	
	Gross carrying amount €000	**Credit loss allowance €000**
Group		
As at 31 December 2019		
Stage 1		
a) Fully collateralised		
- Up to 50% LTV	3,015	-
- 51% to 75% LTV	23,999	(2)
- 76% to 90% LTV	35,295	(2)
- 91% to 100% LTV	65,897	(2)
b) Partially collateralised		
- greater than 100%	5,313	(2)
	133,519	(8)

As at 31 December 2020 the Group held senior secured loans to international borrowers classified under the International Lending portfolio which amounted to €0.9 billion (2019: €1.1 billion). In respect of such financial assets, the Group normally has a right over the borrower's unencumbered assets.

All the Group's exposures classified under the Treasury Investment portfolio as at 31 December 2020 and 31 December 2019 are unsecured with the exception of a sub-portfolio of covered bonds amounting to €476.0 million (2019: €518.6 million) which are backed by a separate group of assets in the form of loans. Similarly, all exposures classified under the Securitisation Investment portfolio as at 31 December 2020 and 31 December 2019 are also backed by a separate group of assets in the form of loans.

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

Point-in-time, forward-looking PD and LGD modelling methodology

The macroeconomic modelling methodology used by the Group in the measurement of credit loss allowances in respect of Stage 1 and Stage 2 exposures classified within the International Lending portfolio, as well as all exposures classified within the Treasury Investment and Securitisation Investment portfolios, is based on a model developed by an external vendor that leverages updates in market data across industries and countries to convert TTC PDs into unconditional PiT PDs by reference to observed economic conditions.

As explained in more detail in Note 1.5 of the financial statements, the statistical models developed by the external vendor use rating scale to PD matrices calibrated on the basis of an underlying dataset of historical market observations. An exposure's TTC PD is converted to unconditional PiT PD by reference to continuous market observations in respect of public borrowers having similar credit risk characteristics and operating in the same industry and country as the underlying exposure. In this respect, a key input used in the PiT conversion methodology applied to PDs relates to the market capitalisation of comparable firms, with shocks to a firm's stock price translated into corresponding shocks to the credit risk metric attributable to the underlying exposure. Therefore, equity market performance is a key variable in the Group's ECL modelling methodology.

The Group's ECL modelling methodology then utilises macroeconomic correlation models in order to determine the historical correlation of a borrower's financial performance with overall macroeconomic conditions, with the correlation factor being estimated principally by reference to borrower size as well as the industry and country in which the borrower operates. Multiple macroeconomic forecasts developed by the external vendor are then applied to unconditional PiT PDs to produce probability-weighted forward-looking conditional PiT PDs in line with the requirements emanating from IFRS 9. The conditioning of PDs by reference to multiple macroeconomic scenarios reflects forecasted quarter-on-quarter changes in macroeconomic variables (such as GDP and unemployment) over the PD term structure of the exposure. The Group's modelling methodology therefore estimates a point-in-time and forward-looking measure of default risk, with the same methodology also used to estimate PiT LGDs.

In respect of Stage 1 and Stage 2 exposures classified within the Local Lending portfolio, a similar approach is applied to determine conditional PiT PDs, using the mapping of internal risk grades to public ratings as a basis for the calculation.

In respect of defaulted / Stage 3 exposures classified within the International Lending portfolio, the Group utilises an internally developed discounted cash flow methodology in order to estimate the net present value of forecasted operating cash flows under multiple forward-looking scenarios discounted using the borrower-specific weighted average cost of capital ("WACC"). In this regard, forward-looking expectations based on the impact of changing macroeconomic conditions on the borrower are reflected in multiple scenarios of operating cash flows developed by management, which are discounted and probability-weighted in accordance with the requirements of IFRS 9.

Similarly, the expected recoveries in respect of defaulted / Stage 3 exposures classified within the Local Lending portfolio are estimated by reference to multiple work-out options determined on the basis of an individual borrower assessment and taking into consideration the impact of macroeconomic conditions on the recoverable amount under each scenario.

As described in more detail in Note 1.5 of the financial statements, the model used to measure credit loss allowances in respect of all exposures classified within the Dutch Mortgage portfolio estimates PDs and LGDs by reference to historical information observed in the Netherlands for similar assets as well as multiple forward-looking macroeconomic forecasts for the Dutch economy developed by the external vendor.

As discussed in previous sections, the outbreak of the pandemic has had a significant impact on the various aspects of the Group's methodology used to measure credit loss allowances in respect of its portfolios of financial instruments. In this respect, the macroeconomic modelling aspect within the estimation of ECLs has been particularly affected by the outbreak of the pandemic. Although the forecasting of economic conditions is subject to an inherent level of risk, the economic and socio-political uncertainties induced by the pandemic have heightened the level of subjectivity in respect of the modelling of the impact of the severe economic conditions currently being experienced on default levels and loss severities.

In this respect, the unprecedented speed and severity of the outbreak of the pandemic and its impact on the global economic and socio-political conditions have required an elevated level of expert judgement to ensure that the macroeconomic methodology used by the Group results in plausible scenarios which adequately capture the risks resulting from the pandemic to the best extent possible. This is particularly judgemental due to the fact that current economic conditions are outside the historical observations use to calibrate the Group's models. The level of uncertainty around macroeconomic modelling has been exacerbated by the possibility of further waves of infections, the mutation of the virus into new variants, the efficiency of vaccine roll-outs at country level, as well as the efficacy and effectiveness of government support schemes and regulatory relief measures in dampening the economic impact of the pandemic and shortening the duration of the economic recovery. Significant judgement is therefore required in the determination of macroeconomic forecasts reflecting potential future economic conditions under different scenarios and their impact on PDs and LGDs.

Forecasts of future 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 in respect of Stage 1 and Stage 2 exposures classified within the International Lending and Local Lending portfolios, as well as in respect of all exposures classified within the Dutch Mortgage, Treasury Investment and Securitisation Investment portfolios.

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.

In the aftermath of the outbreak of the COVID-19 pandemic, more rigorous monitoring of macroeconomic forecasts developed by the external vendor was performed by the Group in order to challenge the adequacy and reasonableness of the developed scenarios. In this respect, the macroeconomic scenarios were reviewed on a quarterly basis in full consideration of the guidance issued by the ECB to Significant Institutions on 1 April 2020 ("IFRS 9 in the context of the coronavirus (COVID-19) pandemic"). The macroeconomic scenarios used in the Group's modelling of credit loss allowances reflect possible macroeconomic paths taking into consideration a range of potential economic impacts driven by epidemiological assumptions in respect of the pandemic, the effect of lockdowns, social distancing and other restrictions imposed at national level by various governments, as well as government support schemes and regulatory relief measures.

Notwithstanding the fact that the macroeconomic scenarios are developed by a reputable external vendor, such scenarios have also been regularly benchmarked and assessed against the macroeconomic forecasts for the Euro area published by the ECB, in line with ECB guidance referred to above, with the latest publication available being the one published on 10 December 2020. In this respect, the Group's forward-looking macroeconomic scenarios are deemed to be aligned, in all material respects, with the ECB's macroeconomic forecasts for the Euro area covering the period 2021-2023.

The relative severity of each scenario, together with the relative probability weighting, is disclosed in the table below. 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, especially in view of the elevated level of economic uncertainty induced by the outbreak of the pandemic.

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 table presents the 5-year annualized growth rates for the key macroeconomic variables ("MEVs") used in the baseline and alternative scenarios for the measurement of ECL for all portfolios as at 31 December 2020 and 31 December 2019. For the International Lending and Treasury portfolios, MEVs are determined for each country, with the forecasted MEV data in respect of the countries to which the Group is mostly exposed being presented in the tables below. Eurozone MEVs are used in some cases, rather than country-level MEVs, as the former are deemed to have a higher correlation to portfolio assets. For exposures within the Local Lending portfolio, Malta-specific MEVs are used for the measurement of credit loss allowances. The key MEVs used for the estimation of ECL for exposures classified within these three portfolios comprise real GDP growth, the performance of stock market indices and unemployment rates.

With respect to the Dutch Mortgage portfolio, the Group utilises regional-level as well as national-level MEVs as appropriate in order to capture regional level peculiarities. The key MEVs used for the estimation of ECL in respect of exposures classified within the Dutch Mortgage portfolio comprise the House Price Index, unemployment rates and 10-year treasury rates, with the national level forecasts used in the ECL calculation being disclosed in the table hereunder.

The ECL model for the measurement of credit loss allowances in respect of exposures classified within the Securitisation Investment portfolio uses Euribor and Libor GBR 3-month and 1-month rates as well as the same MEVs used for the purposes of the International Lending portfolio, since the pool of underlying assets securing the Group's investment in CLO structured tranches is similar to the exposures classified within the International Lending portfolio.

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Economic Scenarios MEVs used for the measurement of ECL: (5-year annualized growth)

As at 31 December 2020

Economic Scenarios MEVs (5Yr Average 2021-2025 *)	Severe Upside (7% assigned weighting)	Upside (23% assigned weighting)	Baseline (40% assigned weighting)	Downside (23% assigned weighting)	Severe Downside (7% assigned weighting)
	"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	4.23%	3.93%	3.54%	2.95%	2.65%
US	3.77%	3.44%	3.15%	2.51%	1.99%
France	3.82%	3.55%	3.16%	2.69%	2.22%
Italy	3.02%	2.75%	2.36%	1.76%	1.17%
Eurozone	3.67%	3.37%	2.97%	2.41%	1.86%
Stock Market Index - 5Yr Annualised Growth % *					
United Kingdom	3.31%	3.00%	2.56%	2.02%	0.57%
US	6.46%	5.28%	2.72%	-0.43%	-5.96%
France	6.50%	5.54%	4.73%	3.52%	1.94%
Italy	6.45%	5.71%	4.79%	4.16%	2.45%
Eurozone	5.39%	4.62%	3.93%	3.36%	1.89%
Unemployment Rate - 5Yr Annualised Growth % *					
United Kingdom	-3.11%	-0.42%	1.96%	7.39%	9.99%
US	-10.77%	-10.66%	-8.73%	-5.49%	0.36%
France	-5.14%	-5.11%	-5.05%	-3.85%	-3.05%
Italy	-4.45%	-4.40%	-4.11%	-1.78%	-0.44%
Eurozone	-5.33%	-4.92%	-4.46%	-2.03%	0.13%
Local Lending Portfolio Key MEVs - 5YR Annualised Growth % *					
Malta Real GDP	4.92%	4.64%	4.23%	3.66%	3.08%
Malta Stock Market Index	9.84%	8.73%	8.20%	7.45%	7.65%
Malta Unemployment Rate	-1.50%	-1.43%	-0.77%	3.83%	6.53%
Dutch Mortgage Portfolio Key MEVs - 5YR Annualised Growth % *					
Netherlands HPI	1.06%	0.23%	-0.18%	-2.13%	-3.77%
Netherlands 10Yr Treasury (Average Rate %)	-0.37%	-0.37%	-0.37%	-0.37%	-0.37%
Netherlands Unemployment Rate	-8.42%	-6.44%	-4.68%	0.17%	2.83%
Securitisation Investment Portfolio Key MEVs - 5YR Average Rate %					
Euribor 3M % p.a (Average Rate)	1.08%	0.61%	-0.46%	-0.51%	-0.46%
Libor 3M % p.a (Average Rate)	1.28%	1.00%	0.74%	0.25%	0.33%

** 5-year annualised growth rates calculated using quarter-on-quarter rates of growth throughout the forecast period*

*** In addition to the MEVs shown above, the Securitisation Investment portfolio uses similar MEVs to the International Lending Portfolio since the pool of underlying assets are similar*

As at 31 December 2019

Economic Scenarios MEVs (5Yr Average 2020-2024 *)	Severe Upside (7% assigned weighting)	Upside (23% assigned weighting)	Baseline (40% assigned weighting)	Downside (23% assigned weighting)	Severe Downside (7% assigned weighting)
	"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	2.33%	1.76%	1.25%	0.65%	-0.15%
US	3.33%	2.73%	2.19%	1.70%	1.05%
France	2.09%	1.78%	1.43%	0.74%	0.27%
Italy	1.44%	1.34%	1.09%	0.52%	-0.04%
Eurozone	2.31%	1.90%	1.43%	0.58%	-0.07%
Stock Market Index - 5Yr Annualised Growth % *					
United Kingdom	3.86%	3.02%	2.47%	1.99%	-0.54%
US	5.76%	4.37%	2.73%	0.64%	-4.24%
France	3.34%	2.61%	1.71%	-0.57%	-3.59%
Italy	4.39%	3.22%	2.28%	1.18%	-2.41%
Eurozone	4.22%	2.96%	2.07%	0.78%	-2.80%
Unemployment Rate - 5Yr Annualised Growth % *					
United Kingdom	-2.90%	-0.27%	3.80%	10.10%	13.84%
US	0.71%	3.08%	4.83%	9.94%	14.66%
France	-1.55%	-1.25%	-0.77%	1.11%	2.39%
Italy	0.37%	0.83%	1.42%	8.20%	12.32%
Eurozone	-1.46%	-0.67%	0.22%	3.98%	6.86%
Local Lending Portfolio Key MEVs - 5YR Annualised Growth % *					
Malta Real GDP	4.97%	4.22%	3.28%	1.49%	0.24%
Malta Stock Market Index	9.26%	8.05%	7.14%	6.52%	6.11%
Malta Unemployment Rate	-0.96%	1.40%	2.63%	7.67%	10.80%
Dutch Mortgage Portfolio Key MEVs - 5YR Annualised Growth % *					
Netherlands HPI	1.56%	1.00%	0.10%	-1.01%	-2.51%
Netherlands 10Yr Treasury (Average Rate %)	0.23%	0.03%	0.02%	-0.44%	-0.54%
Netherlands Unemployment Rate	0.98%	2.88%	4.66%	9.85%	12.49%
Securitisation Investment Portfolio Key MEVs - 5YR Average Rate %					
Euribor 3M % p.a (Average Rate)	1.78%	1.56%	1.41%	0.25%	0.17%
Libor 3M % p.a (Average Rate)	1.84%	1.62%	1.47%	0.34%	0.33%

** 5-year annualised growth rates calculated using quarter-on-quarter rates of growth throughout the forecast period*

*** In addition to the MEVs shown above, the Securitisation Investment portfolio uses similar MEVs to the International Lending Portfolio since the pool of underlying assets are similar*

As can be observed from the tables on the previous page, the projected 5-year annualised macroeconomic growth across all five scenarios and for the majority of MEVs used in the measurement of credit loss allowances as at 31 December 2020 appears to be more favourable when compared to the projected annualised macroeconomic growth used as at 31 December 2019. This might appear to be counterintuitive in view of the severity and elevated level of uncertainty induced by the unprecedented economic conditions being experienced in the aftermath of the outbreak of the pandemic. However, this is explained by the fact that, subsequent to the severe economic slowdown experienced during the financial year ended 31 December 2020, the economic recovery over the next 5 years is expected to be equally significant, as global economies are expected to gradually return to the levels of economic activity recorded prior to the outbreak of the pandemic.

This phenomenon is best described by reference to the MEVs used across the different scenarios presented in the table below. For example, the contraction in real GDP for calendar year 2020, comparing the real GDP as at Q4 2020 with that as at Q4 2019, is estimated at c. -10.5% for the United Kingdom (“UK”). Using the baseline scenario as an illustrative example, the projected 5-year annualised real GDP growth rate is estimated at 3.54% as at 31 December 2020, compared to 1.25% as at 31 December 2019. This reflects projected annual real GDP growth for the UK estimated at 6.8% in 2021, 5.9% in 2022 and 3.2% in 2023, which captures the extraordinary real GDP growth rates expected to materialise in the ensuing years of the outbreak of the pandemic, returning to pre-COVID-19 levels by 2023.

The same observation applies to other MEV forecasts and other countries. For example, the 5-year annualised change in unemployment rates appear to be more favourable as at 31 December 2020 compared to 31 December 2019, since the recovery in unemployment rates in the short-to-medium term is expected to be significant relative to the significant increase in unemployment rates experienced during 2020.

In this respect, the table below presents the forwarding looking MEVs underlying the macroeconomic forecasts used in the measurement of credit loss allowances as at 31 December 2020, analysed by scenario and calendar year, compared to the estimated economic impact of the pandemic on MEVs during the base year 2020. In line with the guidance issued by the ECB, mean reversion to long-term growth rates is assumed to occur beyond the next three years, with varying assumptions across the multiple scenarios. Due to the elevated level of economic uncertainty being experienced and the multiple variables potentially impacting the expected economic recovery in the aftermath of the outbreak of the pandemic, the forecasted annual MEV rates are being presented in respect of calendar years 2021-2023.

Economic Scenarios: Year-on-year Forecasts (2020 – 2023) for key MEVs

		International Lending & Treasury												Local Lending				Dutch Mortgages			
		UK				US				Eurozone				Malta				Netherlands			
Key Drivers	**ECL Scenario**	2020	2021	2022	2023	2020	2021	2022	2023	2020	2021	2022	2023	2020	2021	2022	2023	2020	2021	2022	2023
Real GDP - Growth %	Severe Upside	-10.5%	12.1%	4.7%	3.1%	-2.8%	10.0%	4.0%	1.3%	-6.0%	8.9%	3.4%	2.6%	-7.4%	14.9%	3.6%	2.6%	-	-	-	-
	Upside	-10.5%	10.7%	4.4%	2.9%	-2.8%	7.6%	3.4%	1.6%	-6.0%	7.0%	3.6%	2.7%	-7.4%	13.5%	3.6%	2.6%	-	-	-	-
	Baseline	-10.5%	6.8%	5.9%	3.2%	-2.8%	4.1%	4.5%	2.9%	-6.0%	4.2%	3.9%	2.9%	-7.4%	11.0%	3.9%	2.6%	-	-	-	-
	Downside	-10.5%	1.8%	7.5%	3.5%	-2.8%	-1.5%	3.9%	4.4%	-6.0%	-0.5%	4.5%	3.1%	-7.4%	5.7%	4.5%	2.6%	-	-	-	-
	Severe Downside	-10.5%	0.4%	7.1%	3.3%	-2.8%	-3.6%	1.0%	4.0%	-6.0%	-3.5%	4.4%	3.0%	-7.4%	2.7%	4.5%	2.6%	-	-	-	-
UR - Average %	Severe Upside	4.5%	6.6%	5.9%	5.0%	8.2%	5.3%	3.7%	3.5%	8.7%	9.2%	8.2%	7.7%	4.6%	4.9%	4.5%	4.5%	4.1%	6.0%	5.7%	4.9%
	Upside	4.5%	7.2%	6.7%	5.8%	8.2%	6.3%	4.4%	3.9%	8.7%	9.5%	8.6%	8.0%	4.6%	5.0%	4.7%	4.6%	4.1%	6.1%	5.9%	5.1%
	Baseline	4.5%	7.7%	7.8%	6.9%	8.2%	7.4%	6.2%	4.8%	8.7%	10.1%	9.2%	8.5%	4.6%	5.2%	5.0%	4.9%	4.1%	6.5%	6.3%	5.6%
	Downside	4.5%	8.7%	10.2%	9.4%	8.2%	9.5%	9.4%	7.3%	8.7%	11.7%	11.8%	10.9%	4.6%	6.0%	7.6%	7.2%	4.1%	8.0%	8.5%	7.7%
	Severe Downside	4.5%	9.0%	11.0%	8.9%	8.2%	9.9%	11.5%	9.7%	8.7%	12.5%	13.0%	11.5%	4.6%	6.9%	9.1%	7.4%	4.1%	8.8%	9.6%	7.7%
Stock Market Index - Growth %	Severe Upside	-17.1%	15.0%	-2.2%	-1.3%	9.8%	17.1%	4.0%	3.0%	-9.0%	23.4%	0.1%	-3.1%	-13.4%	48.4%	-3.2%	-2.0%	-	-	-	-
	Upside	-17.1%	12.0%	-2.0%	-1.0%	9.8%	11.9%	3.7%	2.3%	-9.0%	17.7%	0.6%	-2.0%	-13.4%	39.1%	-5.1%	-1.4%	-	-	-	-
	Baseline	-17.1%	1.5%	0.7%	1.6%	9.8%	-1.6%	0.9%	2.2%	-9.0%	2.0%	3.6%	1.9%	-13.4%	27.5%	-3.5%	1.4%	-	-	-	-
	Downside	-17.1%	-17.4%	9.7%	7.3%	9.8%	-32.6%	13.3%	6.2%	-9.0%	-26.8%	17.1%	11.2%	-13.4%	-8.3%	20.1%	15.1%	-	-	-	-
	Severe Downside	-17.1%	-30.9%	6.1%	11.2%	9.8%	-47.3%	0.3%	5.8%	-9.0%	-43.0%	11.0%	18.1%	-13.4%	-24.6%	23.3%	27.0%	-	-	-	-
10Yr Treasury Rate - Average %	Severe Upside	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-0.4%	0.0%	1.0%	2.0%
	Upside	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-0.4%	-0.3%	0.5%	1.3%
	Baseline	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-0.4%	-0.4%	0.1%	0.5%
	Downside	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-0.4%	-0.6%	-0.6%	-0.6%
	Severe Downside	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-0.4%	-0.7%	-0.7%	-0.7%
House Price Index %	Severe Upside	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	3.4%	-1.4%	3.4%	1.7%
	Upside	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	3.4%	-3.1%	1.9%	1.3%
	Baseline	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	3.4%	-3.5%	-0.2%	1.2%
	Downside	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	3.4%	-9.1%	-7.6%	0.0%
	Severe Downside	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	3.4%	-11.3%	-12.1%	-3.9%

* Unemployment Rate presented here as the average rate during the year

Management overlays

As at 31 December 2019, an elevated level of uncertainty existed around the UK and global economic outlook, including the outcome of EU exit negotiations, the sustainability of global economic growth, trade wars and geopolitical risks. However, despite the existence of such uncertainty, Management had assessed that the multiple macroeconomic scenarios used in the measurement of ECL for exposures within the International Lending portfolio as at 31 December 2019 were deemed to include reasonable assumptions in terms of the range, severity and probability weightings of possible Brexit outcomes (including downside scenarios with a no-deal Brexit at the end of 2020). Accordingly, as at 31 December 2019, no management overlay was deemed necessary to reflect risks related to Brexit.

On the other hand, as described earlier, the unprecedented nature and devastating impact arising from the outbreak of the COVID-19 pandemic in the early months of the financial year ended 31 December 2020 required a re-adjustment in the Group's credit risk management approach towards assessing credit risk at borrower and portfolio level, identifying SICR and unlikeliness-to-pay events for the determination of staging, and estimating credit loss allowances, particularly for exposures within the International Lending portfolio.

Due to the swift and severe socioeconomic impact of this global phenomenon the level of estimation uncertainty in (i) modelling PiT PDs and LGDs, (ii) forecasting macroeconomic scenarios for the purposes of estimating probability-weighted credit loss allowances, and (iii) determining implied ratings at borrower level is significant.

To mitigate this uncertainty as part of the Group's internal model governance processes, the Management Credit Committee discussed, reviewed and approved the implementation of model overlays to exposures within the International Lending portfolio to ensure that the level of credit loss allowances recognised at reporting date remain appropriate.

As described earlier, to ensure that the Group is adequately capturing the level of credit risk in its International Lending portfolio, adjustments to implied ratings (and indirectly to underlying PDs) were applied to such borrowers in the form of notch downgrades, designed to capture potential increases in credit risk which would possibly not have been captured by the model.

In addition, given the increased level of model uncertainty, an exercise was also performed by management as part of the internal model governance process whereby modelled outputs were reviewed and benchmarked against credit spread trends, historical market experience based on default levels observed during the global financial crisis of 2008-9, and other default studies published by reputable credit rating agencies to inform any other model adjustments or overlays deemed necessary.

Based on its assessment, Management concluded that uncertainty still exists in the accuracy of economic forecasts for 2021, particularly in light of stricter lockdowns that had been announced across key markets since the production of the forecasts.

As part of the ongoing challenge and review of macroeconomic forecasts developed by the external vendor as referred to above, the Group compares changes in scenarios issued every quarter and analysis the appropriateness of the underlying scenarios. In this regard, the Group performed an assessment whereby the ECL output in respect of the International Lending portfolio as at year end was modelled using the macroeconomic scenarios developed by the external vendor as at both November and December 2020, with the latter showing a more optimistic economic outlook compared to the former. In view of this and the uncertainty surrounding the borrowers within the International Lending portfolio, the Group concluded that an overlay is necessary to address the potential risk that the December 2020 scenarios may result in an underestimation of ECLs as at 31 December 2020. Accordingly, an overlay amounting to €1.6 million was applied to credit loss allowances in respect of Stage 1 and Stage 2 exposures classified within the International Lending portfolio, calculated as the difference between the modelled iterations, i.e. between the scenarios as at December 2020 as opposed to those as at November 2020.

ECL sensitivity analysis in respect of macroeconomic scenarios

Notwithstanding the significant number of assumptions and different aspects forming part of the Group's methodology for modelling credit loss allowances in respect of exposures classified within the Group's portfolios of financial instruments, the ECL measurement is deemed to be most sensitive to the inherent level of estimation uncertainty in respect of the modelling of macroeconomic forecasts. This is particularly true in respect of credit loss allowances measured as at 31 December 2020, due to the elevated level of uncertainty induced by the outbreak of the COVID-19 pandemic.

In view of the above, the Group is hereby presenting the sensitivity analysis in respect of credit loss allowances attributable to Stage 1 and Stage 2 exposures classified within the International Lending portfolio as at 31 December 2020 and 31 December 2019, estimated by determining the range of credit loss allowances which would have been measured as at each date by assigning a 100% weighting to each of the five macroeconomic scenarios developed by the external vendor, as presented in the table below.

Scenario sensitivity	**Severe Upside (7%)**	**Upside (23%)**	**Baseline (40%)**	**Downside (23%)**	**Severe Downside (7%)**
As at 31 December 2020	€5,267,103	€6,417,938	€9,728,778	€28,114,643	€39,824,079
As at 31 December 2019	€4,024,271	€5,002,641	€8,319,780	€24,049,059	€37,730,100

It is to be noted that the weighted average ECL cannot be reconciled by applying the relative probability weights to the ECL outcomes under each scenario since staging might change across the scenarios, whereas the modelled weighted average ECL outcome applies consistent staging across scenarios (e.g. An exposure might be classified as Stage 2 in one out of five individual scenarios, and as Stage 1 in the weighted average scenarios). In addition, the estimated weighted average ECL under each scenario as at 31 December 2020, presented in the table above, is not directly comparable with the estimated weighted average ECL under each scenario as at 31 December 2019, since the size of the International Lending portfolio decreased significantly compared to the prior financial period.

Although duly taken into consideration, the impact of macroeconomic scenarios on the measurement of credit loss allowances in respect of credit-impaired / Stage 3 exposures classified within the International Lending portfolio is less pronounced compared to other borrower-specific factors used to forecast operating cash flows under different scenarios. Accordingly, the sensitivity impact was not considered to be significant.

The sensitivity impact of macroeconomic scenarios on the ECL outcome measured in respect of exposures classified within the Dutch Mortgage, Local Lending, Treasury Investment and Securitisation Investment portfolios is not considered to be significant taking cognisance of the level of credit loss allowances estimated at 31 December 2020 and 31 December 2019.

2.2.9 Concentration of credit risk exposures

2.2.9.1 Concentration of investment securities

Treasury Investment portfolio

The Group's exposure to sovereign Eurozone government bonds as at 31 December 2020 representing 23.8% (2019: 10.9%) of the total investment securities within the Treasury Investment portfolio, related to German Government securities. Credit loss allowances amounting to €120.7 thousand were recognised in respect of these exposures as at 31 December 2020 (2019: €80 thousand).

The Group monitors concentrations of investment securities for credit risk by type of exposure. An analysis of concentrations of credit risk at the reporting date for the financial year ended 31 December 2020 and the financial period ended 31 December 2019 is shown below.

	Measured at amortised cost		**Measured at fair value through other comprehensive income**	
MeDirect Malta Group	**2020**	2019	**2020**	2019
	€000	€000	**€000**	€000
Concentration by type				
As at 31 December				
Carrying amount:				
Covered bonds	**88,957**	193,086	**387,034**	325,488
National and regional government	**35,301**	35,466	**164,351**	64,936
Supranational and agencies	**61,485**	189,445	**101,573**	109,868
Corporations	**12,306**	12,202	**6,712**	-
Total	**198,049**	430,199	**659,670**	500,292

Securitisation Investment portfolio

The Group's Securitisation Investment portfolio comprises the investment in GH1-2019 structured note tranches, amounting to €19.6 million as at 31 December 2020 (2019: €19.9 million), as well as CLO transactions managed by third-party entities, amounting to €273.6 million (2019: €233.7 million). The Group's investment in GH1-2019 comprises a 5% vertical slice of each of the tranches for "Risk Retention" purposes, with a pool of leveraged loans as collateral. The Group's investment in CLO transactions managed by third-party entities comprises positions in the most senior tranche of eleven different CLOs (2019: nine), all of which are also collateralised by a pool of leveraged loans.

As at 31 December 2020, credit loss allowances in respect of exposures classified under these two sub-portfolios and measured at amortised cost amounted to €151 thousand (31 December: €19 thousand). The Group's investment in the equity tranche of GH1-2019, with a fair value of €1.1 million as at 31 December 2020 (2019: €1.4 million), is measured at FVTPL and accordingly is not subject to impairment in accordance with IFRS 9.

2.2.9.2 Concentration of loans and advances to customers

An analysis of concentration of loans and advances to customers by industry sector and geography is shown in the following tables.

As at 31 December 2020, exposures to UK counterparties classified under the International Lending portfolio and categorised as EU exposures in the tables below amounted to €242.2 million (2019: €312.2 million).

Exposures classified under both the Local Lending and Dutch Mortgage portfolios are categorised as EU exposures in the following tables, with the Local lending portfolio classified under “real estate activities” and “construction” sectors whereas the Dutch mortgage portfolio classified under the “household and individuals” sector.

The Group’s Dutch Mortgage portfolio consists of Dutch national-guaranteed mortgages (indirectly guaranteed through the NHG). These mortgages are prime Dutch mortgages that benefit from a guarantee from a private non-profit fund and indirectly from a government guarantee.

MeDirect Malta Group	**Gross carrying amount**					**Credit loss allowance**				
	EU €000	**Other European countries €000**	**North America €000**	**Asia €000**	**Total €000**	**EU €000**	**Other European countries €000**	**North America €000**	**Asia €000**	**Total €000**
Stage 1										
As at 31 December 2020										
Accommodation and food service activities	3,087	15,812	-	-	18,899	(35)	(433)	-	-	(468)
Administrative and support service activities	34,795	7,208	-	-	42,003	(210)	(62)	-	-	(272)
Arts, entertainment and recreation activities	-	12,730	-	-	12,730	-	(122)	-	-	(122)
Construction	12,824	-	-	-	12,824	(179)	-	-	-	(179)
Financial and insurance activities	126,687	74,184	22,003	-	222,874	(1,287)	(1,190)	(473)	-	(2,950)
Households and individuals	1,065,307	-	-	-	1,065,307	(100)	-	-	-	(100)
Human health and social work activities	12,422	-	-	-	12,422	(107)	-	-	-	(107)
Information and communication	8,413	-	17,956	-	26,369	(35)	-	(237)	-	(272)
Manufacturing	39,657	5,462	-	-	45,119	(754)	(40)	-	-	(794)
Professional, scientific and technical activities	85,649	73,750	6,272	-	165,671	(801)	(1,364)	-	-	(2,165)
Real estate activities	48,797	-	-	-	48,797	(206)	-	-	-	(206)
Wholesale and retail trade, repairs of motor vehicles and motorcycles	7,122	1,239	-	-	8,361	(41)	(13)	-	-	(54)
	1,444,760	190,385	46,231	-	1,681,376	(3,755)	(3,224)	(710)	-	(7,689)
Stage 2										
As at 31 December 2020										
Administrative and support service activities	-	10,940	-	-	10,940	-	(231)	-	-	(231)
Construction	3,266	-	-	-	3,266	(55)	-	-	-	(55)
Financial and insurance activities	74,291	14,035	3,947	-	92,273	(2,397)	(189)	(168)	-	(2,754)
Households and individuals	3,199	-	-	-	3,199	(32)	-	-	-	(32)
Human health and social work activities	14,931	-	-	-	14,931	(377)	-	-	-	(377)
Information and communication	1,786	12,664	-	-	14,450	(49)	(567)	-	-	(616)
Manufacturing	21,408	-	-	-	21,408	(284)	-	-	-	(284)
Professional, scientific and technical activities	30,544	-	-	-	30,544	(242)	-	-	-	(242)
Real estate activities	13,541	-	-	-	13,541	(74)	-	-	-	(74)
Transport and storage	7,913	-	-	-	7,913	(178)	-	-	-	(178)
	170,879	37,639	3,947	-	212,465	(3,688)	(987)	(168)	-	(4,843)
Stage 3										
As at 31 December 2020										
Administrative and support service activities	44,458	-	-	-	44,458	(9,251)	-	-	-	(9,251)
Construction	17	-	-	-	17	-	-	-	-	-
Financial and insurance activities	8,333	52,061	-	-	60,394	(42)	(20,144)	-	-	(20,186)
Households and individuals	246	-	-	-	246	(26)	-	-	-	(26)
Information and communication	-	-	13,091	-	13,091	-	-	(1,040)	-	(1,040)
Professional, scientific and technical activities	28,032	-	-	-	28,032	(2,218)	-	-	-	(2,218)
Real estate activities	6,950	-	-	-	6,950	(7)	-	-	-	(7)
Wholesale and retail trade, repairs of motor vehicles and motorcycles	16,349	691	-	-	17,040	(8,337)	(254)	-	-	(8,591)
	104,385	52,752	13,091	-	170,228	(19,881)	(20,398)	(1,040)	-	(41,319)

MeDirect Malta Group	Nominal amount					Credit loss allowance				
	EU	Other European countries	North America	Asia	Total	EU	Other European countries	North America	Asia	Total
	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000
Commitments to purchase financial assets, commitments to extend credit, guarantees and other commitments										
As at 31 December 2020										
Accommodation and food service activities	2	3,099	-	-	3,101	-	(9)	-	-	(9)
Administrative and support service activities	46,327	19,726	-	-	66,053	(1,597)	(104)	-	-	(1,701)
Arts, entertainment and recreation activities	5,735	-	-	-	5,735	-	-	-	-	-
Automotive	-	-	1,500	-	1,500	-	-	-	-	-
Chemicals, plastics and rubber	1,500	-	-	-	1,500	-	-	-	-	-
Construction	33,654	-	-	-	33,654	-	-	-	-	-
Financial and insurance activities	155,346	27,375	7,695	-	190,416	(898)	(266)	(96)	-	(1,260)
Fire: Finance	1,000	-	-	-	1,000	-	-	-	-	-
Fishing	14	-	-	-	14	-	-	-	-	-
High tech industries	5,500	-	-	-	5,500	-	-	-	-	-
Households and individuals	336,974	-	-	-	336,974	(17)	-	-	-	(17)
Human health and social work activities	2,000	-	1,000	-	3,000	-	-	-	-	-
Information and communication	-	23,530	6,480	-	30,010	-	(96)	(79)	-	(175)
Manufacturing	5,028	-	-	-	5,028	(47)	-	-	-	(47)
Media: broadcasting and subscription	-	4,000	-	-	4,000	-	-	-	-	-
Professional, scientific and technical activities	18,572	7,000	31,604	-	57,176	(66)	(4)	(438)	-	(508)
Real estate activities	7,125	-	-	-	7,125	-	-	-	-	-
Wholesale and retail trade, repairs of motor vehicles and motorcycles	14,143	-	-	-	14,143	(66)	-	-	-	(66)
	632,920	84,730	48,279	-	765,929	(2,691)	(479)	(613)	-	(3,783)

MeDirect Malta Group	Gross carrying amount					Credit loss allowance				
	EU	Other European countries	North America	Asia	Total	EU	Other European countries	North America	Asia	Total
	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000
Stage 1										
As at 31 December 2019										
Accommodation and food service activities	32,173	-	5,467	-	37,640	(190)	-	(79)	-	(269)
Administrative and support service activities	38,626	-	-	-	38,626	(741)	-	-	-	(741)
Arts, entertainment and recreation activities	50,430	-	14,969	-	65,399	(245)	-	(124)	-	(369)
Construction	1,550	-	-	-	1,550	(13)	-	-	-	(13)
Education	18,946	-	1,311	-	20,257	(107)	-	-	-	(107)
Financial and insurance activities	276,695	20,086	13,265	4,140	314,186	(1,747)	(8)	(49)	(6)	(1,810)
Households and individuals	133,519	-	-	-	133,519	(8)	-	-	-	(8)
Human health and social work activities	69,674	-	-	-	69,674	(413)	-	-	-	(413)
Information and communication	46,688	-	48,350	13,163	108,201	(309)	-	(771)	(316)	(1,396)
Manufacturing	147,246	-	4,149	-	151,395	(931)	-	(20)	-	(951)
Professional, scientific and technical activities	68,871	-	-	-	68,871	(817)	-	-	-	(817)
Public administration and defence; compulsory social security	12,000	-	-		12,000	(53)	-	-	-	(53)
Real estate activities	99,994	-	-	-	99,994	(338)	-	-	-	(338)
Transport and storage	7,884	-	6,855		14,739	(76)	-	(92)	-	(168)
Water supply; sewerage, waste management and remediation activities	11,449	-	-		11,449	(85)	-	-	-	(85)
Wholesale and retail trade, repairs of motor vehicles and motorcycles	26,862	-	-	-	26,862	(196)	-	-	-	(196)
	1,042,607	20,086	94,366	17,303	1,174,362	(6,269)	(8)	(1,135)	(322)	(7,734)
Stage 2										
As at 31 December 2019										
Arts, entertainment and recreation activities	9,497	-	-	-	9,497	(295)	-	-	-	(295)
Construction	14,867	-	-	-	14,867	(305)	-	-	-	(305)
Financial and insurance activities	25,936	-	-	-	25,936	(553)	-	-	-	(553)
Information and communication	31,167	-	-	-	31,167	(357)	-	-	-	(357)
Manufacturing	18,756	-	11,845	-	30,601	(173)	-	(184)	-	(357)
Professional, scientific and technical activities	10,769	-	-	-	10,769	(85)	-	-	-	(85)
Real estate activities	4,468	-	-	-	4,468	(73)	-	-	-	(73)
Wholesale and retail trade, repairs of motor vehicles and motorcycles	330	-	-	-	330	(4)	-	-	-	(4)
	115,790	-	11,845	-	127,635	(1,845)	-	(184)	-	(2,029)
Stage 3										
As at 31 December 2019										
Financial and insurance activities	11,952	-	-	-	11,952	(2,650)	-	-	-	(2,650)
Manufacturing	-	-	26,792	-	26,792	-	-	(1,257)	-	(1,257)
Professional, scientific and technical activities	17,509	-	-	-	17,509	(3,435)	-	-	-	(3,435)
Real estate activities	7,659	-	-	-	7,659	(1)	-	-	-	(1)
Wholesale and retail trade, repairs of motor vehicles and motorcycles	16,056	-	-	-	16,056	(5,113)	-	-	-	(5,113)
	53,176	-	26,792	-	79,968	(11,199)	-	(1,257)	-	(12,456)

MeDirect Malta Group	Nominal amount					Credit loss allowance				
	EU	Other European countries	North America	Asia	Total	EU	Other European countries	North America	Asia	Total
	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000
Commitments to purchase financial assets, commitments to extend credit, guarantees and other commitments										
As at 31 December 2019										
Accommodation and food service activities	12,378	-	-	-	12,378	(16)	-	-	-	(16)
Administrative and support service activities	10,000	-	14,696	-	24,696	(23)	-	(75)	-	(98)
Arts, entertainment and recreation activities	35,713	-	-	-	35,713	(4)	-	-	-	(4)
Construction	17,546	-	-	-	17,546	(98)	-	-	-	(98)
Containers, Packaging and Glass	10,000	-	-	-	10,000	-	-	-	-	-
Education	-	-	25,407	-	25,407	-	-	(193)	-	(193)
Electricity, Gas, Steam and Air Conditioning Supply	-	-	17,269	-	17,269	-	-	(46)	-	(46)
Financial and insurance activities	169,079	10,000	65,582	-	244,661	(506)	(22)	(322)	-	(850)
Fishing	14	-	-	-	14	-	-	-	-	-
Households and individuals	283,671	-	-	-	283,671	-	-	-	-	-
Human health and social work activities	42,594	-	8,906	-	51,500	(59)	-	(50)	-	(109)
Information and communication	17,647	-	12,424	-	30,071	(48)	-	(88)	-	(136)
Manufacturing	22,558	-	8,182	-	30,740	(257)	-	(279)	-	(536)
Professional, scientific and technical activities	2,000	-	-	-	2,000	(5)	-	-	-	(5)
Real estate activities	57,450	-	-	-	57,450	(6)	-	-	-	(6)
Transportation and Storage	-	-	3,000	-	3,000	-	-	-	-	-
Wholesale and retail trade, repairs of motor vehicles and motorcycles	8,167	-	-	-	8,167	(15)	-	-	-	(15)
	688,817	10,000	155,466	-	854,283	(1,037)	(22)	(1,053)	-	(2,112)

2.2.10 Offsetting financial assets and financial liabilities

The Group is eligible to present certain financial assets and financial liabilities on a net basis in the statement of financial position in accordance with the Group's policy described in Note 1.6 'Offsetting Financial Instruments'.

The following tables set out:

- the impact of offsetting financial assets and financial liabilities on the consolidated statement of financial position;
- the financial impact of netting for instruments subject to an enforceable master netting arrangement or similar agreement; and
- the available financial collateral received or pledged in relation to the total amounts of assets and liabilities that were not offset.

The Group enters into derivative transactions under International Swap and Derivatives Association (ISDA) master netting agreements. In general, under such agreements the amounts owed by each counterparty on a single day in respect of all transactions outstanding in the same currency are aggregated into a single net amount that is payable by one party to the other. In certain circumstances such as when an event of default occurs, all outstanding transactions under the agreement are terminated and settled in a single net amount per currency.

The ISDA agreements do not meet the criteria for offsetting the positive and negative values in the statement of financial position. This is attributable to the fact that the Group and its counterparties do not have any currently legally enforceable right to settle on a net basis or to realise the asset and settle the liability simultaneously because the right to offset is enforceable only on the occurrence of future credit events.

The Group also enters in certain transactions which are settled through clearing houses. The gross settlement mechanisms used by clearing houses, with features that eliminate credit and liquidity risk in a single settlement process, are effectively equivalent to net settlement. As a result, such financial assets and liabilities are offset, and the net amount is reported in the consolidated statement of financial position.

The Group also pledges and receives collateral in the form of cash and marketable securities primarily for sale and repurchase agreements and for margining purposes on OTC derivative transactions. Pledges are generally conducted under terms that are usual and customary for standard contracts and transactions of this nature. The rights of set off relating to such collateral are conditional upon the default of the counterparty.

The net amount of financial instruments that do not meet the on-balance sheet offsetting criteria, including collateral pledged and received, presented within the following tables is equal to the amount presented in the statement of financial position for that instrument.

Below is a table showing financial instruments subject to offsetting, enforceable master netting arrangements and similar agreements.

	Gross amounts of recognised financial instruments €000	Gross amounts of recognised financial instruments offset in the statement of financial position €000	Net amounts of financial instruments presented in the statement of financial position €000	Related amounts not offset in the statement of financial position: Financial instruments that do not meet offsetting criteria €000	Related amounts not offset in the statement of financial position: Financial collateral pledged /(received) (incl. cash) €000	Net amount €000
MeDirect Malta Group						
As at 31 December 2020						
Financial assets						
Derivative financial instruments	**1,841**	**-**	**1,841**	**-**	**-**	**1,841**
Financial liabilities						
Derivative financial instruments	**(14,344)**	**-**	**(14,344)**	**-**	**680**	**(13,664)**
Amounts owed to financial institutions	**(352,067)**	**-**	**(352,067)**	**-**	**256,694**	**(95,373)**
	(366,411)	**-**	**(366,411)**	**-**	**257,374**	**(109,037)**
As at 31 December 2019						
Financial assets						
Derivative financial instruments	2,020	-	2,020	(939)	-	1,081
Financial liabilities						
Derivative financial instruments	(4,182)	-	(4,182)	939	10,051	6,808
Amounts owed to financial institutions	(224,012)	-	(224,012)	-	226,864	2,852
	(228,194)	-	(228,194)	939	236,915	9,660

2.3 Liquidity risk

2.3.1 Management of liquidity risk

In line with the Group's Liquidity Risk Management Policy, management of the Group's liquidity position is the responsibility of its Treasury team under the oversight of the Asset and Liability Committee ("ALCO"), Management Risk Committee ("MRC") and the Board Risk Committee. The Treasury team has primary responsibility for managing and reporting the Group's projected liquidity position (the "base case").

The Group's Risk team ensures that all liquidity risks are identified, measured, overseen and appropriately reported. In particular, the Risk team has primary responsibility for monitoring liquidity risk, including defining potential adverse liquidity scenarios ("stress cases") that are considered for assessing the Group's exposure to these scenarios and for assessing the effectiveness of contingency plan funding measures.

The Group's liquidity risks principally relate to its banking activities and the Group's Board of Directors sets, approves and oversees the implementation of the targets for liquidity management of the Group. Analysis of liquidity risk is the joint responsibility of the Group's Treasury and Risk functions under the oversight of the ALCO and of the Board Risk Committee.

Management Asset and Liability Committee

The Group has established an Asset and Liability Committee ("ALCO") to ensure the Group has in place, and operates effectively, appropriate and robust strategies and policies to manage and optimise the Group's asset-liability mix and oversee the Group's capital, liquidity, funding, interest rate risk and foreign exchange ("FX") risk position. Group ALCO cascades Group strategies down across each business line and legal entities and across risk types and products. Group ALCO oversees and, where necessary, approves Group policies and objectives for assets and liability management, capital and funding management and allocation, market risk position and hedging activity, liquidity monitoring, capital usage and efficiency, product-pricing, fund transfer pricing, dealing and trading activities according to the risk appetite statement set by the Group Board. Group ALCO's authority covers MDB Group Limited and MeDirect Bank (Malta) plc. Belgium ALCO's authority covers MeDirect Bank SA. Group ALCO provides oversight and ensures that decisions taken at Belgium ALCO are aligned to the interests of the Group. Group ALCO is a sub-committee of the Group EXCO.

Board Risk Committee

The Board delegates to the Board Risk Committee its oversight responsibilities of the risk function. Therefore, the Board Risk Committee represents the principal forum for overseeing the Group's liquidity and funding risk. In addition, it is responsible for recommending to the Board an appropriate liquidity and funding risk appetite and for approving liquidity risk-related policies and recommendations. The Board Risk Committee is also responsible for ensuring that all liquidity risk controls are in accordance with regulatory requirements and best practice and for advising the Board on the coordination and prioritisation of liquidity risk management issues throughout the Group.

The Board Risk Committee reviews regular reports on the liquidity position of the Group, including the review of stress testing scenarios to assess the resilience of its liquidity buffers in relation to the minimum regulatory requirements comprising the Liquidity Coverage Ratio ("LCR") and the Net Stable Funding Ratio ("NSFR"). It is informed immediately of new and emerging liquidity concerns and ensures that Executive management takes appropriate remedial actions to address the concerns, including the viability of contingency funding options.

Roles and responsibilities

The Group's Treasury team, under the leadership of the Head of Treasury has primary responsibility for managing and reporting the Group's projected liquidity position (the "base case"). For liquidity purposes, the Group's balance sheet, encompassing both assets and liabilities, is managed on an intraday and day-to-day basis, and includes monitoring compliance with metrics of current liquidity. The department is also responsible for forecasting the Group's future cash flow profile, as well as for analysis and management of the Group's deposit book. This is executed under the leadership of the Head of Treasury.

The Group's Risk team, under the leadership of the Group Chief Risk Officer ("CRO"), has primary responsibility for monitoring current liquidity performance as well as defining potential adverse liquidity scenarios that should be considered, and for reporting exposure to these scenarios (the "downside case"). Under the leadership of the Group CRO, it is responsible for ensuring that all significant risks relating to liquidity are properly identified and clearly incorporated into the Group's risk management and reporting framework. It is also responsible for producing reports that show and analyse the Group's sensitivity to external events related to liquidity, including the definition of severe but plausible events that could constitute stress scenarios.

Funding strategy

Banks traditionally perform a role of liquidity transformation, whereby they fund through liabilities that are liquid in the short to medium term, in order to invest in longer term and less liquid assets. This mismatch of liquid liabilities and less liquid assets is a near-universal feature of bank balance sheets and clearly leads to a risk if liabilities cannot be rolled over when they mature (which may be every day in the case of money held in current or savings accounts).

The Group's strategy to mitigate this risk has four main components:

- Limiting its exposure to customer deposit withdrawal through the use of term and notice accounts rather than overnight deposits as its primary instrument of customer funding; by focusing on the retail market to maximise granularity; and by expanding outside Malta directly and indirectly through platforms to reduce its dependence on a single market;
- Limiting its exposure to wholesale funding withdrawal by locking in term, rather than short-dated, funding against illiquid assets (where this is used at all: illiquid assets are primarily deposit funded) and by either diversifying its sources of funding in general or ensuring that it does not rely on funding that is at the discretion of market counterparties;
- Maintaining a contingency source of funding by ensuring that substantially all of its HQLA Treasury Investment portfolio is eligible for funding at the ECB or at Eurex, as well as ensuring that other AAA-rated debt instruments are eligible for use as collateral against multiple repo lines, if alternative sources are unavailable; and
- Holding a much higher than typical proportion of assets that could over time be liquidated in the secondary market.

The Group's objective is to maintain a prudent funding structure drawn from diverse funding sources in the short-, medium- and long-term.

Potential funding sources may include, but are not limited to:

- Deposits from retail and corporate customers;
- Bond issuance, either secured (for example through CLO structures or the issuance of RMBSs, the latter representing one of the main sources of funding for the Dutch Mortgage portfolio), senior unsecured or subordinated;
- Issuance of capital instruments;
- Interbank funding (either secured, for example through repurchase agreements, warehouse lines obtained against the Dutch Mortgage portfolio, Total Return Swaps, or unsecured); and
- Central Bank funding (although it is the Group's strategy not to rely on the Central Bank for funding in the normal course of events, but instead only used as a secondary source of financing).

In order to ensure that the Group has adequate liquidity to meet its near-term obligations, the Treasury team maintains robust liquidity buffers and projects the Group's expected liquidity position for each day over the subsequent week, as well as the "residual" cash balance that takes into account known inflows and outflows (for example settlements of asset purchases or sales) beyond this period.

MDB Group Limited is the parent company of MeDirect Malta and MDB Group Limited together with its subsidiaries are referred to as "the Regulatory Group" or "MDB Group". The MDB Group and the MeDirect Malta Group comply with the Liquidity Coverage Ratio ("LCR") in relation to short-term liquidity and monitor the Net Stable Funding Ratio ("NSFR") in order to assess long-term liquidity:

- The Liquidity Coverage Ratio ("LCR"): The ratio aims to ensure that institutions are able to withstand a 30-day period of stress by virtue of having sufficient unencumbered High Quality Liquid Assets ("HQLA"). HQLA consist of cash or assets that can be converted into cash at little or no loss of value in the markets. The LCR metric is designed to promote the short-term resilience of the Group's liquidity profile, and became a minimum regulatory standard from 1 October 2015, under European Commission ("EC") Delegated Regulation 2015/61.

  The table below displays the Group's LCR as at 31 December 2020 and 31 December 2019:

	MDB Group	
	2020	2019
	%	%
Actual LCR	**562.9**	716.2

  During the year ended 31 December 2020 and the period ended 31 December 2019, the LCR was within both the regulatory minimum and the risk appetite set by the Group with the exception of a brief period during March 2020, when MeDirect Malta experienced a significant and rapid increase in drawdowns in respect of the revolving credit facilities classified within the International Lending portfolio as a result of the outbreak of the COVID-19 pandemic. Although MeDirect Malta was in a position to honour all drawdown requests made by its borrowers, the speed with which such drawdown requests were made as a result of the unprecedented impact of the pandemic, as well as the relative volumes, caused MeDirect Malta's standalone LCR to fall below the regulatory minimum requirement of 100% for only two days. The Bank took corrective actions immediately to ensure that the LCR reverts back to levels above 100%. The Group's LCR was significantly above 100% at all times as the Group had strong liquidity levels to withstand these liquidity challenges caused from the COVID-19 severe economic downturn.

- The Net Stable Funding Ratio ("NSFR"): This ratio looks at the relationship between long-term assets and long-term funding. The NSFR requires institutions to maintain sufficient stable funding relative to required stable funding and reflects a bank's long-term funding profile (funding with a term of more than a year). It is designed to complement the LCR.

  The European calibration of the NSFR is pending following the European Commission's proposal in November 2016. As a result, the Regulatory Group calculates the NSFR in line with Basel Committee on Banking Supervision Publication 295, pending its implementation in Europe. This calculation requires various interpretations of the text, and therefore the Group's NSFR may not be directly comparable with the ratios of other institutions.

  The table below displays the Group's NSFR as at 31 December 2020 and 2019:

	MDB Group	
	2020	2019
	%	%
Actual NSFR*	**120.8**	130.1

  ** 2020 NSFR based on the Capital Requirements Regulation "CRR II") framework and 2019 NSFR based on Short Term Exercise returns and calculated according to Basel Quantitative Impact Study guidelines*

  The Group's and MeDirect Malta's NSFR remained above the minimum legal requirement of 100% at all times during the financial year ended 31 December 2020.

2.3.2 Liquidity risk reporting

Reliable management reporting provides the Executive and the Board with timely and forward-looking information on the Group's liquidity position. Reporting of risk measures is done on a frequent basis and compares current liquidity exposures to established limits to identify any emerging pressures and limit breaches.

The Group's Risk team performs regular stress testing of its liquidity profile, as well as the availability of contingency funding options through both its ILAAP and monthly Maximum Cumulative Outflow ("MCO") report. The MCO analyses the likely risks to the Group's liquidity position and quantifies its ability to withstand the associated shocks through deployment of management contingency funding plan options. Summarised results from all of the various analyses are used as inputs to the MCO, with the liquidity impacts of different levels of severity of both idiosyncratic and market-wide scenarios modelled across a twelve-month time horizon. In addition, the Group's Liquidity Contingency Plan ("LCP") analyses the availability and practicability of its contingency funding measures with regards to idiosyncratic and market-wide stress scenarios. Impacts are assessed at Group level, as well as at MeDirect Malta and MeDirect Bank SA individual levels.

The Group's liquidity risk reporting reinforces its oversight of liquidity risk, by not only focusing its risk reporting on the 'current' state, but also providing regular and timely reporting of the potential 'stress' liquidity profile of the Group.

The Risk team also monitors deposit concentration within its monthly risk management report where the Group's top ten depositors are monitored by also looking at the corporate sector and the product maturity ladder.

2.3.3 Contractual maturity ladder

The following is an analysis of financial assets and liabilities by remaining contractual maturities as at the reporting date, with the exception of the analysis of loans and advances to customers classified under the International Lending and Dutch Mortgage portfolios, debt securities in issue and subordinated liabilities, that are based on the expected maturities based on the date when the instruments are expected to be fully repaid, since this is how the liquidity of the Group is monitored on a regular basis. Refer also to Note 2.3.5 that provides an analysis of encumbered investments.

MeDirect Malta Group	**Not more than 1 month**	**Between 1 and 3 months**	**Between 3 months and 1 year**	**Between 1 and 5 years**	**More than 5 years**	**No maturity date**	**Total**
	€000	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**
As at 31 December 2020							
Assets							
Balances with central banks	467,231	-	-	-	-	23,448	490,679
Derivative financial instruments	986	448	72	8	167	160	1,841
Loans and advances to financial institutions	263,129	-	-	-	-	-	263,129
Loans and advances to customers	4,895	726	77,340	827,736	1,110,063	-	2,020,760
- International Lending portfolio	-	607	66,612	782,972	-	-	850,191
- Dutch Mortgage portfolio	-	-	2	1,238	1,077,167	-	1,078,407
- Local Lending portfolio	4,895	119	10,726	43,526	32,896	-	92,162
Investments	12,183	18,783	146,233	475,018	491,996	6,712	1,150,925
- Treasury portfolio	12,183	18,783	146,233	475,018	198,790	6,712	857,719
- Securitisation portfolio	-	-	-	-	293,206	-	293,206
Accrued income	5,123	648	1,855	6,974	78	-	14,678
Loans to related parties (included in other assets)	-	-	-	-	-	11,629	11,629
Other receivables (included in other assets)	909	-	-	-	-	34,057	34,966
Total financial assets	754,456	20,605	225,500	1,309,736	1,602,304	76,006	3,988,607
Liabilities							
Derivative financial instruments	505	1,080	33	1,279	11,447	-	14,344
Amounts owed to financial institutions	193,207	133,860	25,000	-	-	-	352,067
Amounts owed to customers	1,767,551	50,930	575,811	355,446	191	-	2,749,929
Debt securities in issue	109,740	-	122,195	321,914	-	-	553,849
Subordinated liabilities	-	-	-	54,650	-	-	54,650
Accrued interest expense (incl. in accruals and deferred income)	1,334	859	4,873	140	563	-	7,769
Lease liabilities (incl. in other liabilities)	526	810	2,045	8,442	3,061	-	14,884
Amounts due to related parties (incl. in other liabilities)	-	-	-	-	-	3,420	3,420
Total financial liabilities	2,072,863	187,539	729,957	741,871	15,262	3,420	3,750,912
Liquidity gap	(1,318,407)	(166,934)	(504,457)	567,865	1,587,042		
Cumulative liquidity gap	(1,318,407)	(1,485,341)	(1,989,798)	(1,421,933)	165,109		

MeDirect Malta Group	Not more than 1 month	Between 1 and 3 months	Between 3 months and 1 year	Between 1 and 5 years	More than 5 years	No maturity date	Total
	€000	€000	€000	€000	€000	€000	€000
As at 31 December 2019							
Assets							
Balances with central banks	221,859	-	-	-	-	19,864	241,723
Derivative financial instruments	856	30	150	268	268	448	2,020
Loans and advances to financial institutions	223,287	-	-	-	-	-	223,287
Loans and advances to customers	20,078	34,256	217,569	955,321	132,153	-	1,359,377
- International Lending portfolio	20,078	29,010	194,532	893,653	-	-	1,137,273
- Dutch Mortgage portfolio	-	-	-	989	132,153	-	133,142
- Local Lending portfolio	-	5,246	23,037	60,679	-	-	88,962
Investments	43,738	31,405	340,772	349,796	418,406	-	1,184,117
- Treasury portfolio	43,738	31,405	340,772	349,796	164,780	-	930,491
- Securitisation portfolio	-	-	-	-	253,626	-	253,626
Accrued income	4,569	175	4,009	5,550	78	-	14,381
Loans to related parties (included in other assets)	-	-	-	-	-	13,044	13,044
Other receivables (included in other assets)	1,803	-	-	-	-	32,533	34,336
Total financial assets	516,190	65,866	562,500	1,310,935	550,905	65,889	3,072,285
Liabilities							
Derivative financial instruments	1,046	1,816	1,320	-	-	-	4,182
Amounts owed to financial institutions	144,012	30,000	50,000	-	-	-	224,012
Amounts owed to customers	1,198,044	82,960	695,375	461,920	827	-	2,439,126
Subordinated liabilities	-	-	-	54,820	-	-	54,820
Accrued interest expense (incl. in accruals and deferred income)	709	910	5,642	57	-	-	7,318
Lease liabilities (incl. in other liabilities)	414	806	3,700	9,980	2,763		17,663
Bills payable (incl. in other liabilities)	5,649	-	-	-	-	-	5,649
Amounts due to related parties (incl. in other liabilities)	-	-	-	-	-	3,350	3,350
Total financial liabilities	1,349,874	116,492	756,037	526,777	3,590	3,350	2,756,120
Liquidity gap	(833,684)	(50,626)	(193,537)	784,158	547,315		
Cumulative liquidity gap	(833,684)	(884,310)	(1,077,847)	(293,689)	253,626		

Current accounts and savings deposits payable on demand or at short notice amounted to €1,502 million as at 31 December 2020 (2019: €1,167 million). This amount is disclosed within the 'Not more than 1 month' maturity grouping. As at 31 December 2020 savings deposits with a withdrawal notice period of one month amounting to €4 million (2019: €6 million), are disclosed within the 'Between 1 and 3 months' maturity grouping. In addition, as at 31 December 2020 savings deposits with a withdrawal notice period of three to six months amounting to €461 million (2019: €571 million) are disclosed within the 'Between 3 months and 1 year' maturity grouping. Furthermore, as at 31 December 2020, savings deposits with a withdrawal notice period of one year amounting to €207 million (2019: €269 million) are disclosed within the 'Between 1 year and 5 years' maturity grouping. However, in practice, these deposits are maintained with the Group for longer periods; hence the effective date of repayment is later than the contractual date.

As of 31 December 2020, unencumbered financial assets classified as Treasury Investments measured at fair value through other comprehensive income, with a carrying amount of €142 million (2019: €175 million) and Treasury Investments measured at amortised cost with a carrying amount of €40 million (2019: €223 million) form part of the high-quality liquid asset portfolio for LCR purposes. Accordingly, they may be liquidated within one month. In addition to these instruments the Group held unencumbered financial assets classified as Treasury Investments measured at fair value through other comprehensive income, with a carrying amount of €7 million (2019: €nil) and Treasury Investments measured at amortised cost with a carrying amount of €12 million (2019: €nil).

The Group's cash from margin balances amounting to €55.7 million (2019: €14.1 million) can be available upon maturity of the contract, favourable change in the market value/change in the exchange rates or reduction in the initial margins.

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2.3.4 Residual contractual maturities of financial liabilities

The following is an analysis of undiscounted cash flows payable under the principal non-derivative financial liabilities by remaining contractual maturities as at the reporting date, except for debt securities in issue and subordinated liabilities for which undiscounted cash flows payable are presented by expected maturities in line with the Contractual Maturity Ladder presented in Note 2.3.3.

MeDirect Malta Group	**Carrying amount €000**	**Total outflows €000**	**Less than 1 month €000**	**Between 1 and 3 months €000**	**Between 3 months and 1 year €000**	**Between 1 and 5 years €000**	**More than 5 years €000**
31 December 2020							
Non-derivative liabilities							
Amounts owed to financial institutions							
- Due to clearing houses	**270,000**	**269,576**	**144,760**	**99,878**	**24,938**	**-**	**-**
- Due to other banks	**82,067**	**82,187**	**48,232**	**33,955**	**-**	**-**	**-**
Amounts owed to customers	**2,749,929**	**2,761,196**	**1,788,504**	**73,329**	**583,341**	**315,824**	**198**
Debt securities in issue	**553,849**	**555,382**	**109,837**	**-**	**122,458**	**323,087**	**-**
Subordinated liabilities	**54,650**	**62,548**	**-**	**-**	**2,427**	**60,121**	**-**
Lease liabilities (incl. in other liabilities)	**14,884**	**17,493**	**541**	**847**	**3,692**	**9,021**	**3,392**
	3,725,379	**3,748,382**	**2,091,874**	**208,009**	**736,856**	**708,053**	**3,590**
31 December 2019							
Non-derivative liabilities							
Amounts owed to financial institutions							
- Due to clearing houses	220,000	219,566	139,859	29,964	49,743	-	-
- Due to other banks	4,012	4,012	4,012	-	-	-	-
Amounts owed to customers	2,439,126	2,459,942	1,198,054	83,036	698,071	479,891	890
Subordinated liabilities	54,820	65,259	-	-	2,444	62,815	-
Lease liabilities (incl. in other liabilities)	17,663	19,006	559	812	4,035	10,258	3,342
Bills payable (included in other liabilities)	5,649	5,649	5,649	-	-	-	-
	2,741,270	2,773,434	1,348,133	113,812	754,293	552,964	4,232

The following is an analysis of undiscounted cash flows relating to the Group's principal derivative financial instruments by remaining contractual maturities as at the reporting date:

MeDirect Malta Group	**Carrying amount €000**	**Inflows/ (Outflows) €000**	**Less than 1 month €000**	**Between 1 and 3 months €000**	**Between 3 months and 1 year €000**	**Between 1 and 5 years €000**	**More than 5 years €000**
31 December 2020							
Derivative assets							
Derivative financial instruments							
- Interest rate swaps	**175**	**191**	**-**	**-**	**(129)**	**(536)**	**856**
- Foreign exchange swaps	**1,506**	**1,475**	**981**	**441**	**53**	**-**	**-**
Inflows		**104,272**	**46,884**	**54,891**	**2,497**	**-**	**-**
Outflows		**(102,797)**	**(45,903)**	**(54,450)**	**(2,444)**	**-**	**-**
- Other derivative financial instruments (no maturity)	**160**	**-**	**-**	**-**	**-**	**-**	**-**
	1,841	**1,666**	**981**	**441**	**(76)**	**(536)**	**856**
Derivative liabilities							
Derivative financial instruments							
- Interest rate swaps	**12,726**	**(12,534)**	**(260)**	**(494)**	**(2,533)**	**(10,430)**	**1,183**
- Foreign exchange swaps	**1,618**	**(1,732)**	**(337)**	**(1,354)**	**(41)**	**-**	**-**
Inflows		**142,157**	**25,148**	**111,491**	**5,518**	**-**	**-**
Outflows		**(143,889)**	**(25,485)**	**(112,845)**	**(5,559)**	**-**	**-**
	14,344	**(14,266)**	**(597)**	**(1,848)**	**(2,574)**	**(10,430)**	**1,183**

MeDirect Malta Group	Carrying amount €000	Inflows/ (Outflows) €000	Less than 1 month €000	Between 1 and 3 months €000	Between 3 months and 1 year €000	Between 1 and 5 years €000	More than 5 years €000
31 December 2019							
Derivative assets							
Derivative financial instruments							
- Interest rate swaps	536	527	-	-	(56)	(300)	883
- Foreign exchange swaps	1,036	699	806	25	(132)	-	-
Inflows		109,442	58,642	2,697	48,103	-	-
Outflows		(108,743)	(57,836)	(2,672)	(48,235)	-	-
- Other derivative financial instruments (no maturity)	448	-	-	-	-	-	-
	2,020	1,226	806	25	(188)	(300)	883
Derivative liabilities							
Derivative financial instruments							
- Foreign exchange swaps	4,182	(4,769)	(1,049)	(1,880)	(1,840)	-	-
Inflows		155,260	15,259	31,841	108,160	-	-
Outflows		(160,029)	(16,308)	(33,721)	(110,000)	-	-
	4,182	(4,769)	(1,049)	(1,880)	(1,840)	-	-

2.3.5 Encumbered assets

The following tables set out the availability of the Group's financial assets to support future funding.

MeDirect Malta Group	Encumbered		Unencumbered		
	Pledged as collateral €000	Other* €000	Available as collateral €000	Other** €000	Total €000
31 December 2020					
Balances with central banks and cash	**-**	**-**	**490,680**	**-**	**490,680**
Derivative financial instruments	**-**	**-**	**-**	**1,841**	**1,841**
Loans and advances to financial institutions	**20,977**	**56,033**	**-**	**186,119**	**263,129**
Loans and advances to customers	**-**	**-**	**-**	**2,020,760**	**2,020,760**
- International Lending portfolio	**-**	**-**	**-**	**850,191**	**850,191**
- Dutch Mortgage portfolio	**-**	**-**	**-**	**1,078,407**	**1,078,407**
- Local Lending portfolio	**-**	**-**	**-**	**92,162**	**92,162**
Investments	**649,516**	**-**	**189,203**	**312,206**	**1,150,925**
- Treasury portfolio	**649,516**	**-**	**189,203**	**19,000**	**857,719**
- Securitisation portfolio	**-**	**-**	**-**	**293,206**	**293,206**
Accrued income	**-**	**-**	**-**	**14,678**	**14,678**
Loans and advances to related parties (included in other assets)	**-**	**-**	**-**	**11,629**	**11,629**
Other receivables (included in other assets)	**-**	**-**	**-**	**34,966**	**34,966**
	670,493	**56,033**	**679,883**	**2,582,199**	**3,988,608**
31 December 2019					
Balances with central banks and cash	-	-	241,726	-	241,726
Derivative financial instruments	-	-	-	2,020	2,020
Loans and advances to financial institutions	45,507	43,535	-	134,245	223,287
Loans and advances to customers	-	-	-	1,359,377	1,359,377
- International Lending portfolio	-	-	-	1,137,273	1,137,273
- Dutch Mortgage portfolio	-	-	-	133,142	133,142
- Local Lending portfolio	-	-	-	88,962	88,962
Investments	519,496	-	410,995	253,626	1,184,117
- Treasury portfolio	519,496	-	410,995	-	930,491
- Securitisation portfolio	-	-	-	253,626	253,626
Accrued income	-	-	-	14,381	14,381
Loans and advances to related parties (included in other assets)	-	-	-	13,044	13,044
Other receivables (included in other assets)	-	-	-	34,336	34,336
	565,003	43,535	652,721	1,811,029	3,072,288

Represents assets that are not pledged for funding purposes but that the Group believes it is restricted from using to secure funding, for legal or other reasons.

**Represents assets that are not restricted for use as collateral, but that the Group would not consider as readily available to secure funding in the normal course of business.*

2.4 Market risk

Market risk is the risk that changes in market prices, such as interest rates, foreign exchange rates and credit spreads (not relating to changes in the obligor's/issuer's credit standing) will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

2.4.1 Management of market risks

Management of market risk is the responsibility of the Group's Treasury team and is overseen by the Group's Risk team, under the oversight of the Group's ALCO and the Board Risk Committee, and as set out in the foreign exchange ("FX") risk policy and Interest Rate Risk in the Banking Book ("IRRBB") policy.

2.4.2 Foreign exchange risk

FX risk is the risk that the value of the Group's positions may fluctuate due to movements in underlying foreign currency exchange rates. The Group seeks to minimise FX risk and thus hedges all major exposures in accordance with its risk appetite. The Group is mainly exposed to currency risk on FX movements relating to the US Dollar and GB Pound, originating from the Group's corporate banking business. In the majority of cases, the Group hedges this risk by ensuring that its foreign currency denominated liabilities are matched with corresponding assets in the same currency. Any mismatches that arise are monitored closely. The Group's Treasury team is permitted to use spots, forwards and swaps in order to hedge the Group's FX risk.

The following table provides an analysis of the principal financial assets and financial liabilities of the MeDirect Malta Group into relevant currency groupings.

MeDirect Malta Group

	EUR currency €000	GBP currency €000	USD currency €000	Other €000	Total €000
As at 31 December 2020					
Financial assets					
Balances with central banks and cash	490,680	-	-	-	490,680
Derivative financial instruments	335	654	435	417	1,841
Loans and advances to financial institutions	227,154	15,970	11,256	8,749	263,129
Loans and advances to customers	1,779,946	215,103	25,711	-	2,020,760
- International Lending portfolio	611,098	215,103	23,990	-	850,191
- Dutch Mortgage portfolio	1,078,407	-	-	-	1,078,407
- Local Lending portfolio	90,441	-	1,721	-	92,162
Investments	1,150,925	-	-	-	1,150,925
- Treasury portfolio	857,719	-	-	-	857,719
- Securitisation portfolio	293,206	-	-	-	293,206
Accrued income	12,304	2,118	230	26	14,678
Loans to related parties (included in other assets)	11,362	267	-	-	11,629
Other receivables (included in other assets)	34,796	170	-	-	34,966
	3,707,502	234,282	37,632	9,192	3,988,608
Financial liabilities					
Derivative financial instruments	12,726	1,170	448	-	14,344
Amounts owed to financial institutions	352,067	-	-	-	352,067
Amounts owed to customers	2,599,173	107,150	25,367	18,239	2,749,929
Debt securities in issue	553,849	-	-	-	553,849
Subordinated liabilities	50,643	4,007	-	-	54,650
Accrued interest expense (incl. in accruals and deferred income)	7,330	379	19	41	7,769
Lease liabilities (included in other liabilities)	14,575	309	-	-	14,884
Amounts owed to related parties (incl. in other liabilities)	3,171	243	6	-	3,420
	3,593,534	113,258	25,840	18,280	3,750,912
Net on-balance sheet financial position		121,024	11,792	(9,088)	
Notional of derivative financial instruments		(125,178)	(12,540)	9,410	
Residual exposure		(4,154)	(748)	322	

MeDirect Malta Group

	EUR currency €000	GBP currency €000	USD currency €000	Other €000	Total €000
As at 31 December 2019					
Financial assets					
Balances with central banks and cash	241,726	-	-	-	241,726
Derivative financial instruments	984	150	620	266	2,020
Loans and advances to financial institutions	148,423	24,555	44,546	5,763	223,287
Loans and advances to customers	1,018,253	319,855	19,427	1,842	1,359,377
- International Lending portfolio	796,149	319,855	19,427	1,842	1,137,273
- Dutch Mortgage portfolio	133,142	-	-	-	133,142
- Local Lending portfolio	88,962	-	-	-	88,962
Investments	1,178,232	5,885	-	-	1,184,117
- Treasury portfolio	924,606	5,885	-	-	930,491
- Securitisation portfolio	253,626	-	-	-	253,626
Accrued income	12,599	1,286	436	60	14,381
Loans to related parties (included in other assets)	13,017	27	-	-	13,044
Other receivables (included in other assets)	32,533	-	1,803	-	34,336
	2,645,767	351,758	66,832	7,931	3,072,288
Financial liabilities					
Derivative financial instruments	-	4,181	1	-	4,182
Amounts owed to financial institutions	223,576	-	436	-	224,012
Amounts owed to customers	2,271,940	127,696	20,884	18,606	2,439,126
Subordinated liabilities	50,580	4,240	-	-	54,820
Accrued interest expense (incl. in accruals and deferred income)	6,690	547	25	56	7,318
Bills payable (incl. in other liabilities)	5,649	-	-	-	5,649
Lease liabilities (included in other liabilities)	17,132	531	-	-	17,663
Amounts owed to related parties (incl. in other liabilities)	3,350	-	-	-	3,350
	2,578,917	137,195	21,346	18,662	2,738,457
Net on-balance sheet financial position		214,563	45,486	(10,731)	
Notional of derivative financial instruments		(217,177)	(44,442)	11,025	
Residual exposure		(2,614)	1,044	294	

The Group uses derivative financial instruments to hedge movements in foreign exchange rates by entering into derivative contracts with notional amounts which substantially reflect the net exposure in each currency. As a result, the Group is not materially exposed to fluctuations in foreign exchange rates as evidenced in the tables above, reflecting the policy to eliminate foreign exchange risk as much as is practicable.

In view of the Group's policy for managing currency risk, the Board does not deem necessary the presentation of a sensitivity analysis disclosing how profit or loss and equity would have been affected by changes in foreign exchange rates that were reasonably possible at the end of the reporting period.

2.4.3 Interest rate risk

The Group's and MeDirect Belgium's Interest Rate Risk in the Banking Book (IRRBB) position is managed through the three lines of defence: the First Line of Defence comprising the asset and liability management process managed by the MeDirect Group/Belgium Treasury team, the Second Line of Defence being the Risk team, and the Third Line of Defence being Internal Audit. It is managed according to the Group's/MeDirect Belgium's IRRBB policy with limits established by the Risk team and monitored by both the First and Second Lines of Defence.

The monitoring/reporting activity is reviewed and managed independently by Group/MeDirect Belgium ALCO for the First Line of Defence, by the Risk Committee for the Second Line of Defence, and by the Audit Committee for the Third Line of Defence.

Interest rate risk is managed by comparing the interest rate risk profile of assets with the profile of liabilities, and by hedging unmatched interest rate risk arising in the balance sheet by purchasing interest rate derivatives, primarily interest rate swaps.

Interest rate risk reporting and analysis

As part of its monitoring duties, the Group's Risk team prepares and reports on the Group's interest rate risk position on a monthly basis. The report outputs show the effects of a number of internal and regulatory interest rate shocks on the:

- Projected net interest margin – ∆NII;
- Group's capital position – ∆EVE; and
- Time bucket sensitivity – PV01.

The Group measures its exposure adopting both contractual and behavioural views (where items without deterministic maturity are assigned certain level of stickiness). The impact of the automatic options embedded in the banking book structure is assessed under ∆NII, ∆EVE and PV01.

The table below discloses the mismatch of the dates on which interest on financial assets and financial liabilities are next reset to market rates on a contractual basis or the dates on which the instruments mature, with the exception of debt securities in issue and subordinated liabilities which reflect expected maturities. Actual reset dates may differ from contractual dates owing to prepayments and the exercise of options. In addition, contractual terms may not be representative of the behaviour in respect of financial assets and liabilities.

MeDirect Malta Group		**Repricing in:**				
	Carrying amount €000	**Not more than 3 months €000**	**Between 3 months to 1 year €000**	**Between 1 and 3 years €000**	**Between 3 and 5 years €000**	**More than 5 years €000**
As at 31 December 2020						
Balances with central banks	490,679	490,679	-	-	-	-
Loans and advances to financial institutions	263,129	263,129	-	-	-	-
Loans and advances to customers	2,020,760	676,180	268,010	107	426	1,076,037
- International Lending portfolio	850,191	593,861	256,330	-	-	-
- Dutch Mortgage portfolio	1,067,865	1,082	755	107	426	1,065,495
- IFRS basis adjustment: Dutch Mortgage portfolio	10,542	-	-	-	-	10,542
- Local Lending portfolio	92,162	81,237	10,925	-	-	-
Investments	1,143,070	335,335	146,233	371,175	103,843	186,484
– Treasury portfolio	851,007	43,272	146,233	371,175	103,843	186,484
– Securitisation portfolio	292,063	292,063	-	-	-	-
	3,917,638	1,765,323	414,243	371,282	104,269	1,262,521
Amounts owed to financial institutions:	352,067	327,067	25,000	-	-	-
- Due to clearing houses	270,000	245,000	25,000	-	-	-
- Due to other banks	82,067	82,067	-	-	-	-
Amounts owed to customers	2,749,929	1,818,481	575,811	266,257	89,189	191
Debt securities in issue	553,849	109,740	122,195	-	321,914	-
Subordinated liabilities	54,650	-	-	19,941	34,709	-
	3,710,495	2,255,288	723,006	286,198	445,812	191
Interest rate repricing gap		(489,965)	(308,763)	85,084	(341,543)	1,262,330
Impact of hedging interest rate derivatives – notional amounts	175	983,336	-	(129,677)	(160,416)	(693,243)
Net interest rate repricing gap		493,371	(308,763)	(44,593)	(501,959)	569,087

MeDirect Malta Group		Repricing in:				
	Carrying amount	Not more than 3 months	Between 3 months to 1 year	Between 1 and 3 years	Between 3 and 5 years	More than 5 years
	€000	€000	€000	€000	€000	€000
As at 31 December 2019						
Balances with central banks	241,723	241,723	-	-	-	-
Loans and advances to financial institutions	223,287	223,287	-	-	-	-
Loans and advances to customers	1,359,377	980,590	245,645	988	-	132,154
- International Lending portfolio	1,137,273	927,804	209,469	-	-	-
- Dutch Mortgage portfolio	133,511	-	-	988	-	132,523
- IFRS basis adjustment: Dutch Mortgage portfolio	(369)	-	-	-	-	(369)
- Local Lending portfolio	88,962	52,786	36,176	-	-	-
Investments	1,182,670	97,184	230,139	340,771	349,796	164,780
- Treasury portfolio	930,491	43,739	31,405	340,771	349,796	164,780
- Securitisation portfolio	252,179	53,445	198,734	-	-	-
	3,007,057	1,542,784	475,784	341,759	349,796	296,934
Amounts owed to financial institutions:	224,012	174,012	50,000	-	-	-
- Due to clearing houses	220,000	170,000	50,000	-	-	-
- Due to other banks	4,012	4,012	-	-	-	-
Amounts owed to customers	2,439,126	1,281,004	695,375	366,620	95,300	827
Subordinated liabilities	54,820	-	-	19,999	34,821	-
	2,717,958	1,455,016	745,375	386,619	130,121	827
Interest rate repricing gap		87,768	(269,591)	(44,860)	219,675	296,107
Impact of hedging interest rate derivatives – notional amounts	536	(119,800)	-	22,500	(58,600)	(38,700)
Net interest rate repricing gap		(32,032)	(269,591)	(22,360)	161,075	257,407

The Group's exposure to interest rate risk arises predominantly from its asset/liability structure, specifically mismatches between the repricing term of its International Lending and Dutch Mortgage portfolios and the term structure of customer deposits, as well as from possible impacts on the Mark-to-Market ("MtM") value of its fixed rate instruments if market interest rates increase.

The Group's assets mainly comprise the Group's International Lending portfolio, that reprices periodically (generally every three months) and has a relatively short duration, and the Dutch Mortgage portfolio, that has a longer-term duration.

The presence of interest rate floors embedded in the majority of the International Lending portfolio enables the Group to mitigate its repricing risk from the Group's asset/liability structure, whilst the Group generally hedges the repricing risk from its financial assets, namely the treasury securities, and wholesale repo funding.

With the introduction of the Dutch Mortgage business line in September 2019, the Group's and MeDirect Belgium's exposure to interest rate risk increased due to the fixed interest rate nature of the product. The risk is managed through a hedging strategy which uses a series of plain vanilla interest rate swaps that form a run-off profile matching a mortgage portfolio run-off profile with behavioural pre-payment assumptions.

The Group's Securitisation Investment portfolio comprises an investment in the equity tranche of GH1-2019 amounting to €1.4 million. The returns relating to this financial instrument are variable, with repayments being equivalent to any residual amounts after the commitments relating to more senior tranches in GH1-2019 are repaid. In this regard, this financial instrument is not deemed to be subject to interest rate risk and has been excluded from the table above accordingly

A positive interest rate sensitivity gap exists where more assets than liabilities reprice during a given period. Although a positive gap position tends to benefit net interest income in a rising interest rate environment, the actual effect will depend on a number of factors, including the extent to which repayments are made earlier or later than the contracted date and variations in interest rates within repricing periods and among currencies. Similarly, a negative interest rate sensitivity gap exists where more liabilities than assets re-price during a given period. A negative gap position tends to benefit net interest income in a declining interest rate environment, but the actual effect will depend on the same factors as for positive interest rate gaps.

The management of interest rate risk attributable to interest rate repricing gap limits is supplemented by monitoring the sensitivity of the Group's financial assets and liabilities to various interest rate scenarios under the stress testing framework whilst the extent of the difference between risk factors on the asset side and liability side is monitored through the re-fixing gap analysis.

The estimated impact on the Group's Net Interest Margin ("NIM") as a result of a 100 basis points ("bps") movement and on Economic Value as a result of a 100 basis points ("bps") parallel fall / rise in the yield curves would be as follows:

31 December 2020

- NIM would decrease by €3.2 million / increase by €8.8 million.
- Economic value would increase by €0.3 million / decrease by €8.5 million.

31 December 2019

- NIM would decrease by €2.4 million / increase by €12.4 million.
- Economic value would increase by €13.0 million / decrease by €4.0 million.

These values are determined taking into account the impact of hedge accounting.

The main assumptions used in the model utilised to measure the benchmarks referred to above are:

- Interest bearing assets are assumed to mature on their expected maturity and are not replaced for the ∆EVE purposes (run off balance sheet);
- Interest bearing assets are assumed to mature on their expected maturity and are replaced on like for like basis for the ∆NII purposes (constant balance sheet);
- The rate index on the Senior Secured Loan book is predominantly floored at zero and hence due to the prevailing euro negative rate environment the shift down scenario does not result in loss of interest income. On the other hand, the 1% shift up scenario will not yield 1% more income as the rate index lifts itself from below zero.
- The Group will not change deposit rates in the next 12 months even if there is an increase or decrease in ECB base rate;
- There is an implicit zero floor option on retail customer deposits as the Group will not charge negative rates to the retail segment of its customer base;
- The ∆ NII and ∆ EV metrics include the effect of changes in value of the automatic options embedded in the banking book assets; and
- Customer deposits follow their behavioural schedule.

Interest rate movements affect reported equity in the following ways:

- retained earnings arising from increases or decreases in net interest income after taking into consideration the net impact of interest rate hedging instruments; and
- fair value reserves arising from increases or decreases in fair values of investments measured at fair value through other comprehensive income reported directly in equity.

2.5 Operational risk

Operational risk is the potential for loss arising from failed or inadequate internal processes, people, systems or from external events. Operational risks can arise from all business lines and from all activities which are carried out by the Group. Failure to manage operational risk may result in a direct or indirect financial loss, reputational damage, regulatory breaches or may even have a negative impact on the management of other risks such as credit, liquidity or market risk. There are various operational risk subtypes, including but not limited to fraud (internal/external), business disruption due to reduced or non-availability of systems, inadequate outsourcing arrangements, the Group's inability to attract, retain, train and develop the right people, failed or inadequate business processes, data risk and project execution risk.

Operational Risk Management ensure that the Group's risk appetite for operational risk is translated in a form that can be implemented and managed in practice. As covered in the Risk Appetite Statement, the Group has low tolerance for operational risk events that could jeopardise its financial performance, customer outcomes or reputation. The Group's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Group's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity while maintaining risk taking within a tolerable limit.

The governance of Operational Risk follows the Group's Three Lines of Defence (3LoD) model. The First Line of Defence is accountable to manage its own risks, whilst the Operational Risk Management, which forms part of the Second Line of Defence oversees and challenges risk taking activities and ensures that operational risks are consistently identified and assessed, managed adequately, monitored and reported accordingly. The Third Line of Defence (Internal Audit) provides an independent assurance on the design and operating effectiveness of the control structure.

The Group also has an Operational Risk framework in place to make sure that it has a consistent and embedded approach for fully identifying and managing operational risks in an effective manner. The framework covers the following sections: Operational Risk Policy, Operational Risk Awareness, Operational Risk & Control Self-Assessment (RCSAs), Operational Risk Control Testing, Operational Risk Reporting and Incident Management & Business Continuity.

The Risk & Control Self-Assessment process, which at minimum, is carried out on an annual basis, is used to identify, document and assess the key risks and controls within the Group. The RCSA process provides a bottom-up approach to risk identification at granular level. The RCSA results are leveraged for creating key risk indicators and developing narratives for scenario analysis. The risk identification process is also supported through the use of audit findings and internal loss data. The Operational Risk Management uses a dedicated Operational Risk Management tool to manage the RCSA process and maintain a repository of loss data which captures and records operational loss events and "near misses" events.

Operational Risk is monitored through the development and ongoing evolution of the Key Risk Indicator (KRI) reporting process. Operational Risk Management aim to develop KRIs that allow for the monitoring of internal controls factors associated with significant risks. Operational Risk is also monitored through: Risk & Control Owners alerting Operational Risk Management of control deficiencies, Operational Risk Management identifying changes to the operational risk profiles and by Internal Audit through their assessment of Operational Risk Management and indirectly through their reviews of business areas. Control testing is also carried, using a risk-based approach to identify weaknesses in the control environment.

Operational Risk reporting provides management with a timely view of the Group's Operational Risk profile and any breaches to the Risk Appetite Statement. Material risks and breaches are escalated to the Group's governing bodies, such as Executive Management Committee and Board Committee, which will serve as medium to ensure that corrective action plans are in place to mitigate significant risks and avoid reoccurrence of events impacting the Group's operations. Operational risks are reported through the Monthly Group Risk Management Report, Incident Reporting, Internal Control Report and the annual ICAAP.

Operational Risk Management is also responsible to ensure that the Group has contingencies in the event of business disruption. The Group has in place a Business Continuity Plan (BCP) and an IT Disaster Recovery Plan (DRP), both of which are defined in separate documents respectively. Since the DRP focuses on the availability of IT/technology services, the document is maintained and tested by the IT department. The BCP is intended to provide the Group with a plan of actions necessary to restore critical business operations and ensuring the availability of resources whenever and wherever necessary and relies on the assumption that technology is available to support the business continuity efforts. The BCP is regularly tested to ensure the appropriateness of the responses in case of a business disruption.

In order to meet the COVID-19 challenges, the Group equipped staff members with the technology needed to allow secure remote access to the Group's systems and network. These steps were taken to ensure that the Group is able to continue operating as 'Business as usual' via a remote working environment.

A financial measurement of this risk is calculated by the Group for the purpose of allocating risk capital using the Basic Indicator Approach under Regulation (EU) No. 575/2013 of the European Parliament and of the Council of 26 June 2013, also known as the CRR. The risk weighted assets for operational risk under this method as at 31 December 2020 were calculated at €119.4 million (2019: €132.0 million).

ICT Security

ICT Risk is the risk of financial loss, disruption or damage of an organisation resulting from a failure to its information technology systems. The ICT Security team (within the Risk department) manages the Group ICT Risk management framework. Responsibility to manage and mitigate ICT risks lies with all Group employees.

Residual ICT Security risks are managed in the context of the Group's Risk Appetite Statement. ICT Security critical and non-critical risk appetite limits have been defined by the Group. Breaches at different levels will trigger a course of action – risk appetite breaches and notification thresholds are reported to the Board on a monthly basis.

The ICT security programme may be summarised into two sections: ICT Risk Identification and ICT Risk Controls:

- **ICT Risk Identification**: the group utilises multiple sources to identify ICT risks. Risk sources include external security assessments, controls tests conducted on a predefined scope, RCSAs, risks assessed during the ICT project lifecycle, risks identified through ongoing monitoring of ICT infrastructure and by keeping abreast of the cybersecurity threat landscape
- **ICT Risk Controls:** control categories may be split into Preventive, Detective and Reactive depending on their functionality. Example of Preventive control in place is 'access restriction through least privilege principle', an example of a Detective control in place is 'audit logging recording user activity on applications' whilst an example of a Reactive control is the Cyber Security Incident Management Procedure.

2.6 Capital management - regulatory capital

The Group's regulator, the ECB's Joint Supervisory Team (the "JST") sets and monitors capital requirements for the Group.

The CRR and Capital Requirements Directive ("CRD IV") implemented the Basel III into Europe with the sole objective of improving the banking sector's ability to absorb shocks arising from financial and/or economic stress, which in turn, mitigate spill-over damage to the real economy.

In implementing current capital requirements, the regulation requires the Group to maintain a prescribed ratio of total capital to total risk-weighted assets. The Group does not engage in trading and is exempt from having a trading book. Risk-weighted assets on the banking book are determined according to specified requirements that seek to reflect the varying levels of risk attached to assets including balances with counterparties and other illiquid assets.

The Group complies with the provisions of CRR in respect of regulatory capital and it applies the standardised approach for credit risk. For regulatory purposes, the Group's capital base is divided in two main categories, namely Common Equity Tier 1 Capital and Tier 2 Capital.

- Common Equity Tier 1 Capital which includes ordinary share capital, share premium, shareholders' contributions, retained earnings, fair value reserve and other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy purposes including deductions relating to Reserve for Depositor Compensation Scheme ('Other reserves') and certain other regulatory items; and
- Tier 2 Capital consists of unrealised gains included within the fair value reserve and subordinated liabilities in issue, which rank after the claims of all depositors (including financial institutions) and all other creditors.

The Group's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholders' return is also recognised and the Group recognises the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position

MDB Group Limited is subject to the same supervision as that exercised over institutions. Accordingly, in terms of article 7(2) of the CRR, the obligation of MeDirect Malta to comply with the disclosure requirements relating to own funds, capital requirements, large exposures, and transferred credit risk have been waived.

The Regulatory Group has complied with all externally imposed capital requirements throughout the period.

MDB Group Limited publishes full Pillar 3 disclosures as a separate document which is appended to the MDB Group Limited financial statements

2.7 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.

2.7.1 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.

2.7.2 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 values 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.

2.7.3 Financial instruments measured at fair value

The following table analyses financial instruments measured at fair value at the end of the reporting period, in terms of 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 statement of financial position.

MeDirect Malta Group	**As at 31 December 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								
Instruments measured at fair value through other comprehensive income								
- Treasury investment portfolio								
- Debt and other fixed income securities	**652,958**	**-**	**-**	**652,958**	500,292	-	-	500,292
- Equity instruments	**6,712**	**-**	**-**	**6,712**	-	-	-	-
Instruments mandatorily measured at fair value through profit or loss								
- Securitisation investment portfolio	**-**	**-**	**1,143**	**1,143**	-	-	1,447	1,447
- Derivative financial instruments	**-**	**1,841**	**-**	**1,841**	-	2,020	-	2,020
Total financial assets	**659,670**	**1,841**	**1,143**	**662,654**	500,292	2,020	1,447	503,759
Liabilities								
Derivative financial instruments	**-**	**14,344**	**-**	**14,344**	-	4,182	-	4,182

As at 31 December 2020 and 31 December 2019, the fair value of debt securities and equity instruments 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.

2.7.3.1 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 financial periods ended 31 December 2020 and 31 December 2019.

2.7.4 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.

MeDirect Malta Group	**As at 31 December 2020**				
	Level 1	**Level 2**	**Level 3**	**Total fair values**	**Total carrying amount**
	€000	**€000**	**€000**	**€000**	**€000**
Assets					
Loans and advances to customers	**-**	**92,136**	**1,398,311**	**1,490,447**	**1,482,687**
- International Lending portfolio	**-**	**92,136**	**305,516**	**397,652**	**414,822**
- Dutch Mortgage portfolio (excluding IFRS basis adjustment)			**1,092,795**	**1,092,795**	**1,067,865**
Investments	**185,379**	**-**	**292,082**	**477,461**	**477,806**
- Treasury portfolio	**185,379**	**-**	**-**	**185,379**	**185,743**
- Securitisation portfolio			**292,082**	**292,082**	**292,063**
Total financial assets	**185,379**	**92,136**	**1,690,393**	**1,967,908**	**1,960,493**
Liabilities					
Debt securities in issue	**-**	**-**	**558,888**	**558,888**	**553,849**
Subordinated liabilities	**56,576**	**-**	**-**	**56,576**	**54,650**
Total financial liabilities	**56,576**	**-**	**558,888**	**615,464**	**608,499**

	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 mainly comprise 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 €423.1 million (2019: €361.1 million), net of expected credit losses, and a corporate debt security within the Treasury Investment portfolio, with a carrying amount of €12.3 million (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 €292.1 million (2019: €252.2 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 €1,078.4 million (2019: €133 million) included in Loans and advances to customers. In order to derive their fair value as at 31 December 2020 and 31 December 2019, 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 a 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 31 December 2020, the carrying amount for loans and advances to customers classified under the Local Lending portfolio amounting to €92.2 million (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 €263.1 million (2019: €223.3 million), and balances with central banks amounting to €490.7 million as at 31 December 2020 (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' as at 31 December 2020 amounting to €352.1 million (2019: €224 million). 'Amounts owed to customers' amounting to €2.4 billion (2019: €2.0 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.

3. Accounting estimates and judgements

3.1 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.

Information about assumptions, estimations and uncertainties that have a significant risk of resulting in a material adjustment in the year ending 31 December 2021 is set out below in relation to estimated cash flows for the purposes of applying the effective interest method and the impairment of financial instruments.

3.2 Estimated cash flows upon application of the effective interest method

As part of the calculation of the effective interest rate for financial assets and liabilities measured at amortised cost utilising the effective interest method, the Group takes into account the estimated cash flows attributable to the respective financial instrument considering all contractual terms of the instrument (e.g. prepayment, call and similar options), but excluding the impact of future credit losses.

In the case where an instrument gives the issuer the option to require the instrument to be early redeemed or cancelled, and the terms of the instrument are such that it is not certain whether the option will be exercised, the probability of the option being exercised will be assessed in determining the estimated cash flows.

Measuring interest income on loans and advances to customers under the effective interest rate method requires management to apply judgement, particularly in the case of the Group's and Bank's senior secured loans to international borrowers, constituting the International Lending portfolio. A model is utilised by the Group to compute the impact of application of the effective interest rate method on an individual loan basis, by discounting estimated future cash flows through the expected life of the instrument to the net carrying amount, including all fees paid or received that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts. A key judgement in respect of the application of the effective interest rate method to the International Lending portfolio is the assumed expected life for the loans, effectively determining the period over which interest income is recognised utilising the effective interest rate method, and accordingly determining the pattern of recognition of income throughout different accounting periods. The determination as to which fees are considered an integral part of the effective interest rate and hence included within the effective interest rate calculations is also judgemental for the International Lending portfolio.

Management determines an assumed expected life for each individual loan within its International Lending portfolio. The sensitivity to a change in assumed expected life can vary significantly between different loans, depending on the characteristics, terms and conditions of the underlying lending transaction and parameters included within the respective effective interest rate calculation such as fee income and discounts or premiums identified at inception.

The Group has historical experience in respect of the International Lending portfolio for the purposes of supporting the expected life assumption applied to each loan. Consequently, the Group determines loan expected life assumptions on the basis of its forecasting process, which takes into account historical data but also the Group's expertise and experience in this specialised lending sector. Any changes in the expected loan life assumptions are based on management's assessment of emerging market trends (for instance changes in market interest rates and the ability of the borrower to re-finance in the circumstances) and borrower specific information that indicates changes to repayment profiles and the extent of such changes.

The level of subjectivity required to estimate expected maturities in respect of exposures classified within the International Lending portfolio has increased significantly during the financial year ended 31 December 2020 due to the outbreak of the COVID-19 pandemic. In this respect, the elevated level of economic uncertainty driven by the pandemic has had an impact on the financial condition and financial performance of a number of borrowers within the International Lending portfolio, thereby adversely impacting their repayment capacity. As a result, the determination of expected maturities in the aftermath of the outbreak of the pandemic required a significant level of expert judgement in order to assess:

- the severity of the impact of the pandemic on the borrower's financial performance and financial condition;
- the general economic impact of the pandemic on the industry in which the borrower operates; and
- the efficacy and effectiveness of government support schemes and regulatory relief measures in shortening the expected duration of the recovery period.

In this respect, the assessment performed by management to determine expected maturities in respect of exposures classified within the International Lending portfolio is subject to an elevated level of estimation uncertainty.

3.3 Expected credit losses on loans and advances to customers

Financial assets measured at amortised cost are evaluated for impairment on the basis described in Accounting Policy Note 1.5. Expected credit losses ("ECL") on loans and advances represent management's best estimate of expected credit losses on the loan portfolios subject to IFRS 9 impairment requirements at the end of the reporting period. In this respect, management is required to exercise judgement in defining what is considered to be a significant increase in credit risk or an unlikeliness-to-pay event, in determining the expected lifetime and point of initial recognition of financial instruments, and in making assumptions and estimates to incorporate relevant information about past events, current conditions and forecasts of economic conditions when calculating expected credit losses.

The measurement of credit loss allowances in respect of loans and advances to customers in line with IFRS 9 principles requires complex statistical analyses and modelling assumptions, with ECL models built and calibrated principally by reference to historical information in respect of default levels and loss severities. However, due to the inherent level of estimation uncertainty in modelling such aspects of the ECL calculation, a significant element of expert judgement is required to ensure that model parameters produce an ECL output which is reasonable and appropriate in light of existing conditions. In this respect, the outbreak of the COVID-19 global pandemic in the early months of the financial year ended 31 December 2020 increased the level of uncertainty in making such judgements. A heightened degree of expert judgement was therefore required in order to ensure that the impact of the pandemic has been taken into consideration in all aspects of the ECL calculation, most particularly in respect of the Group's International Lending portfolio.

For those loans which are classified as Stage 3 exposures within the Group's International Lending and Local Lending portfolios, judgement is required in determining whether there is objective evidence that an exposure is credit-impaired. In performing this assessment, management applies a significant level of judgement in evaluating all relevant information on indicators of unlikeliness-to-pay, including the consideration of factors that immediately indicate deterioration in the financial condition of borrowers, but also in respect of factors that impact the outlook of borrowers affecting their ability to pay, as described in Note 1.5. A higher level of judgement is required for loans to borrowers showing signs of financial difficulty in market sectors experiencing economic stress.

In this respect, the degree of expert judgement required in assessing changes to the level of credit risk, was exacerbated by the sudden, unprecedented and wide-ranging impact of the pandemic. In order to capture the impact of this global socioeconomical phenomenon, a more detailed credit risk assessment was required in order to evaluate the severity of the impact of the pandemic on the financial performance and financial condition of each borrower within the International Lending portfolio as well as on the general economic conditions in the industry and country in which the borrower operates. The identification of unlikeliness-to-pay events was rendered most complex due to the expert judgement involved in the estimation of forecasted cash flows for each borrower in these unprecedent times, which take into consideration the expected recovery of each borrower, under different scenarios, from the impact of the pandemic.

The measurement of credit loss allowances in respect of defaulted exposures is performed through an internally developed model based upon management's best estimate of the present value of the cash flows that are expected to be received under multiple forward looking scenarios. As described in more detail in note 2.2.1 of the financial statements, the Group migrated from an EV multiple approach to a DCF approach during the financial year ended 31 December 2020, since the use of a stable earnings figure to determine the EV of a borrower became less reliable due to the significant economic impact that the pandemic has had on the financial performance and financial condition of the Group's borrowers. In estimating cash flows for defaulted exposures within the International Lending portfolio, management makes judgements about a debtor's financial situation and future repayment prospects, taking into consideration management plans for growth within the current environment. In this regard, judgement is applied in estimating the expected future cash flows from each borrower under the different scenarios, assigning probabilities to those scenarios, and determining appropriate discount rates reflecting borrower-specific characteristics. As described above, the determination of operating cash flows under multiple scenarios requires a significant level of judgement in order to adequately capture the overall impact of the pandemic in a holistic assessment.

During 2020, the Group extended loan forbearance measures to borrowers experiencing financial difficulties by agreeing to modify the contractual payment terms of loans in order to improve collection opportunities or to avoid default. Where forbearance activities are present, higher levels of judgement and estimation uncertainty are involved in determining their effects on credit loss allowances. In the aftermath of the outbreak of the pandemic, a number of borrowers classified within the International Lending portfolio experienced financial difficulties, leading to debt restructuring. In this respect, significant judgement was required in determining whether substantial modifications were made to contractual terms, thereby requiring derecognition of the extinguished financial instrument(s) and the recognition of the new financial instrument(s). In addition, whether such restructuring lead to the recognition of new financial instruments or the continuing recognition of the pre-restructured debt, the determination of the relative staging of the post-restructured debt and the measurement of the associated credit loss allowances are also deemed to be highly judgemental.

For exposures classified as Stage 1 and Stage 2 within the International and Local Lending portfolios, and all exposures within the Dutch Mortgage portfolios, the Group measures credit loss allowances on the basis of complex models with a number of underlying assumptions. In determining ECL, management is required to exercise judgement in defining what is considered to be a significant increase in credit risk and in making assumptions and estimates to incorporate relevant information about past events, current conditions and forecasts of economic conditions.

Due to the swift and severe impact of Covid-19 pandemic the level of estimation uncertainty has been exacerbated in respect of:

(i) modelling PiT PDs and LGDs, in the calibration of ECL models;

(ii) forecasting macroeconomic scenarios for the purposes of estimating probability-weighted credit loss allowances;

(iii) the determination of expected maturities of facilities within the International Lending portfolio;

(iv) assessing if there has been a significant increase in credit risk, which comprise a combination of qualitative and quantitative criteria, as described in Note 1.5; and

(v) the application of model overlays and adjustments based on expert judgement.

The PD, LGD and EAD models used for the measurement of credit loss allowances are developed by an external vendor, enabling the estimation of these three key risk parameters at a facility level using statistical models, mainly by benchmarking exposure-specific characteristics against an underlying dataset. Specifically, PDs and LGDs are developed on a name-by-name basis by reference to the default and loss history of comparable borrowers with similar characteristics in terms of size, industry and country of operations.

In this regard, the methodology together with the assumptions and parameterisation used in the calibration of the model are reviewed on a regular basis by management in order to ensure that the model output remains appropriate in view of the Group's observed default and credit loss history. Due to the outbreak of the pandemic, a significant level of judgement was required in order to assess the continuing appropriateness and reasonableness of the PiT PDs and LGDs being determined by the statistical models, particularly because the unprecedented economic conditions being currently experienced are outside the historical range of observations used to build and calibrate the model. In this respect, although indicative, the default levels and loss severities observed historically might not be fully reflective of the default levels and loss severities currently being observed in the aftermath of the outbreak of the pandemic. A significant level of expert judgement is required in order to address such modelling limitations. In this respect, the Group resorted to the application of overlays, as described in more detail in Note 2.2.8 of the financial statements.

Similarly, significant judgement is also required in the modelling of macroeconomic forecasts, including the selection of macroeconomic variables, as well as he calibration of the severities and respective probability weights of macroeconomic scenarios used in the determination of ECLs. Judgement in this respect has been amplified by the heightened level of uncertainty triggered by the unprecedented economic and socio-political conditions being currently experienced across countries and industries. In this respect, a number of modelling assumptions are required, based on expert judgement, in order to form a view on the expected time horizon for the global economy to return to pre-COVID-19 levels; the impact of the pandemic on macroeconomic variables in specific countries and industries; the possibility of further waves of infections and the mutation of the virus into different strains; the efficacy of vaccine distribution plans at national level; and the effectiveness of government support schemes and regulatory relief measures.

Hence, as at 31 December 2020, the development of multiple forward-looking macroeconomic scenarios taking into consideration all these variables represents a key element of estimation uncertainty in the measurement of credit loss allowances. In fact, the underlying models and their calibration, including how they react to forward-looking macroeconomic conditions, remain subject to review and refinement, and as a result have been subject to overlays as described in Note 2.2.8 of the financial statements.

In addition, in view of high subjectivity involved in forecasting scenarios and the sensitivity of the ECL to such forecasts, the Group has recalculated the ECL under the different scenarios by applying a 100% weight to each scenario. The effect of this uncertainty on the ECL outcome is disclosed in the sensitivity analysis of the measured credit loss allowances as at 31 December 2020 and 31 December 2019 presented in Note 2.2.8 of the financial statements.

The determination of expected maturities, which is particularly relevant for Stage 2 exposures within the International Lending portfolio, is based on behavioural maturity, reflecting management expectations on the exercise of prepayment options, based on borrowers' ability to refinance their debt in the open market. In this respect, the level of subjectivity in determining expected maturities has increased significantly in view of the outbreak of the pandemic, mainly since the increased credit risk experienced by such borrowers diminishes their refinancing abilities over the shorter term. In this context, management continues to benchmark the expected timing of future recoveries against actual outcomes to ensure that they remain appropriate.

The identification of SICR events, particularly in respect of the International Lending portfolio, has also been rendered more complex in the aftermath of the outbreak of the pandemic, since significant judgement is required in order to assess the severity of the impact of the pandemic on the financial performance and financial condition of such borrowers. In this respect, during 2020, greater reliance was made by the Group on its qualitative staging criteria when compared to its quantitative staging criteria, since the former was deemed to be more effective in capturing the impact of the economic uncertainties induced by the pandemic on the borrowers within this portfolio. The effectiveness of the quantitative staging criteria displayed signs of limitations, mainly due to their reliance on historical audited financial information used within the assessment. As a result, management applied adjustments to implied ratings in respect of borrowers deemed to be most impacted by the pandemic, predominantly in the form of notch downgrades, to capture such risks in as timely a manner as possible.

4. Balances with central banks and cash

	Group	
	2020	2019
	€000	€000
At amortised cost:		
Balances with central banks	**490,679**	241,723
Cash	**1**	3
	490,680	241,726

As at 31 December 2020, balances held with central banks include reserve deposits of the Group amounting to €23.5 million (2019: €19.9 million) relating to the Minimum Reserve Requirement in terms of Regulation (EC) No 1745/2003 of the ECB. Balances with central banks bear interest at 0% per annum with the exception of overnight deposits with central banks amounting to €351.7 million (2019: €122.4 million) and that were subject to a negative interest rate of 0.5% (2019: negative interest rate of 0.5%) per annum.

Balances with central banks in the preceding table are shown net of credit loss allowances amounting to €2 thousand as at 31 December 2020 (2019: €1 thousand).

5. Derivative financial instruments

The Group, through MeDirect Malta, established derivative lines with counterparties to purchase interest rate caps, swaps and swaptions, foreign exchange swaps and other appropriate instruments approved for hedging risks.

The Group uses over-the-counter foreign exchange swaps to hedge its exposure to changes in foreign exchange rates. All foreign exchange swaps mature within 12 months (2019: 6 months) from the reporting date.

The Group uses over-the-counter interest rate swaps to hedge its exposure to changes in the fair values of specific fixed rate securities attributable to changes in market interest rates (micro fair value hedging). Interest rate swaps are matched to fixed rate securities in designated fair value hedging transactions. The net gains on the hedged items arising during the year attributable to the hedged risk were €1.1 million (Period ended 31 December 2019: €0.3 million). The net losses on the related hedging instruments during the year ended 31 December 2020 were €1.3 million (Period ended 31 December 2019: €0.4 million).

The Group also uses over-the-counter interest rate swaps to hedge its exposure to interest rate risk emanating from a portfolio of fixed-rate mortgages (see Note below – macro fair value hedging under the EU carve-out version of IAS 39). The net losses on the related hedging instruments during the year ended 31 December 2020 were €12.4 million (Period ended 31 December 2019: net gains of €0.3 million). The net gains on the hedged items arising during the year attributable to the hedged risk were €10.9 million (Period ended 31 December 2019: net losses of €0.4 million).

Foreign exchange and interest rate swaps are commitments to exchange one set of cash flows for another, resulting in an economic exchange of currencies or interest rates (for example, fixed rate for floating rate).

	Group	
	2020	2019
	€000	€000
Derivative financial assets	**1,841**	2,020
Derivative financial liabilities	**(14,344)**	(4,182)

The Group applies fair value hedge accounting on micro level in which one hedged item is hedged with one or multiple hedging instruments as well as on macro level whereby a portfolio of items is hedged with multiple hedging instruments. For macro hedges of interest rate risk, the Group applies the EU 'carve-out' version of IAS 39. The EU 'carve-out' rules for macro hedging enable a group of derivatives (or proportions) to be viewed in combination and jointly designated as the hedging instrument and remove some of the limitations in fair value hedge accounting relating to hedging core deposits and under-hedging strategies. Within retail operations, interest rate exposures on retail funding (savings and current accounts) and retail lending (mortgages) are initially offset. The remaining exposure is hedged in a portfolio hedge, using the EU 'carve-out' version of IAS 39, in which a portion of the retail mortgage lending portfolio is designated as a hedged item for hedge accounting purposes. The Group applies the following types of hedge accounting:

Fair value hedges

Hedging the interest rate risk in the banking book (macro hedge)

The hedged portfolio comprises fixed-rate mortgages of MeDirect Belgium (refer to Note 7). These are mortgages that have a fixed-rate interest period of more than six months. The hedging instruments are interest rate swaps entered into as part of interest rate risk management in the Asset and Liability Management ('ALM') process. The risk being hedged is the risk of change in fair value of the portfolio attributable to movements in market interest rates. Effectiveness assessments are performed on a retrospective and a prospective basis, using the dollar offset method.

Hedging the interest rate risk on investments (micro hedge)

The interest rate risk on specific fixed-income investments (refer to Note 8), on an individual asset basis, is hedged by swapping the coupon to a floating interest rate using interest rate swaps. The country or credit spread is not hedged. The hedges provide protection for changes in fair value of the relevant fixed-income investments attributable to movements in market interest rates. Effectiveness assessments are performed on a retrospective and a prospective basis, using the dollar offset method.

The fair values of the held for trading derivatives and derivatives designated as hedging instruments in fair value hedges together with the related notional amounts, distinguishing between micro hedges and macro hedges for the purposes of hedge accounting, are as follows:

	Group			
	Notional 2020 €000	**Fair value 2020 €000**	Notional 2019 €000	Fair value 2019 €000
Derivatives held for trading – Assets				
Instrument type:				
- Foreign exchange swaps and spots	**103,723**	**1,506**	108,918	1,036
- Other derivative financial instruments		**160**		448
		1,666		1,484
Derivatives held for trading – Liabilities				
Instrument type:				
- Foreign exchange swaps and spots	**143,445**	**(1,618)**	159,603	(4,182)
Net derivatives held for trading		**48**		(2,698)
Derivatives designated as hedging instruments in fair value hedges – Assets				
Instrument type:				
- Interest rate swaps maturing in				
More than one year and less than five years				
- Micro hedges	**-**	**-**	56,000	223
- Macro hedges	**17,200**	**8**	25,100	45
More than five years				
- Macro hedges	**45,400**	**167**	38,700	268
		175		536

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	Group			
	Notional	**Fair value**	Notional	Fair value
	2020	**2020**	2019	2019
	€000	**€000**	€000	€000
Derivatives designated as hedging instruments in fair value hedges – Liabilities				
Instrument type:				
- Interest rate swaps maturing in				
More than one year and less than five years				
- Micro hedges	**95,000**	**(349)**	-	-
- Macro hedges	**236,536**	**(930)**	-	-
More than five years			-	-
- Micro hedges	**25,300**	**(158)**		
- Macro hedges	**563,900**	**(11,289)**		
		(12,726)		-
Net derivatives designated as hedging instruments in fair value hedges		**(12,551)**		536

6. Loans and advances to financial institutions

	Group		Company	
	2020	2019	**2020**	2019
	€000	€000	**€000**	€000
At amortised cost:				
Repayable on call and at short notice	**242,148**	214,114	**646**	218
Term loans and advances	**21,627**	9,391	**-**	-
	263,775	223,505	**646**	218

As at 31 December 2020, an amount of €3.9 million (2019: 3.7 million) in the form of High Quality Liquid Assets have been contributed by MeDirect Malta and €2.5 million (2019: €2.5 million) in the form of cash have also been contributed to a clearing fund held by Eurex Clearing AG, of which the Bank is a member. The clearing fund protects members against losses until they leave the clearing fund.

A further €2.0 million in the form of High-Quality Liquid Assets as at 31 December 2020 (2019: €1.9 million) were also contributed to Eurex Clearing AG to cover for daily margining.

Loans and advances to financial institutions as at 31 December 2020 and 31 December 2019 were neither past due nor credit-impaired and no forbearance measures were applied by the Group in this respect. In addition, loans and advances to financial institutions in the preceding table are shown net of credit loss allowances amounting to €1 thousand as at 31 December 2020 and 31 December 2019.

7. Loans and advances to customers

	Group	
	2020	2019
	€000	€000
International Lending portfolio		
- Term loans and advances: corporate	**903,354**	1,159,131
Dutch Mortgage portfolio		
- Term loans and advances: retail	**1,078,554**	133,150
Local Lending portfolio		
- Repayable on call and short notice: retail	**8**	1,191
- Repayable on call and short notice: corporate	**5,022**	5,265
- Term loans and advances: retail	**4,475**	8,089
- Term loans and advances: corporate	**83,198**	74,770
Gross loans and advances to customers	**2,074,611**	1,381,596
Less: Credit loss allowances	**(53,851)**	(22,219)
	2,020,760	1,359,377

	International Lending portfolio		Dutch Mortgage portfolio		Local Lending portfolio		Total	
	2020	2019	**2020**	2019	**2020**	2019	**2020**	2019
	€000	€000	**€000**	€000	**€000**	€000	**€000**	€000
Credit loss allowances:								
- Allowances booked under Stage 1	**(7,187)**	(7,447)	**(97)**	(8)	**(405)**	(279)	**(7,689)**	(7,734)
- Allowances booked under Stage 2	**(4,682)**	(1,956)	**(32)**	-	**(129)**	(73)	**(4,843)**	(2,029)
- Allowances booked under Stage 3	**(41,294)**	(12,455)	**(18)**	-	**(7)**	(1)	**(41,319)**	(12,456)
	(53,163)	(21,858)	**(147)**	(8)	**(541)**	(353)	**(53,851)**	(22,219)

The Group's Dutch Mortgage portfolio in the table above includes fair value adjustments amounting to €10.5 million (2019: €369 thousand) attributable to hedged risk in which interest rate swaps were entered into as part of the interest rate risk management in the ALM process to hedge the risk of change in fair value of the portfolio attributable to movements in market interest rates (refer to Note 5).

As at 31 December 2020, the acquisition of €22.0 million (2019: €40.1 million) of the Group's "Term loans and advances to customers: corporate" was contracted but beneficial ownership was not yet transferred. Also, as at 31 December 2020, disposals of loans and advances with a carrying amount of €22.0 million (2019: nil) were contracted but beneficial ownership was not yet transferred.

Loans and advances relating to exposures within the International Lending portfolio amounting to €31.3 million and €29 thousand within the Local Lending portfolio, have been written off during the financial year (Period ended 31 December 2019: nil relating to International Lending portfolio and €1 million relating to exposures within the Local Lending portfolio). Consequently, during the financial year ended 31 December 2020 credit loss allowances amounting to €31.3 million (Period ended 31 December 2019: €1 million) relating to such write-offs have been released to profit or loss.

Throughout the financial year ended 31 December 2020, the Group derecognised loans and advances to two European corporations with a gross carrying amount of €55.5 million as a result of restructuring procedures (2019: €nil). As at the date of the restructuring, credit loss allowances recognised in respect of these financial instruments amounted to €25.4 million (2019: €nil). These financial instruments were replaced by new loans and advances to customers with a gross carrying amount of €30.6 million (2019: €nil) that were classified as hold to collect financial assets measured at amortised cost on initial recognition and listed equity in this European corporation that was classified as financial assets at fair value through other comprehensive income which was assigned a fair value of €7.3 million (2019: nil) on initial recognition. In this regard, the restructuring led to a net positive impact on profit or loss amounting to €2.1 million (2019: €nil). The holding of the new loans and advances to customers and the listed equity represent the continuing interaction with these customers. During the financial period ended 31 December 2019, no such events took place.

As at 31 December 2020, gross loans and advances to customers of the Group amounting to €170.2 million (2019: €80.0 million) were classified as Stage 3.

8. Treasury and Securitisation Investment portfolios

Treasury Investment portfolio

	Group	
	2020	2019
	€000	€000
Investments measured at amortised cost including basis adjustment attributable to the hedged risk		
- Debt and other fixed income securities	**198,292**	430,448
- Less: Credit loss allowances	**(243)**	(249)
Investments measured at fair value through other comprehensive income		
- Debt and other fixed income securities	**652,958**	500,292
- Equity instruments	**6,712**	-
	857,719	930,491
Credit loss allowances:		
- On investments measured at amortised cost	**(243)**	(249)
- On investments measured at fair value through other comprehensive income	**(183)**	(144)
	(426)	(393)

Group	Measured at amortised cost		Measured at fair value through other comprehensive income	
	2020	2019	**2020**	2019
	€000	€000	**€000**	€000
Debt securities and other fixed income securities				
Issued by public bodies				
- foreign national and regional governments	**35,301**	35,466	**164,351**	64,936
- supranational	**61,485**	189,445	**101,573**	109,868
Issued by other bodies				
- foreign banks	**88,957**	193,086	**387,034**	325,488
- corporations	**12,306**	12,202	**-**	-
	198,049	430,199	**652,958**	500,292
Equity instruments				
Issued by public issuers				
- corporations			**6,712**	-
			6,712	-
Listing status				
- listed on foreign recognised exchanges	**185,743**	417,997	**659,670**	500,292
- not listed	**12,306**	12,202	**-**	-
	198,049	430,199	**659,670**	500,292

Group	Measured at amortised cost		Measured at fair value through other comprehensive income	
	Year ended 31 December 2020	Period from 1 April to 31 December 2019	**Year ended 31 December 2020**	Period from 1 April to 31 December 2019
	€000	€000	**€000**	€000
At beginning of year/period	**430,199**	425,009	**500,292**	265,572
Additions	**-**	12,398	**365,554**	567,640
Disposal/redemptions	**(226,609)**	-	**(206,237)**	(325,641)
Gains on hedged items attributable to the hedged risk	**302**	284	**825**	-
Amortisation of premium/discount	**(5,849)**	(7,308)	**(6,368)**	(2,273)
Exchange differences	**-**	-	**-**	120
Changes in fair value	**-**	-	**5,604**	(5,126)
Movement in credit loss allowances	**6**	(184)	**-**	-
At end of year/period	**198,049**	430,199	**659,670**	500,292

Investment securities with a nominal value of €499.6 million are pledged as collateral with Eurex against the provision of borrowing facilities. These include investment securities that are held on balance sheet with a carrying amount of €446 million (2019: €227 million) and investment securities with a nominal value of €44 million that are subject to a bilateral repo with a global bank. The cash value of unutilised borrowing facilities (headroom) of the Group as at 31 December 2020 which are secured by investment securities amounted to €229.6 million (2019: €402.4 million).

Investment securities with a nominal value of €353.5 million (2019: €271.7 million) and a carrying amount of €363.0 million (2019: 288 million) are also pledged as part of the cooperation with the Blauwtrust Groep to access their multi-investor platform to purchase newly originated receivables.

As at 31 December 2020, investment securities held by the Group with a nominal value of €4.0 million (2019: €4.8 million) and a fair value of €4.1 million (2019: €4.8 million) were pledged in favour of DCS.

As at 31 December 2020 and 2019, the Group had no commitment to purchase further investment securities.

Throughout the financial year ended 31 December 2020, through the derecognition of loans and advances to a European corporation, the Group a acquired listed equity assigned a fair value of €7.3 million (2019: nil). This listed equity was classified at fair value through other comprehensive income on initial recognition. As at the date of restructuring, the gross carrying amount of the loans and advances for the Group was of €23.7 million (2019: nil). Credit loss allowances recognised in respect of these financial instruments, amounted to €6.5 million (2019: nil) at Group level. These financial instruments were replaced with new loans and advances to customers classified as hold to collect financial assets measured at amortised cost with a gross carrying amount of €11.6 million (2019: nil). This restructuring resulted in a positive impact on profit and loss amounting to €1.8 million (2019: nil). No such events took place during the financial period ended 31 December 2019.

The listed equity stake referred to above has a fair value of €6.7 million at the end of the year. The IFRS 9 disclosure requirements in respect of such FVTOCI equity investments have not been presented in view of the insignificance of such investments in the context of the financial position.

Securitisation Investment portfolio

	Group	
	2020	2019
	€000	€000
Investments measured at amortised cost		
- Debt and other fixed income securities	**292,214**	252,198
- Less: Credit loss allowances	**(151)**	(19)
Investments mandatorily measured at fair value through profit or loss		
- Debt and other fixed income securities	**1,143**	1,447
	293,206	253,626

Group	**Measured at amortised cost**		**Measured at fair value through other comprehensive income**		**Measured at fair value through profit or loss**	
	Year ended 31 December 2020	Period from 1 April to 31 December 2019	**Year ended 31 December 2020**	Period from 1 April to 31 December 2019	**Year ended 31 December 2020**	Period from 1 April to 31 December 2019
	€000	€000	**€000**	€000	**€000**	€000
At beginning of year/period	**252,179**	-	-	-	**1,447**	-
Additions	**49,991**	252,195	-	87,000	-	1,750
Disposal/redemptions	**(9,997)**	-	-	(87,109)	-	-
Amortisation of premium/discount	**22**	3	-	-	-	-
Changes in fair value	-	-	-	109	**(304)**	(303)
Movement in credit loss allowances	**(132)**	(19)	-	-	-	-
At end of year/period	**292,063**	252,179	-	-	**1,143**	1,447

In July 2019, MeDirect Malta acquired a 5% vertical slice in each of the GH1-2019 structured note tranches for risk retention purposes, for the amount of €20.2 million. As at 31 December 2020, with the exception of the equity tranche amounting to €1.1 million (2019: €1.4 million) measured at FVTPL, MeDirect Malta's investment in the remaining tranches amounting to €18.5 million (2019: €18.5 million) is measured at amortised cost. In turn, MeDirect Belgium acquired a 35% share of the tranche with the highest credit rating for an amount of €87 million, which investment was held in a 'hold to collect and sell' business model and measured at FVOCI. This investment was sold during the financial period ended 31 December 2019 at a gain of €109 thousand.

During the financial year ended 31 December 2020 and the financial period ended 31 December 2019, the Group also acquired portions in CLO transactions amounting to €50 million (2019: €233.7 million). These are managed by third party entities corresponding to tranches with the highest credit rating in such CLO structures. These acquired portions in CLO transactions are listed on recognised exchanges but not centrally traded. The underlying assets for these CLO transactions are leveraged loans, predominantly senior secured leveraged loans, and high yield corporate bonds. These positions, amounting to €273.7 million in total as at 31 December 2020 (2019: €233.7 million), are held in a 'hold to collect' business model and measured at amortised cost.

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9. Investment in subsidiary

Name of subsidiary	Country of incorporation/formation	Nature of business	Equity interest		Carrying amount	
			2020	2019	**2020**	2019
			%	%	**€000**	€000
MeDirect Bank (Malta) plc	Malta	Banking	**100**	100	**130,914**	130,914
		Shareholders' contribution to MeDirect Bank (Malta) plc			**133,196**	133,196
					264,110	264,110

	Year ended 31 December 2020 €000	Period from 1 April to 31 December 2019 €000
At beginning of year/period	**264,110**	274,110
Movement in shareholders' contribution	**-**	(10,000)
At end of year/period	**264,110**	264,110

By virtue of shareholders' resolutions dated 28 June 2019, MeDirect Bank Malta approved the repayment of the shareholder contribution to MDB Group Limited equivalent to €10 million.

MeDirect Malta owns the following subsidiaries:

Name of subsidiary	Country of incorporation	Nature of business	Equity interest	
			2020	2019
			%	%
MeDirect Bank SA	Belgium	Banking	**100**	100
Medifin Estates (partnership)	Malta	Operating lease of branches	**100**	100

MeDirect Belgium was incorporated on 16 June 2014 and was authorised as a Belgian credit institution on 1 June 2015. MeDirect Belgium's principal activities comprise those that of offering competitive and cost-effective savings and wealth management products to the Belgian retail market, the provision of senior secured loans to foreign companies and the senior loan facility to GH I. and the financing of Dutch mortgages, including RMBS transactions.

Medifin Estates is a partnership set up on 5 June 2012. This partnership enters into certain operating leases for property to be used as offices and branches which are then leased to the Group.

10. Property and equipment

Group	Improvements to premises €000	Computer equipment €000	Other equipment €000	Fixtures and fittings €000	Motor vehicles €000	Right-of-use assets €000	Total €000
As at 1 April 2019							
Cost	686	1,110	91	1,297	113	12,110	15,407
Accumulated depreciation	(157)	(261)	(29)	(666)	(113)	-	(1,226)
Net book amount	529	849	62	631	-	12,110	14,181
Period ended 31 December 2019							
At beginning of period	529	849	62	631	-	12,110	14,181
Additions	-	215	12	18	-	80	325
Disposals	(113)	(87)	(14)	(523)	(113)	(411)	(1,261)
Depreciation for the period	(51)	(217)	(16)	(72)	-	(1,250)	(1,606)
Depreciation released on disposals	95	83	14	499	113	-	804
Reclassification - Cost	(11)	(43)	-	54	-	-	-
At end of period	449	800	58	607	-	10,529	12,443
As at 31 December 2019							
Cost	562	1,195	89	846	-	11,779	14,471
Accumulated depreciation	(113)	(395)	(31)	(239)	-	(1,250)	(2,028)
Net book amount	449	800	58	607	-	10,529	12,443
Year ended 31 December 2020							
At beginning of year	**449**	**800**	**58**	**607**	**-**	**10,529**	**12,443**
Additions	**-**	**459**	**31**	**-**	**-**	**1,085**	**1,575**
Disposals	**-**	**(9)**	**-**	**-**	**-**	**-**	**(9)**
Depreciation for the year	**(57)**	**(343)**	**(24)**	**(77)**	**-**	**(1,799)**	**(2,300)**
Depreciation released on disposals	**-**	**2**	**-**	**-**	**-**	**-**	**2**
At end of year	**392**	**909**	**65**	**530**	**-**	**9,815**	**11,711**
As at 31 December 2020							
Cost	**562**	**1,645**	**120**	**846**	**-**	**12,864**	**16,037**
Accumulated depreciation	**(170)**	**(736)**	**(55)**	**(316)**	**-**	**(3,049)**	**(4,326)**
Net book amount	**392**	**909**	**65**	**530**	**-**	**9,815**	**11,711**

As at 31 December 2020 and 2019, the Group operated from four immovable properties respectively which are held under lease agreements.

The right-of-use assets disclosed in the preceding table reflect the following assets relating to leases:

	Group	
	2020	2019
	€000	€000
Premises	**7,686**	8,138
Computer equipment	**1,918**	2,149
Other equipment	**211**	242
	9,815	10,529

The movement in the carrying amount of right-of-use assets is analysed in the following table:

	Group			
	Premises	Computer equipment	Other equipment	Total
	€000	€000	€000	€000
Period ended 31 December 2019				
At beginning of period	9,429	2,400	281	12,110
Additions	-	80	-	80
Disposals	(411)	-	-	(411)
Depreciation for the period	(880)	(331)	(39)	(1,250)
At end of the period	8,138	2,149	242	10,529
As at 31 December 2019				
Cost	9,018	2,480	281	11,779
Accumulated depreciation	(880)	(331)	(39)	(1,250)
Net book amount	8,138	2,149	242	10,529
Year ended 31 December 2020				
At beginning of year	**8,138**	**2,149**	**242**	**10,529**
Additions	**851**	**234**	**-**	**1,085**
Depreciation for the year	**(1,303)**	**(465)**	**(31)**	**(1,799)**
At end of the year	**7,686**	**1,918**	**211**	**9,815**
As at 31 December 2020				
Cost	**9,869**	**2,714**	**281**	**12,864**
Accumulated depreciation	**(2,183)**	**(796)**	**(70)**	**(3,049)**
Net book amount	**7,686**	**1,918**	**211**	**9,815**

The relevant lease liabilities are disclosed and analysed in Note 23 to these financial statements.

There were no capitalised staff costs in respect of the financial periods ended 31 December 2020 and 2019 attributable to assets which have not yet been put in use. During the period ended 31 December 2019, there were capitalised staff costs amounted to €344k attributable to assets which have been put in use. There were no capitalised borrowing costs related to the acquisition of property and equipment during the year (Period ended 31 December 2019: nil).

11. Intangible assets

Group	Goodwill	Computer software	Right-of-use assets	Customer list	Total
	€000	€000	€000	€000	€000
As at 1 April 2019					
Cost	461	6,775	9,427	474	17,137
Accumulated amortisation	-	(960)	-	(426)	(1,386)
Net book amount	461	5,815	9,427	48	15,751
Period ended 31 December 2019					
At beginning of period	461	5,815	9,427	48	15,751
Additions	-	3,203	233	-	3,436
Disposals	-	(346)	-	-	(346)
Amortisation for the period	-	(944)	(1,267)	(36)	(2,247)
Amortisation released on disposals	-	334	-	-	334
At end of period	461	8,062	8,393	12	16,928
As at 31 December 2019					
Cost	461	9,632	9,660	474	20,227
Accumulated amortisation	-	(1,570)	(1,267)	(462)	(3,299)
Net book amount	461	8,062	8,393	12	16,928
Year ended 31 December 2020					
At beginning of year	**461**	**8,062**	**8,393**	**12**	**16,928**
Additions	**-**	**1,685**	**2,283**	**-**	**3,968**
Write-off	**-**	**(755)**	**-**	**-**	**(755)**
Amortisation and impairment charges for the year	**-**	**(2,142)**	**(2,841)**	**(12)**	**(4,995)**
Amortisation released on write-off	**-**	**696**	**-**	**-**	**696**
At end of year	**461**	**7,546**	**7,835**	**-**	**15,842**
As at 31 December 2020					
Cost	**461**	**10,562**	**11,943**	**474**	**23,440**
Accumulated amortisation	**-**	**(3,016)**	**(4,108)**	**(474)**	**(7,598)**
Net book amount	**461**	**7,546**	**7,835**	**-**	**15,842**

The right-of-use assets reflected in preceding table related to leased computer software. The relevant lease liabilities were disclosed and analysed in Note 23 to these financial statements.

Capitalised staff costs in respect of the financial year ended 31 December 2020, included within “Additions” of the Group in the table above amounted to €1.4 million (Period ended 31 December 2019: €1.5 million). Amortisation of amounts capitalised by the Group of €1.4 million (Period ended 31 December 2019: €0.7 million) had not yet commenced by the end of the reporting period.

The carrying amount of the assets written off during the current financial year, and the impairment charges recognised during the year in respect of such assets, reflected in the tables above, are deemed insignificant and accordingly no further disclosures were presented in this respect.

There were no capitalised borrowing costs related to the acquisition of software during the year (Period ended 31 December 2019: nil).

Impairment assessment on goodwill arising on the acquisition of Wealth Management business in prior years

The recoverable amount attributable to the wealth management business acquired in prior years was based on its value in use and was determined by discounting the future cash flows to be generated from its continuing operations taking into account synergies as well as the enhanced client platform. The recoverable amount was determined to be higher than the carrying amount (consisting of the net assets and goodwill). As a result, no impairment was deemed necessary.

Key assumptions used in discounted cash flow projection calculations

Disclosure of the key assumptions used in the calculation of recoverable amounts was not deemed necessary taking cognisance of the carrying amount of goodwill in this respect. There were no changes in the underlying assumptions during the year.

12. Non-current assets classified as held for sale

As at 31 December 2020, the assets that had been acquired in satisfaction of debt had a carrying amount of €1.8 million (2019: €1.8 million).

Repossessed properties are made available for sale in an orderly fashion, with the proceeds used to reduce or repay the outstanding indebtedness. The Group does not generally occupy repossessed properties for its business use. Repossessed properties consist mainly of immovable property that had been pledged as collateral by customers.

13. Deferred tax assets and liabilities

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority.

	Group		Company	
	2020	2019	**2020**	2019
	€000	€000	**€000**	€000
Deferred tax assets	**18,550**	25,705	**-**	3,426
Deferred tax liabilities	**(881)**	(199)	**-**	-
	17,669	25,506	**-**	3,426

Deferred tax assets and liabilities are attributable to the following:

	Group		**Company**	
	2020	2019	**2020**	2019
	€000	€000	**€000**	€000
Property and equipment	**(165)**	(126)	**-**	-
Investments measured at fair value through other comprehensive income	**(716)**	1,110	**-**	-
Derivative financial instruments	**28**	(73)	**-**	-
Unutilised tax losses	**5,317**	2,487	**-**	-
Unutilised notional interest deduction	**-**	12,168	**-**	3,426
Credit loss allowances	**13,205**	9,940	**-**	-
Net deferred tax assets	**17,669**	25,506	**-**	3,426

Deferred taxes are calculated on all temporary differences under the liability method and are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled based on tax rates (and tax laws) that have been substantively enacted by the end of the reporting period. The principal tax rates used are 35% (2019: 35%) in relation to the Maltese jurisdiction and 25% (2019: 25%) in respect of the Belgian fiscal authority.

Under notional interest deduction rules for Maltese corporate income tax purposes, Maltese entities may claim a deduction of notional interest computed by reference to risk capital and a benchmark interest rate.

Excess notional interest deduction in Malta which cannot be utilised against chargeable income for the respective financial year can be carried forward and added to the notional interest deduction for the following financial year. Unutilised notional interest deduction does not have an expiry date. A deferred tax asset is recognised in respect of unutilised notional interest deduction only to the extent that it is probable that sufficient future taxable profits will be available against which the unutilised deduction can be used.

The Group has taken the prudent decision of reversing deferred tax assets by approximately €7.8 million. Unutilised tax benefits do not expire in the future and the prudent release does not impact the Group's future cash flows and the Group's ability to utilise these tax benefits in the future. The release reflects, rather, the shift in future business emphasis towards the Benelux region, as outlined in the directors' report, which may lengthen the period required for the utilisation of these tax benefits.

The Group has recognised the deferred tax assets referred to above on the basis of evidence available that indicates the projected financial results expected to be generated over a reasonable time period. These projected financial results give rise to heightened probability of sufficient taxable profits being available over a reasonable time horizon to utilise the deferred tax assets recognised, taking cognisance of the Group's committed pans in respect of its business model and restructuring strategy.

The recognised deferred tax assets as at 31 December 2020 are expected to be recovered or settled principally after more than 12 months from the end of the reporting period. Unutilised tax losses and unutilised notional interest deduction have no expiry date and can be carried forward indefinitely.

The following table provide an analysis of the deferred tax assets that were not recognised by the Group and the Company as deferred income tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised.

	Group		Company	
	2020	2019	**2020**	2019
	€000	€000	**€000**	€000
Property and equipment	**799**	-	**-**	-
Unutilised tax losses	**8,851**	-	**-**	-
Unutilised notional interest deduction	**27,504**	4,502	**11,376**	2,299
Credit loss allowances	**7,988**	-	**-**	-
Net deferred tax assets	**45,142**	4,502	**11,376**	2,299

Movements in deferred tax during the year/period:

Group	**At beginning of year/period**	**Recognised in profit or loss**	**Recognised in other comprehensive income**	**At end of year/period**
	€000	**€000**	**€000**	**€000**
Year ended 31 December 2020				
Property and equipment	(126)	(39)	-	**(165)**
Investments measured at fair value through other comprehensive income	1,110	-	(1,826)	**(716)**
Derivative financial instruments	(73)	101	-	**28**
Unutilised tax losses	2,487	2,830	-	**5,317**
Unutilised notional interest deduction	12,168	(12,168)	-	**-**
Credit loss allowances	9,940	3,265	-	**13,205**
	25,506	(6,011)	(1,826)	**17,669**
Period ended 31 December 2019				
Property and equipment	(149)	23	-	(126)
Investments measured at fair value through other comprehensive income	(269)	-	1,379	1,110
Derivative financial instruments	(73)	-	-	(73)
Unutilised tax losses	2,735	(248)	-	2,487
Unutilised notional interest deduction	11,890	278	-	12,168
Credit loss allowances	9,961	(21)	-	9,940
	24,095	32	1,379	25,506

	Company	
	Year ended 31 December 2020	Period from 1 April to 31 December 2019
	€000	€000
Unutilised notional interest deduction:		
At beginning of year/period	**3,426**	3,248
Recognised in profit or loss	**(3,426)**	178
At end of year/period	**-**	3,426

14. Prepayments and accrued income

	Group	
	2020	2019
	€000	€000
Prepayments	**1,846**	1,598
Accrued income	**14,678**	14,381
	16,524	15,979

15. Other assets

	Group		Company	
	2020	2019	**2020**	2019
	€000	€000	**€000**	€000
Amounts receivable from:				
- ultimate parent company	**-**	2,475	**-**	-
- other group companies	**9,849**	10,370	**-**	-
Dividend related refund	**1,960**	1,854	**1,578**	1,578
Deferred customer contract costs	**770**	1,132	**-**	-
Other receivables	**34,966**	34,336	**-**	-
Other assets	**30**	33	**30**	33
	47,575	50,200	**1,608**	1,611

Amounts receivable from ultimate parent company amounting to €1.8 million as at 31 December 2019 was unsecured, subject to interest at 3% per annum and was repaid in November 2020. The residual amounts receivable from ultimate parent company were unsecured, interest free and were repaid in November 2020.

Amounts receivable from other group companies as at 31 December 2020 are unsecured. These consist of a loan amounting to €7.9 million that is repayable through monthly instalments and subject to interest at the rate of three-month EURIBOR floored at 0% and a revolving loan amounting to €1.9 million that is subject to interest at the rate of three-month EURIBOR floored at 0% and is repayable after one year from the date when repayment is demanded, unless an event of default occurs in which case the loan is repayable in full immediately.

Amounts receivable from other group companies as at 31 December 2019 were unsecured, interest free and repayable on demand but as long as alternative financing was available.

None of these assets are deemed credit-impaired at 31 December 2020 and 2019. In this respect, the ultimate parent company provided a letter of comfort to MeDirect Malta, showing the intention of assisting these group companies to meet obligations.

As at 31 December 2020, the Group's 'other receivables' comprises balances amounting to €29.0 million (2019: €30.7 million) held with a third-party mortgage originator in the Netherlands until the relevant NHG eligibility criteria for specific loan applications relating to the Dutch Mortgage portfolio are fulfilled in the future.

Expected credit losses in relation to such balances were deemed to be insignificant as at 31 December 2020 and 2019.

16. Capital and reserves

Share capital

	2020	2019
	€	€
Authorised:		
Ordinary 'A' shares of €1 each	**99,999,999**	99,999,999
Ordinary 'B' shares of €1 each	**1**	1
	100,000,000	100,000,000
Issued and fully paid up:		
Ordinary 'A' shares of €1 each	**56,406,546**	56,406,546
Ordinary 'B' shares of €1 each	**1**	1
	56,406,547	56,406,547

As at 31 December 2020 and 2019, issued share capital is stated net of share issue expenses amounting to €0.7 million.

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 Company. 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 Company.

Share premium-

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

	Number of shares	Premium per share	Share premium	
			2020	2019
Issue date		**€**	**€000**	€000
5 August 2009	39,520,969	0.3407	**13,464**	13,464
31 March 2010	1,214,991*	0.2400	**292**	292
			13,756	13,756

**Converted to one share on 27 June 2014*

Shareholders' contributions

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

- The Company 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 Company 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 31 December 2020 and 2019, the reserve for general banking risks of the Group was equivalent to €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

Fair value reserve

The fair value reserve of the Group is attributable to the cumulative net change in the fair value of investments measured at fair value through other comprehensive income, until the investment is derecognised, net of deferred taxation.

	Group	
	Year ended 31 December 2020 €000	Period from 1 April to 31 December 2019 €000
At the beginning of year/period	**(2,954)**	793
Fair value adjustments	**6,186**	(28)
Deferred tax on fair value adjustments	**(1,934)**	8
Reclassification adjustment to profit or loss upon disposal	**(368)**	(5,098)
Deferred tax on reclassification adjustments	**108**	1,371
At end of year/period	**1,038**	(2,954)

Other reserve

On 6 May 2015, the Group entered into an agreement to acquire the remaining 35% shareholding of Charts Investment Management Service Ltd for a cash consideration of €1.7 million. The subsidiary was principally engaged in providing stockbroking and corporate finance services and other authorised investment services under a Category 3 licence. As a result of the acquisition of the non-controlling interest, during the financial year ended 31 March 2016, the carrying amount of the non-controlling interest of €0.4 million has been derecognised. The difference between proceeds and the carrying amount of the non-controlling interest has been reflected as an adjustment to equity.

As at 31 December 2020 and 2019, other reserve also consists of legal reserves amounting to €0.2 million that is required to be maintained by MeDirect Belgium in line with Article 616 of the Belgian Companies Code which requires MeDirect Belgium to assign at least 5% of MeDirect Belgium's net profits to the legal reserve until such legal reserve amounts to 10% of MeDirect Belgium share capital.

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

Dividends

By virtue of shareholder's resolution dated 28 June 2019 MDB Group Limited approved and paid an interim dividend of €10 million, amounting to 17.7 cents per ordinary share.

The directors of the Company do not propose any final dividends for distribution.

17. Amounts owed to financial institutions

	Group	
	2020	2019
	€000	€000
Repayable on call and at short notice	**82,067**	4,012
Term deposits	**270,000**	220,000
	352,067	224,012

As at 31 December 2020, the Group's term deposits amounting to €270 million (2019: €220 million), consisting of repos, are secured by a pledge over MeDirect Malta's investments (refer to Note 8).

18. Amounts owed to customers

	Group	
	2020	2019
	€000	€000
Repayable on call and at short notice	**1,501,976**	1,166,569
Term deposits	**1,247,953**	1,272,557
	2,749,929	2,439,126

19. Debt securities in issue

	Group Year ended 31 December 2020 €000
Original face value of notes issued	561,100
Gross amount of note issue costs	(2,805)
Amortisation charge for the current year	557
Unamortised note issue costs	(2,248)
Redemptions	(5,003)
Amortised cost and closing carrying amount of notes	553,849
Analysed as follows:	
Bastion 2020-1 NHG B.V.	343,459
Cavalier BV 2020	210,390
	553,849

By virtue of a base prospectus dated 13 May 2020, MeDirect Belgium successfully securitised part of its Dutch retail mortgage portfolio raising €350 million through a RMBS transaction, listed on Luxembourg Stock Exchange. As part of the transaction the mortgage portfolio was sold to Bastion 2020-1, a special purpose securitisation vehicle established in the Netherlands.

The RMBS were subject to interest of 0.60% per annum above 3-month EURIBOR (including floor at 0%) up to the first optional redemption date, and interest of 1.00% per annum above 3-month EURIBOR (including floor at 0%) from the first optional redemption date being April 2025, payable quarterly. All bonds are redeemable at par and shall become due for final redemption in April 2057, however, the Bank reserves the right to redeem the bond in particular circumstances specified in the base prospectus.

An institutional investor acquired the senior tranche of the RMBS, and MeDirect Belgium retained all junior tranches. 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.

On each of the Notes Payment Dates of 23 July 2020 and 23 October 2020, amounts of €2.0 million and €3.0 million of Class A notes were redeemed.

The Group intends to acquire mortgages which it intends to finance through RMBS transactions. In September 2020, MeDirect Belgium established a €350 million warehouse funding facility provided by a major Dutch Bank through Cavalier 2020, a special purpose vehicle established in the Netherlands. The warehouse facility provides bridge financing enabling MeDirect Belgium to build up a mortgages portfolio large enough to be securitised through a RMBS transaction. In substance, these instruments have been considered as notes on debt securities in issue.

20. Subordinated liabilities

	Group	
	Year ended 31 December 2020 €000	Period from 1 April to 31 December 2019 €000
At beginning of year/period	**54,820**	67,138
Debt securities issued	**-**	35,044
Debt securities redeemed	**-**	(47,229)
Foreign exchange differences	**(233)**	22
Transaction costs incurred	**-**	(230)
Transaction costs amortised to profit or loss	**63**	75
At end of year/period	**54,650**	54,820
Analysed as follows:		
5% Subordinated Unsecured Bonds 2022 – 2027	**19,941**	19,999
4% Subordinated Unsecured Bonds 2024 – 2029	**34,709**	34,821
	54,650	54,820

On 16 October 2017, MeDirect Malta announced the issue of euro equivalent of €20 million 5% Subordinated Unsecured Bonds 2027 maturing on 13 October 2027 with a 13 October 2022 early redemption option held by MeDirect Malta. The bonds were issued on the Malta Stock Exchange in euro and pound sterling. The interest payable is fixed at 5% (effective interest rate of 5.19%) and the bonds are redeemable at their nominal value. The amounts subscribed consisted of £1.2 million (euro equivalent to €1.3 million) bonds in pound sterling and €18.7 million bonds in euro.

On 8 October 2019 MeDirect Malta announced the issue and listing of €35 million 4% Subordinated Unsecured Bonds denominated in euro and pound sterling maturing on 5 November 2029 with an annual early redemption option starting 5 November 2024 held by MeDirect Malta. The bonds were issued on the Malta Stock Exchange in euro and pound sterling. The interest payable is fixed at 4% (effective interest rate of 4.2%) and the bonds are redeemable at their nominal value. The amounts subscribed consisted of £2.4 million (euro equivalent to €2.8 million) bonds in pound sterling and €32.2 million bonds in euro.

The above liabilities will, in the event of the winding up of MeDirect Malta, be subordinated to the claims of depositors and all other creditors of MeDirect Malta. MeDirect Malta has not had any defaults of interest or other breaches with respect to its subordinated debt securities during the periods ended 31 December 2020 and 31 December 2019. As at 31 December 2020 and 2019, the euro equivalent contractual amount due at maturity was €55.0 million. As at 31 December 2020 and 2019, the carrying amount of the subordinated debt securities in issue was €0.2 million lower than the contractual amount.

21. Provisions for liabilities and other charges

	Group	
	2020 €000	2019 €000
Credit loss allowances in respect of loan commitments and financial guarantee contracts	**3,783**	2,112
Restructuring costs	**133**	2,416
	3,916	4,528

	Group	
	Year ended 31 December 2020 €000	Period from 1 April to 31 December 2019 €000
Credit loss allowances in respect of loan commitments and financial guarantee contracts		
At beginning of year/period	**2,112**	1,633
Change in expected credit losses	**1,671**	479
At end of year/period	**3,783**	2,112
Restructuring costs		
At beginning of year/period	**2,416**	-
Additional provisions – charged to profit or loss	**-**	6,019
Amounts utilised	**(2,283)**	(3,603)
At end of year/period	**133**	2,416

As at 31 December 2019, the provision for restructuring costs, which is mainly current in nature, covers one-time payment obligations emanating from severance costs attributable to the former Group senior management as a result of the organisational restructuring, staff redundancy costs in the context of the closure of specific branches and other restructuring costs, principally consultancy costs relating to restructuring plan amounting to €0.7 million and lease termination charges.

	Group	
	Year ended 31 December 2020 €000	Period from 1 April to 31 December 2019 €000
Severance costs attributable to former senior management – included within Personnel expenses	**-**	4,551
Staff redundancy costs (Note 27) – included within Personnel expenses	**-**	513
Other restructuring costs (Note 28) – included within Other administrative expenses	**-**	955
Total additional provisions – charged to profit or loss	**-**	6,019

22. Accruals and deferred income

	Group		Company	
	2020 €000	2019 €000	**2020 €000**	2019 €000
Accrued interest expense	**7,769**	7,318	**-**	-
Other accrued expenses	**10,768**	10,603	**9**	9
Deferred income	**14,403**	23,005	**-**	-
	32,940	40,926	**9**	9

23. Other liabilities

	Group		Company	
	2020	2019	**2020**	2019
	€000	€000	**€000**	€000
Amounts due to ultimate parent company	**594**	-	**-**	-
Amounts due to immediate parent company	**282**	3,350	**-**	-
Amounts due to other group companies	**1,401**	-	**638**	199
Indirect taxes payable	**1,616**	1,557	**-**	-
Bills payable	**-**	5,649	**-**	-
Lease liabilities	**14,884**	17,663	**-**	-
Other liabilities	**5,390**	8,329	**7**	-
	24,167	36,548	**645**	199

Amounts due to ultimate parent company, immediate parent company and other group companies are unsecured, interest free and repayable on demand.

The lease liabilities associated with the recognised right-of-use assets are analysed below.

Group	Non-current		Current		Total	
	2020	2019	**2020**	2019	**2020**	2019
	€000	€000	**€000**	€000	**€000**	€000
Premises	**6,827**	6,897	**1,114**	1,213	**7,941**	8,110
Computer equipment	**662**	1,133	**620**	811	**1,282**	1,944
Other equipment	**81**	126	**121**	90	**202**	216
Computer software	**3,933**	4,587	**1,526**	2,806	**5,459**	7,393
	11,503	12,743	**3,381**	4,920	**14,884**	17,663

The extension options in leases have been included in the lease liability as the lease term reflects the exercise of such options.

The total cash outflows for leases in 2020 was €7.6 million (Period ended 31 December 2019: €6.3 million). The contractual undiscounted cash flows attributable to lease liabilities as at 31 December 2020 and 31 December 2019 are analysed in Note 2.3.4.

As at 31 December 2020 and 2019. the total amount of lease liabilities for computer equipment, other equipment and computer software were attributable to arrangements with Medifin Leasing Limited, a related party.

The movement in the carrying amount of these liabilities is analysed in the following table:

	Group	
	Year ended 31 December 2020	Period from 1 April to 31 December 2019
	€000	€000
As beginning of year/period	**17,663**	21,445
Additions	**3,368**	313
Payments	**(6,910)**	(4,719)
Interest charge	**763**	624
As end of year/period	**14,884**	17,663

The income statement reflects the following amounts relating to leases:

	Group	
	Year ended 31 December 2020 €000	Period from 1 April to 31 December 2019 €000
Interest expense (Note 24)	**763**	624
Expense relating to short-term leases (Note 28)	**500**	333
Expense relating to leases of low-value assets that are not shown above as short-term leases (Note 28)	**-**	6

24. Net interest income

	Group	
	Year ended 31 December 2020 €000	Period from 1 April to 31 December 2019 €000
Interest income		
Loans and advances to customers	**80,194**	69,992
Loans and advances to ultimate parent company	**48**	42
Investment securities		
- interest on investment securities	**10,037**	7,584
- amortisation of net premiums on investment securities	**(12,195)**	(9,578)
- net losses representing ineffective portion of fair value hedges	**(235)**	(116)
Total interest income	**77,849**	67,924

The Group's negative interest income attributable to loans and advances to financial institutions is presented within interest expense rather than netted off within interest income.

An amount of €7.9 million (Period ended 31 December 2019: €3.8 million) relating to credit-impaired financial assets is included within interest income from loans and advances to customers for the year ended 31 December 2020.

In the financial year ended 31 December 2020, fair value losses of €1.3 million (Period ended 31 December 2019: €0.4 million) arising on derivatives designated in micro fair value hedge relationships and €1.1 million (Period ended 31 December 2019: €0.3 million) representing net increases in the fair value of the hedged items attributable to the hedged risk are included within the Group's net interest income. These hedging relationships comprise interest rate swaps hedging interest rate risk on specific fixed rate debt securities, on an individual asset basis. The losses are reflected within interest arising from investment securities, where interest on the hedged items is presented.

On the other hand, for the macro hedging relationships comprising interest rate swaps hedging interest rate risk on portfolio of the Group's fixed rate mortgages, fair value losses of €12.4 million (Period ended 31 December 2019: gains of €0.3 million) arising on derivatives designated in fair value hedge relationships and €10.9 million (Period ended 31 December 2019: losses of €0.4 million) representing net increases in the fair value of the hedged items attributable to the hedged risk are included within the Group's net interest income. The losses are reflected within interest arising from loans and advances to customers, where interest on the hedged items is presented.

	Group	
	Year ended 31 December 2020 €000	Period from 1 April to 31 December 2019 €000
Micro hedging:		
Losses on hedging instruments	**(1,362)**	(400)
Gains on hedged items attributable to the hedged risk – basis adjustment to Treasury Investments measured at amortised cost (see Note 8)	**1,127**	284
	(235)	(116)
Macro hedging:		
(Losses)/gains on hedging instruments	**(12,356)**	313
Gains/(losses) on hedged items attributable to the hedged risk – basis adjustment to Dutch Mortgage portfolio (see Note 7)	**10,911**	(369)
	(1,445)	(56)
Net losses representing ineffective portion of fair value hedges	**(1,680)**	(172)

25. Net fee and commission income

	Group	
	Year ended 31 December 2020 €000	Period from 1 April to 31 December 2019 €000
Fee and commission income		
Corporate secured lending fee income	**1,382**	817
Banking transactions fee income	**1,418**	1,366
Investment services fees	**5,173**	3,410
Total fee and commission income	**7,973**	5,593
Fee and commission expense		
Corporate secured lending fee expense	**110**	181
Banking transactions fee expense	**562**	207
Investment services transaction and custody fees	**1,631**	890
Other fee expense	**169**	97
Total fee and commission expense	**2,472**	1,375
Net fee and commission income	**5,501**	4,218

The Group's net fee and commission income excludes income and expenses that form an integral part of the effective interest rate on financial assets and financial liabilities that are not at fair value through profit or loss, but in the financial year ended 31 December 2020 includes income of €1.2 million (Period ended 31 December 2019: €0.4 million) and expenses of €0.1 million (Period ended 31 December 2019: € 0.2 million) relating to such financial assets and liabilities.

26. Net trading income and other operating income

26.1 Net trading income

	Group	
	Year ended 31 December 2020 €000	Period from 1 April to 31 December 2019 €000
Net income from foreign exchange activities	**1,855**	3,296
Net expense from held for trading financial instruments	**(152)**	(295)
	1,703	3,001

26.2 Realised (losses)/gains on disposal of other investments

	Group	
	Year ended 31 December 2020 €000	Period from April to 31 December 2019 €000
Investments measured at fair value through other comprehensive income	**(368)**	5,092
Investments measured at amortised cost	**(369)**	-
	(737)	5,092

27. Personnel expenses

Personnel expenses incurred, including directors' remuneration and emoluments, are analysed as follows:

	Group	
	Year ended 31 December 2020 €000	Period from 1 April to 31 December 2019 €000
Directors' emoluments		
- salaries	**4,022**	4,238
- defined contribution social security costs	**34**	27
- fees	**673**	431
- other emoluments	**13**	31
Staff costs		
- salaries	**18,131**	18,323
- defined contribution social security costs	**1,727**	1,235
Staff costs capitalised within Property and Equipment (Note 10) and Intangible Assets (Note 11)	**(1,282)**	(1,461)
	23,318	22,824

Personnel expenses for the period ended 31 December 2019 included costs in connection with the Group's organisational restructuring comprising the severance costs attributable to the former senior management amounting to €4.6 million and staff redundancy costs, as a result of closure of branches, amounting to €0.5 million in the period ended 31 December 2019 (refer to Note 21).

As per above, in the financial year ended 31 December 2020 salary costs amounted to €22.1 million (Period ended 31 December 2019: €22.6 million) with variable remuneration accounting for 15.4% (Period ended 31 December 2019: 11%) of these amounts.

The weekly average number of persons employed during the year/period, including executive directors, was as follows:

	Group	
	Year ended 31 December 2020	Period from 1 April to 31 December 2019
	No	No
Executive and senior management	**18**	17
Other managerial, supervisory and clerical	**271**	286
Other	**7**	12
	296	315

The number of persons employed as at the reporting date, including executive directors, was 292 (2019: 280).

Deferred share-based payments were granted to certain Group employees under a deferred performance and retention bonus plan. Under this plan, these employees are entitled to a deferred cash payment that will be based on changes in the fair value of the ordinary shares of MDB Group Limited but does not entitle the employees to shares or any interest in or right over such shares. Share-linked instruments comprise a number of notional ordinary shares of MDB Group Limited determined at award date by reference to the related bonus amounts taking cognisance of the fair value of the shares at that date. The plan contemplates upfront cash amounts, upfront share linked awards and deferred share linked awards that shall be subject to a retention period of not less than twelve months but not greater than five years. Any tranche of a deferred award which has not yet been paid will lapse if the employee leaves employment before the end of the deferral period, unless the employee leaves due to certain specific reasons as listed in the deferred bonus plan. Settlement amounts will be determined on the basis of the fair value of the ordinary shares at settlement date, which is the end of the retention period.

An assessment of performance over the relevant period is used to determine the amount of the deferred performance bonus award to be granted. Both deferred performance and retention awards generally require employees to remain in employment over the vesting period and are not subject to performance conditions after the grant date. The share-based payment is classified as cash-settled since the share-based payment transactions with the employees are settled through a cash payment.

The following is an analysis of the deferred remuneration awarded to specific members of senior management during the financial year/period and payments of deferred remuneration throughout the financial year/period.

	Financial year ended 31 December 2020		Period from 1 April to 31 December 2019	
	Vested	**Unvested**	Vested	Unvested
	€000	**€000**	€000	€000
Group				
Total outstanding deferred remuneration - share-based payments				
At beginning of year/period	**542**	**1,550**	467	1,325
Awarded throughout the year/period	**-**	**1,749**	-	300
Vested throughout the period	**-**	**-**	75	(75)
Performance and other adjustments throughout the year	**-**	**(930)**	-	-
At end of year/period	**542**	**2,369**	542	1,550

The total expense recognised during the financial year ended 31 December 2020 amounted to €0.9 million (Period ended 31 December 2019: €0.9 million) and the resultant liability as at 31 December 2020, arising from deferred share-based payments, amounted to €2.7 million (2019: €1.8 million).

28. Other administrative expenses

Other administrative expenses are analysed as follows:

	Group		Company	
	Year ended 31 December 2020 €000	Period from 1 April to 31 December 2019 €000	**Year ended 31 December 2020 €000**	Period from 1 April to 31 December 2019 €000
Expense relating to short-term leases	**500**	333	**-**	-
Expense relating to leases of low value assets	**-**	6	**-**	-
IT support and telecommunication costs	**6,501**	4,417	**-**	-
Legal and professional expenses	**7,271**	5,314	**7**	6
Regulatory expenses	**5,689**	3,116	**2**	2
Indirect taxation	**4,871**	2,893	**1**	-
Other expenses	**5,929**	5,036	**7**	4
	30,761	21,115	**17**	12

In the period ended 31 December 2019, other administrative expenses included restructuring costs principally consultancy costs relating to restructuring plan amounting to €0.7 million and other charges (refer to Note 21).

Included in other administrative expenses are fees charged by the Group's independent auditors for the year as follows:

	Group		Company	
	Year ended 31 December 2020 €000	Period from 1 April to 31 December 2019 €000	**Year ended 31 December 2020 €000**	Period from 1 April to 31 December 2019 €000
Audit services	**440**	440	**6**	5
Other assurance services	**-**	65	**-**	-
Tax advisory services	**36**	30	**2**	1
Other non-audit services	**43**	125	**-**	-

Other assurance services in 2019 comprised mainly of reviews of financial information. Other non-audit services consist of regulatory advisory services in respect of the Group's compliance with elements of the regulatory framework it is exposed to or which the Group will be exposed to in the future. These non-audit services have no linkage whatsoever to the audited financial statements.

29. Change in expected credit losses and other credit impairment charges

	Group	
	Year ended 31 December 2020 €000	Period from 1 April to 31 December 2019 €000
Change in expected credit losses		
Loans and advances to customers, including credit-related commitments		
- International Lending portfolio (including accrued income)	**33,373**	(168)
- Dutch Mortgage portfolio	**156**	8
- Local Lending portfolio	**188**	(1,019)
Balances with central banks	**1**	-
Investments measured at amortised cost		
- Treasury portfolio	**(6)**	184
- Securitisation portfolio	**132**	19
Investments measured at fair value through other comprehensive income – Treasury portfolio	**39**	121
Other accrued income	**-**	2
Other credit impairment charges		
Recoveries		
- Local Lending portfolio	**-**	(11)
Amounts written off on loans and advances to customers		
- International Lending portfolio	**31,341**	-
- Local Lending portfolio	**29**	1,000
	65,253	136

30. Taxation

	Group		Company	
	Year ended 31 December 2020 €000	Period from 1 April to 31 December 2019 €000	**Year ended 31 December 2020 €000**	Period from 1 April to 31 December 2019 €000
Current tax expense				
- current year/period tax charge	**309**	885	**-**	2
Deferred tax (Note 13)				
- current year/period tax	**6,011**	(32)	**3,426**	(178)
Income tax charge	**6,320**	853	**3,426**	(176)

The tax recognised in profit or loss on the Group's and the Company's (loss)/profit before tax differs from the theoretical amount that would arise using the applicable tax rate in Malta, which is the Company's country of incorporation, as follows:

	Group		Company	
		Period from		Period from
	Year ended	1 April to	**Year ended**	1 April to
	31 December	31 December	**31 December**	31 December
	2020	2019	**2020**	2019
	€000	€000	**€000**	€000
(Loss)/profit before tax	**(75,213)**	7,098	**(17)**	3
Tax at the applicable rate of 35%	**(26,325)**	2,484	**(6)**	1
Tax effect of:				
Non-deductible expenses	**25**	27	**6**	-
Impact of notional interest deduction rules (Note 13)	**-**	(1,666)	**-**	(178)
Unrecognised deferred tax movements (Note 13)	**32,915**	-	**3,426**	-
Other	**(295)**	8	**-**	1
Income tax charge	**6,320**	853	**3,426**	(176)

31. Cash and cash equivalents

Balances of cash and cash equivalents as shown in the statements of cash flows are analysed below:

	Group		Company	
	2020	2019	**2020**	2019
	€000	€000	**€000**	€000
Analysis of cash and cash equivalents:				
Cash in hand	**1**	3	**-**	-
Call deposits	**244,639**	169,919	**646**	218
Target 2 overnight deposits	**423**	118	**-**	-
Amounts owed to financial institutions with original maturity of less than 3 months	**(351,737)**	(224,012)	**-**	-
Per Statement of cash flows	**(106,674)**	(53,972)	**646**	218
Adjustments to reflect:				
Balances with central banks	**490,158**	241,556	**-**	-
Deposits with original maturity of over 3 months	**19,234**	53,635	**-**	-
Amounts owed to financial institutions with original maturity of over 3 months	**(330)**	-	**-**	-
Per Statement of financial position	**402,388**	241,219	**646**	218

		Group		Company	
		2020	2019	**2020**	2019
	Notes	**€000**	€000	**€000**	€000
Analysed as follows:					
Balances with central banks and cash	4	**490,680**	241,726	**-**	-
Loans and advances to financial institutions	6	**263,775**	223,505	**646**	218
Amounts owed to financial institutions	17	**(352,067)**	(224,012)	**-**	-
		402,388	241,219	**646**	218

32. Contingent liabilities

As at 31 December 2020, the Group had cash secured guarantee obligations amounting to €8.0 million (2019: €6.9 million).

33. Commitments to lend

Commitments to lend represent undrawn formal standby facilities, credit facilities and other similar commitments to lend. As at 31 December 2020, the Group had undrawn commitments of €341.4 million (2019: €473.4 million) under revolving credit facilities. In addition, lending commitments in relation to the Group's Dutch Mortgage portfolio amounted to €335.7 million (2019: €283.8 million). As at 31 December 2020, undrawn facilities on term loans of the Group amounted to €58.9 million (2019: €50.2 million).

As at 31 December 2020, the Group also had commitments to purchase term loans amounting to €22.0 million (2019: €40.1 million) of which €22.0 million (2019: €29.0 million) were subject to a back to back sale agreement with a third party.

34. Related parties

Immediate and ultimate parent company

The ultimate controlling party of MDB Group Limited is AnaCap Financial Partners II L.P.

The ultimate parent company of the Company is Medifin Investments Limited, a non-cellular company incorporated and registered in Guernsey.

The immediate parent company of the Company is Medifin Finance Limited, a non-cellular company incorporated and registered in Guernsey.

Related parties of the Group and the Company include subsidiaries, the ultimate controlling party, the ultimate parent company, the immediate parent company, all entities controlled by the ultimate parent company, Key Management Personnel, close family members of Key Management Personnel and entities which are controlled or jointly controlled by Key Management Personnel or their close family members.

Transactions with Key Management Personnel

Key Management Personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Group, being the directors of the respective MDB Group companies.

Key Management Personnel compensation consisting of directors' remuneration is disclosed in Note 27. The Group also provides non-cash benefits to Key Management Personnel, including gross rent payable on accommodation based in Malta, and health and life insurance premiums paid by the Group amounting to €0.1 million in the financial year ended 31 December 2020 (Period ended 31 December 2019: €0.1 million).

Related party balances and transactions

During the course of its activities, the Group conducted business on commercial terms with related parties, comprising of the ultimate controlling party and entities controlled by the ultimate parent company.

The following table provides the total amount of Group transactions which have been entered into, and Group balances with, related parties of the Group for the relevant financial year:

	Year ended 31 December 2020		As at 31 December 2020		
Related party	**Income from related parties €000**	**Expenses charged by related parties €000**	**Amounts owed by related parties €000**	**Amounts owed to related parties €000**	**Transaction/balance type**
Ultimate controlling party	-	189	-	-	Monitoring fees
Ultimate parent company	48	-	-	-	Interest income
	1	-	-	-	Service charge fees
	-	-	-	594	Other liabilities
Immediate parent company	1	-	-	-	Service charge fees
	-	-	-	282	Other liabilities
Other group companies	64	-	-	-	Service charge fees
	-	4,009	-	-	IT and other support fees
	-	-	9,849	-	Other assets
	-	-	-	1,401	Other liabilities
Key management personnel	1	-	-	-	Interest income
	-	-	-	137	Amounts owed to customers
	-	-	-	25	Subordinated liabilities

Related party	Period ended 31 December 2019 Income from related parties €000	Expenses charged by related parties €000	As at 31 December 2019 Amounts owed by related parties €000	Amounts owed to related parties €000	Transaction/balance type
Ultimate controlling party	-	141	-	-	Monitoring fees
Ultimate parent company	41	-	-	-	Interest income
	-	-	2,475	-	Other assets
Immediate parent company	-	-	-	3,350	Other liabilities
Other group companies	4	3,847	-	-	IT and other support
	-	-	10,370	-	Other assets
Key management personnel	5	-	-	-	Interest income
	-	-	197	-	Loans and advances to customers
	-	-	-	214	Amounts owed to customers
	-	-	-	25	Subordinated liabilities

The material transactions of the Group with related parties in the financial year ended 31 December 2020 and the financial period ended 31 December 2019 listed in the preceding tables are due to the IT and other support fees charged by Medifin Leasing Limited to MeDirect Malta and MeDirect Belgium. The material balances with related parties consist of the net amounts due by Medifin Leasing Limited in relation to the acquisition of the assets eventually leased to MeDirect Malta and MeDirect Belgium. As at 31 December 2019 the Group was also owed an amount by its ultimate parent company that was settled during 2020. Thus, in view of the above and the acquisition of Medifin Leasing Limited by the Group as described in Note 38 to the financial statements, the level of related party transactions and balances of the Group are expected to decrease significantly in 2021.

The directors' fees and personnel expenses in relation to key management personnel are disclosed in Note 27 to these financial statements.

In addition, there were also payments to other group companies relating to leases treated in accordance with IFRS 16 requirements amounting to €4.2 million (Period ended 31 December 2019: €3.6 million), as referred to in Note 23.

Furthermore, as detailed in Notes 9 and 16:

- By virtue of board resolutions dated 28 June 2019, MeDirect Malta approved the repayment of the shareholder contribution to MDB Group Limited equivalent to €10 million.
- By virtue of a board resolution dated 28 June 2019, MDB Group Limited paid dividends to Medifin Finance Limited equivalent to €10 million.

35. Segmental information

The Group has a single reportable segment represented by its lending portfolio consisting of international corporate lending, corporate lending in Malta and Dutch mortgage 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. Information about the products and services and geographical areas is set out in Notes 2, 7, 8, 24 and 25 to the financial statements which provide information about the financial risks, credit concentrations by sector and location, together with revenues from the single reportable segment. The investment portfolio is spread across a large number of exposures diversified in government, financial institutions and other corporates.

In accordance with Article 89 of CRD IV, the Group must disclose information about turnover, number of employees, profit before tax, tax and public subsidies received by country, taking into account all jurisdictions in which it operates. The Group has not received any public subsidies that relate to the Group's activities as a credit institution.

	Year ended 31 December 2020			As at 31 December 2020
	Turnover *	**Loss before tax**	**Tax expense**	**Full-time equivalent staff**
	€000	**€000**	**€000**	**No**
Malta	**59,493**	**(48,423)**	**10,784**	**245**
Belgium	**31,748**	**(26,790)**	**4,464**	**47**
	91,241	**(75,213)**	**(6,320)**	**292**

	Period from 1 April to 31 December 2019			As at 31 December 2019
	Turnover *	**Profit before tax**	**Tax expense**	**Full-time equivalent staff**
	€000	€000	€000	No
Malta	53,886	5,155	(726)	252
Belgium	33,440	1,943	(127)	28
	87,326	7,098	(853)	280

* Turnover is defined as interest income, fee and commission income and other operating income. The turnover allocated to Belgium in the financial year ended 31 December 2020 includes interest charged to MeDirect Malta amounting to €16.6 million (Period ended 31 December 2019: €19.3 million).

The Group carried out its activities in the countries listed above under the name of MeDirect Malta in Malta and MeDirect Belgium in Belgium. Activities in Malta and Belgium include banking and wealth management.

36. Investor compensation scheme

In accordance with the provisions of the Investor Compensation Scheme Regulations, 2003, issued under the Maltese Investment Services Act (Cap. 370), licence holders are required to transfer a variable contribution to an Investor Compensation Scheme Reserve and place the equivalent amount with a bank, pledged in favour of the Scheme. Alternatively, licence holders can elect to pay the amount of variable contribution directly to the Scheme. Throughout the financial year ended 31 December 2020, MeDirect Malta was not required to pay any variable contribution to the Scheme.

37. Trust and custody activities

The Group provides trust and custody services to individuals, trusts, and other institutions, whereby it holds and manages assets or invests funds received in various financial instruments at the direction of the customer. The Group receives fee income for providing these services. Trust assets and assets held in custody are not assets of the Group and are not recognised in the statements of financial position. The Group is not exposed to any credit risk relating to such placements, as it does not guarantee these investments.

At 31 December 2020, the total assets held by the Group on behalf of customers amounted to €1,189.8 million (2019: €1,036.3 million).

38. Events after the reporting date

Dutch Residential Mortgage-Backed Security Transaction

In January 2021 MeDirect Belgium securitised a further part of its Dutch retail mortgages portfolio through a RMBS transaction whereby a principal balance of €414 million including construction deposits amounting to €8 million of the Dutch Mortgage portfolio were sold to a securitisation special purpose entity, called Bastion 2021-1 NHG B.V., established in the Netherlands. MeDirect Belgium, in line with article 6 of the Securitisation Regulation (EU) No 2017/2402 of the European Parliament and of the Council of 12 December 2017, undertook to retain, on an ongoing basis, a material net economic interest in the securitisation transaction. This implies that the Group will retain substantially all risks and rewards pertaining to the activities of this proposed securitisation structure and hence to assets, liabilities and related income and expenditure attributable to this structure and as such, all assets, liabilities and related income and expenditure of the Dutch securitisation special purpose entity will be reflected in the Group's financial statements.

The Dutch retail mortgages portfolio acquired by Bastion 2021-1 NHG B.V. include €154 million of the Dutch Mortgage portfolio that was previously sold by MeDirect Belgium to Cavalier 2020 B.V as a result of which legal title to the mortgage receivables was transferred to Cavalier 2020 B.V. Such mortgage receivables were repurchased by and reassigned to MeDirect Belgium from Cavalier 2020 B.V. prior to the closing of Bastion 2021-1 NHG transaction.

Tier 2 Capital Issue

In February 2021 MDB Group Limited issued €11 million fixed rate reset callable subordinated notes due on 10 February 2031. The notes will bear a fixed rate of 9.75% per annum and thereafter at a fixed rate of interest which will reset on 10 February 2026.The reset rate of interest will be determined by the Agent Bank on the reset determination date as the sum of the reset reference rate and the margin. The proceeds of such Tier 2 Capital issuance by MDB Group Limited were used to on-lend the net proceeds of this issue of Notes under a subordinated loan to MeDirect Malta. The notes issued by MDB Group Limited were admitted to the Official List of Euronext Dublin and to trading on the Global Exchange Market of Euronext Dublin.

The net proceeds of such loan were used by MeDirect Malta for general corporate purposes, including to strengthen and optimise its capital and to support the execution of its business strategy.

Acquisition of subsidiary

On 4 January 2021, MeDirect Malta acquired substantially all the share capital of Medifin Leasing Limited from the ultimate parent company Medifin Investments Limited, after receiving full regulatory approval, with the intention of consolidating the entity within the Group. Medifin Leasing Limited was set up with the object of acquiring immovable or movable property and rights and licences, including in particular software solutions and hardware, which such entity leases to MeDirect Malta and MeDirect Belgium. MeDirect Malta paid a cash consideration of €0.5 million for this acquisition.

The following table summarises the recognised fair values of assets acquired and liabilities assumed as at the date of acquisition:

	€000
Property and equipment	1,406
Intangible assets	6,574
Prepayments and accrued income	2,886
Deferred tax liability	(299)
Trade payables	(9,835)
Accrued expenses and other liabilities	(197)
Fair value of identifiable net assets acquired	535

The fair value of the acquired property and equipment and intangible assets have been taken to approximate the carrying amount of the assets.

Management of Grand Harbour 2019-1 CLO

In January 2021, FIL Investment Management Limited ("Fidelity") was granted delegated authority to manage the Grand Harbour 2019-1 CLO, a €400 million European CLO, effective from 1 March 2021. The transfer forms part of MeDirect Malta's aim to downsize progressively its international corporate lending portfolio and to accelerate its asset diversification strategy.

As part of this transfer, several members of the MeDirect Malta international corporate lending team left MeDirect Malta to join Fidelity, effective 1 March 2021.

There were no other events after the reporting date that would have a material effect on the financial statements.

39. Statutory information

MDB Group Limited is a limited liability company and is incorporated in Malta.

The ultimate controlling party of MDB Group Limited is AnaCap Financial Partners II L.P., a limited partnership registered in Guernsey with its registered address at 2nd Floor, Windsor House, Lower Pollet, St Peter Port, Guernsey, GY1 1WF.

The ultimate parent company of MDB Group Limited is Medifin Investments Limited, a non-cellular company, which is incorporated and registered in Guernsey, with its registered address at 2nd Floor, Windsor House, Lower Pollet, St Peter Port, Guernsey, GY1 1WF.

The immediate parent company of MDB Group Limited is Medifin Finance Limited, a non-cellular company, which is incorporated and registered in Guernsey, with its registered address at 2nd Floor, Windsor House, Lower Pollet, St Peter Port, Guernsey, GY1 1WF.

MeDirect Group
The Centre, Tigné Point,
Sliema, TPO 0001, Malta

Tel: (+356) 2557 4400
Email: info@medirect.com.mt

www.medirect.com.mt